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PROGRAM MANUAL

**MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD**

**TakeCredit!**  
**Mortgage Credit Certificate Program, Series 2009A**

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**PROGRAM MANUAL  
FOR  
MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD**

**TAKECREDIT!  
MORTGAGE CREDIT CERTIFICATE PROGRAM, SERIES 2009A**

**INTRODUCTION**

The Minneapolis/Saint Paul Housing Finance Board (the “*Board*”) has authorized the issuance of Mortgage Credit Certificates (MCCs) with maximum aggregate total proceeds of \$8,094,750, which using a 20% Mortgage Credit Certificate Rate will enable it to provide MCCs with respect to mortgages with an aggregate maximum principal amount of \$40,473,750. The Program Administrator will be Denihan and Associates (the “*Administrator*”). All capitalized terms used herein shall have the meanings assigned to them in the Definition Section of this Program Manual.

**TAX DISCLAIMER**

This material is not intended or written to be used, and it cannot be used, by any taxpayer for the purpose of avoiding tax penalties that may be imposed on the taxpayer. This material may be used to support the promotion or marketing of the matter discussed herein. The taxpayer should seek advice from an independent tax advisor regarding the matter set forth herein based on the taxpayer’s particular circumstances.

**GENERAL OVERVIEW**

A mortgage credit certificate (an “*MCC*”) is an instrument designed to assist persons of low and moderate income to better afford individual ownership of housing. The procedures for issuing MCCs were established as an alternative to the issuance of single family mortgage revenue bonds. As distinguished from a bond program, in an MCC program no bonds are issued and mortgages are financed in the conventional or government-insured market. However, the mortgagor may take a tax credit in an amount equal to the annual amount of interest paid on the mortgage loan multiplied by the Mortgage Credit Certificate Rate. The Mortgage Credit Certificate Rate for the Program is 20 percent. Thus, an Applicant with a \$175,000 mortgage and a 5.5% interest rate could realize the following federal income tax savings (numbers are rounded):

Mortgage Amount:	\$175,000
Interest Rate:	5.5%
Monthly Payment*	\$994
Total Interest Paid First year:	\$9,566
(Mortgage Credit Rate)	x .20
	\$1,913

\* Based upon a 30-year mortgage with equal monthly installments of principal and interest.

During the first year of the Program, the Applicant in this example would be eligible for a tax credit of up to \$1,913. The Applicant would be able to file a revised W-4 withholding form taking into consideration the anticipated tax credit and have approximately \$159 per month in additional disposable income. Additionally, taxpayers who file itemized returns may take a deduction for their mortgage interest paid each year, less an amount equal to the tax credit actually taken. Borrowers who receive an MCC and who continue to own and occupy the financed home will be eligible for a tax credit in each year during the term of the mortgage in an amount equal to 20% of the total interest paid on the loan in that year.

The amount of the credit actually claimed on the MCC holder's federal income tax return cannot exceed the amount of federal income taxes due after other credits and deductions have been taken into account. For example, if after taking into account other tax credits and deductions, a borrower only owes \$1,000 in credits, he or she cannot use the MCC tax credits in an amount in excess of \$1,000. Any unused MCC related tax credit can be carried forward up to three years to be applied against future income tax liability. *In addition, all or a portion of the MCC related tax credit may be subject to recapture if the Residence is sold within nine years of purchase.* This tax credit recapture is further explained in the Notice of Potential Recapture Tax included with this Program Manual.

A purchaser of a new or existing single family home may apply for an MCC through any participating mortgage lender at the time he or she applies for a mortgage from the lender. Any lender is eligible to participate in the Program by entering into a Participation Agreement and complying with Program requirements. An MCC cannot be issued to a homebuyer who is refinancing an existing mortgage, other than in connection with a Qualified Rehabilitation Loan, or in connection with a mortgage from a relative. Also, an MCC cannot be used in connection with a bond financed mortgage loan.

Since the Board will not make or hold these mortgages, neither the Board nor the Administrator will underwrite the Loans. Rather, all Loan approval, underwriting and execution of required State and federal certifications or affidavits will be performed by the Lenders originating the loans. The Administrator will receive executed certificates and affidavits of each applicant from the Lender in order to determine eligibility for the MCC Program. Subject to Program restrictions, including a requirement that loans be 30-year fixed rate loans, Lenders may process mortgage loans of all types, using normal procedures, with additions to procedures at relevant points in order to satisfy MCC Program requirements. The MCC Program requirements are independent of any normal underwriting requirements of the Lender. In order to qualify for issuance of an MCC an applicant must meet all MCC requirements in addition to any FHA, VA, RHS or Fannie Mae or Freddie Mac acceptable conventional loan standards which must be met to satisfy the Lender.

