

**2014 Entry Form**  
(Complete one for each entry.)

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name Empowering New Buyers with Mortgage Credit Certificates

HFA Pennsylvania Housing Finance Agency

Submission Contact Kate Newton

Phone 717-780-3891

Email knewton@phfa.org

Qualified Entries must be received by **Tuesday, July 1, 2014.**

For more information about Qualified Entries, [click here to access the 2014 Entry Rules.](#)

Use this header on the upper right corner of each page.

HFA PHFA  
Entry Name Empowering New Buyers with MCCs

Communications	Homeownership	Rental Housing	Special Needs Housing
<input type="checkbox"/> Annual Report <input type="checkbox"/> Promotional Materials and Newsletters <input type="checkbox"/> Creative Media	<input checked="" type="checkbox"/> Empowering New Buyers <input type="checkbox"/> Home Improvement and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Multifamily Management <input type="checkbox"/> Preservation and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Combating Homelessness <input type="checkbox"/> Housing for Persons with Special Needs
Legislative Advocacy	Management Innovation	Special Achievement	Are you providing visual aids?
<input type="checkbox"/> State Advocacy <input type="checkbox"/> Federal Advocacy	<input type="checkbox"/> Financial <input type="checkbox"/> Human Resources <input type="checkbox"/> Operations <input type="checkbox"/> Technology	<input type="checkbox"/> Special Achievement	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO

## Homeownership – Empowering New Buyers

### Pennsylvania Housing Finance Agency

#### Empowering New Buyers with Mortgage Credit Certificates

Since the 2008 market crash the feasibility of maintaining a single family home loan program funded with tax exempt Mortgage Revenue Bonds remains challenging to say the least. Except for temporary glimpses of hope provided by the New Issue Bond Program and refunding opportunities within existing MRB programs, the HFA flagship single family funding model has lost its luster. The inability to consistently provide below market interest rates to HFA-targeted borrowers has put pressure on the survival of many HFAs' home loan programs. In response, the Pennsylvania Housing Finance Agency (PHFA) retooled its funding model by incorporating additional options, as many other HFAs have successfully done. Additionally, PHFA introduced an attractive mortgage credit certificate incentive while still offering borrowers the assistance they may need to help cover the initial costs associated with purchasing a home. The MCC program has been vital in helping the Agency **achieve its strategic objective** of staying competitive while continuing to serve its mission of providing affordable and sustainable mortgage financing to Pennsylvanians of modest means. It has also **demonstrated to be an effective use of resources** by making good use out of tax exempt mortgage revenue bond volume cap that was slated to expire.

#### Mortgage Credit Certificates

While the MCC program has a **proven track record** among several housing finance agencies over the span of the past twenty plus years, the recent proliferation of such programs being offered by more and more HFA's is a testament to the usefulness of the program in current market conditions. The introduction of the MCC offered by PHFA has been no exception and has quickly become a successful program. Although the program only began in July of last year, the Agency funded 255 home loans with MCCs in the remaining five months of 2013. Through May of 2014, an additional 453 MCCs have been issued. Forty-five percent of the home purchase loans now being funded have an MCC. So far, over \$325 million in expiring bond cap has been **effectively utilized** through the issuance of MCCs.

While the MCC is not a new program available to HFA's there are several reasons that make PHFA's program worthy of an NCSHA Award for Program Excellence. First of all, PHFA's program is **innovative** and **replicable** in other states. By utilizing a credit rate of 50 percent homeowners can maximize the benefit provided under the program. As shown in the chart below, while some homeowners may hit the \$2,000 maximum during the first few years, the 50 percent credit rate extends the value of the MCC longer into the loan term. This should also result in reduced prepay speeds and therefore increased profitability. (See chart on next page.) Other factors involved in the decision to offer the 50 percent rate were a modest average non-MRB loan amount of approximately \$140,000 and the fact that there was a large amount of bond cap soon expiring. The 50 percent rate is also appealing from a marketing perspective.

