MCC

PROCEDURAL MANUAL

ALABAMA HOUSING FINANCE AUTHORITY

CONTENTS

INTRODUCTION

The Alabama Housing Finance Authority (the Authority), is a public corporation and an instrumentality of the State. It was organized pursuant to Title 24, Chapter 1A of the Code of Alabama, as revised. The Authority, a non-profit organization, was established as the housing entity for the state in 1980 and currently administers several housing programs such as the First Step Mortgage Revenue Bond Program, the Step Up Program, the Down Payment Assistance Program, the Habitat for Humanity Loan Purchase Program, the Low-Income Housing Tax Credit “LIHTC” and the HOME Program, as well as several specialty housing programs within the state of Alabama.

The Mortgage Credit Certificate (MCC) Program was authorized by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to low and moderate income home buyers. The Authority has elected to allocate a part of its mortgage revenue bond authority to the MCC Program.

The Authority encourages all who believe they qualify to apply for a MCC. The Authority will not underwrite the loan from a credit standpoint. All underwriting and execution of certifications required by the Authority and the IRS regulations will be performed by the Originators. The Originator must decline those applications in which the applicant does not qualify under the requirements of the MCC Program.

The Originator obtains information to determine that the mortgagor, loan, and property meet the requirements as stated in Sections II, III, and IV of the MCC Procedural Manual. The Originator explains the program and its requirements to both the buyer and the seller.

The Originator makes a reservation of funds at *lenders.AHFA.com* and sends to the Authority the reservation package as stated in Section VI of the MCC Procedural Manual. The Originator sends to the Authority the Request for Conditional Commitment Package before closing as stated in Section IX of the MCC Procedural Manual. Upon approval of the MCC the Originator will receive from the Authority a conditional commitment. The Originator may then close the loan with the conditions listed on the conditional commitment being satisfied. The Originator must have the MCC approved by the Authority and close the loan before the reservation of funds expire.

After the loan closing, the Originator sends to the Authority the closed loan package as stated in Section VIII of the MCC Procedural Manual. Upon receipt and approval of the closed loan package, the Authority will issue the MCC as stated in Section X of the MCC Procedural Manual.

The purpose of the MCC Procedural Manual is to describe the program and to set forth the relevant Authority and federal regulations as well as to identify the respective roles of the Authority, the Originator, the potential mortgagors and the seller. Please utilize appropriate documents and appendices applicable to each MCC issue. The Authority reserves the right to update or revise the MCC Procedural Manual at any time.

SECTION I—DEFINITIONS

Affidavits: Written sworn statements made under oath to determine eligibility under the program.

Application Fee: A $200 non-refundable fee collected by the Originator.

Appraised Value: An appraisers’ opinion of value based on regulations and guidelines established by the mortgage industry.

Authority: Alabama Housing Finance Authority, a public corporation and instrumentality of the State organized pursuant to Act No. 80-585 of the Alabama Legislature, or any successor to its duties.

Bond For Title (Deed): A contract to transfer property into the purchasers name only when the debt for the property is paid in full.

Capital Gain or Loss: The gain or loss arising from the sale or exchange of a capital asset.

Co-Signer: A person who will occupy the property being purchased and who will be secondarily liable for the mortgage loan.

Code: The Internal Revenue Code of 1986, as amended, and any rules or regulations promulgated thereunder.

Commitment Fee: A $500 fee to be paid to the Authority by an Originator at the time of Reservation of Funds.

Community Property Interest: A form of ownership under which property acquired during a marriage is considered to be owned jointly unless acquired as separate property of either spouse.

Co-Mortgagor/Non-Occupant: A relative that will not occupy or take title to the property being purchased and is signing the note and mortgage solely for the purpose of providing additional security.

Date of Closing: The date the Originator disburses funds under the note.

Date of Issuance: The date the certificate is issued by the Authority.

Depletion: A tax deductible expense reflecting the decrease of a depletable natural resource, such as oil or gas.

Depreciation: A sum representing presumed loss in the value of a building or other real estate improvements, resulting from age, physical wear, and economic or functional obsolescence and deducted annually from net income to arrive at taxable income.

Eligible Mortgagor: A person intending to purchase a principal residence to be financed with an MCC, who can meet all qualifications as established in Sections II, III & IV of this Procedural Manual.

Eligible Loan Area: The entire geographical area of the State of Alabama.

Equal Credit Opportunity Act (ECOA): A federal law that prohibits Originators from denying mortgages on the basis of the borrower’s race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Existing Property: A property which has been previously occupied or new properties more than one year old.

Fannie Mae: The Federal National Mortgage Association, or any successor thereto.

Fee Simple: The greatest possible interest a person can have in real estate, including the right to dispose of the property or pass it on to one’s heirs.

FHA: The Federal Housing Administration of the Department of Housing and Urban Development of the United States of America, or any successor thereto.

First-Time Homebuyer: A buyer of a residence who has not had an ownership interest in a principal residence, as described in Section II of this Procedural Manual, at any time during the three-year period prior to loan closing.

Ginnie Mae: The Government National Mortgage Association, a entirely-owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development, whose powers are prescribed generally by Title III of the National Housing Act of 1932, as amended.

Ground Rent: The earnings of improved property allocated to the ground itself after allowance is made for earnings of the improvements. Also, payment for the use of land in accordance with the terms of a ground lease.

Guarantor: A promise by one party to pay debt or perform an obligation contracted by another in the event that the original obligor fails to perform as contracted.

Interest Held In Trust: Property held in trust until fulfillment of certain conditions are met.
Joint Tenancy Joint ownership by two or more person, giving each tenant equal interest and rights in the property, including

the right of survivorship.

IRS: The Internal Revenue Service.

Issuer: The Alabama Housing Finance Authority.

Joint Tenancy: Joint ownership by two or more persons, giving each tenant equal interest and rights in the property, including the right of survivorship.

Lease: A written document containing the conditions under which the possession and use of real and/or personal property are given by the owner to another for a stated period and for a dated consideration.

Life Estate: A freehold estate giving a beneficiary all property rights, except the right to sell. The estate is terminated upon the death of the beneficiary.

Maximum Family Income: An amount of income not to exceed the federal income limitation described in Section II of this Procedural Manual.

Maximum Sales Price Limit: An amount not to exceed the limitations described in Section IV of the Procedural Manual.

Mortgage: The instrument securing a mortgage loan which creates a lien on a residence subject only to Permitted Encumbrances.

Mortgage Credit Certificate or MCC: A certificate issued by the Authority pursuant to the Code which entitles the holder thereof to receive a federal income tax credit.

MCC Credit Range: A scaled rate between 20 percent and 50 percent, as published by AHFA on www.AHFA.com at the time of the MCC Reservation. The rate is based on loan amount.

Mortgage Documents: The documents specified for delivery to the Authority as stated in this Mortgage Revenue Bond Procedural Manual.

Mortgage Loan: Any loan evidenced by a Mortgage Note which is secured by the related Mortgage for financing the purchase of a residence.

Mortgage Note: The promissory note evidencing the obligation to repay a mortgage loan, payable to the order of an Originator, executed by a mortgagor to evidence obligation to repay the mortgage loan.

Mortgage Revenue Bond: A qualified mortgage revenue bond as defined in the Internal Revenue Code of 1986.

Mortgagor: The purchaser of a single-family residence who borrows funds to obtain a residence.

New Construction: Single-family residences less than one year old and never occupied.

Originators: Lending institutions that execute an Agreement with the Authority to participate in the Program.

Originator's Participation Agreement: The agreement dated April 1, 2009, among the Originator(s) and the Authority, and all amendments or supplements hereto and where appropriate, the Invitation, Notices of Acceptance, Questionnaire, Notice of Availability of Funds, MCC Procedural Manual, and all forms, appendices and reports prescribed by the Authority and provided herein.

Present Ownership Interest: Any form of ownership interest as described in Section II of this Procedural Manual.

Principal Residence: Housing which the eligible mortgagor intends to occupy as a primary residence and which is not to be used in a trade or business, or as an investment property.

Profit and Loss: A statement by a business reflecting a financial gain or loss for a given period.

Program Participation Fee: A fee to be set by the Authority for each series.

Proposed Construction: Property proposed to be constructed.

RD: Rural Development, a U.S. agency formerly known as the Farmers Home Administration.

RD Guaranty: A guaranty of a mortgage loan by Rural Development under the provisions of Subchapter III, Chapter 8A, Title 42, U.S. Code Annotated.

Remainder Interest: The property remainder of an estate after the termination of a prior estate; can have either a vested or contingent interest.

Reservation of Funds: Reserved funds equal to the mortgage loan amount for an eligible mortgagor.

Residence: A single-family, owner-occupied dwelling unit located within the Eligible Loan Area, including detached and attached units, condominiums, planned unit developments and manufactured homes which have a minimum of 400 square feet of living space and a minimum width of 102 inches and which is of a kind used at a fixed location, and meeting applicable Originator requirements.

Right of Redemption: A legally enforceable right provided by law permitting the mortgagor or owner to reclaim foreclosed property by making full payment of the mortgage debt or the foreclosure sales price, as applicable. The right of redemption exists for a one-year period of time known as the redemption period.

State: The State of Alabama.

Survivorship: The legal right of the survivor or persons having joint interest in property to take the interest of the person who is deceased.

Take-Out Loan: Any mortgage loan made for the purpose of paying a construction period loan, bridge loan or similar temporary initial financing which qualifies as such pursuant to Section III of this Procedural Manual.

Target Areas: Census tracts and areas of the State which constitute qualified census tracts or areas of chronic economic distress within the meaning of Section 143 of the Internal Revenue Code.

Tenancy: A holding of real estate under any kind of right of title. Used alone, tenancy implies a hold under a lease.

Tenancy in Common: The type of ownership created when real or personal property is granted to two or more persons, without express words creating a joint tenancy. There is no right of survivorship.

Tenancy by Entirety: The joint ownership of property by a husband and wife where both are viewed as one person under common law that provides for the right of survivorship.

Tenant Shareholder: Ownership whereby real property is held in the name of the shareholders rather than in the name of individual partners.

Total Acquisition Cost: Total cost to acquire the land and dwelling, including any improvements made to the residence during the first 12 months, and including any sums paid or to be paid to the seller by the mortgagor or anyone on behalf of the mortgagor, and as further defined in Section IV of the MCC Procedural Manual, and certified to by the mortgagor in the Eligible Mortgagor Affidavit.

VA: The Department of Veterans Affairs of the United States of America, or any successor thereto.

Zoning: The act of city or county authorities specifying the type of property use in specific areas.

SECTION II—MORTGAGOR ELIGIBILITY EVALUATION

A. ***Income Restrictions.*** The Authority has adopted a single set of income restrictions for the program, which are intended to satisfy the requirements of state and federal law. For mortgage loans made with respect to residences located in non-target areas, the annual family income of the mortgagor and all occupants 18 years or older may not exceed 115% (100% if the mortgagor has a family of fewer than three persons, including the mortgagor, who will be living in the residence) of the greater of the median income for the area or the median income for the State. For mortgage loans made with respect to residences located in target areas, the annual family income of the mortgagor may not exceed 140% (120% if the mortgagor has a family of fewer than three persons, including the mortgagor, who will live in the residence) of the greater of the median income for the area or the median income for the State. All target and non-target areas' income limits shall be capped at no more than 150% of the median income for the State. Annual family income must be determined as provided in Section VIII of this manual. The Authority may revise the income eligibility criteria in the future in a manner consistent with State and Federal law.

SCHEDULE OF MAXIMUM INCOME LIMITS

(Effective on purchase contracts executed after April 12, 2019)

	Maximum Family Income for Target Area Loans		**Maximum Family Income for Non-Target Area Loans**	
	Family Size of 3 or more	*Family Size of less than 3*	*Family Size of 3 or more*	*Family Size of less than 3*
Statewide *(except in areas listed below)*	$ 84,280	$ 72,240	$ 69,230	$ 60,200
Baldwin County	90,300	83,280	79,810	69,400
Birmingham Area *(Bibb, Blount, St. Clair, Shelby & Jefferson Counties)*	90,300	85,200	81,650	71,000
Coffee County	90,300	78,480	75,210	65,400
Huntsville Area *(Limestone & Madison Counties)*	90,300	90,300	90,300	78,700
Lee County	90,300	80,280	76,935	66,900
Montgomery Area *(Autauga, Elmore, Lowndes & Montgomery Counties)*	88,060	75,480	72,335	62,900
Tuscaloosa Area *(Hale & Tuscaloosa Counties)*	86,100	73,800	70,725	61,500

B. ***Ownership Interest.*** Based on relevant IRS regulations, the mortgagors and all occupants must meet certain requirements when purchasing a home in a non-targeted area. The mortgagor or any occupant of the residence cannot have had an ownership interest in a principal residence at any time during the preceding three years ending on the date the new mortgage is executed. This requirement qualifies the mortgagor and all who occupy as first-time homebuyers according to federal regulations. The Originator must obtain from the mortgagor an affidavit to this effect. The Originator will verify the first-time homeownership status of the mortgagor and all occupants 18 years or older by examining signed copies of the federal income tax returns of the mortgagor and all occupants 18 years or older for the preceding three years and the handwritten application. For target area loans, this is not applicable.

