Arkansas Development Finance Authority

Arkansas 2014

Mortgage Credit Certificate (MCC) Program

(Program Approved by ADFA Board 9-18-2014)

Program Guide

Mortgage Credit Certificate (MCC) Program

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Arkansas Development Finance Authority
Mortgage Credit Certificate (MCC) Program

Chapter 1 - Introduction

A. About this Program Guide

The Arkansas Development Finance Authority ("ADFA" or the "Authority") has developed this Mortgage Credit Certificate Program Guide (the "Program Guide") for the use and benefit of any and all parties having an interest in an MCC program. However, we have attempted to target the information and materials in this Program Guide to the Participating Lenders (as defined in Chapter 2) in order to aid and assist them in complying with the terms and conditions of our Mortgage Credit Certificate program. Participating Lenders should familiarize themselves with all of the conditions and obligations set out in the Program Guide. The requirements discussed herein are mandatory and the failure of the Participating Lender to adhere to the MCC Program requirements may lead to the termination of such Participating Lenders' usage of the program.

B. What is a Mortgage Credit Certificate

The MCC Program was authorized by Congress in 1984 and is codified as Section 25 of the Internal Revenue Code of 1986 (the "Tax Code"). Congress intended the MCC Program as a means of providing housing assistance to low and moderate income First-Time-Homebuyers. ADFA has elected to allocate a part of its Single Family Private Activity Volume Cap from the Mortgage Revenue Bond program to the MCC Program. This Program is being made available through participating lenders on a first-come, first-serve basis, subject to certain targeting requirements imposed by the Tax Code and more fully described herein.

A Mortgage Credit Certificate is a direct dollar for dollar federal income tax credit to the homebuyer. The amount of the credit to the borrower is established by the MCC Tax Rate that is set by the Authority. The Code allows ADFA to set the MCC Tax Rate from ten percent (10%) to fifty percent (50%), and multiple MCC Tax Rates may be established. For the 2014 MCC Program ADFA has set the MCC Tax Rate at fifty percent (50%). Subsequent Programs may have different rates. The MCC reduces the federal income tax liability of eligible homebuyers purchasing a qualified residence, thereby making more funds available for the house payment or other household liabilities.

Examples of MCC calculations can be found later in this chapter.

The benefit to the borrower cannot exceed the amount of Federal taxes owed after all other credits and deductions have been taken into account. The amount of the tax credit benefit may not exceed $2,000 in any given tax year. The homeowner may reduce the amount of monthly Federal income tax withheld from their paycheck by filing a revised IRS Form W-4 Employees Withholding Allowance Certificate, in order to have more disposable income for the month. Also, the homeowner has the ability to carry forward for the next three years any unused portion of the credit but he must use the current year's MCC first before carrying forward any additional amounts. A purchaser of a new or existing single-family residence may apply for an MCC through a Participating Lender at the time of obtaining financing. An MCC cannot be issued to a homebuyer who is refinancing an existing mortgage or land contract. A borrower may not combine the benefits of an MCC if his/ her purchase is financed using the proceeds of a tax exempt mortgage revenue bond loan.

The Authority is simply a conduit for the granting of the MCC. ADFA will not make or hold MCC-assisted mortgage loans and will not underwrite the loans. The Lenders participating in the Program will perform all underwriting and execution of required ADFA and Federal certifications or affidavits under ADFA agreement. For purposes of the MCC Program, Participating Lenders (based on the executed MCC Lender Participation Agreement) will be acting as independent contractors. ADFA will receive executed certifications and affidavits from the Lender in order to determine the Borrowers qualification and eligibility.

The allowable fees for this MCC Program can be found in Chapter 4 paragraph J of this Program Guide. .

After the Lender has explained the Program and its guidelines, ADFA encourages borrowers who believe they qualify to apply for an MCC in conjunction with their first mortgage financing.

C. Duration Of The Program

The 2014 Arkansas Mortgage Credit Certificate Program will continue until:

a. The Program allocated funding has been exhausted or;

b. The end of calendar year 2016. The IRS allows that certificates may be issued for indebtedness that is incurred up to the close of the 2nd calendar year following the calendar year for which the issuing authority made the election to issue MCC's in lieu of qualified mortgage bonds. On September 18, 2014 ADFA's Board of Directors made the decision to continue the MCC Program by approving the exchange of $200,000,000 in qualified mortgage bond authority to be instead be used to issue Mortgage Credit Certificates.

c. Subsequent Authorizing Resolutions are approved to exchange Single Family Private Activity Volume Cap ("Volume Cap") for qualified mortgage bond authority to instead be used to issue Mortgage Credit Certificates.

c. ADFA has a requirement to hold at least 20% of the amount of certified indebtedness for lending in Targeted Counties for one-year from the time the MCC's are first made available. To insure compliance with this requirement, it is possible that the Arkansas 2014 Mortgage Credit Certificate Program may close at some point to all but "Targeted area" applicants.

D. MCC Program Size.

The volume of Mortgage Credit Certificates available in the State of Arkansas is determined by a procedure set forth in the Internal Revenue Code of 1986. Under the Arkansas 2014 MCC Program, the Authority, as an issuer of mortgage revenue bonds, can trade $1.00 of bond authority for $0.25 of MCC authority. When ADFA initially elected to trade in $200,000,000 of bond authority, it received $100,000,000 of MCC authority. Each MCC issued uses up an amount of MCC authority equal to the amount of the mortgage loan multiplied by the 50 percent MCC Credit Rate established by the Authority.

This MCC Program for the State of Arkansas ,if successful, subsequent programs may be established to help a much larger number of Arkansas homebuyers.

E. Eligible Types of Loans

Since the majority of the Borrower's that use the MCC Program are required to be First-Time-Homebuyers, the Authority has decided that the first mortgage loan that accompanies an MCC under this Program must be a **fixed rate, fully amortising** loan. Because of the higher level ofrisk, adjustable rate, interest only and other types of "exotic" mortgages are not allowed.

F. Sample MCC Calculation

Amount of First Mortgage		$ 150,000.00
Interest Rate		x_3.25%
First Year Interest Paid		= $ 4,875.00
MCC Tax Rate		x _50%
Reduced Federal Tax Liability		= $ 2,437.50
Maximum Amount Per Year		$ 2,000.00 **
Calendar Months/ Year	Divided By	12
Monthly Savings		= $ 166.66

** With a 50% MCC Tax Rate the maximum amount of tax credit benefit is $2,000 per year.

* $437.50 in unused tax credits can be carried forward for three years.

* To receive immediate benefit from the MCC Program, Eligible Borrowers should file a revised W-4 Federal Tax Withholding Form with their employer. This revision will reduce the Borrower's yearly Federal tax withholdings and Increase his/her monthly take home pay.

G.Lender Participation. The Arkansas 2014 Mortgage Credit Certificate Program and subsequent continuations are open to any Lender authorized to conduct business in the State of Arkansas who meet ADFA's MCC Program requirements. A listing of MCC approved lenders will be maintained by ADFA. This is a separate listing from the Participating Lenders in the tax exempt mortgage revenue bond program ("HomeToOwn"Program).

Lenders interested in participating in the MCC Program should contact ADFA, Attn: Single Family Program Manager at 501-682-5974. Each Lender will be required to execute a **"Lender Participation Agreement"** as found in Appendix 6 of this Program Guide. When requests are received for lender participation in the 2014 Mortgage Credit Certificate Program they will be reviewed and if accepted for the program ADFA will send a **"Notice of Acceptance "** verifying acceptance. A sample of that notice can be found in Appendix 10 of this Program Guide. When a lender signs the agreement for a specific MCC Program they remain eligible for subsequent programs without the requirement to sign new Lender Participation Agreements.

H.Program Changes. Certain changes may be made to the MCC Program at the sole discretion of the President of the Authority. Those changes include changes to program fees and minor changes to the program exhibits, forms and appendices. Changes to the non-issued bond amount and the MCC Tax Credit Rate must have management and Board approval.

I. **How To** Access **the Mortgage Interest Credit.** The benefit of the Mortgage Credit Certificate can be accessed by using IRS Form 8396 (Mortgage Interest Credit) when the taxpayer files the Form 1040 Individual Tax Return each year. A sample ofIRS 8396 and instructions for completion of the form may be found on the IRS web site: www.irs.gov .

Chapter 2 - Definitions

As used in this Program Manual, the following words and terms have the meanings set forth:

ANNUAL HOUSEHOLD INCOME; Annual household income means the current "annualized" income of everyone eighteen years of age or older that is employed and living in the household. Annualized income means the Gross Monthly Income, multiplied by twelve (12), of all borrowers and any other person(s) who is expected to live in the residence being financed, except a person who is under 18 years of age or a full-time student, or any other person who is expected to both live in the residence being financed and to be secondarily liable on the Mortgage Loan.

For purposes of this definition, Gross Monthly Income includes the sum of monthly gross pay; and additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, VA compensation, and net rental income; and other income such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trust accounts, and income received from business activities or investments. Overtime pay and bonuses must be projected in an amount consistent with the earnings history of each household member.

Gross Monthly Income shall NOT include casual, sporadic or irregular gifts; amounts that are specifically for or in reimbursement of medical expenses; inheritances; insurance payments; settlement for personal or property losses; foster child care payments; the value of coupons for food stamps; and income from the employment of children under the age of 18 years.

ACQUISITION COST: Acquisition Cost has the meaning given that term under the Tax Code Section 143(k) (3) and the Federal Regulations. Home Purchase Price maximums are set by the Authority and revised from time to time. The current maximum purchase price can be found in Appendix C of this Program Guide. .

Acquisition Cost shall include the following:

(a.) All amounts paid, either in cash or in-kind services, by the Borrower's or anyone acting on the borrower's behalf as consideration for the residence, but not including usual and reasonable settlement costs.

(b.) If a residence is incomplete, the reasonable costs of completing the residence; however, it shall not include the value of services performed by the mortgagor or members of the mortgagor's family in completing the residence.

ADFA: means the Arkansas Development Finance Authority (the "Authority"), a body politic and corporate, not a State agency but an independent instrumentality exercising essential public functions.

AFFIDAVITS; An Affidavit filed in connection with the Program shall be made under oath and subject to the penalties of perjury.

AGREEMENT: Means the Lender Participation Agreement between ADFA and each lender and found in Appendix 6 of this Program Guide.

BORROWER: The buyer of a Single Family residence and one of the person(s) who signs the Note and Mortgage. Also the applicant for the MCC.

CERTIFICATIONS; A certification filed in connection with the Program shall be made under oath and subject to the penalties of perjury.

CERTIFIED INDEBTEDNESS: An IRS term meaning the amount of debt which is incurred by the taxpayer/borrower to acquire his/her Principal Residence.

CLOSING DATE: The date on which the Loan Closing occurs.

ELIGIBLE BORROWER(S): A person or persons (i) intending to reside in a house as their principal residence within a reasonable time period (not to exceed 60 days) following the date of closing on the Mortgage Loan, (ii) whose Annual Household Income does not exceed the limitations established for the Program, as may be amended by the Authority from time to time, and (iii) who is a First-Time-Homebuyer unless the Single Family Residence is located within a Targeted County.

ELIGIBLE PROPERTY: Means a New Property or an Existing Property which is to be owner occupied. The property must be located in the State of Arkansas. No more than 15% of an otherwise Eligible Property may be used for purposes other than as a Principal Residence.

EXISTING PROPERTY: A property which has been previously occupied or new (never occupied) properties more than one year old.

FIRST-TIME-HOMEBUYER: The buyer of a residence who has not had an ownership interest in a Principal Residence at any time during the three year period ending on the date the Mortgage Loan is closed. Certain Veterans qualify as First-Time-Homebuyers regardless of prior home ownership.

IRS: The Internal Revenue Service.

ISSUER: The Arkansas Development Finance Authority, the entity that actually issues the Mortgage Credit Certificate.

LENDER/PARTICIPATING LENDER A Participating Lender is a financial institution that provides financing for the acquisition of a Single Family Residences. A Lender (i) which has been doing business on a regular basis in the State of Arkansas for no less than twelve (12) months and is currently participating in the local private home lending market, (ii) which can make representations, warranties and covenants set forth in the Lender Participation Agreement and (iii) which has agreed to participate in the Program.

MCC Program (Program): Means the 2014 Mortgage Credit Certificate Program, as authorized by ADFA, and the administrative procedures, forms and exhibits specified in this Program Manual.

MORTGAGE CREDIT CERTIFICATE: Means a certificate issued by ADFA to establish eligibility for a tax credit against the federal income tax liability of an eligible Borrower purchasing an eligible property.

MORTGAGE CREDIT CERTIFICATE TAX RATE: means the rate set by ADFA that is stated in each Mortgage Credit Certificate. The rate for the 2014 MCC Program is set at 50%.

NEW CONSTRUCTION: means a Single Family residence less than one year old that has never been occupied.

NON-ISSUED BOND AMOUNT: The amount of private activity volume cap that the Authority elects not to use to issue qualified mortgage revenue bonds and instead use to issue Mortgage Credit Certificates.

OWNERSHIP INTEREST: Means any of the following interest in an Eligible Property: (a) a fee simple interest; (b) a joint tenancy, a tenancy in common, or a tenancy by the entirety; (c) the interest of a tenant-shareholder in a cooperative; (d) a life estate; (e) a land contract (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred, although legal title is not transferred until some later time); (f) an interest held in a trust for the Applicant (whether or not created by the Applicant) that would constitute a present ownership interest if held directly by the Applicant; and (g) a lease with an option to purchase for a nominal sum.

PRINCIPAL RESIDENCE: Housing which the Eligible Borrower intends to occupy as a primary residence and which is not to be used in a trade or business, or as investment property.

PROGRAM MANUAL: Means this 2014 Arkansas Mortgage Credit Certificate Program Manual developed by ADFA staff and revised by ADFA from time to time.

PROGRAM ADMINISTRATOR: The Program Administrator is the Arkansas Development Finance Authority (ADFA).

PROHIBITED MORTGAGE: A prohibited mortgage is a mortgage where all or any portion of the financing is provided from the proceeds of a qualified mortgage revenue bond as defined under Tax Code Section 143 (a) and the Federal regulations pertaining to qualified mortgage bonds. Also prohibited are mortgages with other than a fixed rate of interest and other than fully amortizing.

REISSUED MCC: This occurs when there is either a refinance or an assumption of the first mortgage loan to which the MCC is attached. The parties that sign the new note and mortgage must meet all of the requirements of the MCC Program.

SALES PRICE: The maximum Purchase Price paid by an Eligible Borrower to acquire a Single Family (One or Two units) Residence, in accordance with the Maximum Purchase Price established by the Authority and amended from time to time. The Authority will notify participants of any changes in the Maximum Purchase Price during the term of the Program.

SINGLE FAMILY RESIDENCE: An owner- occupied residential dwelling unit located in the State of Arkansas. These residences can be regular "stick built" homes or manufactured housing having a minimum of 400 square feet of living space and a minimum width in excess of 102 inches.

TAX CODE: Means the Internal Revenue Code of 1986, as amended.

TARGETED COUNTY: A Targeted County is a county that HUD determines is an area of chronic economic distress within the meaning of Section 143 of the Code. There are currently 31 counties in Arkansas that carry this distinction. A listing of Targeted Counties can be found in Appendix 4 of this Program Guide.

Chapter 3 - MCC Tax Code Compliance Issues

Participating Mortgage Lenders must understand that there are two separate but simultaneous reviews that will have an impact on any mortgage loans originated in the ADFA Mortgage Credit Certificate (MCC) Program: (1) Tax Code Compliance that is conducted by ADFA Compliance Underwriters, and (2) credit/ real estate underwriting that is conducted by the originating lenders. The latter is what mortgage lenders do every day. The Tax Code compliance review is unique to ADFA in its Mortgage Revenue Bond (MRB) Program and Mortgage Credit Certificate (MCC) Program.

There are three key elements to the determination of Tax Code compliance with regard to borrower eligibility for participation in the MCC Program:

* The Borrower must be a First-Time-Homebuyer (if property is located in a Non-Targeted County).
* The borrower's Annual Household Income must be within the allowable Maximum Household Income Limits for the county in which the property is located and the number of people that will be living in the residence. (See Appendix 3)
* The Purchase Price of the residence can't exceed the published Purchase Price Maximum for the MCC Program. The current maximum is found in Appendix 3.

ADFA requires documentation to support these three tax code compliance determinations. The documentation and verifications must be inclusive enough to satisfy Internal Revenue Service and ADFA auditors.

A. First-Time-Homebuyer Requirements

1. General

As a general matter, a First-Time-Homebuyer is an Eligible Borrower who has not had a present ownership interest in a principal residence at any time during the three year period prior to the date on which the mortgage is executed (The closing date of the loan). Each Eligible Borrower (including a non-borrower spouse or co-occupant) must meet the First-Time-Homebuyer requirements as set forth in the Tax Code in order to participate in the Mortgage Credit Certificate Program. There is an exception for residences located in a Targeted County and Borrowers and Veterans Borrowers who have not previously had a mortgage revenue bond loan or Mortgage Credit Certificate.

"Present ownership interest" includes not only an outright ownership interest (a fee simple interest) in a residence; it also includes any of the following interests if held directly by the borrower or in trust for the benefit of the Eligible Borrower:

* A joint tenancy
* A tenancy in common
* A tenancy by the entirety
* A community property interest
* A life estate
* A contract for deed
* The interest of a tenant-shareholder in a co-operative

" Present ownership interest" does not include:

* A remainder interest
* A lease with or without an option to purchase
* A mere expectancy to inherit an interest in a principal residence
* The interest that a purchaser of a residence acquires upon the execution of a Purchase contract
* An interest in other than a principal residence during the previous three (3) years.

2. Special Areas of concern Regarding the First-Time-Homebuyer

a. Prior Ownership of a Mobile Home. The determination of whether or not prior ownership of a mobile home disqualifies an Eligible Borrower from being a First-Time-Homebuyer must be made on the basis of facts and circumstances of each particular case. In order to preserve MCC Program eligibility, the mobile home at issue must have at all times been "mobile". Any Eligible Borrower who had a prior ownership interest in a mobile home during the three year period prior to execution of the mortgage must provide adequate documentation that:

* The components which operate only during transportation (hitch and axle) have not Been removed;
* The mobile home is movable and transportable; AND
* No permanent additions have been built around or added to the mobile home structure. Such items include permanently affixed decks, room additions, etc. However, if a deck has been built and the mobile home is merely sitting next to the deck , that would not constitute permanently affixed .

The prior ownership of a "double wide" mobile home will generally disqualify a prospective Eligible Borrower from First-Time-Homebuyer status.

