



COMMUNITY DEVELOPMENT COMMISSION
of the County of Los Angeles

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ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

2-D December 19, 2017

LORI GLASGOW
EXECUTIVE OFFICER

December 19, 2017

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 91801

The Honorable Board of Commissioners
Community Development Commission
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 91801

Dear Supervisors/Commissioners:

**RESOLUTION ADOPTING POLICIES AND PROCEDURES FOR THE MORTGAGE CREDIT
CERTIFICATE PROGRAM
(ALL DISTRICTS) (3 VOTES)**

SUBJECT

This letter recommends that the Board adopt a Resolution approving County of Los Angeles Mortgage Credit Certificate (MCC) Policies and Procedures.

IT IS RECOMMENDED THAT THE BOARD:

1. Adopt and instruct the Chair to sign a Resolution approving County of Los Angeles MCC Policies and Procedures for the County of Los Angeles in order to comply with the California Debt Limit Allocation Committee (CDLAC) Regulation 5031(c).
2. Authorize the Community Development Commission of the County of Los Angeles to administer the MCC Program on behalf of the County.

IT IS RECOMMENDED THAT THE BOARD, ACTING AS THE COMMISSIONERS OF THE
COMMUNITY DEVELOPMENT COMMISSION:

1. Authorize the Executive Director, or designee, to administer the MCC Program on behalf of the County.
2. Authorize the Executive Director, or designee, to amend, with CDLAC approval, County of Los Angeles MCC Policies and Procedures from time to time, as may be needed to stay in alignment with financial and programmatic trends among comparable public conduit issuer agencies, or to increase financial viability of the MCC Program.
3. Authorize the Executive Director, or designee, to take whatever further action relating to the County of Los Angeles MCC Policies and Procedures.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

An MCC provides eligible borrowers with a federal income tax credit based on a specified percentage of the mortgage interest paid each year. The tax credit is a dollar-for-dollar reduction in the homebuyer's federal tax liability that increases the household income available to qualify for a mortgage loan and to make monthly mortgage payments. The County, acting through the Commission, is a qualified conduit issuer of the MCC Program administered by CDLAC, which operates as part of the Office of the State Treasurer. The purpose of this action is to recommend adoption of a Resolution adopting the County of Los Angeles MCC Policies and Procedures as required by CDLAC.

The Commission administers the MCC Program on behalf of the County. Pursuant to the Master Services Agreement between the County and the Commission, adopted August 21, 2012, Commission officers, employees, consultants and/or contractors may perform needed services as requested by the County.

Pursuant to CDLAC Regulation 5031(c), adopted on December 15, 2016, all conduit issuer agencies must submit policies for bond issuance procedures and post-issuance compliance. The County of Los Angeles MCC Policies and Procedures authorized by this Resolution to satisfy this requirement, is attached as Exhibit A to the Resolution. The County's submission is due to CDLAC prior to December 31, 2017.

FISCAL IMPACT/FINANCING

There is no impact on the County general fund.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

On April 9, 1992, your Board approved the establishment of the County's MCC Program, which offers first-time homebuyers federal income tax credits to reduce the amount of federal taxes paid by the MCC holders. On June 9, 1998, your Board approved and authorized the Executive Director of the Commission, or designee, to submit from time to time, applications to the CDLAC for allocations in aggregate amounts not to exceed \$600,000,000.

The MCC Program is available throughout the unincorporated areas of Los Angeles County and 51 cities that have entered into Cooperative Agreements with the Commission for administration of the MCC Program. Since the MCC Program was established, over 4,600 first-time homebuyers in Los Angeles County have been assisted.

ENVIRONMENTAL DOCUMENTATION

This action is not a project pursuant to the California Environmental Quality Act (CEQA) because it is an activity that is excluded from the definition of a project by Section 15378 (b) of the State CEQA Guidelines. This proposed action is an administrative activity of government which will not result in direct or indirect physical changes to the environment.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Adoption of the proposed Resolution and County of Los Angeles MCC Policies and Procedures will bring the County's MCC Program into compliance with CDLAC Regulation 5031(c).

Respectfully submitted,



MONIQUE KING-VIEHLAND
Acting Executive Director

MKV:KT:dr

Enclosures

EXHIBIT A

**COUNTY OF LOS ANGELES MORTGAGE CREDIT CERTIFICATE
POLICIES AND PROCEDURES**

COMMUNITY DEVELOPMENT COMMISSION
County of Los Angeles

700 West Main Street Alhambra, CA 91801



**COUNTY OF LOS ANGELES MORTGAGE CREDIT
CERTIFICATE PROGRAM (MCC) POLICIES AND
PROCEDURES**

Revised November 27 2017

MORTGAGE CREDIT CERTIFICATE PROGRAM (MCC)

The purpose of this Los Angeles County MCC Policies and Procedures document is to describe the Los Angeles County Mortgage Credit Certificate Program (the Program) and set forth the roles of the acting through the Community Development Commission of the County of Los Angeles (the "Commission"), the Participating Cities (Alhambra, Artesia, Avalon, Azusa, Baldwin Park, Bell Gardens, Bellflower, Burbank, Carson, Claremont, Commerce, Compton, Covina, Cudahy, Culver City, Diamond Bar, Downey, Duarte, El Monte, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Huntington Park, Inglewood, Irwindale, La Mirada, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Lynwood, Monrovia, Montebello, Monterey Park, Norwalk, Palmdale, Paramount, Pasadena, Pico Rivera, Pomona, Rancho Palos Verdes, San Dimas, Santa Clarita, San Fernando, Santa Fe Springs, Signal Hill, South El Monte, South Gate, West Covina, West Hollywood and Whittier) herein known as ("the Participating Cities"), the Participating Lenders, and the MCC applicants. This document contains a description of the MCC Program requirements, processing procedures and policies. The applicant, purchase price, and mortgage underwriting requirements as set forth in state and federal regulations are also described. MCC processing forms are included as exhibits to this document. The Commission may revise these guidelines from time to time without notice.

Participating Lenders are expected to be well informed about all the local, state, and federal requirements. Both applicants and lenders alike must be aware of these requirements before an MCC application is accepted. A Lender shall disqualify those applicants where the submitted information indicates that the applicant or the home does not qualify for the Program.

ORIGIN OF THE PROGRAM

The Mortgage Credit Certificate Program, authorized by Congress in the Tax Reform Act of 1984, is an alternative to mortgage revenue bond-backed financing as a means of providing financial assistance for the purchase of single-family housing. In 1985, the State adopted legislation authorizing local agencies to make Mortgage Credit Certificates (MCCs) available in California. This Program is designed to benefit first-time homebuyers and other eligible borrowers. Unless the Commission provides notice, MCCs may not be issued for loans outside the incorporated areas of the Participating Cities and outside the unincorporated areas of Los Angeles County.

In connection with the Mortgage Credit Certificate Program, the County will have filed an election with the Internal Revenue Service to convert bond allocation to Mortgage Credit Certificate authority. The election shall include the amount of qualified mortgage bonds that the County elects not to issue. There will need to be the evidence of allocation of state volume cap to the County. The Internal Revenue Code also contains the requirement for submitting the annual mortgagor information reports.

At least 90 days prior to the issuance of any MCC under the Program, the County shall provide reasonable public notice of: (1) the eligibility requirements for such certificate, (2) the methods by which such certificates are to be issued, and (3) the other information required by the Internal Revenue Code. Within 15 days of issuing at least one MCC, the County will file a report of action taken with CDLAC.

TERMS AND DEFINITIONS

ACQUISITION COST has the meaning given that term under IRS Section 143 and the regulations thereunder. The acquisition cost is used interchangeably with Purchase Price.

ADMINISTRATOR means the Commission or any successor appointed by the Commission.