The Board encourages anyone who believes they qualify to apply for an MCC to apply at the offices of any Lender who can explain the Program and its restrictions. The Lender should be well-versed in the State and federal restrictions so that Applicants are made aware of these restrictions before the Application is taken. The Lender must reject those Applications where the Applicant does not qualify under the requirements of the Program.

The purpose of this Program Manual is to describe the Program, outline the relevant State and federal restrictions which must be met for the issuance of an MCC. The Board may revise this Program Manual from time to time by posting modifications to its website at \_\_\_\_\_.

### DEFINITIONS

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

*“Acquisition Cost”* - The cost to an Applicant of acquiring a Residence from the Seller as a completed residential unit, including: (i) all amounts paid, either in cash or in kind, by the Applicant (or a related party or for the benefit of the Applicant) to the Seller (or a related party or for the benefit of the Seller) as consideration for the Residence; (ii) if the Residence is incomplete, the reasonable cost of completing it, whether or not such cost is to be financed with the Loan; and (iii) if the Residence is purchased subject to a ground lease, the capitalized value of the ground rent calculated using a discount rate authorized by the Internal Revenue Service. *“Acquisition Cost”* does not include: (i) usual and reasonable settlement and financing costs (including title and transfer fees, title insurance, survey fees, credit reference fees, legal fees, appraisal expenses, points paid by the Applicant (but not points paid by the Seller) and other similar costs), but only to the extent that such amounts do not exceed the usual and reasonable costs which would be paid by the Applicant in a case in which financing is not assisted by the issuance of an MCC or provided through the issuance of tax exempt bonds (for example, if the Applicant agrees to pay more than a pro rata share of property taxes, such excess shall be treated as part of the Acquisition Cost); (ii) the value of services performed by the Applicant or members of the Applicant’s family (including brothers, sisters, spouse, lineal ancestors and lineal descendants only) in completing the Residence; and (iii) the cost of land which has been owned by the Applicant for at least two years prior to the date on which construction of the Residence begins. This term is more fully described on Worksheet Three to the Affidavit of Applicant and in the Affidavit of Seller.

*“Acquisition Cost Limits”* - means the lower of the acquisition cost limits required under State or Federal law. Federal law imposes an acquisition cost limit with respect to a Residence not located in a Targeted Area, 90% of the applicable Average Area Purchase Price or, in the case of a Residence located in a Targeted Area, 110% of the applicable Average Area Purchase Price, in each case determined separately for New Housing and Existing Housing and for one-, two-, three- and four-family residences. State law imposes an acquisition cost equal to not more than 3 times an amount which is 110% of area median gross income. The following are the initial Acquisition Cost Limits:

	1 Unit – New or Existing	2 Units – Existing Only	3 Units – Existing Only	4 Units – Existing Only
Non-Targeted Areas	\$276,870	\$389,205	\$470,472	\$584,666
Targeted Areas	\$369,160	\$475,695	\$575,022	\$714,592

The determination whether the Residence meets the applicable Acquisition Cost Limit shall be made as of the date of the issuance of the MCC.

*“Act”* - The Minnesota Municipal Housing Act, Minnesota Statutes, Chapter 462C, as amended.

*“Administrator” or “Program Administrator”* - Denihan and Associates, its successors and assigns.

*“Administrator’s Guidelines” or “Guidelines”* – Administrative Guidelines prepared by the Administrator for the Program, as modified from time to time.

*“Affidavit”* - An affidavit filed in connection with the Program made under oath and subject to the penalties of perjury and the civil penalties provided therein.

*“Applicant” or “Borrower” or “Mortgagor”*- Any person or persons: (i) whose Household Income does not exceed the Income Limits; (ii) who intends to occupy the Residence to be financed with a Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the issuance of the MCC; (iii) who has not had a present Ownership interest in a Principal Residence at any time during the three-year period ending on the date of issuance of the MCC, except in connection with a Qualified Rehabilitation Loan, a Qualified Veteran’s Loan or a Loan for a Residence in a Targeted Area; (iv) who has not had an existing mortgage (including a deed of trust, conditional sales contract, pledge, agreement to hold title in escrow or any other form of owner financing), whether or not paid off, on the Residence to be financed with such Loan at any time prior to the execution of the Loan, other than an existing mortgage securing a construction period loan, bridge loan or similar temporary financing initially incurred for the sole purpose of acquiring the Residence and initially incurred within 24 months of execution of the Loan and having an original term not exceeding 24 months, and other than a loan which is being refinanced with a Qualified Rehabilitation Loan; and (v) who meets the criteria set forth in this Program Manual.