Examples of interests which constitute present ownership interests in a Principal Residence and would result in a potential homebuyer failing to meet the first-time homebuyer requirements, include the following:

1. a fee-simple interest;
2. a joint tenancy, a tenancy in common, a tenancy by entirety, or a community property interest;
3. the interest or a tenant-shareholder in a cooperative;
4. a life estate;
5. a real estate contract or Bond for Title (Deed) 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);
6. an interest held in trust for the buyer (whether or not created by the buyer) that would constitute a present ownership interest if held directly by the buyer; and
7. mortgage interest claimed on a federal income tax return.

Examples of interest which do not constitute present ownership interests (and would not result in a potential home buyer failing to meet the first-time homebuyer requirements) are the following:

1. a remainder interest;
2. a lease without an option to purchase or a lease with an option to purchase at fair market value at the time of purchase;
3. lease with an option to purchase for a nominal sum;
4. a mere expectancy to inherit an interest in a principal residence;
5. the interest that a purchaser of a residence acquires on the execution of a purchase contract; and
6. an interest other than a principal residence during the previous three years (rental, recreational, vacation, seasonal or second homes).

C. ***Manufactured Homes Ownership Interest.*** The mortgagor or any occupant of the residence cannot have a present ownership interest in a manufactured home which was the principal residence of the mortgagor or any occupant of the residence at any time during the three-year period immediately prior to the closing of the new mortgage if:

1. the mortgagor or any occupant of the residence owned the land upon which the manufactured home was located;
2. the mortgagor or any occupant of the residence had a single term lease in excess of three years in which the manufactured home was located;
3. the manufactured home is permanently affixed; or
4. the removal of the manufactured home violates an agreement with the owner of the land.

D. ***Occupancy.*** Mortgagors must occupy the residence as their Principal Residence within 60 days after the closing and thereafter as their principal and permanent residence.

E. ***Residence Usage of Renting, Leasing, Assigning or Transferring Residence.*** The mortgagor cannot rent, lease, sell, assign or transfer any interest in the residence to another party and will not enter into any agreement, understanding or other arrangement without prior approval of the Authority.

F. ***Usage of Residence in Trade or Business.*** The mortgagor cannot use the residence in a trade or business and can not deduct any portion of the cost of the residence as a home business expense on the mortgagor's federal income tax returns. No portion of the residence can be specifically designated for any commercial use.

G. ***Residence Used for Investment Purpose.*** The mortgagor cannot use the residence as investment property and will not receive any income from the residence or the land. This provision prevents the mortgagor from later using the property for rental income.

H. ***Residence Used as Vacation, Seasonal, Recreation or Second Home.*** The mortgagor cannot use the residence as a recreational, seasonal, vacation or second residence.

I. ***Co-Signer/Non-Occupants and Guarantors.*** Co-Signer/Non-Occupants and Guarantors are accepted on behalf of an eligible mortgagor in accordance with the Agreement, provided that the following conditions are met:

1. The Co-Signer/Non-Occupant or Guarantor is acting in such capacity solely for the purposes of providing additional security for the mortgage loan, and will not take title to the property.

2. The Co-Signer/Non-Occupant or Guarantor will not occupy the residence as his Principal/Permanent Residence.

3. The Co-Signer/Non-Occupant or Guarantor is a relative of the mortgagor.

4. The Co-Signer/Non-Occupant or Guarantor is permitted by applicable FHA, VA, RD, Ginnie Mae, and Fannie Mae guidelines.

5. The Co-Signer/Non-Occupant or Guarantor will be required to sign a statement certifying to the above conditions, see Co-Signer/Non-Occupant Statement. Tax returns and income verifications are not applicable. These Co-Signer/Non-Occupants or Guarantors will be treated as non-occupant co-signers for MCC-qualifying purposes.

J. ***Legal Separation.*** Legal separation agreements are not acceptable documentation in the determination of a separated mortgagors' or occupants' eligibility. Originators must treat separated mortgagors or occupants as married and the separated spouse must meet all MCC guidelines as established in Sections II, III, & IV of this manual.

K. ***Powers of Attorney for the Mortgagors.*** Specific Powers of Attorney are acceptable if the property, loan amount, loan term, and interest rate is specifically addressed. Prior approval is required by the Authority and a recorded copy will be a closing condition.

L. ***Title Restrictions.*** Title can be held only in the names of those persons who sign BOTH the Mortgage Note AND the Mortgage.

SECTION III—LOAN ELIGIBILITY EVALUATION

A. ***Permitted Encumbrances.*** All Mortgage Loans must be secured by a first lien on the fee simple title or leasehold estate to the residence.

B. ***Types of Loans.*** The Agreement requires that at least seventy percent (70%) on the Reservation of Funds granted to each Originator be used for mortgage loans to be made to new construction (less than one year old and previously unoccupied residence) loans within the initial 60 days of origination. This requirement applies to all mortgage loans including any target areas.

The Authority does not restrict the type of financing with regard to type, term, rate, etc. However, the MCC program cannot be combined with a First Step (MRB) loan.

C. ***Amount of Mortgage Loan.*** The maximum amount of any mortgage loan may not exceed the applicable requirements of FHA, VA, RD, Ginnie Mae, and Fannie Mae as of the closing date of the mortgage loan.

D. ***Self-Builder/New Mortgage Requirements.*** No refinancing of any outstanding indebtedness shall be permitted except with regard to take-out loans. A take-out loan may be made to permit an eligible mortgagor to finance a residence which qualifies as a newly constructed residence under the Agreement and to retire any indebtedness thereof if:

1. Such indebtedness was originally incurred within 24 months of the closing date;

2. The mortgage loan will be used as a take-out of the construction or other bridge or interim loan; and

3. The term of construction, bridge or interim loan being financed as of the closing of the mortgage loan, does not exceed 24 months, or such other period as the Authority may determine.

   If warranted by the circumstances, an eligible mortgagor shall be considered as both a mortgagor and a seller with respect to take-out loans. A newly constructed residence is considered a residence which has not previously been occupied and is less than one year old. An eligible mortgagor may occupy a newly constructed residence if a commitment for a mortgage loan for permanent financing has been issued from an Originator to the eligible mortgagor, or following such other event as the Authority may determine as acceptable.

SECTION IV—PROPERTY ELIGIBILITY EVALUATION

A. ***Eligible Loan Area.*** The Eligible Loan Area shall be the entire geographic boundaries of the State. The Authority may require certain amounts of available funds to be reserved for a period of time in certain parts of the State. Federal law requires that a portion of the funds be set aside for use in target areas. Certain geographic areas in Alabama have been designated as "Target Areas," according to MCC Program requirements. These areas are given special consideration of higher income and sales price limits under the MCC Program. Areas of the State not designated as Target Areas are referred to as "Non-Target Areas."

B. ***Qualifying Residences.*** Subject to certain limitations described below, all residences financed by the MCC Program must meet the following:

1. The residences must be permanently affixed, and considered "Real Property";

2. Detached single-family houses, consisting of no more than one dwelling unit;

3. Attached single-family houses or townhouses, units which are manufactured housing insured under Section 203(b) of the National Housing Act of 1934, as amended; and

4. Units of a "condominium" or units within a "planned unit development" as such terms are defined in the Fannie Mae guide.

No more than 5% of the Reservation of Funds may be used, without the written authorization of the Authority, to originate mortgage loans which constitute manufactured housing.

C. ***Sales Price Limitations.*** The maximum sales price which may be paid by an eligible mortgagor to acquire a residence, including assumption of a mortgage loan on a residence, is as follows (Effective on purchase contracts executed after May 1, 2018):

New and existing Homes:	*Target*	*Non-Target*
All Areas	$331,423	$271,165

D. ***Land.*** Land being purchased with the residence should maintain the basic livability of the residence and cannot provide a source of income to the eligible mortgagor. If such land is capable of being subdivided, the eligible mortgagors will certify that they will not:

1. Subdivide or otherwise sell any of the real property on which the residence is or is to be located, except in conjunction with a future sale of the residence;

2. Seek any variance from applicable zoning, minimum lot size or set-back requirements.

E. ***Computing Acquisition Cost of Land & Dwelling.*** The acquisition cost of the residence, including any improvements made to the residence during the first 12 months, must not exceed the maximum sales price applicable to the residence as stated in Section x of this Procedural Manual. Acquisition cost of the land and dwelling includes amounts paid or to be paid, by the mortgagors or anyone acting on the mortgagor's behalf, to or for the benefit of the sellers or related parties to the seller. The acquisition cost of the land and dwelling also includes the following:

1. Capitalized value of any ground rent for any residence purchased;

2. Fixtures, such as light fixtures, curtain rods, or wall-to-wall carpeting, unless amounts paid for fixtures are part of the cost of dwelling;

3. If a residence is incomplete, the reasonable cost of completing the residence, whether or not the cost of completing the construction is to be financed;

4. Repairs paid by the mortgagor;

5. Items which are not fixtures, including a refrigerator, washer or dryer, etc.

6. Land owned by the mortgagor for less than two (2) years prior to the date of which construction of the residence begins, the lesser of the purchase price or the appraised value of the land as of the date of the mortgage loan application. Only the amount of the indebtedness (if applicable) may be added to the cost of acquisition for land owned more than two years prior to loan application. The Request for Conditional Commitment Package must include payoff letter. If the borrower owns and has paid for the land two years prior to the date construction begins, do not include the value of land in the acquisition cost.

F. ***Non-Allowable Acquisition Costs.*** The acquisition cost of a residence does not include the following:

1. Usual and reasonable settlement and financing cost. "Settlement costs" include titling and transfer costs, title insurance, survey fees and other similar costs, and "financing costs" include credit reference fees, legal fees, appraisal expenses, points which are paid by the borrowers, or other costs of financing the residence. Such amounts must not exceed the usual and reasonable costs which otherwise would be paid;

2. The imputed value of services performed by the borrower or relatives of the mortgagor or spouse, whole or half blood, ancestors and lineal, or as defined in Section IV of this Procedural Manual, in construction or completing the residence or;

3. The cost of land which has been owned, unencumbered, by the borrowers for at least two years before the date on which the construction of the structure comprising the residence begins.

G. ***Improvements to the Property***. During the first year of ownership, the mortgagor (directly or indirectly) cannot make improvements or have services performed on the residence that would cause the acquisition cost of the residence to exceed the Maximum Sales Price Limits. The following is a list of ineligible improvements or services:

1. Adds additional fixtures to the residence;

2. Completes any unfinished areas or adds any additional rooms to the residence or outbuildings to the land on which the residence is, or is to be, located;

3. Obtains services performed by persons other than the mortgagor, relatives of the mortgagor or spouse, whole or half blood, ancestors and lineal descendants in the construction or completion of the residence. "Sweat equity" is allowable. See Section IV of this Procedural Manual.

It will constitute an event of default if the cost of the improvements made or services performed to the residence causes the acquisition cost to exceed the Maximum Sales Price Limits. The Authority may then revoke the MCC.

H. ***Leased Land.*** If the residence is located on leased land, provide a copy of the lease showing a term no less than 99 years.

I. ***Foreclosures.*** Any foreclosed properties with Rights of Redemption remaining may be financed under the MCC program with the understanding that if the property is redeemed, the MCC will be revoked without recourse.

SECTION V—TARGET AREAS

To determine a property's target area designation (target or non-target), a Target Map Request Form (available in Lender Online) along with a map noting the location of the property shoudl be submitted to *compliance@ahfa.com*.

A. Counties. The counties listed below are Target Areas:

Barbour	Choctaw	Dallas	Macon	Pickens	Talladega
Bibb	Clarke	Greene	Marengo	Pike	Washington
Bullock	Conecuh	Hale	Monroe	Randolph	Wilcox
Butler	Crenshaw	Lowndes	Perry	Sumter	

The counties listed below contain NO Target Areas:

Blount	DeKalb	Franklin	Jackson	Limestone	St. Clair
Coffee	Fayette	Geneva	Lamar	Marion	

B. Entire Cities and Towns. The cities and towns listed below were designated as Target Areas as of the date shown. Any area annexed to the city after that date is NOT a target area.

Abbeville............ March 26, 1982
Anniston .... March 26, 1982
Atmore .... March 26, 1982
Attalla .... September 19, 1983
Bessemer........... March 26, 1982
Dadeville............ March 26, 1982
Gadsden .... September 19, 1983
Headland .... March 26, 1982
Lafayette .... March 26, 1982
Phenix City.......... March 26, 1982
Ridgeville .... September 15, 1983
Roanoke............. March 26, 1983
Roosevelt City ..... March 26, 1982
Vrendenburgh..... September 16, 1983
Wadley............... September 15, 1983
Wedowee........... September 15, 1983

C. Other Target Areas

1. In addition to the counties and cities listed heretofore, certain areas within the following counties also have been designated as Target Areas. Many of the areas are described as Census Tracts and/or Enumeration Districts (EDs). Each such description is followed by either "(1970)" or "(1980)," designating which Census Map should be used. Unless otherwise indicated, any reference to an ED includes the entire ED.

