Mortgage Credit Certificate Program
Lender Application Package

Thank You for Your Interest

Texas State Affordable Housing Corporation ("TSAHC") is pleased to extend an invitation to its qualified lenders (each a "Lender") for participation in its Mortgage Credit Certificate Program (the "MCC Program") when originating Mortgage Loans for TSAHC Eligible Borrowers. The MCC Program will be subject to the terms set forth in the MCC Lender Participation Agreement and the MCC Program Guidelines attached to this MCC Lender Application Package.

Additionally, each Lender will be responsible for working with TSAHC's Single Family Compliance staff to ensure Mortgage Loans are MCC Program compliant. An online reservation system will be made available to approved Lenders.

Lender Eligibility

TSAHC, in its sole discretion, will determine eligibility of each Lender for participation in the MCC Program. TSAHC will suspend or terminate any Lender from the MCC Program if, in TSAHC's opinion, such Lender is not satisfactorily originating Mortgage Loans per the MCC Program Guidelines or for other factors related to the Lender's performance.

Each Lender must:

1. Be authorized to do business in Texas.
2. Have an audited net worth of at least $1,000,000;
3. If it is not a financial institution, have a warehouse line of not less than $3,000,000;
4. Have mortgage banking operations with personnel responsible for underwriting and funding loans; and
5. Maintain current Errors and Omissions and/or Fidelity Bond coverage of not less than $300,000 (maximum deductible of $50,000).

Additionally, each Lender must satisfy at least one of the following:

6. Be a FHA-approved mortgagee to originate FHA-insured Mortgage Loans;
7. Be approved by Fannie Mae or Freddie Mac to originate conventional Mortgage Loans;
8. Be a VA-approved mortgagee to originate VA-guaranteed Mortgage Loans; or
9. Be a USDA-RHS-approved mortgagee to originate USDA-RHS-guaranteed Mortgage Loans.

Procedure

Each Lender is required to submit to TSAHC the following items:

1) A $500 Annual Participation Fee. Checks should be made payable to the *Texas State Affordable Housing Corporation*;

2) A completed Lender Reservation Access Form (attached); and

3) Three (3) signed originals of the MCC Program Lender Participation Agreement (signature pages only).

Please use the fillable forms provided electronically under the "For Lenders" section of the TSAHC website at www.tsahc.org to complete the MCC Lender Application Package. Then mail the required fee, the Lender Reservation Access Form, and three signed originals of the executed Lender Participation Agreement directly to:

Texas State Affordable Housing Corporation
Attn: Paige Omohundro
2200 East Martin Luther King Jr. Blvd.
Austin, Texas 78702

Upon Approval

Once all documentation has been submitted and reviewed, TSAHC will notify the Lender of its approval to participate in the MCC Program. It will be at that time that training and loan reservation information will be provided.

We thank you for your interest in becoming a Lender under the MCC Program and look forward to working with you. Should you have any questions or need additional information regarding the approval process, please contact Paige Omohundro at (512) 477-3561 or pomohundro@tsahc.org.

For additional information on TSAHC's programs and services, please visit www.tsahc.org.

Lender Reservation Access Form

Each Lender is required to designate a "corporate office" (and a "main branch" if different from the corporate office) and a contact person at that corporate office or branch who will be responsible for granting and setting up access to TSAHC's online loan reservation and compliance system for their loan officers, as well as all correspondence. Representatives from each branch are encouraged to complete TSAHC's reservation and compliance training before submitting MCC reservations. If additional space is needed to list other branches, please use extra copies of this form.

Corporate Office:	
Company Name	
Address:	
City, State & Zip:	
Phone:	
Fax:	
Contact Name:	
Contact Email:	

Main Branch: *(If different from Corporate Office.)*	
Company Name	
Address:	
City, State & Zip:	
Phone:	
Fax:	
Contact Name:	
Contact Email:	

Branch 1: *(If there are more than two branches, please use additional copies of this form.)*	
Address:	
City, State & Zip:	
Phone:	
Contact Name:	
Contact Email:	

Branch 2:	
Address:	
City, State & Zip:	
Phone:	
Contact Name:	
Contact Email:	

MORTGAGE CREDIT CERTIFICATE PROGRAM

LENDER PARTICIPATION AGREEMENT

This MCC Lender Participation Agreement (this "Agreement") is entered into, as of the date set forth below, by and between the Texas State Affordable Housing Corporation ("TSAHC") and the lending institution executing this Agreement (the "Lender") in connection with TSAHC's Mortgage Credit Certificate Program (the "MCC Program") to Eligible Borrowers.

WHEREAS, TSAHC has been duly created and organized pursuant to and in accordance with the provisions of the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq. Vernon's Annotated Texas Civil Statutes, as amended and under the authority of Subchapter Y of Chapter 2306, Texas Government Code, as amended (the "Act"), TSAHC is authorized to establish a program to provide eligible mortgagors with low-interest home mortgage loans;

WHEREAS, TSAHC has determined to implement the MCC Program to assist Eligible Borrowers to afford the costs of acquiring and owning decent, safe and sanitary housing within the State and in connection therewith, has made an election under Section 25 of the Code to exchange its bond authority for the authority to issue mortgage credit certificates ("MCCs") to qualified persons.

WHEREAS, the Lender wishes to participate in the MCC Program and has agreed to make Mortgage Loans to Eligible Borrowers in full compliance with this Agreement and the attached MCC Program Guidelines; and

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

Section 1. Covenant to Originate Mortgage Loans with an MCC. The Lender hereby acknowledges its receipt of the MCC Program Guidelines, and the Lender hereby covenants and agrees to originate Mortgage Loans for which MCC's are issued in accordance with this Agreement and the MCC Program Guidelines. Failure by the Lender to perform its obligations under this Agreement and the MCC Program Guidelines may result in a suspension or termination of its participation in the MCC Program.

Section 2. Representations, Warranties and Covenants of TSAHC. TSAHC represents and warrants that:

(a) TSAHC is a non-profit corporation, duly organized and validly existing under the Act and the laws of the State. TSAHC has full power and authority to consummate all transactions, execute all documents, and issue all instruments contemplated by this Agreement.

(b) TSAHC has found and determined that the origination of MCCs by the Lenders to assist in the purchase of Residences by Eligible Borrowers, will further and fulfill the public purposes of the Act.

(c) The execution and delivery of this Agreement by TSAHC and the performance of and compliance with the terms thereof by TSAHC will not, to its knowledge, violate any applicable laws in any respect that could have any material adverse effect whatsoever upon the validity, performance, or enforceability of any of the terms of this Agreement.

(d) This Agreement constitutes a valid and binding obligation of TSAHC, enforceable in accordance with its terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights generally and general principles of equity and by principles of sovereign immunity.

Section 3. Representations, Warranties, and Covenants of the Lender. The Lender represents and warrants to, and covenants with, TSAHC that:

(a) The Lender will duly execute this Agreement and any other applicable MCC Program Document prior to participation in the MCC Program.

(b) The Lender is duly organized, validly existing, and in good standing under the laws governing its creation and existence, is duly authorized and qualified to do in the State of Texas any and all business contemplated by this Agreement and possesses all requisite authority, power, licenses, permits and franchises to conduct its business and to execute, deliver and comply with its obligations under the terms of this Agreement, and to the execution, delivery, and performance of which have been duly authorized by all necessary action.

(b) Neither the execution and delivery of this Agreement by the Lender nor the performance and compliance with the terms hereof by the Lender will (i) violate the instruments creating the Lender or governing its operations, (ii) violate any laws that could have any material adverse effect whatsoever upon the validity, performance, or enforceability of any of the terms of this Agreement applicable to the Lender, or (iii) constitute a material default (or an event that, with notice or lapse of time or both, would constitute a material default) under, or result in the breach of, any material contract, agreement, or other instrument to which the Lender is a party or that may be applicable to the Lender or any of its assets.

(c) The execution and delivery of this Agreement by the Lender in the manner contemplated herein and the performance and compliance with the terms hereof by it do not require the consent or approval of any governmental authority or, if such consent or approval is required, it has been obtained.

(d) This Agreement constitutes a valid, legal and binding obligation of the Lender, enforceable in accordance with its terms, except as the enforcement thereof may be limited by applicable liquidation, conservatorship, bankruptcy, insolvency, rearrangement, moratorium, reorganization and other similar laws affecting creditors' rights generally and general principles of equity.

(e) The Lender will comply with the non-discrimination provisions of the Civil Rights Act of 1965 (78 Stat. 252), the regulations issued pursuant to such Act, and Executive Order 11246, Equal Employment Opportunity, dated September 24, 1965, in connection with the origination of Mortgage Loans under the MCC Program.

(f) No information, certificate, statement, report or affidavit submitted by the Lender to TSAHC pursuant to this Agreement or the MCC Program Guidelines shall, to the knowledge of the Lender, contain any untrue statement of a material fact or omit to state a material fact necessary to make the information, certificate, statement, report or affidavit not misleading,

(g) The Lender is a bank, trust company, savings bank, national banking association, savings and loan association, building and loan association, mortgage banker, mortgage company, credit union, life insurance company, or other financial institution that actively provides service or otherwise aids in the financing of mortgages on single family residential housing located within the State, or is a holding company of any of the foregoing.

(h) The Lender shall indemnify and hold harmless TSAHC and its officers, governing board, and employees against all liability incurred by TSAHC for any and all claims, causes of action, costs, and expenses (including attorneys' fees), judgments, fines, and penalties that may be related to or arise out of any violation of law or breach of this Agreement resulting from an act or omission of the Lender hereunder.

(i) The Lender shall not engage in any predatory or deceptive lending practices in originating any Mortgage Loan, including but not limited to the extension of credit without regard for a Mortgagor's ability to repay the related Mortgage Loan, and/or the extension of credit which has no apparent benefit to the Mortgagor will be employed in connection with the Mortgage Loan application. Each Mortgage Loan application is in compliance with anti-predatory lending eligibility requirements of the MCC Program Documents and any applicable federal, state and local laws, rules and regulations.

(j) The compliance review of an MCC by TSAHC shall not relieve the Lender of any responsibility or liability for the performance or non-performance of any obligation under this Agreement, the Participating Lender Agreement or any other MCC Program Document.

(k) The Lender shall do every act and thing that may be necessary or required to perform its duties under this Agreement, the MCC Program Guidelines and all other MCC Program Documents.

Section 4. Representations, Warranties and Covenants Relating to MCC Program Generally. TSAHC and the Lender hereby declare their understanding and intent that the MCCs entitle the holders thereof to credits against their federal income taxes under Section 25 of the Code, and hereby each covenant to take such actions as are necessary to maintain such entitlement and not to knowingly take or permit or omit to take any action that would impair such entitlement. Without limiting the foregoing, TSAHC and the Lender each further recognize that Section 25 of the Code imposes certain eligibility requirements with respect to the Residences and the Mortgagors eligible to receive MCCs, including those set forth in this Agreement and in the MCC Program Guidelines.

Section 25 of the Code requires that TSAHC attempt in good faith to meet all such requirements by promulgating guidelines for the issuance of MCCs only in accordance with such requirements and by establishing reasonable procedures to ensure compliance with such requirements, including reasonable investigations by TSAHC or its agents, including the Lender, to determine that such requirements are satisfied.

TSAHC and the Lender each hereby covenant and agree to establish and follow reasonable procedures as set forth herein and in the MCC Program Guidelines to ensure compliance with the foregoing requirements.

In the event requirements or procedures, other than those stated herein or in the MCC Program Guidelines, should become applicable to the MCCs and such requirements or procedures must be met in order to assure the validity of any of the MCCs, TSAHC and the Lender each hereby covenant and agree to meet such requirements or procedures.

Section 5. MCC Program Participation.

(a) *General*. The Lender will originate MCC's and related Mortgage Loans in accordance with the requirements of this Agreement and the MCC Program Guidelines, and will submit all items required by TSAHC to participate in the MCC Program.

(b) *MCC Funding Availability*. There may be limitations on the funding availability for MCC's under the MCC Program, which limitations which will be announced to Lenders from time to time by TSAHC under the MCC Program Guidelines or by other means of notification. All funding amounts under the MCC Program will be made available to Lenders on a first-come, first-served basis. TSAHC may add new Lenders to the MCC Program in TSAHC's sole discretion.

(c) *Timeline for MCC Compliance Review*. (i) The Lender must have a fully executed sales contract for a Residence before an application for an MCC may be submitted to TSAHC.

(ii) Mortgage Loans must be closed and funded within the period specified in the MCC Program Guidelines (initially, within 120 calendar days of loan reservation).

(iii) Mortgage Loans must be reviewed and approved for compliance with applicable MCC Program requirements by TSAHC before the MCC certificate will be issued to the Eligible Borrower.

(iv) The Lender must submit both a Pre-Closing Compliance Package and a Post-Closing Compliance Package to TSAHC for review of the eligibility criteria established for the MCC Program. The Lender must submit the Pre-closing Compliance Package at least ten (10) calendar days prior to Closing (or such other period specified in the Program Guidelines). Upon approval of the Pre-Closing Compliance Package, the Lender will be provided a Compliance Commitment Letter (evidencing preliminary compliance approval) through the Lender Portal. To complete the compliance approval process, the Lender must submit the Post-Closing Compliance Package to TSAHC within thirty (30) calendar days following loan Closing, but in no event after the Commitment Expiration Date. Upon approval of the Post-Closing Compliance Package, the status code of the applicable MCC application will reflect "Approved" in the Lender Portal and an MCC Certificate will be mailed to the Eligible Borrower.

(d) *Down Payment Assistance Permitted*. MCC's may be issued with respect to Mortgage Loans for which down payment assistance is made available.

(e) *Processing of MCC Applications by Lender*. The Lender shall process borrower applications for MCC's on a first-come, first-served basis.

(f) *Notice of Failure to Close Mortgage Loan or to Meet MCC Criteria*. If the Lender becomes aware that a Mortgage Loan will not proceed to Closing for any reason (and therefore no MCC will be issued), or if the Lender becomes aware prior to Closing that the Mortgagor no longer qualifies under

the MCC issuance criteria set forth herein and in the MCC Program Guidelines, the Lender shall promptly cancel the Mortgage Loan on the Lender Portal.

(g) *Homebuyer Education***.** To qualify for an MCC under the MCC Program, each Eligible Borrower must complete a homebuyer education course before Closing. The homebuyer education requirement may be met by attending one-on-one counseling as provided through TSAHC's network of certified Texas Statewide Homebuyer Education Providers, HUD-approved counseling agencies', online courses offered through mortgage insurance companies, and/or HUD, Fannie Mae or Freddie Mac approved counseling programs.

Section 6. MCC Program Fees and Charges.

The MCC Program fees and charges will be set forth in detail in the MCC Program Guidelines and are subject to change in the discretion of TSAHC from time to time. Initially, each Eligible Borrower who obtains an MCC will be charged an amount equal to one percent (1%) of the initial principal amount of his or her Mortgage Loan as an MCC Program participation fee. In addition, for the MCC compliance review, a fee of $200 will be charged, which fee may be charged by the Lender to the Eligible Borrower at Closing. If the Eligible Borrower obtains a Mortgage Loan under a TSAHC Homeownership Loan Program in conjunction with a TSAHC provided MCC, then only one compliance fee shall be charged to the Eligible Borrower.

Section 7. Representations, Warranties and Covenants of Lender Relating to Compliance with MCC Program Requirements. (a) The Lender understands that the MCC Program requirements must be met with respect to each Mortgage Loan, and the Lender agrees to take all actions reasonably necessary to ensure compliance with such requirements, including the following:

(i) that each Residence financed with a Mortgage Loan under the MCC Program shall be located within the State of Texas and shall be made to an Eligible Borrower;

(ii) that each Residence financed with a Mortgage Loan under the MCC Program shall be a Residence that, at the time of execution of the Mortgage, can reasonably be expected to become the Principal Residence of the Mortgagor within a reasonable period of time (not to exceed 60 days after the Closing Date of the Mortgage Loan);

(iii) that, except as provided in the definition of Eligible Borrower, the Mortgagors shall not have had a Present Ownership Interest in a Principal Residence (other than the Residence being financed with the Mortgage Loan) at any time during the three (3) year period ending on the Closing Date (proceeds used to finance Targeted Area Residences and Mortgage Loans to Qualified Veterans shall be deemed to have satisfied this requirement);

(iv) that each Residence financed with a Mortgage Loan under the MCC Program shall have a Purchase Price not in excess of the applicable Maximum Purchase Price;

(v) that the proceeds of each Mortgage Loan under the MCC Program shall not be used to acquire or replace an existing mortgage, i.e., that each Mortgage Loan made under the MCC Program shall be made to a person who did not have a mortgage (whether or not paid off) on the Residence securing such Mortgage Loan at any time prior to the execution of the Mortgage, except for certain temporary initial financing for a mortgage securing a construction period loan, a construction bridge loan, or similar temporary initial construction financing

initially incurred for the sole purpose of acquiring the Residence and initially incurred within twenty four (24) months of the Closing Date, having an original term of twenty four (24) months or less, and not providing for scheduled payments of principal during such term;

(vi) that each Mortgage Loan under the MCC Program must be provided to a Mortgagor or Mortgagors whose Family Income does not exceed the applicable Maximum Family Income;

(vii) that, in the event of an assumption of any Mortgage Loan originally made under the MCC Program, the requirements of subparagraphs (i) through (iii), inclusive, and subparagraphs (iv) and (vi) shall be met with respect to such assumption at the time of such assumption; and

(viii) that no Mortgage Loan under the MCC Program shall be made with respect to a two (2) to four (4) family Residence unless (A) one unit of the Residence is the Principal Residence of the Mortgagor and (B) the Residence is an Existing Residence that was first occupied for residential purposes at least five years before the Mortgage Loan is executed. The requirement of clause (B) does not apply in the case of a two (2) family residence that is a Targeted Area Residence. No more than 13% of the aggregate principal amount of the Mortgage Loans made by any Lender shall be made with respect to two to four family Residences.

(b) The Lender covenants and agrees to establish and follow reasonable procedures as set forth in this Agreement, the MCC Program Guidelines and any other MCC Program Document to ensure compliance with the foregoing requirements.

(c) The Lender covenants and agrees that to the extent there are changes to federal, state or local law which requires changes to any MCC Program requirements, the Lender will enter into amendments to this Agreement and any other that incorporates such amendments into this Agreement.

Section 8. Verification of MCC Eligibility Requirements. In order to ensure that each Mortgage Loan is made to an Eligible Borrower to finance a Residence in accordance with the MCC Program rules, the Lender shall use good faith efforts and diligence in carrying out the following procedures with respect to each Mortgage Loan:

(i) the Lender shall obtain an MCC Program Affidavit duly executed by the Mortgagor and the Lender and shall review, verify and certify that the requirements of this Agreement and the MCC Program Guidelines are met;

(ii) the Lender shall perform such additional investigation as may be appropriate under the circumstances (including, but not limited to, personal or telephone interviews with the Mortgagor and the Seller, examination of canceled checks or receipts evidencing payment of rent, review of employment and utility records, review of the purchase contract for the Residence to determine the Purchase Price, and review of title information to verify the absence of any existing permanent mortgage on the Residence executed by the Mortgagor) to verify that the applicable Purchase Price Limit is satisfied as of the date of the execution of the Mortgage Loan;

(iii) the Lender shall review the draft settlement statement to assure that all fees and charges comply with the requirements of this Agreement and the MCC Program Guidelines;

(iv) the Lender shall prepare, execute and deliver the MCC Program Affidavit and all additional required program documentation; and

(v) the Lender shall carry out such additional verification procedures as may be reasonably requested by TSAHC.

If, at any time, any representation, warranty or covenant of the Lender set forth in this Agreement or any other MCC Program Document would not be true and correct in all respects if made by the Lender at such time (regardless of whether such representation or warranty is actually made, deemed to be made, or required to be made at such time), the Lender shall immediately notify TSAHC of such fact and provide a full and accurate explanation thereof.

Section 9. Compliance with MCC Program Guidelines. The Lender shall strictly follow and observe all procedures contained in the MCC Program Guidelines regarding the origination of Mortgage Loans under the MCC Program, the verification of information regarding Eligible Borrowers and the submission of documentation to TSAHC with respect thereto. The Lender understands that it is not entitled to a specific allocation of MCCs and that MCCs will be issued by TSAHC in accordance with the MCC Program Guidelines to Eligible Borrowers on a first-come, first-served basis. The Lender also acknowledges that TSAHC may, in its discretion, include a lending institution in the MCC Program who agrees to abide by the procedures set forth in the MCC Program Guidelines by entering into this Agreement with TSAHC and who pays the MCC Participation Fee then in effect.

Section 10. Amendments and Revisions to the MCC Program. This Lender Participation Agreement (including the MCC Program Guidelines) is subject to change with prior notice to the Lender. No such amendment or revision shall adversely affect any Mortgage Loan for which a commitment has been previously made.

Section 11. TSAHC Review of Lender's Performance. (a) TSAHC at any time, and from time to time, shall have the right to review the performance of the Lender to determine if the Lender is performing in accordance with the requirements of this Agreement and the MCC Program Guidelines.

If TSAHC determines that the Lender is not performing in accordance with such standards, TSAHC shall notify the Lender of any such deficiency, and if such deficiency is sufficient to warrant termination of the Lender by TSAHC, then TSAHC shall notify the Lender that it is being terminated under the MCC Program and the date on which such termination shall be effective.

Section 12. Involuntary Termination of Lender. In addition to its termination rights under Section 11, TSAHC may terminate this Agreement with respect to the Lender upon the occurrence of any one or more of the following events:

(a) Any representation, warranty or covenant of the Lender under this Agreement shall be false in any material respect;

(b) Any failure of the Lender to comply in all respects with its obligations under this Agreement, the MCC Program Guidelines or any other MCC Program Document;

(c) Failure of the Lender to duly observe or perform in any material respect any other covenant, condition, or agreement herein to be observed or performed by the Lender other than as referred to in Sections 12(a) or (b), for a period of thirty (30) days after a written notice to the Lender from TSAHC specifying such failure and requesting that it be remedied; *provided, however,* that if the failure stated in such notice cannot be corrected within the applicable period, the person giving such notice shall consent to a reasonable extension of time if corrective action is instituted by the Lender within the applicable period and diligently pursued until fully corrected; *provided further,* that if the failure cannot be corrected within such period, the Lender may be terminated pursuant to this Section 12;

(d) Issuance or entry of a decree or order of a court, agency, or supervisory authority having jurisdiction in the premises appointing a conservator, receiver, or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities, or similar proceeding affecting the Lender or substantially all of its properties, or for the winding-up or liquidation of its affairs, if such decree or order shall have remained in force undischarged or unstayed for a period of sixty (60) days;

(e) Consent by the Lender to the appointment of a conservator, receiver, or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities, or similar proceeding affecting the Lender or substantially all of its properties; or

(f) Admission in writing by the Lender of its inability to pay debts generally as they mature, or the filing of a petition to take advantage of any applicable bankruptcy or insolvency statute or Debtor Relief Laws, or the making of an assignment for the benefit of creditors.