A veteran borrower can be exempt from the first-time-homebuyer requirement by signing the **Military Veteran's Eligibility Affidavit (Exhibit M).**

b. Inherited Property. An expectancy to inherit property does not constitute a "present ownership interest". However, if the Eligible Borrower occupies the residence after acquiring a vested title interest, the person no longer fits the definition of a First-Time-Homebuyer. For example, if a child resides in a residence owned by a parent, and if the child inherits the residence when the parent dies, the child immediately acquires a present ownership interest at the time of death and thereby loses his or her ability to qualify as a First-Time-Homebuyer. However, if the child has not occupied such residence at or since the time of the parent's death, the child may still qualify as a First-Time-Homebuyer.

c. Divorce Within the Last Three Years. You may occasionally encounter a situation where the Eligible Borrower or Eligible Co-Borrower was divorced within the last three years. Be careful!! It is possible that the divorced party may have had a present ownership interest in a residence while in the previous relationship. If this proves to be true, the Eligible Borrower will not qualify as a First-Time-Homebuyer. See Section 3 (b) below for a detailed explanation.

d. Residence Located in a Targeted County. An Eligible Borrower need not qualify as a First-Time-Homebuyer if the residence that will be financed with a mortgage loan and MCC is located within a Targeted County. A listing of the thirty-one (31) Targeted Counties in Arkansas can be found in Appendix 4 to this Program Guide.

e. Dower/Curtesy Rights. Under Arkansas property law, dower and curtesy constitute a right (or said another way, in this case, an inchoate or incomplete interest) prior to the time a person becomes a widow or widower. Upon the death of a person's spouse, however, this right matures into a life estate in real property. Thus, so long as a person is not widowed, there is no question with regard to dower or curtesy that an Eligible Borrower may qualify as a First-Time-Homebuyer, but if the Eligible Borrower is a widow or widower, the Mortgage Lender must inquire as to whether such Eligible Borrower's rights of dower or curtesy had matured into a life estate, which would be a disqualifying interest for the purposes of the First-Time-Homebuyer rules.

3. **Required Documentation**

a. A Tri-merge Credit Report In Loan File. This is a credit report on the borrowers that contains information from each of the three major credit reporting bureaus. We feel it would be more likely for a mortgage to show up on this type of credit report rather than a federal tax return. Also, many low- to- moderate borrowers do not itemize deductions so mortgage interest or real estate taxes would not show up at all. However, this requirement is in addition to the tax return requirement Described at (b), below.

b. Tax Returns for Prior Years. It is relatively easy to document the Eligible Borrower's compliance with the tax code requirements for First-Time-Homebuyer. The primary form of documentation is the federal income tax return. Each Eligible Borrower, co-borrower, and any other occupant of the residence 18 years of age or older must provide copies of their latest federal tax returns.

Only the most recently available year of federal tax return is required, including all schedules and copies of W-2's. Copies of state tax returns are not required. ADFA will review the returns to see if the borrower, co-borrower or other occupant of the residence 18 years of age or older has claimed deductions for home mortgage interest or real estate taxes. In addition to looking for deductions, ADFA will check to make sure that the name of the taxpayer shown on the first page of the return matches the name or former name of the Eligible Borrower. The tax returns must also reflect the taxpayer's address and social security number. The tax returns MUST be signed and dated.

IF DEDUCTIONS WERE CLAIMED FOR MORTGAGE INTEREST OR FOR REAL ESTATE TAXES, THE ELIGIBLE BORROWER MUST SUPPLY A WRITTEN EXPLANATION OF THESE ITEMS, ALONG WITH SUPPORTING DOCUMENTATION. THE BURDEN OF PROOF WITH RESPECT TO QUALIFICATION AS A FIRST-TIME-HOMEBUYER RESTS WITH THE ELIGIBLE BORROWER AND THE FAILURE TO ADEQUATELY EXPLAIN ANY MORTGAGE INTEREST OR REAL ESTATE TAX DEDUCTIONS WILL RESULT IN THE DISQUALIFICATION OF THE ELIGIBLE BORROWER FROM THE ADFA MORTGAGE CREDIT CERTIFICATE PROGRAM.

During the period of January through April 15 of each year, the question arises as to which year of tax returns should be submitted. ADFA must have the most recent federal tax returns that have been filed.

c. Tax Returns for Persons Divorced Within Three Years. The following represents some of the more common approaches used in divorce situations that ADFA recommends:

* Mortgage Lender should ask the Eligible Borrowers whether they owned a residence during the previous marriage.
* The Mortgage Lender should review the divorced Eligible Borrowers prior federal tax returns to see if deductions were taken for home mortgage interest or real estate taxes. If none were taken you are probably okay.

* Mortgage Lender should obtain a copy of the divorce decree along with any other relevant agreements, such as an agreement for child support, etc. Review the decree to determine if there is any language which may give an indication of prior ownership of a residence. References to such things as a quitclaim deed, a transfer of interest, a release of obligation or a hold harmless agreement are terms often used when settling property issues. If these references are present in the decree, please forward a copy of the document to ADFA for an opinion.

d. Extension for Filing Tax returns. If an Eligible Borrower has requested an extension to file a tax return, the Mortgage Lender must obtain a copy of the filed extension request and all W-2's. In the event that the return is filed prior to the loan closing, copies of the return must be submitted to ADFA.

e. If an Eligible Borrower Did Not File a Tax Return. If the Eligible Borrower was not obligated to file a Federal tax return last year, then the Eligible Borrower must complete **Exhibit B "Application For Conditional Commitment, Certifications & Affidavit".** Check the appropriate space under "Federal Tax Returns". This exhibit may not be used in the case of lost or misplaced tax returns. A separate form must be used for each Eligible Borrower.

f. Lost or Misplaced Tax Returns. You will be amazed how many people can't find copies of their tax returns. If the Eligible Borrower can't find copies of the tax returns, he/she must request and provide ADFA with certified copies or original transcripts of the missing returns from the Eligible Borrower's local IRS office. **There is no waiver or substitute for federal tax returns.** Informational or condensed forms provided by private tax preparation companies are not approved for use with the ADFA MCC Program. Lenders must review them in order to determine that no deductions were taken for home mortgage interest or real estate taxes.

4. Special Issues Dealing With Prior Mortgages

The Eligible Borrower fails to qualify as a First-Time-Home buyer if he or she has had a prior mortgage loan or other financing on the Eligible Property, with the following exceptions:

a. Bridge Loan. A prior mortgage loan obtained for temporary financing, such as a construction loan or bridge loan, is acceptable, provided that the prior mortgage loan must have had a term of twenty-four (24) months or less.

b. Lease With Option to Purchase. When a credit toward purchase price is provided under a lease with option to purchase, Seller financing (not permitted under this MCC Program) is established. In this situation, the Eligible Borrower/renter is not an eligible First-Time-Homebuyer. However, an Eligible Borrower may qualify as a First-Time-Home buyer if the lease only provides a right of first refusal or an option to purchase and no portion of the rent paid has been or will be credited to the purchase price; or if the term of the lease is for no more than 24 months as of the closing date.

c. Required Documentation. In order to substantiate any of the above exceptions, the financing document (mortgage, contract or lease) must have been recorded in the relevant county real estate records at the time of execution. A certified copy of the document must be obtained from the county recorder's office and provided to ADFA.

B. Household Income Requirements

1. General

Of the three compliance issues we review, determining Household Income is by far the most difficult. In fact, the number one reason for rejection of an MCC application is due to the Eligible Borrower being "over income limits". In the context of this issue, the term "Eligible Borrower" means the Eligible Borrower as well as any Eligible Co-Borrower, and any person who is 18 years or older who will reside in the residence, collectively, including those not taking title. The Eligible Borrower must satisfy each of the following requirements:

a. Applicable Income Limits. The Eligible Borrower's Annual Household Income must not exceed the Maximum Income Limit shown in Appendix 3 of this program guide. Please note that the limits vary depending on the county in which the residence is located and number of people residing in the residence. It also varies depending on whether the county is Targeted or Non-Targeted.

HUD publishes median household income figures that are the basis for determining the Maximum Household Income Limits. The Tax Code requires the Authority to set the Maximum Income Limits at the following percentages of the median household income for the area of the State in which the Eligible Borrower intends to reside:

Household Size of	One (1) or two (2)	Three (3) or More
Targeted County	120%	140%
Non-Targeted County	100%	115%

b. High Housing Cost Method. There is an alternative method that is approved by the Internal Revenue Service and our Bond Counsel for calculating county income limits. It is called the "High Housing Cost" method and is used for Non-Targeted Counties to get the maximum income limit allowed.

c. Calculating the Eligible Borrower's Annualized Gross Income . The Eligible Borrower's Annual Household Income is equal to the Borrower's annualized gross income. Annualized gross income is calculated by multiplying the Eligible Borrower's gross monthly income by twelve (12). Gross monthly income is the sum of monthly gross pay as well as additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, veterans benefits, net rental income, and so forth. Gross monthly income also includes alimony, child support, public assistance, sick pay social security benefits, unemployment compensation, income from trusts, income from business activities or investments and also deferred income such as 401(k) plans. To help Lender and Borrowers determine the Household Annualized Gross Income a **Household Income Calculation Worksheet (Appendix 2)** is provided in this Program Guide.

d. Date of Income Determination. The date used to determine the Eligible Borrower's Annual Household Income is the date of Closing of the first mortgage loan.

2. Special Areas of Concern With Regard to Household Income

a. Commission, Bonuses and Overtime Compensation . Please note that calculating an Eligible Borrower's Annual Household Income begins to become more difficult with regard to any Borrowers who work irregular overtime, receive bonuses and / or commission income, or are self-employed. Generally, lenders must average commissions, bonuses and overtime over the last two (2) years, using tax returns and current year- to- date pay stubs as the basis for the calculations. If there is a clear pattern of such income either increasing or decreasing, emphasis will be placed on the past twelve (12) months.

b. Self-Employed Eligible Borrowers . Generally, mortgage lenders must determine the Annual Household Income of a self-employed Eligible Borrower by averaging his or her income over the last two (2) years using both federal income tax returns as well as a profit- and- loss statement for the current year prepared by a third party or prepared and signed by the Eligible Borrower. The effect of legitimate operating expenses may be taken into account when calculating income for this type of Borrower. As with commissions, bonuses and overtime emphasis must be placed on the past twelve (12) months of income activity if there is a clear pattern of increasing or decreasing income.

c. Child Support / Alimony . Child support and alimony payments must be included in the calculation of Annual Household Income regardless of whether the Borrower is divorced or separated or a single person. Proof of child support amounts is required from the Office of Child Support Enforcement (OCSE).

d. Married or Separated Eligible Borrowers Taking Title Individually . Mortgage lenders may encounter a married or separated Eligible Borrower who wishes to apply for a mortgage loan and take title to the residence in his or her name only and not jointly with the spouse. This is acceptable, but only after documenting that the Eligible Borrower would still be eligible if the spouse were also to apply and take title. In other words, both the Eligible Borrower and the spouse must be First-Time-Homebuyers and have a combined Annual Household Income within the applicable income limits.

If a spouse of an Eligible Borrower (or any other occupant who is 18 years of age or older and residing in the home) is not taking title to the residence, such spouse (or resident) must complete and sign an Exhibit I.

3. Required Documentation

a. General . As noted above, Annual Household Income is calculated by annualizing an Eligible Borrower's gross monthly income as of the date of the Closing of the mortgage loan. The Tax Code allows the Mortgage Lender and ADFA to rely upon the following documentation:

* Information obtained from loan application documents.

* A re-affirmation by the Borrower at Closing that the information set forth in the Affidavit of Buyer is still true, correct and complete.

NOTE: IT IS VERY IMPORTANT TO DOCUMENT ANY AND ALL CHANGES WITH RESPECT TO THE FINANCIAL CONDITION OF THE BORROWER THAT MAY OCCUR AFTER INITIAL APPROVAL AND BEFORE CLOSING.

b. Commission, Bonuses or Overtime. Where commission, bonus or overtime income can not be estimated or anticipated with relative certainty, a letter of explanation from the Eligible Borrower and their employer may be appropriate. Some borrowers might say that certain previous income sources were "one-time events" and will never occur again. The mortgage lender must verify these statements with an unbiased third party, such as the Borrower's employer.

c. Verifications of Employment . Mortgage lenders are required to obtain a verification of employment. This information may not be totally accurate, but it usually contains a breakdown of overtime, commissions, bonuses, and when the next raise might occur.

d. Self-Employed Eligible Borrowers . As noted above, mortgage lenders must obtain from any self-employed Eligible Borrower both federal income tax returns for the past two years as well as a profit- and- loss statement for the current year either prepared by a third party, such as a certified public accountant, or prepared by and signed by the Eligible Borrower. If applicable, self-employed Eligible Borrowers who have an ownership interest in a partnership, a limited liability company or a corporation must provide federal income tax returns for such entities.

NOTE: A PROFIT AND LOSS STATEMENT MAY ALSO BE REQUIRED FROM AN ELIGIBLE BORROWER WHO IS EMPLOYED FULL TIME, BUT SHOWS OTHER BUSINESS INCOME GAIN / LOSS ON HIS FEDERAL INCOME TAX RETURN (SEE LINE 12 OF FORM 1040).

f. Child Support/ Alimony . With regard to Eligible Borrowers receiving child support or alimony payments, the mortgage lender must obtain a copy of the appropriate (and most current) court decree, which sets forth the amount of the support. As an alternative, if payments for support are being made directly to the State of Arkansas, the lender may obtain a "print-out" sheet from the State which displays all of the information needed to determine the amount of income to include for the Borrower. Proof of amounts received is required.

4. Special Issues Dealing With Other Miscellaneous Forms of Income

a. Deferred Income . Annual Household Income also includes all deferred income such as an employee elective deferral (such as for cafeteria plan) or contribution to a pre-tax retirement plan, the most common such plan being the 401(k) plan. Furthermore, any amounts that the employer contributes into a retirement plan that can be withdrawn (not borrowed against) must be included in the Eligible Borrower's Annual Household Income calculation, even if such withdrawal will lead to a penalty or tax liability for the borrower. The key is whether the contribution can be "withdrawn" vs "borrowed against". The following steps can be used to make this determination:

* Calculate Annual Household Income and include the employer contribution and employee elective contribution/deferrals. If the Borrower's income does not exceed the published limit, then you need do nothing more.

* If the elective deferred income causes the Borrower to exceed the published limit, then the Borrower should obtain from his/her plan administrator a copy of the section from the plan document that provides for any restrictions governing withdrawals from the plan. If the plan document states that the contributions can only be borrowed against and can not be withdrawn, then these amounts are not included in the income calculation.

* In all instances, the Borrower's elective deferrals or contributions must be included in the Annual Household Income calculation.

b. Interest Earnings. If an Eligible Borrower has a large savings account and there will be savings left after closing, interest must be imputed on the savings account assuming a 3.25% interest rate (which is determined by HUD and subject to change from time to time).

c. Dividends From Stocks and Bonds, etc.. Annual Household income includes realized earnings from dividends paid from investment portfolios, unless the portfolio is liquidated prior to closing on the loan.

d. Temporary or Nonrecurring Income. Temporary, nonrecurring or sporadic income (including gifts) or income derived from "straight-line depreciation" is not included in the calculation of Annual Household Income.

C. Purchase Price Limits & Qualified Dwellings

1. **General**

The residence being financed must be a Qualified Dwelling and must not exceed the Maximum Purchase Price limit for the State of Arkansas. The Purchase Price Maximum can be found in Appendix 3 of this Program Guide. The Eligible Borrower must acquire a fee simple interest in the real estate and the residence being financed must become the Principal Residence of the Eligible Borrower within 60 days after closing of the mortgage loan.

a. Types of Residences. The following types of residences qualify:

* A single family detached residence, including a manufactured home that is permanently affixed to real property
* A townhouse
* A condominium unit
* A qualified duplex, provided the structure was first occupied as a residence at least 5 years before the execution of the mortgage.

b. Acquisition Cost Limits . In order to qualify for participation in the Mortgage Credit Certificate (MCC) Program, the residence must have an Acquisition Cost no greater than the allowable Maximum Purchase Price shown in Appendix 3. ADFA will notify mortgage lenders in advance of the effective date when new Maximum Purchase Price limits are published.

c. Determination of Acquisition Cost for a Particular Residence. In theory, determining the Acquisition Cost should be easy. Generally, it is equal to what is shown on the Standard Residential Purchase Contract.

As defined by the Tax Code, Acquisition Cost includes all amounts paid, either in cash or in kind, by the Borrower (or any party related to the Borrower) to the Seller (or any party related to the Seller) as consideration for the purchase of the residence. This includes the reasonable cost of completing an incomplete or unfinished residence. Completion costs are included in the Tax Code definition of Acquisition Cost whether or not the cost of completing construction is to be financed with a qualified mortgage loan.

Acquisition Cost does not include:

* Usual and reasonable settlement or financing costs (including title fees, title insurance, survey charges, credit report fees, appraisal expenses, etc.). Please note that, in order for these costs to be excluded from the Acquisition Cost calculation they must not exceed usual and reasonable charges for these expenses.
* The unpaid value of services performed by the borrower or members of the borrower's family in completing or finishing the residence. This is known as "sweat equity".
* Items of personal property which are not fixtures and/or permanently affixed to the property.
* The cost of minor repairs, fix-ups, etc. performed after closing and paid for by the Borrower.

When a Standard Residential Purchase Contract includes personal property, the Borrower and the Seller must establish a fair market value for the personal property. The fair market value may be deducted from the Purchase Price when calculating the Acquisition Cost and the loan-to-value ratio. We are not going to worry about such things as old refrigerators, draperies or other typical items that have no value to the Seller.

2. Special Areas of Concern With Regard to Residence Qualification

The following are additional standards and requirements of a Qualified Dwelling:

a. New Construction. To qualify as new construction, the residence can't ever have been occupied by anyone. A "model home" qualifies, provided it was never rented or occupied as a residence prior to being sold.

b. Properties With More Than 5 Acres . The Tax Code prohibits the Authority from financing a residence located on land in excess of that needed to "reasonably maintain basic livability". This prohibition has generally been interpreted to mean land not exceeding five (5) acres. Therefore, if the land is in excess of five acres, you should determine that the property meets this standard and provide ADFA an explanation to justify the determination.

c. Properties With More Than One Livable Structure . Properties containing a main living structure and an "out building" can be a cause for concern. Our concern gets back to the issue of what constitutes "basic livability". We must be confident that there is no intention on the part of the Borrower to use the additional structure in a trade or business. In some cases we can rely on a sworn affidavit from the Borrower stating that the out building will not be used in any type of trade or business , including rental property.

d. Appraised Value Exceeds Program Limit. If the appraised value of the property exceeds the Maximum Purchase Price, do not assume that the loan will not qualify for the MCC Program; we still may be able to approve the loan. The issue that needs to be addressed is whether there is a deliberate attempt to circumvent the purchase price limit or whether the Borrower just got a good deal. If the appraised value exceeds the purchase price limit but the Acquisition Cost is below the limit and the transaction is clearly an "arms length" transaction, we usually conclude that the Borrower got a "good deal". We may require a statement from the Borrower and Seller indicating that no relationship exists if we are unclear about the relationship between the Borrower and the Seller. You must follow agency guidelines when the appraisal exceeds the purchase price.

e. Land Owned By Eligible Borrower . If the Eligible Borrower intends to have a residence built on land already owned, the cost of such land will be excluded from the Tax Code definition of Acquisition Cost ONLY if such land has been owned by the Borrower for at least two (2) years prior to the date on which construction on the land begins. If the land was purchased less than two years ago, the cost of the land is included in the Acquisition Cost calculation.