AUTAUGA COUNTY

City of Prattville	Census Tract 20 ED 13 (1970) ED 14 (1970) ED 15 (1970) ED 19 (1970) *(see AHFA Map No. 701-01)*
County at Large	Census Tract 20 Census Tract 210 ED 19 (1970) ED 778 (1980)

BALDWIN COUNTY

City of Bay Minette	Census Tract 106 (1980) *(The portion within the city limits as of July 6, 1982.)*
Foley	A portion of the Beaulah Heights area A portion of the Aaronville area A portion of the Westside area
County at Large	Census Tract 103 (1980) Census Tract 107 (1980) *Census Tract 109 (1980) *Census Tract 110 (1980) Census Tract 111 (1980) *(*Areas within the city limits of the cities of Loxley, Silverhill, Summerdale and Robertsdale as of July 6, 1982, are excluded from the Target Area.)*

CALHOUN COUNTY

Town of Hobson City	The area south of Park Avenue and within the corporate limits as of July 9, 1982.
Town of Ohatchee	The Community Comprehensive Program Area as submitted on March 26, 1982, by the state of Alabama.
City of Piedmont	ED 1 (1970) ED 3 (1970) The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.
County at Large	Census Tract 5 (1980) Census Tract 6 (1980) Census Tract 7 (1980)

ED 7 (1970)	ED 18 (1970)	ED 31 (1970)
ED 13 (1970)	ED 21 (1970)	ED 49 (1970)
ED 17 (1970)	ED 23 (1970)	ED 48 (1970)
ED 24 (1970)	ED 47 (1970)	ED 54 (1970)
ED 25 (1970)	ED 46 (1970)	ED 105 (1970)
ED 26 (1970)	ED 45 (1970)	ED 106 (1970)
ED 30 (1970)	ED 51 (1970)	

CHAMBERS COUNTY

Valley	A portion of the northern part of Fairfax.

CHEROKEE COUNTY

Town of Cedar Bluff	The area east of State Route 68 within the city limits as of July 9, 1982.
City of Centre	The area north and east of U.S. Highway 411 within the city limits as of July 9, 1982.

CHILTON COUNTY

City of Clanton	The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.

CLAY COUNTY

Town of Ashland	The area north of First Avenue North within the city limits as of July 9, 1982.
Town of Lineville	The area west of State Route 49 within the town limits as of July 9, 1982.

CLEBURNE COUNTY	
City of Heflin	ED 6 (1970)
COLBERT COUNTY	
City of Tuscumbia	An area bounded by 11th Street on the North, Hickory Street and Avenue A on the East and South, and Woodmont Drive on the West. The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.
City of Sheffield	The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.
COOSA COUNTY	
Town of Rockford	The area east of U.S. Highway 231 within the town limits of Rockford as of July 9, 1982.
COVINGTON COUNTY	
City of Andalusia	The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.
CULLMAN COUNTY	
City of Cullman	The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.
DALE COUNTY	
City of Ozark	An area in the northwest corner of the city. *(See AHFA Map No. 721-01.)*
ELMORE COUNTY	
City of Millbrook	Census Tract 104, ED 15 (1970) A portion of ED 16 (1970)
City of Wetumpka	Census Tract 106, ED 20 (1970)
County at Large	ED 968 (1980) Census Tract 104, a portion of ED 16 (1970)
ETOWAH COUNTY	
City of Altoona	The area north of the L & N Railroad track and within the city limits as of July 9, 1982.
City of Boaz	The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.

HOUSTON COUNTY

City of Dothan

Census Tract 406 (1980)

ED 7B (1970)	ED 13 (1970)	ED 23 (1970)
ED 8 (1970)	ED 18 (1970)	ED 29 (1970)
ED 9 (1970)	ED 19 (1970)	ED 31 (1970)
ED 10 (1970)	ED 20 (1970)	ED 32 (1970)
ED 11 (1970)	ED 21 (1970)	ED 33 (1970)
ED 12 (1970)	ED 22 (1970)	

JEFFERSON COUNTY

City of Birmingham

The areas within the indicated Census Tracts and the city limits of Birmingham as of July 7, 1982:

11. (1980)	47.01 (1980)	59.04 (1980)
21. (1980)	47.02 (1980)	59.05 (1980)
23.03 (1980)	47.03 (1980)	59.06 (1980)
23.04 (1980)	48. (1980)	111.04 (1980)
23.05 (1980)	49. (1980)	112.04 (1980)
23.06 (1980)	50. (1980)	119.02 (1980)
30.01 (1980)	53.01 (1980)	119.03 (1980)
31. (1980)	53.02 (1980)	124.01 (1980)
36. (1980)	56. (1980)	
37. (1980)	59.03 (1980)	

City of Homewood

Rosedale Neighborhood Strategy Area only. *(See AHFA Map No. 698-01.)*

County at Large

The entire Census Tracts listed below are Target Areas:

7. (1980)	28.02 (1980)
9. (1980)	29. (1980)
18.01 (1980)	32. (1980)
25. (1980)	33. (1980)
26.01 (1980)	45. (1980)
26.02 (1980)	46. (1980)
27. (1980)	51.01 (1980)
28.01 (1980)	

The areas within the Census Tracts listed below must NOT be located within the cities of Birmingham, Bessemer and Mountain Brook as of July 8, 1982:

105. (1970)	112.02 (1970)
106. (1970)	113. (1970)
109. (1970)	114. (1970)
110. (1970)	116.01 (1970)
111.01 (1970)	116.02 (1970)
111.02 (1970)	

119. (1970) excluding Zion City as existing on July 8, 1982

120. (1970)	125. (1970)
121.01 (1970)	126. (1970)
123.02 (1970)	127.01 (1970)

131. (1970) excluding Brownsville as existing on July 8, 1982

133. (1970)	139. (1970)
136. (1970)	140. (1970)
137. (1970)	141.01 (1970)
138. (1970)	143. (1970)

141.02 (1970) only the City of Johns as existing on July 8, 1982.

LAUDERDALE COUNTY

City of Florence	Census Tract 103. (1980) Census Tract 110. (1980) Census Tract 111. (1980) Census Tract 115. (1980) The following Neighborhood Strategy Areas as submitted on March 26, 1982, by the State of Alabama: Coliseum Area Westside Area N. Florence Area E. Florence Area

LAWRENCE COUNTY

City of Moulton	The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.

LEE COUNTY

City of Opelika	An area in the eastern and southern portion of the city described as follows: Beginning at the (north) city limits as of July 7, 1982, and running south on U.S. 431 and to the intersection of U.S. 431 and U.S. 29; west to the L & N Railroad to South Railroad Avenue to South Seventh Street; south on South Seventh Street to Torbert Blvd.; east to Interstate 85; southwest to AL 169; south on AL 169 past the industrial park; west to Society Hill Road; north on Society Hill Road-South Long Street to York Street; west on York Street; north on Simmons Street to Waverly Parkway; west on Waverly Parkway to U.S. 280 Bypass.
County at Large	Census Tract 401. (1980) Census Tract 407. (1980)

MADISON COUNTY

City of Huntsville

The areas within the Census Tracts listed below:

1.00 (1980)	12.00 (1980)
2.01 (1980)	21.00 (1980)
2.02 (1980)	22.00 (1980)
7.02 (1980)	23.00 (1980)
8.00 (1980)	24.00 (1980)
10.00 (1980)	25.01 (1980)
11.00 (1980)	

105.00 (1980), only the areas located within the City of Huntsville as existing on July 9, 1982.

107.00 (1980), only the areas located within the City of Huntsville as existing on July 9, 1982.

The following areas which qualify as Target Areas are:

Glendale - Triana Estates: The neighborhood is bounded on the north by the property line of the northern most section of Sewall Drive, on the west by Triana Boulevard, on the east by the property line of the eastern section of Sewall Drive south to Johnson Road; then eastward to the property line to the eastern rear of the point where Baywood Drive begins; then southward along the line to the east rear of Alhambra and Berkshire Drives to a point just south of where Baywood Drive terminates; it is bounded on the south by the property line to the rear of the southern half of Nassau and Baywood Drives.

Hillandale - Terry Heights: The neighborhood is bounded on the north by University Drive, on the east by Pulaski Pike, on the west by the property line to the rear of Crestline Drive, and on the south by Holmes Avenue.

Meadow Hills: The neighborhood is bounded on the north by the property line to the rear of Shepherd Drive and Atkins Drive, on the east by Memorial Parkway, on the west by Blue Springs Road and on the south by the property line to the rear of Shawmont, Tuxedo, Norwood and Griffith Drives.

Northwest Huntsville: The subdivisions and surrounding areas of Rollings Hills, Cherokee Hills and Windsor Manor.

Sandhurst Park - South Park Estates: An area located in the extreme southwest part of the city as existing on July 9, 1982.

Western Huntsville: Located north of University Drive and generally west of Sparkman Drive, including the Rideout Village Subdivision.

County at Large

The areas within the Census Tracts and Enumeration Districts listed below:

11. (1980) 104.ED 6 (1970)
12. (1980) 104.ED 7 (1970)
16. (1980) 105.ED 13 (1970)
21. (1980) 105.ED 14 (1970)
101.ED 1 (1970) 108.ED 22 (1970)
102.ED 3 (1970) 109.ED 199 (1970)
103.ED 5 (1970) 109.ED 200 (1970)

112.ED 208 (1970), the portion east of Wall-Triana Hwy.
112.ED 212 (1970), the portion east of Wall-Triana Hwy.

113.ED 203 (1970) 114.ED 204 (1970)
113.ED 206 (1970) 114.ED 205 (1970)

The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.

MARSHALL COUNTY

City of Albertville

The area south of Highway 75 and Main Street within the city limits as of August 6, 1982. *(See AHFA Map No. 742-01).*

The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.

City of Boaz

The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.

City of Guntersville

The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.

MOBILE COUNTY

City of Mobile	The areas within the Census Tracts listed below:

2.00 (1980)	18.00 (1980)
3.00 (1980)	19.01 (1980)
4.01 (1980)	19.02 (1980)
4.02 (1980)	20.00 (1980)
5.00 (1980)	21.00 (1980)
7.01 (1980)	23.02 (1980)
7.02 (1980)	26.00 (1980)
8.00 (1980)	27.00 (1980)
9.03 (1980)	32.02 (1980)
10.02 (1980)	37.02 (1980)
12.01 (1980)	38.01 (1980)
13.01 (1980)	39.01 (1980)
13.02 (1980)	39.02 (1980)
14.00 (1980)	40.00 (1980)
15.01 (1980)	43.00 (1980)
15.02 (1980)	

Portions of the following areas are also Target Areas:

Carlisle Subdivision	Pinehurst Subdivision
Timbers Subdivision	Zack Logan Street
Demotropolis Avenue	

County at Large

Census Tract 57.00 Block Group 988 (1980)
Census Tract 63.00 Block Group 139 (1980)
Census Tract 64.00 (1980), except EDs 542U, 542T and 543
Census Tract 65.00 (1980), except EDs 547, 548, 549 and 550
Census Tract 67.00 ED 551T (1980)
Census Tract 68.00 (1980)
Census Tract 69.00 (1980)
Census Tract 71.00 (1980), except EDS 558 and 559

MONTGOMERY COUNTY

City of Montgomery

Area of Designations: A, B1, B2, B3, B4, B5 and B6. See descriptions below. All tracts mentioned below refer to 1980 census maps:

AREA A: All of tracts 1, 2, 3, 4, 5, 6, 7, 11, 16, 18, 19, 24, 25, 51.01, 51.02, and 51.03. It also includes parts of tracts 13, 14, 15, 17, 26, 30 and 54.02. The area stretches from the Madison Park area in the northeast across town to Smiley Court in the southwest. On the north it is bounded by the city limits as of July 15, 1982. On the west it follows the L & N Railroad to Simmons Drive and an extension of Lamuck Street to Lehigh Street, and Lehigh connects with West Boulevard. The southern boundary follows West Boulevard to I-65, and I-65 North to I-85. It follows I-85 east to Cleveland, Cleveland to Columbia, Columbia to Bellview, and Bellview to Early. From Early the southern boundary goes south on Court and east on Felder to Norman Bridge. It goes south on Norman Bridge to Fairview and then east on Fairview to Ridge Avenue. From Ridge Avenue it follows Felder west to Carter Hill and then goes north on West Street to I-85. The eastern boundary follows Three Mile Branch North to Highland Avenue and then follows the boundary of Greenwood Cemetery to Greenridge Road.

Then the boundary follows Pleasant Ridge Road to Forest Hills Drive and Forest Hills Drive to Willow Lane east to the northern Intersection of Forest Hills Drive. Then it connects with the Atlanta Highway and goes east to Dalraida Road. It follows an extension of Marie Cook Drive to the Seaboard Coast Railroad and then follows the railroad east to the northern boundary of tract 19. From there it connects with Three Mile Brand and goes north to Federal Drive. It follows Federal Drive to the Northern By-Pass and then goes east along the By-Pass to Plantation Way and an undeveloped area north of Hyde Park Drive. Then it follows Brassell Creek back to the northern city limits line as of July 15, 1982.

AREA B1: Located in southwest Montgomery in the western half of tract 60.02. It is bounded on the north and west by Hayneville Road, the south by U. S. Highway 80 and the east by Caney Branch Creek.

AREA B2: Located in southeastern Montgomery and is bounded by the eastern border of tract 56.03 and the Troy Highway on the east, Whites Slough on the north, Narrow Lane on the west, and the city limits as of July 15, 1982, on the south. The area contains parts of tract 29, 32 56.01 and 56.03.