If any of the events specified in (d), (e), or (f) shall occur, the Lender shall provide written notice of such occurrence to TSAHC immediately upon the happening of such event (and in no event more than two (2) Business Days after such event).

Section 13. Prohibition of Discrimination. With respect to each Mortgage Loan under the MCC Program, the Lender shall not arbitrarily reject an application because of the location and/or age of the property, or in the case of a proposed Mortgagor, arbitrarily vary the terms of a loan or the application procedures therefor or reject a Mortgage Loan applicant because of the race, color, religion, national origin, age, sex or marital status of such applicant. In accepting, evaluating and acting upon such applications, the Lender shall comply, if applicable, with the Federal Fair Housing Act and with the Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder. All applications for Mortgage Loans and evidence of actions taken with respect thereto shall be retained by the Lender until the Mortgage Loan is fully paid.

Section 14. Resignation by Lender. The Lender may resign from the obligations and duties imposed on it pursuant to this Agreement provided that any Mortgage Loan for which an MCC reservation has been granted prior to the effective date of the Lender's resignation shall, to the extent such Mortgage Loan meets the terms and conditions of this Agreement, be closed under the MCC Program.

Section 15. Notices. All notices, certificates, or other communications hereunder shall be deemed given when delivered or five (5) Business Days after mailing by certified or registered mail, postage prepaid, return receipt requested, addressed to the appropriate Notice Address. TSAHC or any Lender may, by notice given hereunder, designate any further or different address to which subsequent notices, certificates, and other communications shall be sent.

Section 16. Severability. If one or more provisions of this Agreement, or the applicability of any such provision or provisions under any set of circumstances, shall be determined to be invalid or ineffective for any reason, such determination shall not affect the validity and enforceability of the remaining provisions of this Agreement or the applicability of the provisions found to be invalid or ineffective for a specific set of circumstances to other circumstances.

Section 17. Further Assurances and Corrective Instruments. The Lender agrees that it will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required or appropriate to further express the intention, or to facilitate the performance, of this Agreement.

Section 18. Term of Agreement. This Agreement shall continue in full force and effect until TSAHC provides written notice to the Lender that the MCC Program is terminated. At such time the Lender shall cease originating Mortgage Loans with MCC's, but this Agreement shall remain in effect for Mortgage Loans for which reservations have been made.

Section 19. No Rights Conferred on Others. Nothing in this Agreement shall confer any right upon any persons other than TSAHC and the Lender.

Section 20. Limitation on Liability of Parties. Each party to this Agreement shall be liable under this Agreement only to the extent that obligations are explicitly imposed upon and undertaken by the party against whom enforcement is sought. TSAHC shall not be held liable for any expenses incurred by the Lender under the MCC Program. TSAHC shall not be liable to the Lender, or any other person, for the taking of any action, or for refraining to take any action, in good faith pursuant to this Agreement, or for errors in judgment. In addition, in the event any party to this Agreement is entitled to indemnification hereunder, the officers, directors, employees, and agents of such party shall also be entitled to indemnification hereunder to the same extent and under the same circumstances as such party.

Section 21. Limitation on Liability of Directors, Officers, Employees, and Agents of a Party. No director, officer, employee, agent or governmental official of any party to this Agreement shall be individually liable to any other party for the taking of any action, or for refraining to take any action, pursuant to this Agreement, or for errors in judgment.

Section 22. Survival of Obligations and Covenants. Notwithstanding anything to the contrary herein, the expiration of this Agreement or the termination or resignation of any Lender under this Agreement shall not affect any obligations of such Lender under this Agreement. The representations, warranties, and covenants of Lender under Sections 3 and 4 shall continue without regard to any termination of the Lender hereunder. Any indemnities in this Agreement shall survive the termination of the Lender hereunder.

Section 23. Reports and Payments Due on Weekends and Holidays. Any report, certificate, or payment required hereunder falling due on a Saturday, Sunday, or other day on which banking institutions in the State are authorized or obligated by Law or executive order to close shall be due on the next succeeding day which is not a Saturday, Sunday, or a day on which banking institutions are authorized or obligated by law of Texas to close.

Section 24. Attorney Fees. In the event the Lender should fail to materially perform its obligations under any of the provisions of this Agreement or any other MCC Program Document, and

TSAHC should employ attorneys or incur other expenses for the enforcement of performance or observance of any material obligation or agreement on the part of the Lender herein or therein contained, the Lender agrees that to the extent permitted by law they will pay or reimburse TSAHC, on demand, the reasonable fee of such attorneys and such other reasonable expenses incurred in connection with the Lender's material failure to perform its obligations hereunder.

Section 25. Limited Liability. All monetary obligations of TSAHC incurred hereunder, and any remedies arising against TSAHC by reason of its default, shall be payable solely out of, and all liability of TSAHC shall be limited to, revenues and receipts derived from the transactions contemplated and performed pursuant to the MCC Program Documents.

Section 26. No Liability for Termination. Notwithstanding any provision in this Agreement to the contrary, TSAHC shall not be liable in any respect for the termination of this Agreement or owe any duty to the Lender if this Agreement is terminated pursuant thereto.

Section 27. Access to Lender's Records. TSAHC and its respective agents may from time to time request the Lender to allow the inspection of any of the Lender's books and records pertaining to the MCC Program, and the Lender shall allow such inspections and access to such books and records at reasonable times during the Lender's normal business hours and upon reasonable terms.

Section 28. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without regard to conflict of law principles.

Section 29. Severability. If one or more provisions of this Agreement, or the applicability of any such provision or provisions under any set of circumstances, shall be determined to be invalid or ineffective for any reason, such determination shall not affect the validity and enforceability of the remaining provisions of this Agreement or the applicability of the provisions found to be invalid or ineffective for a specific set of circumstances to other circumstances.

Section 30. Counterparts. This Agreement may be executed in counterparts by the parties hereto, and each such counterpart shall be considered an original and all such counterparts shall constitute one and the same instrument.

THIS AGREEMENT has been executed as of _____, 201_ and is signed by an authorized representative of TSAHC and the Lender, respectively.

Texas State Affordable Housing Corporation

Signature: _____
Name [Printed]: David Long
Title: President

Lender Name: _____
Signature: _____
Name [Printed]: _____
Title: _____
Email: _____

MORTGAGE CREDIT CERTIFICATE PROGRAM GUIDELINES

Revised 06/24/2013

REVISIONS TABLE

Section	Page	Revision	Date
2.7	6	Under Eligible Borrower: • Professional Educators and Veterans now fall under the Texas Heroes category	06/24/13
2.7(i)(a)	6	All Texas Heroes must be full-time employees	06/24/13
2.9	8	• Added www.texasfinancialtoolbox.com as resource to help find a homebuyer education course	06/24/13
App. A	32	Added Professional Educator and Veteran to Texas Hero category under Eligible Borrower definition	06/24/13
App. A	39	Added Veteran definition	06/24/13
App. D	59	Revised Eligible Borrowers under Form 2	06/24/13

Mortgage Credit Certificate Program Guidelines

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SECTION 1 - INTRODUCTION TO THE MCC PROGRAM

1.1 Forward

The Texas State Affordable Housing Corporation (the "Program Administrator") has created the Mortgage Credit Certificate Program (the "Program") under authority granted by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to low and moderate income homebuyers. The Program Administrator has authority to issue bonds to assist homebuyers, but has elected to exchange its mortgage revenue bond authority for the ability to issue Mortgage Credit Certificates ("MCCs") under this Program within its designated territory ("Eligible Loan Area").

These MCC Program Guidelines ("Program Guidelines") are intended to describe the Program, outline the role of the Program Administrator and set forth the requirements for homebuyers and Lenders to participate in the Program. The capitalized terms used in the Program Guidelines that are not defined herein shall have the meanings set forth in Appendix A. The Program Administrator may revise the Program Guidelines from time to time. Public notice of any material changes to the Program will be published on the Program Administrator's website at www.tsahc.org and on the Lender Portal at www.tsm-online.org.

Lenders are required to execute an MCC Participating Lender Agreement with the Program Administrator.

1.2 What is a Mortgage Credit Certificate?

An MCC is a federal income tax credit designed to assist persons of low to moderate income better afford individual homeownership. With an MCC, the qualified homebuyer is eligible to write off a portion of the annual interest paid on the mortgage as a special tax credit, not to exceed $2,000, during each year that the Mortgagors occupy the home as their Principal Residence. The portion or amount of the tax credit is equal to the mortgage credit rate on the MCC (40%) multiplied by the annual interest paid. This credit reduces the federal income taxes of the homebuyer, resulting in an increase in the homebuyer's net earnings. Increased homebuyer income results in increased homebuyer capacity to qualify for the Mortgage Loan. The MCC has the potential to save the MCC holder thousands of dollars over the life of the Mortgage Loan.

MCC Example

In the example below, the credit amount is equal to the mortgage credit rate multiplied by the annual interest paid on the Mortgage Loan in that given year. For example:

Mortgage Loan Amount: $120,000
Interest Rate: 4.50%
Mortgage Credit Rate: 40%

$120,000 x 4.50% = $5,400 (Interest paid for the first year)
$5,400 x 40% = $2,160 (Calculated Mortgage Credit Amount)

Given the maximum credit allowed is $2,000, the credit amount taken that year will be $2,000. Tax credit amounts not used in a given year may be carried forward into subsequent years, as explained in Section 1.7.

1.3 The Difference Between a Tax Credit and a Tax Deduction

A tax credit entitles taxpayers to subtract the amount of the credit from their total federal income tax liability, receiving a dollar-for-dollar savings. A tax deduction is subtracted from the adjusted gross income before federal income taxes are computed. Therefore, with a deduction, only a percentage of the amount deducted is realized in savings.

1.4 MCC and the Federal Income Tax Mortgage Interest Deduction

A taxpayer receiving an MCC reduces the portion of his/her normal deduction taken for interest paid on the Mortgage Loan by the amount of the tax credit taken on a dollar-for-dollar basis (see Section 1.6 below for an example). However, the homebuyer can deduct the remainder of the annual mortgage interest payment not claimed as a credit. Although the interest deduction is reduced, the holder of the MCC still pays considerably less in taxes.

The MCC will reduce the amount of federal income taxes otherwise due from the homebuyer; however, the benefit to the homebuyer in any one year cannot exceed the amount of federal taxes owed for that year, after other credits and deductions have been taken into account.

1.5 How a Homebuyer Applies for an MCC

The homebuyer may obtain an MCC through any of the Program Administrator's participating Lenders. A list of the Lenders can be found on the Program Administrator's website at www.tsahc.org. Participating Lenders do not receive a specific allocation of the total amount available through the MCC Program; rather, MCCs are available on a first-come, first-served basis. The homebuyer should apply for the MCC at the same time he or she makes a formal application for a Mortgage Loan.

1.6 How a Homebuyer Uses the MCC

The Mortgagor(s) may receive the full MCC tax credit annually at the time they file their tax return or monthly by adjusting his or her federal income tax withholding by filing a revised Form W-4 with his or her employer. By taking this latter action, the number of exemptions will increase, reducing the amount of taxes withheld and increasing the homebuyer's disposable net income.

Using the example in Section 1.2, during the first year of the Program, this Mortgagor would be entitled to a tax credit of $2,000. Based upon such an entitlement, he or she would be able to file in advance a revised Form W-4 taking into consideration the anticipated tax credit and have approximately $166.67 per month in additional disposable income ($2,000/12 = $166.67). For more information on how to adjust withholding, refer to Appendix F.

Taxpayers who file itemized returns may take a deduction for mortgage interest paid each year, less the amount of the tax credit taken. Using the example above, the interest deduction would be $5,400 less $2,000, or $3,400. In any event, when filing each year's tax return, the homebuyer must fill out IRS Form 8396 and attach a copy of the MCC to the tax return. This is not intended to be a full explanation, nor an assurance that such information will guarantee compliance with tax laws. We encourage the Mortgagor to contact his or her tax advisor or employer to assist with the necessary tax forms and, if the Mortgagor so chooses, to properly adjust his or her tax withholding.

1.7 When the MCC Credit Exceeds the Tax Liability

If the amount of the MCC credit exceeds the MCC holder's tax liability, after other credits and deductions have been taken into account, the unused portion of the credit can be carried forward for the next three tax years or until used, whichever comes first. The homebuyer will have to keep track of the unused credit each year. The current year credit is applied first and then the oldest amount of unused credit from previous years is applied next.

1.8 Potential Recapture Tax

A Borrower who receives an MCC may be subject to a federally imposed mortgage subsidy recapture tax ("Recapture Tax") if the Mortgagor sells his or her Residence within nine years. The tax, if any, will always be the lesser of: half the gain from the sale of the home, or a tax based on a formula which takes into consideration: (1) the original principal amount of the home mortgage; (2) the number of complete years that pass before the home is sold; (3) the Applicable Median Family Income for the homebuyer's area at the time he/she bought the home, and (4) the homebuyer's adjusted gross income at the time the home is sold.

There are several conditions that can exempt the MCC holder from Recapture Tax. These include: (a) no net gain on the sale of the property, (b) insufficient increase in the income of the MCC holder between the time of purchase and the time of sale, (c) sale of the home after the ninth year, and (d) a sale due to death or divorce.

The homebuyer receives detailed information on Recapture Tax from the Lender and is asked to sign a statement at the time of application that he or she is aware of the tax. Please refer to Appendix E for more information regarding Recapture Tax.

SECTION 2 – MORTGAGOR ELIGIBILITY

2.1 First-Time Homebuyer Requirement

Mortgagor(s) applying for an MCC cannot have had an ownership interest in a Principal Residence at any time during the preceding three years ending on the date the mortgage is executed. This requirement does not apply to acquisitions of homes in Targeted Areas or if a Mortgagor is a Qualified Veteran. The Mortgagor and spouse, and any other adult who will be reflected on the deed of trust, must meet this First-Time Homebuyer requirement. This requirement also applies to both members of separated couples.

To demonstrate compliance with this requirement, the Lender must obtain from the Mortgagor a signed Program Affidavit stating that the Borrower had no 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 must be verified by the Lender's examination of the Borrower's federal tax returns for the preceding three years (or by acceptable alternate documents, discussed below) to determine whether the Borrower has claimed a deduction for mortgage interest or taxes on real property claimed as a Principal Residence. In addition, the Lender must obtain rental verification (either written or verbal) from the last tax return filed to the application date.

Any person who is living in the home as his or her Principal Residence and is listed on the deed of trust has an ownership interest, even if he or she does not take a deduction for mortgage interest on his or her federal tax returns. For married couples, both spouses hold an ownership interest, even if only one is listed on the deed of trust. However, a person (for example, a parent of a Mortgagor) who is a payor under or a guarantor of a

promissory note secured by the mortgage, but who does not occupy the property and has no present ownership interest in the Residence, need not satisfy the First-Time Homebuyer requirement.

Each Borrower is required to submit acceptable documentation with his or her MCC application to demonstrate that he or she meets the First-Time Homebuyer requirement. The following documentation options will satisfy this requirement:

a. Each Borrower provides the signed and dated Form 1040, 1040A or 1040EZ federal income tax returns for the past three years with all schedules that show no deductions for mortgage interest or real estate taxes for a Principal Residence. If these documents are available, they should be included in the MCC Pre-Closing Compliance Package.

b. For Borrowers who do not have copies of the actual tax returns submitted to the IRS, the Borrower may submit printouts from the local IRS office that reflect his or her three most recent federal tax returns. The printouts are usually provided free of charge, on a while-you-wait basis. The printouts from the IRS do not have to be signed. Provided that the printout shows that no mortgage interest deduction was taken, the printout can be submitted in lieu of the tax return copies. However, if the IRS has determined that an error was made on any of the requested tax returns, the staff will not issue a printout; they will instead issue an IRS Letter 1722.

c. For Borrowers who are unable to obtain a computer printout from the IRS, as described above, the Borrower can request instead IRS Letter 1722, which summarizes pertinent data from the Borrower's tax returns for the requested years. However, the Borrower must also obtain on the Letter 1722 a statement from the IRS that no mortgage interest deduction was taken during the three year period if the Borrower filed a Form 1040 (long form) for one or more of the three years.

d. For Borrowers who cannot locate copies of their actual tax returns submitted to the IRS, the Borrower may request copies of the returns from the IRS using Form 4506. Copies generally will be sent to the Borrower within 6-8 weeks. The IRS charges a fee for this service.

e. In the event the Borrower 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 so indicate on Section 6 of the MCC Program Affidavit provided by the Program Administrator. Borrowers who cannot provide tax returns because they did not file them when required to do so, and who have failed to file for an extension, are not eligible for the Program.

Applications that are not completed by April 15th of a given year need to be accompanied by the preceding year's tax return, or acceptable substitute documentation, discussed above. For example, after April 15, 2012, the completed 2011 return will be required.

If one or more of a Borrower's tax returns reflect that the Borrower took a deduction for mortgage interest or real estate taxes on property claimed not to be the Principal Residence, documentation (rent receipts or canceled checks) of the rental history is required for the period from the last tax return filed to the MCC application date.

An ownership interest in a mobile home will be considered a prior ownership interest in a Principal Residence if the mobile home was (1) permanently attached or anchored to land and has had the wheels and other components used in transportation removed, and (2) taxed as real property. These requirements also are used to determine whether a mobile home is a Qualifying Residence (section 4.2).

Remember, except for cases involving a self-employed Borrower, the Borrower submits copies of three years' tax returns NOT to verify Income, but to verify First-Time Homebuyer status.

2.2 Income Limitation

Eligible Borrowers must have Family Income that is within the Maximum Family Income limits. Please see the Program Administrator's website at www.tsahc.org or the Lender Portal at www.tsm-online.org for the specific Income limits for this Program.

Family Income is calculated by taking the Borrower's current gross monthly income, as well as that of anyone else who is expected to live in the Residence and become liable on the deed of trust (including a non-purchasing spouse) and multiplying that amount by 12.

Verification of the Borrower's Family Income is performed by the Lender and reviewed by the Program Administrator. All persons whose income must be considered in processing the MCC application must also meet all other individual requirements of the Program, including the First-Time Homebuyer requirement, and each such person must execute all applicable Program Affidavits. This generally applies to spouses whether or not such spouse's income is used to qualify for credit underwriting purposes.

a. **Two Methods of Computation.** The Lender uses one of two methods of Family Income computation depending on whether the Borrower is employed or self-employed. Generally, Family Income for an employed person is computed by multiplying the current gross monthly income figure by twelve. Sporadic income may be averaged and added to that base figure for a total. Family Income for a self-employed person is computed by annualizing the year-to-date total on a current profit and loss statement and averaging that amount with the net income figures from the two most recent years' federal income tax returns (with depreciation added back in). Detailed instructions for calculating Family Income are included in Appendix B.

b. **Sources of Income.** The IRS requires that every source of income, taxed or untaxed, be included in the calculation of Family Income for the MCC. See Appendix B for a complete listing of the sources of income which must be considered in computing a Borrower's Income.

c. **Prior Year Earnings.** On some pay stubs the year-to-date earnings include pay from the last part of the prior year. In such circumstances, the Borrower should request that the employer provide a signed statement of verification. Otherwise, the Borrower may be deemed to exceed the Maximum Family Income limits, due to an inflated average, and be disqualified.

2.3 Residence Requirement

The Borrower must use the Residence for which the MCC is issued as his or her Principal Residence. The Borrower must submit all applicable Program Affidavits, which includes a statement of the Borrower's intent to use the Residence as his or her Principal Residence within a reasonable time (60 days) after the MCC is issued. This Affidavit further states that the MCC holder will promptly notify the Lender and the Program Administrator if the Residence ceases to be his or her Principal Residence. A Residence that is primarily intended to be used as a vacation home or in a trade or business is not a Principal Residence.

2.4 Usage of Residence in a Trade or Business

The land attached to a Residence will be considered a part of the Residence only if such land reasonably maintains the basic livability of the Residence and does not provide, other than incidentally, a source of income to the Mortgagor.

Except for the units rented in a two-to-four unit dwelling, where one unit is owner-occupied, the Borrower cannot use more than 15% of the Residence in a trade or business. The Lender should review the Borrower(s) tax returns to see if the Borrower(s) deducted any portion of the cost of the Residence as a home business expense and determine whether more than 15% of the Residence was used. Borrowers providing childcare in the home are assumed to be using more than 15% of the Residence for business purposes and, therefore, would not qualify for the Program.

2.5 Legal Separation/Prenuptial Agreements

Legal separation agreements are not sufficient to exclude a spouse from the determination of whether the separated spouse meets the Program's eligibility requirements. Program compliance requires verification of both spouse's income and property ownership status. The Lenders must treat separated Borrowers as married, and both Borrowers must meet the Income and property guidelines. Prenuptial agreements are not acceptable to exclude a spouse from the eligibility requirements in cases where Borrowers have filed joint tax returns and real estate tax deductions have been realized at any time in the previous three years.

2.6 Non-Purchasing Spouses

Non-purchasing spouses must be considered in determining eligibility to participate in the Program. A spouse may never be excluded from the calculation of Family Income. Although a spouse may not be a Borrower on the mortgage, and his or her income may be excluded for credit underwriting purposes, a spouse's income must always be considered in the calculation of Family Income for MCC purposes. Spouses must also execute all applicable Affidavits, even if the spouse has no income.

In addition, any person whose income is used for purposes of Program qualification (i.e. non-purchasing spouses) must also meet the standard of First-Time Homebuyer, where applicable. A non-purchasing spouse may disqualify the purchasing spouse even if the purchasing spouse fully meets the Program terms. The Lenders are cautioned to ensure that non-purchasing spouses provide tax return and income information, as well as executing all applicable Affidavits.

2.7 Eligible Borrowers

Eligible Borrowers include Texas Heroes and Low-Income Borrowers who meet applicable Program requirements as set forth below.

(i) <u>"Texas Hero" Category.</u> Under this category, a person qualifies under the Program if such person, at the time such person files an application for an MCC, is a person:

(a) who is one of the following—

(i) Professional Educator: a full-time classroom teacher, full-time paid teacher's aide, full-time librarian, full-time school nurse, full-time counselor, Professional Nursing Program Faculty Member, or Allied Health Program Faculty Member;

(ii) Veteran;

(iii) Full-time Fire Fighter;

(iv) Full-time Corrections Officer or Juvenile Corrections Officer;

(v) Full-time County Jailer;

(vi) Full-time Public Security Officer;

(vii) Full-time Peace Officer; or

(viii) Full-time Emergency Medical Service Personnel;

(b) who resides in the State of Texas;

(c) whose Family Income does not exceed the applicable Maximum Family Income limit;

(d) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(e) who (except in the case of an Eligible Borrower who is purchasing a home in a Targeted Area or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date (this is the First-Time Homebuyer requirement);

(f) 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 Mortgage Loan at any time prior to the execution of the mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of loan Closing, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(g) who has not previously obtained a Commitment for an MCC under the Program; and

(h) the Purchase Price of the related Residence does not exceed the Maximum Purchase Price limit.

