From Shelley Ervin, Colorado Housing Finance Authority:

CHFA launched a new program June 4, 2012 called SmartStep / SmartStep Plus (***plus*** means buyer is getting a CHFA 2nd for down payment)

We now allow the MCC to be attached to any SmartStep program; the significance of this, is that it is CHFA's lowest interest rate loan.

Prior to this new loan (smartstep and smartstep plus), CHFA required the MCC to be used with the CHFA loan that was a higher interest rate (called HomeOpener and HomeOpener Plus). Lenders got into the habit of not promoting the MCC, because they had to convince a buyer to take a higher interest rate, and most buyers would always object to paying the higher rate, even though they might still come out ahead with the MCC.

One of the compelling reasons for CHFA to create the new SmartStep programs, was to be able to offer our lowest rate, plus enhance the loan with the MCC…borrower gets the best of both worlds.

Not only did we begin allowing the MCC to be offered with our lowest interest rate loan, we also reduced the amount of documentation the lender was required to submit to CHFA for our review and approval.

Also, the program guidelines for the SmartStep programs, and the MCC program, are identical; so if a borrower qualifies for the SmartStep, they ***WILL*** qualify for an MCC.

As a result of these changes, we anticipated that every SmartStep, or SmartStep Plus loan would include an MCC…but this has not been the case; in fact, a very small percentage of the new SmartStep loans have had an MCC attached.

We have also enhanced our MCC program by offering a variety of tax credit % based on loan amount (this enables a maximization of the benefit):

Loan amounts > $150,000 the tax credit = 20% (no $ cap imposed by IRS)

Loan amounts > $100,000 and ≤ $150,000 the tax credit = 30% ($2,000 cap imposed by IRS, but actual credit probably will be less)

Loan amounts ≤ $100,000 the tax credit =50% ($2,000 cap imposed by IRS)

Despite our efforts to communicate and encourage lenders to use the MCC with this new loan, most have not. Many tell us that they simply forget, or that they did not include the fees on the GFE, and now it's too late to disclose, etc., etc.

Depending on the loan amount, a buyer can save $1,000's over the life of the loan (the tax credit is in effect for as long as the borrower lives in the home, and pays mortgage interest); this tax credit can be more valuable than the 1st time buyer tax credit of $8,000 a few years back, depending on the loan amount, and how long the buyer stays in the home.

This is a terrific program, with lots of benefits to the borrower, the industry, and the economy in general.

Basic MCC explanation:

Tax credit for 1st time buyers, or non-first time buyers purchasing in a targeted area.

The tax credit is a % of the mortgage interest paid during any year.

The borrower receives the tax credit when they file their federal 1040 every year.

The remaining interest is treated as a tax deduction; if borrower paid $10,000 in interest, and had a 20% MCC, $2,000 would be tax credit, and $8,000 would be a tax deduction.

The credit is in effect and can be deducted for the life of the mortgage—providing the borrower lives in the home.

If the borrower refinances, the MCC can be reissued through CHFA.

MCC's may be used with Conventional, FHA, VA, RD loans; the loan must be a fixed rate with any term (10, 15, 20, 30, etc.), or can be an ARM, providing that the initial fixed period is 5 years or longer.

FHA and Fannie Mae will permit the tax savings to be utilized to help the borrower qualify for a larger loan amount; CHFA allows this with our loans, but some mortgage companies, and the investors they sell to will not permit this.

You do NOT have to have an FHA loan; Yes, if a first time buyer put 20% down, they could have an MCC. Here's where it becomes tricky: some investors (Chase, B of A, etc.) will not purchase the loan from the Mortgage Company if there is an MCC. Weird…because Fannie Mae allows it, and FHA allows it. Plus it seems that it would reduce the risk to the servicer, since the borrower is receiving a financial benefit.

I have done lots of research with some non-CHFA lenders (you can become approved to do MCC's without being approved to do CHFA loans), and we have found investors who will purchase the loans. I have that list in my office.

If the % of the MCC exceeds 20%, then the IRS caps the credit dollar amount at $2,000. This is why CHFA historically offered 20%; Denver's % is higher. CHFA made the change because we serve the entire state, and wanted our low income buyers to have a greater benefit when purchasing lower priced homes.

Targeted areas exist throughout the state; if a buyer is purchasing in a targeted area, then the first time buyer requirement does not apply. However, the buyer may not own other residential real estate.

There are income and purchase price limits by county; they are higher if the property is in a targeted area. This link is the main page for MCC's:

http://www.chfainfo.com/homebuyer/Getting_a_loan/Loan_programs/MCC/MCC_program.icm

There's a tax return example which really illustrates how the savings works

There are entire counties which are targeted All of Commerce City is targeted. None of Jefferson County is targeted Some counties have specific targeted census tracts, and the tool on CHFA's website can assist in determining the status