AREA B3: Located in northeastern Montgomery and contains parts of tracts 26 and 53.02. It is bounded on the south by Wares Ferry Road, the east by Ray Drive and Jule Drive, the north by Glade Park and Groveland, and the east by an extension of Planters Road.

AREA B4: Located in southwestern Montgomery and is made up of parts of tracts 59.01 and 59.02. It is bounded on the north by Catoma Creek, the west by U. S. Highway 31, the south by the city limits as of July 15, 1982, and the east by Seaboard Coastline Railroad.

AREA B5: Located in tract 29 in the southeastern corner of the City. It is part of Woodley East, and includes all property on both sides of Manassee Drive and property on the north side of Gentilly Drive.

AREA B6: Located in tract 29 in the southeastern corner of the city and includes all of the Whispering Pines Subdivision. It is bounded by the back property lines of housing located in the subdivision. This includes the property facing Whispering Pines Drive, Pine Shadow Lane, Fernwood Drive and Shadowood Drive.

County at Large	Census Tract 2 (1980)	Census Tract 6 (1980)
	Census Tract 10 (1980)	Census Tract 12 (1980)
	ED 1033 U (1980)	ED 1035 (1980)

MORGAN COUNTY

City of Decatur	Census Tract 5.00 (1980) Farmington/Cedar Lake: The area south of the Beltline Highway and west of the L & N Railroad, being a portion of the Section 6, T6S, R4W and Section 5, T6S, R4W. Northwest Decatur: The area north of West Moulton Street and west of the L & N Railroad being a portion of Section 13, T5S, and R5W and Section 18, T5S, R4W. Westmead No. 14/ Westmead Townhomes: The area southwest of Beltline Highway, between Old Moulton Road SW and Danville Road SW/ being a portion of Section 25, T5S, R5W. The Community Comprehensive Program Area as submitted on March 26, 1982 by the State of Alabama.

RUSSELL COUNTY

County at Large	Census Tract 301.00 (1980) Census Tract 302.00 (1980)

SHELBY COUNTY

County at Large	Census Tract 303.01 (1980), excluding the Planned Unit Developments of Inverness and Riverchase. Census Tract 303.02 (1980) Census Tract 304.02 ED 18 (1980) Census Tract 305.00 ED 25 (1980) Census Tract 306.01 (1980) Census Tract 307.01 (1980) Census Tract 307.02 (1980)

TALLAPOOSA COUNTY

Alexander City	An area requested on behalf of Alexander City by the East Alabama Planning and Development Commission on August 5, 1982, and approved by the Treasury on October 27, 1982.
Town of Camp Hill	The area east of the Central Georgia Railroad and within the city limits as of July 9, 1982.

TUSCALOOSA COUNTY

City of Holt	Census Tract 105 (1980)
City of Northport	Portions of the following areas as submitted on March 26, 1982, by the State of Alabama: Bridge Avenue Area Hightown Area
City of Tuscaloosa	All of Census Tract 118 and portions of Census tracts 117 and 124 (1980)

County at Large	Census Tract 111. (1980) Census Tract 115. (1980) Census Tract 118. (1980) The Community Comprehensive Program Area as submitted on March 26, 1982, by the State of Alabama.
WALKER COUNTY	
Town of Oakman	Consult with AHFA.
WINSTON COUNTY	
City of Haleyville	*Corinth Heights Subdivision* - The area within the following description: west to Dime Road, east to Newburg Road, south to Delashaw Road and north to the city limits as of July 7, 1982. *Chickakee Road Area* - The area within the following description: west to the city limits as of July 7. 1982, east to Quarter Creek, south to Chickakee Road and north to the city limits as of July 7, 1982. *Brookhaven Subdivision 1 and 2* - The area within the following description: west to Quarter Creek, east to Airport Road, south to Chickakee Road and north to George Avenue. *Forest Park Subdivision* - The Lake Short Drive Area. *Hilltop Subdivision* - The area within the following description: west to Birch Street, east to Oak Street, north to Maple Street and south to the city limits as of July 7, 1982.

B. Rev. Proc. 93-38 designated various census tracts, based on the 1990 census, as Target Areas. Such areas within the counties listed below include the incorporated and unincorporated areas within the designation.

COUNTY	CENSUS TRACTS
Bullock	9521.00
Calhoun	5 and 6
Dallas	9964, 9965, 9969, 9970, 9972 and 9973
Etowah	7 and 8
Greene	9745
Hale	9746
Houston	406
Jefferson	5, 7, 15, 23.04, 27, 29, 30.02, 32, 33, 39, 45, 51.01, 101 and 103.02
Lauderdale	101, 103, 105 and 107
Lee	408, 415 and 416
Lowndes	9811
Macon	9823
Madison	12, 16 and 21
Mobile	3, 4.01, 4.02, 5, 6, 12.01, 12.03, 13.01, 13.02, 14, 15.01, 15.02, 39.02, 40, 41, 42, 43, 45, 46, 47, 48 and 49
Montgomery	1, 2, 3.85, 6, 10, 11 and 12

COUNTY	CENSUS TRACTS
Bullock	9521.00
Perry	9872
Russell	301 and 302
Sumter	9912
Talladega	106
Tuscaloosa	112 and 117.01
Wilcox	9947 and 9950

SECTION VI—RESERVATION PROCEDURES

A. ***Online Reservation Procedure.*** Subject to the funding restrictions and applicable reservations, applications for MCCs will be accepted in all of the lending offices of each Originator in the state. This will be on a first-come, first-served, fair and equal basis irrespective of race, color, religion, national origin, age, or sex.

Prior to making a reservation of funds, the Originator must have taken a mortgage loan application from a potential eligible mortgagor. The mortgagor furnishes the Participating Originator an earnest money sales agreement or construction contract entered into by the seller/builder of a residence and the eligible mortgagor. Originators are responsible for making a preliminary determination to see if the potential eligible mortgagor will qualify for the mortgage loan and MCC. The program processing is designed to compliment the Originator's regular credit and underwriting procedures. Since the Authority is not part of the credit approval process, no formal notice of rejection of the MCC is required by the Authority under the Equal Credit Opportunity Act. The Authority recognizes the procedural variations among participating Originators.

The following steps are for the reservation and loan processing process:

1. The eligible mortgagor applies for mortgage financing through a participating Originator and requests a MCC.

2. The Originator determines if a loan applicant is eligible for the MCC program based on preliminary information obtained on annual income, acquisition cost, prior home ownership, and other factors.

3. All mortgage loans must be originated in compliance with, and must conform to the provisions of all applicable rules, regulations and limitations of FHA, VA, RD, Ginnie Mae, and Fannie Mae, as appropriate.

Each Originator is to assign user names and passwords to designated employees responsible for making requests for Reservations of Funds. There will be no restrictions as to the total number of Reservations of Funds issued to any Originator. Telephoned requests for reservations will be accepted only if the *lenders.AHFA.com* web site is unavailable for more than 24 hours. In that event, telephone reservations will be accepted temporarily until the site resumes operation. As each request is taken, the Authority will monitor the amount of confirmed requests to comply with the 20% target area requirement. This could result in a non-target reservation request being placed on a waiting list for funding until the 20% target area requirement has been met.

B. ***Reservation Form.*** Beginning on a date designated by the Authority, the participating Originators may request Reservations of Funds online at *lenders.AHFA.com*. The Originator completes the MCC Reservation Form and inputs the required information into the online system, reserving funds. Upon input of the information from the Reservation Form, the online system will automatically issue a commitment number and Commitment Expiration Date. The Originator should place this information on the Reservation Form for future reference and print a copy of the reservation acceptance to include with the Step 1 submission. This Reservation Form will contain the tax credit percentage applicable to the loan amount.

C. ***Reservation Document Delivery.*** Upon completion of the reservation, each Originator must furnish the Authority with the Reservation Package as stated on the MCC Transmittal Checklist (Step 1). The Authority must receive these documents within 72 hours (three working days) of receipt of an MCC commitment number. Failure to deliver the requested documentation to the Authority within the time specified may result in cancellation of the reservation of funds.

D. ***Program Fees.*** The MCC requires a commitment fee of $500. Certified funds must be sent in to the Authority, along with the signed Reservation Form. Originators, at their discretion, may also charge a $200 processing fee for their services. Note: The $500 fee is waived if the MCC is coupled with the AHFA Step Up loan.

E. ***Reservation Expiration Date.*** The MCC reservation is valid for 30 days. Thirty (30) day extensions may be allowed on a case-by-case basis.

F. ***Cancellation of Reservation.*** If it is determined that the proposed mortgagor does not qualify for the program, the reservation will be canceled. If the Authority determines that a mortgage loan application was taken by an Originator after the date the Originator made the reservation, the reservation will be canceled.

   Notification must be sent to the Authority within 72 hours if it is determined that the mortgagors do not meet MCC Program guidelines.

G. ***Refund of $500 MCC Commitment Fee.*** The Commitment Fee may be refunded if the MCC is not issued. To obtain a refund of the MCC fee (less any applicable penalty), the Originator must request the refund in writing with the following information:

   1. Reservation number
   2. Mortgagor's name
   3. Property address
   4. Certificate amount requested
   5. Copy of Declination Letter, if applicable
   6. Payee on refund check (full company name and address)

   Upon receipt of the required information, the Authority will refund the $500 MCC commitment fee (without interest and less any applicable penalty). A single check will be made payable to the Originator. All canceled reservations will be reallocated under the MCC Program.

   The Authority will not issue a check for any refund request under $20.

H. ***Transfer of Reservation.*** The Authority will not allow a transfer of any Reservation of Funds from one eligible mortgagor to another, but may allow a loan transfer from one approved Originator to another pursuant to the Transfer of Allocation Form. This form must be executed by both Originators and the Authority. The MCC fee will be transferred upon approval by the Authority. Reservations of Funds may be transferred one time only.

   The Reservation of Funds committed to an eligible mortgagor may be transferred from one property to another with the prior approval of the Authority.

SECTION VII—LOAN PROCESSING & UNDERWRITING PROCEDURES

A. ***Calculation of the MCC.*** The Originator performs the mortgage processing and underwriting procedures in the normal manner for the applicable type of loan. The MCC operates as a federal tax credit reducing the federal income taxes of eligible homebuyers purchasing a qualified residence, thereby making more funds available for the house payment. The Originator may consider the benefits of the MCC when determining the amount of income available for the monthly housing payment and debt ratios. The MCC tax credit may be utilized throughout the life of the **original** mortgage loan, as long as there is applicable tax liability.

The MCC tax credit may be utilized throughout the life of the original mortgage loan, tax liability permitting. The maximum annual MCC credit is capped by the IRS at $2,000 per year. The MCC recipient must have federal tax liability in order to use the product. Their annual or monthly MCC tax credit should never exceed their annual or monthly federal tax liability. Borrowers should consult a tax professional for full understanding and assistance in determining the best use, benefits, and risks associated with the program.

MCC Rate:	Loan Amount:	Annual Cap:
20%	$150,001 and above	no cap
30%	$100,001 - $150,000	$2,000
50%	$100,000 or less	$,2000

To determine the amount of the MCC, the Originator multiplies the loan amount by the interest rate of the loan. This amount is approximately the first year interest paid by the mortgagor. The first year interest is multiplied by the applicable percentage of the federal tax credit. That percentage of interest can then be divided by 12 to arrive at a monthly figure.

For example, a home buyer with a $100,000, 4 percent mortgage rate will have a first-year interest of approximately $4,500. That $4,500, when multiplied by 50%, equals $2,000. If the federal income tax liability for the homeowner is $2,000 or more, then the federal taxes would be reduced by $166.67 each month. The balance of the interest paid remains a mortgage interest deduction for federal income tax purposes. See MCC Tax Credit Worksheet.

B. ***Eligible Mortgagor Affidavit.*** The Originator provides the potential mortgagors with the Eligible Mortgagor Affidavit that explains the program requirements. Any person signing the mortgage is required to sign the Affidavits and must qualify under the MCC Guidelines as established in Sections I, II, and III of this MCC Procedural Manual. Non-occupant co-signers are not required to sign the Affidavit but are required to sign the Co-Signer/Non-Occupant Statement.

The Eligible Mortgagor Affidavit must be completed thoroughly and agree with all applicable areas of the initial application and sales contract. All applicable areas are to be executed and corrections are to be initialed by the appropriate persons. If the Eligible Mortgagor Affidavit or sales contract reflects an unusual seller (Banks, Resolution Trust Corp., etc.) may imply that the property is a foreclosure and will require additional documentation, see Section IV(I). Make sure all applicable sections requiring notary signatures reflect commission expiration dates. The Request for Conditional Commitment Checklist should be used as a guide for completion of the Eligible Mortgagor Affidavit.

The mortgagor completes and signs the Eligible Mortgagor Affidavit containing certain certifications required by the Authority and federal regulations. The required certifications include, but are not limited to:

1. The residence is permanently affixed and is considered “real property” and the dwelling does not consist of more than one dwelling unit.

2. The property will be used as the mortgagor’s principal and permanent residence.

3. The mortgagor will occupy the residence within 60 days after the closing of the mortgage loan.

4. A principal residence has not been owned during the preceding three-year period unless the property is in a designated target area.