AFFIDAVIT means an affidavit filed in connection with the Program made under oath and subject to penalties of perjury.

CODE is the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

COMMISSION is the Community Development Commission of the County of Los Angeles.

DATE OF ISSUE means the date the MCC is signed and executed by the Commission.

ELIGIBLE APPLICANT means any person meeting the criteria for an eligible borrower set forth in this Manual who is in the process of securing financing for the purchase of a Principal Residence.

ELIGIBLE DWELLING means real property including a single family detached house, condominium townhouse, a 2-unit property where the owner will occupy one-unit (a duplex), or any manufactured home of at least 400 feet (not including mobile homes, recreational vehicles, campers or trailers), located in one of the Participating Cities or unincorporated areas of Los Angeles County which includes: (1) New Home (not previously occupied), or (2) an Existing Home (which has been previously occupied); designed as a residential unit for one household.

EXISTING HOME means an Eligible dwelling that has been occupied prior to loan commitment.

FUNDING LENDER means the Lender whose name will appear on the Closing Settlement Statement. The Funding Lender is responsible for the monitoring phase.

HOMEBUYER EDUCATION CERTIFICATE the Applicant must complete an 8-hour educational course in homeownership from an approved HUD counseling agency.

INCOME means the gross income of a mortgagor (or mortgagors) as described in Section 143(f) of the Code is the mortgagor's annualized gross income calculated prospectively. Annualized gross income is gross monthly income multiplied by 12. Gross monthly income is the sum of monthly gross pay, any additional income from overtime, part-time employment, bonuses, fees, tips, dividends, interest (including tax-exempt interest), royalties, pensions, Veterans Administration (VA) compensation, net rental income, and other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments). Information with respect to gross monthly income may be obtained from available loan documents executed during the 4-month period ending on the date of the closing of the mortgage, provided that any gross monthly income not included on the loan documents must be included in determining gross monthly income. The income to be taken into account in determining gross income is income of the mortgagor (or mortgagors) and any other person who is expected to be secondarily liable on the mortgage. If the co-borrower or co-signer meets the requirement in the sentence above, include his/her income in your gross income calculations. Income includes the income of both spouses whether or not both spouses live in the residence, if both spouses have an Ownership Interest in the residence. Income for MCC purposes may not be the same as income for loan approval purposes.

MCC PROGRAM means the Mortgage Credit Certificate Program (MCC) established by the Participating Cities and the Commission and administered by the Commission through the Administrator pursuant to the rules and regulations included in this MCC Program Manual. As may be amended from time to time.

MORTGAGE CERTIFICATE RATE means the rate specified by the Commission with respect to any MCC Program and specified on a Mortgage Credit Certificate.

MORTGAGE CREDIT CERTIFICATE means a certificate issued by the Commission pursuant to Section 25 of the Internal Revenue Code of 1986, as amended and applicable state and local requirements.

NEW MORTGAGE LOAN means a new mortgage originated in conjunction with an MCC.

ORIGINATING LENDER OR LENDER is the Originating Lender is the lender who actually originates the loan.

OWNERSHIP INTEREST means any of the following interests in residential real property:

- fee simple interest,
- joint tenancy,
- tenancy in common,
- life estate,
- interest held in trust for the Applicant that would constitute a present ownership interest if held by the Applicant,
- community property interest

Ownership does not include a remainder interest, a lease with or without an option to purchase an expectancy to inherit an interest in a Principal Residence or any interest acquired on the execution of the purchase contract.

PRINCIPAL RESIDENCE means real property including a single family detached house, condominium, townhouse, a 2-unit property where the owner will occupy one unit (a duplex), or any manufactured home of at least 400 square feet. Principal residence does not include recreational vehicles, campers, and other similar vehicles. It does not include property such as an appliance, furniture, or other personal property, which, under applicable local law, is not a fixture. The Applicant must expect to occupy the Principal Residence substantially any year in which the applicant expects to claim the credit.

PROHIBITED MORTGAGE A mortgage financed by a qualified mortgage bond, a qualified veteran's mortgage bond or an existing mortgage (except in connection with the reissuance of a Mortgage Credit Certificate).

PURCHASE PRICE means the cost of acquiring the residence, excluding usual and reasonable settlement or financing costs, and excluding the value of services performed by mortgagor in completing the acquisition of the residence.

RELATED PERSON means a "related person," as that term is defined under the Internal Revenue Code and applicable regulations: siblings, spouses, ancestors and lineal descendants; or entities that are more than 50% owned by the Applicant or any other Related Persons.

SINGLE-FAMILY AND OWNER- OCCUPIED RESIDENCES means a housing unit intended and used for occupancy by one household.

TARGETED AREA means a census tract in which 70% or more of the households had an income, which was 80% or less of the statewide median family income or an area designated as an area of chronic economic distress. A list of the targeted area census tracts is included as Exhibit A.

KEY ASPECTS OF THE PROGRAM

What is an MCC?

An MCC is a certificate awarded by the Commission authorizing the holder to take a federal non-refundable income tax credit. A qualified Applicant who is awarded an MCC may take an annual credit against federal income taxes of up to twenty percent (20%) of the annual interest paid on the Applicant's mortgage. The value of the MCC must be taken into consideration by the mortgage lender in underwriting the loan and may be used to adjust the borrower's federal income tax withholding. This adjustment will result in an effective reduction in monthly housing costs, and therefore, an increased ability of the Applicant to afford a mortgage payment.

What is the difference between a "tax credit" and a "tax deduction"?

A "tax credit" entitles a taxpayer to subtract the amount of the credit from his/her total federal income taxes owed, allowing the taxpayer to receive a dollar for dollar savings. This is different from a "tax deduction," which is subtracted from adjusted gross income before federal income taxes are computed. With a deduction, only a percentage of the amount deducted is realized in savings. An MCC produces a tax credit, not a tax deduction.

How does the MCC "reduce" the mortgage interest rate?

An MCC reduces the amount of federal income taxes owed. This may enable the homebuyer to more easily qualify for a loan and to make the monthly mortgage payments.

For example, a homebuyer with a 4.00% fixed rate 30-year mortgage of \$250,000.00 would pay approximately \$11,000.00 in interest payments during the first year of the mortgage. If they had a 20% MCC, a \$2,200.00 credit (20% of \$11,000.00) of the payments would be allowed as a tax credit against the applicant's federal income tax liability. This would effectively reduce the monthly mortgage payment, giving the Applicant greater ability to qualify for and make payments on a mortgage loan.

By increasing the purchasing power, the MCC has the economic effect of reducing the interest rate on the mortgage. As shown in the illustration below, an MCC effectively reduces the mortgage interest rate. It is important to realize, however, that the total effect is achieved only when the MCC holder has sufficient income tax liability to receive the entire benefit of the MCC tax credit.

TABLE I-1
EFFECTIVE INTEREST RATES WITH & WITHOUT AN MCC

	<u>WITHOUT MCC</u>	<u>WITH MCC</u>
First Mortgage Amount	\$250,000	\$250,000
Mortgage Interest Rate	4.00%	4.00%
Term	360	360
Monthly Mortgage Payment (P&I)	\$1,139.54	\$1,139.54
Mortgage Credit Certificate Rate	N/A	20%
Monthly Credit Amount	N/A	\$166.30
"Effective" Monthly Mortgage Payment	\$1,139.54	\$1,027.24
"Effective" Interest Rate	4.00%	2.800%

Note: The effective interest rate is calculated by applying the reduced monthly payment to

the original loan amount and term.

How does the MCC credit work?

The MCC reduces the amount of federal income taxes otherwise due to the federal government from the borrower; however, because the MCC is a non-refundable tax credit, if the credit is greater than the borrower's tax liability, the IRS will not make cash payment. Therefore, the benefit to the borrower in a given year cannot exceed the amount of federal taxes owed for the year, after other credits and deductions have been taken into account.