In order to determine whether to include the cost of the land or not, you should obtain a certified copy of the deed from the county recorder's office. Likewise, the contract of sale or the settlement statement for the land can be used to substantiate such land cost and the date of purchase.

D. The Issue of Potential "Recapture Tax"

1. General

The Federal government views Eligible Borrowers who purchase a primary residence and apply for and receive a Mortgage Credit Certificate (MCC) as having received a Federal tax "subsidy" because of the Federal tax credit that is available to them as long as that house is used as their primary residence. The Tax Code requires that a Eligible Borrower who has taken advantage of the MCC may be required to repay a part or all of this subsidy to the Federal government if: (1) the Eligible Borrower sells the residence within nine (9) years of purchase, and (2) realizes a capital gain on the sale of the property and (3) has had a significant increase in Annual Household Income since the mortgage loan was closed. This repayment is in the form of a tax and is commonly referred to as **"Recapture Tax".**

Due to this provision in the Tax Code, ADFA requires that the potential Eligible Borrowers be informed of this possible taxation at the time of application for the MCC. The **Notice To Borrower(s) of Potential Recapture Tax (Exhibit** A), must be provided to and signed by each Borrower at the time of MCC application. By evidence of the Eligible Borrower's signature, we are assured that the Borrowers have been given appropriate notice. Two (2) additional notices will be provided to the borrowers. One is incorporated into the "Affidavit of Buyer" and the other will be signed by the Eligible Borrowers at Closing.

a.How Does Recapture Work? The Tax Code assumes that the amount of the subsidy realized by the borrower is equal to 6.25%, reduced in some instances by a holding period percentage. This recapture rate increases increments of 1.25% for each of the first five years; then, it declines by the same incremental rate through the ninth year of ownership. The rate of recapture is multiplied by the original mortgage loan amount to determine the maximum amount of recapture tax to be paid. The following chart shows the recapture holding period percentages.

Year of Resale	Recapture Tax Percentage	RecaQture Tax Rate *
1	20 %	1.25 %
2	40 %	2.50 %
3	60 %	3.75 %
4	80 %	5.00 %
5	100 %	6.25 %
6	80 %	5.00 %
7	60 %	3.75 %
8	40 %	2.50 %
9	20 %	1.25 %
10	No Recapture Tax Due	

* **The Recapture Tax Rate is multiplied by the original mortgage loan amount to determine the amount of Recapture Tax to be paid.**

There is one additional measure in calculating recapture tax. In no event will the amount of recapture exceed 50% of the net gain on the sale of the home.

After you have informed your borrower of the potential for a recapture tax, let the borrower know that in most cases (estimated to be around 90% - 95%), a recapture tax will not need to be paid.

b. Recapture Tax Is Not Paid Under the Following Conditions: Several factors will determine whether the recapture tax must be applied. The factors include: the year in which the residence is subsequently sold; the circumstances surrounding the disposition of the residence; the household size and Annual Household Income at the time of resale; and the amount of capital gain made on the sale.

Circumstances under which recapture is not paid:

* The Eligible Borrower lives in the residence for more than nine years.
* The Eligible Borrower does not realize a capital gain on the resale.
* The Eligible Borrower dies.
* The Eligible Borrower's Annual Household Income at the time ofresale has not increased to an amount greater that the Maximum Household Income Limit for the ADFA MCC Program calculated with a 5% annual growth rate and based on the Maximum Income Limit -not the Borrower's income at time of the loan.

Let's focus on the last reason, since we feel that it will be the primary reason for not having to pay the Recapture Tax. We believe that, in most cases, the Eligible Borrower will not have to pay a Recapture Tax because his or her Annual Household Income likely will not exceed the Maximum Household Income Limit at the time of sale of the property associated with the Mortgage Credit Certificate. As you will see in reviewing the chart, we have taken the Maximum Household Income Limit for the Single Family Program and projected it with a 5% annual growth rate. If the Eligible Borrower's income is at or below this adjusted amount at the time of the sale of the property, the Eligible Borrower pays no Recapture Tax. Since our typical borrower's Annual Household Income is well below the Maximum Household Income Limit, it would require a borrower to realize significant increases (7% - 15% or greater) annually before exceeding the limit.

c. Who Are the Eligible Borrower's Most At Risk?

* Single Eligible Borrowers. If they get married they might double their Annual Household Income overnight.

* Eligible Borrowers who are very close to being over the Annual Household Income Limit at the time of loan application. They will be limited to Annual Household Income growth of no more than an aggregate amount of 5% annually if they expect to stay beneath the allowable limits.

* Young professionals or "career superstars" who anticipate significant salary increases within the near future and do not intend to stay in the property for more than nine years.

d . How Does the Borrower Pay the Recapture Tax? If the Recapture Tax must be paid, it will be part of the Eligible Borrower's income tax computation when the borrower files their annual income tax return for the year in which the Eligible Borrower sells the residence.

The Recapture Tax is reported to the IRS using IRS Form 8828. If the Borrower sells his home and his mortgage loan is subject to the recapture rules, he must file Form 8828 even if no Recapture Tax is owed. See Form 8828 and its instructions for more information. Also, IRS Publication 523 -"Selling Your Home" for more information on recapturing a Federal mortgage subsidy. In all matters dealing with Recapture Tax we recommend that the Borrower consult a professional tax preparer.

e. What If the Eligible Borrower Refinances? If the Borrower makes the decision to refinance the loan that is associated with a Mortgage Credit Certificate, the Recapture Tax rate (see chart under paragraph (a.) above- "How Does Recapture Work?) freezes in the year of the refinance. As long as the Eligible Borrower continues to reside in the residence, no Recapture Tax is due. The Borrower would not pay any Recapture Tax until a sale of the residence occurs and the Recapture Tax rate may be reduced. No Recapture Tax is owed if the sale is more than nine years from the loan closing date.

Chapter 4 - Loan Underwriting & Program Administration

ADFA is the Program Administrator for the Mortgage Credit Certificate Program for the State of Arkansas. The Authority will delegate part of the administrative role to participating Arkansas mortgage lenders through the execution of a Lender Participating Agreement with those lenders.

Prospective borrowers may apply for a Mortgage Credit Certificate in conjunction with a standard mortgage loan application for the purchase of a primary residence. The MCC processing is designed to complement the lenders' regular credit underwriting procedures. Since ADFA is not part of the decision making process on credit, under the Equal Credit Opportunity Act, ADFA is not required to give the borrower any formal notice of rejection of an MCC. The Authority recognizes that there will be procedural variations amongst participating lenders; consequently, the procedures outlined here are meant to suggest, not mandate, a particular sequence of events. However, the responsible parties to the MCC transaction must complete ALL of the elements for the processing of an MCC as outlined in this Program Guide.

ADFA will maintain a list of MCC Participating Lenders and will provide the list to prospective borrowers upon request. The list will be updated on a regular basis. The current list will be made available on the ADFA web site – www.arkansas.gov/adfa .

MCC Set-aside:

As Reservations are received, ADFA will monitor the amount of confirmed requests to comply with the Tax Code requirement that for the first year that MCC's are available, twenty percent (20%) of the aggregate amount of MCC's available through the Program shall be set aside by ADFA and allocated to loans in Targeted Counties. A listing of Targeted Counties in Arkansas can be found in Appendix 4 of this Program Guide.

This could result in a Non-Targeted reservation request being placed on a waiting list for funding when the Targeted County requirement has not been met. ADFA may, at its sole discretion, continue to accept MCC reservation requests in the manner specified herein even though the available funds may be fully reserved. These reservation requests may be eligible for issuance on a first-come, first-serve basis under a future MCC Program. Alternatively, ADFA may, at its Discretion, suspend its MCC Program for a period of time for all but Targeted County MCC applications.

A. LOAN ORIGINATION AND MCC RESERVATION:

Step 1. Borrower applies for mortgage financing from an MCC Participating Lender. The loan must be fixed rate and fully amortizing and it can't be a tax exempt mortgage revenue bond loan.

Step 2. Lender determines if a loan applicant is eligible for an MCC based preliminary on information obtained about annual household income, acquisition costs, prior home ownership, and other factors. The applicant need not have a federal tax liability, either currently or projected, in order to qualify for an MCC.

Step 3. Lender provides Borrower with an **MCC Program Disclosure Form (Exhibit C)** and a **Application For Conditional Commitment, Certifications** & **Affidavit (Exhibit B)** that explains the MCC Program and contains guidelines for potential applicants. The Lender should advise the Borrower to carefully study his/her present and anticipated federal income tax situation to judge the amount of federal tax liability in order to determine the benefit of the MCC Program.

Step 4. Lender should provide the Borrower with the **MCC Worksheet (Appendix 1)** to help verify that the Borrowers qualify for an MCC. Lender should also provide the Borrowers with the **MCC Household Income Calculation Worksheet (Appendix 2)** to verify that Borrowers are under the published income limits for the county where the property is located and the number of people living in the household. A listing of county income limits can be found in Appendix 3 of this Program Guide. **The use of Appendix 1 & 2 are optional and are not required to be sent to ADFA.**

Step 5. As part of the loan reservation process, the Borrowers read and sign the **MCC Application For Conditional Commitment, Certifications & Affidavit (Exhibit B).** This form contains various certifications required by the Tax Code and ADFA.

Those certifications are:

a. Certification by Borrowers, that the residence will be used as the MCC holder's principal residence.
b. Certification by the Borrowers, that Borrowers have not owned a principal residence during the past 3 year period. Not required for a purchase in a Targeted County or if the borrower is a military veteran.
c. Certification by Borrower's and the Seller of the property that the Acquisition Cost does not exceed the Acquisition Cost (Purchase Price Maximum Limits set for the Program.

d. Certification by Borrowers that the mortgage loan applied for does not constitute a Prohibited Mortgage. The loan can not be a refinance transaction or a tax exempt mortgage revenue bond loan.
e. Certification by the Borrowers that the Borrowers were not forced to apply through a particular lender.
f. Certification by the Borrowers that the Borrower's Household Income does not exceed the published limits based on the county where the property is located and the number of people residing in the property.
g. Certification by the Borrowers that no interest is being paid to a Related Person.
h. Certification by the Borrowers that the MCC can not be transferred or assumed.

Step 6. To reserve an MCC, the Lender may fax the completed **MCC Reservation Form (MCCOOl)** to ADFA at (501) 682-5621 **or** e-mail it to mcc@adfa.arkansas.gov.

To request a change to a current Reservation, the Lender must use the following procedures:

a. All changes must be submitted to ADFA using the **Request For MCC Modification (MCC 002).**

b. Mortgage amount increases will require prior approval of ADFA and will be subject to availability of MCC credit authority.

Step 7. Determination of Recapture Tax:

In 1990 Congress passed a law that provides for a "Recapture Tax" on the gain from the sale of a residence where the seller of the property used a Mortgage Credit Certificate (MCC) in conjunction with the mortgage financing. Recapture Tax is simply the repayment of a portion of a Federal mortgage subsidy the borrower's received from the Internal Revenue Service when they purchased the home.

Chapter 3-D of this MCC Program Guide lists the guidelines that pertain to Recapture Tax. Internal Revenue Service Publication 523 also gives details on recapture tax. If the taxpayer determines that he/she owes recapture tax it is paid by filing IRS Form 8828 when the taxes are paid for the year that the house was sold.

We strongly recommend that taxpayers seek the advice of a professional tax preparer to determine if "Recapture Tax" applies and to calculate the amount of the tax to be paid.

Step 8. Upon receipt of the faxed **MCC Reservation Form (MCC 001),** the ADFA Single Family staff will enter the information on the reservation form into the appropriate MCC section of the Internet Reservation System.

B. CREDIT UNDERWRITING

Step 9. The lender performs all of the normal mortgage loan credit underwriting procedures. This would include all of the normal verifications of employment, income and borrower assets.

Step 10. Lender may considers the value of the MCC when determining the amount of income available to use in calculating the housing ratio of the Borrower's. Some agencies (FHA, RD, VA, FHLMC and FNMA) allow for a reduction in the Borrower's monthly house payment by the MCC credit amount. Others increase the Borrower's income by the credit amount. Agency guidelines must be followed when calculating the benefits of an MCC on borrower's income.

C. REQUEST FOR CONDITIONAL COMMITMENT:

Once the credit decision has been approved by the lender, the lender assembles and submits the **Conditional Commitment Package** to ADFA. The Authority must receive the commitment package within 30 days of the Reservation Date.

Step 11. The **Conditional Commitment Package** consists of the following:

* **MCC Transmittal Checklist (MCC 003)**
* Original executed **MCC Application For Conditional Commitment, Certifications & Affidavit (Exhibit B)**
* Agency Underwriting and Transmittal Summary:
    ** Fannie Mae Form 1008
    ** FHA Underwriting and Transmittal Summary HUD-92900
    ** Freddie Mac Underwriting and Transmittal Summary 1077
    ** VA Loan Guaranty Analysis Form
    ** Rural Development Loan Commitment Form
* Original executed **MCC Disclosure (Exhibit C)**
* Most recent Federal tax returns with all schedules
* Tri-Merge Credit Report on all borrowers
* Verification Of employment and current pay stubs on all borrowers

* MCC Household Income Calculation Worksheet (Appendix 2) (optional)
* Complete appraisal report of subject property
* Copy of Deed and Invoice for Manufactured Housing
* Notification of Change Form (MCC 002) (If Applicable)
* Original Executed Notice To Borrower(s) of Potential Recapture Tax (Exhibit A)
* Copy of fully executed Real Estate Sales Contract
* Copy of completed and signed Form 1003 Loan Application

NOTE: ADFA must receive the "Commitment Package" within 30 days of reservation date.

D. LOAN CLOSING:

Step 12. Lender confirms that the MCC Conditional Commitment has not expired.

Step 13. Lender closes the loan.

Step 14. After the loan has closed, the Lender will assemble the "Closing Package" and submit it to ADFA. ADFA must receive the "ClosingPackage" within 30 days of loan closing. The "Closing Package" consists of the following:

* Original Transmittal Checklist (MCC 003)
* Lender's check payable to ADFA for the following fees:
  - MCC Issuance Fee of .50% of loan amount
  - MCC Reservation Fee of $25.00
  - MCC Reservation Extension Fee (if applicable)
  - MCC Reissuance Fee of $125.00 in the event of an assumption or refinance
* Original executed Borrower's Closing Affidavit (Exhibit E)
* Original executed Sellers Affidavit (Exhibit F)
* Original executed Lender's Closing Certificate (Exhibit G)
* Copy of executed Note
* Original of Notice To Mortgagor For Determining If Recapture Tax Is Owed (Exhibit P)
* Copy of the completed TILA & RESPA Integrated Closing Disclosures

NOTE: ADFA must receive "Closing Package" within 30 days of loan closing.

E. ISSUANCE OF THE MORTGAGE CREDIT CERTIFICATE:

Step 15. Upon receipt of the "Closing Package", ADFA staff will review the documents to insure the documents comply with MCC Program guidelines. If all program guidelines are met, ADFA will issue the Mortgage Credit Certificate. The original certificate will be sent to the Borrowers at the address of the subject property. A copy of the certificate will be sent to the designated contact person for the Lender.

F. MCC Revocation After the Closing Date:

The Tax Code provides that discovery of noncompliance with the MCC guidelines will result in revocation of the Mortgage Credit Certificate and disallowance of the tax credit. Revocation of the MCC occurs whenever:

(a). The residence for which the MCC was issued ceases to be the Borrower's principal residence;

(b). ADFA or the Participating Lender discovers any material misstatement, whether negligent or fraudulent, made by the Borrowers in any loan or MCC document;

(c). The loan is paid in full.

G. POST- ISSUANCE AUDIT:

ADFA, at its sole discretion, may perform a random post issuance audit of the Lender's records pertaining to MCC assisted mortgages.

H. ASSUMPTION OF LOAN & TRANSFER OF MCC:

A loan assumption associated with an MCC will be treated as a new MCC application and the procedures required by this Program Guide will be repeated. Since an MCC will already be outstanding associated with this property, an MCC Commitment Letter will not be issued. All of the documents required for the "Conditional Commitment Package" listed in the **MCC Transmittal Checklist (MCC003)** should be sent.

If a loan assisted with an MCC is to be assumed by a new borrower, an MCC may be issued to the new borrower under these guidelines:

a. The lender and new borrower must demonstrate to ADFA that there will be an assumption of liability for the remaining balance of the loan previously closed with an MCC.

b. If the new borrower is preliminarily eligible, the lender obtains signed Federal tax returns for the latest year (except for cases where the property is in a Targeted County where no tax returns are required) and provides to borrower for his signature a **Notice To Borrower(s) Potential Recapture Tax (Exhibit** A).

c. The lender must submit an **MCC Conditional Commitment Package** as found in this Program Guide, MCC 003. The lender must be an approved lender in the Arkansas MCC Program.

d. ADFA will require a $125.00 non-refundable Reissuance Fee. The fee can be paid by any party to the mortgage loan transaction. ADFA must be paid by lender check.

e. The new borrower's acquisition cost and household income limits must not exceed the limits in effect at the time of the loan assumption. The new borrower must occupy the property as a principal residence within 60 days of loan assumption, and must be a first-time homebuyer or meet certain exceptions.

f. ADFA must issue a new MCC to replace the original certificate.

g. The new MCC must meet all the conditions of the original MCC and must comply with any changes in Federal, state or ADFA policies that have amended the MCC requirements.

NOTE: Inability of the new borrower to qualify for an MCC does not preclude the loan from being assumed.

I. CHANGES IN CIRCUMSTANCES PRIOR TO CLOSING DATE:

Often there are situations where circumstances of the MCC request change after the issuance of the MCC Reservation. Some of those changes may affect the Borrower's eligibility to qualify for an MCC. Some of those changes are as follows:

(a) Changes in the Applicant's Total Household Income or marital status after the issuance of the MCC Reservation.

