CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

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Availability of Mortgage Credit Certificates Through The Qualified Home Improvement & Rehabilitation Bond Program

Localities and certain state agencies can apply to the California Debt Limit Allocation Committee (CDLAC) for authority to issue Mortgage Credit Certificates (MCC) to low- and moderate-income homeowners financing home improvements with a Qualified Home Improvement or a Qualified Rehabilitation Loan.

What is a Mortgage Credit Certificate?
An MCC provides eligible borrowers with a federal income tax credit based on a specified percentage of the loan interest paid each year. The tax credit is a dollar-for-dollar reduction in the borrower's federal tax liability that increases the household income available to qualify for a loan and to make monthly loan payments. MCCs can be used with many energy efficiency, home improvement, and/or rehabilitation loans, but cannot be used with tax-exempt mortgage revenue bond-supported finance programs.

Who is eligible to receive a Mortgage Credit Certificate?
Mortgage Credit Certificates are available to households with incomes at or below 115% of the Area Median Income (or 140% in federally designated target areas and high cost areas). The household must also reside in the home to be improved or be the first resident after rehabilitation is completed and must remain in the home for the life of the MCC.

What's the difference between a Qualified Home Improvement Loan and a Qualified Rehabilitation Loan?

- Qualified Home Improvement Loans are used to finance alterations to an existing residence that protect or improve the basic livability or energy efficiency of the residence and are subject to a $15,000 maximum.
- Qualified Rehabilitation loans can be used to rehabilitate or acquire a recently rehabilitated property that is at least 20 years old and will maintain a specified percentage of interior and exterior walls after rehabilitation. The loan value cannot exceed 90 of the average area purchase price over the past 12 months, unless the home is located in a federally-defined target area.

How do Mortgage Credit Certificates work?
Most often, the participating lender or broker originating the loan that the MCC is attached to submits eligibility information to the locality for approval when the loan is packaged for credit review. The MCC benefit can equal 10% to 50% of loan interest (as determined by the locality). While the credit is generally redeemed annually on the borrower's federal taxes, a borrower can realize the benefit sooner by increasing the withholdings on their paycheck.

The chart to the right demonstrates how the MCC reduces the cost of borrowing. In this case, a 50% tax credit on a $15,000 home improvement loan with a 10-year term and a 7% interest rate will yield a total tax savings of $2,450 in addition to most of the standard deductions.

10-Year Tax Savings from MCC	
Home Improvement Loan Amount	$15,000
Multiplied by Interest Rate	7.00%
Total Interest Payment (10 Years)	$5,900
Multiplied by Tax Credit Rate	50%
Total saved at the end of 10 years = $2,450 plus most of the standard interest deduction.	