



Good Neighbors

San Diego  
Housing Commission

- ◆ 1625 Newton Avenue
- ◆ San Diego, California 92113-1038
- ◆ 619/231 9400
- ◆ FAX: 619/544 9193
- ◆ www.sdhc.net

# REPORT

**DATE ISSUED:** January 23, 2004

**ITEM 100**

**REPORT NO.:** HCR04-07  
For the Agenda of January 30, 2004

**SUBJECT:** Application for Mortgage Credit Certificate Allocation  
(Citywide)

## SUMMARY

**Issue:** Should the Housing Commission continue to promote homeownership for low and moderate-income first-time homebuyers in 2004 through on going participation in the Mortgage Credit Certificate (MCC) Program?

**Recommendation:** That the Housing Commission recommend Housing Authority authorization of an application to the California Debt Limit Allocation Committee (CDLAC) for up to \$25 million in MCCs during the period of January 1, 2004 through December 31, 2004.

**Fiscal Impact:** Approval of the recommendation would result in the expenditure of up to \$9,000 for the application fee and the continued use of an existing \$100,000 performance deposit.

**Affordable Housing Impact:** If the application is approved, approximately 248 homebuyers would be assisted in the purchase of their first home. On average, homebuyers under the MCC Program have an income of 91 percent of Area Median Income (AMI) and approximately 42 percent of the buyers are considered low income (at or below 80 percent of AMI / \$51,050 for a family of four) under the MCC Program guidelines.

**Previous Related Action(s):** Housing Authority has authorized applications at least annually since 1989.



## **BACKGROUND**

The MCC Program, authorized by Congress under the Federal Tax Reform Act of 1984, is an alternative to mortgage revenue bond-backed financing as a means of providing financial assistance for the purchase of single-family housing. In 1985, the State adopted legislation authorizing local bond issuing agencies to make MCCs available in California. The program is designed primarily to benefit first-time homebuyers of new or existing housing units throughout the State. Applications to receive an MCC allocation are made by local agencies, such as the Housing Commission, to CDLAC.

The MCC operates as an Internal Revenue Service (IRS) tax credit. With an MCC, a qualified homebuyer becomes eligible to take a federal income tax credit of either 15 or 20 percent of the annual interest paid on their mortgage each year for as long as the buyer lives in the home.

1. The 15 percent tax credit is available to homebuyers purchasing a property in a non-targeted area. The income limit is up to 115 percent of AMI (\$73,370 for three or more persons) and the maximum purchase price is \$332,031 for existing homes and \$407,603 for new construction.
2. A buyer purchasing in a “targeted” census tract is eligible to receive a 20 percent tax credit. Within the targeted census tracts, income (up to 140 percent / \$89,320 for three or more persons) and purchase price limits (up to \$405,816 for existing homes and \$498,184 for new construction) are higher than in non-targeted areas and first-time homebuyer status is waived. In San Diego there are 46 targeted census tracts.

Also, lower income (80 percent or below AMI / \$51,050 for a family of four) persons or families are eligible to receive a 20 percent tax credit.

IRS and State regulations set the guidelines for income and purchase price limitations. These guidelines are included as Attachment 1 - Eligibility Guidelines for MCC Program.

The amount of private activity bonds that can currently be issued in California is mandated in federal law. In 2003, approximately \$2.6 billion in private activity bonds were issued. CDLAC is responsible for apportioning this bonding authority among eligible uses. The following chart shows the allocation of MCCs over the past five years (figures are current as of January 2004).

	<b>Single Family Bond CHFA Allocation</b>	<b>MCCs Statewide Allocation</b>	<b>MCCs All SD County Jurisdictions</b>	<b>MCCs San Diego Housing Commission</b>
<b>1999</b>	\$234 million	\$234 million	\$16.4 million	\$7.5 million
<b>2000</b>	\$217 million	\$217 million	\$18.3 million	\$8.0 million
<b>2001</b>	\$265 million	\$145.3 million	\$20 million	\$9.3 million
<b>2002</b>	\$266 million	\$48.4 million	\$26.5 million	\$12.2 million
<b>2003</b>	\$242 million	\$134.6 million	\$31.1 million	\$13.7 million

An MCC reduces the federal income taxes of the homebuyer, resulting in an increase in the buyer's net earnings and increases the buyer's capacity to qualify for a mortgage loan. A homebuyer applies for an MCC through one of the Housing Commission's participating lenders while applying for the loan to purchase the home. Once the lender has qualified the buyer for a loan and an MCC, the lender submits an application to the Housing Commission. Housing Commission staff reviews the application for program compliance and reserves an MCC for the homebuyer; the credit certificate is issued to the buyer after escrow closing. The certificate is registered with the IRS; it is not transferable, and it is revoked if the certificate holder moves out of the qualifying home.