(ii) "Low-Income Category". Under this category, a person qualifies under the Program if such person, at the time such person files an application for an MCC, is a person:

(a) whose Family Income does not exceed the applicable Maximum Family Income limit, which amount shall not be greater than 80% of Applicable Median Family Income without adjustment for family size;

(b) who resides in the State of Texas;

(c) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(d) who (except in the case of an Eligible Borrower who is purchasing a home in a Targeted or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date (this is the First-Time Homebuyer requirement);

(e) 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 Mortgage Loan at any time prior to the execution of the Mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of the Closing Date, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(f) who has not previously obtained a Commitment for an MCC under the Program; and

(g) the Purchase Price of the related Residence does not exceed the Maximum Purchase Price limit.

2.8 Qualified Veteran

A Qualified Veteran means a person who is a veteran (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds or a loan which utilized a mortgage credit certificate program using the veteran's exception to the 3-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of his or her discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

2.9 Homebuyer Education

Borrowers must complete a homebuyer education course prior to Closing. The education requirement may be met by attending one-on-one counseling as provided through TSAHC's network of housing counseling agencies, online courses, and/or HUD, Fannie Mae or Freddie Mac approved counseling programs. Borrowers can visit www.texasfinancialtoolbox.com to find a provider in their area.

A copy of the homebuyer education certificate must be included in the Post-Closing Compliance Package submitted to the Program Administrator.

SECTION 3 – LOAN ELIGIBILITY

3.1 Types of Loans

The Program does not place restrictions on the mortgage financing with regard to loan type, term or rate. However, only fixed-rate first mortgages (as opposed to second mortgages) qualify for this Program. In addition, mortgages funded with a qualified mortgage bond or a qualified veteran's mortgage bond are not eligible. The Lender and the Borrower, using the Program Affidavits, represent that no portion of the financing for acquisition of the Residence is provided by a qualified mortgage bond or veteran's mortgage bond.

3.2 New Mortgage Requirement

An MCC cannot be issued in conjunction with a Mortgage Loan that replaces an existing Mortgage Loan; however, an MCC can be used in conjunction with the replacement of construction period loans or bridge loans of a temporary nature. Construction period or bridge loans cannot have durations of longer than 24 months. The Lender must obtain from the Borrower, via the Program Affidavits, a statement to the effect that the Mortgage Loan being made in connection with the MCC will not be used to acquire or replace an existing mortgage or land contract.

SECTION 4 – PROPERTY ELIGIBILITY

4.1 Eligible Loan Area

The home being purchased must be located in the Eligible Loan Area. The Eligible Loan Area for this program is the state of Texas. The Lender should verify the property's location within the Eligible Loan Area by reviewing the property appraisal and location where the property taxes are paid.

4.2 Qualifying Residences

An MCC can be used for either new or existing single family homes, detached or attached structures, consisting of not more than four connected dwelling units intended for residential housing, each for one family, or a single unit in a condominium, or townhouse. A single unit in a duplex, triplex, or fourplex, or an entire duplex, triplex, or fourplex can be financed, provided that one of the units will be occupied by the Borrower and the Residence was first occupied for residential purposes at least five years prior to origination of the mortgage loan. However, this five-year requirement does not apply to the purchase of a single unit in a duplex or if the property, regardless of number of units, is in a Targeted Area.

Manufactured homes are also eligible, but they must meet HUD guidelines and Program requirements. To qualify, a manufactured home must be manufactured in a factory after June 15, 1976, delivered to a home site in more than one section and affixed on a permanent foundation. The dimensions of the completed dwelling shall be not less than 20 feet by 40 feet, the roof must be sloping, the siding and roofing must be substantially similar to those found in site built dwellings. Mobile homes must be taxed as real property.

The following types of properties are not eligible for the Program:

a. Rental homes

b. Cooperative housing
c. Homes used as investment properties
d. Recreational, vacation or "second" homes
e. Motor homes, campers and similar vehicles

4.3 Purchase Price Limitation

The Purchase Price of the Residence cannot exceed the maximum Purchase Price limits. The maximum Purchase Price limits are based on a percentage of the Average Area Purchase Price, as determined and updated by the IRS. For current maximum Purchase Price limits, visit the Program Administrator's website at www.tsahc.org or the Lender Portal at www.tsm-online.org.

4.4 Targeted Area Set-Aside Requirement

Certain census tracts within the Eligible Loan Area or "areas of chronic economic distress" may be designated at Targeted Areas. Borrowers purchasing in Targeted Areas do not have to meet the First-Time Homebuyer requirement. Also, the Maximum Family Income and Maximum Purchase Price limits in Targeted Areas are higher.

Of each MCC allocation received, 20% is set aside for use in Targeted Areas for one year (the "Targeted Area Origination Period"). Please see Appendix D for a list of census tracts in the Program's Targeted Areas.

SECTION 5 - LOAN PROCESSING AND UNDERWRITING PROCEDURES

5.1 Overview

In general, Lenders process mortgage loan applications for MCC Borrowers similarly to traditional mortgage applications. The principal difference is processing of the MCC application along with the mortgage loan.

The procedures below are designed to coincide with the mortgage loan processing and underwriting procedures that are standard in the industry and among most mortgage lending institutions. Recognizing there are procedural variations among the Lenders, the procedures outlined herein are meant to serve as guidelines with respect to the sequence of events. However, all the elements of the processing sequence outlined in this document must be completed, regardless of sequence, by the Lender, the Program Administrator, the Borrower, and the Seller.

The Lender will be required to submit certifications on which it will state that to the best of its knowledge, no material misstatements appear in the application and Program documents. If the Lender becomes aware of misstatements, whether negligently or willfully made, it must notify the Program Administrator immediately, who will take action to correct or mitigate the problem.

The Lender should also be aware and inform the Borrower that criminal penalties are provided by federal and state 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, a Program Affidavit, which is part of the MCC application, is required to be executed by each Borrower and must be included in the Pre-Closing Compliance Package that is submitted to the Program Administrator for review of applicable eligibility criteria.

The MCC Program allows the use of any standard fixed-rate mortgage instrument being used in the marketplace. The MCC Program can also be used in conjunction with non-bond funded down payment assistance programs, such as those offered by TSAHC and other down payment assistance providers. For example, you can use TSAHC's MCC Program with TSAHC's Homeownership Program which would provide the Borrower with a fixed rate loan and a down payment assistance grant with an MCC providing a tax credit to the Borrower of up to $2,000 per year for the life of the loan. However, the MCC Program cannot be used with a mortgage funded by a qualified mortgage bond or a qualified veteran's bond.

5.2 The Steps of Loan Origination and MCC Application

The following is a step by step description for the processing of MCC applications under the Program.

a. The Borrower applies for a Mortgage Loan through a Lender.

b. The Lender discusses the benefits and requirements of the Program with the Borrower.

c. The Lender determines that the Borrower is an eligible candidate for an MCC, based upon profession, if applicable, Income, Purchase Price, First-Time Homebuyer status (unless the home being purchased is within a Targeted Area or the Borrower is a Qualified Veteran), tax liability, and the other factors discussed herein.

d. The Lender asks the Borrower to supply copies of his or her signed income tax returns (or applicable alternatives listed in Section 2.1) for the last three years, unless the home being purchased is within a Targeted Area or the Borrower is a Qualified Veteran. Explain to the Borrower that his or her spouse must also submit signed income tax returns, whether or not the couple is living together.

f. Collect all required Income documentation from the Borrower, including:

    1. If Borrower is employed, obtain a copy of a recent (30 days or less) year-to-date pay stub. If the Borrower is self-employed, ask for a profit and loss statement for the current year, as well as two prior year's tax returns.

    2. Collect documentation of all additional sources of Income (see Appendix B for types of Income to be included). Explain to the Borrower that his or her spouse must also submit Income documentation, whether or not the couple is living together.

g. The Lender reviews the sales agreement for the Residence to determine that the sales price is less than the Program's Maximum Purchase Price.

m. The Lender and Borrower together review and execute the MCC Program Affidavit. This document serves as the application and contains the certifications in Affidavit format required by regulations governing the Program. These include:

    1. Certification that the Residence will be used as a Principal Residence and that the MCC holder will promptly notify the Lender and the Program Administrator if the home ceases to be the Principal Residence of the MCC holder;

2. Certification that the Borrower has not had an ownership interest in a Principal Residence during the preceding 3-year period (not required for property in a Targeted Area or for a Borrower that is a Qualified Veteran);

3. Certification that the Purchase Price does not exceed the Maximum Purchase Price limit;

4. Certification that the Residence is located within the Eligible Loan Area;

5. Certification that the borrower is an Eligible Borrower;

6. Certification that the MCC application accompanies a new mortgage loan, as defined in the Internal Revenue Code;

7. Certification that the loan applied for does not constitute a prohibited mortgage, such as a mortgage financed through the sale of bonds or a single family bond loan;

8. Certification that the Lender was selected by the Borrower in his or her sole discretion;

9. Certification that the Borrower's gross annual income does not exceed permitted Program Maximum Family Income limits;

10. Certification that no interest on the loan is being paid to a related person;

11. Certification that the MCC cannot be transferred without the prior written approval of the Program Administrator in accordance with the Program requirements;

12. Certification that that statements are made under penalty of perjury and that any material misstatement or fraud may create civil or criminal liability; and

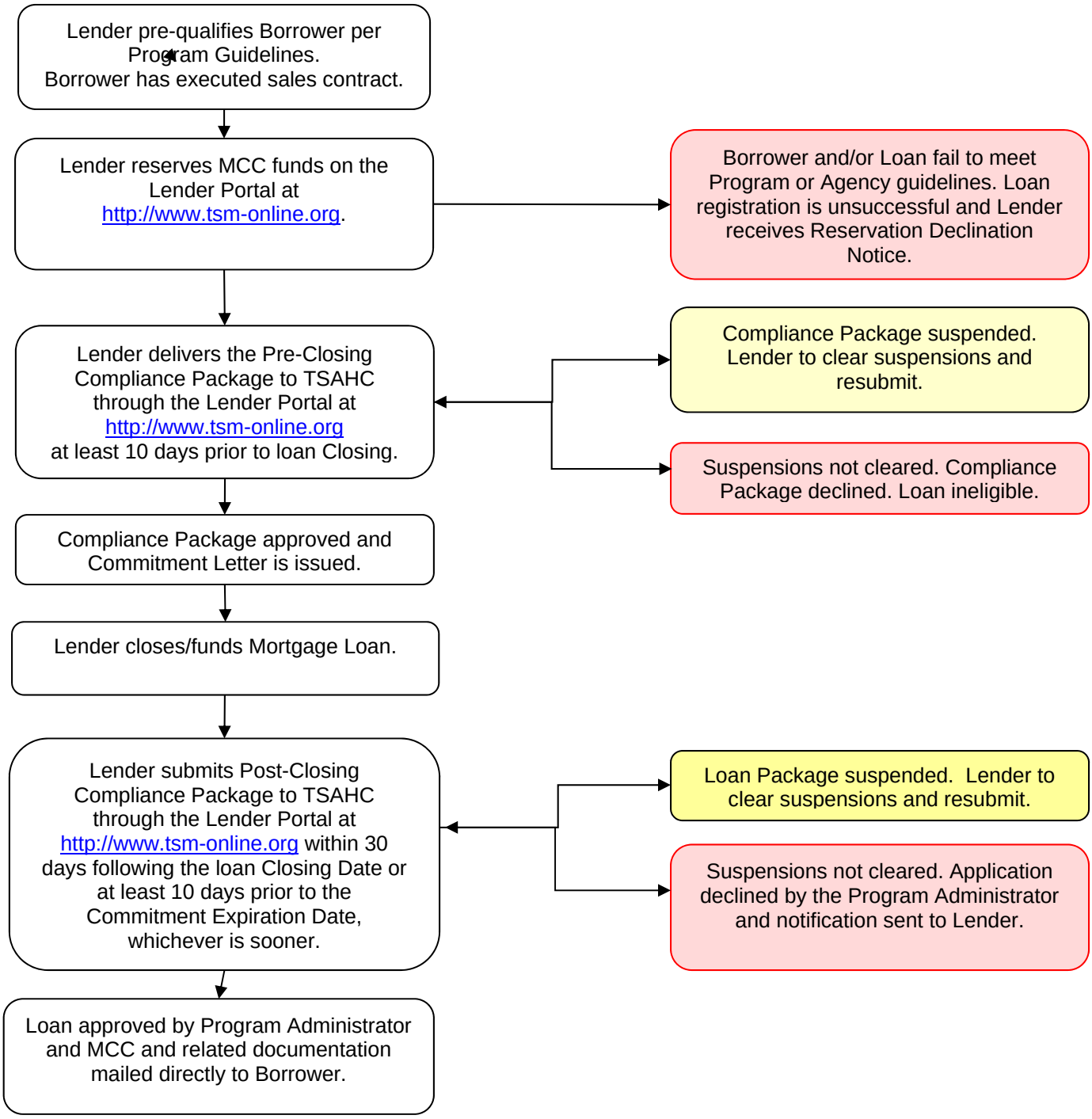
13. Certification that the Lender's signature is by an authorized agent of the Lender

h. Explain to the Borrower that he or she will receive the MCC in the mail from the Program Administrator after the loan Closing Date.

i. Explain to the Borrower how to calculate the amount of tax credit that they will be entitled to upon the issuance of the MCC.

j. Upon fully discussing the Program with the Borrower and gathering all of the necessary documentation to verify the Borrower's eligibility, the Lender is ready to start the reservation process.

5.3 Operational Flowchart – MCC Program



SECTION 6 – LOAN RESERVATION AND COMPLIANCE PROCEDURES

6.1 Rules Related to Reservation of Funds

The Lender commits to accept applications for MCCs in all of its lending offices within the Eligible Loan Area. MCCs will be issued on a first-come, first-served basis, irrespective of the Borrower's race, color, religion, national origin, age, or gender. There will be no restrictions as to the total number of MCC reservations issued to any particular Lender.

At the time the Lender makes an MCC reservation, the Lender must have a mortgage loan application from a Borrower and the Lender must have made a preliminary determination that the Borrower qualifies for the Program. In addition, the Borrower must have furnished the Lender with a property sales contract or construction contract executed by the Borrower and the seller or builder of a Residence.

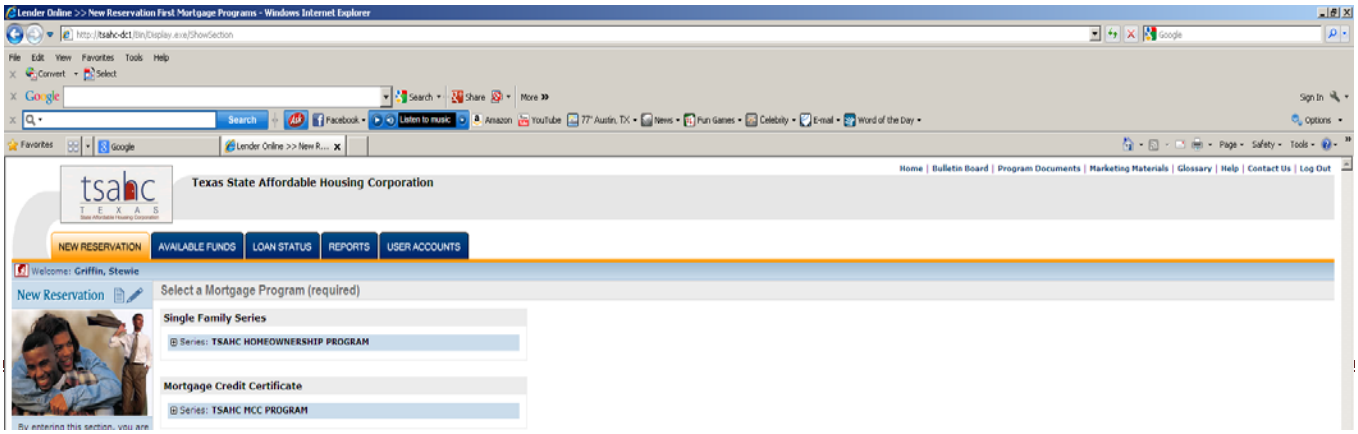
The Program Administrator will not allow a transfer of any MCC reservation from one Eligible Borrower to another, but may allow a loan transfer from one approved Lender to another. The Program Administrator will honor the original Commitment Expiration Date as long as all other conditions are met. The transfer will be recognized and approved by the Program Administrator only after written notification is received from the originating Lender. The MCC reservation committed to an Eligible Borrower may be transferred from one property to another with the prior approval of the Program Administrator.

6.2 Reservation and Compliance Procedures (Lender Portal)

The Lender Portal is the software application that Lenders use to reserve funds and submit Compliance Packages under TSAHC's MCC Program. In addition to managing the reservation and compliance functions, the Lender Portal is an interactive, web-based tool that allows Lenders to check the status of MCCs in their pipeline, view compliance conditions, print compliance approval (Commitment) letters, run reports, view Program Guidelines and marketing materials and keep abreast of current updates and other important information associated with the Program.

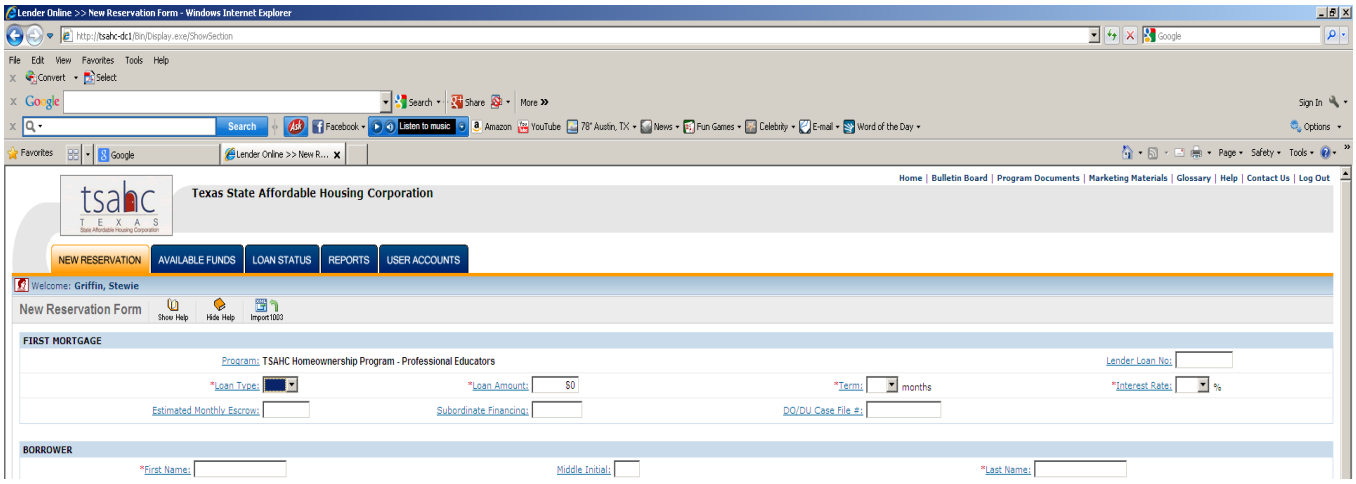
6.3 Reserving Funds

a. Login to the TSAHC Lender Portal at www.tsm-online.org.
b. Select the "New Reservation" tab in the upper left corner.
c. Select the appropriate Program from the list and complete the reservation form.

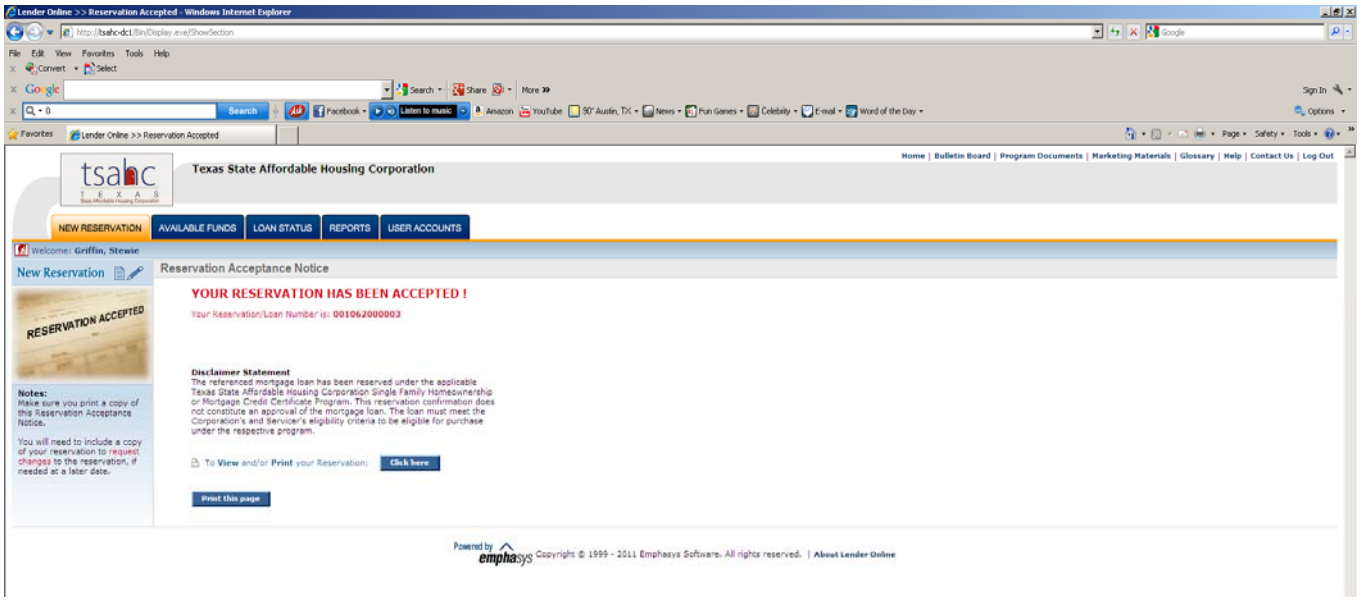


1. Complete the entire reservation form and click “Submit” at the bottom of the form.

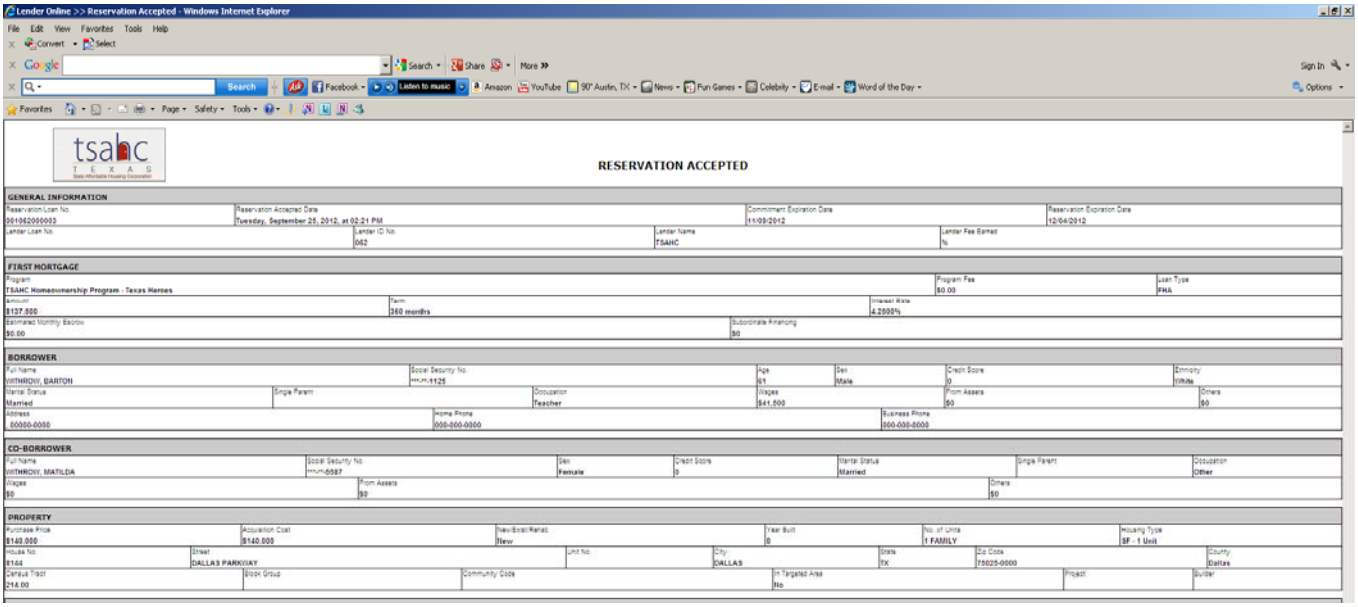
   - ✓ Required fields are designated with a red asterisk.
   - ✓ The reservation form may be populated by uploading your electronic loan application (1003). <u>The 1003 must be uploaded from HTML format</u>.