*“Average Area Purchase Price”* - With respect to any Residence the safe harbor average area purchase price of all single family residences in the statistical area in which the Residence being financed is located which were purchased during the most recent twelve month period for which information is provided pursuant to Section 143(e) of the Code.

*“Board”* - The Minneapolis/Saint Paul Housing Finance Board, its successors and assigns, whose address is 1228 Town Centre Drive, Eagan, Minnesota 55123.

*“Certificate Limit”*- \$8,094,750, the maximum aggregate amount of MCC authority for the Program, which equals 25% of the nonissued bond amount of the Board (\$32,379,000).

*“Certified Indebtedness Amount”* - The amount of the Loan which is subject to the mortgage credit provided by the MCC. The Certified Indebtedness Amount on a reissued MCC may not exceed the outstanding balance of the Loan associated with the existing MCC.

“Closing or Closing Date” - The funding of a Loan by the Lender and the execution and delivery by the Applicant of all documents in connection therewith. “Closed” means a Loan for which a Closing has occurred.

“Code” - The Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or the Internal Revenue Service, to the extent applicable to the Program.

“Existing Housing” - A single family dwelling unit that has been occupied prior to execution of the Loan commitment.

“Fannie Mae”- The Federal National Mortgage Association and its successors.

“FHA” - The Federal Housing Administration of the United States Department of Housing and Urban Development, or other agency or instrumentality created or chartered by the United States to which the powers of the Federal Housing Administration have been transferred.

“Household Income” - The gross monthly income, multiplied by twelve, of the Borrowers and any other person who is expected to live in the Residence being financed and is over 18 years of age, as set forth in the Affidavit of Applicant. Gross monthly income is the sum of gross monthly pay, any additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, VA compensation and net rental income, etc and other income (such as alimony and child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts or from business activities or investments). The Household Income cannot exceed the Income Limits, which shall be determined as of the date of issuance of the MCC.

“Income Limits” - The Household Income of an Applicant may not exceed the following:

	<i>1-2 persons</i>	<i>3-more persons</i>
<i>Non-Targeted Areas</i>	<i>\$83,900</i>	<i>\$92,290</i>
<i>Targeted Areas</i>	<i>\$92,290</i>	<i>\$92,290</i>

Notwithstanding the foregoing, the Administrator will reserve 50% of the Proceeds available for MCCs under the Program for households with Anticipated Annual Family Income not greater than \$83,061, for the first six months of the Program. These limits may be modified annually.

“Lender” - An institutional lender regulated by state or federal law, or any other entity which in its regular course of business makes mortgage loans which would qualify for MCC assistance and is authorized to do business in the State.

“Loan” – An FHA-insured, VA-guaranteed or RHS-guaranteed mortgage loan or a conventional loan meeting Fannie Mae or Freddie Mac guidelines, made to finance the purchase of a Residence which meets the requirements set forth in this Program Manual.

“MCC” or “Mortgage Credit Certificate” - A mortgage credit certificate issued pursuant to the terms and conditions of the Program, meeting all of the requirements of this Manual, the Code and Regulations.

“Mortgage” - The written instrument securing the related Loan and encumbering a Residence.

“Mortgage Credit Certificate Rate” - For purposes of this Program, 20 percent.

“New Housing” - A single family dwelling unit that is proposed to be constructed, currently under construction, or existing but not previously occupied.

“Ownership” - Ownership by any means, whether outright or partial, including property subject to a mortgage or other security interest, including a fee simple ownership interest, a joint ownership interest by joint tenancy, tenancy in common, or tenancy by the entirety, an ownership interest in trust, a life estate interest, a purchase by a land contract or contract for deed. The term does not include: (i) a remainder interest; (ii) a lease with or without an option to purchase; (iii) a mere expectancy to inherit an interest; (iv) the interest that a purchaser of a Residence acquires on the execution of a purchase contract; and (v) an interest in other than a Principal Residence. This term is more fully described in paragraph 6 of the Affidavit of Applicant. An Ownership interest in a mobile home or other factory made housing which was permanently affixed to real property owned by the Applicant constitutes Ownership in a Principal Residence.

“Principal Residence” - A Residence (or the unit in a two (2) to four (4) family Residence) that can reasonably be expected to be occupied by the Mortgagor as the principal Residence of the Applicant. The term “Principal Residence” does not include a home used as an investment property or as a recreational home or a home that is primarily intended to be used in a trade or business, as evidenced by the use of more than 15% of the total area in a trade or business. Any use of a home that does not qualify for a deduction allowable for certain expenses incurred in connection with the business use of a home under section 280A of the Code shall not be considered as a use in a trade or business.

