

RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION
2014 FirstHomes Tax Credit Program
Description and Disclosure

This Description and Disclosure outlines the FirstHomes Tax Credit Program (the “Program”) of the Rhode Island Housing and Mortgage Finance Corporation (“Rhode Island Housing”). Please review this document carefully, and sign and date below to indicate that you have read and understand the rules and responsibilities related to the program.

What is an MCC?

A mortgage credit certificate (“MCC”) is a nonrefundable, federal tax credit that provides financial assistance to certain new homebuyers and existing homeowners as an alternative to Rhode Island Housing’s single family mortgage revenue bond financing program (Rhode Island Housing’s “Bond Program”). Rhode Island Housing issues MCCs pursuant to Section 25 of the Internal Revenue Code of 1986, as amended. A homeowner holding an MCC issued by Rhode Island Housing receives an annual federal tax credit that the homeowner can apply against his or her federal tax liability in each year the MCC is effective.

An MCC “converts” a portion of an available mortgage loan interest deduction into a tax credit against the homeowner’s federal income taxes. This tax credit has the effect of reducing the mortgage interest rate and mortgage loan payments for persons who purchase residences within Rhode Island, by reducing the federal income tax liability of such persons.

How will the MCC assist my home purchase?

When Rhode Island Housing issues you an MCC in connection with your loan to purchase a new or existing home, you receive a federal tax credit equal to a portion of your interest you pay on your loan – that is, a dollar-for-dollar reduction of your tax liability (i.e., the taxes that you actually owe). The tax laws require you to reduce the amount of your interest deduction you claim on your income tax return by the amount of the MCC tax credit. The remaining interest you pay on your loan will continue to qualify as an itemized tax deduction.

The specific amount of the MCC tax credit depends on how much interest you pay on your loan and the MCC credit rate assigned to the particular MCC. Rhode Island Housing has established a “credit rate” of 20%. The maximum credit allowed to you for any tax year is \$2,000. If in any year the amount of your MCC tax credit exceeds your federal tax liability, the unused credit can be carried forward for up to three years.

How does the MCC “reduce” the mortgage interest rate?

As the table below indicates, a borrower who purchases a residence with a 5.00% fixed rate 30-year mortgage of \$150,000 would pay \$7,500 in interest payments during the first year of the mortgage. If the borrower holds an MCC with a 20% credit rate, up to \$1,500 (20% of \$7,500) of the mortgage interest paid could be converted into a federal tax credit, which reduces that borrower’s federal income tax liability (i.e., the credit reduces the amount of federal taxes payable by the borrower, up to the amount of the credit). The remaining 80% of the mortgage interest paid (in this case, \$6,000 – remember, you must reduce your interest deduction by the amount of the MCC tax credit) can still be taken as a tax deduction in arriving at the borrower’s

adjusted gross income, thus reducing the amount of the Borrower’s income subject to federal income taxation.

The table shows that the effective rate of interest paid on the mortgage is reduced to 4.00% after the MCC tax credit is taken into account (i.e., annual interest of \$5,960 on a \$150,000 mortgage loan corresponds to a 4.00% interest rate on that loan). This effect, however, is achieved only when the MCC holder has a sufficient income tax liability to receive the entire benefit from the MCC tax credit.

EFFECTIVE REDUCTION OF MORTGAGE INTEREST RATE THROUGH USE OF AN MCC WITH A 20% CREDIT RATE:

Amount of Mortgage ¹	Rate on Conventional Loan	First-Year Interest Payments ¹	First-Year Tax Credit	After-Credit Interest Paid ²	Effective Interest Rate ³
\$150,000	5.00%	\$7,500	\$1,500	\$6,000	4.00%

¹ This figure is for the first year only. Assuming equal monthly payments amortizing principal and interest over 30 years, the amount of interest paid each year and, correspondingly, the amount of the MCC tax credit will decrease for each subsequent year.

² Derived by deducting the annual MCC tax credit from annual mortgage interest payments. This amount may be taken as a deduction for federal income tax purposes.

³ Calculated for comparison purposes only and is not the annual percentage rate applicable to any specific mortgage loan for any specific period or for Truth-In-Lending Act purposes.

The MCC tax credit reduces the amount of federal income taxes otherwise due by the borrower. The benefit to the borrower cannot exceed the Borrower’s federal income tax liability for the year, after other credits and deductions have been taken into account. However, if the borrower is unable to use all of the available MCC tax credit in any year, the unused portion of the tax credit can be carried forward three tax years or until used, whichever comes first. A borrower may want to consider adjusting his or her federal income tax withholding (by filing an amended IRS Form W-4) to spread the benefit of the MCC tax credit over the entire year.