	Interest on \$140k at 3.5%	50%	40%	30%
Year 1	\$4,857	\$2,429	\$1,943	\$1,457
Year 2	\$4,761	\$2,381	\$1,904	\$1,428
Year 3	\$4,662	\$2,331	\$1,865	\$1,399
Year 4	\$4,560	\$2,280	\$1,824	\$1,368
Year 5	\$4,454	\$2,227	\$1,782	\$1,336
Year 6	\$4,344	\$2,172	\$1,738	\$1,303
Year 7	\$4,230	\$2,115	\$1,692	\$1,269
Year 8	\$4,112	\$2,056	\$1,645	\$1,234
Year 9	\$3,990	\$1,995	\$1,596	\$1,197
Year 10	\$3,864	\$1,932	\$1,546	\$1,159

Also vital to the program's success was the strategic timing of implementation and the **effective employment of existing partnerships**. Shortly after the market crash, PHFA became an approved Ginnie Mae MBS issuer and implemented a new mortgage loan program using that funding stream coupled with existing borrower benefits such as down payment assistance, free homebuyer education, lower fees, and in house servicing. A few years later, the Fannie Mae programs were rolled out. The MRB program was continued alongside the Ginnie and Fannie programs, effectively offering three different mortgage programs. PHFA's network of participating lenders was already familiar with MRB guidelines, which are of course identical to the criteria for MCCs. And because the Ginnie and Fannie programs had already gained traction, it was a short leap to combine a PHFA funded loan with an MCC. This also held true for the counseling agencies serving our target borrowers. Additionally, draft guidelines were provided weeks before the actual launch date so lenders could incorporate the program into their internal systems and processes. All of these factors allowed for a quick ramp up in production. Additionally, because PHFA already reviews the loans before closing, a decision was made not to charge an additional fee for the MCC. This strategic timing and efficient deployment of the program have likely been the reason there has been little interest from lenders wanting to offer MCCs on non PHFA-funded loans.

PHFA also **effectively employed its existing partnerships** by focusing its marketing campaign on loan officers and real estate agents—the professionals who generally have the first contact with the borrower. A press release was issued and regional trainings were held throughout the state, with webinars shortly thereafter (see visual aids that follow this program description). This type of marketing initiative is also highly **replicable** in other states. The marketing push has continued with radio and television ads.

MCCs provide a **measurable benefit** in the form of a dollar for dollar reduction in the homeowner's federal tax liability. This in turn increases the refund due or reduces the amount owed in federal income taxes. Borrowers may choose to have their employer adjust their withholdings, thereby increasing their disposable income available throughout the year. This benefit reduces the effective interest rate of their mortgage, thereby essentially providing a below market rate—the hallmark of HFA home financing. This

lower effective rate is of particular importance for those borrowers also receiving down payment assistance which is provided at 0 percent interest, but with a slightly higher rate on the first mortgage. Moreover, this benefit is clearly helping PHFA better serve its **targeted customers**. In 2013, the first full calendar year with all three funding models fully operational, the percent of first time buyers served by the MRB program was 95 versus 73 for Fannie and 71 for Ginnie. The percent of first time buyers utilizing the MCC program is 97. Additionally, the average household income under the Ginnie and Fannie funded programs was approximately \$10,000 higher than that of the MRB program (\$62,000 versus \$52,000). The average household income under the MCC program is about \$58,000, so it has helped reach a lower income borrower than a non-MRB funded loan without an MCC.

This **benefit certainly outweighs the cost** to the consumer, as there is no additional cost. The **benefits to the Agency also clearly outweigh the cost**. For the period from January to May of 2013, the Agency had funded 862 non-MRB home purchase loans. For the same period in 2014, the Agency funded 986 such loans, an increase of 14 percent in spite of an extremely harsh winter this year. Furthermore, MCCs are helping attract borrowers with a better quality credit profile. FICO scores on Ginnie funded loans with MCCs are 16 points higher on average. FICO's are consistent across borrowers in the Fannie program, but that program already has a market advantage and very high FICO's. And the Ginnie funded program currently accounts for half of production.