“Prohibited Mortgage” - A Prohibited Mortgage is any mortgage financed in whole or in part with the proceeds of qualified mortgage bonds or qualified veterans’ mortgage bonds.

“Program” - The Minneapolis/Saint Paul Housing Finance Board TakeCredit! Mortgage Credit Certificate Program, Series 2009A.

“Program Documents” - This Program Manual, including all instructions and forms attached thereto, the Administration Agreement by and between the Board and the Administrator and the Lender Participation Agreement by and among each Lender, the Administrator and the Board, each as amended from time to time.

“Program Manual” - This Program Manual for the Minneapolis/Saint Paul Housing Finance Board TakeCredit! Mortgage Credit Certificate Program, Series 2009A, as revised and amended from time to time.

*“Qualified Condominium Unit”* - A condominium unit meeting the requirements of FHA, Fannie Mae or Freddie Mac, as applicable.

*“Qualified Rehabilitation”* means any rehabilitation of a building if:

- (i) there is a period of at least 20 years between the date on which the building was first used and the date on which the physical work on such rehabilitation begins;
- (ii) in the rehabilitation process –
  - (A) 50% or more of the existing external walls of such buildings are retained in place as external walls;
  - (B) 75% or more of the existing external walls of such buildings are retained in place as internal and external walls;
  - (C) 75% or more of the existing internal structural framework of such building is retained in place; and
- (iii) the expenditures for such rehabilitation are 25% or more of the mortgagor’s adjusted basis in the residence.

For the purposes of clause (iii), the mortgagor’s adjusted basis shall be determined as of the completion of the rehabilitation or, if later, the date on which the mortgagor acquires the residence.

*“Qualified Rehabilitation Loan”* means any owner-financing provided in connection with:

- (i) a Qualified Rehabilitation, or
- (ii) the acquisition of a residence with respect to which there has been a Qualified Rehabilitation,

but only if the mortgagor to whom such financing is provided is the first resident of the residence after the completion of the rehabilitation.

*“Qualified Veteran’s Loan”* means a Mortgage made to finance any Residence for a Veteran, if such Veteran has not previously qualified for and received a mortgage loan under a program financed with proceeds of tax-exempt bonds, which previous loan was exempt from the first-time homebuyer requirement financing by reason of his or her status as a veteran. For purposes of this definition, a veteran is a person who served in the active military, naval or air service, and who was discharged or released therefrom under conditions other than dishonorable.

*“Regulations”* - The applicable proposed, temporary or final Treasury Regulations promulgated under the Code (or any prior version thereof), as such regulations may be amended or supplemented from time to time.

“*Renovation Loan*” means a Mortgage Loan, the proceeds of which are applied to purchase and Rehabilitate a Residence, subject to the following conditions:

- (a) *No Refinancing*. The proceeds of a Renovation Loan may not be applied to refinance any existing indebtedness, other than a construction, bridge or interim loan as permitted under the definition of “Eligible Borrower.”
- (b) *Capital Costs*. Any costs of Rehabilitation financed with proceeds of a Renovation Loan must be capital costs. In general capital costs are costs for permanent improvements or betterments which appreciably prolong the life or enhance the value of the Residence, for example, replacement of a furnace, roof, kitchen cupboards, bathroom fixtures or floor surfaces (new tile or wall to wall carpeting). Maintenance expenses generally are not capital costs, for example, painting or wallpapering (unless the painting or wallpapering is done in connection with the replacement or addition of a wall).
- (c) *Minimum Renovation*. The cost of Rehabilitation of a Residence financed by a Renovation Loan shall be not less than \$5,000 or more than \$15,000.
- (d) *Acquisition Cost*. The cost of Rehabilitation of a Residence financed by a Renovation Loan shall be added to the Acquisition Cost of the Residence for purposes of determining whether the Residence meets the Maximum Acquisition Costs restrictions.
- (e) *Escrow for Completion*. If the Participant originating the Renovation Loan is a qualified Fannie Mae or Freddie Mac Rehabilitation Lender, or is otherwise approved by the Servicer/Administrator (and, if applicable, is an FHA 203(k) approved lender), in the event the Rehabilitation work has not been completed by the Closing Date, such Participant shall, on behalf of the mortgagor, establish an escrow fund with a financial institution or title company, under terms and conditions, and funded in a sufficient amount acceptable in the industry.