What happens if an MCC holder cannot use the entire amount of the MCC credit in any one year?

If the amount of the MCC credit exceeds the borrower's annual tax liability, the unused portion of the credit **can be carried forward for the next three tax years** or until used, whichever comes first. The borrower must keep track of the unused credit by year. The current year credit is applied first and the "oldest" credit carried-forward is used next.

What happens to the tax deduction for mortgage interest when homebuyer uses an MCC?

When using the MCC tax credit rate not exceeding 20%, the borrower is still eligible to deduct the remaining 80% of the annual mortgage interest payment not claimed as a credit. For example, assume the homebuyer pays \$10,000 for the first year in mortgage interest. With a 20% MCC, the homebuyer could take a credit of \$2,000 (20% of \$10,000), and a mortgage interest deduction of \$8,000 (80% of \$10,000).

How does the homebuyer realize the increase in "home buying power"?

The borrower may adjust his or her federal income tax withholding to receive the benefit from the credit on a monthly basis. In this case, the homebuyer will re-file a W-4 form with his or her employer reflecting the MCC credit. By taking this action, the number of exemptions will increase, reducing the amount of taxes withheld and thereby increasing the borrower's disposable income.

The borrower also has the option of waiting until the end of the year to realize the tax credit savings in one lump sum when filing federal income tax returns.

Regardless of whether the homebuyer adjusts the W-4 form or not, the tax credit will have to be listed when filing the federal income tax returns.

How does a homebuyer apply for an MCC?

The applicant applies for the MCC at the same time he/she makes a formal application for a mortgage loan. Lenders vary in their requirements for mortgage loan applications, but generally the applicant should be ready to supply credit information, employment data and other needed information to the Lender.

After determining preliminary eligibility, Lenders collect a \$300.00 non-refundable fee made payable to the Community Development Commission to process the application. The lender does not issue the MCC. This process reserves an MCC while the Lender and the Administrator is processing the mortgage loan application.

What kinds of properties are eligible under the Program?

An MCC can be used for single-family homes including single-family detached homes, condominiums, townhouse, two unit properties where the owner will occupy one unit (a duplex) or a manufactured home meeting the requirements of an Eligible Dwelling in the "Participating Cities" or unincorporated areas of Los Angeles County. The residence must become the principal residence of the applicant (i.e. the applicant must move into the home) within 60 days after the MCC has been issued.

What loans can be used with the MCC?

MCCs may be used with fixed-rate 30-year term loan, including FHA and VA loans, FNMA and FHLMC loans, privately insured loans and other loans made by participating lenders (no mortgage revenue bond programs). Graduated Payment Mortgages are not permitted. Negative Amortization loans are not permitted. MCCs may be used with Southern California Home Financing Authority (SCHFA) First Home Mortgage Loan Program and the Commission’s Home Ownership Program.

Lenders will process the underlying mortgages using standard procedures, taking into account the value of the MCC in qualifying Applicants.

What are the MCC Eligibility Requirements?

- First-Time Homebuyer Requirement: The MCC applicant cannot have had an ownership interest in any residence at any time in the past three years. In Targeted Areas and for certain veterans (as defined in 38 U.S.C.§101) the First-Time Homebuyer rule does not apply.
- Income Requirement: In order to qualify for an MCC, the applicant's household income must be below the following limits:

TARGETED & NON TARGETED AREAS

Household Size	Maximum Income Limit
1 –2 person(s)	\$108,120
3 or more persons	\$126,140

- Purchase Price Requirement: The Purchase Price of the house must be below the following amounts:

NON-TARGETED AREAS

New Construction & Existing
\$585,713

TARGETED AREAS

New Construction & Existing
\$715,872

Location means the Property to be purchased must be in the unincorporated areas of Los Angeles County or one of the following cities:

Alhambra
Artesia
Avalon
Azusa
Baldwin Park
Bell Gardens
Bellflower
Burbank
Carson
Claremont
Commerce
Compton
Covina
Cudahy
Culver City
Diamond Bar
Downey
Duarte
El Monte
Gardena
Glendale
Glendora
Hawaiian Gardens
Hawthorne
Huntington Park
Inglewood
Irwindale
La Mirada

La Verne
Lakewood
Lancaster
Lawndale
Lomita
Long Beach
Lynwood
Monrovia
Montebello
Monterey Park
Norwalk
Palmdale
Paramount
Pasadena
Pico Rivera
Pomona
Rancho Palos Verdes
San Dimas
Santa Clarita
San Fernando
Santa Fe Springs
Signal Hill
South El Monte
South Gate
West Covina
West Hollywood
Whittier

What is "recapture?" How does it affect the Program?

"Recapture," or the recapture tax, is a supplemental federal income tax to which MCC recipients may be subject if they sell the house they purchased with MCC assistance **within nine years** of such purchase. The recapture tax is designed to "recapture" some of the financial benefit of the MCC if (1) the recipient's household income has risen significantly and (2) the value of the purchased house has risen. A detailed disclosure form and description of recapture is included in form MCC-8.

PROGRAM OVERVIEW

For loans involving MCCs, the underwriting standards will be modified to recognize the mortgage interest credit in determining housing expense and indebtedness ratios.

The Purchase Price and loan underwriting requirements discussed in this section are incorporated in the MCC program documents that are contained in this manual. All applicants and program participants must complete and sign the appropriate MCC Program documents and attest to their validity. The Lender will be required to submit certifications, which will state that to the best of the Lender's knowledge material misstatements do not appear in the application and Program documents. If the Lender becomes aware of misstatements whether negligently or willfully made, it must notify the Commission immediately. The Commission will take appropriate action to enforce Program requirements.

The Lender should also be aware and inform the Applicant that penalties are provided by federal and California law if a person makes a false statement or misrepresentation so as to obtain participation in this Program. In an attempt to assure that all requirements are clear, an Application Affidavit is required of each applicant and must be included in the MCC submission package submitted to the Commission.

The Program requires that mortgage underwriting must take into account the value of the MCC. The MCC Program allows the use of fixed 30-year term loan, including FHA and VA loans, FNMA and FHLMC loan and privately insured loans, fixed-rate mortgages and other loans. Graduated payment mortgages are not permitted.

ELIGIBILITY REQUIREMENTS

The Applicant must meet credit and underwriting criteria established by the Participating Lender providing the mortgage loan, taking into account the value of the MCC. Special requirements apply for refinancing.

Based on applicable federal and state regulations, in order to qualify for an MCC, the applicant must also meet the following requirements:

1. The Applicant may not have held an ownership interest in a Principal Residence within the past three years. Except in Targeted Areas and certain Veterans (as defined in 38 U.S.C. S101), an Applicant for an MCC cannot have had a present ownership interest in a Principal Residence at any time during the preceding three years ending on the date the mortgage is executed. This requirement qualifies the borrower as a "first-time homebuyer" under federal law. The Lender must obtain from the borrower an Affidavit attesting that the borrower had no present ownership interest in a Principal Residence at any time during the three-year period prior to the date on which the mortgage for the MCC is executed. This fact must be verified by the Lender's examination of the applicant's federal tax returns for the preceding three years (or such other documentation as may be acceptable to Commission), to determine whether the borrower has claimed a deduction for mortgage interest or taxes on a Principal Residence.

To demonstrate compliance with this three-year requirement, Applicant(s) must complete and sign the MCC program affidavit and provide copies of their last three (3) years signed federal tax returns (or acceptable alternative exhibits - see below).