5. The mortgage being acquired will not be used to replace or obtain an existing mortgage other than one specifically accepted and permitted by the Agreement.

6. The MCC loan does not constitute a prohibited mortgage.

7. Application for the MCC loan was not directed to a particular Originator.

8. The annual family income does not exceed the maximum income limits.

9. The acquisition cost of the residence does not exceed the maximum sales price limits.

10. No interest is being paid to a related person.

11. No business interests or activities will be conducted from the subject property, nor does the mortgagor have a history of business activities or use from their current or previous residence in the past 12 months.

12. The residence cannot be rented, leased, or transferred.

13. The residence will not be used as a vacation, seasonal, recreation, or second home.

14. The MCC certificate cannot be assumed.

15. The MCC cannot be claimed if the mortgage is refinanced, or the property is sold, rented, or leased, or the mortgagor no longer occupies the property.

C. ***Request for Conditional Commitment Package.*** The Originator performs the customary verifications for loan underwriting as required by the Agreement. The Originator completes the remainder of the mortgage application process and submits to the Authority the Request for Conditional Commitment Package as stated on the MCC Conditional Commitment Checklist (Step 2). Upon email submission notification, the package is placed in first-come, first-served order and reviewed within 72 hours (three business days) of submission into eDocs.

D. ***Request for Conditional Commitment.*** The Request for Conditional Commitment package and the reservation package will be compared at the time the Request for Conditional Commitment package is received. The following criteria will help ensure accuracy and consistency in files when reviewed:

1. *$500 MCC Commitment Fee.* The MCC commitment fee is to be checked to ensure the amount is correct. If the MCC is coupled with an AHFA Step Up loan, the $500 commitment fee will be waived.

2. *Loan Amount.* The amount reserved on the reservation form should agree with the amount shown on the Request for Conditional Commitment Checklist. If the amounts do not agree, a request in writing for a decrease or increase is needed. Amounts that increase will require additional funds to cover the commitment fee, and are subject to the availability of funds. See Section XI, Modifications, for more information.

3. *Request for Conditional Commitment Checklist.* The Request for Conditional Commitment Checklist must be completed thoroughly. The Authority will check the income and sales price limits reflected on the Request for Conditional Commitment Checklist to ensure compliance with applicable limits. Information provided on the first page of the Checklist should agree with the Loan Reservation Form, initial application and the sales contract (name, property status, etc.).

4. *Initial Application.* The initial application should be completed, signed, and dated by the mortgagors and Originator. If dated before the MCC issue, a conversion letter will be required. All information should agree with all applicable areas of the MCC Reservation Form sales contract, and the Eligible Mortgagor Affidavit as follows:

   (a) Names of the mortgagors.

   (b) Property information section.

   (c) Number of dependents.

   (d) Marital status.

   (e) Residency history.

   (f) Employment (income purposes).

   (g) Other income section (to ensure all income has been included).

(h) Schedule of real estate owned section (to establish whether the borrowers currently own a home, have rental property, or own land. Additional income may be received from these sources).

(i) Assets section to ensure all funds which are not a part of closing are included in the annual family income, i.e., interest and dividends earnings.

(j) Declaration section reflects the mortgagors intent to occupy the property as their Principal Residence.

(k) First-time home buyer requirement (non-target area loans).

5. *Sales Contract*. For mortgagors who are responsible for making repairs on the sales contract, the amount of repairs must be included in the total acquisition cost and evidenced by receipts.

Changes in the sales price will require an amended sales contract. All changes are to be initialed by all parties involved.

At no time will the Authority accept a contract committed to an MCC issue before the issuance date of the program. A conversion letter is the only acceptable documentation to convert a loan to an MCC loan if the contract is dated before the issuance of the program.

All areas of the sales contract are to be completed and properly executed by the mortgagor and seller where applicable. The following areas should be consistent with all applicable areas of the Reservation Form, initial application, and the Eligible Mortgagor Affidavit.

(a) Names of the mortgagors.

(b) Sales price.

(c) Property address.

(d) Loan Type: FHA, VA, RD, or Conventional.

(e) Real estate agency's name and address.

(f) Number of days for the seller to surrender possession is 60 days or less after loan closing.

(g) Signatures of the sellers and buyers with dates.

6. *Executed Seller Affidavit*. The Originator provides the seller with the Seller Affidavit. The seller completes and signs the Seller Affidavit containing certain certifications required by the Authority and federal regulations. The certifications by the sellers are:

(a) The seller is obligated to surrender possession of the residence to the mortgagor within 60 days after loan closing.

(b) No interest is being paid to a related person.

(c) The acquisition cost is true and correct as stated on the sales contract. No additional value has been given for any items not reflected.

(d) The residence does not contain any unfinished areas that are suitable for completion and normally finished in homes similar to the residence sold or constructed by the seller.

(e) The property being sold reasonably maintains the basic livability of the residence and no subdivision map, pursuant to which such land will be further subdivided, has been recorded.

(f) No part of the mortgage loan proceeds will be used to repay an existing loan made by the seller or by any person on behalf of the buyer in connection with the residence except what is reflected on the Seller Affidavit.

(g) In connection with the sale of the residence, the seller nor any person acting on the seller's behalf has entered into any contract, arrangement, or understanding to make any payment to any real estate broker, agent, or finder other than what is reflected on the Seller Affidavit.

7. *Federal Income Tax Return Transcripts.* The tax return transcripts must be provided for all occupants 18 years of age and older. Loans closed after February 15 will require current-year tax return transcripts. All areas should be consistent with the initial application, employment verification, and Eligible Mortgagor Affidavit. Federal income tax forms 1040A and 1040EZ should comply with items a through e. Federal income tax form 1040 should comply with items a through i as follows:

(a) Names of the mortgagors.

(b) Property address (for non-target area loans).

(c) Social Security numbers.

(d) Filing status.

(e) Wages for the previous year and other amounts which can produce current income.

(f) It is imperative that Section 6, (c), page 1, of the federal return is checked thoroughly to ensure all dependents listed on the returns have names consistent with the mortgagors. Additional child support or Social Security benefits may be received if the names are different. Other dependents (i.e., mother, father) may be residing in property, thus possibly producing additional income.

(g) Section 7, reflecting wages, salaries, and tips, and should be consistent with past year earnings. Watch for other income reflected in this section, i.e. a self-employed mortgagor with income on this line may be a corporation employee with W-2 earnings or one who has other sources of income.

Note: Self-employed mortgagors are not allowed to operate any portion of their business from their home. See Section II for more information.

(h) All lines must be checked to determine whether all income is considered (i.e., self employment, interest, dividends, capital gains, etc.).

(i) Section 34, page 2, of the federal tax returns must be checked to ensure the mortgagors took the standard deduction. If not, Schedule A should be attached showing their itemized deductions. It is imperative on non-target area loans that the mortgagors did not take a deduction for home mortgage interest or real estate taxes.

***Note**: Rental property that has not been the mortgagors' primary residence for past three years will not be considered as ownership interest; however, any rental income earned will be considered as income. See Sections II and VIII.

A Federal tax return transcript for the most recent year is required for target area loans. The most recent three years of federal tax returns are required for non-target area loans. The most recent year's tax return transcript is required as of February 15th of the following year. For example, 2017 returns are required as of February 15, 2018.

<u>Listed below are forms and schedules for your convenience:</u>

Form 1040EZ: Income Tax Return for single and joint filers with no dependents

Form 1040A: U.S. Individual Income Tax Return - Schedule 1, Interest and Dividend Income (for 1040A 6)

Form 1040: U.S. Individual Income Tax Return

Schedule A: Itemized Deductions

Schedule B: Interest and Dividend Income

Schedule C or C-EZ: Profit and Loss for Business (sole proprietorship)

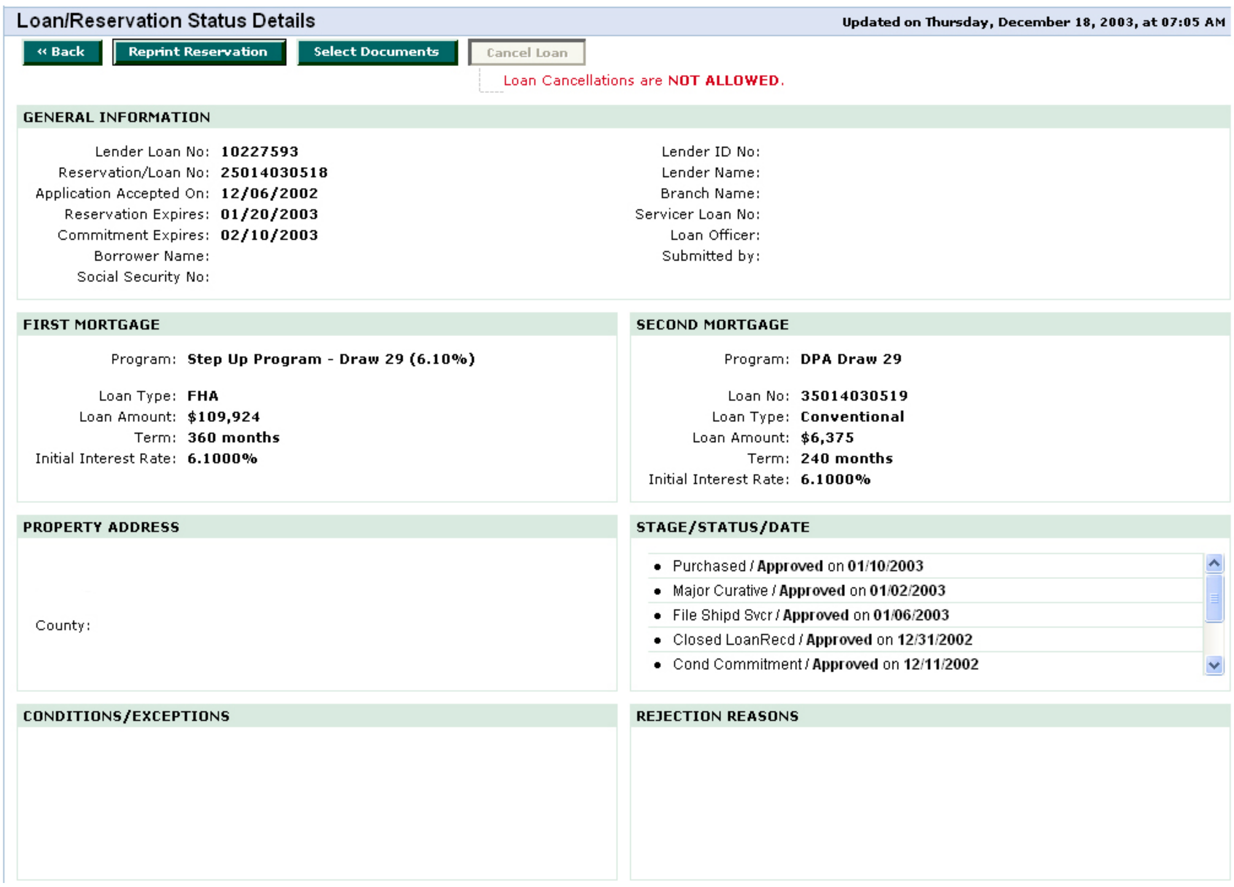
Schedule D: Capital Gains and Losses

Schedule E: Supplemental Income and Loss

Schedule F: Profit and loss from farming

If the mortgagors were not required to file federal income tax returns, by law, for one or more of the past three years, then the mortgagors must provide a statement that they were not required by law to file for that year. They may use the AHFA Income Tax Statement form to comply with this requirement.

Upon completion of the compliance review, the Authority will issue a Conditional Commitment.



Loan/Reservation Status Details

Updated on Thursday, December 18, 2003, at 07:05 AM

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Loan Cancellations are NOT ALLOWED.