2. Once the MCC is reserved, you will have the option to view or print your reservation confirmation.



3. The reservation confirmation will include the TSAHC Loan Number, the date reserved and the Commitment Expiration Date.



Lender Online >> Reservation Accepted - Windows Internet Explorer

tsahc TEXAS

RESERVATION ACCEPTED

GENERAL INFORMATION			
Reservation Loan No. 0010620000003	Reservation Accepted Date Tuesday, September 25, 2012, at 02:21 PM	Commitment Expiration Date 11/09/2012	Reservation Expiration Date 12/04/2012
Lender Loan No.	Lender ID No. 062	Lender Name TSAHC	Lender Fee Earned %

FIRST MORTGAGE			
Program TSAHC Homeownership Program - Texas Heroes		Program Fee $0.00	Loan Type FHA
Amount $137,500	Term 360 months	Interest Rate 4.2500%	
Estimated Monthly Escrow $0.00		Subordinate Financing $0	

BORROWER							
Full Name WITHROW, BARTON	Social Security No. ***-**-1125		Age 61	Sex Male	Credit Score 0		Ethnicity White
Marital Status Married	Single Parent	Occupation Teacher	Wages $41,500		From Assets $0		Others $0
Address 00000-0000	Home Phone 000-000-0000			Business Phone 000-000-0000			

CO-BORROWER						
Full Name WITHROW, MATILDA	Social Security No. ***-**-0587	Sex Female	Credit Score 0	Marital Status Married	Single Parent	Occupation Other
Wages $0	From Assets $0				Others $0	

PROPERTY							
Purchase Price $140,000	Acquisition Cost $140,000	New/Exist/Rehab New	Year Built 0		No. of Units 1 FAMILY		Housing Type SF - 1 Unit
House No. 8144	Street DALLAS PARKWAY	Unit No.	City DALLAS		State TX	Zip Code 75025-0000	County Dallas
Census Tract 214.00	Block Group	Community Code	In Targeted Area No			Project	Builder

6.4 Submitting Compliance Packages

Once the MCC funds have been reserved, the Lender will be responsible for submitting the Pre-Closing Compliance Package. The package consists of the following documents.

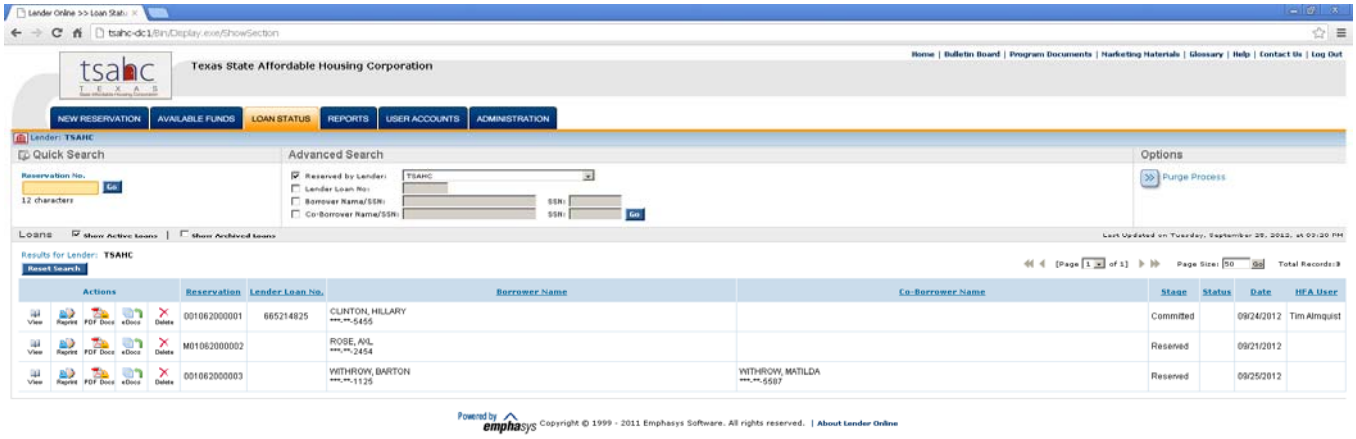
a. Copy of MCC Pre-Closing Compliance Checklist.
b. Copy of MCC Program Affidavit signed by any individual who executes the deed of trust and the Lender.
c. Copy of Loan Application (1003).
d. Copy of three years tax returns (not required if purchasing a home in a Targeted Area or if Borrower is a Qualified Veteran). If submitting the forms the Borrower filed with the IRS, they must be signed. Printouts from the IRS do not need to be signed. Tax returns are required for any individual who executes the deed of trust.
e. Copy of the first and last pages ONLY of the purchase contract agreement and any counter offers (signed by all parties).

In all cases, the Lender must submit the MCC Pre-Closing Compliance Package and receive the MCC Compliance Commitment Letter prior to Closing the Mortgage Loan.

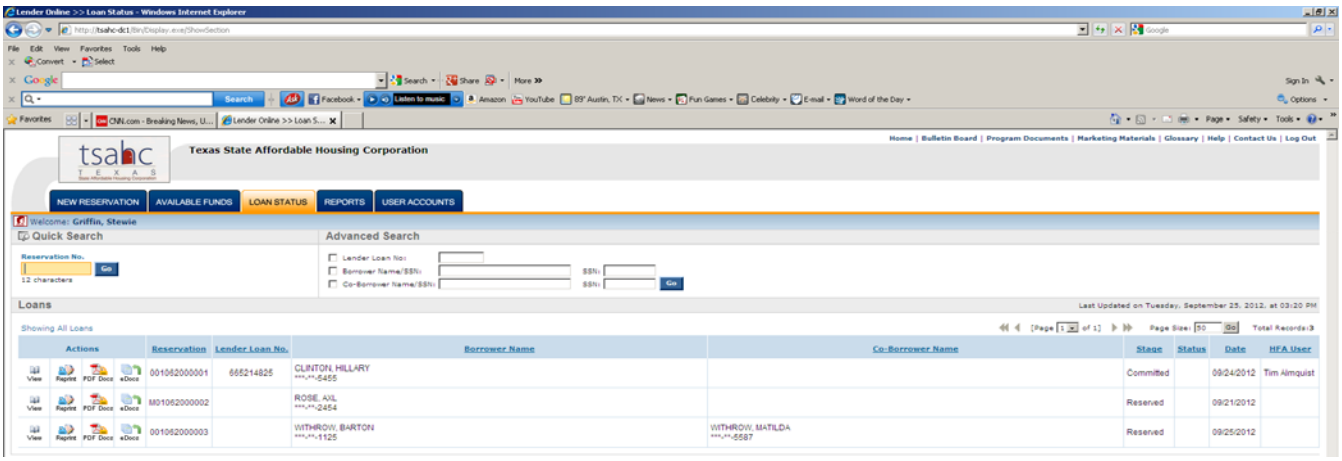
6.5 Completing Program Forms

The Lender Portal allows Lenders to complete and submit electronic documents from our list of PDF forms or from your in-house loan file. No paper documents are required. All documents must be uploaded electronically.

a. Login to the Lender Portal at www.tsm-online.org.
b. Click on the "Loan Status" tab and use the search engine to locate the applicable loan.
c. Once the correct loan is identified, click on the "PDF Forms" tab associated with the selected loan.



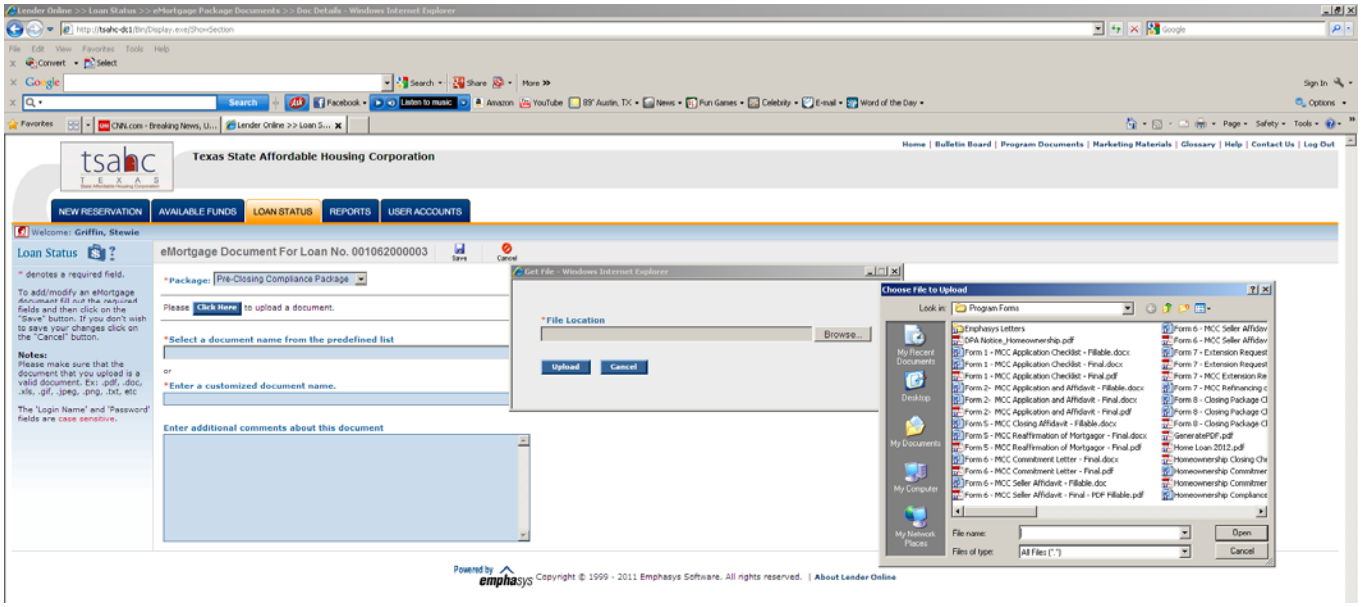
d. Select/open the desired package and ensure all required fields are completed. The system will auto-fill the fields that were input at MCC reservation.
e. If the applicable form requires no signature, it will have an "Upload Package" button at the bottom. Simply click the button after completing the form and it will automatically upload to the eDocs module of the Lender Portal.
f. If the applicable form requires a signature, the form must be completed, printed and scanned to create a PDF document. The PDF document may then be uploaded to the system using the "eDocs" function associated with your MCC reservation under the "Loan Status" tab.



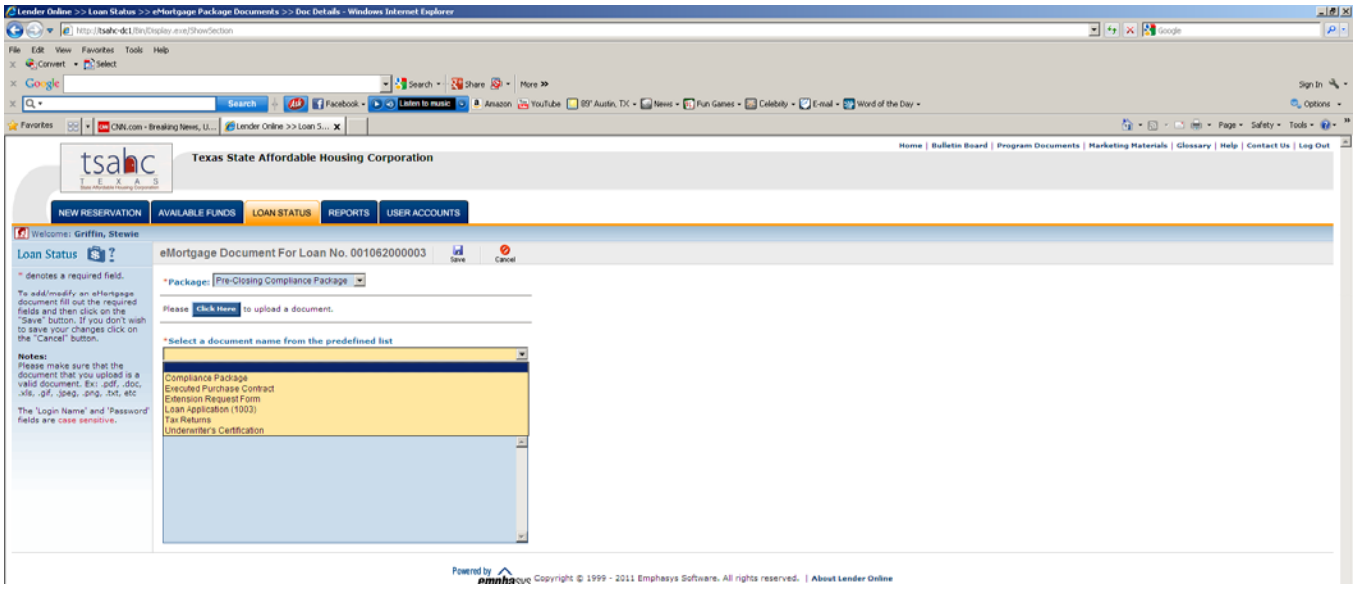
6.6 Uploading Electronic Forms

a. Simply click the "eDocs" tab and follow the instructions to upload the required documents.

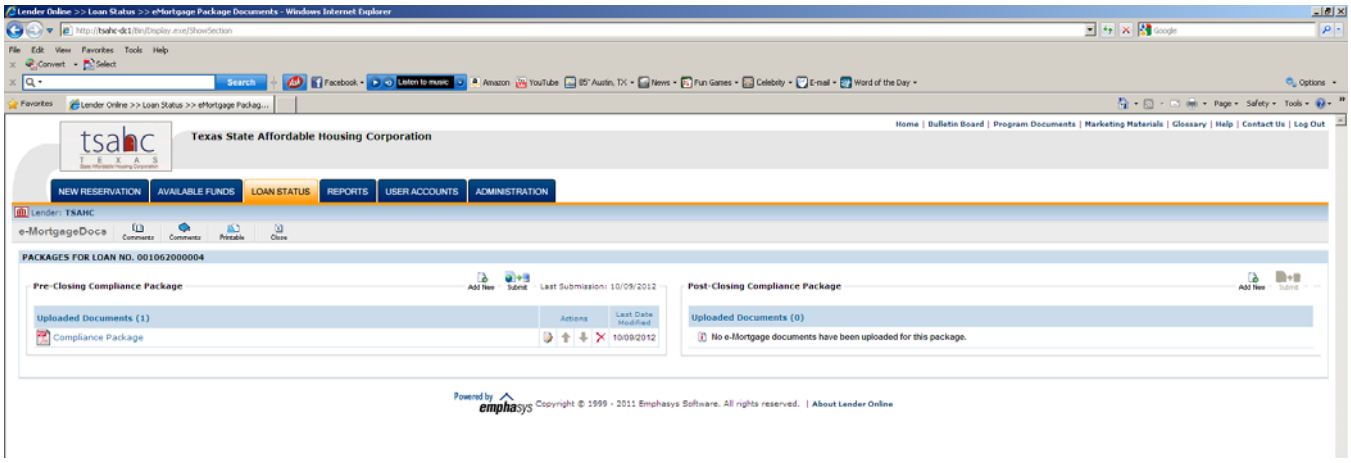
b. Click the "Add New" button to upload a form and the following screen appears. Click the "Click Here" button to access your computer files and select the document you wish to upload.



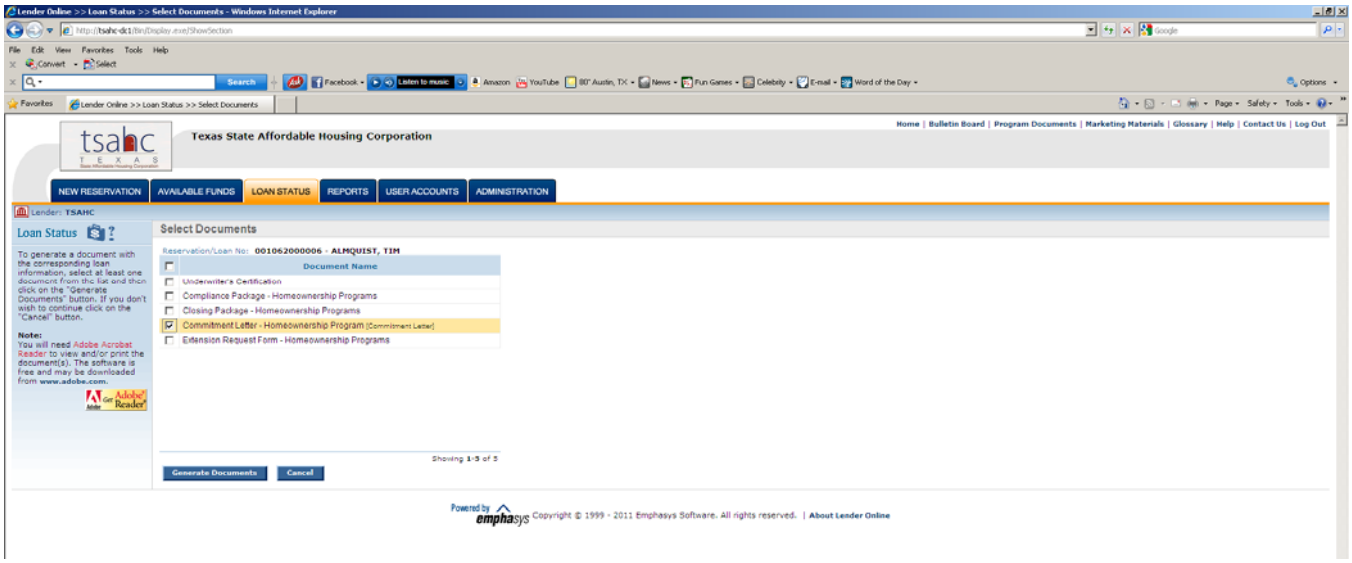
c. The next step is to name the document you are uploading. Choose an option from the drop-down list under "Select a document from the predefined list". The drop-down will list all of the required documents for the applicable package. If you don't see your document on the list, use the "Enter a customized document name" field to name the document you are uploading.



d. Once all of the required documents from the Pre-Closing Compliance Package Checklist have been uploaded to the Lender Portal, **click on the "Submit" button associated with the "Pre-Closing Compliance Package"** section and TSAHC will be notified that your package has been delivered.



e. After the Pre-Closing Compliance Package is delivered, the Program Administrator will review the contents of the package and, if complete and correct, will change the loan status to "Committed" on the Lender Portal. This will allow the Lender to print a Commitment Letter from the PDF Forms section associated with the specific reservation.



6.7 Completing and Uploading Post-Closing Compliance Packages

Once the Lender has received the MCC Commitment, the Lender is allowed to proceed with the Closing of the Mortgage Loan.

a. The Lender confirms that the MCC Commitment has not expired and closes the Mortgage Loan in the normal fashion with the Borrower.

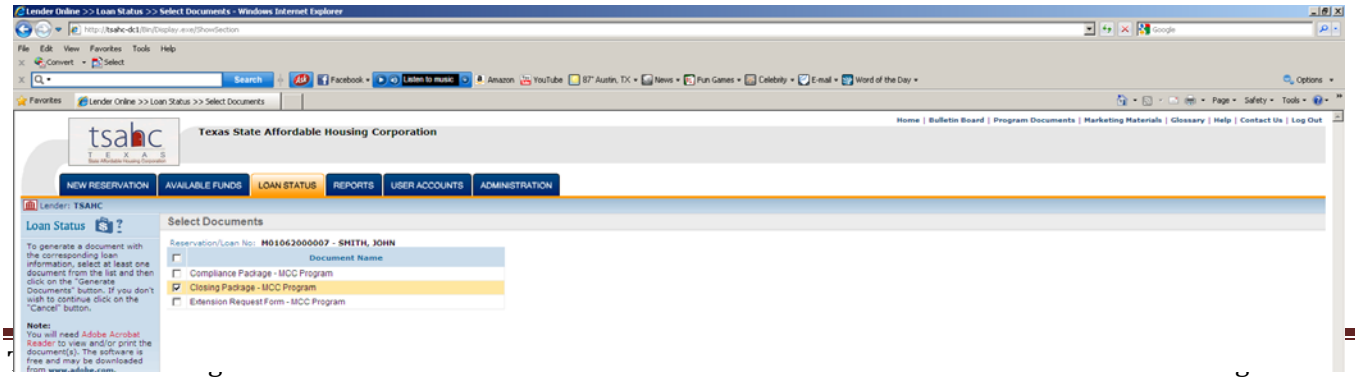
b. No later than the 30th calendar day after loan Closing or the Commitment Expiration Date, whichever occurs first, the Lender must submit the MCC Post-Closing Compliance Package to the Program Administrator.

c. The Lender must adhere to the commitment period and promptly notify the Program Administrator in writing of any MCC cancellations and requests for MCC Commitment extensions using the forms provided in the Program Guidelines or on the Lender Portal. Regardless of the MCC Commitment Expiration Date, the Post-Closing Compliance Package is due to the Program Administrator no later than 30 calendar days after loan Closing or by the Commitment Expiration Date, whichever occurs first. At the discretion of the Program Administrator, failure to meet this deadline more than once may result in the levying of a Late Submission Fee to the Lender or expulsion from the Program, at the sole discretion of the Program Administrator.

d. By the MCC Commitment Expiration Date, the Lender must either: (1) submit the Post-Closing Compliance Package; (2) cancel the MCC reservation; or (3) request a 60-day extension. The MCC Commitment Expiration Date is the sooner of: (1) the 30th calendar day after loan Closing, (2) 120 days from the MCC reservation date, or (3) the end of the Program Period. The Lender should note that Income must be re-verified and a 30 day extension requested if the period between original verification and the closing is longer than 120 days. If the MCC Compliance Package is rejected for any reason, the Program Administrator will document such deficiencies in the "memo" section of the Lender Portal specific to that reservation.