- a. If the Applicant(s) can produce the signed 1040A, 1040EZ, or 1040 federal income tax returns for the three preceding years with all schedules which show no deductions for mortgage interest or real estate taxes for a Principal Residence, these forms shall be submitted to the Lender, and forwarded to the CDC with the MCC Affidavit and the complete MCC Submission Package. If

the Applicant filed the 1040 Long Form and cannot produce an original copy of the signed tax returns, then the Applicant can request a copy of the returns from the IRS by using IRS Request Form 4506. The Applicant should allow approximately 45 days for the copies.

- b. If the Applicant(s) has filed the short form 1040A or 1040EZ for the last three (3) years, completes and signs the required affidavits, but is unable to produce the signed returns, the CDC will accept a letter from the IRS verifying the filing status of the Applicant. The letter should confirm that the Applicant filed the 1040A or 1040EZ for the years in question. The Applicant can request tax account information, which is available free of charge, from the Local IRS office. This information will be provided on IRS Letter Form 1722 and will include: (1) name and social security number; (2) type of return filed; (3) marital status; (4) tax shown on return; (5) adjusted gross income; (6) taxable income; (7) self-employment tax; and (8) number of exemptions. If the address on the tax returns filed is different than the current address, the Applicant should also provide a handwritten note (signed by all Applicants) indicating that the previous returns had been filed at a different address.

The tax account information should be requested, in person, from the IRS. The Applicant will not receive a response on the spot but can expect a written reply within (15) fifteen days. **The tax returns must have a signature (copy and e-signature are acceptable) and a current date certifying that "this is a true and exact copy of the returns submitted to IRS."**

- c. In the event the Applicant(s) was not obligated to file federal income tax returns for any of the preceding three (3) years, it will be necessary for the Lender to obtain from the Applicant(s) a completed and signed Income Tax Affidavit which is required in place of (a) or (b) above, along with the other Program Affidavits. The Income Tax Affidavit must be accompanied with documented proof of the reason for not filing taxes. For example, if the Applicant were in school, he/she would have to submit a copy of transcripts to support the status of the Applicant for that period of time. Affidavit must also be accompanied by documented proof that the Applicant was a renter during the specified period (i.e. notarized letter from the landlord or manager, canceled checks, or rent receipts).
- d. When an MCC application is submitted during the period between January 1 and February 15 and the Applicant has not yet filed his/her Federal income tax return for the preceding year with the IRS, the Commission may, with respect to such year, rely on an affidavit of the Applicant that the Applicant is not entitled to claim deductions for taxes or interest on indebtedness with respect to property constituting his/her Principal Residence for the preceding calendar year. The affidavit must be forwarded to the Commission with the Submission Package.
- e. If the tax returns indicate the Applicant took a deduction for mortgage interest or real estate taxes on property claimed not to be the Principal Residence, documentation would be required to show proof of rental (i.e. rent receipts, canceled checks).

The Lender is cautioned that in the above noted situations, the Lender may be closing the loan without the benefit of the CDC review of the certified tax returns prior to closing. In the event the certified tax returns do show a deduction for interest or taxes on a Principal Residence, or in the event the certified tax returns are not obtained; the Commission will not issue the MCC. The Lender, at its option, may forward federal tax return exhibits to the Commission for review prior to loan closing.

2. **The MCC Applicant must occupy the acquired residence as a "Principal Residence."** The applicant must use the housing being purchased with the MCC-linked mortgage as a Principal Residence. The Lender

must obtain from the borrower, using the program affidavits, a statement of the borrower's intent to use the residence as his/her Principal Residence within a reasonable time (60 days) after the MCC is issued. This affidavit further states that the MCC holder will notify the Lender and the Commission if no more than fifteen percent of the eligible dwelling purchased with proceeds of the loan may be used for purposes other than as a principal residence of the homeowner.

3. Qualified applicants must have an annual gross household income not to exceed the following limits:

Income Limits – TARGETED & NON TARGETED AREAS

Household Size	Maximum Income Limit
1 –2 person(s)	\$108,120
3 or more persons	\$126,140

Under Revenue Ruling (Rev Rule) 86-124, annualized gross income is calculated prospectively, by taking the Applicant's current gross monthly income (at time of application) and multiplying this income by 12. Gross income includes the gross amount, before payroll deductions, of wages or salaries, any additional income from commissions, part-time pay, overtime pay, net rental income, fees, tips, and bonuses; dividends and interest, including tax-exempt interest, alimony, child support, public assistance, sick pay, social security benefits, Veterans Administration compensation income received from trusts and income received from business activities or business investments; etc. The income to be taken into account in determining gross income is income of the mortgagor (or mortgagors) and any other person who is expected to be secondarily liable on the mortgage. If the co-borrower, co-signer, or co-habitor meets the requirement in the sentence above, his/her income must be included in gross income calculations. Income includes the income of both spouses whether or not both spouses live in the residence if both spouses have an Ownership Interest in the residence.

The Applicant's monthly gross income information can be taken from the available loan documents executed during the four-month period ending on the date of the closing of the mortgage provided that any gross income not included in the loan documents must be included in determining gross monthly income under the Program. Thus, for example, if the mortgagor does not include alimony on the loan documents, the Lender, in determining gross monthly income, must determine the amount of alimony and add that amount to the amount shown on the loan documents. Under these circumstances, the formula that the Lender uses in determining the gross monthly income of self-employed persons and/or seasonal workers is acceptable as long as the Lender includes any other income sources that are required to be added.

Income of co-borrower/co-mortgagor.

Income to be taken into account in determining gross income is income of the mortgagor or mortgagors and any other person who is expected to be secondarily liable on the mortgage. The term mortgagor includes any person with an ownership interest in the residence whose name appears on the deed to the residence and on the deed of trust.

In summary:

- Income of all mortgagors shall be included in the gross income calculation for the program whether or not living in the home;
- Income of anyone else who will be secondarily liable (such as a co-signor of the note with an interest in the residence or a guarantor of mortgage payments) on the mortgage should be included;
- Income of a person who signs only the note or a separate personal guarantee, is not on the

- grant deed, and will not live in the residence does not have to be included;
 - Non-occupant co-signers should be listed on the MCC application but will not be eligible for the tax credit.
4. The MCC may be automatically revoked if the Applicant fails to comply with Program requirements. An MCC may be revoked under certain circumstances. For example, revocation occurs if the residence to which the MCC relates ceases to be the borrower's Principal Residence. An MCC also may be revoked if the certificate does not meet the requirements of a "qualified MCC."
 5. Strict penalties may be imposed on any Applicant making a material misstatement, misrepresentation or fraudulent act on documents submitted to obtain an MCC. Any person making a negligent material misstatement or misrepresentation in any affidavit or certification made in connection with the application for or the issuance of an MCC shall be subject to all applicable fines and penalties.

The Purchase Price of the Residence may not exceed the following limits in order to qualify:

Purchase Price Limits

NON-TARGETED AREAS	TARGETED AREAS
New Construction & Existing	New Construction & Existing
\$585,713	\$715,872

Furthermore, the mortgage amount cannot exceed the maximum Purchase Price limits.

The Lender must obtain the Seller's Affidavit executed by the seller, which states that the Purchase Price requirements have been met. The affidavit includes an itemized list of (i) any payments made by the buyer or for the benefit of the buyer; and (ii) an estimate of the reasonable cost of completing construction of the residence if it is incomplete.