Who is eligible for an MCC?

Rhode Island Housing’s FirstHomes Tax Credit Program is designed specifically to benefit purchasers of single family or condominiums and existing two to four family residences in the State (New two family residences if in a targeted area). Such homebuyers must satisfy other federal eligibility requirements for an MCC. You are not eligible for an MCC if any portion of your loan is or was financed through Rhode Island Housing’s Bond Program or other tax-exempt financing.

How does a borrower obtain an MCC?

A borrower obtains an MCC through the Rhode Island Housing Loan Center or an approved lender at the same time as the borrower obtains a mortgage loan. A bank, mortgage company or other person providing mortgage financing (except any person related to you) may become a participant in the Program by inquiring with Rhode Island Housing and meeting certain qualifications. If you choose to apply for financing through one of these approved lenders, it will

be in the lender's sole discretion to make the decision to grant the loan and to establish the loan terms (e.g., interest rate, loan term, down payment requirements, credit and underwriting criteria, loan type, mortgage insurance requirement, fees, points, closing costs). The lender's loan approval process is altogether separate from the FirstHomes Tax Credit application and approval processes. Rhode Island Housing is simply the conduit to pass on this federal tax credit to the borrower by making certain that the requisite program criteria are satisfied. You are free to seek financing from any lender that participates in the Program, or through the Rhode Island Housing Loan Center.

At the time of application, each applicant will be charged an application fee and loan processing fee not to exceed \$1,000. This fee is in addition to other normal loan charges.

You, the lender and the seller will be required to execute a number of affidavits and certifications in connection with the Program. These affidavits are to be made under penalty of perjury, which is a felony offense carrying a fine of up to a \$10,000.00 plus other criminal penalties. Rhode Island Housing and the lender will be verifying the information contained in the affidavits. Misstatements may also result in denial or revocation of the MCC.

What are the MCC requirements?

The guidelines for eligibility in the Program generally follow the same guidelines applicable to Rhode Island Housing's Bond Program. These include, but are not limited to:

- If you are purchasing a residence, you must be a "first-time homebuyer" (you cannot have owned or had an ownership interest in your principal residence at any time in the last three (3) years), unless you are purchasing a residence in a "targeted area" or you are a qualified veteran.
- You must have a household income, including all household members eighteen years or older, that does not exceed the maximum household incomes as established by Rhode Island Housing, which are currently \$89,280 for one or two person families, and \$104,160 for three or more person families.
- You must satisfy the maximum acquisition price limit, which is currently \$407,195.
- The home you purchase must be your principal residence within 60 days after you obtain your loan. If at any time you fail to use the residence as your principal residence your MCC will be revoked. You are responsible for notifying the lender and Rhode Island Housing when this event occurs.
- The loan must be a new loan and not the refinancing of an existing mortgage loan or land contract. If you sell your home within nine (9) years of receiving the MCC and you realize a profit on the sale, you may be subject to a federal "recapture tax". The amount of such a tax depends on various factors at the time you sell or dispose of your home. This recapture tax only applies if your income has increased beyond certain levels specified by the Internal Revenue Service.

Rhode Island Housing will review executed certifications and affidavits from each borrower and the lender to determine qualification and eligibility of each applicant for an MCC.

What is the Amount of MCCs available under the Program?

Rhode Island Housing has elected not to issue \$118,910,000.00 of qualified private activity bonds during the calendar year 2014. MCC authority will be allocated by Rhode Island Housing on a first-come, first-served basis among lenders and prospective borrowers; provided,

however, that Rhode Island Housing will set aside at least 20% of such allocation for residences located in “targeted areas” for at least one year after the date Rhode Island Housing begins to accept applications for MCCs under the Program.

It is impossible to determine the exact number of MCCs which will be available under the Program. Since the aggregate amount of MCCs that may be issued under the Program is limited by federal law, no assurance can be given by Rhode Island Housing that sufficient MCC authority will be available at any time except by the endorsement and return of an MCC Reservation by Rhode Island Housing.

I (we) certify that I (we) have read and understood the above restrictions and that I (we) have been provided with a copy of this Description and Disclosure.

Signature of Applicant

Signature of Applicant

Name of Applicant

Name of Applicant

Dated: _____

Dated: _____

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