The lenders and real estate agents in San Diego have shown great interest in the existing MCC Program. Approximately 80 lenders and brokers are enrolled in the program.

Since inception of San Diego's MCC Program in August 1990, over \$331 million in single family homes (2,766 households) have been purchased within the City using this resource. The existing MCC Program is the cornerstone of the Housing Commission's First-Time Homebuyer Program and provides purchasing leverage along with the Second Trust Deed Loan Programs and the Down Payment/Closing Cost Assistance Grant Program.

## **DISCUSSION**

The requested \$25 million allocation would help approximately 248 families purchase homes. The IRS guidelines require that 20 percent of the allocation received be set aside for utilization in targeted census tracts. In 2004, CDLAC requires that 45 percent of the MCC allocation be reserved for low-income households. Since the inception of the MCC Program, 42 percent of the participants in San Diego have been low-income homebuyers as defined in the program guidelines.

Assuming a \$25 million allocation is awarded to the Housing Commission, the following is a breakdown of the MCCs to be issued:

- 107 - Low-income certificates
- 41 - Targeted certificates
- 100 - Non-targeted certificates

It is unlikely that a \$25 million MCC allocation will be received in the first application round for 2004. Therefore, if the Housing Commission receives less than the \$25 million, staff is requesting authorization to resubmit an MCC application and reapply to CDLAC in 2004 up to the approved \$25 million total allocation.

## CONCLUSION

In summary, the introduction of the MCC Program has benefited San Diego's homebuyers. There have been 2,766 homes purchased by local buyers who may not have been able to afford a home without the MCC. Lenders are eager to participate in the program that caters to the first-time homebuyers and helps lenders meet their Community Reinvestment requirements. Considering the modest costs of program application and administration, coupled with the minimal liability to the City, it is recommended that the Housing Commission proceed on behalf of the City with the application for a \$25 million allocation of Mortgage Credit Certificate authority.

## ALTERNATIVES

Reduce the requested amount or decline to apply for a MCC allocation. This alternative would diminish the potential homeownership possibilities for qualified homebuyers.

Respectfully submitted,

Cissy Fisher  
Acting Housing Finance and Development Manager

**Signature on File  
With Original Document**

Approved by,

Elizabeth C. Morris  
Chief Executive Officer

INFORMATION: V.Monce 578-7491

G:\HFSHARE\REPORTS\MCC Allocation 2004.HC.doc

Attachment: 1. Eligibility Guidelines for MCC Program

# ATTACHMENT 1

## City of San Diego Mortgage Credit Certificate Program Eligibility Guidelines

### FIRST-TIME HOMEBUYER REQUIREMENT

A qualified buyer cannot have had an ownership interest in a principal residence at any time in the last three years preceding the date of application. The buyer must occupy the home. (In certain designated census tracts, the buyer does not have to be a first-time buyer.)

### MAXIMUM BUYER INCOME

#### **Nontargeted Areas (115% area median income)**

1-2 persons	<u>\$ 63,800</u>
3+ persons	<u>\$ 73,370</u>

#### **Low-Income 40% set-aside (80% area median income)**

1 person	<u>\$ 35,750</u>
2 persons	<u>\$ 40,850</u>
3 persons	<u>\$ 45,950</u>
4 persons	<u>\$ 51,050</u>
5 persons	<u>\$ 55,100</u>
6 persons	<u>\$ 59,200</u>
7 persons	<u>\$ 63,300</u>
8 persons	<u>\$ 67,350</u>

#### **Targeted Census Tracts 20% set-aside (140% area median income)**

1-2 persons	<u>\$ 76,560</u>
3+ persons	<u>\$ 89,320</u>

### MAXIMUM PURCHASE PRICE

#### **Nontargeted Areas:**

Re-sale: \$332,031                      New: \$407,603

#### **Targeted census tracts:**

Re-sale: \$405,816                      New: \$498,184

### APPLICATION FEES

There is a processing fee to the homebuyer of \$300. The lender retains \$50 and forwards \$250 to the Housing Commission with application package. The lender participation fee in the MCC Program is \$400 per year.