1. New Mortgage Requirements: An MCC shall only be issued in conjunction with a New Mortgage Loan (except in connection with the reissuance of an existing MCC). The Lender must obtain from the Applicant, using the Program affidavits, a statement to the effect that the mortgage being acquired in connection with the certificate will not be used to acquire or replace an existing mortgage or land contract.
2. Prohibited Mortgages: An MCC shall not be used in direct or indirect connection with a qualified mortgage bond, a qualified veteran's mortgage bond or other tax-exempt bond. The Lender must obtain from the borrower, using the Program affidavits, a statement to the effect that no portion of the financing for acquisition of the residence in connection with which the MCC is issued is provided from a qualified mortgage, veteran's bond, or other tax-exempt bond.
3. No Interest Paid to Related Persons: No interest on the mortgage (or certified indebtedness) amount may be paid to a person who is a "related person," as that term is defined under the Internal Revenue Code and applicable regulations. The Lender must obtain from the borrower, using the Program affidavits, a statement to the effect that no related person has or is expected to have an interest as a creditor in the certified indebtedness amount.
4. Transferability: The MCC is not transferable. If the mortgage or certified indebtedness is assumed by a subsequent purchaser, such purchasers may apply for a new MCC under certain circumstances as follows:
 - a. The purchaser must reasonably demonstrate to the satisfaction of the Commission that he/she

has assumed the liability for the remaining balance of the certified indebtedness.

- b. The new Certificate must meet all the conditions of the MCC Program in force at certification, including any changes in federal, state and County regulations or policy that amend the requirements of the original certificate.
- c. The Commission would have to have the authority to and have elected to agree to issue a new MCC.
- d. The purchaser's Acquisition Cost must meet the Purchase Price requirements for an existing (resale) unit in order to comply with federal regulations.

Targeted Area Set-Aside.

During the first twelve months of the Program, at least twenty percent (20%) of MCC Authority will be issued in connection with mortgage loans made in Targeted Areas.

In general, eligible homebuyers apply for MCCs in connection with customary loan application procedures. The MCC application must be filed in conjunction with an application for a mortgage from one of the Participating Lenders.

The MCC processing procedures are designed to coincide with the mortgage loan processing and underwriting procedures that are in place with most Lenders. Recognizing there are procedural variations among the Participating Lenders, the procedures outlined here are meant to serve as guidelines with respect to the sequence of events. However, all the elements of the processing sequence outlined in this Manual must at some point be completed, regardless of sequence, by the lender, the Commission, the borrower, and the seller.

The Commission may delegate part of its administrative functions to Participating Lenders through a Lender Participation Agreement.

MCC PROGRAM PROCESS

Following are the loan processing and Program administration procedures for the MCC Program:

Reservation/Commitment Phase

Lender:

Determines initial eligibility. Submits:
MCC-2, MCC-3, MCC-4, MCC-5(if applicable), MCC-6
Income Documentation; 2 months current paystubs/VOE Copy of CA Purchase Agreement and any Counter Offers
\$300 non-refundable application fee Three years W2s and federal tax returns 1003 Application
Approval on 1st TD, 1008, and 2nd TD approval (if applicable) Letter of Assignment
Homebuyer Education Certification for all applicants

Commission:

Reviews Eligibility
Issues MCC Commitment letter within five (5) business days if Commission receives a complete package).

Closing Phase (60 days) Lender:

Submits:
MCC-7 Lender Closing Affidavit.
MCC-8 Final Recapture Notice
Certified copy of Master Final Closing Settlement Statement.

Commission:

Reviews forms MCC-7, MCC-8 and Master Final Closing Settlement Statement.

Original MCC Certificate is issued to applicant and copy to lender within seven days of receipt of all necessary documents in complete form.

RESERVATION/COMMITMENT PHASE

During the Reservation/Commitment Phase the Lender performs the following standard underwriting and verification procedures:

1. Lender explains the program guidelines and requirements.
2. Lender determines if mortgage loan Applicant is an eligible candidate for an MCC, based on preliminary indications of income, purchase price, prior homeownership, tax liability and other factors.
3. Borrower applies for a mortgage loan from a Participating Lender and remits a non-refundable MCC application fee of \$300 to Lender, payable to the Commission.
4. As part of the mortgage application process, the Lender directs borrower to sign the MCC-2 & MCC-3 Application Affidavit. This document serves as the application and contains all the certifications and affidavits required by the MCC Program regulations and requirements as follows:
 - a. Certification that residence will be used as Principal Residence and that the certificate holder must notify the Commission when the home ceases being the Principal Residence of the MCC Certificate holder.
 - b. Certification that borrower has not had an ownership interest in a Principal Residence during preceding 3-year period (not required for a targeted area or a qualified veteran).
 - c. Certification that the Purchase Price does not exceed Purchase Price limits.
 - d. Certification that this is a New Mortgage Loan (except for a re-issuance).
 - e. Certification that the loan applied for does not on an eligible dwelling constitute a Prohibited Mortgage.
 - f. Certification that the borrower was not forced to apply through a particular lender.
 - g. Certification that borrower's Income does not exceed permitted income limits.
 - h. Certification that no interest will be paid to a Related Person.
 - i. Certification that the MCC may not be transferred.
 - j. Acknowledgment that any material misstatement, misrepresentation, or fraud is made under penalty of perjury.
5. Lender performs customary mortgage loan underwriting procedures, but takes into consideration

the value of the MCC when determining the net amount of the monthly housing payment.

6. Lender performs standard verification for loan underwriting. In conjunction with Lender's regular verification process and under the agreement with the Commission, the Lender performs a reasonable investigation to verify that all MCC Program requirements have been satisfied. Lender may verify these facts in any reasonable, efficient manner, according to standard industry practices for processing mortgage loan applications.
7. Lender verifies that the borrower, the home and the mortgage transaction comply with MCC Program restrictions on income, Purchase Price, and other program terms.
8. The Commission will maintain a cumulative-to-date total (by Participating City, County, and for the Program as a whole) of mortgage amounts reserved to monitor the amount of expected aggregate certified indebtedness and aggregate amount of MCC's to be issued. The aggregate amount of MCC's issued shall not exceed the authorized amounts for the Program and shall adhere to the Targeted Area Set-Aside.
9. Lender completes all other customary underwriting and verification procedures.
10. In order to obtain an MCC commitment, the Lender must submit the documents described below to the Commission. The Lender must review documents to determine their completeness in accordance with the terms of this MCC Program Manual. Reasonable efforts must be undertaken to verify the information given either independently or concurrently with underwriting procedures. The commitment documents include all the necessary certifications and Affidavits to meet Program requirements. Lender forwards to the Administrator the Transmittal Form with completed and executed copies of the following documents:

Lender's Checklist

- a. MCC-2 Application Affidavit.
 - b. MCC-3 Application Affidavit Attachment
 - c. Copy of Purchase Agreement signed by all parties.
 - d. MCC-6 Recapture Tax Notice.
 - e. Copy of 1003/ Loan Application.
 - f. Copy of Verification of Employment and copy of current paycheck stubs for 2 months. Provide a current P&L statement.
 - g. MCC-4 Seller Affidavit certifying the Purchase Price of the residence being purchased.
 - h. A copy of the Applicant's Federal Income Tax Returns for previous three years with signature and certification that each "is a true and exact copy of what was submitted to the IRS." And three current years of W-2's for each applicant. If Applicant was not required to file tax returns for any of the previous three (3) years, Applicant must complete the MCC-5 Income Tax Affidavit.
 - i. Home Buyer Education Certificate
 - j. First TD loan underwriting approval, copy of 1008 ; and 2nd TD approval (if applicable)
11. During the Commitment Phase, Lender must immediately notify the Commission in writing of cancellations of reservations/commitments. The reason for cancellation must be clearly stated.

Commission Review of the Submission Package

1. The Commission reviews the MCC submission package for completeness and determines whether all necessary certifications and affidavits are included and properly executed.

2. If the Commission determines the MCC submission package is completed properly and that the Applicant(s) and the transaction are in compliance with Program requirements, the Commission assigns a unique MCC Number to the reservation/commitment and notifies the Lender with a Commitment Letter.

