

## Frequently Asked Questions

### What is a Mortgage Credit Certificate?

The Mortgage Credit Certificate Program was authorized by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to families of low and moderate income. A Mortgage Credit Certificate reduces the amount of federal income tax you pay, thus giving you more available income to qualify for a mortgage loan and assist you with house payments.

### How will a Mortgage Credit Certificate assist my home purchase?

The Mortgage Credit Certificate will reduce the amount of federal income taxes otherwise due to the federal government from the Borrower.

A Borrower with a 6.0% fixed rate 30-year mortgage of \$200,000 would make \$12,000 in interest payments during the first year of the mortgage. By using a 20% Mortgage Credit Certificate, up to \$2,400 (20% of \$12,000) of the payments may be taken as a "tax credit" toward that buyer's federal income tax.

Mortgage	Rate	Annual Interest	Annual 1st YR MCC Tax Credit
\$200,000	6.0%	\$12,000	\$2,400

The benefit to the homeowner cannot exceed the amount of federal taxes owed for the year, after other credits and deductions have been taken into account. The tax credit can be carried forward three tax years or until used, whichever comes first. The remaining 80% of your annual mortgage interest will continue to qualify as an itemized tax deduction.

The Borrower may consider adjusting his or her federal income tax withholding to benefit on a monthly basis from the Mortgage Credit Certificate. By taking this action, the Borrower will have more disposable income to make mortgage payments. In this case, the homebuyer will re-file a W-4 form with his/her employer reflecting the Mortgage Credit Certificate credit. By taking this action, the number of exemptions will increase, reducing the amount of taxes withheld and thereby increasing the disposable income.

In order to determine the best course of action for your tax situation, it is highly recommended you speak to your tax preparer or accountant.

### How do I apply for a Mortgage Credit Certificate?

The Homebuyer applies for the Mortgage Credit Certificate directly with the Arizona Housing Finance Authority. Applications are available directly from the Authority or from area lenders and realtors.

### Are there any fees involved?

The one-time fee for a Mortgage Credit Certificate is 1% of the principal loan amount and is due at closing.

### What are the requirements? How do I know if I am eligible to receive a Mortgage Credit Certificate?

The home you buy must be used as your principal residence after you obtain your mortgage. If it stops being your principal residence, your Mortgage Credit Certificate will be automatically revoked and you will no longer be entitled to claim the mortgage credit.

You cannot have had an ownership interest in a principal residence at any time in the last three years unless the property is in a targeted area. If you are married, this also applies to any marital property even if your name is not on the deed or loan.

You must meet household income and purchase price limits (see page 2).

**What are the maximum annual income limits and purchase price limits?**

*Maximum Annual Income Limits*

	<b>Non-Targeted Area</b>	<b>Targeted Area</b>
<b>Coconino County</b>		
Family of 2 or less	\$60,900	\$73,080
Family of 3 or more	\$70,035	\$79,676
<b>Pinal County</b>		
Family of 2 or less	\$65,900	\$79,080
Family of 3 or more	\$75,785	\$79,676
<b>All Other Counties</b>		
Family of 2 or less	\$60,400	\$72,480
Family of 3 or more	\$69,460	\$79,676

*Maximum Purchase Price Limits*

	<b>Non-Targeted Area</b>	<b>Targeted Area</b>
Apache County	\$245,752	\$300,364
Coconino County	\$393,203	\$480,582
Gila County	\$283,980	\$347,087
Mohave County	\$281,796	\$344,417
Navajo County	\$269,781	\$329,733
Pinal County	\$302,548	\$369,781
Yavapai County	\$340,776	\$416,504
All Other Counties	\$236,839	\$289,470

**What kinds of properties are eligible?**

An Mortgage Credit Certificate can only be used for new or existing single-family homes including single-family detached homes, condominiums, and townhouses or manufactured houses within the program area. The program area consists of the state of Arizona excluding Maricopa and Pima counties. If the home is a manufactured house, it must contain at least 400 square feet of living space, have a minimum width of 102 inches and be permanently affixed on a permanent foundation to the property. Triplexes and four-plexes do not qualify as eligible structures.