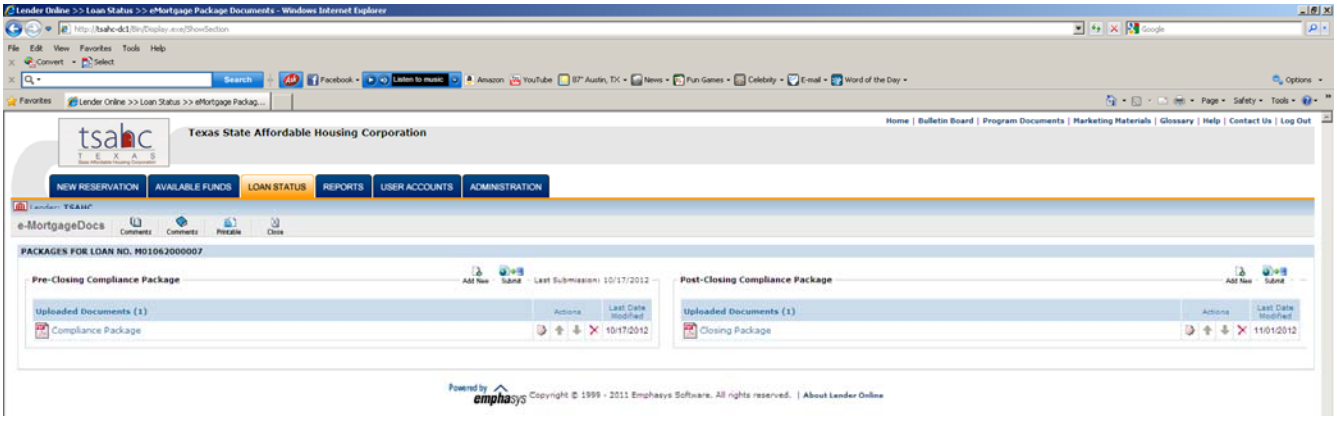
1. **The process for completing and submitting the MCC Post-Closing Compliance Package is the same as the process for submitting the MCC Pre-Closing Compliance Package through the Lender Portal.**

   i. Login to the Lender Portal at www.tsm-online.org.
   ii. Click on the "Loan Status" tab and use the search engine to locate the applicable loan.
   iii. Once the correct loan is identified, click on the "PDF Forms" tab associated with the selected loan.
   iv. Select the "Post-Closing Compliance Package" document and ensure all required documents are completed and ready to upload to the system.



v. To upload the required documents, click the "eDocs" tab associated with the applicable loan, select the "Add New" tab under the "Post-Closing Compliance Package" section and follow the instructions to upload all applicable documents.

vi. <u>Once all documents are uploaded, click on the "Submit" button to deliver the documents to the Program Administrator.</u>



2. The MCC Post-Closing Compliance Package includes the following documents:

- ✓ Copy of MCC Closing Package Checklist;
- ✓ MCC Compliance Fee and the MCC Issuance Fee*. **<u>These fees must be remitted to the Texas State Affordable Housing Corporation through an ACH transfer of funds</u>**;
  - *The MCC Compliance Fee and the MCC Issuance Fee may be paid by the Borrower, the Seller, the Lender or any other person on the Borrower's behalf.*
- ✓ The MCC Reaffirmation of Mortgagor
- ✓ Copy of final HUD-1 Settlement Statement;
- ✓ Copy of Homebuyer Education Certificate;
- ✓ Executed MCC Seller Affidavit; and
- ✓ Any additional documentation required as a condition of the MCC Commitment.

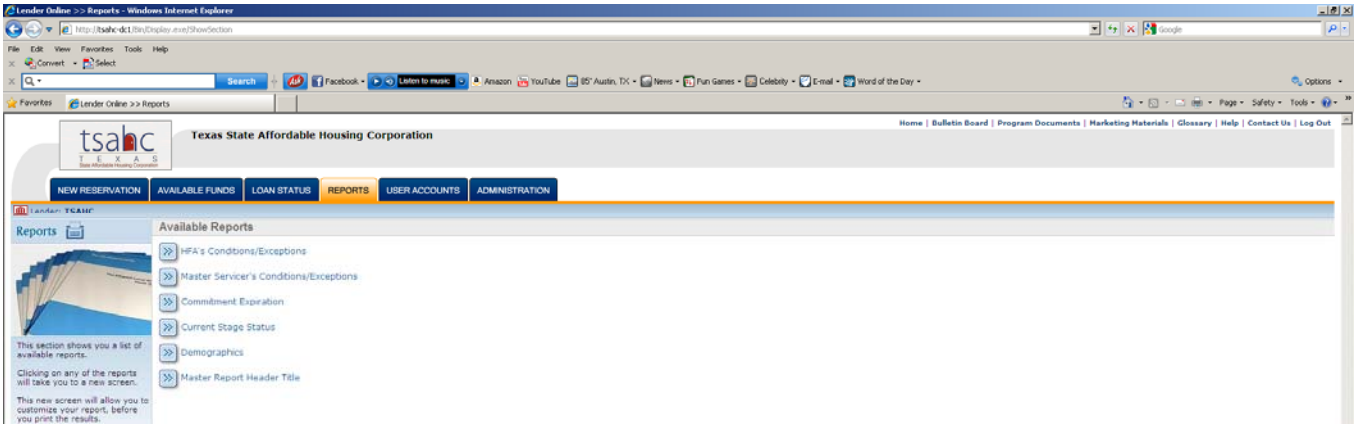
***The instructions for the ACH transfer of Program fees will be provide to the Lender upon execution of the Lender Participation Agreement. <u>All other documentation should be submitted electronically via the Lender Portal</u>. If an ACH transfer is not available to the Lender, a corporate check for the applicable fees may be sent to the following address:**

Texas State Affordable Housing Corporation
2200 E. Martin Luther King Jr. Blvd.
Austin, Texas 78702-1344
Attn: MCC Compliance

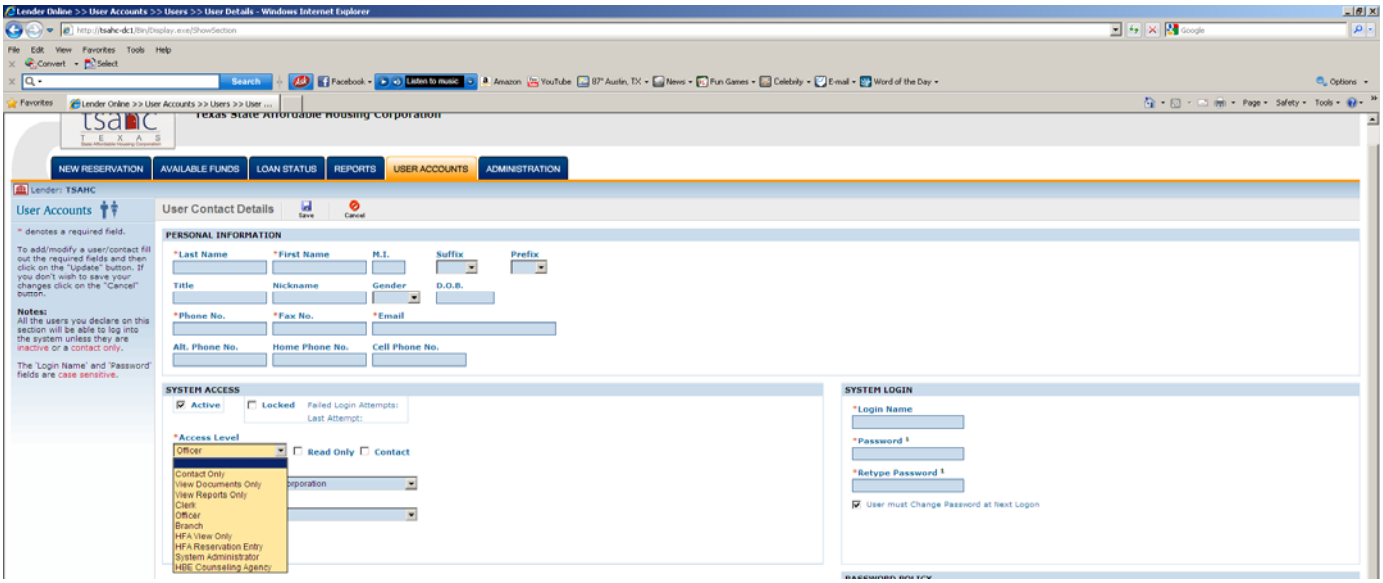
3. The Program Administrator reviews the Post-Closing Compliance Package and verifies that all necessary documents have been submitted within 30 calendar days after the Closing Date or by the Commitment Expiration Date, whichever occurs first. Upon approval, the Program Administrator issues the MCC directly to the Borrower(s). The Borrower also receives the completed MCC Recapture Tax Notice and a copy of the IRS Form 8396 to be filed with the Borrower's federal income tax returns.

6.8 Additional Lender Portal Functionality

a. Reports. The Lender Portal offers six pre-defined reports to allow you to effectively manage your pipeline.



b. User Accounts. Each Lender will choose one staff member to manage the company's access to the Lender Portal. This "Administrator" will determine who, within the company, will have access to the Lender Portal and will determine which level of access each employee will have. Access levels range from "read only" to "Administrator" with other levels between.



c. The tabs at the top right side of the Lender Portal provide all of the additional information vital to successful participation in the MCC Program. The "Bulletin Board" provides timely Program updates and other important program information, while the Program Documents and Marketing Materials tabs include all of the forms and Program Guidelines associated with the MCC Programs.

SECTION 7 – PROGRAM FEES AND CHARGES

MCC Compliance Fee ($200):
This fee is submitted to the Texas State Affordable Housing Corporation through a Lender. The MCC Compliance Fee should be collected at closing and mailed simultaneously with the submission of the electronic Post-Closing Compliance Package.

Should your Borrower also be utilizing one of TSAHC's Homeownership Programs, only one compliance fee of $200 will be charged. That said, an additional compliance fee will not be charged to also use the MCC Program. In such cases, the compliance fee will be netted by our Servicer from the Mortgage Loan Purchase Price.

MCC Issuance Fee (1% of the Loan Amount):
This fee is submitted to the Texas State Affordable Housing Corporation through a Lender. The MCC Issuance Fee should be collected at closing and remitted via ACH transfer or mailed simultaneously with the submission of the electronic Post-Closing Compliance Package.

MCC Transfer Fee upon Assumption ($250):
This fee may be charged and retained by the Texas State Affordable Housing Corporation to compensate it for handling and processing the issuance of a reissued MCC pursuant to a loan assumption.

Reissuance or Replacement Fee ($50):
This fee may be charged and retained by the Texas State Affordable Housing Corporation to compensate it for handling and processing the issuance of a reissued or replacement MCC pursuant to a mortgage refinancing or loss of original MCC.

Other than the required MCC fees, the Lender can only charge a Borrower those reasonable fees that the Lender would charge for a non-MCC mortgage loan application.

SECTION 8 – ADDITIONAL PROVISIONS

8.1 Resubmission of MCC Documentation

If either the Pre or Post-Closing Compliance Package has been denied by the Program Administrator, any resubmission must include all information which the Program Administrator has determined necessary for reconsideration.

8.2 Cancellation and Commitment Expirations

Once a Lender has obtained the MCC Commitment, the Lender is obligated to complete the processing of that MCC application. The following steps apply in the event of a cancellation or MCC commitment expiration:

a. In a case where the Borrower cancels or withdraws his or her application, the reservation of funds must be cancelled through the Program Administrator's Lender Portal at www.tsm-online.org.

b. In a case where the MCC Commitment expires, the Lender must take one of the following steps, as applicable:

   1. Request an extension using the Extension Request Form available through the Lender Portal, and provide the new estimated Closing Date; or

   2. Cancel the MCC reservation through the Program Administrator's Lender Portal at www.tsm-online.org.

In all cases, the expiration of the MCC commitment without the required action by the Lender may result in the Lender being placed on "Inactive Status," meaning the Lender may submit no new MCC applications until the problem is resolved. Failure to comply with this provision may result in the Lender's expulsion from the Program.

8.3 Delinquent Closing Documentation

If the Post-Closing Compliance Package is not received within 30 days of loan Closing, the Program Administrator may contact the Lender to request the status of the loan. If the Lender fails to timely provide to the Program Administrator the required MCC closing documentation, the corresponding MCC application will automatically be considered delinquent and the reservation subject to cancellation. The MCC cannot be issued until the Lender meets the Program requirements. Such action may result in the Lender being suspended from the Program until the problem is remedied.

8.4 Revocations

a. Revocation of an MCC occurs when the Residence for which the MCC was issued ceases to be the MCC holder's Principal Residence.

b. Revocation will occur upon discovery by the Program Administrator or a participating Lender of any material misstatement, whether negligent or intentional, made in connection with the issuance of the MCC.

c. Revocation will occur if it is later discovered that the holder did not meet the requirements for an MCC.

d. Revocation will occur if the original (first) Mortgage Loan is refinanced, unless the Borrower applies for a Re-Issued MCC after the refinancing has closed. The tax credit may only be claimed for interest paid to the date of the recording of the refinancing, unless a Re-Issued MCC has been applied for and issued.

8.5 Reissued MCCs

The Program Administrator shall, upon submittal by the MCC holder of the Refinancing of MCC Application Form and an MCC Reissuance Fee, reissue an MCC for certain refinancings if the Program Administrator receives to its satisfaction evidence that:

a. The reissued MCC is issued to the holder of an existing MCC with respect to the same property to which the existing MCC relates;

b. The reissued MCC entirely replaces the existing MCC (that is, the holder cannot retain the existing MCC with respect to any portion of the outstanding balance of the certified mortgage indebtedness specified on the existing MCC);

c. The certified mortgage indebtedness specified on the reissued MCC does not exceed the remaining outstanding balance of the certified mortgage indebtedness specified on the existing MCC; and

e. The reissued MCC does not result in an increase in the tax credit that would otherwise have been allowable to the holder under the existing MCC for any taxable year. The holder of a reissued MCC determines the amount of tax credit that would otherwise have been allowable by multiplying the interest that was scheduled to have been paid on the refinanced loan by the MCC rate of the existing MCC. In the case of a series of refinancings, the tax credit that would otherwise have been allowable is determined from the amount of interest that was scheduled to have been paid on the original loan and the MCC rate of the original MCC.

8.6 Replacement MCCs

Replacement MCCs will be issued by the Program Administrator at the expense of the MCC holder, in exchange for or in lieu of a mutilated, destroyed, lost, or stolen MCC. Every new MCC issued shall constitute a replacement of the predecessor MCC and shall be entitled to all the benefits of the MCC Resolution. Upon the satisfaction of the Program Administrator that an MCC has been mutilated, destroyed, lost or stolen, including the surrendering of the mutilated MCC to the Program Administrator, and upon receipt by the Program

Administrator of such indemnity or security as they may require, the Program Administrator shall cancel the original MCC, noting in its records that such MCC was mutilated, destroyed, lost, or stolen, and issue a replacement MCC.

The Program Administrator shall charge the owner of such MCC the Program Administrator's reasonable fees and expenses in connection with issuing a replacement MCC.

8.7 Penalties for Borrower Misrepresentation

Strict penalties may be imposed on any Borrower making a material misstatement, misrepresentation or fraudulent act on an MCC application or other document submitted to obtain an MCC. Further, any person making a 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. Any MCC issued based on materially false information shall be automatically null and void without the need for any further action on behalf of the Program Administrator.

8.8 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 that effect prior to Closing.

8.9 MCC Assumptions

The MCC is assumable. A loan assumption associated with an MCC will be treated as a new MCC application, and the procedures outlined in these Program Guidelines will be repeated. Since an MCC will already be outstanding, an MCC commitment will not be issued, but all of the required Program documents will be submitted at one time with the MCC application package. A single MCC Assumption Fee of $250.00 will be charged by the Program Administrator in connection with such transfers.

If the loan is assumed by a new purchaser, the MCC may be transferable under certain circumstances:

a. The transferee must demonstrate he or she has assumed the liability for the remaining balance of the loan.

b. The new MCC must meet all of the conditions of the original certificate, and any changes in federal, state or Issuer policy that amends the requirements of the original MCC.

SECTION 9 – MODIFICATIONS

9.1 Changes in Current Income

The eligibility of the Borrower for an MCC is based upon the Borrower's current Income. The MCC Commitment is issued based on verified Income as of the date the MCC Commitment is issued.

Increases in Income from sources already reported (i.e., salary increase) will not affect the validity of an MCC Commitment as long as the loan closes within 120 days from the time the MCC commitment was issued. If the loan does not close within 120 days, a new application for an MCC must be submitted and current Income verified.

9.2 Changes in Marital Status

If the Borrower gets married after issuance of the MCC commitment and prior to Closing, the spouse must satisfy the First-Time Homebuyer requirement unless the home being purchased is within a Targeted Area or a Borrower is a Qualified Veteran. The Lender must notify the Program Administrator of the marriage. The Program Administrator will recalculate the Borrower's Family Income to include the new spouse's Income. If the recalculated total Family Income exceeds the applicable Maximum Family Income limits, the MCC commitment will be cancelled.

9.3 Change in Purchase Price

If the total Purchase Price of the Residence purchased in connection with the MCC increases so as to exceed the Maximum Purchase Price Limits set forth herein, the MCC Commitment shall be revoked. For a change in Purchase Price after the MCC commitment and prior to Closing which does not exceed Maximum Purchase Price Limits, the Lender and Borrower will be required to submit a new version of: a) the MCC Program Affidavit (page one amended and initialed by the Borrower), and b) the MCC Seller Affidavit.

9.4 Change in Property Address

If a Borrower has a pending application and changes the property he or she intends to purchase, the Lender must submit a new signed property sales agreement and a notice to the Program Administrator stating whether or not the mortgage amount has changed. If the change occurs after the Program Administrator issues the MCC commitment, the following documents should be revised and resubmitted to reflect the new property address and any change in mortgage amount:

a. Copy of MCC Program Affidavit (first page amended and initialed by the Borrower)
b. Property sales contract (first and last pages and any counter offers)
c. Copy of MCC Seller Affidavit

9.5 Change in Loan Amount

Any change to the loan amount that occurs after the MCC commitment is issued, but before loan Closing, must be reported to the Program Administrator immediately by telephone and promptly followed up in writing.

If the amount of the Mortgage Loan increases, thereby causing an increase in the credit amount, the MCC commitment will be revoked if that increase exceeds Program limitations.

The Program Administrator sends a revised MCC Commitment with the original expiration date to the Lender.

9.6 Change in Home Ownership Status

If the Borrower acquires a Present Ownership Interest in a Principal Residence prior to the Closing, the MCC shall be revoked.

9.7 Lender's Obligation to Notify Program Administrator of Material Changes

Issuance of an MCC commitments is based (in part) upon the Borrower's and Seller's Affidavits and the Lender's certification that the Program requirements have been met. MCC commitments are issued subject to the condition that all Program requirements are or will be met prior to issuance of the MCC. Thus, the Lender must immediately notify the Program Administrator in writing of any change in the circumstances upon which the MCC commitment was issued. If any change of circumstances occurs such that the Program requirements are not met, the MCC commitment will be revoked.

SECTION 10 – REPORTING

10.1 Lender Record Keeping and Federal Report Filing

a. The Lender is required by the IRS to file a report on or before January 31 for all of the MCCs issued during the previous calendar year. In early January, the Program Administrator will send the Lender the completed IRS Form 8329 with the MCCs issued the previous year. It is the Lender's responsibility to verify that the information on the form is correct and, if necessary, make any changes or additions and then submit the form to the IRS.

b. For six years after each Closing, the Lender must retain:

   1. Name, mailing address, and tax identification or social security number ("TIN") of the MCC holder.
   2. Name, mailing address, and TIN of the Issuer.
   3. Date of issuance for each MCC, the certified amount of indebtedness and the credit rate of the MCC.

c. The Program Administrator may conduct audits of participating Lender records to ensure compliance with the recordkeeping provisions.

10.2 Program Administrator Reports

The Program Administrator must make quarterly reports on IRS Form 8330, beginning with the quarter in which the election for the MCC Program is made. The report must include:

a. Name, address, and TIN of the Issuer;
b. Date of election;
c. The sum of the products of the certified indebtedness amount (the mortgage amount or the initial principal balance) and the MCC credit rate for each MCC issued; and
d. Name, address, and TIN of each MCC holder where an MCC was revoked.

10.3 Program Administrator Annual Record Keeping

The Program Administrator shall make an annual report to the IRS for each year beginning July 1 and ending June 30**.** The report will include:

a. Number of MCCs issued by Income and Purchase Price; and
b. Volume of MCCs issued by Income and Purchase Price.

In January following each year during which MCCs are issued, the Program Administrator will mail an IRS Form 8396, Mortgage Interest Credit, to each MCC holder of record as a reminder to properly declare the MCC tax credit for federal income tax purposes.

APPENDICES

APPENDIX A: DEFINITIONS

As used in these Program Guidelines and all Program documents, unless the context requires otherwise, the following words and terms have the meanings set forth below:

"Act" means Subchapter Y of Chapter 2306, Texas Government Code, as amended.

"Agreement" means the MCC Lender Participation Agreement dated as of January 2, 2013, entered into by and among the Lender and TSAHC, and all exhibits, amendments, or supplements hereto.

"Affidavit" means written statements made under oath and subject to the penalties of perjury that are filed in support of an MCC application.

"Allied Health Program Faculty Member" means a full-time member of the faculty of an Undergraduate Allied Health Care Program or a Graduate Allied Health Care Program of a public or private institution of higher education in the State.

"Applicable Median Family Income" means the median gross income for the area (or statewide median gross income, if higher) in which such Residence is located, as published from time to time by the Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937 or as otherwise determined pursuant to said Section.

"Average Area Purchase Price" means with respect to a Residence, the safe harbor average area purchase price figures most recently published by the Department of the Treasury pursuant to section 143(e) of the Code for the statistical area (i.e., "metropolitan statistical area" as defined by the Secretary of Commerce, or county (or portion of a county) that is not within a metropolitan statistical area) in which such Residence is located, or such other average area purchase price figures that are approved by TSAHC.

"Business Day" means any day other than (i) a Saturday or Sunday (ii) a day on which banking institutions are closed in New York, New York, Texas, or the state or states in which the Servicer's operation are located, or (iii) a day on which the New York Stock Exchange is closed.

"Closing" means the execution of a Mortgage Note and Mortgage by an Eligible Borrower and the concurrent origination and funding of a Mortgage Loan by a Lender pursuant to Section [5] of this Agreement.

"Closing Date" means, with respect to a Closing, the date of such Closing.

"Code" means the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.