Commission will then prepare to issue an MCC upon confirmation of the mortgage closing, so long as there are no material changes from the time of the issuance of the Commitment. The Commission retains a complete copy of the submission package.

LOAN CLOSING

Lender Responsibility

1. The Lender confirms that the Commitment is still in force and has not expired.
2. The Lender approves the loan with the Applicant(s) as per customary procedures. The Lender gives the borrower a copy of the IRS Form W-4 (Employee's Withholding Certificate), which contains IRS instructions for the taxpayer. The borrower may use this form to change federal withholding tax, in an amount comparable to the expected MCC tax credit.
3. Lender notifies the Commission of approval of loan application and forwards all loan and MCC materials with instructions to the selected Loan Officer for closing the loan and executing the Closing Affidavit (MCC-7) to be signed at closing by the Applicants.
4. Lender forwards the MCC Closing Documents to the Commission indicating that the loan has closed.
The documents include:
 - a. MCC-7 Closing Affidavit signed by Applicant(s).
 - b. MCC-8 Final Recapture Notice.
 - c. Certified copy of Master Final Closing Settlement Statement.

Administrator Responsibility

1. The CDC reviews the closing documents and checks file to make sure all necessary documents have been submitted. Upon approval, and within 7 days, the CDC issues the MCC and sends it directly to the Applicant(s) with a copy to the Lender. The Applicant also receives from the CDC a letter explaining how to use the MCC as well as a copy of IRS Tax Form 8396 to be filed by the Applicant(s) with their Federal Income Tax Returns.
2. The Commission maintains a cumulative total of all MCC allocations issued, both number and amount.

Monitoring Phase

1. The Originating Lender must file an annual report for any year in which MCC-assisted loans are originated using IRS Form 8329.
2. For six years, following the earlier of repayment of the loan or revocation of the MCC, the Lender must retain:
 - a. Name, mailing address, and social security number or tax identification number of the MCC holder.
 - b. Name, mailing address and TIN of the Commission.
 - c. Date of loan (date of issuance), certified indebtedness amount and credit rate.

3. The Lender must notify the Commission of any loan pay-off, foreclosures or other factors that may cause revocation of the MCC.

Commission Responsibility

The Commission shall make quarterly reports on IRS Form 8330 and, beginning with the quarter in which the election is made and continuing throughout the period in which MCC's are issued. The Commission also provide a Self-Certification to CDLAC on a yearly basis. The reports must include:

- a. Name, address and TIN of the CDC.
- b. Date of MCC election of the CDC.
- c. The sum of the products of the certified indebtedness amount (mortgage amount) and the MCC credit rate for each MCC issued.
- d. Name, address and TIN of each MCC holder whenever an MCC has been revoked.

The Commission shall file with the Internal Revenue Service an annual report for each Program year ending June 30 pursuant to Regulation Section 1.25-4T(e). The report shall be titled "Mortgage Credit Certificate Information Report" and must include the name, address and TIN of the Commission, the reporting period for which the information is provided and information concerning the holders of MCC's issued during the reporting period.

HANDLING PRIORITY

The Commission according to the date of receipt will process all loan applications.

LENDER PARTICIPATION AND TRAINING

All Participating Lenders must attend the MCC Program training and must sign the Lender Participation Agreement before being certified to participate in the MCC Program. Continued certification for the Program will require participation in future lender meetings specified by the Commission.

PROGRAM CHARGES AND FEES

1. Non-refundable Application Fee: The Lender charges each borrower an application fee of \$300.00 made payable to the Community Development Commission for processing each MCC. THIS APPLICATION FEE IS NON-REFUNDABLE. NO PERSONAL CHECKS ALLOWED.

Other than the non-refundable application fee, the Lender may charge a potential borrower applying for an MCC only those reasonable and customary fees as would be charged to a potential borrower applying for mortgages not provided in connection with an MCC.

REVOICATIONS

1. Automatic revocation occurs when the residence for which the MCC was issued ceases to be the MCC holder's Principal Residence.
2. Extent as otherwise described herein, upon refinance of the subject property the applicant will automatically lose the MCC tax credit. The IRS allowed existing Applicants of MCCs to refinance their original mortgage loans on their principal residence, without voiding their current MCCs, by applying for a Reissued Mortgage Credit Certificate (RMCC) with a tax cred rate the same as their original MCC.
3. Unless waived in writing by the Commission, automatic revocation occurs whenever the MCC holder is not in compliance with the requirements for a qualified MCC.
4. Revocation will occur upon discovery by the Commission, a Participating City, or a Participating Lender of any material misstatement of a borrower.

5. A Lender must notify the Commission immediately if the Lender becomes aware of any circumstance, which would disqualify an MCC Applicant or recipient of the benefits of the MCC.
6. If the loan is paid in full, including a refinancing, revocation occurs.

A. TRANSFER OF MCC'S

THE MCC IS NOT TRANSFERABLE. When assumption of a mortgage associated with an MCC occurs, the MCC may not be transferred to the new buyer. If the buyer and the home are qualified, the new buyer may apply for a new MCC.

B. TRANSFERRING MCC APPLICATIONS TO ANOTHER LENDER

If an Applicant changes from one Lender to another after a Commitment has been issued; the new Lender will be required to verify that the Applicant meets the Program requirements by resubmitting the following documents:

- Lender's Initial Certification of Applicant Eligibility (MCC-3),
- Commitment

The Commitment will be reissued through the new Lender with the original expiration date. The new Lender number will be assigned to the MCC. Furthermore, if the Applicant has been issued a conditional commitment, the remaining documents (i.e. tax returns, seller affidavit) will have to be received prior to issuance of the MCC.

C. ASSIGNMENT OF MCC COMMITMENT FOR FUNDING

If a lender packages a loan with an MCC and assigns the loan to another MCC Participating Lender for funding the original Lender must forward to the Commission an MCC assignment letter indicating the loan has been assigned to the new funding Lender prior to or with the close of escrow documents. The Commission will adjust its records to reflect the new lender. The MCC will be issued in the funding Lender's name. The funding Lender will be responsible for the reporting on the MCC.

D. CHANGING PROPERTIES DURING MCC APPLICATION PROCESS

If an Applicant has a pending application and changes the property he/she is purchasing, the Lender must submit a new-signed Purchase Agreement and notify Commission in writing whether the mortgage amount has changed. If the Applicant has already been issued a Commitment, the following documents should be

revised and resubmitted to reflect the new property address and any change in mortgage amount:

- MCC-2 Application Affidavit
- MCC-3 Lender's Initial Certification of Applicant Eligibility
- MCC-4 Seller Affidavit

The Commitment is to be reissued with the original expiration date.

E. RESUBMISSION OF MCC APPLICATIONS RETURNED OR REJECTED

If an MCC application as represented by the submitted MCC Program documents and exhibits has been returned or denied by the CDC, any resubmission, if appropriate, must include all information which the CDC has determined necessary for reconsideration. An MCC Application, which, is being submitted, to the Lender a second time will be reviewed in depth and a final disposition made.

F. CHANGES PRIOR TO CLOSING

1. CHANGES IN THE APPLICANT'S FINANCIAL OR MARITAL STATUS AFTER ISSUANCE OF COMMITMENT AND PRIOR TO CLOSING

The eligibility of Applicant for an MCC is based upon the Applicant's current Income. The MCC Program will issue the Commitment based on facts as they are verified as of the date the Commitment is issued. The income verified for commitment is valid as long as the loan closes within four months after the financial information was originally submitted to the Lender and there are no new sources of income that were not previously reported.

Increases in income previously reported (ex: raises) will not affect the validity of an MCC Commitment as long as the loan closes within two months from the time the MCC Commitment was issued. If the loan does not close within four months of loan application and an extension is granted, income will have to be re-verified. If total income exceeds the Program maximum, the Applicant is no longer qualified.