(i) **Changes in Total Household Income.** The eligibility of the Applicant for an MCC is based upon the Applicant's current Total Household Income. This is the total gross income of anyone living in the residence that is 18 years of age or older. Changes in the Applicant's Total Household Income occurring after the date of the MCC Reservation and prior to the Closing Date which were unforseen at the time of issuance of the MCC Reservation will require recertification of the Applicant's Total Household Income for purposes of determining the Applicant's continued eligibility.

(ii) **Changes in Marital Status.** If the Applicant experiences a change in marital status after issuance of the MCC Reservation and prior to the Closing Date, the new spouse must satisfy the program requirements, including, if applicable, the First-Time-Homebuyer requirement. In addition, Total Household Income must be reverified for purposes of determining MCC Program eligibility. Any income attributable to the new spouse must be verified and added to the Total Household Income previously declared by the Applicant. This new Total Household Income must be within the MCC Program limits set forth in Appendix 3.

(iii) Changes in Total Household Income or marital status occurring after the Closing Date do not affect Program eligibility. Such changes, however, may affect calculation of the Recapture Tax if the residence is disposed of within nine years from the Closing Date. See Chapter 3(D) of this Program Guide for a discussion of the Recapture Tax and how it is calculated.

b. If the total Acquisition Cost of the residence increases to a level that exceeds the Maximum Purchase Price for the MCC Program, the MCC Reservation shall be revoked.

c. Other changes in circumstances after issuance of the MCC Reservation.

(i) ADFA must be notified in writing of any changes in Loan Amount that occur after issuance of the MCC Reservation and prior to the Closing Date. An increase in Loan Amount may negate the MCC Reservation if sufficient MCC authority is not available and such reservation may be revoked at the discretion of ADFA.

(ii) An MCC Reservation is issued relying on the information and representations in the **Application For Conditional Commitment, Certifications & Affidavit (Exhibit B)** that the requirements necessary for issuance of an MCC have been met. The Lender must immediately notify ADFA in writing of any change in circumstances upon which the MCC Reservation was issued. If, as a result of such change in circumstances, the MCC Program requirements are no longer satisfied, the MCC Reservation will be revoked.

J. ALLOWABLE FEES:

Regardless of which party to the loan transaction pays, the fees listed in paragraph a, through d, below are to be paid to ADFA with a check from the Lender or title company. All fees are sent to ADFA as part of the "closing package".

a. $25.00 Reservation Fee - This is a Third Party fee that goes to the company that provides our Internet Reservation System. It can be paid by any party to the transaction; but must be remitted to ADFA as a check from the Lender or title company.

b. MCC Issuance Fee - Fee of .50% of the loan amount.

c. $50.00 Reservation Extension Fee - This fee is paid each time a 30 day extension is granted.

d. $125.00 Reissuance Fee – Fee paid to ADFA when there is a reissuance of the MCC because of an assumption or a refinance.

e. Lender may charge the Borrower up to $150.00 per MCC transaction.

K. REFINANCE OF ORIGINAL LOAN:

A. A refinance of the original first mortgage with an MCC attached is allowed by the Tax Code. It is a "Reissued MCC" and is, in effect, a continuation of the existing MCC. ADFA may reissue MCC's provided the following requirements are met:

a. The "Certified Mortgage Indebtedness, set forth on the reissued MCC will be the outstanding principal balance of the prior mortgage loan as of the date of the refinance.

b. The reissued MCC will only be issued to the holder of the original MCC and for the same property, provided the holder still occupies it as a primary residence.

c. The reissued MCC will expire on the final payment date for the prior mortgage loan.

d. The reissued MCC tax credit rate (i.e., 50%) will not be changed and the reissued MCC will only be reissued to the holder of the original MCC

e. The reissued MCC will state that the credit allowable will not exceed the credit that would otherwise have been allowable to the holder under the original MCC for any taxable year.

f. ADFA will process only one reissuance request per Borrower.

B. How Does the Refinance Work:

The MCC holder must provide ADFA with the following documentation in order to begin the reissue process:

1. Copy of the payoff statement from the prior mortgage confirming the outstanding principal balance as of the date of the refinance.

2. Copy of the newly executed Note.

3. Copy of the executed TILA & RESPA Integrated Closing Disclosure.

4. **Owner Occupancy Certification (Exhibit H)** signed by Borrowers.

5. The information listed above should be sent to ADFA, Attn: Single Family Division.

6. Both borrowers read and sign the **Request For Reissued MCC (Exhibit L)**

L. CURING DEFECTS:

In the event that any defects are discovered in the application or any certifications, exhibits or affidavits after the MCC has been issued, the Lender and the MCC Holder will be notified of such defects and given 60 days from the date of the notification to cure the problem. If not cured within that time frame the Issuer (ADFA) has the option to revoke the MCC.

Chapter 5 - Federal Reporting & Record Keeping

A. Federal Reporting:

1. Lenders : The Lender is required to annually file with the Internal Revenue Service (on or before January 31st of each year) **Lender's Information Return for Mortgage Credit Certificates (IRS Form 8329)** with respect to loans made in conjunction with the issuance of MCC's during the prior calendar year. A copy of IRS Form 8329 with instructions on how to complete the form can be found on the Internal Revenue Service web site - www.us.gov .

ADFA will provide to each Participating Lender the loan information and the loan detail for all mortgage loans with MCC's attached closed in the previous calendar year. A partially completed IRS Form 8329 will be provided to each Participating Lender in January of each year. It will have an attachment that contains the following information:

a. Loan Number's
b. Mortgagor Name's
c. Social Security Number's
d. Property Addresses
e. Certified Indebtedness Amount of MCC's
f. Date MCC's issued
g. Certified Credit Rate (ie,50%)
h. Amount MCC's Issued

The information provided in the attachment should be verified by the Lender. If all information is correct the Lender should add the company Employer Identification Number in Part 1 - Reporting Authority, sign, date and add the title of the person executing the document on behalf of the Lender.

A sample of the cover letter used to send the above information to the Lender is shown in Appendix 7 of this Program Guide.

The Lender should mail the completed Internal Revenue Service Form 8329 with the attached listing to the Internal Revenue Service no later than January 31st. The IRS mailing address is:

Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201

2. ADFA: The Authority will make quarterly reports to the Internal Revenue Service using **Issuer's Quarterly Information Return for Mortgage Credit Certificates (MCC's) Form 8330 .** A sample of the Internal Revenue Service Form 8330 and the instructions for completion of the form can be found on the Internal Revenue Service web site - .
The form should include the following information:

a. Part I - Reporting Authority

i. Name, Address and Employer Identification Number of ADFA;

ii. Date of MCC election for the program and the non-issued bond amount of the Program;

b. Part II - Computation of the Total Amount of Mortgage Credit Certificates

i. The sum of the product of (a) the Certified Indebtedness Amount and (b) the Certificate Credit Rate for each respective MCC issued;

c. Part III - Revocation of Qualified Mortgage Credit Certificates

i. Name, Address and Social Security Number of each MCC holder that has an MCC revoked.

When To File: Form 8330 must be filed with the IRS on a quarterly basis beginning with the quarter in which the MCC Election was made. The return for each MCC program is due as follows:

For The Quarter Ending:	Form 8330 Due By:
March 31	April 30
June 30	July 31
September 30	October 31
December 31	January 31

Reissued MCC's: A "reissued MCC" occurs when there is a refinance of the first mortgage which has an MCC attached. It also occurs when there is an assumption of the first mortgage by qualifying new Borrower's. For both a refinance and an assumption the parties on the new note and mortgage must meet all of the requirements of the MCC Program.

Request For Reissued MCC (Exhibit L) should be executed by the borrower's when a loan with an MCC attached is refinanced. The new borrower's execute the Exhibit L in the case of a loan Assumption.

Do not report reissued MCC's on Form 8330. A Reissued MCC is considered to be a continuation of the original MCC. It is reported by the Lender of the replacement loan on **Form 8329 – Lender's Information Return for Mortgage Credit Certificates (MCC).**

3. ADFA: The Authority, on an annual basis, will file with the Internal Revenue Service the **Mortgage Credit Certificate Information Report.** This report covers the period July 1st through June 30th. It is due to the IRS by August 15th.

It should be sent to: Internal Revenue Service Center
Philadelphia, PA 19255

The report should consist of the following:

1. Name, address and TIN of the Issuer.
2. The reporting period for which the information is provided.
3. A table titled -"Number of MCC's by Income & Acquisition Cost.
4. A table titled -"Volume of MCC's by Income & Acquisition Costs.

4. **Filing An Election For A New MCC Program.** Each time a new MCC Program is established there must be a filing of such election to the Internal Revenue Service. This notifies the IRS that a new program has been started and that a certain amount of Private Activity Volume Cap has been allocated to the new program.

The filing consists of the following:

1. Cover letter sent Certified Mail - Return Receipt
2. MCC Election form signed by ADFA President
3. Governor's signed certification
4. Authorizing Resolution approved by ADFA Board
5. Notice of Issuance of Private Activity Volume Cap Signed by Bond Counsel (Appendix B-1)
6. Certificate of Allocation of Volume Cap signed by President of the Authority

All filings to the IRS for a given calendar year must be postmarked prior to December 31[51]. Filings are made to **Internal Revenue Service Center, Philadelphia, PA 19255.**

B. **Record Retention:** The Lender is required to keep the Internal Revenue Service Form 8329 and attachments for a period of six years from the Closing Date of the loan. The specific information required to be kept is the following:

a. Name, mailing address and social security number of MCC holder.

b. Name, mailing address and Employer Identification Number of the MCC Issuer (ADFA).

c. Closing Date, the Certified Indebtedness Amount (loan amount) and the MCC Credit Rate (50%) for each loan for the respective MCC.

Chapter 6 - Forms and Document Listing

The following is a listing and description of the MCC Program documents and forms referred to in this Program Guide.

Program Document	Description
MCC 001	**"MCC Reservation Form"** - fax format for Lender to send to ADFA requesting an MCC for a qualified borrower.
MCC 002	**"Request For MCC Modification"** - A form the Lender faxes to ADFA to request changes in the terms of the MCC reservation.
MCC 003	**"MCC Transmittal Checklist"** - A checklist the Lender follows to submit documents to ADFA when requesting the issuance of an MCC.

****

Exhibit A	**"Notice To Borrower(s) Potential Recapture Tax"** - A notice signed by the Borrowers indicating that they have been made aware of the possibility of having to pay a recapture tax if they sell the subject property in the first nine years. This document is executed by all Borrowers at time of application for the MCC and is included as part of the Compliance Package that the Lender sends to ADFA.
Exhibit B	**"Application For Conditional Commitment, Certifications** and Affidavit" - Application for an MCC, signed by the Borrowers at application certifying that they are aware of the compliance requirements to qualify for an MCC.
Exhibit C	**"MCC Disclosure"** - A form signed by the Borrowers at application and notarized by the Lender. It is included in the Compliance Package that the Lender sends to ADFA.

Exhibit D	**"MCC Conditional Commitment Letter"** - After Reviewing the information submitted in the Compliance Package, if all compliance requirements are met, the MCC Program Manager completes the information in the letter, signs the letter and and sends to the Applicant with a copy to Lender.
Exhibit E	**"Borrower's Closing Affidavit"** - Statements made by Borrowers concerning changes, or lack of changes, in the statements made in the "Application For Conditional Commitment, Certifications & Affidavit" (Exhibit B) that was signed at application. Form is signed by Borrowers and notarized at closing.
Exhibit F	**"Seller's Affidavit"** - Seller's statement that he/she is the Seller of the subject qualified residence and stating the total purchase price. Form signed by Seller at closing.
Exhibit G	**"Lender Closing Certificate"** - Certifications made by the Loan Officer as to the details of the mortgage loan transaction.
Exhibit H	**" Owner Occupancy Certification"** - Signed by the new MCC Holder when there is a refinance or assumption of the first mortgage loan to which the MCC was attached.
Exhibit I	**"Non-Borrower Occupant Income Affidavit"** - Statement by a non-borrower occupant giving his/her gross monthly income. That income amount is then used to calculate the gross household income.
Exhibit J	**"Supplemental Affidavit and Certification – Rental Property"** - Borrowers make statements if they have owned rental property within the last three years.
Exhibit K	**"Supplemental Affidavit and Certification - Manufactured Home"** - Borrowers make statements concerning the prior ownership of a mobile/ manufactured home.
Exhibit L	**"Request For Reissued MCC"** - to be executed by the borrower's in the event of a refinance transaction; and the new borrower's in the event of an assumption.

Exhibit M	**"Military Veteran's Eligibility Affidavit"** - Form executed by a borrower/veteran acknowledging that they need not meet the first-time-home buyer requirement of the Mortgage Credit Certificate Program.
Exhibit P	**"Notice To Mortgagor For Determining If Recapture Tax Is Owed"** - Form signed by borrower's at closing that explains how recapture tax is calculated and helps borrower's determine if they have to pay back a portion of the mortgage subsidy they received from the MCC Program.

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Appendix 8	Sample of a cover letter used by ADFA to send the original Mortgage Credit Certificate to the borrower / taxpayer.
Appendix 9	Sample of a cover letter that ADFA uses to send a copy of the Mortgage Credit Certificate to the Lender. It also outlines the Federal requirement to retain the MCC information for six years.
Appendix 10	"Notice of Acceptance & Assignment of MCC Lender Identification Number" - A sample of the letter ADFA sends to the lender when that lender is accepted as a participating lender in the 2010 Arkansas MCC Program.
Appendix 12	Sample copy of the Lenders Information Return for Mortgage Credit Certificate (IRS Form 8329) with Instructions.
Appendix 13	Sample copy of the Issuer's Information Return for Mortgage Credit Certificate (IRS Form 8330) with Instructions.
Appendix 14	Sample of the Mortgage Interest Credit (IRS Form 8396) which is the form that the borrower / taxpayer uses each year to claim the MCC Federal dollar for dollar tax benefit including instructions.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
MORTGAGE CREDIT CERTIFICATE PROGRAM
MCC Reservation Form

To: Arkansas Development Finance Authority **Fax No. 1-501-682-5621 OR**
E-Mail: mcc@adfa.arkansas.gov

****

Borrower's Name: _____ Social Security #_____

Co-Borrower's Name: _____ Social Security #_____

Subject Property Address: _____ _____

(Street) (City)

_____ _____

(County) (Zip Code)

****

Marital Status: Married ( ) Single ( ) Divorced Widowed (

Borrower's Age:_____Co-Borrower's Age:_____ Household Gross Annual Income: $ _____

Total Number of People in the Household:_____ Adults _____ Children Under age 18:_____

Targeted County ( ) Yes) No

Status of Past Home Ownership: a._____Never Owned a Primary Residence
b._____Owned a Residence before but not within the Past Three Years

Total Acquisition Cost of Residence: $_____ Amount of First Mortgage Loan: $_____

Term of Mortgage:_____ Mortgage Interest Rate: Appraised Value: _____

Type of First Mortgage: a. Government) FHA VA Rural Development

b. Conventional Fixed Rate Variable Rate) Interest Only

Date of Loan Closing:_____ Total Monthly Payment: _____

Housing Type: ( ) Stick Built One Unit Dwelling
( ) Two Dwelling Units
( ) Mobile/Modular Home
( ) Condominium / Town Home

(Street or P.O. Box) (City)

Mortgage Lender Name : _____ Originator Name : _____

Originator E-mail: _____ Processor E-mail: _____

MCCOOi

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE

REQUEST FOR MCC MODIFICATION

To: Arkansas Development Finance Authority **Fax No.: 1-501-682-5621 OR**

E-Mail: mcc@adfa.arkansas.gov

MCC Reservation Nrunber: _____

Mortgagor(s) Name: _____

Property Address: _____

We request that the following action be taken on the above referenced Mortgagor:

1. Extend the MCC Reservation.
2. Extend the MCC Conditional Commitment.
3. Decrease loan amount from $_____ to $_____
4. Increase loan amount from $_____to $_____

NOTE: This request subject to availability of MCC Program funding.

_____ 5. Interest rate change from_____% to %.

_____ 6. Change property address to: _____

_____ 7. Transfer loan to the following lender: _____

8. Cancel MCC reservation in the amount of $_____

9. Other Actions: _____

The reason for the cancellation: _____

_____

_____ _____

(Name of Lender) (Signature of Loan Officer)

Date: _____

MCC **002**

ARKANSAS DEVELOP MENT FINANCE AUTHORITY

MCC TRANSMITTA L CHECKLIST

MCC Reservation # _____

Borrower: _____ Co-Borrower: _____

A. INITIAL MCC RESERVATION:

Lender faxes completed MCC Rese rvation Form (MCC 001) to ADFA @ 501-682-5621 or E-Mails to mcc@adfa.arkansas.gov .

B. CONDffiONAL COMMITMENT PACKAGE:

_____MCC T ransmitta!Checklist (MCC003)
_____Underwriting and Transmittal Swnary
- Fan nie MaeForm 1008
- FHA Underwriting and T ransmittal Swnmary Form HUD-92900
- _____ Freddie Mac Underwriting and Transmittal Summary Form I 077
- _____VA Loan Guaranty Analysis Form
- _____ Rural Development Loan Commitment Form

_____ Original executed MCC Disclosure (Exhibit C)
_____Original executed MCC Application For Conditional Commitment , Certifications & Affidavit (Exhibit B)
_____ Most recent one year federal tax returns with all schedules
_____Tri-Merge Credit Report
_____ Verification of Employment and current pay st ubs on all borrowers
_____MCC lncomeCalculation Worksheet (Appendix 2) OPTIONAL
_____Appraisal of subject property
_____Copy of Deed and Invoice (Man ufactured Housing, if applicable)
_____MCC Worksheet (Appendix 1) OPTIONAL
_____Notification ofChange Form (MCC002)
_____Copy of completed 1003 Loan Application
_____Copy of fully executed Real Est ate Sales Contract
_____ Original Executed Notice To Borrower(s)of Potential Recapture Tax (Exhibit A)
_____ Request forReissued MCC(Exh ibit L)
_____Mil itary Veteran's Eligibility Affidavit (Exhibit M)

NOTE: ADFA must receive the commitment package within 30 days of reservation date.

C. CLOSING PACKAGE:

_____Lender check payable to ADFA for MCC fee's
- _____For .50% of the first mortgage loan amount
- _____Other Fees as required by the Program Guide

_____Original Transmittal Checklist (MCC 003)
_____Original executed Borrower's Closing Affidavit (Exhibit E)
_____Original executed Sellers Affidavit (Exhibit F)
_____Original executed Lender's Closing Certificate (Exhibit G)
_____Copy of executed Note
_____Copy of executed mortgage
_____Copy of completed HUD-1 Settlement Statement
_____Original Executed "Notice To Mortgagor For Determin ing If Recaptu re Tax Is Owed (Exhibit P)

NOTE: ADFA must receive closing documents within 30 days of loan closing.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

Mortgage Credit Certificate (MCC) Program

Notice To Borrower(s) of Potential Recapture Tax

Exhibit A

NOTE: This notice is to be reviewed and signed by all borrowe at time of application.