"Commitment" means a binding written commitment by a Lender, in the form customarily used by the Lender in its owner occupied home lending practice or in a form customarily used in the mortgage lending industry and approved by the Servicer, to a particular Eligible Borrower to finance the purchase of a particular Residence with a Mortgage Loan, which commitment shall specify a stated expiration date, a stated principal amount, and the applicable Mortgage Loan rate.

"Commitment Expiration Date" means the date the MCC commitment expires. The MCC Commitment Expiration Date is the **SOONER** of: (1) the 30th calendar day after Closing, (2) 120 days from the MCC reservation date, or (3) the end of the Program Period.

"Compliance Commitment Letter" means the document provided to a Lender through the Lender Portal granting preliminary approval of the Pre-Closing Compliance Package submitted by the Lender prior to Closing.

"Compliance Package" means the documents required by TSAHC with respect to an MCC application submitted to TSAHC.

"Compliance Review Fee" means the non-refundable fee in the amount set forth in the MCC Program Guidelines (initially $200) payable by the Lender to TSAHC for the compliance review of a Compliance Package pursuant to Section 6 of this Agreement.

"Condominium Development" means a real estate development: (i) formed pursuant to the condominium statutes of the State and a recorded declaration and other constituent documents; (ii) the unit owners of which have title to a unit in a development, and may have the right to the exclusive use of certain limited common areas; and (iii) the common areas of which are administered and maintained by, but not owned by, an owners association, which may levy assessments against each unit estate.

"Corrections Officer" means (i) a full-time employee of the Texas Department of Criminal Justice who receives hazardous duty pay or (ii) a full-time employee of the Texas Juvenile Justice Department (successor to the Texas Youth Commission) who receives hazardous duty pay.

"County Jailer" has the meaning assigned by Section 1701.001 of the Texas Occupation Code.

"de minimus PUD" means: (i) a planned unit development that meets the definition of a "de minimus PUD," as defined in the Fannie Mae Conventional Home Mortgage Selling Contract Supplement or any applicable Freddie Mac document; or (ii) a planned unit development (a) whose organizational or other relevant documents provide that the lien for any homeowner assessment or charge is subordinate to the lien of any purchase money mortgage, and (b) the maximum permissible annual homeowner assessments and/or charges with respect to the property being financed, as of the Closing Date of the Mortgage Loan, is no greater than the lesser of $600.00 or 1% of the Sales Price.

"Eligible Borrower" means a person who meets the requirements of at least one of the following two categories at the time such person files an application for the related MCC:

(i) <u>"Texas Hero" Category.</u> Under this category, a person qualifies under the Program if such person, at the time such person files an application for an MCC, is a person:

(a) who is one of the following—

(i) Professional Educator: a full-time classroom teacher, full-time paid teacher's aide, full-time librarian, full-time school nurse, full-time counselor, Professional Nursing Program Faculty Member, or Allied Health Program Faculty Member;
(ii) Veteran;
(iii) Full-time Fire Fighter;

(iv) Full-time Corrections Officer or Juvenile Corrections Officer;
(v) Full-time County Jailer;
(vi) Full-time Public Security Officer;
(vii) Full-time Peace Officer; or
(viii) Full-time Emergency Medical Service Personnel;

(b) who resides in the State of Texas;

(c) whose Family Income does not exceed the applicable Maximum Family Income limit;

(d) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(e) who (except in the case of an Eligible Borrower who is purchasing a home in a Targeted Area or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date (this is the First-Time Homebuyer requirement);

(f) 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 Mortgage Loan at any time prior to the execution of the mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of loan Closing, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(g) who has not previously obtained a Commitment for an MCC under the Program; and

(h) the Purchase Price of the related Residence does not exceed the Maximum Purchase Price limit.

(ii) "Low-Income Category". Under this category, a person qualifies under the Program if such person, at the time such person files an application for an MCC, is a person:

(c) whose Family Income does not exceed the applicable Maximum Family Income limit, which amount shall not be greater than 80% of Applicable Median Family Income without adjustment for family size;

(d) who resides in the State of Texas;

(c) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(d) who (except in the case of an Eligible Borrower who is purchasing a home in a Targeted or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the

Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date (this is the First-Time Homebuyer requirement);

(e) 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 Mortgage Loan at any time prior to the execution of the Mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of the Closing Date, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(f) who has not previously obtained a Commitment for an MCC under the Program; and

(g) the Purchase Price of the related Residence does not exceed the Maximum Purchase Price limit.

"Eligible Loan Area" means the State of Texas.

"Emergency Medical Services Personnel" has the meaning assigned by assigned by Section 773.003 of the Texas Health and Safety Code.

"Family Income (or Income)" means, with respect to a person, the "gross monthly income," multiplied by twelve (12), of such person and of any other person who is expected to live in the Residence being financed and is liable on the Mortgage, all as determined in accordance with such person's MCC Program Affidavit. For purposes of this definition, "gross monthly income" includes the sum of monthly gross 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, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments).

"Fire Fighter" means a member of a fire department who performs a function listed in Section 419.021(3)(C) of the Texas Government Code.

"First-Time Homebuyer" means those persons who have not had an ownership interest in a "Principal Residence" in the last three years.

"Lender" means the mortgage lending institution executing the Lender Participation Agreement and any other applicable Program Document.

"Lender Portal" means the web-based Mortgage Loan reservation and compliance system administered by TSAHC and found at www.tsm-online.org.

"Maximum Purchase Price" means the applicable amounts specified in the MCC Program Guidelines for Non-Targeted Areas and Targeted Areas.

"Maximum Family Income" means the applicable amounts set forth in the MCC Program Guidelines. Such amounts shall be effective until the Lenders receive an announcement from TSAHC of revised Maximum Family Income limits. For Eligible Borrowers described under clause (I) or (II) of the definition of "Eligible Borrower", the amounts set forth in the MCC Program Guidelines, or any revised amounts, shall not exceed the

greater of (1) 115% of area median family income, adjusted for family size, or (2) the maximum amount permitted under the Section 143(f) of the Code. For Eligible Borrowers described under clause (III) of the definition of "Eligible Borrower", the amounts set forth in the MCC Program Guidelines, or any revised amounts, shall not exceed 80% of the Applicable Median Family Income, without any adjustment for family size.

"MCC Program Affidavit" means an affidavit in the form attached to the MCC Program Guidelines, which is to be executed by the Mortgagor and the Lender in connection with the issuance of the related MCC .

"MCC Program Documents" means the Lender Participation Agreement, these MCC Program Guidelines and any other document, instrument, certificate or other writing relating to the MCC Program.

"MCC Resolution" means the resolution, or authorization, given by the governing body of the Issuer pursuant to which MCC's are issued.

"Mortgage" means the instrument, including the deed of trust, securing a Mortgage Loan that creates a first lien on a Residence subject to Permitted Encumbrances.

"Mortgage Loan" means a qualified first lien mortgage loan originated by the Lender to an Eligible Borrower evidenced by a Mortgage Note and secured by a related Mortgage on a Residence located in the Program Area, satisfying the requirements of the Lender Participation Agreement, these MCC Program Guidelines and any other MCC Program Document.

"Mortgage Note" means the promissory note evidencing the obligation to repay a Mortgage Loan.

"Mortgagor" means any person who has a Present Ownership Interest in the Residence and is the obligor(s) on a Mortgage Note, or a subsequent owner of a Residence who has assumed the Mortgage in accordance with this Agreement (but does not include a person who is liable on the Mortgage Note solely as a guarantor or cosignor, who does not have a Present Ownership Interest in the Residence).

"Non-Targeted Area" means that part of the Program Area that does not lie in the Targeted Areas.

"Non-Targeted Area Mortgage Loan" means a Mortgage Loan to provide financing for the acquisition of a Residence that is in a Non-Targeted Area.

"Notice Address" means:

As to TSAHC: Texas State Affordable Housing Corporation
2200 E. Martin Luther King Jr. Boulevard
Austin, Texas 78702
Attention: David Long
Telephone: (512) 477-3555
Fax: (512) 377-3553

As to the Lender: At the address provided to TSAHC by the Lender.

"Peace Officer" has the meaning assigned by Section 1.07(a)(36) of the Texas Penal Code.

"Permitted Encumbrances" means those liens, covenants, conditions, restrictions, rights of way, easements, and other matters that are of public record as of the date of the recording of a Mortgage and that are permitted by any applicable insurer, guarantor or other applicable entity.

"Planned Unit Development" means a real estate development of separately owned lots, other than a de minimus PUD, with: (i) contiguous or noncontiguous areas or facilities normally owned by an owners association in which the owners of the lots have a stock or membership interest; (ii) title to the real estate under the dwelling units being held by the individual lot owners and not by the owners association; (iii) the association having title to and responsibility for the administering of the common areas, and levying monthly charges against the lot owners for common areas expenses; and (iv) membership in the owners association not being severed from the ownership of an individual unit.

"Post-Closing Compliance Package" means the Compliance Package submitted to TSAHC after Closing for final review of the eligibility criteria established for the MCC Program.

"Pre-Closing Compliance Package" means the Compliance Package submitted to TSAHC prior to Closing for preliminary review of the eligibility criteria established for the MCC Program.

"Present Ownership Interest" means (i) a fee simple interest; (ii) a joint tenancy, a tenancy in common, or tenancy by the entirety; (iii) the interest of a tenant shareholder in a cooperative; (iv) a life estate; (v) a land contract (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time); and (vi) an interest held in trust for a person (whether or not created by such person) that would constitute a present ownership interest if held directly by such person. The term "Present Ownership Interest" 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 in a Principal Residence; (iv) the interest that a purchaser of a Residence acquires on the execution of a purchase contract; or (v) an interest other than an interest in a Principal Residence during the previous three years. A Present Ownership Interest in a mobile home or other factory made housing that was permanently affixed to real property owned by the loan applicant constitutes a Present Ownership Interest in a Principal Residence.

"Principal Residence" means 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 Mortgagor. The term "Principal Residence" does not include a home used as an investment property or as a recreational home, factory made housing 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.

"Professional Educator" means a full-time classroom teacher, full-time paid teacher's aide, full-time librarian, full-time school nurse, or full-time counselor, as certified under Subchapter B, Chapter 21 of the Texas Education Code, as amended, a Professional Nursing Program Faculty Member, an Allied Health Program Faculty Member or such other person deemed to be a "professional educator" pursuant to the Act.

"Professional Nursing Program Faculty Member" means a full-time member of the faculty of either an Undergraduate Professional Nursing Program or a Graduate Professional Nursing Program.

"Program" means the Mortgage Credit Certificate Program established by the Issuer and administered by the Program Administrator, pursuant to the rules and regulations included in the Program Guidelines.

"Program Area" means the geographical area within the State.

"Program Guidelines" means this document that outlines the requirement, limitations, qualifications and procedures associated with the Program, as such document may be amended or supplemented from time to time.

"Program Participation Fee" means a fee to be paid by the Lender to the Program Administrator to become a participating Lender.

"Program Period" means the period in which Mortgage Credit Certificates can be issued.

"Public Security Officer" has the meaning assigned by Section 1701.001 of the Texas Occupations Code.

"Purchase Price" means the cost to a Mortgagor of acquiring a Residence from the Seller as a completed residential unit, including:

(a) all amounts paid, either in cash or in kind, by the Mortgagor (or a related party or for the benefit of the Mortgagor) to the Seller (or a related party or for the benefit of the Seller) as consideration for the Residence. A Residence includes property such as light fixtures or wall to wall carpeting, so long as such property is considered to be a fixture under State law. If the Mortgagor purports to separately purchase such fixtures, the cost of those fixtures must be included in the Purchase Price. Property such as furniture or appliances is not considered part of a Residence so long as such property is not considered to be a fixture under State law and the cost of acquiring such items is not included in Purchase Price (unless the cost of acquiring such items is in excess of fair market value, in which case the amount of the excess must be included in the Purchase Price of the Residence). Thus, if the Mortgagor agrees to purchase the refrigerator, washer, and dryer from the Seller for $1,000 more than the fair market value of such items, the additional $1,000 must be included in the Purchase Price. In addition, if in connection with the purchase of a Residence the Mortgagor agrees to pay or assume liability for a debt of the Seller, the amount of such debt must be included as part of the Purchase Price; and

(b) if a Residence is incomplete or in need of rehabilitation, the reasonable cost of completing or rehabilitating the Residence, whether or not such cost is financed with the proceeds of the Mortgage Loan.

Purchase Price does not include (i) usual and reasonable settlement costs or financing costs; (ii) the value of services performed by the Mortgagor or members of the Mortgagor's family in completing the Residence; (iii) the cost of land that has been owned by the Mortgagor for at least two years prior to the date on which construction of the Residence begins; (iv) amounts paid by the Mortgagor (or a related party for the benefit of the Mortgagor) for non-fixtured personal property; and (v) amounts paid for painting, minor repairs, floor refinishing or other fix-up expenses. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" that are paid by the Mortgagor (but not the Seller, even though borne by the Mortgagor through a higher Purchase Price) or other costs of financing the Residence. However, such amounts will be excluded in determining Purchase Price only to the extent that the amounts do not exceed the usual and reasonable costs which would be paid by a buyer where financing is not provided through a qualified mortgage bond program. For example, if the Mortgagor agrees to pay to the Seller more than a pro rata share of property taxes, such excess shall be treated as part of the Purchase Price of a Residence. For purposes of determining the value of services performed by the Mortgagor's family in completing the Residence, the family of an individual shall include only the individual's brothers and sisters (whether by the whole or half-blood), spouse, ancestors, and

lineal descendants. For example, where the Mortgagor builds a Residence alone or with the help of family members, the Purchase Price includes the cost of materials provided and work performed by subcontractors (whether or not related to the Mortgagor) but does not include the imputed cost of any labor actually performed by the Mortgagor or a member of the Mortgagor's family in constructing the Residence. Similarly, where the Mortgagor purchases an incomplete Residence the Purchase Price includes the cost of material and labor paid by the Mortgagor to complete the Residence but does not include the imputed value of the Mortgagor's labor or the labor of the Mortgagor's family in completing the Residence.

"Purchase Price Limit" means the maximum Purchase Price or Prices permitted with respect to any Program. Such limits are set forth in the Program Guidelines for each Program and are subject to change from time to time.

"Qualified Veteran" means a person who is a "veteran" (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds utilizing the veteran's exception to the three (3) year requirement set forth in Section 143(d)(2)(D) of the Code.

"Residence" means real property and improvements permanently affixed thereon (but does not include manufactured housing or property not constituting "fixtures" under State law) (i) that is located within the Program Area; (ii) that consists of a single family detached or attached structure consisting of not more than four (4) connected dwelling units intended for residential housing for one family or a single unit in a Condominium Development, Planned Unit Development, or de minimus PUD, a single unit in a duplex, triplex, or fourplex, or an entire duplex, triplex, or fourplex to be financed, provided that one of the units will be occupied by the Mortgagor or a single unit in a duplex (but not including a mobile home or any personal property); and (iii) the Purchase Price of which does not exceed the Maximum Purchase Price; provided, however, that land appurtenant to a Residence shall be considered as part of such Residence only if such land reasonably maintains the basic liability 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.

"Sales Price" means the price of a Residence as indicated in the contract of sale, including any collateral agreements attached to or made a part of the sales contract between the Eligible Borrower and the Seller of the Residence, exclusive of any closing costs set forth in clause (i) of the definition of Purchase Price.

"Seller" means, with respect to a Mortgage Loan, the seller of the Residence being financed with such Mortgage Loan.

"State" means the State of Texas.

"Targeted Area" means that part of the Program Area that has been or may be designated from time to time as a qualified census tract or an area of chronic economic distress in accordance with section 143(j) of the Code. The Targeted Areas shall be set forth in the Program Guidelines and are subject to change with the approval of TSAHC.

"Undergraduate Allied Health Care Program" means an undergraduate degree or certificate program that (i) prepares students for licensure, certification or registration in an allied health care profession; and (ii) is accredited an accrediting entity recognized by the United States Department of Education.

"Undergraduate Professional Nursing Program" has the meaning assigned by Section 54.221 of the Texas Education Code.

"Veteran" means a person who:

(A)(i) served not less than 90 days, unless sooner discharged by reason of a service-connected disability, on active duty in the Army, Navy, Air Force, Coast Guard, United States Public Health Service (as constituted under 42 U.S.C. Section 201 et seq.), or Marine Corps of the United States after September 16, 1940, and who on the date of filing an application under the program has not been dishonorably discharged from the branch of the service in which the person served;

(ii) has at least 20 years of active or reserve military service as computed when determining the person's eligibility to receive retired pay under applicable federal law;

(iii) has enlisted or received an appointment in the Texas National Guard, who has completed all initial active duty training required as a condition of the enlistment or appointment, and who on the date of filing the person's application has not been dishonorably discharged from the Texas National Guard; or

(iv) served in the armed forces of the Republic of Vietnam between February 28, 1961, and May 7, 1975, if the board adopts a rule regarding these veterans under Subsection (b);

(B) at the time of the person's enlistment, induction, commissioning, appointment, or drafting was a bona fide resident of this state or has resided in this state at least one year immediately before the date of filing an application under this chapter; and

(C) at the time of the person's application under this chapter is a bona fide resident of this state. The term includes the unmarried surviving spouse of a veteran who died or who is identified as missing in action if the deceased or missing veteran meets the requirements of this section, with the exception that the deceased or missing veteran need not have served 90 days under Paragraph (A)(i) of this subdivision, and if the deceased or missing veteran was a bona fide resident of this state at the time of enlistment, induction, commissioning, appointment, or drafting.

APPENDIX B: INCOME GUIDELINES

General Guide

The Program Administrator is relying on the Lenders and Borrowers to provide correct information on income. This reliance is based upon the Lender certifications about reasonable investigation of the Borrower and statements by the Borrower that facts are correct.

Each Lender and Borrower provides information and signed certifications, which are specific about the information provided and its correctness. In the event of false statements or fraud, substantial penalties may be levied. Therefore, the Program Administrator encourages the Lenders and the Borrowers to provide accurate information and ensure that calculations are within the limits.

IN MOST CASES, STANDARD CREDIT UNDERWRITING PROCEDURES ARE ACCEPTABLE. **THE MAIN EXCEPTION IS THAT FOR MCC COMPLIANCE PURPOSES ALL SOURCES OF INCOME MUST BE INCLUDED, WHETHER OR NOT USED TO QUALIFY BORROWERS UNDER STANDARD UNDERWRITING GUIDELINES.** Under no circumstances will the income used for MCC compliance be less than that used by the Lender when qualifying Borrowers for repayment of their mortgage loan. (The Maximum Family Income limits are specified in Appendix C.)

It is important to understand the basis upon which these guidelines are written. Congress has instituted maximum Income limits under which Borrowers may qualify for loans made available through tax-exempt bonds. Congress and the Treasury Department have determined that the total of all sources of income of the Borrowers may not be above the maximum Income levels to receive the benefits of the MCC. The total Family Income is to be recorded in the Affidavit and is signed.

In cases that have complicated calculations, the Lenders are encouraged to communicate with the Program Administrator to assure themselves that calculations are within the guidelines.

The Program's maximum Income limits are set pursuant to the Internal Revenue Code and restrictions of the Federal Department of Housing and Urban Development. For purposes of whether a Borrower has exceeded the maximum Income limit, the gross income of the Borrower(s) must be determined. **The income of the following persons must be taken into account:**

1. Any Mortgagor (or co-Mortgagor) liable on the mortgage loan (i.e. on the deed of trust).
2. Any other person who is "secondarily liable" and is expected to live in the financed residence.

The income of any persons listed on the deed of trust must be included to determine eligibility for the Program. For a married couple, total gross income must be counted, regardless of who is on the title. Typically, in Texas, co-signers or guarantors execute only the Mortgage Note which means their income does not need to be included.

Gross income shall not be reduced by the amount of child support payment a husband/wife makes for the care of a child or children. However, a husband/wife who receives child support payments must include this amount as income.

Net rental income is to be used to calculate income.

If the prospective Mortgagor has earned income during the current period (meaning the period beginning 12 months prior to the loan application an ending on the loan Closing Date) and has a history of such earnings, then the income is to be calculated and included in the Family Income.

Base pay is calculated based on current income. (i.e., if someone earning a salary has received or will receive a raise in the current period, the increased income should be used and not a year to date average.)

When calculating additional or other income, it is important to calculate the income on a pro-rata, monthly basis. This will assist in calculating the Income accurately.

Information with respect to current gross monthly income may be obtained from available loan documents which include but are not limited to paycheck stubs and loan applications.

1. Gross Income Shall Be Determined Without Deductions for the Following:

a. Funds paid into a tax sheltered retirement account.

b. Child support payments made by a Borrower for the benefit of the Borrower's child or children.

c. Alimony, separate maintenance, or similar periodic payments that and Borrower is required to make to a spouse or former spouse.

2. Gross Income Shall Include, but Not be Limited to, All of the Following:

a. The gross amount, before payroll deductions, of wage and salaries, overtime pay, commissions; fees; tips; bonuses; gambling winnings and prizes (even if a one-time occurrence); and other compensation for personal services.

Overtime
Income earned from overtime will be included if the Borrower has a history of such income or the income was earned during the current period. Even though overtime is not used in calculating ratios, it is always included in Income.

Bonus
The gross amount of bonus earnings before any payroll deductions is to be included in the Income calculation.

Bonus Income
The bonus is to be included in the Income if:
1. The bonus is part of a collective bargaining agreement and must be paid; **or**
2. The bonus is included in the computation of income by the employer or if there is a history of bonuses.

If there is a history of bonuses but the Borrower does not know if a bonus is planned, nor does the employer divulge its plans for a bonus nor the projected bonus amount, the Lender is to use an average of the past two years' bonuses to calculate income.

The bonus is not to be included in the Income if:
1. The bonus is totally discretionary by the employer and there is no previous bonus history; **and**
2. The Borrowers cannot anticipate with certainty whether such bonus may be received in the future.

Seasonal/Part-Time/Temporary Income
Include part-time or seasonal employment in calculating Income. For example, if the Borrower worked for three months during the summer and earned an average of $3,600 during each of the past two years, then divide the $3,600 by 12 months which equals $300 per month. Add the $300 per month to the gross monthly income. Multiply by 12 to determine the Income.