If the Applicant experiences a change in marital status after issuance of the Commitment and prior to issuance of the MCC, the spouse must satisfy the prior homeownership requirements contained in the Application Affidavit and the Closing Affidavit and the Lender must notify CDC. Any income of the spouse must be added to the household income previously declared and may affect the eligibility of the Commitment.

2. CHANGES IN HOMEOWNERSHIP STATUS, ACQUISITION COST AND AMOUNT OF MORTGAGE LOAN AFTER ISSUANCE OF COMMITMENT AND PRIOR TO LOAN CLOSING

If the borrower(s) acquires a present Ownership Interest in a Principal Residence prior to loan closing, the Commitment shall be revoked.

If the total Acquisition Cost of the residence to be purchased in connection with the MCC increases so as to exceed the Acquisition Cost limitations set forth herein, the Commitment shall be revoked.

If the amount of the loan increases, thereby causing an increase in the credit amount, the Commitment will be revoked if that increase in credit amount serves to increase the aggregate credit amount of all MCCs issued by the CDC above the aggregate credit limit imposed by law.

3. OTHER CHANGES IN CIRCUMSTANCES AFTER ISSUANCE OF COMMITMENT AND PRIOR TO LOAN CLOSING

The MCC Commitment is issued in reliance upon the Borrower's and Seller's Affidavits and the Lender's Certification that the requirements necessary for issuance of a qualified MCC have been met. The Lender must immediately notify the CDC in writing by using the Transmittal Form of any change in the circumstances upon which the Commitment was issued. If any other change in the circumstances upon which the Commitment was issued occur so that the MCC to be issued will not meet the requirements of a qualified MCC, the Commitment will be revoked.

G. AUDIT

The Commission retains the express authority to perform random audits of Participating Lender records.

H. CONFLICT OF INTEREST

No MCC shall be issued to a person or the immediate family of a person who is in a decision-making position relative to the MCC Program or the issuance of an MCC. This includes, but is not limited to, staff and immediate family members of staff for Participating Lenders, Participating Cities and the Commission.

I. EXTENSION OF DEADLINE

An applicant may apply for one 30-day extension. The Lender must submit a letter (from the applicant) to the Commission explaining that the reason for the extension accompanied by a \$150.00 extension fee. The extension fee should be made payable to Community Development Commission. Any extension will be granted or disallowed at the sole of discretion of the Commission.

**EXHIBIT A
IRS DESIGNATED TARGETED AREA CENSUS TRACTS**

Alhambra 4803.04	Long Beach 5702.03, 5703.04, 5704.03, 5706.03, 5716, 5717.03, 5730.02, 5730.04, 5732.01, 5732.02, 5733, 5751.02, 5752.01, 5753, 5754.01, 5754.02, 5758.01, 5758.02, 5758.03, 5763.02, 5764.01, 5764.02, 5764.03, 5765.01, 5765.02, 5765.03, 5769.03
Athens/Westmont Area 6002.01, 6003.03, 6003.04	Los Angeles/VA Center Sawtelle Area 7011
Bell 5336.02, 5338.05, 5338.06, 5341.02	Lynwood 5402.02, 5405.02
Bell Gardens 5342.01, 5342.02, 5342.03	Monterey Park 4817.11
Compton 5416.04, 5416.05, 5421.05, 5425.02, 5426.01	Palmdale 9101.01, 9104.02, 9104.03, 9105.01, 9105.02, 9105.04, 9106.02
Cudahy 5343.02, 5344.05, 5344.06	Paramount 5535.03, 5538.01
East Antelope Valley 9800.08, 9800.14, 9800.15	Pasadena 4622.01, 4623.01
East Los Angeles 5306.02, 5308.01, 5311.01, 5312.01, 5312.02, 5313.02, 5315.02, 5315.03, 5315.04, 5316.02, 5316.04, 5317.02, 5319.01	Pomona 4023.04, 4025.01, 4025.02, 4027.02, 4028.01, 4045.04, 4087.24, 4088
El Monte 4328.01, 4328.02, 4331.02, 4333.05, 4334.01, 4334.02, 4338.01, 4339.01	Rosemead 4825.03
Firestone Area 5351.01, 5351.02, 5353, 5354	San Fernando 3202.01
Florence Area 5328, 5329, 5350.02	Santa Clarita 9200.11, 9203.36
Glendale 3018.02, 3023.02, 3024.01, 3025.03, 3025.04, 3025.05	South Gate 5355.01, 5355.03, 5356.03, 5356.06, 5357.02, 5360
Hawthorne 6016, 6025.05, 6025.06, 6030.05, 6037.04	Walnut Park 5348.04
Huntington Park 5326.05, 5326.06, 5330.01, 5331.03, 5331.04, 5331.05, 5331.07, 5332.03, 5335.03	Willowbrook Area 5406, 5415
Inglewood 6011, 6015.02, 6017, 6019	
Lancaster 9006.02, 9006.07, 9007.01, 9007.04, 9008.04, 9008.06	

Community Development Commission of the County of Los Angeles
MORTGAGE CREDIT CERTIFICATE PROGRAM
AND
REISSUED MORTGAGE CREDIT CERTIFICATE PROGRAM
LENDER PARTICIPATION AGREEMENT

THIS AGREEMENT made and entered as of this _____ day of _____, 20__ , by and between the Community Development Commission of the County of Los Angeles, a public body corporate and politic, hereinafter referred to as **(the "Commission")** and _____ hereinafter referred to as **(the "Lender")**.

WITNESSETH:

WHEREAS, the Internal Revenue Code has established the Mortgage Credit Certificate Program (hereinafter referred to as "MCC Program") as a means of assisting qualified individuals with the acquisition of new and existing single-family housing; and

WHEREAS, pursuant to Chapter 1399, Statutes of 1985 Section 50197, *et seq.* of the Health and Safety Code, local issuers are authorized to issue MCC's and administer MCC Programs; and

WHEREAS, by Resolution adopted on June 9, 1998, the Board of Supervisors of the Community Development Commission of the County of Los Angeles has established the Mortgage Credit Certificate Program, (the "MCC Program") and directed the Commission to administer the MCC Program pursuant to the applicable federal, state and local policies and procedures; and

WHEREAS, by Resolution adopted on June 9, 1998, the Board of Supervisors of the Community Development Commission of the County of Los Angeles has added a Reissued Mortgage Credit Certificate Program, (the "RMCC Program") component to their MCC Program; and

WHEREAS, the Commission administers the MCC and RMCC Programs for the unincorporated communities in Los Angeles County as well as acts as the Agent for the following participating jurisdictions: Alhambra, Artesia, Avalon, Azusa, Baldwin Park, Bell Gardens, Bellflower, Burbank, Carson, Claremont, Commerce, Compton, Covina, Cudahy, Culver City, Diamond Bar, Downey, Duarte, El Monte, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Huntington Park, Inglewood, Irwindale, La Mirada, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Lynwood, Monrovia, Montebello, Monterey Park, Norwalk, Palmdale, Paramount, Pasadena, Pico Rivera, Pomona, Rancho Palos Verdes, San Dimas, San Fernando, Santa Clarita, Santa Fe Springs, Signal Hill, South El Monte, South Gate, West Covina, West Hollywood, and Whittier; and

WHEREAS, the Lender wishes to participate in the MCC Program administered by the Commission in connection with mortgage loans it will make available for the acquisition of new and existing single family housing.

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

1. The Commission hereby designates the Lender as its agent for receipt and processing of applications for MCCs under the Commission's Mortgage Credit Certificate Program.
2. The Lender will make information regarding the MCC Program available to potential borrowers. The Lender will process and review the application for any potential borrower in order to determine eligibility for the Program. The Lender will obtain from the borrower all documents and information required for the application and for receipt of an MCC as directed by the Commission.
3. The Lender will perform all investigation and verification that it would normally perform for underwriting a mortgage not provided in connection with an MCC.