In summary, PHFA is helping to empower new buyers through its MCC program which is:

- innovative in its design and implementation;
- replicable by other state HFA's;
- responding to an important state housing need of helping the struggling economic recovery, particularly by attracting more first time buyers into the market;
- demonstrating measurable benefits to HFA targeted customers in terms of a tangible financial benefit in the form of a tax credit that can be combined with additional advantages of PHFA mortgage funding;
- expanding upon the proven track record of prior success by other HFA's in the marketplace;
- providing benefits that outweigh costs to both the consumer and PHFA;
- demonstrating an effective use of resources by utilizing expiring tax exempt bond cap;
- effectively employing partnerships by capitalizing on existing relationships with lenders, counseling agencies and real estate agents;
- and achieving the strategic objective of remaining competitive and profitable while still serving the mission.

# **VISUAL AIDS**

Initial and Current Marketing Flyers

# HOMEBUYER TAX CREDITS ARE COMING TO PHFA!

## Mortgage Credit Certificate (MCC) Program

Register below for a FREE, brief session  
being held in a town near you.

Learn how to use MCC's to attract more business AND  
become an MCC expert!

*Save your buyers thousands of dollars  
over the life of the loan!*

**YOU DON'T WANT TO MISS THIS!**

Wednesday, July 10—Harrisburg Area

Wednesday, July 10—Plymouth Meeting Area

Thursday, July 11—Pittsburgh Area

Thursday, July 11—Allentown Area

Friday, July 12—Erie Area

Friday, July 12—Williamsport Area

Celebrate  
with



**MCCs are HERE!**

**Log into your PipelinePlus  
Account to lock in the  
savings for your  
PHFA Buyers!**



# PROGRAMS FOR HOMEBUYERS



## Tax Credit Program

### ◆ WHAT IS IT?

A Pennsylvania Housing Mortgage Credit Certificate (MCC) allows a homebuyer to claim a tax credit for 50% of the mortgage interest paid per year, capped at \$2,000 annually. It is a dollar-for-dollar reduction against your federal tax liability. In other words, you may get up to 50% of the interest you paid back—in the form of a tax credit.

### ◆ WHO IS ELIGIBLE?

This program is open to individuals and families who:

- Are first time homebuyers (have not owned their primary residence within the past three years);
  - First time homebuyer requirement is waived for eligible veterans
- Meet income and home purchase price limits;
- Meet the qualifying requirements of a PHFA mortgage loan;
- Will use the home as their primary residence

### ◆ DOES IT EXPIRE?

The MCC will expire if the home is sold or is no longer used as your primary residence. That means a tax credit for the life of the loan as long as you pay your mortgage and occupy the home. If the loan is refinanced, the Mortgage Credit Certificate may be able to be reissued with the approval of PHFA.

### ◆ HOW MUCH OF A TAX CREDIT CAN BE CLAIMED?

The size of your annual tax credit will be 50% of the annual interest you paid on the mortgage loan (up to a max of \$2,000). The credit cannot be larger than your annual federal income tax liability, after all other credits and deductions have been taken into account. In other words, you will be able to take up to 50% of the interest you paid as an MCC credit and the balance as a standard deduction on schedule A of your tax return.

$$\begin{array}{r} \text{Example:} \quad \$120,000 \text{ (mortgage amount)} \\ \times \quad 4.5\% \text{ (mortgage interest rate)} \\ \times \quad 50\% \text{ (MCC percentage)} \\ \hline = \quad \$2,700 \text{ (capped annually at \$2,000 maximum eligible tax credit amount)} \end{array}$$

### ◆ IS THERE A FEE TO GET AN MCC?

No. PHFA will issue the certificate and administer it for the life of the loan at no additional cost to you.

### ◆ HOW TO APPLY?

Visit a PHFA/MCC Participating lender to see if you qualify for a PHFA mortgage and the MCC program.