Because you are receiving a Mortgage Credit Certificate (MCC) with your mortgage loan, you are receiving the benefit of a dollar for dollar credit against your federal income tax liability. As a result, pursuant to Section 143 (m) of the Internal Revenue Code of 1986 (the "Code"), if you sell, exchange or otherwise dispose of your home (Disposition) during the next nine years a portion of this benefit may be recaptured by the Internal Revenue Service. "Recapture tax" is the repayment of a mortgage subsidy to the Internal Revenue Service. (See IRS Pub. 523)

You may wish to consult with a tax advisor or the local office of the Internal Revenue Service at the time of disposition of your home to determine the amount, if any, of the "recapture tax" you owe to the IRS. At this point in time, there is no way to predict the amount of "recapture tax" bo1rnwers may be required to pay. Also,ADFA will not calculate the amount of "recapture tax" you may owe upon disposition of your home.

Factors which affect "recapture tax":

1. No recapture due if your household income is below the Federal qualifying limits at time of sale.
2. You may be subject to the "recapture tax" if a disposition of your home occurs within the first full nine years of your mortgage loan.
3. In no event may the amount of Recapture Tax exceed fifty (50%) percent of the gain on the sale or disposition of the property. The Recapture Tax also will never exceed the original mortgage loan amount times the holding percentage period shown in # 4 below.
4. The holding percentage period is determined based on the length of time you own your home prior to its disposition. The percentages are as follows:

Year One *** 1.25%	Year Four **** 5.00%	Year Seven **** 3.75%
Year Two *** 2.50%	Year Five **** 6.25%	Year Eight **** 2.50%
Year Three ** 3.75%	Year Six **** 5.00%	Year Nine **** 1.25%

The maxirnum Recapture Tax amount is adjusted to reflect the holding period of the home that is financed. Other special rules may apply in particular circumstances , including, if you refinance your home . Again, we urge you to consult with a tax advisoror an office of the Internal Revenue Service if you refinance, sell or otherwise dispose of your home.

The Recapture Tax amount may also be reduced or eliminated based on a comparison of the Mortgagor's "modified adjusted gross household income" for the year in which the sale of the house takes place. The modified adjusted gross household income is equal to the federal adjusted gross household income increased by any earned tax exempt interest and decreased by the gain on the sale of the house. At closing, borrowers sign MCC Exhibit – P.

I understand and acknowledge the potential for Recapture Tax to apply to my Mo1tgage Credit Certificate as explained above.

(Borrower's Signature) (Date) (Co-Bo1rnwer's Signature) (Date)

EXIIIBIT A

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
MORTGAGE CREDIT CERTIFICATE PROGRAM

Application For Conditional Commitment, Certifications & Affidavit

The undersigned hereby states and certifies as part of the application for a Mortgage Credit Certificate ("MCC") from the Arkansas Development Finance Authority ("ADFA") issuer, of such certificates under the Mortgage Credit Certificate Program, and as a material inducement to ADFA to issue such MCC to the undersigned in connection with the financing, through a lender of the undersigned's choosing, the purchase of a Single-Family Residence as follows:

Borrower Legal Name: _____

Co-Borrower Legal Name: _____

Current Address: _____

PURCHASER OF SINGLE FAMILY RESIDENCE CERTIFICATION

I will be the purchaser and mortgagor of a new ( ) or existing ( ) Single Family residence located at:

Street Address: _____

City/County/Zip: _____

I will use the proceeds of the mortgage loan to purchase a home which is ( ) is not ( ) located in a Targeted County. The home is a private Single Family residence and will be occupied by me and my family. Neither the home nor the land will be used to provide a source of income.

PRINCIPAL RESIDENCE CERTIFICATION

I intend to occupy the home as my principal residence within sixty (60) days from the date of the mortgage loan closing, and I will continue to occupy the home as my principal residence as long as I own the property. I have no intention to sell, lease, rent, assign or otherwise transfer or dispose of the home. I will notify Arkansas Development Finance Authority (ADFA) immediately in writing if and when the home ceases to be my principal residence. I understand that any MCC issued in connection with the home will be revoked if the home ceases to be my principal residence.

NEW MORTGAGE CERTIFICATION

No part of the mortgage proceeds will be used to acquire or replace an existing mortgage, and I did not have a mortgage (whether or not paid oft) on the home at any time prior to the execution of this mortgage. This does not include a construction loan, bridge loan, or other temporary financing with a term of 24 months or less.

FEDERAL TAX RETURNS

True and correct copies of the most recent one year federal tax return are attached to this Affidavit. These tax returns are primarily used to verify First Time Homeownership status and not to verify household income.

_____ I have **NOT** filed, and was under no obligation to file, Federal tax returns for the following tax year: _____

_____ I have filed Federal tax returns for the most recent tax year.

NO PARTICULAR LENDER

I understand that I may seek financing for the first mortgage loan from any lender of my choosing provided that the lender has signed the MCC Lender Participation Agreement required by Arkansas Development Finance Authority.

Exhibit B

ACQUISITION COST CERTIFICATION

The acquisition cost of the home, excluding any personal property separately purchased at fair market value, but including fixtures, is $. Such acquisition cost reflects all amounts paid or to be paid in order to acquire the residence, plus reasonable costs of completing construction, if the residence is not finished, plus the capitalized value of ground rent, if the home is subject to a ground rent. The purchase price of the residence is as stated in the real estate contract. The real estate contract, and any other contracts and agreements in connection with the purchase and occupancy of the residence between myself and anyone acting directly or indirectly on my behalf and the seller, or anyone acting directly or indirectly on behalf of the seller are attached to this Affidavit. I understand that the applicable maximum purchase price allowable under the MCC Program is $225,000, or an amount that will be set by ADFA from time to time.

FIRST-TIME-HOMEBUYER CERTIFICATION

Unless the residence is located in a Targeted County, I hereby certify that I have not had a present ownership interest in a principal residence at any time during the three (3) year period prior to the date of application for the first mortgage loan. To the best of my knowledge, the same is true with respect to each person (if any) purchasing and mortgaging the residence with me.

I understand that for purpose of the foregoing, examples of interests which constitute present ownership interest (and thus would result in my not meeting such requirement) are as follows: * A joint tenancy * A tenancy in common
* A tenancy by the entirety * A fee simple interest * A life estate * A community property interest
* The interest of a tenant shareholder in a cooperative * A land contract or contract for deed
* A lease with the option to purchase for a nominal sum

INCOME CERTIFICATION

I understand that annual household income includes total gross income from all sources of all persons eighteen years of age or older that reside or intend to reside in the Single Family Residence to be financed with the proceeds of the mortgage loan. I certify that the gross annual household income is $. The total number of all persons who will reside or intend to reside in this Single Family residence is The total number of all persons 18 years of age or older who will reside or intend to reside in this Single Family residence is_____

TRANSFER OF THE MCC

I understand that I can not transfer any MCC issued in connection with this residence to any person who assumes my obligations under the mortgage (and related mortgage notes) without the express written approval of ADFA. A new MCC may be issued by ADFA to such person(s) following completion of all necessary documents evidencing such persons qualification as an eligible mortgagor under the MCC Program.

CONSEQUENCES OF FALSE STATEMENTS

I acknowledge and understand that this Affidavit will be relied upon for purposes of determining my eligibility for an MCC. I acknowledge that a material misstatement negligently made by me in this application will constitute a federal violation punishable by a fine of $1,000, and that a material misstatement fraudulently made by me in this Affidavit or in any other statement in connection with application for the MCC will constitute a federal violation punishable by a fine of $10,000. Any misstatement will result in a denial of my application for an MCC, or, if the MCC has been issued prior to the discovery of the false statement, immediate revocation of the MCC will occur. I further acknowledge that if any information or certification I provide contains a material misstatement which is due to fraud, then any MCC issued will automatically become null and void without any need for further action on the part of the Arkansas Development Finance Authority.

I _____, certify the information contained in this Affidavit to be true and correct to the best of my knowledge.

Borrower: _____ Date: _____

Co-Borrower: _____ Date: _____

ARKANSAS DEVELOPMENT FINANCE AUf HORITY

MORTGAGE CREDIT CERTIFICATE (MCC)
DISCLOSURE

STATE OF ARKANSAS MCC Reservation Number_____

_____ COUNTY OF

1. I understand and agree that the Mortgage Credit Certificate (M CC) will be automatically revoked and I will no longer be entitled to claim the credit if Isell the single family residence or if Ino longer use it as my principal residence.

2. I understand and agree that no M CC will be issued in connection with the replacement of an existing mortgage held by me on my principal residence.

3. I have been advised that the value of the M CC varies according to my Federal tax liability and acknowledge that I have been advised to consult a tax accountant for advice. Iunderstand that neither ADFA nor the lender make any representat ions regarding the value of the credit to me. Iunderstand that the M CC will reduce my Federal tax liability based on the an10unt of mortgage interest paid for the tax y ear.

4. I understand and agree that changed conditions in acquisition cost, household income, and other program requirements may disqualify me at closing from receiving an MCC although at the time of ap plication Iwas eligible to receive a certificate.

5. I understand and agree that the lender will decide upon my eligibility to receive the mortgage loan and set all loan terms and that ADFA will not be involved in the credit process. Iunderstand and agree that ADFA will not inspect the property for defects nor will ADFA underwrite the loan. Itherefore agree to hold Arkansas Development Finance Authority harmless from any action or inaction on the part of the lender, seller, contractors or other involved parties.

6. I understand and agree that any material misstatement contained in this application and any other M CC Program documents negligently made by me constitutes a Federal violation punishable by a $1,000 fme and that a material misstatement fraudulently made constitutes a Federal violation punishable by a $10,000 fme and any other criminal penalty imposed by law. Ifsuch misstatement is discovered prior to the issuance of the M CC, my application will be denied. Ifsuch misstatement is discovered following issuance of the M CC, the M CC will be revoked.

_____ ack nowledge that I have read and understand the terms stated above and that all information provided to the lender and ADFA is true and correct to the best of my knowledge.

_____ _____ _____ _____
(Borrower's Signature) (Date) (Co-Borrower's Signature) (Date)

_____ _____
(Notary Public's Signature) (Date)

_____
(Exp iration Date Of Commission)

Seal

EXIIlBIT C

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

MCC Conditional Commitment Letter

Date: _____

Re: MCC Commitment No. _____

Expiration Date: _____

Applicant: _____

Lender: _____

Loan Amount: _____

TO THE ABOVE APPLICANT & LENDER:

An application in the form of an Application For Conditional Commitment, Certifications & Affidavit and related documentation for the Arkansas Development Finance Authority (ADFA) 2010 Mortgage Credit Certificate Program has been received by ADFA and reviewed for its compliance with the terms and conditions of the Program. ADFA has dete1mined that the Applicant has complied with the initial requirements of the Program.

Subject to completion of the remaining terms and conditions to the issuance of a Mortgage Credit Certificate (MCC) pursuant to the Program Guide, ADFA will execute and deliver a Mortgage Credit Certificate to the Applicant for a loan amount not to exceed the above referenced amount. Such MCC will be dated as of the date of the closing of the loan. A copy of the MCC will be furnished to the Lender for its records, and a second copy will be retained by ADFA.

The terms of this MCC Commitment Letter are governed by the provisions of the Arkansas 2010 MCC Program Guide. THIS COMMITMENT WILL EXPIRE ON THE EXPIRATION DATE INDICATED ABOVE, WHICH IS SIXTY (60) DAYS FROM THE DATE OF THIS COMMITMENT LEITER. If you require an extension, an Extension Request Form must be filed prior to the Expiration Date referenced above, or you may lose this commitment.

NOTICE: Your Mortgage Credit Certificate is subject to certain requirements imposed by federal law concerning the recapture of a portion of the mortgage tax credit benefits granted to you upon the sale of your residence within nine years of the Closing Date on the mortgage loan. Refer to the Notice To Borrower(s) Potential Recapture Tax (Exhibit P) which Borrower's signed at initial application for the MCC.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

By: _____

Name: _____

Title: _____

Exhibit D

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

BORROWER'S CLOSING AFFIDAVIT

STATE OF ARKANSAS

COUNTY OF

I, the undersigned, as part of my application for a Mortgage Credit Certificate ("MCC") from the Arkansas Development Finance Authority ("ADFA"), the issuer of such certificates under the Mortgage Credit Certificate Program, and as a material inducement to ADFA to issue an MCC to the undersigned in connection with the financing (the mortgage loan), through a lender of the undersigned's choosing for the purchase of a single family residence being duly sworn state the following:

I executed an **Application For Conditional Commitment, Certifications & Affidavit (Exhibit B)** as part of my application for a Mortgage Credit Certificate on_____, 20_____ .

(Check and complete Section (a) or (b), whichever applies.)

(a) I have reviewed the aforementioned **Application For Conditional Commitment, Certifications & Affidavit** and declare there has been no change in the statements therein and said statements remain true and accurate as of the date hereof.

(b) I have reviewed the aforementioned **Application For Conditional Commitment, Certifications & Affidavit** and declare that the following changes have occurred from the statements therein.

_____

_____

I acknowledge and understand that this Affidavit will be relied upon for purposes of determining my eligibility for an MCC. I further acknowledge that this MCC has been issued with reliance upon certifications contained in the Commitment Application and Affidavit, Sellers Affidavit and Lender's Participation Agreement stating that the requirements necessary for issuance of a qualified Mortgage Credit Certificate have been met.

I acknowledge and understand that any material misstatement negligently made in this Affidavit or any other statement made by me in connection with my application for an MCC will constitute a federal violation punishable by a fine of $1,000, and that a material misstatement fraudulently made by me in connection with my application for an MCC will constitute a federal violation punishable by a fine of $10,000 and revocation of the MCC and any other criminal penalty imposed by law.

Borrower: _____

Co-Borrower: _____

Subscribed and sworn to before me this_____day of _____ , 20_____

_____
(Notary Signature)

Seal

_____
(Commission Expiration Date)

EXHIBIT E

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE PROGRAM

SELLER AFFIDAVIT

(TO BE EXECUTED AT CLOSING)

STATE OF ARKANSAS)
County of)

I, the undersigned, as an essential participant in the application for a Mortgage Credit Certificate ("MCC") being submitted by ("the Buyer"), which MCC may be issued by the Arkansas Development Finance Authority ("ADFA") pursuant to the Mortgage Credit Certificate Program in connection with the Buyers purchase of a qualified single family residence state the following:

1. I certify that! am the Seller of the subject qualified residence.
2. I certify that the total amount to be paid to me, or anyone acting on my behalf, in connection with the purchase of subject residence is $,excluding all usual and reasonable settlement or financing costs.
3. I certify that the subject property is a qualified duplex and the structure was first occupied as a residence At least 5 years before the execution of the mortgage.

The residence is located in the State of Arkansas, County of_____at the following address:
Street:_____,City: ,AR Zip: _____
_

I acknowledge and understand that this Affidavit will be relied upon for the purpose of determining the Buyer's eligibility for a Mortgage Credit Certificate (MCC). I acknowledge that a material misstatement negligently made in this Affidavit or in any statement made by me in connection with the Buyer's application for a Mortgage Credit Certificate will constitute a federal violation punishable by a fine of $1,000 and that a material misstatement fraudulently made by me in this Affidavit or any statement in connection with the Buyer's application for a Mortgage Credit Certificate will constitute a federal violation punishable by a fine of $10,000, revocation of the Mortgage Credit Certificate and any other criminal penalty imposed by law.

Seller's Signature: _____ Date: _____

Seller's Signature: _____ Date: _____

Subscribed and sworn to before me this_____day of _____,20

Notary Signature: _____

Commission Expiration Date: _____

Seal

EXHIBIT F

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
MORTGAGE CREDIT CERTIFICATE PROGRAM

LENDER CLOSING CERTIFICATE

_____ ("Name of Lender") state the following: The Lender has received a Commitment Application and Affidavit submitted by:

Name_____ Name _____
("Mortgagor") ("Co-Mortgagor")

SS#_____ SS# _____

The Application For Conditional Commitment, Certifications & Affidavit was submitted in connection with an application for financing ("the mortgage loan") of the purchase of a qualified single family residence located at:

_____ _____ AR, _____
(Street) (County) (Zip Code)

The Lender has also received and reviewed the Seller Affidavit submitted by the seller of the property shown above and finds no reason to question the truth or completeness of this Affidavit.

(Check Statement (a) or (b) regarding Federal Income Tax Returns)

(a.)_____The Lender has obtained a true, complete, signed copy of the most recent Federal Income Tax Return of the Mortgagors.

(b.)_____There is no requirement to obtain the Mortgagor's Federal Income Tax Return because the Residence is located in a Targeted County.

The Lender is not aware of any facts or circumstances that would cause it to question the truth or completeness of any portion of such Application For Conditional Commitment, Certifications & Affidavit. In the course of processing the documents concerning the Mortgagor's application prior to executing the mortgage, nothing has come to the Lender's attention which would lead it to believe that any information supplied by the Mortgagor's or any other party to this transaction is false or misleading.

After completion of all underwriting, investigation and verification the Lender has approved the mortgage loan in the amount of $ which is the Certified Indebtedness Amount. The property is a qualified single family residence located in the State of Arkansas, and the Borrowers have signed the Application For Conditional Commitment, Certifications & Affidavit (Exhibit B) in which he/she states that he/she intend to occupy the home as a primary residence within sixty (60) days from the date of the mortgage loan closing.

is reasonably expected to become the Mortgagor's principal residence within sixty (60) days after the date of the mortgage loan closing.

AFf ER REASONABLE lNVESTIGATION THE LENDER HEREBY CERTIFIES THAT:
The financing which the Mortgagors have received has not been used to acquire or replace an existing mortgage or land contract on the residence, unless the previously existing mortgage was a construction loan, bridge loan or other temporary financing none of which had an initial term in excess of twenty-four (24) months.

The Mortgagors did not receive any portion of the financing of this mortgage loan from a tax exempt mortgage revenue bond loan.

To the best knowledge of the Lender, based upon reasonable investigation and verifications, neither the Lender, the Mortgagor's, nor the Seller of the residence have made any negligent or fraudulent, material misstatements in connection with the Mortgagor's application for a Mortgage Credit Certificate (MCC).