GENERAL INFORMATION

Lender Loan No: 10227593
Reservation/Loan No: 25014030518
Application Accepted On: 12/06/2002
Reservation Expires: 01/20/2003
Commitment Expires: 02/10/2003
Borrower Name:
Social Security No:

Lender ID No:
Lender Name:
Branch Name:
Servicer Loan No:
Loan Officer:
Submitted by:

FIRST MORTGAGE

Program: Step Up Program - Draw 29 (6.10%)
Loan Type: FHA
Loan Amount: $109,924
Term: 360 months
Initial Interest Rate: 6.1000%

SECOND MORTGAGE

Program: DPA Draw 29
Loan No: 35014030519
Loan Type: Conventional
Loan Amount: $6,375
Term: 240 months
Initial Interest Rate: 6.1000%

PROPERTY ADDRESS

County:

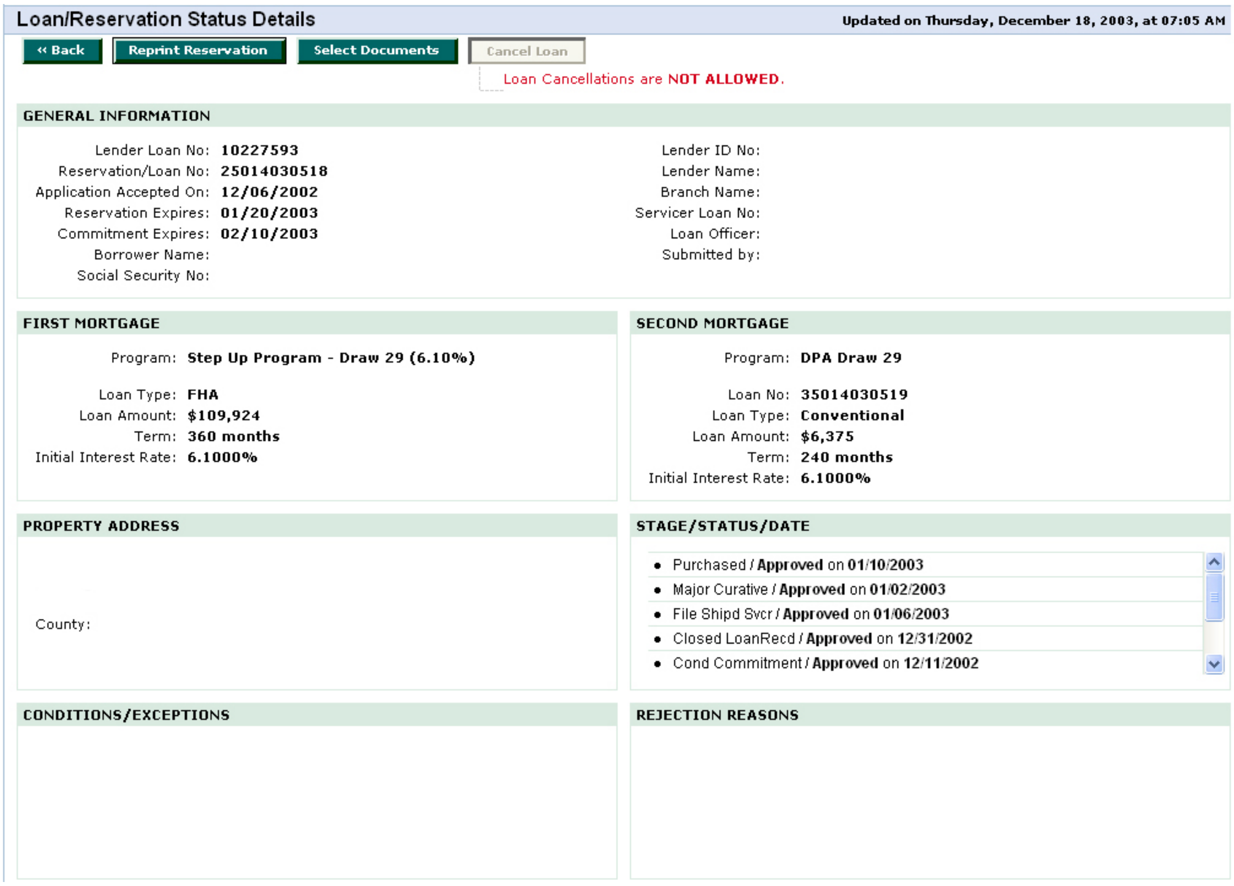
STAGE/STATUS/DATE

- Purchased / Approved on 01/10/2003
- Major Curative / Approved on 01/02/2003
- File Shipd Svcr / Approved on 01/06/2003
- Closed LoanRecd / Approved on 12/31/2002
- Cond Commitment / Approved on 12/11/2002

CONDITIONS/EXCEPTIONS

REJECTION REASONS

If the loan cannot be approved due to insufficient information, a Curative Request for additional information will be issued.



Loan/Reservation Status Details — Updated on Thursday, December 18, 2003, at 07:05 AM

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Loan Cancellations are NOT ALLOWED.

GENERAL INFORMATION

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Reservation/Loan No:	25014030518	Lender Name:	
Application Accepted On:	12/06/2002	Branch Name:	
Reservation Expires:	01/20/2003	Servicer Loan No:	
Commitment Expires:	02/10/2003	Loan Officer:	
Borrower Name:		Submitted by:	
Social Security No:			

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- File Shipd Svcr / Approved on 01/06/2003
- Closed LoanRecd / Approved on 12/31/2002
- Cond Commitment / Approved on 12/11/2002

CONDITIONS/EXCEPTIONS

REJECTION REASONS

E. ***Conditional Commitment Expiration.*** The Conditional Commitment and reservation of funds will expire 30 days after the date of the reservation for all properties. Extensions are available on a case-by-case basis. See Section VII(D).

F. ***Curative Requests and Expiration.*** Curative Requests are to be satisfied and delivered to the Authority within two weeks of the issuance date. Curative Requests that are not satisfied and delivered to the Authority within the two-week period granted will be subject to a $25 resubmission fee upon the Authority's discretion. Keep in mind that all commitments expire 21 days after loan closing.

SECTION VII—INCOME GUIDELINES

A. ***Salaried Mortgagors***

1. *Gross Monthly Income.* Gross monthly income includes gross monthly pay, any additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration (VA) compensation, 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 and investments, etc.) Overtime pay and bonuses are to be projected in an amount consistent with the earnings history. Income included in the calculation is derived from all persons 18 years or older occupying the residence.

2. *Annual Family Income.* The Gross Monthly Income multiplied by 12 shall mean the 12-month period beginning by either:

   (a) The date of the mortgage loan application if the mortgage is executed within four months of the date of such application; or

(b) The date of the execution of the mortgage if the mortgage is executed more than four months after the date of such application.

The income to be taken into account in determining the gross monthly income is any person who is expected to live in the residence being financed. The income of a person who is over 18 years of age and a full-time student (excluding the mortgagors) will not be included in the gross monthly income. See Full-Time Student Statement.

Persons over 18 years of age who are not employed and do not intend to seek employment within the next 12 months will be required to sign a statement to such. See Employment Statement.

3. *Verifications of Employment.* The mortgagor must meet the income limits as set forth in Section xx of this Procedural Manual. When checking Verifications of Employment (VOE), all areas of the verification should be completed and executed by the employer. All projected raises reflected on the VOE must be included in the annual family income.

EXAMPLE: An applicant receives a pay increase of 50 cents per hour to $7.00 per hour on May 1. Calculate the first four months' income at $6.50 per hour and calculate the next eight months at $7.00 per hour to reflect the raise.

Make sure all income has been derived (i.e., raises, bonuses, commissions, car allowance, etc.). Verify that pay stubs and verifications are consistent with one another. If they differ, an explanation must be provided. Previous year earnings (overtime, etc.) should be consistent with current year earnings. If not, it may be necessary to use only year-to-date figures depending upon the increases the mortgagor has received (overtime, raise, etc.). VOEs must be updated if they are more than four months old at the time of closing.

EXAMPLE: John Smith works for the power company. Mr. Smith's base income on the verification of employment is $35,000 with bi-weekly income of $1,346.15. Mr. Smith's pay stub reflects the same base amount. We must determine if year-to-date earnings on his pay stub are consistent to year-to-date earnings on the verification of employment. Mr. Smith worked 22 pay periods @ $1,346.15 (through October 31, 1993), with year-to-date earnings of $29,615.30. However, the pay stub reflects income of $33,000; therefore, an additional $3,384.70 is included in his year-to-date earnings. We must determine what this extra income is and if it is consistent with earnings received last year. If not consistent, use year-to-date earnings reflected by the pay stub to determine annual income.

When reviewing verifications, watch for certain types of employment, i.e., ministers, nurses, etc., which have unusual income. For example, a minister's income usually consists of a base income, utilities allowance, housing allowance, insurance allowance and car allowance. A nurse's income usually consists of a base income, overtime, and shift differentials for night and weekend pay, which in most cases differ. Be very cautious when calculating income for these types of employment to ensure all income has been included in the calculations.

If a letter or pay stub, etc. is used in lieu of a written VOE form, it must contain all items covered in the written verification.

All projected raises reflected on the VOE must be included in the annual family income as of the date of the raise.

4. *Pay Stubs.* Pay stubs are required on all loans. The income and employer information must be consistent with the verification of income and the VOE. Pay stubs must be dated within 30 days of submission.

5. *Income History.* If the prospective mortgagor has additional earned income and has a history of such earnings, then the income is to be included in the gross monthly income. If the income is earned only within the current year with no prior history, and will not continue after closing then a statement from the employer stating the earned income, (i.e., overtime, etc.) will not continue is required.

6. *Alternative Documentation.* AHFA allows alternative documentation for the VOE under the following conditions. If

the Originator cannot obtain all of the items below, then standard employment documentation must be used.

(a) Telephone verification including, but not limited to date of hire; current position; date of telephone verification; and name, title and phone number of person verifying employment. The statement must be executed by the person verifying information.

(b) Pay stubs covering the most recent 30-day period which reflect the mortgagor's name, Social Security number, hourly rate of pay, and number of hours worked per pay period.

(c) Certified copies of the last two years' W-2s which include the mortgagor's name, Social Security number, company name, and total compensation.

(d) Should an Originator be unable to acquire a VOE for an individual borrower in active or reserve military or civil service, AHFA will accept the borrower's last two Leave and Earnings Statements (LES) and their previous year's W-2 form in place of the VOE.

7. *Averaging Income.* Income is averaged for overtime, commissions, and any other income (except base earnings) over a period of no less than 15 months, but no more than 27 months. However, if income over base earnings is not consistent with past years' earnings, or the income history is less than 15 months, the Authority will determine the period for income calculations.

8. *Overtime Earnings.* Income earned from overtime will be included if the borrower has a history of such income or the income was earned during the current year. The VOE form from the employer or the telephone verification from the Originator must explain how much overtime is expected if any, and at what rate of pay.

9. *Commission Employees.* Commission-only employees must provide two years of federal income tax returns. If the mortgagor has not been employed at least two years, the most current year federal income tax returns are required along with year-to-date earnings. This may be obtained from the VOE. If commission employees file self-employment income to claim expenses, we will require copies of the Federal Income Tax Forms 1040 and Schedule C or C-EZ along with a year-to-date Profit and Loss statement.

10. *Bonus.* The gross amount of recurring bonuses is to be included in the income calculations if:

(a) The bonus is part of a collective bargaining agreement and must be paid; or

(b) The bonus is included in the computation of income by the employer; or

(c) There is a history of bonuses.

If there is a history of bonuses but the applicant does not know if a bonus is planned, nor does the employer divulge its plans for a bonus or the projected amount, an average of past years' bonuses will be calculated as income. A bonus history for tax compliance purposes is to be considered for one year or more.

The bonus is not to be included in the annual family income if there is no history of a bonus and the bonus is totally discretionary by the employer and wages of the applicant are the basic source of income. The file must be documented with a statement from the employer.

11. *Rental Properties or Contract Income.* Rental income and contract income are determined by subtracting the monthly mortgage payment from the gross rental income. Depreciation should be added back to net rental income where applicable. Contract income (income derived from the mortgagor selling property with owner financing) is to be used in calculating annual family income.

The use of standard underwriting criteria to document this income is acceptable (i.e. copies of leases & mortgage verifications).

12. *Child Support/Alimony.* Child support and alimony must be included in the annual family income and a copy of the final divorce decree is required. If the mortgagors have not received child support or alimony for the past 24

months and to their knowledge, none is forth coming, a statement from the mortgagors is required, see Child Support Statement.

Cases where the child support or alimony was paid through the courts, a case history showing no activity for the last 24 months is required including the Child Support Statement.

13. *Car Allowance.* Income received from employers for a car allowance must be included in the annual family income if the mortgagors have no accounting responsibility to their company.

EXAMPLE: If the mortgagor receives $500 per month from his employer for car allowance and is not required to file a mileage/expense report, then the $500 monthly income must be included in the annual family income. If the mortgagor files a mileage/expense report for $450 monthly, the $50 difference must be included in the annual family income.

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14. *Education Grants.* The portion of the income from grants that is used for living expenses is to be added to the annual family income if this income will continue for the next 12 months.

15. *Employee Benefits Program.* Some companies offer an employee benefits program designed to let employees create their own insurance package. The monthly amount is usually shown separately on the pay stub, yet included in year-to-date earnings. The pay stub usually shows the monthly amount actually spent on this plan. A letter from the employer is needed to verify the actual cost of this plan year-to-date, in order to determined if the employees received funds over the actual cost. In this case the additional unused portion would be included in the annual family income.

    If the mortgagor receives monthly income for the employee benefit program and elects not to purchase benefits offered by the program, then the full amount will be added to the annual family income.

16. *Permanent Seasonal, Seasonal & Temporary Income.* Include all permanent seasonal, seasonal and temporary earnings when calculating annual family income.

17. *Social Security/VA Benefits*. Social Security income should be verified with an Awards letter obtained from the Social Security office. VA benefits should be verified with a benefits letter from the Veterans Affairs Office.

18. *Lump Sum Payments*. Lump sum payments, including but not limited to, inheritance, re-enlistment bonuses, and disbursements from insurance policies, do not have to be included in the annual family income. However, interest income on investments must be included and calculated at the current passbook rates over a 12-month period. 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 annual family income.

19. *Capital Gains/Loss.* Both taxable and non-taxable portions of capital gains are to be included as income if a history of this income exists. If the two-year average results from the tax returns is a gain, then it must be added to annual family income (losses cannot be used to reduce annual family income).

20. *Pension and Stock Withdrawals.* Withdrawals of principal funds from pension or stock sources is not considered income. However, annuity or interest payments under a pension or stock investment program are considered income. Verification of benefits will be required, i.e., federal tax returns, statement of benefits, etc.