**What type of mortgage loans can be used with the Mortgage Credit Certificate Program?**

Mortgage Credit Certificates can be used with fixed-rate FHA, VA and Conventional loans, but a Mortgage Credit Certificate cannot be issued to a borrower who is refinancing an existing mortgage. Mortgage Credit Certificates cannot be combined with tax-exempt bond loans such as the Mortgage Revenue Bond (MRB) program nor used with 100% seller financing or with the Neighborhood Stabilization Program (NSP).

**How can I determine if my home is in a targeted area?**

Your lender or realtor should be able to help you determine this or you can contact the Arizona Housing Finance Authority.

**Is there anyone that would not benefit from an Mortgage Credit Certificate?**

You must have a tax liability to take the credit. If you do not have a tax liability now, you may have one in the future. In addition, if you owe no taxes, or the credit is greater than your tax liability, you may carry the tax credit forward for three years. In order to determine the best course of action for your tax situation, it is highly recommended you speak to your tax preparer or accountant.

**How do I claim the credit?**

The credit is claimed on your federal tax return (Form 1040, 1040A) using form 8396. Your accountant, tax preparer or the IRS should be able to assist you with this.

### **What is the difference between a “tax credit” and a “tax deduction”?**

A “tax deduction” is subtracted from adjusted gross income before federal taxes are computed. A “tax credit” entitles a taxpayer to subtract the amount of the credit from their total federal income tax liability (or bill).

### **What will be the amount of the Mortgage Credit Certificate tax credit?**

The annual amount of the federal tax credit is 20% of the annual interest paid or accrued on the mortgage loan for the residence.

### **How long can I use the tax credit of the Mortgage Credit Certificate?**

The Mortgage Credit Certificate will remain in effect for the life of your mortgage loan, so long as the home remains your principal residence.

### **What happens if I cannot use the entire amount of the Mortgage Credit Certificate credit for the year in which it applies?**

If the amount of the tax credit exceeds the homebuyer’s tax liability reduced by any other personal credits for the tax year, the unused portion of the credit can be carried forward to the next three years or until used, whichever comes first. The Homebuyer will have to keep track of the unused credit by year. The current year credit is applied first and then the “oldest” amount of unused credit applied next.

### **Can I still claim a mortgage interest deduction?**

You can deduct the remaining 80% portion of the interest that you did not claim as a tax credit.

### **I know I can claim 80% of my mortgage interest payment as a deduction on my federal taxes but what about my state taxes?**

You may use 100% of your mortgage interest payment when calculating your state taxes.

### **What if I refinance my home?**

If you plan on refinancing your loan, contact the Arizona Housing Finance Authority and request the refinancing paperwork. They will also be able to advise you on the rules that must be adhered to in order for your Mortgage Credit Certificate to remain in effect. It is mandatory that this paperwork is completed. If it is not, the certificate holder will lose the tax credit.

### **How will a home improvement loan or second mortgage affect my tax credit?**

A home improvement loan or second mortgage does not affect the tax credit on the original mortgage. You will only be able to deduct the 20% interest you paid on the original mortgage, and not on a home improvement loan or second mortgage.

### **Can the Mortgage Credit Certificate be assumed or transferred?**

The Mortgage Credit Certificate can be transferred only upon issuance of a new certificate by the Arizona Housing Finance Authority. The person assuming your loan will have to qualify just as a new borrower would be required to qualify under the program.

### **What happens if I sell my house?**

If you sell your house within nine years, you may be subject to a recapture tax. Recapture applies only if you sell your home within the first nine years **and** our income is above the adjusted qualifying income limit for the year in which you sell your home **and** you make a profit on the sale of the home.

### **What happens if I decide to move and rent my property?**

In order to claim the credit on your tax return, you must be the principal resident. If the residence ceases to be your principal residence, the Mortgage Credit Certificate will be revoked. In addition, the residence cannot be used as an investment property, vacation home, or recreational home and not more than 15% of the area can be used on a regular basis in a trade or business.