By: _____(Name of Loan Originator) Date: _____

Title: _____

EXHIBIT G

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

OWNER OCCUPANCY CERTIFICATION

EXHIBIT H

(For Refinance and Assumptions Only)

To Whom It May Concern:

This is to certify that I/we currently occupy the residence at the following address:

Street: _____

City: _____

Zip Code: _____

I/we also certify that the above listed address is my/our primary residence.

_____

(Borrower's Signature) (Date)

_____

(Co-Borrower's Signature) (Date)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

Non-Borrower Occupant Income Mfidavit

Exhibit I

The undersigned,_____duly states under oath that:

I. I intend to be an occupant of the residence located at: _____

2. My gross monthly income is $ (Gross monthly income is the sum of monthly gross pay, any additional income from overtime, part-time employment, bonuses, commissions, dividends, income from assets, interest, royalties, shift differential, pensions, VA compensation, net rental income and other income such as alimony, child support, mileage, military allowance, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts and income received from business activities or investments).

3. The latest year Federal Income Tax Return is required.

I am providing tax return with W-2's attached for the following year: _____

I have **not** filed, and was under no obligation to file, the following tax year :_____

4. (Check Appropriate Response). I have_____ I have not_____had a present ownership interest in a principal residence at any time during the three-year period prior to the date of executing the mortgage on the residence listed in paragraph I above.

I UNDERSTAND THAT FOR THE PURPOSES OF THE FOREGOING, EXAMPLES OF INTEREST WHICH CONSTITUTE A PRESENT OWNERSHIP INTEREST (AND THUS WOULD RESULT IN MY NOT MEETING SUCH REQUIREMENTS) ARE THE FOLLOWING:

a. A fee simple interest;
b. A life interest;
c. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
d. The interest of a tenant-shareholder in a cooperative;
e. A land contract (i.e., a contract pursuant to which possession and the benefits of ownership transferred although a legal title is not transferred until some later date);
f. An interest held in trust for the m01tgagor (whether or not created by the mortgagor) that would constitute ownership interest if held directly by the mortgagor;
g. A lease with an option to purchase for a nominal sum; and
h. An interest in a mobile home that has been, and is now, pennanently affoo:d to real property.

Exhibit I

EXAMPLES OF INTEREST WHICH DO **NOT** CONSTITUTE PRESENT OWNERSHIP INTEREST AND THUS WOULD NOT RESULT IN MY FAILING TO MEET THE REQUIREMENTS ARE AS FOLLOWS:

a. A remainder interest;
b. A lease without an option to purchase or a lease with an option to purchase at fair market value;
c. A mere expectancy to inherit an interest in a principal residence;
d. The interest that a purchaserof a residence acquires on the execution of a purchase contract;
e. An interest in other than a principal residence during the previous three years;
f. An interest in a mobile home that has **not** been, and is **nfil....** now, permanently affixed to real property.

OCCUPANT _____

Name: _____
Date: _____

ACKNOWLEGMENT

STATE OF ARKANSAS)
COUNTY OF_____)

On this day of ,20_____, before me, a Notary Public within and for said County And State, personally appeared to me known to be the The person(s) subscribed therein and who, being by me first duly sworn, executed the foregoing "Occupant Income Affidavit" , and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and affidavit contained therein are true and correct.

IN WITNESS THEREOF, I have hereunto set my hand and seal this_____day of _____, 20__

_____
Notary Public

My Commission Expires:

_____
(Seal)

Exhibit I

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

Supplemental Affidavit and Certification - Rental Property

Exhibit J

The undersigned ,_____ hereby states underoath that :

1. (I)(We) have owned residential rental property during the preceeding three years, set forth below;
   (Insert address(es) of unit/units._____
   _____

2. During such period of time, the unit or units described above have been held or utilized solely as rental property and have not been utilized by (me)(us) at any time as (my)(our) principal residence.

3. During such period of time, (I)(we) have had as (my)(our) principal residence the following dwellings which have been (rented)(leased)(other - Specify below):
   _____
   _____

4. (I)(We) recognize and acknowledge that:

   (a) This affidavit is furnished to the Arkansas Development Finance Authority ("ADFA") to permit ADFA to determine (my)(our) eligibility for a Mortgage Credit Certificate (MCC) under applicable provisions of the Internal Revenue Code of 1986, as Amended , and Treasury Regulations adopted and proposed thereunder; and

   (b) It is pursuant to those provisions ofthe Code and Regulations that the affidavit set forth above are made, with the full intention and understanding on (my)(our) part that ADFA rely thereon .

BORROWER:

(X)_____

Name:_____

Date:_____

CO-BORROWER:

(X) _____

Name:_____

Date:"_____

ACKNOWLEDGMENT

STATE OF ARKANSAS)
COUNTY OF_____)

On this day of ,20_, before me, a Notary Public within and for said County and State, personally appeared to me known to be the person(s)s ubscribed therein and who, being by me first duly sworn, executed the foregoing Supplemental Affidavit and Certifications, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS THEREOF, I have hereunto set my hand and seal this_____day of _____, 20_.

_____
Notary Public

My Commission Expires: _____

(SEAL)

Exhibit J

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

Supplemental Affidavit and Certification

Manufactured Home

Exhibit K

The undersigned, _____ hereby states under oath that:

1. (I)(We) have owned a manufactured home for the past_____years and _____ months, more particularly described as follows:
   (Insert description of model, type and serial number of unit)

   _____

2. The manufuctured home described above has been (my)(our) principal residence During the period of time described in item #1 above.

3. During the period of time that it has been (my)(our) principal residence, the manufuctured home has not been, and it is not now, permanently affixed to real property. It has been and is movable and transportable without material modifications to the dwelling, other than disconnection of hookups and similar matters.

4. The manufuctured home has been located at the following site(s):
   (Insert address or location descriptions)

   _____

   _____

5. The site(s) listed in paragraph #4 above, (has)(have) been:
   Rented Leased _____Other (Specify Below)

   _____

   _____

6. (I)(We) recognize and acknowledge that:

   (a) This affidavit is furnished to the Arkansas Development Finance Authority (ADFA) to determine (my)(our) eligibility for a Mortgage Credit Certificate

(MCC) under applicable provIS1ons of the Internal Revenue Code of 1986, as Amended, and Treasury Regulations adopted thereunder. It is pursuant to those provisions of the Code and Regulations that the certification set forth above are made, with full intention and understand ing on (my)(our) part that ADFA relies thereon.

Borrower:	**Co-Borrower:**
x _____	x _____
Name: _____	Name: _____
Date: _____	Date: _____

ACKNOWLEDGMENT

STATE OF ARKANSAS

COUNTY OF —

On this day of ,20_, before me, a Notary Public within and for the Said County and State, personally appeared , to me known to be the person(s) subscribed therein and who, being by me first duly sworn, executed the forgoing Supplemental Affidavit and Certification, and acknowledge, deposed and said that he/she/they executed the same

Arkansas Development Finance Authority

Mortgage Credit Certificate (MCC) Program

Request For Reissued MCC

Exhibit L

Borrower:_____ Co-Borrower = _____

Property Address: _____

MCC Number: _____ New Loan Amount:_____

Closing Date of Refinancing: _____ Maturity Date of Refinance = _____

Original Loan Amount = _____

Balance Owing on Original Loan: _____

Lender: _____

Lender Loan Number: _____

Attachments: I. Original Mortgage Credit Certificate (keep copy for your files)
2. Copy of HUD-I Settlement Statement for Refinance

The undersigned borrower(s), being the owner(s) cif the above listed residence (the "Residence"), and the holder of a Mortgage Credit Certificate (the "MCC") issued in connection with the 20IO Arkansas Development Finance Authority Mortgage Credit Certificate Program, does hereby depose and say, under penalty of perjury and the civil penalties outlined herein, that each of the following statements are correct and complete in all respects:

1. Property. The refinanced loan pertains to the same property to which the original MCC related, which is the Residence described above.

2. Replacement of Entire MCC. The new MCC replaces the original MCC in its entirety. No portion of the original MCC is being retained with respect to any portion of the outstanding balance of the original loan amount specified on the original MCC.

3. Loan Amount. The refinanced loan amount does not exceed the outstanding balance of the original mortgage loan as of the date of the refinancing. (You may not refinance points, insurance premiums, taxes or other closing costs as part of your new loan amount.)

4. MCC Tax Credit Rate. The new MCC will be at the same Tax Credit Rate as the original MCC.

5. No Increase in Tax Credit Amount. The undersigned acknowledges that in the event the maturity of the refinanced loan is a date later than the maturity of the original loan, the new MCC will expire as of the original maturity date so that there shall be no increase in the tax credit amount under the new MCC for any tax year over the amounts which would have been available under the original MCC.

6. **Date of Refinancing.** The date of the refinancing stated above is the true and correct date the refinancing documents were executed.

7. **Reaffirmation of the Original Obligations.** The undersigned further reaffirms all of the representations, obligations and agreements covered under the documents signed in connection with obtaining the original MCC and acknowledges that all such obligations and agreements shall continue in full force and effect in connection with the new MCC.

8. **Revocation of Mortirn!!:e Credit Certificate.** The undersigned understands that if any of the statements set forth herein are not true, correct and complete in all respects, or that if Federal law or regulations disqualify further participation in the MCC Program, the MCC may be immediately revoked.

9. **Penalty.** The statements set forth herein are made under penalty of perjury and the following civil penalties. Any material misstatement in any affidavit or certification made in connection with application for or issuance of an MCC due to my negligence shall result in a civil penalty fee payable to the Authority of $1,000.00, and any such material misstatement due to my fraud shall result in a civil penalty fee payable to the Authority of $10,000.00. I understand that perjury is a felony offense punishable by fine or imprisonment, or both.

_____
(Borrower Signature)

_____
(Co-Borrower Signature)

SUBSCRIBED and SWORN to before me this_____day of_____ 20 .

_____
Notary Public, State of Arkansas

ATTACH THE ORIGINAL MORTGAGE CREDIT CERTIFICATE AND A COPY OF YOUR HUD-1 SETTLEMENT STATEMENT TO THIS FORM AND MAIL TO:

Arkansas Development Finance Authority
900 West Capitol, Suite 310
Little Rock, AR 7220 I
Attn: Murray Harding

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

Military Veteran's Eligibility Affidavit

I, _____, the undersigned, as a Military Veteran Purchaser have applied for an Arkansas Development Finance Authority (ADFA) Mortgage Revenue Bond (MRB) or a Mortgage Credit Certificate (MCC) to purchase the property located at _____ (the "Property") who having been first duly sworn and say:

1. I understand that the Internal Revenue Code provides that borrowers who are veterans (and their spouses, or co-borrowers) and who have not previously received a Mortgage Revenue Bond (MRB) loan or a Mortgage Credit Certificate (MCC) under the special veteran's exception, need not meet the first-time homebuyer requirement.

2. I understand that the United States Code definition of "veteran" is a person who has served in the active military, naval,or air force, and who was discharged or released therefrom under conditions other than dishonorable.

3. I understand that a Mortgage Revenue Bond (MRB) loan is a mortgage loan financed through the sale of tax-exempt bonds issued by a state or local housing finance agency. I also understand that a Mortgage Credit Certificate {MCC) allows me to convert a portion of my mortgage interest deduction allowed for my primary residence into a Federal income tax credit.

I hereby represent and warrant that: {l.) I do meet the United States Code definition of a "Veteran" and to evidence this, I have attached DD Form 214 (Certificate of Release or Discharge from Active Duty); and (2) I have not received or been the beneficiary of an MRB loan or MCC from any state or local governmental unit for my principal residence pursuant to a special exception for veterans enacted January 3, 2008.

Ifurther understand that if I made any material misstatements in the foregoing representations, such misstatements will be considered an event of default under the MRB loan and the outstanding principal balance of the MRB loan together with accrued interest and any reasonable expenses, including legal fees, at ADFA's option, will become immediately due and payable. For am MCC receipent it could mean the loss of that significant Federal tax credit.

Signed on this_____day of_____ _____ _____

Military Veteran Purchaser

In the presence of _____

Notary Public

{Seal)

Exhibit M

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

Mortgage Credit Certificate (MCC) Program

Notice To Mortgagor For Determining If Recapture Tax Is Owed

Exhibit-P

NOTE: TO BE PRESENTED TO MORTGAGOR AND SIGNED BY MORTGAGORS AT TIME OF SETTLEMENT OR ASSUMPTION OF MORTGAGE LOAN.

The purchase of the residence listed at # 4 below includes a mortgage subsidy offered by the Internal Revenue Service called a Mortgage Credit Certificate. As a result, pursuant to Section 143 of the Internal Revenue Code of 1986 (the "Code"), you may, at the time at which you sell the residence, be subject to a special "recapture tax" for Federal income tax purposes. You should consult your tax advisor at the time of sale of the property to determine the amount, if any, of such "recapture tax" you may be required to pay. The following information will assist you in determining the amount you may be required to pay:

1. Name of Mortgagor: _____

2. Name of Co-Mortgagor: _____

3. Date of Settlement (Closing) of Mortgage Loan: _____

4. Location of Residence: _____

5. Residence is located in a TARGETED / NON-TARGETED county: **Non-Taraeted**

6. Principal amount of Mortgage Loan on date of settlement/closing: $_____

7. Federally subsidized amount pursuant to Section 143(m)(4)(B) of the Code(6.25%) :$_____

A. Introduction

1. General. When you sell your home you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way. Any reference in this notice to the "sale" of your home also includes other ways of disposing of your home.

2. Exceptions. In the following situations, no recapture tax is due and you do not need to do the calculation :

(i) You dispose of your home later than nine years after you close your mortgage loan;
(II) Your home is disposed of as a result of your death;
(iii) You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under Section 1041 of the Code; or
(iv) You dispose of your home at a loss.

B. Maximum Recapture Tax. The maximum recapture tax that you may be required to pay as an addition to your Federal income tax is $. This is 6.25% of the highest principal amount of your mortgage loan and is your federally subsidized amount with respect to the Mortgage Credit Certificate.

C. Actual Recapture Tax. The actual recapture tax, if any, can only be determined when you sell your home, and is the lesser of (1.) 50% of your net gain on the sale of your home, regardless of whether you have to include that gain in your income for federal income purposes or (2.) your recapture tax, determined by multiplying the following three numbers:

(i) $ (the maximum recapture tax, as described in paragraph B above);
(ii) The holding period percentage, as listed in Column 1 in the Table. See page 4. (County Income Limit Sheet)
(iii) The income percentage, as described in paragraph D below. See page 4. (County Income Limit Sheet)

D. Income Percentage. You calculate the income percentage as follows:

(i) Subtract the applicable adjusted qualifying income in the taxable year in which you sell your home, as listed in Column 2 in the Table, from your modified adjusted gross income in the taxable year in which you sell your home. Your modified adjusted income means your adjusted gross income shown on your federal income tax return for the taxable year in which you sell your home, with the following two adjustments: (a) your adjusted gross income must be increased by the amount of any Federal tax credit that you receive or accrue in the taxable year from the benefit of the Mortgage Credit Certificate that is excluded from your gross income (under Section 103 of the Code) and (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by reason of the sale of your home.

(ii) If the amount calculated in (i) above is zero or less, you owe no recapture tax and do not need to make any more calculations. If it is $5,000 or more, your income percentage is 100%. If it is greater than zero but less than $5,000, it must be divided by $5,000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is $1,000/$5,000, your income percentage is 20%.

E. Limitations and Special Rules on Recapture Tax.

1. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.

2. If your home is destroyed by fire, storm, flood or other casualty, there generally is no recapture tax.

3. In general, except as provided in future regulations, if two or more persons own a home and are jointly benefiting from the Mortgage Credit Certificate, the actual recapture tax is determined separately for them based on their interests in the home.

4. If you repay your Mortgage Loan in full during the nine year recapture period and you sell your home during this period, your holding period percentage may be reduced under the special rule in Section 143(m)(4)(c)(ii) of the Code.

5. Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your home for help in determining how much, if any, recapture tax is required.

The undersigned Mortgagor(s) has (have) received and read a duplicate copy of this "Notice to Mortgagor of Information Regarding Potential Recapture Tax.

_____	_____
(Mortgagor Signature)	(Co-Mortgagor Signature))
_____	_____
(Typed Name)	(Typed Name)
_____	_____
(Date)	(Date)

MCC 2014 Income Limit

County: PULASKI

Borrower's Name:

Co-Borrower's Name:

Tracking Number:

Date That You Sell Your Home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income — Number of Family Members Living in Your Home at the Time of Sale: 2 or less	3 or more
Before the first anniversary of closing (See Note below)	20%	64,665.21	74,364.99
On or after the first anniversary of closing, but before the second anniversary of closing	40%	67,898.46	78,083.23
On or after the second anniversary of closing, but before the third anniversary of closing	60%	71,293.38	81,987.39
On or after the third anniversary of closing, but before the fourth anniversary of closing	60%	74,858.05	66,066.76
On or after the fourth anniversary of closing, but before the fifth anniversary of closing	100%	78,600.96	90,391.10
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	82,531.00	94,910.66
On or after the sixth anniversary of closing, but before the seventh anniversary of closing	60%	86,657.56	99,656.19
On or after the seventh anniversary of closing, but before the eighth anniversary of closing	40%	90,990.43	104,639 .00
On or after the eighth annivrsary of closing, but before the ninth anniversary of closing	20%	95,539.96	109,870.95

Note: Closing means the closing date for your loan.

EXHIBIT P

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
MORTGAGE CREDIT CERTIFICATE
MCC WORKSHEET
Appendix 1

You may be eligible to receive from the Arkansas Development Finance Authority, through your participating lender, a Federal Tax Credit that reduces your Federal tax liability dollar for dollar and still be able to receive a tax deduction for most of the interest you pay on the purchase of a home.

Generally, you qualify if you have not owned a home during the last three years (utless the home you are purchasing is located in a Targeted County) , or one of the Borrowers is a qualified Veteran, and you can answer "Yes" to the following questions:

	Yes	No
1. Is your gross annual household income less than shown on the MCC Income Limit chart shown in Appendix 3?		
2. Do you plan to occupy the home as your primary residence Within 60 days of loan closing?		
3. Is the Acquisition Cost of the home less than the maximum purchase price of $225,000 allowed for the program?		
4. Have you completed a mortgage loan application with a Participating Lender?		

If you answered "Yes" to each of these questions, you probably qualify for a Mortgage Credit Certificate (MCC).

AMOUNT OF FIRST MORTGAGE	$	_____
INTEREST RATE	X	
FIRST YEAR INTEREST PAID		_____
MCC TAX RATE	X	25%
REDUCED FEDERAL TAX LIABILITY		_____
CALANDER YEAR/MONTHS *** DIVIDED BY		12 _
MONTHLY SAVINGS		_____

The MCC Tax Rate for the 2010 Arkansas Mortgage Credit Certificate Program is 25% for all types of qualified properties.