Include short-term, part-time or seasonal employment in calculating Income if the mortgagor earned this in the last twelve months. If the mortgagor earned $1,000 during the application period by painting the Borrower's parents' house, add this income to the Income.

b. The net income from an operation of business or profession or from the rental of real personal property. For this purpose, if this operation results in a loss, the loss may not be used to offset income generated from other sources. For this purpose, any shareholder that owns 10 percent or more of any outstanding class of stock in a corporation, shall also be deemed to have received income in its proportionate share of net earnings not otherwise distributed in salaries or dividends.

c. All dividends and interest, including otherwise tax-exempt interest. Interest earning from IRAs, VIPs and 401ks need not be included.

d. The full amount of the periodic payments received from social security, housing assistance payments, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts including any lump sum payment for the delayed start of a periodic payment.

e. Payments in lieu of earnings, such as unemployment and disability compensation, workers' compensation, and severance pay.

f. The full amount of public assistance payments.

g. Periodic and determinable allowances, such as alimony and separate maintenance payments received, housing allowances received, and regular contributions or gifts received from persons not residing in the dwelling, where such sums are received on a current basis and which may be reasonably expected to continue.

h. The distributive share of partnership income.

i. Child support payments received by a Borrower for the benefit of the Borrower's child or children.

j. All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the household of spouse (or other persons whose dependents are residing in the unit).

k. Education Grants: the portion of the income from grants that is used for living expenses is to be added to the Income.

l. Car Allowance: income received from employers for car allowance must be included in the Income calculation if the Borrower has no accounting responsibility to their company. Example: If the Borrower receives $300 per month from his employer for car allowance and is not required to file a mileage/expense report monthly, then this income must be included in the Income calculation.

m. Capital Gains/Losses: both the taxable and non-taxable portions of capital gains are to be included as income if a history of these incomes exists. If the two-year average results in a gain, then it must be added to gross monthly income, and losses are to be disregarded (losses cannot be used to reduce gross monthly income).

n. Rental Property (not subject property) Net rental income currently being received is to be used to calculate Income; Borrowers must provide leases and applicable tax forms.

3. Gross Income Does Not Include:

a. Casual, sporadic or irregular gifts.

b. Amounts which are specifically for, or in reimbursement of, medical expenses.

c. Lump sum additions to family assets, such as inheritances, re-enlistment bonuses, insurance payments, (including payments under health and accident insurance and workers' compensation), capital gains and settlement for personal property losses. If the income is received in any other form other than lump sum (i.e., monthly or annual), then it must be treated as permanent income and added to the Income calculation.

d. Amounts of educational scholarships paid directly to the student or the educational institution, and the amount paid by the government to a veteran for use in meeting the cost of tuition, fees, books, and equipment.

e. Special pay to a family member in the Armed Forces who is away from home and exposed to hostile fire.

f. Relocation payments under Title II of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.

g. Foster child care payments.

h. The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1977, 7 U.S.C. Section 2011 and 2027, which is in excess of the amount actually charged the eligible household.

i. Payments to volunteers under the Domestic Volunteer Service Act of 1973.

j. Payments of allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program.

k. Payments received from Job Training Partnership Act.

l. Income from employment of children (including foster children) under the age of 18 years of age and under unless executing the Deed of Trust.

m. Income from caring for one or more foster children.

Military Pay
For purposes of computing the buyer's gross monthly income regarding military pay, the monthly income is the "total entitlement" shown on the Borrower's most recent monthly Leave and Earnings Statement. Non-taxed income, such as a housing allowance is counted as income. Certain categories of pay, which may be revised only sporadically, may need to be considered on a case-by-case basis.

Self-Employed
The Lenders should watch for all types of self-employment (i.e., 1099 income received from employer run through Schedule C, Form 2106, etc.).

The procedure to calculate Income for self-employed mortgagors is the same as under the respective underwriting guidelines.

As in standard underwriting, depreciation, depletion and self-employment tax are to be "added back" to determine annual income. Tax returns and a self-employed YTD Profit and Loss are required for all self-employed mortgagors.

EXAMPLES OF INCOME
The following examples are based upon standard credit underwriting guidelines. This illustrates the underwriting for MCC compliance and is not substantially different from your standard procedures. Please note that income earned in a fashion as illustrated by these examples must be added to the Income calculation.

Example: Permanent Seasonal Income
Include part-time or seasonal employment in calculating Income if Borrower works every summer. If Borrower worked for 3 months and earned an average of $3,600 during each of the past two years, then divide the $3,600 by 12 months which equals $300 per month. Add the $300 per month to the gross monthly income. Multiply by 12 to determine the Income.

Example: Seasonal/Temporary Income
Include short-term, part-term or seasonal employment in calculating Income if the Borrower earned $1,000 during the application period by painting the Borrower's parents' house (unless the Borrower is a painter either part-time or full-time). This is calculated by dividing the $1,000 by 12 or $83.33 per month. This amount of $83.33 is added to gross monthly income. Multiply by 12 to determine the Income.

Example: Overtime and Bonus
When calculating other income, the first thing that needs to be determined is base income. The base income is then multiplied by the number of months that has been covered by the most current pay stub. This calculation

will give the year-to-date base income or the amount of income that would have been earned if compensation of another kind had not occurred. After having established a year-to-date base, subtract it from the year-to-date total gross income on the pay stub. The difference will be the year-to-date total of other income.

The next step is to determine the other income earned in the months missing from the 12-month period. (If the pay stub covered eight months, four months is still needed.) This is done by taking the current annual base and subtracting it from the W-2 from the previous year. This is the other income earned for the previous year. Divide this number by twelve and multiply by the number of months needed to complete the 12-month period.

Once a year-to-date total of other income from the pay stub and other income from the previous year is established, combine the two totals to get all other income earned in the previous 12 months.

Closing Date:	April 27, 2008
Pay Stub Dated:	March 15, 2008 (2.5 months)
Year-to-Date Gross:	$4,625
Base Income:	$1,800 (monthly)
2002 W-2:	$22,500 (9.5 months of other income will be taken from this.)

Year-to-Date Base	Year-to-Date Other
$1,800 x 2.5 = $4,500	$4,625 - $4,500 = $125

Other Income From Previous Year
$22,500 – ($1,800 x 12) = ($900/12) x 9.5 = $712.50

Total Other Income, i.e. Overtime, Bonus
$125 + $712.50 = $837.50*
*To be added to the current base income to determine total annual income.

Omission of Other Income, i.e. Overtime, Bonus

Omitting other income that has been earned in the last twelve months is only allowed if at least two of the items listed below are provided:

- At least two pay stubs showing compensation for base income only.
- A letter from the employer (on company letterhead) stating that compensation for overtime and bonus will not occur in the future.
- Documentation that employment status has changed from non-exempt to exempt.

APPENDIX C: INCOME AND PURCHASE PRICE LIMITS

HOMEOWNERSHIP PROGRAMS INCOME** AND PURCHASE PRICE* LIMITS								
		Not Profession Specific: Home Sweet Texas Borrower	*Profession Specific:* Texas Hero Borrower				Purchase Price Limits for Any Borrower	
		All Areas	Non-Targeted Areas		Targeted Areas****			
Area of State	**Counties in Area**	Any Family Size	1 or 2 Persons	3 or More Persons	1 or 2 Persons	3 or More Persons	Non Targeted Areas	Targeted Areas***
Amarillo MSA	Armstrong, Carson, Potter & Randall	$49,440	$61,800	$71,070	$74,160	$86,520	$250,200	$305,800
Atascosa County HMFA	Atascosa	$48,080	$60,100	$69,115	$72,120	$84,140	$306,923	$375,129
Austin County HMFA	Austin	$53,440	$66,800	$76,820	$80,160	$93,520	$250,200	$305,800
Austin-Round Rock MSA	Bastrop, Caldwell, Hays, Travis, & Williamson	$58,560	$73,200	$84,180	$87,840	$102,480	$266,539	$325,769
Blanco County	Blanco	$53,600	$67,000	$77,050	$80,400	$93,800	$250,200	$305,800
Brazoria County HMFA	Brazoria	$62,960	$78,700	$90,505	$94,440	$110,180	$251,584	$307,492
Burnet County	Burnet	$49,360	$61,700	$70,955	$74,040	$86,380	$250,200	$305,800
Cooke County	Cooke	$49,040	$61,300	$70,495	$73,560	$85,820	$250,200	$305,800
Dallas HMFA	Collin, Dallas, Delta, Denton, Ellis, Hunt, Kaufman, & Rockwall	$54,000	$67,500	$77,625	$81,000	$94,500	$250,200	$305,800
Fort Worth-Arlington HMFA	Johnson, Parker, & Tarrant	$52,640	$65,800	$75,670	$78,960	$92,120	$250,200	$305,800
Gillespie County	Gillespie	$53,360	$66,700	$76,705	$80,040	$93,380	$250,200	$305,800
Glasscock County	Glasscock	$50,160	$62,700	$72,105	$75,240	$87,780	$250,200	$305,800
Hartley County	Hartley	$60,240	$75,300	$86,595	$90,360	$105,420	$250,200	$305,800
Hemphill County	Hemphill	$49,680	$62,100	$71,415	$74,520	$86,940	$250,200	$305,800
Hood County	Hood	$55,840	$69,800	$80,270	$83,760	$97,720	$250,200	$305,800
Houston-Baytown-Sugarland HMFA	Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto & Waller	$52,960	$66,200	$76,130	$79,440	$92,680	$251,584	$307,492
Jackson County	Jackson	$49,600	$62,000	$71,300	$74,400	$86,800	$250,200	$305,800
Jeff Davis County	Jeff Davis	$48,080	$60,100	$69,115	$72,120	$84,140	$250,385	$306,026
Kendall County HMFA	Kendall	$68,720	$85,900	$98,785	$103,080	$120,260	$306,923	$375,129
Lee County	Lee	$49,600	$62,000	$71,300	$74,400	$86,800	$250,200	$305,800
Loving County	Loving	$62,960	$78,700	$90,505	$94,440	$110,180	$250,200	$305,800
Medina County HMFA	Medina	$48,080	$60,100	$69,115	$72,120	$84,140	$306,923	$375,129
Midland MSA	Midland	$52,080	$65,100	$74,865	$78,120	$91,140	$250,200	$305,800
Ochiltree County	Ochiltree	$50,080	$62,600	$71,990	$75,120	$87,640	$250,200	$305,800
Roberts County	Roberts	$53,920	$67,400	$77,510	$80,880	$94,360	$250,200	$305,800
San Antonio - New Braunfels HMFA	Bandera, Bexar, Comal, Guadalupe & Wilson	$49,040	$61,300	$70,495	$73,560	$85,820	$306,923	$375,129
Sherman-Denison MSA	Grayson	$49,360	$61,700	$70,955	$74,040	$86,380	$250,200	$305,800
Somervell County	Somervell	$54,720	$68,400	$78,660	$82,080	$95,760	$250,200	$305,800
Tyler MSA	Smith	$49,280	$61,600	$70,840	$73,920	$86,240	$250,200	$305,800
Wise County HMFA	Wise	$54,160	$67,700	$77,855	$81,240	$94,780	$250,200	$305,800
Balance of State	**All remaining Counties not listed above**	**$48,080**	**$60,100**	**$69,115**	**$72,120**	**$84,140**	**$250,200**	**$305,800**

"MSA" - Metropolitan Statistical Area

"HMFA" - HUD Metro FMR Area

**Purchase Price Limits effective June 13, 2013.*

***Income Limits effective January 1, 2013.*

****Targeted Areas are economically distressed areas of the state.*

APPENDIX D: TARGETED AREA CENSUS TRACTS

Bee County	950500			
Bell County	020702	020900	022600	022801
	022900	023500		
Bexar County	110200	110500	110600	110700
	110800	110900	111000	130100
	130300	130500	130600	130700
	141000	150300	150800	160100
	160900	170101	170102	170200
	170300	170401	170900	171000
	171200	181003	191004	
Bowie County	010500	010600		
Brazos County	001400			
Brewster County	950400			
Brooks County	950200			
Brown County	950600	950700		
Cameron County	010500	010900	011000	011100
	011600	011700	011903	012200
	012303	012304	012507	012604
	012609	012610	012700	013203
	013207	013208	013305	013306
	013307	013308	013309	013401
	013402	013700	013801	013802
	013901	013902	013903	014001
	014002			
Cherokee County	950400	950500	950700	
Dallas County	000405	001503	002000	002701
	002702	002900	003400	003500
	003800	003901	003902	004000
	004100	004800	007201	007202
	008603	008604	008703	008704
	008900	009304	009804	010200
	010400	011401	011500	012208
	019013	019209		

APPENDIX D: TARGETED AREA CENSUS TRACTS (Continued)				
Dimmit County	950100			
Ector County	950700	001100	001200	001500
	001800	001900	002000	
El Paso County	000301	000302	000404	000800
	000900	001203	001400	001600
	001700	001800	001900	002000
	002100	002201	002202	002600
	002800	002900	003000	003200
	003602	003701	003702	003901
	003903	004105	010102	010208
	010309	010319	010403	010404
	010501	010502	010503	010504
Falls County	990400			
Frio County	950300			
Gray County	950600	950800		
Gregg County	001400			
Grimes County	180104			
Hale County	950200			
Hidalgo County	020100	024600	020501	020503
	020600	020723	021100	021301
	021302	021303	021500	021600
	021801	021802	021901	021902
	022002	022101	022102	022202
	022501	022502	022600	022702
	022800	023000	023101	023102
	023503	023506	023508	023700
	024101	024102	024103	024104
	024105	024201	024202	024301
	024302	024401	024402	024500
Hill County	960900	961000		
Hockley County	950400			
Howard County	950300			
Hudspeth County	950100			

APPENDIX D: TARGETED AREA CENSUS TRACTS (Continued)				
Jim Wells County	950500			
Kleberg County	020200			
Lamar County	000600			
Lamb County	950500			
La Salle County	950100	950200		
Limestone County	970400			
Lubbock County	000202	000301	000500	000603
	000605	000607	001000	001200
	002400			
McLennan County	000400	000598	001100	001200
	001400	001500	001900	003300
Maverick County	950100	950201	950202	950203
	950500	950601	950602	
Midland County	000900	001400	001600	001700
Nolan County	950300			
Nueces County	000400	000500	000900	001000
	001100	001200	001300	001500
	001601	005602		
Potter County	010600	012000	012200	012800
	013000	014600	014800	
Presidio County	950200			
Reeves County	950100	950200	950300	950500
Smith County	000202	000300	000400	000700
Starr County	950102	950103	950201	950202
	950400	950500	950600	950701
	950702			
Tarrant County	100300	101000	101100	101600
	101700	102500	103100	103500
	103601	103701	103800	103900
	104000	104604	106516	122200

APPENDIX D: TARGETED AREA CENSUS TRACTS (Continued)				
Taylor County	010700	010800	011700	011900
Terry County	950300			
Titus County	950600	950700		
Tom Green County	000500	000700	000900	
Travis County	000604	000802	000804	001000
	002311	002316		
Val Verde County	950601	950602		
Webb County	000103	000104	000300	000400
	000500	000600	000700	000902
	001002	001200	001300	001801
	001804	001805		
Wharton County	740300			
Wichita County	010100	010400	011100	011300
Willacy County	950300	950700		
Zapata County	950200			
Zavala County	950100	950200	950301	950302

APPENDIX E: RECAPTURE TAX

According to Section 143(m) of the Internal Revenue Code of 1986, homebuyers with loans closing after January 1, 1991, who receive a Mortgage Credit Certificate, may be subject to a "Recapture Tax" if they sell or transfer their home within nine years after the Closing. A number of factors determine the amount of tax, if any, the Borrower must pay.

In no case will the recapture liability exceed 50% of the gain from the sale of the Residence. The liability will always be the lesser of: (1) half of the gain from the sale of the home, (2) 6.25% of the original loan amount, or (3) the Recapture Tax, as computed through the following formula:

$$PRT = 6.25\% \times P \times H \times \frac{M - (IL \times 1.05\ Y)}{5000}$$

PRT = potential Recapture Tax	M = Borrower's adjusted gross income at sale
P = original principal amount	IL = original Income limit
H = holding period percentage	Y = number of complete years Borrower owned home

NOTE: If "M - (IL x 1.05 Y)" is greater than $5,000, that amount is treated as equal to $5,000.

Some MCC holders who sell their home within nine years will not be subject to any Recapture Tax. Generally, there are four tests to be met in order to incur a Recapture Tax:

1. The home must be sold or transferred within nine years
2. The sale or transfer must result in a GAIN
3. The transfer must not be due to death or divorce
4. The income of the seller must exceed an amount which equals an increase of 5% per year over the qualifying Income in effect when the home was first purchased with the MCC. (This maximum income amount is referred to as the "Income Threshold".)

Further, if the seller's income exceeds the Income Threshold by less than $5,000, the seller is entitled to a reduction in the Recapture Tax.

There are two basic steps in computing the Recapture Tax: (1) compute the basic tax by multiplying the original principal balance by a percentage assigned to the year in which the home is sold; and (2) (only if the seller's income exceeds the threshold by less than $5,000) reduce the tax computed in #1 by multiplying it times the excess income divided by $5,000.

EXAMPLE

The following is an example of how to compute the Recapture Tax in a situation where the MCC holder is selling the home between the first and second year after the mortgage closing, the original loan amount is $100,000, and the seller's income exceeds the threshold by $3,000.

STEP 1 - First, the loan amount of $100,000 is multiplied by 2.5%, the percentage in the table below which is assigned to a sale between the 1st and 2nd year after closing.

MPRT
(MAXIMUM POTENTIAL RECAPTURE TAX)
Dollar Amount of Original Mortgage = $100,000

Date of Sale or Transfer of Home Before	Percentage	Dollar Amount
1 year after Mortgage Closing:	1.25%	$ 1,250.00
1 or more years, but less than 2 years after Mortgage Closing:	2.50%	$ 2,500.00
2 or more years, but less than 3 years after Mortgage Closing:	3.75%	$ 3,750.00
3 or more years, but less than 4 years after Mortgage Closing:	5.00%	$ 5,000.00
4 or more years, but less than 5 years after Mortgage Closing:	6.25%	$ 6,250.00
5 or more years, but less than 6 years after Mortgage Closing:	5.00%	$ 5,000.00
6 or more years, but less than 7 years after Mortgage Closing:	3.75%	$ 3,750.00
7 or more years, but less than 8 years after Mortgage Closing:	2.50%	$ 2,500.00
8 or more years, but less than 9 years after Mortgage Closing:	1.25%	$ 1,250.00

STEP 2 - Multiply the tax computed in Step No. 1 ($2,500) by $3,000 (excess income) divided by $5,000.

$$\frac{\$2{,}500 \times \$3{,}000}{\$5{,}000} = \$1{,}500$$

FINALLY - The seller's tax will be $1,500 or half the gain from the sale of the home, whichever is less.

Lender's Responsibility Regarding Recapture Tax

The Internal Revenue Service requires that the Lender:

1. Has a basic understanding of the Recapture Tax and explains it to the Borrower before collecting the MCC Application Fee from the Borrower.
2. Have the Borrower sign the MCC Application and Affidavit. The Initial Notice to Mortgagor of Potential Recapture Tax clause is part of this document and included in the MCC Application Package that is submitted to the Program Administrator.

In an effort to clearly and adequately explain the Recapture Tax, the Program uses a three page form entitled Notice to Mortgagor of Information Regarding Potential Recapture Tax or MCC Recapture Tax Notice. This form is generated by the Program Administrator and is tailored to reflect the particular loan amount and income thresholds which pertain. The Program Administrator forwards it to the Borrower with the Mortgage Credit Certificate after loan Closing.

NOTE: The Borrower should be advised to consult a tax advisor or the local office of the IRS for any in-depth questions about recapture, or when the property is sold or otherwise disposed of to determine the amount, if any, of the actual Recapture Tax.

APPENDIX F: INSTRUCTIONS FOR COMPLETING IRS FORM W-4

The MCC tax credit, at 40%, is very similar to the credit which may be taken for child or dependent care expenses which ranges from 20% to 30% depending upon income. Although a separate line on the W-4 form is not provided for the MCC credit, you may use line F for this purpose.

If you anticipate at least $1,500.00 of MCC mortgage interest during the year, you may enter “1" on line F. If you anticipate paying more than $3,000.00 in mortgage interest during the year, you may enter “2: on line F. If you additionally have child or dependent care expenses that would entitle you to a tax credit, the number should be adjusted accordingly.

The following example shows how you might calculate the amount of mortgage interest you will pay during the year:

Mortgage balance at beginning of year:	$121,000.00
Interest rate on mortgage loan:	6.0%
Estimated annual interest paid:	$7,260.00

The actual amount of interest paid will be somewhat smaller because with each monthly payment your mortgage balance normally decreased during the year.

If you have more than one wage earner in your family (e.g., both spouses are employed), be careful not to claim too many allowances by putting the maximum number on both workers’ W-4 forms. Dual income families normally need to reduce the number of allowances taken to avoid having to pay penalties when their annual tax return is filed.

If you wish to calculate the additional amount of mortgage interest you might be able to take as an itemized deduction, follow the instructions on the back of the W-4 Form. On line 1, be sure to subtract an amount equal to 40% of your mortgage interest (depending on the credit amount of your certificate) from the total amount of mortgage interest which you have calculated for deduction purposes. (Federal law requires subtracting an amount equal to the MCC tax credit claimed from the amount of the home mortgage interest to be deducted.)

This IRS Form W-4 is to be filed with the payroll clerk where you work. You do not send the W-4 form to the Internal Revenue Service. If you have any questions concerning completion of the form, you payroll clerk should be able to assist you.

Failure to revise your IRS Form W-4 to reflect the MCC tax credit will have no effect on your ability to claim the deduction with our annual tax return. When you file your annual IRS form 1040, you will need to claim the MCC tax credit in the space provided. You will also need to complete IRS 8396 and file it with your tax return.

These instructions are for your information only. The Texas State Affordable Housing Corporation and its officers and agents do not intend to render any income tax advice in connection with this MCC program. All MCC holders or Borrowers should consult with the Internal Revenue Service or their personal income tax advisers concerning the appropriate level of withholding allowance given their personal tax situations.

Form W-4 (2013)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2013 expires February 17, 2014. See Pub. 505, Tax Withholding and Estimated Tax.

Note. If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds $1,000 and includes more than $350 of unearned income (for example, interest and dividends).

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2013. See Pub. 505, especially if your earnings exceed $130,000 (Single) or $180,000 (Married).

Future developments. Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted at *www.irs.gov/w4*.

Personal Allowances Worksheet (Keep for your records.)

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . . **A** _____

B Enter "1" if:
- You are single and have only one job; or
- You are married, have only one job, and your spouse does not work; or
- Your wages from a second job or your spouse's wages (or the total of both) are $1,500 or less.

. . . **B** _____

C Enter "1" for your **spouse.** But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . . **C** _____

D Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return . . . . . **D** _____

E Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above) . . **E** _____

F Enter "1" if you have at least $1,900 of **child or dependent care expenses** for which you plan to claim a credit . . . **F** _____
(**Note.** Do **not** include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)

G **Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.
- If your total income will be less than $65,000 ($95,000 if married), enter "2" for each eligible child; then **less** "1" if you have three to six eligible children or **less** "2" if you have seven or more eligible children.
- If your total income will be between $65,000 and $84,000 ($95,000 and $119,000 if married), enter "1" for each eligible child . . . **G** _____

H Add lines A through G and enter total here. (**Note.** This may be different from the number of exemptions you claim on your tax return.) ► **H** _____

For accuracy, **complete all worksheets that apply.**
- If you plan to **itemize** or **claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you are **single and have more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $40,000 ($10,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

---------- **Separate here and give Form W-4 to your employer. Keep the top part for your records.** ----------

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

► **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

OMB No. 1545-0074
2013

1 Your first name and middle initial	Last name	**2 Your social security number**
Home address (number and street or rural route)	**3** ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate. **Note.** If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code	**4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card.** ► ☐	

5 Total number of allowances you are claiming (from line **H** above **or** from the applicable worksheet on page 2) **5**

6 Additional amount, if any, you want withheld from each paycheck . . . . . **6** $

7 I claim exemption from withholding for 2013, and I certify that I meet **both** of the following conditions for exemption.
- Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and**
- This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability.