4. The Lender will conduct such reasonable investigation as is necessary to certify that the applicant has satisfied all requirements of the MCC Program, including those imposed by temporary and permanent regulations issued pursuant to the Internal Revenue Code and Commission eligibility requirements.
5. The Lender covenants that is familiar with the provisions of the Internal Revenue Code applicable to the MCC Program and all temporary and permanent regulations issued pursuant thereto and with the guidelines established by the Commission as set forth in the MCC Program Manual. The Lender hereby agrees to comply with all provisions of applicable federal and state law, and program regulations and guidelines, including all data and record retention and all applicable reporting requirements.
6. The Lender will charge a potential borrower applying for an MCC only those reasonable fees as would be charged to a potential borrower applying for mortgages not provided in connection with an MCC.
7. The Lender may charge each borrower a reasonable application fee for processing each MCC. Of this amount, \$300.00 is to be transferred to the Commission with the Initial Request for Reservations.
8. The Lender hereby agrees that it will immediately report to the Commission all information which it may receive during the life of the mortgage loan which indicates that a misrepresentation may have been made in applying for an MCC, or that may affect the applicant's continued eligibility for an MCC.
9. The Lender will provide each borrower the Recapture Notice and Computation Worksheet, MCC-8, explain its contents and require each borrower to acknowledge its receipt by signing the Certificate of Initial Receipt of Recapture Notice, MCC6.
10. Lender shall annually file (on or before January 31 of each year) a report with the IRS using IRS Form 8329 with respect to loans made in conjunction with the Program during the prior calendar year. Lender shall provide a copy of each filed Form 8329 to the Commission at the time of filing.
11. Lender hereby agrees that the Commission and its agent have the authority to examine and inspect all books and records in Lender's possession relating to any MCC and the Program. Lender hereby agrees to grant the Commission and its agents access to such books and records during normal business hours upon the Commission request.

WHEREAS, the Lender wishes to participate in the Re-Issued Mortgage Credit Certificate Program (RMCC Program) administered by the Commission in connection with the refinancing mortgage loan (the "New Loan") it will make available in connection with the refinancing of a mortgage loan to which the Commission issued an MCC.

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

1. The Commission hereby designates the Lender as its agent for receipt and processing of applications for RMCC's (each a Reissued a Mortgage Credit Certificate) under the Commission's RMCC Program.
2. The Lender will make information regarding the RMCC Program available to potential borrowers. The Lender will process and review the RMCC application for any potential borrower in order to determine eligibility for the RMCC Program and submit a completed RMCC application plus any required attachments required by the Commission in order for the Commission to issue an RMCC to the borrower.
3. The Lender will obtain from the borrower all documents and information required for the RMCC application for (and receipt of) a RMCC as directed by the Commission.
4. The Lender will perform all investigation and verification that it would normally perform for underwriting a mortgage not provided in connection with a RMCC.
5. The Lender will conduct such reasonable investigation as necessary to certify that the applicant has satisfied

all requirements of the RMCC Program, including those imposed by temporary and permanent regulations issued pursuant to the Internal Revenue Code and the Commission's eligibility requirements.

6. The Lender warrants that it is familiar with the Internal Revenue Code and all temporary and permanent regulations issued pursuant thereto applicable to the RMCC Program as well as all provisions of state law applicable to the RMCC Program and guidelines established by the Commission. The Lender hereby agrees to comply with all provisions of applicable federal and state law, and said regulations and guidelines.
7. Lender shall annually file (on or before January 31 of each year) a report with the IRS using IRS Form 8329 with respect to loans made in conjunction with the RMCC Program during the prior calendar year. Lender shall provide a copy of each filed Form 8329 to the Commission at the time of filing.
8. The Lender hereby agrees to comply with all provisions of applicable federal and state law, and program regulations and guidelines, including all data and record retention and all applicable reporting requirements.
9. The Lender will charge a potential borrower applying for an RMCC only those reasonable fees as would be charged to a potential borrower applying for a mortgage not provided in connection with an RMCC.
10. The Lender shall collect on behalf of the Commission an application fee of **\$300** from the Borrower for processing each RMCC, to be made payable to the Community Development Commission of the County of Los Angeles.
11. The Lender understands that there is **\$150** Lender RMCC Participation Annual Fee due from the Lender, per Branch, to participate in the RMCC Program.
12. The Lender hereby agrees that they will immediately forward all information which it may receive during the life of the New Loan which tends to indicate that misrepresentation was made in applying for an RMCC, or that may affect the applicant's continued eligibility for an RMCC.
13. The Lender, hereby agrees to attend a RMCC training session provided by the Commission.
14. The Lender understands that the reissued credit pursuant to a RMCC Program may not be larger in any taxable year than the original MCC with respect to the refinanced loan (the "Old Loan"). In accordance with the provisions of a RMCC, the Lender agrees to calculate the refinancing of variable rates loans, the Lender agrees to provide such information to the holder of the RMCC (as described in Exhibit A to the RMCC). The Lender agrees to contact the lender with respect to the Old Loan to verify (or to verify in some other manner) the outstanding principal balance of the certified indebtedness amount of such loan (exclusive of accrued interest and other fees and charges) as of the date of closing of the New Loan. The Lender agrees to verify with the lender with respect to the Old Loan (or verify in some other manner) that the terms of the Old Loan are the same as the terms of the Old Loan restated in the documents provided by the applicant pursuant to the RMCC Program Application and Affidavit.
15. The Lender understands that any RMCC must be issued to the holder(s) of the original MCC or existing RMCC with respect to the same property to which the original MCC or existing RMCC was issued.
16. The Lender understands that the new RMCC must entirely replace the original MCC or existing RMCC.

17. The Lender understands that the Certified Indebtedness Amount specified on any RMCC may not exceed the outstanding principal balance of the Certified Indebtedness Amount (mortgage amount) specified on the original MCC or the existing RMCC as of the date of closing of the New Loan. The Certified Indebtedness Amount of the Old Loan does not include borrowings of principal subsequent to the closing

date of the Old Loan. Further, any prepayments as of the closing date of the New Loan (other than as a result of the refinancing with the New Loan) must be taken into account.

18. The Lender understands that the certificate credit rate of the RMCC may not exceed the certificate credit rate of the original MCC or the existing RMCC, issued at time of purchase.
19. The Commission may at any time notify the Lender that the RMCC Program is terminated with respect to all future RMCCs for which a complete application has not yet been received by the Commission.
20. This Agreement shall remain in full force and effect until terminated. The Lender may terminate this Agreement, without cause, upon sixty (60) days written notice to the Commission. Notwithstanding any such termination, the Lender shall file any and all reports required to be filed with the Internal Revenue Service and shall maintain all records required to be maintained by it pursuant to Section 25 of the Internal Revenue Code of 1986 and any regulations thereunder. The Commission may immediately terminate this Agreement and prohibit the Lender from participating in the MCC Program or RMCC Program upon Lender's failure to comply with the terms and conditions of this Agreement and upon written notice by the Commission. No amendment to this Agreement shall be effective unless in writing and signed by both parties hereto.

Please complete the following information: Corporate Information:

Lender Company _____
Name: Lender _____
Address: _____
Signature of Authorized Representative: _____
Printed Name / Title of Authorized Representative: _____
Date: _____

Participating Branch:

Branch Address: _____
Local Contact Person Name / Title: Contact Phone: _____
Contact E-mail: _____
Signature of Local Contact: _____

Signature of Commission Representative:

Name / Title of Commission Representative: _____
Date: _____

A check for **\$150** dollars must accompany this executed Agreement.