To receive immediate benefit from the MCC Program, borrowers should file a revised W-4 Federal Tax Withholding Form. This will reduce your yearly Federal tax withholdings and increase your monthly take home pay.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HOUSEHOLD INCOME CALCULATION WORKSHEET
Appendix 2

_____ (Borrower Name)

_____ (Co-Borrower Narne)

_____ (County Where Property Located)

_____ (Income Limit For the County)

1. MONTHLY EMPWXMENT

INCOME Primary Wage Earner

Base Pay :	_____	
Overtime:	_____	
Bonus:	_____	
Subtotal:		_____

Secondary Wage Earner

Base Pay :	_____	
Overtime:	_____	
Bonus:	_____	
Subtotal:		_____

2. OTHER INCOME

Part-time Income:	_____	
Child Support:	_____	
Alimony :	_____	
Unemp Joy ment Insurance	_____	
Social Security:	_____	
Tips:	_____	
Net Rental Income:	_____	
Interest/Dividend Income:		
Royalties :	_____	
Pension/Estateff rust Income:	_____	
VA Compensation	_____	
Public Assistance	_____	
Other:	_____	
Subtotal:		_____

3. SELF EMPWXMENT INCOME

Schedule C, F, or E from 1040	_____	
Add Depreciation	_____	
Subtotal:		_____

4. (a) TOTAL MONTHLY HOUSEHOill INCOME _____

(b) Line 4 (a) X 12 (months) =_____TOTAL ANNUAL HOUSEHOill INCOME

5. IF THE TOTAL INCOME SHOWN ON LINE 4 (B) EXCEEDS THE COUNTY INCOME LIMIT SHOWN AT TOP OF PAGE OF $ THE APPLICANT(S) ARE NOT ELIGIBLE FOR THE MCC OFFERED BY ARKANSAS DEVELOPMENT FINANCE AUTHORITY.

NOTE: TIIlS FORM MUST BE COMPLETED SHOWING *AIL* GROSS HOUSEHOill INCOME AND SUBMITTED WITH THE COMPLIANCE PACKAGE.

Mortgage Credit Certificate

Purchase Price Limits and Income Limit By County.

a. Purchase Price Limit - Maximum $250,000 Statewide
b. County Income Limits: For specific county income limits for
   Small Households (1 or 2 Persons) and Large Households (3 or More Persond) go to the ADFA web site:

   www.arkansas.gov/adfa

   Click on "Publications and Forms - Housing Development" .
   At the next page click on "Single Family" (in red print).
   Next scroll down under Mortgage Credit Certificate Program and click on document # 14.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

LIST OF TARGETED COUNTIES

Appendix 4

The following 31counties in Arkansas have been designated as Targeted by the U.S. Department of Housing and Urban Development (HUD):

Bradley	Desha	Percy
Calhoun	Drew	Phillips
Chicot	Jefferson	Prairie
Clark	Lafayette	St. Francis
Cleburne	Lee	Soott
Columbia	Lincoln	Searcy
Conway	Madison	White
Crawford	Mississippi	Wo.odruff
Crittenden	Monroe	Yell
Cross	Nevada	
Dallas	Ouachita	

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM
LENDER PARTICIPATION AGREEMENT

This Lender Participation Agreement (the "Agreement") is made and entered into by and between the Arkansas Development Finance Authority (ADFAl the "Authority") and _____ _____ ("Lender")..

WITNESSETH:

WHERAS, Section 25 of the Internal Revenue Code of 1986, as amended (the "Code"), allows ADFA to elect to exchange all or any part of its authority to issue qualified tax-exempt, private activity bonds for the authority to issue Mortgage Credit Certificates (MCCs") as a means of assisting qualified individuals with the acquisition of single-family housing;

WHEREAS, ADFA, when Private Activity Volume Cap is available, may elect not to issue certain amounts of qualified private activity bonds and instead use that volume cap to establish new Mortgage Credit Certificate Programs (the "Program") for the State of Arkansas;

WHEREAS, the Lender wishes to participate in the MCC Program administered by ADFA in connection with mortgage loans which Lender may make available to prospective borrowers for the acquisition of new or existing single-family residences;

NOW, THEREFORE, in consideration of the promises set forth herein, the parties agree as follows:

Section 1. Lender agrees to accept and review applications for MCC's pursuant to the Mortgage Credit Certificate Program Manual (the "Program Manual"). If such an application indicates that an applicant is eligible for an MCC, and if Lender has determined to make a mortgage loan from its own funds to the applicant, Lender shall forward the MCC application to ADFA as set forth in the Program Manual. To the extent ADFA has MCC authority available and the applicant is eligible for an MCC, ADFA will accept the MCC reservation and issue an MCC Commitment.

Section 2. Lender agrees to make information regarding the Program available to potential applicants.

Section 3. Lender will obtain from the applicant all documents and information required m connection with the application for and receipt of an MCC as set forth in the Program Manual.

Appendix 6

Section 4. Lender will perform all investigations and verifications that it would normally perform for underwriting a mortgage loan.

Section 5. Lender will conduct such reasonable investigation as is necessary to certify that the applicant has satisfied all requirements of the Program, including those imposed by temporary and permanent regulations issued pursuant to the Code and ADFA eligibility requirements.

Section 6. Lender warrants that it is familiar with the Program as well as the laws of the State of Arkansas (the "State") applicable to the Program and the Program Manual. Lender hereby agrees to comply with all provisions of the Code, State Law and applicable regulations and guidelines, including, but not limited to, the Program Manual, as such may apply to the Program.

Section 7. Lender hereby agrees to comply with all data and records retention and all reporting requirements applicable to the Program which are required by the Code, all temporary and permanent regulations, State Law and the Program Manual. To insure compliance with these requirements, the lender will designate one employee that will be responsible for meeting these requirements. This person will be the primary point of contact between ADFA and the lender on all matters related to the MCC Program.

Section 8. Lender hereby agrees that ADFA and its agents have the authority to examine and inspect all books and records in Lenders possession relating to any MCC issued and the MCC Program. Lender hereby agrees to grant ADFA and its agents access to such books and records during normal business hours upon ADFA's request.

Section 9. Lender understands that, under the current MCC Program, funds will be allocated by ADFA on a first-come, first-served basis among lenders and prospective applicants, provided that 20% of such allocation will be set aside during the first year of the Program for homes located in Targeted Counties as more fully discussed in the Program Manual. At some point ADFA may decide to cease accepting applications from non-targeted counties until the 20% setaside is reached.

Section 10. This Agreement shall remain in full force and effect until terminated. Lender or ADFA may terminate this Agreement, without cause, upon 60 days' written notice to the other party. Further, ADFA may immediately terminate this Agreement and prohibit Lender from participation in the Program upon Lender's failure to comply with the terms and conditions of this Agreement or the Program Manual upon written notice by ADFA.

Section 11. Lender hereby agrees that repayment of any loan made in conjunction with the Program is the responsibility of the applicant/borrower and payment of such loan does not constitute an indebtedness of ADFA or a charge against its general credit or other assets or the assets of the State of Arkansas.

Section 12. Lender will submit to ADFA the appropriate fees as listed in Chapter 4 (J) of the 2012 Arkansas Mortgage Credit Certificate (MCC) Program Guide.

Section 13. Lender agrees to submit the required annual report to the Internal Revenue Service within the time frames shown in Chapter 5 of the Program Guide. Lender also agrees to maintain the records associated with the MCC's as detailed in the same chapter. ADFA agrees to provide the lender with the MCC/loan level detail that makes up the annual report.

Section 14. By signing this agreement, the Lender will be eligible to participate in any subsequent MCC Programs that follow the current program.

IN WITNESS THEREOF, ADFA and LENDER have executed this Agreement on the dates indicated below.

Dated: _____ Lender: _____
(Name of Lending Institution)

By _____
Title _____

Dated: _____ Arkansas Development Finance Authority

By:
Title: Single Family Program Manager

January 1, 2011

Arkansas Bank & Trust, LLC
Attn: Ashley Vickers
1342 Main Street
Little Rock, AR 72201

Re: IRS Annual MCC Report

Dear Ms. Vickers:

Please find the attached IRS Form 8329 covering the 2010 calendar year that must be provided to the IRS by your company. The ADFA loan information has been completed and the loan detail has been provided that should be verified by you and attached to the IRS Form 8329. Add your company employer tax identification number in Part 1 – Reporting Authority, sign, date and add the title of the person executing the document on behalf of your company.

The completed IRS Form 8329 and attached listing should be mailed to the IRS no later than January 31, 2011. The IRS mailing address is:

Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201

ADFA does not need a copy of your signed IRS Form 8329.

If you have any questions, please contact me at (501) 682-5974.

Best Regards,

Murray Harding
Manager
Single Family Program

Incl.las

Appendix 8

January 31, 2010

Mr. John Q. Homeowner
1945 Main Street
Little Rock, AR 72201

Re: Mortgage Credit Certificate (MCC)

Dear Mr. Homeowner:

Congratulations, you have been approved for a Mortgage Credit Certificate that will entitle you to a credit that can reduce the amount of federal income taxes you pay.

Attached to this letter is your Mortgage Credit Certificate that entitles you to this federal tax credit. You should read this certificate and keep it with your tax records because you will need it each year when your federal income tax return is prepared.

To claim this federal tax credit on your income tax returns you must complete, each year, IRS Form 8396, Mortgage Interest Credit, and attach it to your Form 1040. We suggest that you use a professional tax preparer to assist you in completing your federal tax return to help you obtain the maximum benefit from this tax credit.

You may want to realize the benefit of this tax credit immediately by filing a revised Form W-4 with your employer.

Please notify this office immediately upon the selling or refinancing of this property. If you have any questions regarding this Mortgage Credit Certificate please contact the undersigned at (501) 682-5974.

Sincerely,

Murray Harding
Manager
Single Family Program

January I, 2010

Arkansas Bank & Trust, LLC
Attn: Ashley Vickers
1342 Main Street
Little Rock, AR 7220I

Re: Mortgage Credit Certificate (MCC)
Patrick R. Jones
MCC # _____

Dear Ms. Vickers:

IRS regulations require that you retain in your records the information listed below for six (6) years following the year in which the mortgage loan was made to the above named person(s). All of the information listed below is on the attached copy of the Mortgage Credit Certificate; therefore, all you need to do is retain the copy of the MCC for the required time period. The information required to be retained by you is as follows:

1. Name, address and tax identification number of the holder of the MCC.
2. Name, address and tax identification number of the issuer of the MCC.
3. The date the mortgage loan was closed, the mortgage loan amount (certified indebtedness amount) and the Tax Credit Rate on the MCC.

IRS regulations require that you file IRS Form 8329, Lender's Information Return for Mortgage Credit Certificates (MCC's) for all mortgage loans you made during the calendar year which were the subject of a Mortgage Credit Certificate. This report must be filed with the IRS on or prior to January 31 of the year following the calendar year to which the report relates. This is a one time report that is not repeated in subsequent years for the same mortgage loans. ADFA will provide a computer print-out of all MCC assisted mortgage loans issued by you for the calendar year and attach the IRS Form 8329 for your completion.

If the computer print out is consistent with your records, you may execute the IRS Form 8329 and send it to the Internal Revenue Service Center, Philadelphia, PA 19255, no later than January 31st.

If you sell or assign the mortgage loan to another financial institution, you are still required to retain the records described above and file the IRS Form 8329.

If you have any questions concerning this matter, please do not hesitate to contact our office.

Best Regards,

Murray Harding
Manager
Single Family Program

Enclosure

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

Notice of Approval To Participate

To:

Attn:

Pursuant to the ADFA Mortgage Credit Certificate Program Guide and the Lender Participation Agreement, dated , between the Arkansas Development Finance Authority and your company (the "Agreement") , you are hereby notified that you have been approved for participation in the Arkansas Mortgage Credit Certificate Program as a participating lender that may request the issuance of Mortgage Credit Certificates ("MCCs") to be used in conjunction with a qualifying mortgage loan, pursuant to and under the conditions set forth in the Program Guide and the Agreement.

The aggregate principal amount of MCC's which may be issued by ADFA under this notice shall be determined as you request and ADFA confirms reservations of MCC authority pursuant to the documents (particularly the Agreement, the Manual and this Notice) relating to the ADFA Mortgage Credit Certificate Program.

Each lender shall appoint one employee of your institution to be the primary contact between ADFA and your organization on matters pertaining to the Mortgage Credit Certificate (MCC) Program. This is in accordance with Section 7 of the Lender Participation Agreement.

The Lender Participation Agreement executed by representatives of the Lender and ADFA will apply to the 2014 Mortgage Credit Certificate Program and any subsequent MCC programs offered by ADFA.

ARKANSAS DEVELOPMENT
FINANCE AUTHORITY

Murray Harding Date
Manager
Single Family Program

Appendix 10

Lender's Information Return for Mortgage Credit Certificates (MCCs)

(Rev. October 2012)

For calendar year ending

OMB No. 1545-0922

Information about Form 8329 and its instructions is at www.irs.gov/form8329.

Part I Reporting Authority

Lender's name | Employer identification number

Lender's address (number, street, or P.O. box no., if mail is not delivered to street address) | Room/suite

City, town, or post office, state, and ZIP code

Part II Issuing Authority

Issuer's name | Employer identification number

Issuer's address (number, street, or P.O. box no., if mail is not delivered to street address) | Room/suite | Election date

City, town, or post office, state, and ZIP code | Nonissued bond amount

Part III Recipients of Mortgage Credit Certificates (If more than five recipients, see instructions.)

	(a) Name(s)	(b) Address Do not use a P.O. box number.	(c) Social Security Number(s)
1			
2			
3			
4			
5			

Part IV Computation of the Total Amount of Mortgage Credit Certificates (Note: *Match the information entered on each line with information entered on each corresponding line in Part III.*)

	(d) Date of Issue of MCC	(e) Certified Indebtedness Amount of Each MCC Issued	(f) Certificate Credit Rate	(g) Amount of MCC Issued (column (e) x column (f))
1				
2				
3				
4				
5				

6 Total amount of MCCs issued. (See instructions.)

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than representative of lender) is based on all information of which preparer has any knowledge.

Signature of authorized representative of lender | Date | Title

Paid Preparer Use Only

Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN

Firm's name | Firm's EIN

Firm's address | Phone no.

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 13902F

Form 8329 (Rev. 10-2012)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Any person who makes a loan that is a "certified indebtedness amount" on any mortgage credit certificate (MCC) must maintain books and records of the activity and file Form 8329. (See Temporary Regulations section 1.25-8T(a).)

A separate Form 8329 must be filed for each issue of MCCs for which the lender made mortgage loans during the calendar year. Each issue of MCCs corresponds to the MCC program relating to the nonissued bond amount that was the subject of the election made on the election date. Both the nonlssued bond amount and the election date are to be provided in Part II of this Form 8329.

Future Developments

For the latest information about developments related to Form 8329 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form8329.*

Purpose of Form

Form 8329 is used by lenders of certified indebtedness amounts to provide the IRS with information regarding the issuance of MCCs under section 25.

The MCC must be issued under a program that meets the residence requirements of section 143(c). Under these requirements, the residence must: (1) be a single-family residence that can reasonably be expected to become the principal residence of the mortgagor within a reasonable time after the financing is provided, and (2) be located in the jurisdiction of the authority Issuing the certificate. See section 25(c)(2) for additional requirements.

Who Must File

Any person who makes a loan that is a certified indebtedness amount on any MCC must file Form 8329.

When To File

File Form 8329 by January 31 following the close of the calendar year in which the lender made certified indebtedness loans.

The IRS may grant an extension of time to file Form 8329 if there is reasonable cause *for* not filing on time.

Where To File

File Form 8329 with the Department of the Treasury, Internal Revenue Service Center, Ogden, UT 84201.

Penalty

Any person required to file Form 8329 may be subject to a $200 penalty for each form that is not filed by the due date. The maximum penalty is $2,000.

Definitions

Mortgage Credit Certificate. A mortgage credit certificate is a certificate issued under a "qualified mortgage credit certificate program" by the state or political subdivision having the authority to Issue qualified mortgage bonds to provide financing for the acquisition, qualified rehabilitation, or qualified home improvement of a taxpayer's principal residence. For more information, see section 25(c)(1).

Qualified mortgage credit certificate program. A qualified mortgage credit certificate program is a program established for any calendar year by a state or political subdivision that is authorized to issue qualified mortgage bonds under section 143 (and for which there has been an appropriate allocation of state volume cap for that calendar year under section 146) but elected instead to issue mortgage credit certificates. (See section 25(c)(2) for additional requirements.)

Aggregate amount. The aggregate amount (the certified Indebtedness times the certificate credit rate *for* each MCC, totaled for all mortgage credit certificates issued under a single MCC program), may not exceed 25% of the nonissued bond amount for which the election not to issue bonds was made. See section 25(d)(2).

Certified indebtedness amount. The certified indebtedness amount is the amount of indebtedness specified in the MCC and incurred by a taxpayer:

a. To acquire his or her principal residence,

b. To make qualified home improvements on that residence, or

c. To make a qualified rehabilttation of that residence.

Certificate credit rate. The certificate credit rate is the rate specified by the Issuer on the MCC. However, the rate cannot be less than 10% nor more than 50%. For other limitations, see Temporary Regulations section 1.25-2T(b).

Specific Instructions

Part I. Reporting Authority

Provide information about the mortgage lender.

Part II. Issuing Authority

Provide information about the mortgage credit certificate issuer.

Election date. Enter the date the issuing authority elected to issue MCCs in lieu of qualified mortgage bonds for the MCC program that included the amounts listed in Part IV, column (e).

Nonissued bond amount. Enter the total amount of qualified mortgage bonds (as defined in section 143(a)(1) and the related regulations) that the issuer has authority to issue but elected instead on the election date to convert Into authority to issue MCCs.

Part Ill. Recipients of Mortgage Credit Certificates

Column (a). Enter the name(s) of the MCC holder(s) to whom the lender made certified indebtedness loan(s) during the calendar year. If an MCC lists more than one holder, enter all of the holders on one line.

Column (b). Enter the number and street , city, state. and ZIP code of the property for which the MCC was issued. Do not use a P.O. box number.

Column (c). Enter the social security number(s) of the holder(s) listed on the MCC.

Part IV. Computation of the Total Amount of Mortgage Credit Certificates

Column (d). Enter the date the issuing authority issued the certificate for the amount included in column (e). Do not give the date the loan was made nor the date when any preliminary approval to issue an MCC was given by the issuer.

If the loan is for a reissued MCC as permitted by the regulations, the date of the reissued certificate should be given, preceded by the word "Reissued." For example, "Reissued, July 25, 2008."