“*Residence*” or “*Home*” - A real property and improvements permanently affixed thereon (but does not include property not constituting “fixtures” under State law and does not include a mobile home or any personal property) (i) that is located within Minneapolis or Saint Paul; (ii) that consists of a single family detached structure or a single unit in a multi-unit structure (including a Condominium Development, or a single unit in a duplex, triplex or fourplex) intended for residential housing for one family, or an entire duplex, triplex or fourplex to be financed (but an entire duplex, triplex or fourplex only if one of the units will be occupied by the Mortgagor and the Residence was first occupied for residential purposes at least five years prior to origination of the Mortgage Loan), but not including a mobile home or any personal property; and (iii) the Acquisition Cost of which does not exceed the Maximum Acquisition Cost; provided, however, that land appurtenant to a Residence shall be considered as part of such Residence only if such land reasonably maintains the basic livability of such Residence and does not provide, other than incidentally, a source of income to the Mortgagor. No portion of a Residence shall consist of a health club facility, a facility primarily used for gambling, or a store the principal business of which is the sale of alcoholic beverages for consumption off premises.

“*RHS*” means the Rural Housing Service of the United States Department of Agriculture, its successors and assigns.

“*Seller*” - With respect to a Loan, the seller of the Residence being financed with such Loan.

“*State*” - The State of Minnesota.

“*Targeted Area*” means an area that has been or may be designated from time to time as an area of chronic economic distress in accordance with Section 143(j)(3) of the Code, or a qualified census tract as specified in accordance with Section 143(j)(2) of the Code. The Targeted Areas as of April 21, 2009 are in the following census tracts. Targeted Areas may be revised from time to time.

Minneapolis: 22.00, 33.00, 35.01, 59.01, 59.02, 68.00, 73.01, 77.00, 78.01, 78.02, 79.00, 83.00, 84.00, 1014.00, 1015.00, 1016.00, 1021.00, 1028.00, 1029.00, 1034.00, 1041.00, 1048.00, 1054.00, 1057.00, 1060.00, 1069.00, 1070.00, 1071.00, 1072.00

Saint Paul: 305.00, 327.00, 329.00, 331.00, 337.00

“*VA*” - The Department of Veterans Affairs, an agency of the United States of America, or any successor to its functions.

#### A. PARTICIPATING LENDERS

Any lender who enters into a Participation Agreement, in the form available from the Administrator, is eligible to participate in the Program. The Lender will be responsible to verify that the Borrower and the Loan are eligible for the issuance of an MCC as provided in this Manual, and to follow all procedures required in this Manual and pursuant to the Administrator’s Guidelines.

#### B. ADMINISTRATOR REVIEW

Consistent with the requirements of the Administrator’s Guidelines, Lenders will be required to obtain from the Borrower submit to the Administrator information evidence compliance by the Borrower and the Loan with the requirements herein and in the Code and Regulations. The Administrator will review such information as provided in the Administrator’s Guidelines and will issue MCCs to qualifying Borrowers.

The Administrator will keep an ongoing, cumulative-to-date total of the amount of MCCs available for issuance.

#### C. PROGRAM TIMING

Applications may not be taken for MCCs prior to April 20, 2009. MCCs may not be issued for Loans closing prior to April 21, 2009, or after December 31, 2011.

D. FEES

Fees charged to Borrowers or sellers include a Lenders Fee of \$150 and an MCC Application Fee of \$575. Both fees are payable at closing and are nonrefundable. In order to participate in the Program, Lenders are required to pay the Board a participation fee of \$250.

E. APPLICANT ELIGIBILITY REQUIREMENTS

Similar to any normal mortgage loan, the Applicant must meet the credit and underwriting criteria established by the participating Lender providing the Loan. Based on relevant federal and State regulations, Applicants must also meet the following requirements specific to MCCs:

1. *Three-year No Prior Home Ownership Requirement (First-Time Homeowner Requirement)*. The Applicant who will become an MCC holder may not have had an Ownership interest in a Principal Residence at any time during the preceding three years ending on the date the MCC is issued, other than for Qualified Veteran's Loans, Qualified Rehabilitation Loans or Loan secured by a Residence in a Targeted Area. Compliance with this requirement is evidenced by the Borrower signing the Applicant Affidavit in connection with the Loan Closing, the Lender and by Lender examining the Applicant's federal income tax returns for the preceding three years to determine whether the Applicant has claimed a deduction for interest or taxes on property which was the Applicant's Principal Residence.

In lieu of actual copies of returns, Applicants who filed either IRS Form 1040A or 1040EZ may substitute an original letter from the Internal Revenue Service stating the type of return filed by the Applicant for each tax year, the Applicant's filing status and Adjusted Gross Income. To summarize this procedure as it applies to different cases:

(a) If the Applicant can produce copies of signed IRS Form 1040A, 1040EZ or 1040 returns for the last three years which show no deductions of interest or taxes for a Principal Residence, these forms must be submitted to the Lender and forwarded to the Administrator with the Applicant Affidavit.