21. *Interest, Dividend and Royalty Income.* Interest, dividend and royalty earnings are considered income. Current interest and dividend earnings are calculated at current passbook rates over a 12-month period. Income calculations for royalties are calculated by net earnings and interest. Earnings from IRAs and 401Ks are not included. Documentation will be required to verify theses sources of income, i.e., federal tax returns, statement of benefits and contract agreements for royalties income.

22. *Exclusion from Gross Monthly Income.* Gross monthly income shall not include casual, sporadic or irregular gifts; amounts that are specifically for or in reimbursement of medical expenses; inheritances; insurance payments (including payments under health and accident insurance and workmen’s compensation, other than payments in

lieu of earnings); settlement for personal or property losses; amounts of education scholarships paid directly to the student or the educational institution and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment, but in either case only to the extent used for such purpose; special pay to a serviceman who is exposed to hostile fire; and foster child care payments.

B. Self-Employed Mortgagors

1. *Annual Family Income.* The procedure to calculate annual family income for self-employed mortgagors requires the following:

   (a) Depreciation and depletion is to be added back to the adjusted gross income (AGI) on all self-employed mortgagors.

   (b) Two years' current signed individual federal income tax returns with all applicable schedules.

   (c) Year-to-date Profit & Loss (if applicable).

   (d) U.S. Partnership Returns and U.S. Corporate federal income tax returns with all schedules and W-2 form (where applicable), with individual federal income tax returns (form 1040)

   Income must be averaged over a period of no less than 15 months, but no more than 27 months. Self-Employed mortgagors will need two years of federal income tax returns with a current Profit and Loss. After February 15 each year, the most "current year" federal income tax returns are required.

2. *Sole Proprietorship.* Sole Proprietorship is a business owned by one person. IRS form 1040—Schedule C or Schedule C-EZ is required.

   Sole Proprietorship income is detailed on Form 1040 (Schedule C) of U.S. income tax returns. This form will list all income, depreciation, and depletion which is added back to the AGI.

3. *General Partnership.* A General Partnership is a business owned by two or more partners. Each partner is personally liable for all debts of the business. Each partner is responsible for all other partners. The following documents are required:

   (a) IRS form 1065—Schedule K-1 & Schedule E, Part II.

   (b) U.S. Partnership Returns with all applicable schedules.

   General Partnerships require income to be calculated on form 1065 of U.S. Partnership Returns, to determine the share of net income distributable to each partner. This is reported on Schedule K-1 of form 1065 and on the individual's Schedule E, Part II; this amount is included in the AGI on form 1040. Note: The total depreciation and depletion will be determined by the number of the partners, and should be divided to determine what percentage or total dollar amount to be added back for each partner.

4. *Limited Partnerships*. Limited Partnerships are usually formed for investing money. Limited partners often take a loss on their investment, which reduces their taxable income. Liability is limited to the amount invested. The following documents are required:

   (a) IRS form 1065—Schedule K-1 & Schedule E, Part II.

   (b) U.S. Partnership Returns with all applicable schedules.

   Limited Partnerships require income to be taken from Schedule K-1 (form 1065), and the individual's Schedule E, Part II; this amount is included in the AGI on form 1040.

5. *S-Corp.* Usually a small start-up business requiring the following documentation:

(a) IRS forms 1120/1120S—Schedule K-1, Schedule E, II.

(b) Verification of W-2 earnings.

S Corporation's income is detailed on form 1120S (US federal income tax return for an S Corporation). Schedule K-1 will list borrower's percentage of ownership and ordinary income, depreciation and depletion from the S Corporation (this information is transferred to Schedule E, Section II of the individual tax returns). This income must be proportionately added back as determined by the percentage of ownership to the ordinary income since depreciation and depletion are actually non-cash expenses. The primary source of income for an owner comes from W-2 wages, which must be included in earnings in addition to corporate earnings.

6. Corporation. A Corporation requires a state charter and is a separate legal entity from its owners (stockholders). The corporation's profits (retained earnings) are put back into the business or are distributed to stockholders in the form of dividends. Stockholders are not responsible for the debts of the corporation. The following documentation is required to determine eligibility:

   (a) U.S. Corporation Income Tax Returns, form 1120 & Schedule L, (if applicable).

   (b) W-2 form.

   Corporations require income to be taken from the IRS form 1120, and Schedule L will show the current year corporate balance sheet. Income to the officers and stockholders is reported by W-2 forms and reflected on their individual form 1040.

   Dividend earnings are reported on 1099 forms and reflected on their individual returns.

C. Non-Borrowing Spouses, Partners All Other Occupants 18 Years or Older

AHFA programs require the income to be documented for the total household. Total household income is defined as the individuals 18 years of age or older who intend to occupy the property within the next 12 calendar months, even if they are not a party to the loan.

Documentation required for submission in Step 2:

1. Signed Non-Borrower Statement.

2. Either full income verification or alt doc income verification as required for all salaried or self-employed borrowers, or a signed Employment/Income Statement, if the occupant does not have ANY source of income.

3. Documentation of Social Security benefits, pensions, annuities, if applicable.

4. Applicable tax return transcripts (Target/Non-Target)

D. Currently Separated or Separating Spouses

All separated spouses' income documentation must also be submitted to AHFA compliance in Step 2. This is regardless of whether the separated spouse is a party to the loan, or even intends to occupy the property. The State of Alabama, for AHFA purposes, does not recognize "separated." The parties are considered either married or divorced.

Documentation required for submission in Step 2:

1. Signed Non-Borrower Statement

2. Full income documentation or alt doc documentation

3. Separation Agreement, including any Property Settlement Agreement

4. Applicable tax return transcripts (Target/Non-Target)

Please note: For all parties signing the Employment/Income Statement, AHFA withholds the right to require documentation from the IRS supporting the signed statement.

SECTION VIII—CLOSED LOAN PROCEDURES

A. ***Conditional Commitment***. Upon issuance of the Conditional Commitment, the Originator may close the loan in accordance to the conditions stated on the Conditional Commitment. These conditions include, but are not limited to:

   1. Request for Funding Checklist

   2. Curative and closing requirements listed on online reservation system

   3. Loans committed prior to February 15 of the current year which do not close until after February 15 must have the current year's signed and completed federal tax returns, and they must be sent to the Authority for approval prior to closing.

   4. Copy of current pay stubs or VOE if over 120 days old as of closing

   5. Copy of Recapture Settlement Disclosure

   6. Copy of the Seller Affidavit

   7. Copy of the Mortgagee's Certification

   8. Copy of MCC Closing Reaffirmation

   9. Copy of the Note

   10. Copy of the Mortgage

   11. Copy of the HUD-1/Settlement Statement

   All items should be completed and agree with the Conditional Commitment, Eligible Mortgagor Affidavit and the Seller Affidavit.

B. ***Verifications of Credit Documents.*** All verifications should be less than four months (120 days) old at the time of closing or current information will be required. A letter or pay stub may be used in lieu of a VOE form if it contains all the items covered in the original verification. Credit documents more than 120 days old upon submission of the closed loan package could result in rejection of the MCC.

C. ***Power of Attorney for Sellers.*** A general power of attorney is acceptable for the sellers. A copy will be required for closing.

D. ***Settlement Statement Fees.*** In connection with each mortgage loan, an Originator may charge and collect reasonable and customary charges from an eligible mortgagor or seller at closing. The charges may not exceed the usual and reasonable "settlement and financing costs" that are customary as follows:

   1. "Settlement costs" include title and transfer costs, title insurance, survey fees and other similar costs; and

   2. "Financing costs" include credit report fees, legal fees, appraisal expenses, points which are paid by the borrowers, or other costs of financing the residence.

   3. The $500 commitment fee is a mandatory one-time charge. Originators are required to charge the total amount of

$500. The MCC fee must be reflected on the HUD-1/Closing Statement. HUD will allow the purchaser to pay this fee. The fee, if paid by the seller, will not be included in the seller contribution. The VA will allow the veteran to pay this fee, but the veteran must sign a statement that the seller is not willing to pay it. Fannie Mae and RD will allow the purchaser to pay this fee. If the seller pays the fee, it will not be included in the seller contribution. The $500 MCC fee is refundable if the MCC is not issued.

4. A non-refundable MCC application fee of $200, kept by the Originator.

SECTION IX—LOAN DELIVERY

A. ***Review of the Mortgage Loan.*** The closed mortgage loan package, as stated on the MCC Request for Issuance Checklist (Step 3), is to be received by the Authority within 10 days after loan closing.

Check the closed loan package to confirm all items requested on the MCC Transmittal Checklist, the Conditional Commitment and Request for Issuance of MCC are included in the package.

Upon completion of the compliance review, the Authority will issue the MCC. If the closed loan package is incomplete, a curative request will be issued. Upon receipt of the requested information, the Authority will issue an MCC. Curative requests are to be corrected and delivered to the Authority within 14 days after initial review if the package is submitted within 10 days of closing. Lender must provide a current pay stub or VOE if more than 120 days old at the time of closing.

B. ***Issuance of the MCC.*** Upon receipt of the required closing documents, the Authority will issue the original MCC to the Mortgagor within 30 days. A copy of the MCC will be sent to the Originator. The Authority may perform random case post audits pertaining to MCCs.

C. ***Revocations.*** Revocation will occur on the discovery of any material misstatement, whether negligent or fraudulent. The Originator must notify the Authority in writing of any discovery of a material misstatement.

D. ***Originator's Federal Reporting.*** The Originator is required by the IRS to file a one-time report on or before January 31 for the MCCs issued for the previous calendar year. Transmittal of MCC and Explanation of Reporting will be sent to the Originator with every MCC issued. In early January, the Authority will send a computer print-out of the MCCs issued the previous year to the Originator, along with the IRS Form 8329. It is the Originator's responsibility to cross-check the computer print-out and file the IRS Form 8329. The Authority does not require a copy of the form.

For six (6) years after loan closing, the Originator must retain the following:

1. Name, address, and Social Security number or tax identification number (TIN) of the mortgagor.

2. Name, address, and TIN of the issuer:

   Alabama Housing Finance Authority
   P.O. Box 242967
   Montgomery, AL 36124-2967
   AHFA TIN #630980480

SECTION X—MORTGAGORS' UTILIZATION OF THE MCC

The Mortgagor may reduce the amount of monthly federal income tax withheld in order to have more disposable income with which to make loan payments. To do this, the Mortgagor should revise his W-4 form with his employer to claim the projected amount of the monthly credit. It is the Originator's responsibility to give the approximate amount to the Mortgagor before closing. (To calculate this amount, see Section VII, item A.) The Mortgagor should then use his amortization schedule to calculate the amount of benefits for each year and change this amount with the employer as needed.

The Authority encourages Mortgagors to check with a tax consultant to assess the impact of the MCC on their personal tax liability. The benefits to the homeowner cannot exceed the amount of federal taxes owed after all other credit and deductions have been taken into account. The Mortgagor has the ability to carry forward any unused portion for the next three years, but he must use the current year's MCC credit before carrying forward any additional amount.

A letter will be sent to the Mortgagor with the Mortgage Credit Certificate explaining how to claim the MCC and including an example of the IRS form. The mortgagors will need to utilize the appropriate form each year in order to receive the credit.

SECTION XI—MODIFICATIONS

It is the Originator's responsibility to notify the Authority of any modifications. Expiration dates, penalties and extensions are addressed in Section VI.

1. *Reservation Expiration.* If the reservation has expired, you must request an extension which is subject to approval by the Authority.

2. *Mortgage Decrease*. Mortgage amount decreases will require approval by the Authority.

3. *Mortgage Increase.* Mortgage amount increases will require approval by the Authority and will be subject to the availability of funds.

4. *Property Address.* Property address changes require approval of the Authority.

   Note: Changes may require resubmission of a new Target ID Status Form and additional information if the property status changes.

5. *Income.* The eligibility of a Mortgagor for an MCC is based upon the Mortgagor's current projected income. If the Mortgagor's income has increased since the submission of the Request for Conditional Commitment package, revised documentation is required to ensure continued compliance with income limitations as established in Section II of this Procedural Manual. If the Mortgagor's income has decreased, no notification will be necessary.

6. *Marriage.* If the Mortgagor marries prior to loan closing, the spouse's income must be included in the total annual family income. The Originator must obtain this information prior to closing and submit these documents to the Authority. The annual family income may not exceed the income limitations as established in Section II of this Procedural Manual. The spouse will also have to meet all MCC requirements as established in Sections II, III and IV of this manual.

7. *Acquisition/Sales Price.* If the acquisition cost is amended prior to the loan closing, an amended sales contract must be forwarded to the Authority and is subject to approval. The change in acquisition cost may not exceed the applicable sales price limitations, as set forth in Section IV of this Procedural Manual or the MCC approval will be revoked.

