



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: November 19, 2004

ITEM 100

REPORT NO.: HCR04-91
For the Agenda of December 10, 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 2005 through on-going participation in the Mortgage Credit Certificate (MCC) Program?

Recommendation: Housing Authority authorization of an application to the California Debt Limit Allocation Committee (CDLAC) for up to \$25 million in MCC allocation during the period of January 1, 2005 through December 31, 2005.

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 were 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 90 percent of Area Median Income (AMI) and approximately 43 percent of the buyers are considered low income (at or below 80 percent of AMI) under the MCC Program guidelines. [See income limits in Attachment 1.]

Previous Related Action(s): The 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 owner-occupied 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 for MCC allocations are made by local agencies, such as the Housing Commission , to CDLAC.

IRS and State regulations set the guidelines for income and purchase price limitations. These guidelines are included as Attachment 1 – MCC Program Eligibility Guidelines. The amount of private activity bonds that can be issued in California is mandated by federal law; currently it is \$75 per capita. For 2004, approximately \$2.8 billion in private activity bonds will be 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 November 2004).

	Single Family Bond CalHFA Allocation	MCCs Statewide Allocation	MCCs All SD County Jurisdictions	MCCs San Diego Housing Commission
2000	\$217 million	\$217 million	\$18.3 million	\$8.0 million
2001	\$265 million	\$145.3 million	\$20 million	\$9.3 million
2002	\$266 million	\$48.4 million	\$26.5 million	\$12.2 million
2003	\$242 million	\$134.6 million	\$31.1 million	\$13.7 million
2004* (*to 11/30)	\$288 million	\$124.2 million	\$31.2 million	\$13.4 million

DISCUSSION

The Local Program

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.

With an MCC, homebuyers become 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 buyers live in the home according to the following guidelines:

1. 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 AMI) and purchase price limits (up to \$535,907 for existing homes and \$541,786 for new construction) are higher than in non-targeted areas and first-time homebuyer status is waived. [Note: In San Diego there are 46 targeted census tracts. In these census tracts, a minimum of 70 percent of the residents have incomes that are no more than 80 percent of area median income.]
2. Lower income persons or families (80 percent or below AMI / \$54,800 for a family of four) are eligible to receive a 20 percent tax credit.
3. The 15 percent tax credit is available to homebuyers purchasing a property in a non-targeted area. The income limit in non-targeted areas is up to 115 percent of AMI and the maximum purchase price is \$438,469 for existing homes and \$443,280 for new construction.

Since inception of San Diego's MCC Program in August 1990, over \$341.4 million has been invested within the City by 2,817 households purchasing homes. The MCC Program provides purchasing leverage and is used with the Second Trust Deed Loan Programs and the Down Payment/Closing Cost Assistance Grant Program.

Approximately 80 lenders and brokers are enrolled in the MCC program. Lenders are eager to participate in the program because it increases the pool of potential first-time homebuyers and helps lenders meet their Community Reinvestment requirements.

The Allocation Request

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 and in 2005, CDLAC requires that 45

percent of the MCC allocation be reserved for low-income households. Since the inception of the Housing Commission's MCC Program, 43 percent of the participants have been low-income homebuyers as defined in the program guidelines. Assuming a \$25 million allocation is awarded to the Housing Commission, 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 2005. Therefore, if the Housing Commission receives less than the \$25 million, staff is requesting authorization to resubmit an MCC application to CDLAC in 2005 up to the approved \$25 million in total allocation.

Conclusion

More than 2,800 San Diego homebuyer families have used the MCC program to help them buy homes. Considering the simplicity, popularity, and modest cost of the program, it is recommended that the Housing Commission proceed with the application to CDLAC on behalf of the City.

ALTERNATIVES

Reduce the requested amount or decline to apply for an MCC allocation. These alternatives would diminish the potential homeownership possibilities for qualified homebuyers in the City of San Diego.

Respectfully submitted,

Approved by,

Cissy Fisher
Director Housing Finance and Development

Elizabeth C. Morris
President & Chief Executive Officer

**Signature on File
With Original Document**

INFORMATION: V.Monce 578-7491 (MCC Allocation 2005)

Attachment: 1 – City of San Diego MCC Program Eligibility Guidelines

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>\$ 82,200</u>
3+ persons	<u>\$ 95,900</u>

Low-Income 40% set-aside (80% Area Median Income)

1 person	<u>\$ 38,350</u>
2 persons	<u>\$ 43,850</u>
3 persons	<u>\$ 49,300</u>
4 persons	<u>\$ 54,800</u>
5 persons	<u>\$ 59,200</u>
6 persons	<u>\$ 63,550</u>
7 persons	<u>\$ 67,950</u>
8 persons	<u>\$ 72,350</u>

Targeted Census Tracts 20% set-aside (140% Area Median Income)

1-2 persons	<u>\$ 98,640</u>
3+ persons	<u>\$115,080</u>

MAXIMUM PURCHASE PRICE

Nontargeted Areas:

Re-sale: <u>\$438,469</u>	New: <u>\$443,280</u>
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Targeted Census Tracts and Low Income

Re-sale: <u>\$535,907</u>	New: <u>\$541,786</u>
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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. The Housing Commission also receives a \$200 fee for a reissued mortgage credit certificate when a property is refinanced.