(b) In the event the Applicant has filed the IRS Form 1040A or 1040EZ for the preceding three years but cannot produce signed copies of the returns, the Applicant may substitute the original tax account information letter from the Internal Revenue Service verifying the required facts.

(c) In the event the Applicant has filed the IRS Form 1040 for the preceding three years, completes and signs the other required Affidavits, but cannot produce signed copies of the returns, the Administrator will not issue an MCC until receipt of certified tax returns (including all schedules) from the IRS, which show that the Applicant took no deduction of interest or taxes for a Principal Residence for the years in question. The certified tax returns can be requested from the IRS by the Applicant by using IRS Form 8821 or IRS Form 4506, copies of which are attached as Exhibit D to the Lender Participation Agreement.

(d) In the event the Applicant was not required by law to file federal income tax returns for any year during the preceding three years, it will be necessary for the

Applicant to so state on the Tax Return Affidavit forwarded to the Administrator with the other Program documents.

(e) When the Loan is Closed during the period between January 1 and February 15 and the Applicant has not yet filed his or her federal income tax return for the preceding year with the IRS, the Administrator may, with respect to such year, rely on a Tax Return Affidavit stating that the Applicant is not entitled to claim deductions for taxes or interest on indebtedness with respect to property constituting his or her Principal Residence for the preceding calendar year. The Tax Return Affidavit must be forwarded to the Administrator with the Closing Affidavit and the other Program documents.

2. *Principal Residence Requirement.* The Applicant must use the Residence for which the MCC was issued as his or her Principal Residence. The Lender must obtain from the Applicant, as contained in the Affidavit of Applicant, a statement of the Applicant's intent to use the Residence as his or her Principal Residence within a reasonable time (60 days) after the MCC is issued. The Affidavit further states that the MCC holder will notify the Lender if the Residence ceases to be his or her Principal Residence. If the Borrower fails to occupy the Residence as his or her principal residence, he or she will become ineligible for the tax credit based on the MCC (see "Revocation" below).

3. *Income Limits.* The Household Income of an Applicant shall not exceed the Income Limits (see the definition of Income Limit above).

4. *Purchase Price Limits.* The Acquisition Cost of the Residence may not exceed the Acquisition Cost Limit (see the definition of Acquisition Cost Limit above).

5. *Qualifying Residence, Targeted Areas.* The Residence must be located in Minneapolis or Saint Paul and must be a home included within the definition of Residence above. For the first year of the Program, 20% of the available authority for MCCs must be held for homes located in Targeted Areas.

6. *Homebuyer Training.* All Applicants must complete homebuyer education which meets the National Industry Standards for Homeownership Education and Counseling, which can be found at ([www.homeownershipstandards.com](http://www.homeownershipstandards.com)). Two key components of the standards for such homebuyer education are (i) the classes run for a minimum of eight hours in order for them to include all the important subject matter related to homebuyer education and (ii) the training must be done face-to-face. There are courses that may differ to allow for culturally specific presentation, but the core elements of the course work will remain relatively the same. HomeStretch classes offered under the Minnesota Home Ownership Center meet the above standards.

7. *Revocation.* An Applicant will have his or her MCC revoked if the Applicant does not meet the requirements set forth in this Manual. Revocation will occur upon the discovery of any material misstatement, whether negligent or fraudulent, contained in any of the documents submitted in connection with the issuance of the MCC. Revocation will occur if the Residence to which the MCC relates ceases to be Applicant's Principal Residence.

8. *Fraud.* If the Applicant or MCC holder provides a certificate, Affidavit, or any other information to the Lender, the Administrator or the Board containing a material misstatement and such misstatement is the result of fraud, then any MCC issued shall be automatically null and void without the need for any further action on behalf of the Board.

9. *Penalties for Misstatement.* The Applicant's Affidavit will be relied upon for the purposes of determining whether the Applicant is eligible for an MCC. Any fraudulent statement in such affidavit will result in the immediate revocation of the individual's MCC and a \$10,000 penalty under section 6709 of the Code.

#### F. LOAN REQUIREMENTS

1. *New Loan Requirements.* An MCC may only be issued in connection with a Loan made to acquire a Residence, to acquire and rehabilitate, or to refinance and rehabilitate, a Residence if the Loan is a Qualified Rehabilitation Loan. An MCC may not be issued in conjunction with the acquisition or replacement of an existing mortgage, except in connection with a Qualified Rehabilitation Loan or in conjunction with the replacement of construction period loans or bridge loans of a temporary nature. The term of the construction period or bridge loans must be no longer than 24 months. The Affidavit of Applicant, shall include a statement to the effect that the Loan being made in connection with the MCC will not be used to acquire or replace an existing mortgage.