Column (f). Enter the certificate credit rate for each MCC.

Column (g). For each certificate amount listed in column (e). multiply by the certificate credit rate associated with that certificate shown in column (n.

Line 6. This is the aggregate amount of MCCs issued (Part IV, column (g)) in connection with the lender's loans relating to the issuer's MCC program for the calendar year. The total should reflect all of the MCCs described on the lender's Form 8329, including any attachments, for the MCC program for the calendar year.

Additional Entries

If the lender must report on more than 5 mortgage credit certificates. it should report these additional certificates on an attached statement formatted like Form 8329.

Instead of formatting its own statement, the lender may use one Form 8329 as a transmittal document and use additional Forms 8329 as statements. In such a case, draw an "X" across the 5 lines of Parts Ill and IV of the Form 8329 used as a transmitting document. Complete the remainder of this Form 8329, making certain that all mortgage credit certificate amounts reported in all the statements 1n Part IV, column (g) are totaled for line 6 of the transmittal document. Sign only the transmittal Form 8329 and indicate in the top margin the number of Forms 8329 attached to this Form 8329.

On the attached Forms 8329, show the lender's name and employer identification number in Part I and enter mortgage credit certificate information on the 5 lines of Parts Ill and IV.

Signature

Form 8329 must be signed by an authorized representative of the lender.

Paid Preparer Use Only

Anyone who prepares the return but does not charge the organization should not sign the return. Certain others who prepare the return should not sign. For example, a regular, full-time employee of the lender, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare a return must sign it and fill in the other blanks in the *Paid Preparer Use Only* area of the return. A paid preparer cannot use a social security number in the paid *Paid Preparer Use Only* box. The paid preparer must use a preparer tax identification number (PTIN). If the paid preparer is self-employed, the preparer should enter his or her address in the box. The paid preparer must:

- Sign the return In the space provided for the preparer's signature.
- Enter the preparer information, and
- Give a copy of the return to the lender.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need ii to ensure that you are complying with these laws.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping .	3 hr., 35 min.
Learning about the law or the form .	1 hr., 5 min.
Preparing and sending the form to the IRS .	1 hr., 12 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:M:S, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the form to this address. Instead, see *Where To File* on this page.

Form **8330**
(Rev. October 2012)
Department of the Treasury
Internal Revenue Service

Issuer's Quarterly Information Return for Mortgage Credit Certificates (MCCs)

... Information about Form 8330 and its instructions is at *www.irs.gov/form8330.*

OMB No. 1545-0922

Year..,.

1@11 Reporting Authority

Issuer's name	Employer identification number
Issuer's address (number and street or P.O. box no., if mail Is not delivered to street address) I Room/suite	Election date
City, town, or post office, state, and ZIP code	Nonissued bond amount

Is this the final return to be filed for this MCC program? . 0Yes O No

1@111 Computation of the Total Amount of Mortgage Credit Certificates

	(a) Certified Indebtedness Amount of Mortgage Credit Certificates	(b) Certificate Credit Rate	(c) Amount of Mortgage Credit Certificates Issued (column (a) x column (b))
1			
2			
3			
4			
5			
6			
7	Total amount of MCCs issued during the current calendar quarter (add lines 1 through 6)		
8	Total amount of MCCs issued for all prior quarters for the MCC program related to the nonissued bond amount in Part I .		
9	Aggregate amount of MCCs issued for this MCC program (add lines 7 and 8)		
10	Does line 9 exceed 25% of the nonissued bond amount in Part I? (If "Yes," see instructions.)		. D Yes D No

i:zttill!i Revocation of Qualified Mortgage Credit Certificates

Name	Address	Social Security Number

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best or my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than representative of issuer) is based on all information of which preparer has any knowledge.

Signature of authorized representative of issuer | Date | nue

Paid Preparer Use Only

Print/Type preparer's name | IPreparer's signature | I Date | I Check O if ·IPTIN self-employed

Firm's name ••• | Firm's EIN •

Firm's address • | Phone no.

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 13905M

Form 8330 (Rev. 10-2012)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Section 25 permits issuers that have authority to issue qualified mortgage bonds (as defined in section 143) to elect to issue MCCs In lieu of qualified mortgage bonds. See Temporary Regulations section 1.25-4T(c)(2) for more details.

Future Developments

For the latest information about developments related to Form 6330 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form8330.*

Purpose of Form

Form 6330 is used by issuers (states and political subdivisions) of MCCs to provide the IRS with information required by section 25 and Temporary Regulations section 1.25-6T(b).

Who Must File

Each issuer that elected to issue MCCs must file Form 6330 for each qualified mortgage credit certificate program.

When To File

File Form 6330 on a quarterly basis beginning with the quarter in which the election was made.

The return for each MCC program is due as follows:

For the quarter ending:	Form 8330 is due by:
March 31 .	Aprll 30
June 30	July 31
September 30 .	October 31
December 31 .	January 31

The IRS may grant an extension of time to file Form 6330 if there is reasonable cause for not filing on time.

Last Form 8330 for a program. In the quarter in which the last qualified MCC that may be Issued under a program Is in fact issued, the issuer should check the box marked "Yes" in Part I relating to a final return for this MCC program. Thereafter, the issuer is not required to file any subsequent reports with respect to that MCC program. See *Qualified mortgage credit certificate program* in the definitions below.

Reissued MCCs. Do not report a reissued MCC on Form 6330. A reissued MCC is considered to be a continuation of the original MCC. It is reported by the lender of the replacement loan on Form 6329, Lender's Information Return for Mortgage Credit Certificates (MCCs).

Aggregate number of Forms 8330 filed per program. Certificates under an MCC program may be issued for indebtedness that is incurred up to the close of the 2nd calendar year following the calendar year for which the issuing authority made the election to issue MCCs in lieu of qualified mortgage bonds. Thus, there may be as many as 12 consecutive quarterly reports to be filed by the issuer for a particular MCC program. See section 25(e)(3)(B).

Multiple Forms 8330 filed for a quarter. More than one Form 8330 may be filed for a particular quarter for an issuer if the issuer had more than one MCC program in operation during a calendar quarter. This may occur where more than one election was made during a calendar year, or where certificates still remain to be issued under one MCC program, after an election has been made creating another program.

Where To File

File Form 8330 with the Department of the Treasury, Internal Revenue Service Center, Ogden, UT 64201.

Penalty

Any person who is required to file Form 8330 and who does not file that return by the due date or does not include all the MCCs issued on a timely filed return is subject to a penalty. The penalty is $200 for each MCC required to be reported on Form 6330. The maximum penalty is $2,000.

Definitions

Mortgage credit certificate. A mortgage credit certificate is a certificate Issued under a "qualified mortgage credit certificate program" by the state or political subdivision having the authority to issue qualified mortgage bonds to provide financing for the acquisition, qualified rehabilitation, or qualified home improvement of a taxpayer's principal residence. For more information, see section 25(c)(1).

Qualified mortgage credit certificate program. A qualified mortgage credit certificate program is a program established for any calendar year by a state or political subdivision that Is authorized to issue qualified mortgage bonds under section 143 (and for which there has been an appropriate allocation of state volume cap for that calendar year under section 146), but elected instead to issue mortgage credit certificates. (See section 25(c)(2) for additional requirements.)

Aggregate amount. The aggregate amount (the certified indebtedness times the certificate credit rate for each MCC, totaled for all mortgage credit certificates issued under a single MCC program), may not exceed 25% of the nonissued bond amount for which the election not to Issue bonds was made. See section 25(d)(2).

Certified indebtedness amount. The certified indebtedness amount is the amount of indebtedness specified in the MCC and incurred by a taxpayer:

a. To acquire his or her principal residence,

b. To make qualified home improvements on that residence, or

c. To make a qualified rehabilitation of that residence.

Certificate credit rate. The certificate credit rate is the rate specified by the issuer on the MCC. However, the rate cannot be less than 10% nor more than 50%. For other limitations, see Temporary Regulations section 1.25-2T(b).

Specific Instructions

Part I. Reporting Authority

Election date. Enter the date the issuer elected to issue MCCs in lieu of qualified mortgage bonds.

Nonissued bond amount. Enter the total amount of qualified mortgage bonds (as defined in section 143(a)(1). and the related regulations) that the issuer has authority to issue but elected instead to convert into authority to issue MCCs. The amount of qualified mortgage bonds that an issuer elected not to issue may not exceed the Issuer's applicable limit (as determined under section 146(d)).

Part II. Computation of the Total Amount of Mortgage Credit Certificates

List only the MCCs Issued under the program elected for the nonissued bond amount shown in Part I. File a separate Form 8330 for each separate program that is still open,

Column (a). Enter the certified indebtedness amount for each MCC issued under the qualified MCC program.

Column (b). Enter the certificate credit rate associated with each MCC entered in column (a).

Column (c). For each certificate amount listed in column (a), multiply by the certificate credit rate associated with that certificate (column (b)) and enter the result in column (c).

If additional space is needed, attach a separate statement in the same format as lines 1 through 6 of Part II of this Form 8330, Include the total amount of the MCCs listed on the separate statements only on line 7 of the Form 8330. You may use an unsigned copy of a Form 8330 as the separate statement.

Line 8. Include the total amount of MCCs Issued for all prior quarters under the MCC program elected for the nonIssued bond amount shown in Part I, whether or not Issued during the current calendar year.

Line 9. Enter the aggregate, as of the end of the quarter, of amounts for all certificates issued for the MCC program elected for the nonissued bond amount shown in Part I.

Line 10, If the amount on line 9 exceeds 25% of the nonissued bond amount shown in Part I, see section 25(1) and Temporary Regulations section 1.25-ST(d) for the appropriate calculation to reduce the following year's bond volume cap under section 146(d).

Part III. Revocation of Qualified Mortgage Credit Certificates

Identify each holder of a qualified MCC that was revoked during the calendar quarter. For more Information, see Temporary Regulations section 1.25-3T(m).

Signature

Form 8330 must be signed by an authorized representative of the issuer.

Paid Preparer Use Only

Anyone who prepares the return but does not charge the organization should not sign the return. Certain others who prepare the return should not sign. For example, a regular, full-time employee of the issuer, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare a return must sign it and fill in the other blanks in the *Paid Preparer Use Only* area of the return. A paid preparer cannot use a social security number in the paid Paid Preparer Use Only box. The paid preparer must use a preparer tax identification number (PTIN). If the paid preparer is self-employed, the preparer should enter his or her address in the box. The paid preparer must:

- Sign the return in the space provided for the preparer's signature,
- Enter the preparer information, and
- Give a copy of the return to the issuer.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws.

You are not required to provide the Information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping .	4 hr., 32 min.
Learning about the law or the form	1 hr., 23 min.
Preparing and sending the form to the IRS .	1 hr., 31 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:M:S, 1111 Constitution Ave. NW, IR-6526. Washington, DC 20224. Do not send the tax form to this address. Instead, see *Where To File* on this page.

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Department of t ıe Treasury
Internal Revenu › Service (99)

Mortgage Interest Credit

(For Holders of Qualified Mortgage Credit Certificates Issued by State or Local Governmental Units or Agencies)

II> Information about Form 8396 and its instructions is at *www.irs.gov/form839B.*

II> Attach to Form 1040 or 1040NR.

OMB No. 1545-0074

@1 4

Attachme nt Sequence Na. 138

Name(s) shown on your tax return | Your socialsecurity number

Enter lhe address of your main horn.a to which the qualified mortgage certificate relates if it Is different from the addr$S shown on your tax return.

Name of Issuer of Mortgage Credit Certificate | Mortgage Credit Certificate Number | Issue Dale

Before you begin Part I, figure the amounts of any of the following credits you are claiming: Credit for the elderly or the disabled, alternative motor vehicle credit, and qualified plug-in electric drive motor vehicle credit.

Current Year Mortgage Interest Credit

1	Interest paid on the certified indebtedness amount. If someone else (other than your spouse if filing jointly) also held an interest in the home, enter only your share of the interest paid	1	
2	Enter the certificate credit rate shown on your mortgage credit certificate. Do not enter the interest rate on your home mortgage .	2	%
3	If line 2 is 20% or less, multiply line 1 by line 2. If line 2 is more than 20%, or you refinanced your mortgage and received a reissued certificate, see the instructions for the amount-to enter . You must reduce your deduction for home mortgage interest on Schedule A (Form 1040) by the amount on line 3.	3	
4	Enter any 2011 credit carryforward from line 16 of your 2013 Form 8396	4	
5	Enter any 2012 credit carryforward from line 14 of your 2013 Form 8396	5	
6	Enter any 2013 credit carryforward from line 17 of your 2013 Form 8396	6	
7	Add lines 3 through 6	7	
8	Limitation based on tax liability. Enter the amount from the Credit Limit Worksheet (see instructions)	8	
9	Current year mortgage interest credit. Enter the smaller of line 7 or line 8. Also include this amount in the total on Form 1040, li.ne 54, or Form 1040NR, line 51. Check box c on that line and enter "8396" in the space next to that box .	9	

Mortgage Interest Credit Carryforward to 2015. (Complete only if line 9 Is less than line 7.)

10	Add lines 3 and 4	10	
11	Enter the amount from line 7.	11	
12	Enter the larger of line 9 or line 10 .	12	
13	Subtract line 12 from line 11 .	13	
14	2013 credit carryforward to 2015. Enter the smaller of line 6 or line 13	14	
15	Subtract line 14 from line 13 .	15	
16	2012 credit carryforward to 2015. Enter the smaller of line 5 or line 15	16	
17	2014 credit carryforward to 2015. Subtract line 9 from line 3. If zero or less, enter -0-	17	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 62502X Form 8396 (2014)

General Instructions

Future Developments

For the latest information about developments related to Form 8396 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form8396.*

Purpose of Form

Use Form 8396 to figure the mortgage interest credit for 2014 and any credit carryforward to 2015.

Who Can Claim the Credit

You can claim the credit only if you were issued a qualified Mortgage Credit Certificate (MCC) by a state or local governmental unit or agency under a qualified mortgage credit certificate program.

Certificates issued by the Federal Housing Administration, Department of Veterans Affairs, and Farmers Home Administration, and Homestead Staff Exemption Certificates do not qualify for the credit.

The home to which the certificate relates must be your main home and also must be located in the jurisdiction of the governmental unit that issued the certificate.

If the interest on the mortgage was paid to a related person, you cannot claim the credit.

Refinanced Mortgage

You can refinance your mortgage without losing this credit if your existing MCC is reissued and the reissued certificate meets all of the following conditions.

- It must be issued to the holder(s) of the existing certificate for the same property.
- It must entirely replace the existing certificate. The holder cannot retain any portion of the outstanding balance of the existing certificate.
- The certified indebtedness on the reissued certificate cannot exceed the outstanding balance shown on the existing certificate.
- The credit rate of the reissued certificate cannot exceed the credit rate of the existing certificate.
- The reissued certificate cannot result in a larger amount on line 3 than would otherwise have been allowable under the existing certificate for any tax year.

For each tax year, you must determine the amount of credit that you would have been allowed using your original MCC. To do this, multiply the interest that was scheduled to be paid on your original mortgage by the certificate rate on your original MCC. The result may limit your line 3 credit allowed when you have a reissued MCC, even if your new loan has a lower interest rate.

If the certificate credit rates are different in the year you refinanced, attach a statement showing separate calculations *for* lines 1, 2, and 3 *for* the applicable parts of the year when the original MCC and the reissued MCC were in effect. Combine the amounts from both calculations *for* line 3. Enter that total on line 3 of the form and enter "see attached" on the dotted line next to line 2.

For more details, see Regulations section 1.25-3(p).

Recapture of Credit

If you buy a home using an MCC and sell it within 9 years, you may have to recapture (repay) some of the credit. See Pub. 523, Selling Your Home, and Form 8828, Recapture of Federal Mortgage Subsidy.

Additional Information

See Pub. 530, Tax Information for Homeowners, for more details.

Specific Instructions

Part I-Current Year Mortgage Interest Credit

Line 1

Enter the interest you paid during the year on the loan amount (certified indebtedness amount) shown on your MCC. In most cases, this will be the amount in box 1 on Form 1098, Mortgage Interest Statement, or on a similar statement you received from your mortgage holder. If the loan amount on your MCC is less than your total mortgage loan, you must allocate the interest to determine the part that relates to the loan covered by the MCC. See Pub. 530 for an example of how to allocate the interest.

Line 2

The certificate credit rate cannot be less than 10% or more than 50%.

Line 3

If you refinanced, see *Refinanced Mortgage* on this page.

If the certificate credit rate shown on line 2 is more than 20%, multiply line 1 by line 2, but do not enter more than $2,000 on line 3. If you and someone else (other than your spouse if filing jointly) held an interest in the home, the $2,000 limit must be allocated to each owner in proportion to the interest held. See *Dividing the Credit* in Pub. 530 for an example of how to make the allocation.

Reduction of home mortgage interest deduction on Schedule A (Form 1040). If you itemize your deductions on Schedule A, you must reduce the amount of home mortgage interest you would otherwise deduct on Schedule A by the amount on Form 8396, line 3, and report the reduced amount on Schedule A. You must do this even if part of the amount on line 3 is carried forward to 2015.

Line 8-Credit Limit Worksheet

Keep for Your Records

1. Enter the amount from Form 1040, line 47, or Form 1040NR, line 45 **1.** _____
2. **Form 1040 filers:** Enter the amounts from Form 1040, lines 48 through 51; line 12 of the Line 11 Worksheet in Pub. 972*; Form 5695, line 30; Form 8910, line 15; Form 8936, line 23; and Schedule R (Form 1040A or 1040), line 22.

   Form 1040NR filers: Enter the amounts from Form 1040NR, lines 46 through 48; line 12 of the Line 11 Worksheet in Pub. 972*; Form 5695, line 30; Form 8910, line 15; and Form 8936, line 23. **2.** _____
3. Subtract line 2 from line 1. Enter this amount on Form 8396, line 8. If zero or less, enter -0- here and on Form 8396, lines 8 and 9, and go to Part II of Form 8396 **3.**

*If you are not claiming the child tax credit, you do not need Pub. 972.

Part II-Mortgage Interest Credit Carryforward to 2015

If the amount on line 9 is less than the amount on line 7, you may have an unused credit to carry forward to the next 3 tax years or until used, whichever comes first. The current year credit is used first and then the prior year credits, beginning with the earliest prior year.

If you have any unused credit to carry forward to 2015, keep a copy of this form to figure your credit for 2015.

If you are subject to the $2,000 credit limit because your certificate credit rate is more than 20%, no amount over the $2,000 limit (or your prorated share of the $2,000 if you must allocate the credit) may be carried forward for use in a later year.