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The home-buyer tax credit is alive and well!

Yes, the $8,000 tax credit expired last year. But the North Carolina Housing Finance Agency offers a Mortgage Credit Certificate (MCC) which can give eligible home buyers a tax credit of up to $2,000 EVERY YEAR, for as long as the home is their primary residence.

To qualify for the tax credit, the home buyer may not have owned a home in the prior three years, and must meet household income limits. The income guidelines can be accessed on NC Housing's website, http://nchfa.com/Applications/IncomeSalesLender/MRB_ISL_Search.aspx . Income limits vary by county. In Forsyth County, the household income limit is $60,700 for a family size of one to two people, and $69,900 for a family with three or more members. The maximum home purchase price is $225,000. The borrower must have a minimum tax liability of $250 to qualify for this credit. If the borrower pays zero federal income tax, they do not qualify for the credit. This tax liability appears on line 60 of the standard federal tax form 1040, which says "This is your total tax."

The tax credit is calculated as 30% of the interest that the borrower pays each year, with a maximum annual credit of $2,000. If your borrower had a mortgage amount of $100,000 at an interest rate of 5%, they would pay $5,000 in interest in year one, and get a credit of 30% of the $5,000, or $1,500. As the borrower pays down the mortgage amount and pays a bit less interest each year, the credit declines a bit each year. A borrower with a $200,000 mortgage paying 5% interest would pay $10,000 interest in year one. 30% of that would be $3,000, but the credit is capped at $2,000 per year. This borrower would enjoy the $2,000 credit for many years.

An additional benefit of the MCC is that it can be used to qualify your borrower for a higher home purchase price / mortgage amount. The borrower can receive the tax credit by getting a larger tax refund at the end of each year, or by increasing their monthly take-home pay. If the borrower chooses to increase their monthly take-home pay, they can increase the number of exemptions claimed with their employer, thus reducing the tax withholding from every paycheck. Borrowers should consult with their tax advisor.

Let's look back at that buyer with the $100,000 mortgage at 5%. The mortgage lender can take the $1,500 tax credit as $125 per month, and subtract that $125 per month from the house payment when calculating the borrower's qualifying debt ratios. So a borrower that may only have qualified for an $80,000 mortgage without the tax credit may now be able to qualify for the $100,000 mortgage.

It sounds complicated, but the whole process is really pretty simple, and only adds about three days to the loan approval process. Just refer your buyers to a qualified lender and tell them to ask about the MCC. The lender can walk them through the process and take care of the paperwork. Your buyers will love you – they can qualify for more house, and enjoy a generous tax credit each year!

Submitted by: Jennifer Chrysson, Bank of America Home Loans