2. *Prohibited Mortgages.* An MCC may not be used in conjunction with a qualified mortgage bond or a qualified veterans' mortgage bond. The Lender must obtain from the Applicant, as contained in the Affidavit of Applicant, a statement that no portion of the financing of the Residence is provided from a qualified mortgage bond or qualified veterans' mortgage bond.

3. *No Interest Paid to Related Persons.* No interest on the Certified Indebtedness Amount of the Loan can be paid to a person who is a "related person" to the MCC holder, as the term is defined in Section 25(e)(6) of the Code and Regulations. The Lender must obtain from the Applicant, as contained in the Affidavit of Applicant, a statement that a "related person" does not have, and is not expected to have, an interest as a creditor in the Loan.

4. *Not Transferrable.* The MCC is not transferable by the Borrower or assumable by a subsequent purchaser of the Residence.

5. *Origination Fee, Discount Points.* Any points, origination fees, servicing fees, loan application fees, survey fees, credit report fees, insurance fees or similar financing costs, and any other fees paid to the Participant providing the Loan, or any other person, must be reasonable and not in excess of amounts customarily charged in the area or by the person receiving the fee, with respect to mortgages not provided in connection with mortgage credit certificates and the mortgagor may not pay, directly or indirectly, any other fee. The requirements of this subsection shall be met if the Administrator relies on the relevant provisions of a properly executed Applicant Affidavit and a properly executed Certificate of Participant. The Participant may charge an origination fee of not more than 1% and a discount point in an amount not greater than 1%.

6. *Loan Terms* .. Loans must be 30-year, fixed rate loans, with interest rates comparable to loans originated without MCCs, with no overage.

G. RECORD KEEPING AND REPORT FILING

1. For each calendar quarter the Board issues MCCs beginning with the quarter in which the election to issue MCCs is made, the Administrator will file on behalf of the Board reports on IRS Form 8330.

2. The Administrator will report annually to the Internal Revenue Service on behalf of the Board in the form prescribed by Treasury Regulation § 1.25-4T(e):

(a) The number of Mortgage Credit Certificates by Income and Acquisition Cost as required by IRS reporting regulations; and

(b) The volume of Mortgage Credit Certificates by Income and Acquisition Cost as required by IRS reporting regulations.

3. For each calendar year during which it originates Loans to Applicants obtaining MCCs, each Lender must file an annual report using IRS Form 8329. Prior to the filing deadline for such report, the Administrator will provide to the Lender a completed IRS Form 8329. IRS Form 8329 has been attached hereto as **Exhibit F**, but the Administrator and each Lender shall use the latest form provided by the IRS.

4. For six years, the Lender must retain:

(a) Name, address (including the address of the Residence financed with the Loan) and taxpayer identification number of each MCC holder;

(b) Name, address and taxpayer identification number of the Board; and

(c) Date of Loan, Certified Indebtedness Amount, and Mortgage Credit Certificate Rate.

5. In January following each year during which MCCs are issued, the Administrator shall mail an IRS Form 8396 to each MCC holder of record as a reminder to properly declare the MCC tax credit for federal income tax purposes. IRS Form 8396 has been attached hereto as **Exhibit G**, but the Administrator shall use the latest form provided by the IRS.

6. LENDER AGREES TO PROVIDE INFORMATION TO BE REPORTED UNDER THE FEDERAL HOME MORTGAGE DISCLOSURE ACT AS REQUIRED BY SECTION 394.027 OF THE ACT.

H. REVOCATION OF MCCS

1. Automatic revocation occurs when the Residence related to the MCC ceases to be the MCC holder's Principal Residence.

2. An MCC will be revoked if the holder ceases to meet the requirements set forth in this Manual.

3. Revocation of the MCC will occur upon the discovery of any material misstatement, whether negligent or fraudulent, by any person related to the issuance of the MCC.

#### I. AUDIT

The Administrator or the Issuer may perform a random audit of Lender records to determine compliance with required Program procedures.

#### J. RECAPTURE OF MCC TAX CREDIT

In the event an MCC holder sells the Residence within nine years of issuance of the MCC, a portion of the tax credit utilized by the certificate holder may be subject to a recapture tax. See the Notice of Potential Recapture Tax for further information regarding tax credit recapture.