SECTION XII—RECAPTURE

Recapture Tax from Eligible Mortgagors to the United States Government. With respect to mortgage loans closed on or after January 1, 1991, the Internal Revenue Code of 1986, as amended (the "code"), subjects eligible mortgagors to the imposition of federal recapture tax to be paid to the United States Government upon disposition of a residence. The maximum amount of such recapture tax is 6.25% of the original amount of the mortgage loan but shall not exceed 50% of the gain upon disposition. The recapture tax generally increases during the first five years of ownership and decreases during the following four years. No recapture tax will be imposed if the residence is owned for more than nine years. Several factors will determine the amount, if any, of the recapture tax liability. The recapture tax will be based on the amount of mortgage loan, the length of ownership of the residence, the income of the eligible mortgagor at the time of the sale and the gain realized on the sale of the residence. It is conceivable that Congress may revise the recapture provisions. The

Authority reserves the right to modify the program documents to ensure compliance with all recapture provisions imposed by the Code. At the time of application for a MCC loan, the Originator shall obtain from the eligible mortgagor an executed Recapture Application Disclosure. Even though the code may change at a later date, recapture will be based upon the figures given on the Recapture Settlement Disclosure as of closing.

Additionally, Originators may be required to act as agent for the Authority to disclose information as required by the Code to eligible mortgagors. For a mortgagor to be subject to recapture, all of the following must happen:

1. The residence is sold within nine years, and

2. The annual family income is greater than the amount stated on the Recapture Settlement Disclosure, and

3. There is a gain from the sale of the residence as defined.

All three items listed above must happen in order for the mortgagor/seller to be subject to recapture. If the mortgagor/seller meets only one or two of the requirements, no recapture tax is imposed on the sale.

A mortgagor who decides to refinance will be subject to all conditions set forth in the guidelines from the date of the original note. The mortgagor forfeits the benefit of the MCC upon refinancing, but recapture is applicable only upon the sale or transfer of title of the property.

The homeowner will be responsible for the IRS reporting and recapture payment at the time of income tax filing after the sale.

It is the Originator's responsibility to calculate the recapture amount on the Recapture Settlement Disclosure and notify the Authority if the loan amount changes.

A set of current Recapture Settlement Disclosure forms may be found on the Online Document System. It is the Originator's responsibility to provide the Recapture Settlement Disclosure with the loan closing documents.

RECAPTURE TAX: AN EXAMPLE

Mr. and Mrs. Smith purchase a home for $70,000 in Montgomery. Mr. and Mrs. Smith's income at this time is $35,000. They have two persons in the household and the house is located in a target area. They choose to finance their new home with proceeds from an Authority MCC loan. The Smiths close their mortgage loan in the amount of $69,010 on January 1, 1993, and move into their new home. In 1997, a new member of the family arrives. The Smiths decide a larger home would better fit their needs. They place their home on the market and sell it. The sale (transfer of ownership) closes on April 25, 1998.

Questions:
Are Mr. and Mrs. Smith subject to recapture?
If so, will the three adjustments reduce how much they pay?

Factor # 1: Date of Sale/Holding Period Percentage

Recapture is based on the annual period of ownership for the first nine years. If ownership exceeds nine years (108 months), the recapture tax does NOT apply.

Holding Period Percentage (HPP):

Year 1 (0-12 months)..20%
Year 2 (13-24 months)..40%
Year 3 (25-36 months)..60%
Year 4 (37-48 months)..80%
Year 5 (49-60 months)..100%
Year 6 (61-72 months)..80%

Year 7 (73-84 months)...60%
Year 8 (85-96 months)...40%
Year 9 (97-108 months).......................................20%

Key dates to compute the ownership period:

1) the date of the original mortgage, and
2) the date of disposition (title is transferred).

Mr. and Mrs. Smith closed the original mortgage loan on January 1, 1993. They transferred title on April 25, 1998.

The Smiths' ownership period is:

January 1, 1993 - December 31, 1993 = 1 year
January 1, 1994 - December 31, 1994 = 2 years
January 1, 1995 - December 31, 1995 = 3 years
January 1, 1996 - December 31, 1996 = 4 years
January 1, 1997 - December 31, 1997 = 5 years
January 1, 1998 - April 25, 1998 = 5 years 4 months

5 years 4 months = 64 months

Mr. and Mrs. Smith will be subject to no more than 80% of the maximum recapture tax due to the HPP adjustment.

Factor #2: Income/Family Size at Time of Disposition

The recapture amount is based on the income and family size at the time of disposition. (This income is the "Modified Adjusted Gross Income" shown on the federal tax return for the year in which the residence is sold.)

Example #1

At the time of disposition (April 25, 1998), Mr. and Mrs. Smith are making $55,000 annually. They have increased their family members by one, making a total of three in their household.

The house which was sold is located in a target area in Montgomery. The length of ownership is 5 years 4 months (64 months), which equals five full years of ownership for the income calculation.

MONTGOMERY MSA (Autauga, Elmore, Lowndes & Montgomery Counties)

	Non-Target		Target	
Full Years of Ownership	3 or more	Less than 3	3 or more	Less than 3
0 (01 - 12 months)	40,480	35,200	49,280	42,240
1 (13 - 24 months)	42,504	36,960	51,744	44,352
2 (25 - 36 months)	44,629	38,808	54,331	46,570
3 (37 - 48 months)	46,860	40,748	57,048	48,899
4 (49 - 60 months)	49,203	42,785	59,900	51,344
5 (61 - 72 months)	51,663	44,924	62,895	53,911
6 (73 - 84 months)	54,246	47,170	66,040	56,607
7 (85 - 96 months)	56,958	49,529	69,342	59,437
8 (97 - 108 months)	59,806	52,005	72,809	62,409

Mr. and Mrs. Smith are not subject to the "recapture" tax, because their income does not exceed the income limits based on five FULL years of ownership of $62,895.

Example #2

At the time of disposition (April 25, 1998), Mr. and Mrs. Smith are making $65,000 annually. They have increased their family size by one member, making a total of three in their household. The house which was sold is located in a target area in Montgomery.

MONTGOMERY MSA (Autauga, Elmore, Lowndes & Montgomery Counties)

	Non-Target		Target	
Full Years of Ownership	3 or more	Less than 3	3 or more	Less than 3
0 (01 - 12 months)	40,480	35,200	49,280	42,240
1 (13 - 24 months)	42,504	36,960	51,744	44,352
2 (25 - 36 months)	44,629	38,808	54,331	46,570
3 (37 - 48 months)	46,860	40,748	57,048	48,899
4 (49 - 60 months)	49,203	42,785	59,900	51,344
5 (61 - 72 months)	44,924	51,663	53,911	62,895
6 (73 - 84 months)	54,246	47,170	66,040	56,607
7 (85 - 96 months)	56,958	49,529	69,342	59,437
8 (97 - 108 months)	59,806	52,005	72,809	62,409

To arrive at a percentage of recapture based on income calculations (rounded to nearest whole percentage), the IRS provides a provisional $5,000 limit over the maximum income limit. This can serve to lower the recapture tax amount:

$65,000 - 62,895 = $2,105 / 5,000 = 42%

Mortgage Loan Amount x 6.25% = MAXIMUM RECAPTURE

or

$69,010 x 6.25% = $4,313.13
$4,313.13 x 80% (HPP calculation) = $ 3,450.50
$3,450.50 x 42% = $1,449.21 RECAPTURE

Maximum recapture will be $1,449.21, but will never exceed 50% of the gain.

Example #3

At the time of disposition (April 25, 1998), Mr. and Mrs. Smith are making $70,000 annually. They have increased their family members by one making a total of three in their household. The home is located in a target area in Montgomery.

MONTGOMERY MSA (Autauga, Elmore, Lowndes & Montgomery Counties)

	Non-Target		Target	
Full Years of Ownership	3 or more	Less than 3	3 or more	Less than 3
0 (01 - 12 months)	40,480	35,200	49,280	42,240
1 (13 - 24 months)	42,504	36,960	51,744	44,352
2 (25 - 36 months)	44,629	38,808	54,331	46,570
3 (37 - 48 months)	46,860	40,748	57,048	48,899
4 (49 - 60 months)	49,203	42,785	59,900	51,344
5 (61 - 72 months)	51,633	44,924	62,985	53,911
6 (73 - 84 months)	54,246	47,710	66,040	56,607
7 (85 - 96 months)	56,958	49,529	69,342	59,437
8 (97 - 108 months)	59,806	52,005	72,809	62,409

Mr. and Mrs. Smith are subject to recapture based on their income/family size at disposition and length of ownership.

$70,000 - $62,895 = $7,105 / 5,000 = 1.42 or 142%
(calculations are capped at 100%)
Mortgage Loan Amount x 6.25% = MAXIMUM RECAPTURE

or

$69,010 x 6.25% = $4,313.13
$4,313.13 x 80% (HPP calculation) = $3,450.50
$3,450.50 x 100% = 3,450.50 RECAPTURE

Maximum recapture will be $3,450.50, but will never exceed 50% of the gain.

DEFINITION OF GAIN

The IRS has defined gain as the "Amount Realized" on the disposition minus the "Adjusted Basis" of the residence.

Under general federal tax principles, the "Amount Realized" equals the selling price of the residence less selling expenses. Selling expenses typically include real estate commissions, advertising, legal fees and loan charges (or "points") paid by the seller. The seller may also deduct from the sales price any fixing-up expenses incurred during the 90-day period prior to signing a contract to sell the house. Fixing-up expense include such items as painting, repairing leaks or replacing broken windows.

The "Adjusted Basis" of the residence is generally the original cost of the residence plus any additions or improvements which add value to the residence, prolong its useful life or adapt it to new uses (i.e., rewiring the house, adding a bathroom or putting on a new roof).

GAIN = AMOUNT REALIZED minus ADJUSTED BASIS

EXAMPLE:

Mr. and Mrs. Smith purchased a home in 1993 for $70,000. Mr. and Mrs. Smith add a bedroom two years later for a cost of $5,000, thus making a total of $75,000 "Adjusted Basis."

Mr. and Mrs. Smith sell their home in 1998 for $90,000. They pay all closing costs and real estate commissions, plus make repairs to comply with the appraisal for a total dollar amount of $7,000. Thus the "Amount Realized" is $83,000.

$83,000 minus $75,000 = $8,000 Total Gain
(Maximum Recapture Tax may not exceed 50% of Gain)

Maximum recapture will be $4,000, since it never exceeds 50% of the gain.

The recapture tax could be further reduced or eliminated due to the income and holding period calculations.

Remember other factors enter into the recapture calculation, such as original loan amount, length of ownership and income at time of sale.

SECTION XII—RELATED PERSON DEFINITION

"Related person" means persons with any relationship which would result in disallowance of losses under Subsection 267 and 707(B) of the Internal Revenue Code of 1986 ("Code").

The definition of a "related person" is as follows:

1. Members of a family including only a person's brothers and sisters (whether by whole or half blood), spouse, ancestors and lineal descendants;

2. An individual and a corporation more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual;

3. As partnership and an individual owning, directly or indirectly, more than 50% of the capital interest or profits interest in such partnership;

4. Two corporations which are members of the same controlled group, defined as:

   (a) a parent-subsidiary controlled group of corporations connected through stock ownership with a common parent corporation where stock of each corporation (other than the common parent corporation), possessing at least 50% of the total combined voting power or value of all classes to stock, is owned by one or more of the other corporation in the group, and the common parent corporation owns (including through constructive ownership by attribution under SS1563 [e] of the Code) stock possessing at least 50% of the total combined voting power of value of all classes of stock of at least one of the other corporations;

   (b) a brother-sister controlled group of corporations consisting of two or more corporations of which stock possessing at least 50% of the total combined voting power of value is owned by five of fewer individuals, estates or trusts (including constructive ownership by attribution), and such persons value of all classes of stock of each corporation, taking into account only stock ownership that is identical as to each corporation; or

   (c) a combined group of parent-subsidiary or brother-sister corporations;

5. Two partnerships in which the same persons own, directly or indirectly, more than 50% of the capital interests or profit interests;

6. A grantor and a fiduciary of any trust;

7. Fiduciaries of two trusts of which the same person is grantor;

8. A fiduciary and a beneficiary of any trust;

9. A fiduciary of one trust and a beneficiary of another trust, if the same person is grantor of both trusts;

10. A fiduciary of a trust and a corporation of which more than 50% in value of the outstanding stock is owned, directly or indirectly, by or for the trust or a grantor of the trust.

11. A person and a tax-exempt organization which is controlled, directly or indirectly, by such person or, if such person is an individual, by members of such person's family (as defined above);

12. A corporation and a partnership if the same persons own more than 50% of the value of the outstanding stock of the corporation and more than 50% of the capital interest in the partnership;

13. Two subchapter S corporations if the same persons own more than 50% in value of the outstanding stock of each corporation; and

14. A subchapter S corporation and a regular C corporation if the same persons own more than 50% in value of the outstanding stock of each corporation.

The foregoing relationship rules are applied based upon constructive ownership of stock as follows:

1. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be constructively owned proportionately by or fore its shareholders, partners or beneficiaries;

2. An individual who owns stock by members of his family (as defined above);

3. An individual who owns stock directly (but not constructively through family members) in a corporation constructively owns any stock owned, directly or indirectly, by or for his partner;

4. For purposes of determining constructive ownership of stock, only stock constructively owned because of family relationship shall be treated as actually owned for purposes of 1, 2, and 3; and

5. Similar principles apply in determining constructive ownership on interest in a partnership, except that there shall be no attribution between partners, and interest owned by a corporation shall be constructively owned by shareholders owning, directly or indirectly, 5% or more in value of the outstanding stock.