

# Mortgage Credit Certificate (MCC)



**A Mortgage Credit Certificate (MCC)** is an IRS-approved tax credit program. If you have an MCC, so long as you continuously occupy your home, keep the same loan and have a federal tax liability, the IRS will reduce your tax bill by a portion of the mortgage interest you pay each year. Put another way: At the end of the year, the IRS will let you make-believe that a chunk of the interest you paid on your mortgage was actually paid to the IRS. Only it's not make-believe—it's for real.



The Portland Housing Bureau (PHB) has partnered with trained, approved loan officers to offer this phenomenal program.

If approved for an MCC, you'll get to deduct 20% of your annual mortgage interest from your federal tax liability.

This can make for significant savings. A \$250k loan at a 5% note rate includes \$12,416 of interest in the the first 12 months of payments. That makes for up to a \$2483 reduction in federal tax liability. Not bad!

## Qualifications

There are criteria you and the property must meet to qualify for a certificate:

- You must be a first-time buyer (defined as not having owned a home in 3 years) or buy in one of two targeted areas.
- You must buy within Portland city limits (verified using portlandmaps.com).
- Your income cannot exceed a certain threshold.
- You must occupy as a primary residence within 60 days of closing.
- The property must contain just one dwelling unit (no duplexes).
- The purchase price cannot exceed a set limit.

Also worth noting, the City will only approve your application if you have a federal tax liability. If you report very little income or are a parent and claim a child tax credit (especially if you are single), you may not actually owe any federal income tax.

## Fees and Loan Options

Before closing, you'll be required to complete an approved homebuyer education course and you will pay a \$675 processing fee at closing. As part of program training PHB has asked lenders to make a special effort to reach out to people of color (who own homes at rates below national averages here in Portland). The MCC can be used with a conventional, FHA, VA or USDA loan, but cannot be used with an Oregon VA or Oregon State Bond loan.

## Longer Term Considerations

There is also an important long-term consideration with the MCC program. You may be subject to a federal recapture tax when you sell. To trigger the tax, all of the following must be true:

- You must sell within 9 years of the purchase date;
- You must make a profit on the sale of the home;
- Your income must go up substantially during the time you owned the home.

We'll review this provision with you in detail and make sure you understand and are comfortable with it before proceeding with an MCC application. (Most of our clients eligible for an MCC would love to someday earn an income that would trigger the tax.) A complete explanation of the recapture tax is available at [portlandoregon.gov/phb](http://portlandoregon.gov/phb).

The MCC is one of Portland's best kept secrets and we love making sure that all of our eligible clients are aware of it.



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