#### K. SAINT PAUL HERO LOAN PROGRAM

Pursuant to its Heros Loan Program, the Housing and Redevelopment Authority of the City of Saint Paul (the “HRA”) has set aside up to \$500,000 to make forgivable, non-interest bearing loans (“Hero Loans”) to certain borrowers who receive MCCs under the Board’s MCC Program. The loans may be made in amounts not less than \$1,000 and not more than \$15,000, and may be used to:

- make a downpayment;
- pay normal and usual closing costs; and/or
- reduce the principal amount of the first mortgage.

The following are requirements/terms for a HERO loan:

1. *Qualified Borrowers.* Hero Loans may be made to any of the following heros:
  - *Active Military, Active Reserve, National Guard or Veterans:* Qualified Active Duty Service personnel include members of the U.S. Armed Services, Reserve Forces or National Guard. Qualified veterans include military members honorably discharged from any branch of the U.S. Armed Forces.
  - *Firefighters, Emergency Medical Technicians or Paramedics:* Sworn paid members of a fire department whose regular duties include fire suppression or prevention, emergency medical response or hazardous materials response.
  - *Health Care Workers:* Certified, accredited or licensed health care workers who are employed full-time as a medical resident or fellow, dental hygienist, nurse, nursing assistant, pharmacist, pharmacy technician, physician’s assistant, medical technician, technologist or therapist.
  - *Police Officers:* Individuals commissioned as a police officer y a federal, state, regional, county or municipal or township government, or a public or private college

or university; must be sworn to uphold, and make arrests for violations of the federal, state, regional, county, municipal or township law or respond to terrorism.

- *Teachers:* Individuals employed full-time by an accredited or state recognized public school, private school, or federal, state, county or municipal educational agency as a state-certified classroom teacher or administrator in grades K-12 or higher education.
- *Public Employees:* Individuals employed full-time by a federal, state, regional, county, municipal or township government and postal workers.

2. *Minimum Borrower Cash.* The Borrower must provide cash from his or her own funds in an amount at least equal to 1/2 of the minimum downpayment required by FHA/VA, Fannie Mae or Freddie Mac, as applicable. Borrower's cash may be applied to any required costs, including downpayment, closing costs or prepaids, including insurance.

3. *Repayment/Forgiveness.* Hero Loans are secured by a second mortgage and are repayable if the Borrower sells the home or fails to occupy it as his or her principal residence within the 10 year period following closing of the loan. If the Borrower continues to occupy the home as his principal residence for 10 years, the Hero Loan will be forgiven.

4. *Reservation.* Lenders may reserve funds to make a specific Hero Loan to a specific Borrower on the Denihan and Associates website maintained for the Board's MCC Program.

5. *Verification.* The Lender is responsible for verifying that the Borrower meets the definition of a Hero, and must cause the Borrower to complete the section of the Applicant's Affidavit relating to the Hero Loan in connection with the closing of the Loan.

6. *Closing.* At closing, the lender is required to have the Borrower (a) execute the Hero Note/Mortgage in favor of the HRA evidencing the Hero Loan, and (b) execute the Application Affidavit including information applicable to the Hero Loan program. The Lender will fund the Hero Loan and cause the Note/Mortgage to be recorded.

7. *Funding.* The Lender must submit to the HRA a Request for Disbursement in a form provided by the HRA, with all required attachments at least three days prior to the date on which funds are required to be on deposit with title. Upon a determination by the HRA that the request is complete, the HRA will provide to the Lender completed HERO Loan documents and to title the principal amount of the HERO Loan. Funds deposited with title must be used to fund the HERO Loan within 24 hours or returned to the HRA.

Within **24 hours after the Loan Closing**, the Lender shall fax to the HRA a final, executed HUD-1 showing funding of a "Saint Paul Hero Loan" and a copy of the Request for Disbursement which was previously submitted.

Within **3 business days following the Loan Closing**, the Lender will submit to the HRA a copy of the executed Hero Loan Note/Mortgage, the Applicant's Affidavit with information regarding the HERO Loan program, and a pay stub or other evidence of the Borrower's status as a "Hero" for purposes of the program.

IF FOR ANY REASON, AN MCC CANNOT BE ISSUED, THE BORROWER IS DETERMINED TO BE INELIGIBLE FOR A HERO LOAN, OR THE LENDER FAILS TO TIMELY SUBMIT REQUIRED DOCUMENTS TO THE HRA, THE LENDER SHALL PURCHASE THE HERO LOAN FROM THE HRA AT A PRICE OF PAR.

If a Lender chooses to fund a HERO Loan from its own funds and request reimbursement from the HRA, the Lender should contact Denihan & Associates. For questions regarding the HERO Loan program, contact Robin Asfeld, 651.266.6598, Stephanie Hawkinson, with the HRA, at 651.266.6585 or Denihan & Associates.