If you meet both conditions, write "Exempt" here . . . . . ► **7**

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature
(This form is not valid unless you sign it.) ► **Date** ►

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	**9** Office code (optional)	**10** Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Deductions and Adjustments Worksheet

Note. Use this worksheet *only* if you plan to itemize deductions or claim certain credits or adjustments to income.

1	Enter an estimate of your 2013 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes, medical expenses in excess of 10% (7.5% if either you or your spouse was born before January 2, 1949) of your income, and miscellaneous deductions. For 2013, you may have to reduce your itemized deductions if your income is over $300,000 and you are married filing jointly or are a qualifying widow(er); $275,000 if you are head of household; $250,000 if you are single and not head of household or a qualifying widow(er); or $150,000 if you are married filing separately. See Pub. 505 for details	1	$
2	Enter: { $12,200 if married filing jointly or qualifying widow(er); $8,950 if head of household; $6,100 if single or married filing separately }	2	$
3	**Subtract** line 2 from line 1. If zero or less, enter "-0-"	3	$
4	Enter an estimate of your 2013 adjustments to income and any additional standard deduction (see Pub. 505)	4	$
5	**Add** lines 3 and 4 and enter the total. (Include any amount for credits from the *Converting Credits to Withholding Allowances for 2013 Form W-4* worksheet in Pub. 505.)	5	$
6	Enter an estimate of your 2013 nonwage income (such as dividends or interest)	6	$
7	**Subtract** line 6 from line 5. If zero or less, enter "-0-"	7	$
8	**Divide** the amount on line 7 by $3,900 and enter the result here. Drop any fraction	8	
9	Enter the number from the **Personal Allowances Worksheet,** line H, page 1	9	
10	**Add** lines 8 and 9 and enter the total here. If you plan to use the **Two-Earners/Multiple Jobs Worksheet,** also enter this total on line 1 below. Otherwise, **stop here** and enter this total on Form W-4, line 5, page 1	10	

Two-Earners/Multiple Jobs Worksheet (See *Two earners or multiple jobs* on page 1.)

Note. Use this worksheet *only* if the instructions under line H on page 1 direct you here.

1	Enter the number from line H, page 1 (or from line 10 above if you used the **Deductions and Adjustments Worksheet**)	1	
2	Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here. **However,** if you are married filing jointly and wages from the highest paying job are $65,000 or less, do not enter more than "3"	2	
3	If line 1 is **more than or equal to** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter "-0-") and on Form W-4, line 5, page 1. **Do not** use the rest of this worksheet	3	

Note. If line 1 is **less than** line 2, enter "-0-" on Form W-4, line 5, page 1. Complete lines 4 through 9 below to figure the additional withholding amount necessary to avoid a year-end tax bill.

4	Enter the number from line 2 of this worksheet	4			
5	Enter the number from line 1 of this worksheet	5			
6	**Subtract** line 5 from line 4			6	
7	Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here			7	$
8	**Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding needed			8	$
9	Divide line 8 by the number of pay periods remaining in 2013. For example, divide by 25 if you are paid every two weeks and you complete this form on a date in January when there are 25 pay periods remaining in 2013. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck			9	$

Table 1

Married Filing Jointly		All Others	
If wages from **LOWEST** paying job are—	Enter on line 2 above	If wages from **LOWEST** paying job are—	Enter on line 2 above
$0 - $5,000	0	$0 - $8,000	0
5,001 - 13,000	1	8,001 - 16,000	1
13,001 - 24,000	2	16,001 - 25,000	2
24,001 - 26,000	3	25,001 - 30,000	3
26,001 - 30,000	4	30,001 - 40,000	4
30,001 - 42,000	5	40,001 - 50,000	5
42,001 - 48,000	6	50,001 - 70,000	6
48,001 - 55,000	7	70,001 - 80,000	7
55,001 - 65,000	8	80,001 - 95,000	8
65,001 - 75,000	9	95,001 - 120,000	9
75,001 - 85,000	10	120,001 and over	10
85,001 - 97,000	11		
97,001 - 110,000	12		
110,001 - 120,000	13		
120,001 - 135,000	14		
135,001 and over	15		

Table 2

Married Filing Jointly		All Others	
If wages from **HIGHEST** paying job are—	Enter on line 7 above	If wages from **HIGHEST** paying job are—	Enter on line 7 above
$0 - $72,000	$590	$0 - $37,000	$590
72,001 - 130,000	980	37,001 - 80,000	980
130,001 - 200,000	1,090	80,001 - 175,000	1,090
200,001 - 345,000	1,290	175,001 - 385,000	1,290
345,001 - 385,000	1,370	385,001 and over	1,540
385,001 and over	1,540		

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. Internal Revenue Code sections 3402(f)(2) and 6109 and their regulations require you to provide this information; your employer uses it to determine your federal income tax withholding. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances; providing fraudulent information may subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation; to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws; and to the Department of Health and Human Services for use in the National Directory of New Hires. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

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

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

APPENDIX G: SAMPLE CHECKLISTS AND FORMS

Form 1 – MCC Pre-Closing Compliance Package Checklist

Form 2 – MCC Program Affidavit

Form 3 – MCC Post-Closing Compliance Package Checklist

Form 4 – MCC Reaffirmation of Mortgagor

Form 5 – MCC Seller Affidavit

Form 6 – MCC Sample Commitment Letter

Form 7 – MCC Extension Request

FORM 1

PRE-CLOSING COMPLIANCE PACKAGE CHECKLIST – MCC PROGRAM

BORROWER INFORMATION

TSAHC Loan Number	
Applicant Name	
Applicant Email Address	
Property Address	
Loan Amount	$

LENDER CONTACT INFORMATION

Lender	
Contact Name	
Phone Number	
Email	

This MCC Pre-Closing Compliance Package contains:

1. **This Checklist**

2. **MCC Program Affidavit**
    a. Review to ensure all information is correct and complete.
    b. Signed and dated by all Mortgagors, i.e., anyone who executes the deed of trust.
    c. Signed and dated by Lender

2. Copy of initial **Loan Application (1003)**

3. Copy of **Purchase Contract,** signed by both Mortgagor and Seller. Only include first and last pages and any counter-offers.

4. Copy of **Tax Returns** for each Mortgagor (anyone who executes the deed of trust): Three (3) most recent years are required. Not required if purchasing a home in a Targeted Area or if Mortgagor is a Qualified Veteran.
    a. Returns must be signed if they are the forms the Mortgagor filed with the IRS. Printouts directly from the IRS do not have to be signed.
    b. Please complete the appropriate section of the MCC Program Affidavit if the Mortgagor was not required to file tax returns.

FORM 2
PROGRAM AFFIDAVIT – MCC PROGRAM

The undersigned Mortgagor hereby states under oath that:

(1) I am a purchaser and Mortgagor of the Residence which is a ☐ new ☐ existing Residence and is located at _____ and is located within the Eligible Loan Area.

(2) I will occupy such Residence as my Principal Residence within 60 days of Closing.

(3) No part of the Mortgage Loan proceeds is or will be used to acquire or replace an existing mortgage, and I did not have a mortgage (whether or not paid off) on said Residence at any time prior to the execution of the mortgage (except that I may have a construction period loan or temporary initial financing of 24 months or less with respect to the Residence and may use the proceeds of the mortgage to repay such financing).

(4) The Purchase Price of the Residence, including fixtures, is $_____ or less and does not exceed the applicable maximum Purchase Price Limit. "Purchase Price" means the cost of acquiring the Residence excluding usual and customary settlement or closing costs. If the Mortgagor agrees to pay a cost usually paid by the Seller, that amount must be included in the above figure representing the Purchase Price.

(5) I am **one** of the following:

☐ Corrections Officer – a full-time employee of the Texas Department of Criminal Justice (TDCJ) who receives hazardous duty pay.

☐ County Jailer - a person employed full-time as a county jail guard under Section 85.005, Local Government Code.

☐ Emergency Medical Services Personnel – a full-time employee as assigned by Section 773.003, Health and Safety Code.

☐ Fire Fighter – a member of a fire department who performs a function listed in Section 419.021(3)(c), Government Code.

☐ Juvenile Corrections Officer – a full-time employee of the Texas Juvenile Justice Department (TJJD) who receives hazardous duty pay.

☐ Peace Officer - a person elected, employed, or appointed as a full-time peace officer under Article 2.12, Code of Criminal Procedure, Section 51.212 or 51.214, Education Code, or other law.

☐ Professional Educator – a full-time classroom teacher, full-time paid teacher's aide, full-time librarian, full-time school nurse, or full-time counselor, as certified under Subchapter B, Chapter 21 of the Texas Education Code, a Professional Nursing Program Faculty Member, or an Allied Health Program Faculty Member.

☐ Public Security Officer - a person employed or appointed full-time as an armed security officer by this state or a political subdivision of this state. *The term does not include a security officer employed by a private security company that contracts with this state or a political subdivision of this state to provide security services for the entity.*

☐ Veteran – as assigned by Section 161.001, Natural Resources Code.

(6) The residence ☐ is ☐ is not in a Targeted Area.

The Mortgagor or Co-Mortgagor ☐ is ☐ is not a Qualified Veteran. If the Mortgagor or Co-Mortgagor is a Qualified Veteran, then such person intends to occupy the residence as his or her Principal Residence. A "Qualified Veteran" means a person who is a "veteran" (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds or a loan which utilized a mortgage credit certificate program using the veteran's exception to the 3-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of their discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

If the residence is not in a Targeted Area or if the Mortgagor or Co-Mortgagor is not a Qualified Veteran, I have not had a present ownership interest in a Principal Residence of mine at any time during the three-year period prior to the date on which I am executing the mortgage on said Residence, and to the best of my knowledge, the same is true with respect to each other person (if any) purchasing and mortgaging said Residence with me. I have provided true and correct copies of the federal income tax returns filed by me or any Co-Mortgagor for the previous three years. If not required to file, the immediately following section has been completed.

I hereby certify that I was not required by law to file a federal tax return for the following year(s):

Mortgagor	**Co-Mortgagor**	**Non-Purchasing Spouse**
☐ 2012	☐ 2012	☐ 2012
☐ 2011	☐ 2011	☐ 2011
☐ 2010	☐ 2010	☐ 2010

Federal income tax returns are not required if Residence is located in a Targeted Area or if Mortgagor is a Qualified Veteran.

I understand that for the purposes of the foregoing, examples of interests which constitute Present Ownership Interests (and thus would result in me not meeting such requirements) are the following: (a) a fee simple interest; (b) a joint tenancy, tenancy in common, or tenancy by the entirety; (c) the interest of a tenant-shareholder in a cooperative; (d) a life estate; (e) a land contract or contract for deed (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time); (f) an interest held in trust for the Mortgagor (whether or not created by the Mortgagor) that would constitute a present ownership interest if held directly by the Mortgagor; and (g) an interest in a mobile home that is required to be taxed as real property under Texas law.

(7) I will not permit any person to assume my obligations under the mortgage (and related mortgage note) unless such person is approved by the Program Administrator in accordance with the requirements of the Issuer's Program.

(8) I do not expect to use the Residence or any part thereof in a trade or business. The land appurtenant to the Residence is only that amount of land which reasonably maintains the basic livability of the Residence and will not provide a source of income to the Mortgagor.

(9) I understand that Family Income means the current annualized family income at the time of Closing, as determined in accordance with the IRS Code. Income means the gross monthly income of all Mortgagors living in the property and liable on the deed of trust, multiplied by 12.

Gross monthly income includes the sum of current monthly gross pay AND any additional income from investments, pensions, VA compensation, part-time employment, bonuses, dividends, interest, current overtime pay, net rental income, royalties, etc. Other income must also be included such as alimony and child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from Trusts, business activities or investments. In determining gross monthly income, the income of all mortgagors living on the property and liable on the deed of trust must be taken into account. The income of a spouse who will live in the Residence must be included, and he/she must meet all other bond requirements and sign all Affidavits.

Under no circumstances will the income used for bond compliance (Family Income) be less than that uses by the Lender when qualifying Mortgagors for repayment of their Mortgage Loan (i.e., income used to calculate qualifying ratios).

COMPUTATION OF FAMILY INCOME

Type of Income	Mortgagor	Co- Mortgagor or Spouse	Other Co-Mortgagors	Total Family Income*
Total Annual Income (must include any & all types of Income earned as stated above)	$	$	$	$

***This total cannot exceed the Maximum Family Income limits established for the Program*.**

(10) The number of persons constituting my family who will reside in the Residence (together with any other persons who will reside in the Residence) is ☐.

(11) I understand, acknowledge, and agree that in the event I sell the Residence within nine years from the date that the Mortgage Loan is originated, the IRS may levy a tax on me upon such disposition up to a maximum of 50% of the amount of gain that I realized upon the disposition, depending upon my income level, the amount of the Mortgage Loan, and the number of years I hold the Residence. I further acknowledge that I have received and read the Recapture Tax Notice that describes the potential interest recapture in detail and that was provided to me by the Lender that is providing the financing for my purchase of the Residence.

(12) **INITIAL NOTICE TO MORTGAGOR OF POTENTIAL RECAPTURE TAX** - Notice is hereby given that you may be subject to a special "Recapture Tax" for federal income tax purposes, which would be imposed at the time you sell the residence for which you obtained an MCC (“Residence”), if you sell the Residence within the first nine years. This potential tax, which is not imposed unless and until you sell your home, is based on the concept that through the MCC, the federal government has enabled you to take a tax credit of the interest you pay on your home mortgage. The amount of the potential tax increases for the first five years that you own the home and thereafter declines. No tax is imposed if you hold (do not sell) your home for a total of nine or more years. In the event you sell your home within the first nine years, a number of factors determine the amount of

tax, if any, imposed at the time of the sale of the home. These include: (1) the original principal amount of the home mortgage, (2) the number of complete years that pass before you sell the home, (3) the median family income for your area at the time you bought the home, and (4) your modified, or adjusted, gross annual income at the time you sell the home. If you sell the Residence more than nine years after the close of escrow, no recapture liability arises. Also, if you sell the Residence during the first nine years after Closing, but your income does not increase more than 5% per year during that period, you will likely not incur recapture liability. In addition, if there is no net gain on the sale of the home, no recapture liability arises. Finally, in no case will the recapture liability exceed 50% of your gain from the sale of the Residence. When preparing your post-sale tax return, you should consult a tax professional regarding your calculation. After your loan closes, you will be given a second notice by the Program Administrator with a more detailed explanation of the recapture tax and certain additional information that will be needed to calculate the amount, if any, of Recapture Tax liability you may have.

(13) I have not made application to and been rejected by another Lender for an MCC under the Program for a loan similar in type and amount, and I have not been the recipient of an MCC under the Program.

(14) I have not been required to seek financing for the purchase of the Residence through any particular Lender.

(15) I understand in the event that I sell the Residence at any time and desire to have my MCC transferred pursuant to the transfer provisions of the Program that the person assuming my loan must qualify as a Mortgagor and that the Purchase Price may not exceed the maximum Purchase Price then applicable to Existing Housing.

(16) The above information is being submitted for the purposes of establishing eligibility for the Program. Because the Lender has explained the Program to me, I am familiar with and understand the provisions of the Program. I (we) agree to submit such other evidence of income as may be reasonably required by the Lender including, but not limited to, pay stubs and copies of federal income tax returns. The statements and information set forth herein are made under penalty of perjury. I understand that perjury is a felony offense punishable by fine or imprisonment or both.

Date: _____

Mortgagor's Printed Name:_____

Mortgagor's Signature:_____

Mortgagor's Printed Name:_____

Mortgagor's Signature:_____

CERTIFICATION OF THE LENDER

Based upon reasonable investigation, the Lender has no reason to believe that either the Mortgagor or the Seller of the Residence has made any negligent or fraudulent material misstatements in connection with the Mortgagor's application for an MCC, and submits the completed information above as accurate and true to the best of the Lender's knowledge. I certify that I have reviewed this MCC Program Affidavit for accuracy and completeness. I also certify that the financing attached to this MCC does not use any of the prohibited financing such as any mortgage funded with a qualified mortgage bond or a qualified veteran's mortgage bond.

Date: _____

Company Name:_____

Authorized Lender Representative:_____

Title of Lender Representative:_____

Signature of Lender Representative:_____

FORM 3

POST-CLOSING COMPLIANCE PACKAGE CHECKLIST – MCC PROGRAM

The MCC Closing Package will not be processed, nor will a Mortgage Credit Certificate be issued for the Mortgagor, until all the items below are received by the Texas State Affordable Housing Corporation.

MORTGAGOR INFORMATION

TSAHC Loan Number	
Lender Loan Number	
Mortgagor Name	
Loan Amount	$

LENDER CONTACT INFORMATION

Lender Name	
Contact Name	
Phone Number	
Email	

PLEASE SEND ONLY ITEMS LISTED BELOW <u>WITHIN 30 DAYS FOLLOWING LOAN CLOSING</u>:

1. **<u>This Checklist</u>**
2. **<u>Seller's Affidavit</u>**
    a. Signed and dated by Seller(s).
3. **<u>Reaffirmation of Mortgagor</u>**
    a. Signed and dated by all Mortgagors including anyone who executes the deed of trust.
    b. Affidavit must be notarized.
4. Copy of **<u>Homebuyer Education Certificate</u>**
5. Copy of **<u>final, executed HUD-1 Settlement Statement</u>**
6. **<u>ACH Transfer</u>** for payment of Program fees (Instructions for ACH transfer are detailed on the ACH Transfer Form).
    a. 1.0% of Mortgage Loan amount.
    b. $200 MCC Compliance Fee.

After loan Closing and receipt of all items on this page, the MCC will be issued to the Mortgagor via mail. The borrower will also receive the completed Recapture Tax Notice for his/her records.

FORM 4

REAFFIRMATION OF MORTGAGOR – MCC PROGRAM
(To Be Executed at the Time of Closing)

STATE OF _____)
) ss.
COUNTY OF _____)

TSAHC Loan Number: _____
Property Address: _____

The undersigned (jointly and severally, the "Mortgagor") being duly sworn according to Law, deposes and says under penalty of perjury:

I hereby reaffirm that the statements and information contained in the MCC Program Affidavit which I executed on the day of ,20 were true, accurate and complete when made and remain true, accurate, complete and unchanged.

_____	_____
Mortgagor's Signature	Mortgagor's Signature
_____	_____
Mortgagor's Printed Name	Mortgagor's Printed Name

Before me on this day personally appeared the foregoing individual(s) known to me to be the person(s) whose true and genuine signature(s) were subscribed to the foregoing instrument in my presence.

[SEAL]

_____
Notary Public

My Commission Expires:

_____

FORM 5

SELLER AFFIDAVIT – MCC PROGRAM

To the Seller: *The Party purchasing your home is applying for a Mortgage Credit Certificate ("MCC"). The MCC is a federal tax credit. The IRS requires you (the Seller) to sign this document as verification that you and the buyer have agreed upon the sales price reflected below. The Lender should have completed the blanks prior to forwarding this Affidavit to you.* ***Your cooperation in executing this completed document and returning it to the Lender as quickly as possible is vital because the sale transaction cannot close before this executed Affidavit is received.*** *Please call the Lender with any questions.*

I, as the Seller of a single family residence, at_____understand that the buyer,_____, is applying for an MCC from the Texas State Affordable Housing Corporation's Mortgage Credit Certificate Program.

The Purchase Price is $_____, excluding all settlement costs, title and transfer costs, title insurance, survey fees, credit reference fees, legal fees, appraisal fees and points paid by the buyer.

The property is a completed unit, suitable for occupancy.

Outside of the funds tendered for the escrow, I have received no money from the buyer. Further, outside of the contract for the sale of the property, the buyer and I have entered into no contract or agreement regarding the disposition of this property.

I acknowledge that any material misstatement negligently or fraudulently made by me in connection with the MCC application is a federal violation punishable by a fine and revocation of the MCC, in addition to any criminal penalty imposed by law.

Date: _____

Printed Name of Seller	Signature of Seller
Printed Name of Seller	Signature of Seller

FORM 6

COMMITMENT LETTER – MCC PROGRAM

TO THE ABOVE MORTGAGOR AND LENDER:

An Application in the form of a Program Affidavit and related documentation pursuant to the Texas State Affordable Housing Corporation's Mortgage Credit Certificate Program (the "Program"), has been received by the Texas State Affordable Housing Corporation (the "Corporation") and reviewed for its compliance with the terms and conditions of the Program. The Corporation has determined that the Mortgagor has complied with the initial requirements of the Program.

Subject to completion of the remaining terms and conditions prior to issuance of a Mortgage Credit Certificate pursuant to the Program Guidelines, the Corporation will execute and deliver a Mortgage Credit Certificate to the Applicant for a loan amount not to exceed the above-indicated sum to be dated as of the Closing Date of the loan.

The terms of this MCC Commitment Letter are governed by the Program Guidelines which are incorporated herein by reference as if fully set forth at length. THIS COMMITMENT WILL EXPIRE ON THE COMMITMENT EXPIRATION DATED INDICATED ABOVE, which is 120 days from the date the loan was initially reserved. If you require an extension, an Extension Request Form must be filed prior to the Commitment Expiration Date, or you may lose this commitment.

PLEASE BE SURE to submit all required closing documents from the MCC Post-Closing Compliance Package Checklist to the Corporation via the eDocs module of the Lender Portal at www.tsm-online.org within 30 days of the Closing Date.

Commitment Date: _____

Contact Name: Tim Almquist

Title: Single Family Compliance Manager

Signature: _____

Notice: A Mortgage Credit Certificate is subject to certain requirements imposed by federal law concerning the recapture of a portion of the mortgage tax benefits granted to a Borrower upon the sale of this Principal Residence within nine years from the date of purchase.

FORM 7

EXTENSION REQUEST FORM – MCC PROGRAM

Submit form electronically via the eDocs module of the Lender Portal at www.tsm-online.org.

If approved, this form will be signed by the Program Administrator and delivered via email back to the referenced Lender Representative.

TSAHC Loan Number	
Lender Loan Number	
Mortgagor Name	
Property Address	
Initial Commitment Expiration Date	

The Lender hereby requests a 2-month extension for the above referenced loan.

The undersigned Lender certifies that this is the first Extension Request Form submitted concerning the above-referenced MCC Loan Number or, if any prior extensions have been granted, attached hereto is a description of the extenuating circumstances necessitating this extension request.

_____

Lender

_____ _____

Name – Authorized Lender Representative **Lender Representative Email Address**

PROGRAM ADMINISTRATOR APPROVAL:

As the Program Administrator, the Texas State Affordable Housing Corporation hereby grants a 2-month extension from the original commitment date for the MCC Commitment named above. This extension expires on:_____. (to be completed by Program Administrator)

TEXAS STATE AFFORDABLE HOUSING CORPORATION
Program Administrator

_____ _____

Name – Program Administrator **Signature – Program Administrator**