



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE: For the Agenda of November 9, 2001 **Item 101**

REPORT NO: HCR01-117

SUBJECT: Application for Mortgage Credit Certificate Allocation (Citywide)

SUMMARY

Issue: Should the Housing Commission seek to promote homeownership for low and moderate-income first-time homebuyers in 2002 through continued 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 a \$75 million allocation of Mortgage Credit Certificates for the period of January 1, 2002 and December 31, 2002.

Fiscal Impact: Approval of the recommendation would result in the expenditure of up to \$18,750 for the application fee and the ongoing use of an existing \$100,000 performance deposit.

Affordable Housing Impact: If the application is approved, approximately 1,025 homebuyers would be assisted in the purchase of their first home. Realistically, many fewer MCCs are likely to be made available by CDLAC. Homebuyers under the MCC Program have an average income of 72 percent of Median Area Income (MAI), and approximately 53 percent of the buyers are at or below 80 percent of MAI.

Previous Related Actions: City Council/Housing Authority has authorized applications at least annually since 1989.

BACKGROUND

The MCC Program was originally authorized by Congress under the Federal Tax Reform Act of 1984, as an alternative to single-family mortgage revenue bond-backed financing for homeownership assistance. Applications for MCC issuing authority are made by local agencies to CDLAC. The next application deadline is anticipated to be in early 2002, with a decision by CDLAC anticipated by Spring 2002. CDLAC has not yet published their calendar for 2002.

CDLAC is comprised of the Governor (or his designee), the State Treasurer (acting as chair), and the State Controller as voting members, with the Executive Director of the California Housing Finance Agency (CHFA) and the Director of the California Department of Housing and Community Development sitting as nonvoting members.



Annually, CDLAC is responsible for distributing approximately \$1.6 billion of private activity bond allocation in both housing and non-housing categories. Non-housing categories include industrial development bonds, exempt facilities bonds and student loans. Housing categories include multifamily bonds, single-family bonds and mortgage credit certificates.

Mortgage Credit Certificates

A MCC is a document awarded to a qualified homebuyer that allows the buyer a credit each year on his/her federal income tax in an amount equal to 15 or 20 percent of the mortgage interest paid for that year. The MCC reduces, through a direct credit, the borrower's federal income tax liability, thus increasing the income available to qualify for a mortgage loan. A MCC can have the effect of raising the loan amount a buyer can qualify for by up to 20 percent. The certificate is registered with the Internal Revenue Service (IRS); it is not transferable, and it is revoked if the certificate holder moves out of the qualifying home.

IRS regulations set the guidelines for income and purchase price limitation. These guidelines are included as Attachment 1. The requested \$75,000,000 allocation would yield that amount in single-family bond issuing authority, which is then converted by a 4 to 1 formula to \$18,750,000 in actual MCCs. This would help approximately 1,025 families purchase homes. The 4 to 1 federal conversion rule is used to equalize the debt charged to the U.S. Treasury by the MCC program as opposed to the single-family bond program.

IRS guidelines also require a 20 percent set-aside by localities under each MCC allocation for utilization in low-income "targeted" census tracts. Within these tracts, income, purchase price and first-time homebuyer status is waived. Thirty-one San Diego census tracts have been designated as low-income by the IRS. In addition to meeting this guideline, the San Diego Housing Commission has traditionally set-aside a minimum of 20 percent of its MCC allocations for low-income (80 percent or less of MAI) households, not necessarily within these same census tracts. In 2001 CDLAC required that 40 percent be allocated for low-income households. Since the inception of the MCC Program, 53 percent of the participants have been low-income purchasers.

Since inception of San Diego's MCC program in August 1990, over \$288 million in single family homes (2,587 households) have been purchased within the City with the use of this resource. The existing MCC program is now the cornerstone of the Commission's First-Time Homebuyer Program and provides purchasing leverage along with the Shared Equity Program and the Down Payment Assistance Grant Program.

Mechanics of the MCC Program

Under the MCC program, a family applies for a MCC through one of the participating lenders while applying for the loan to purchase the home. After prequalifying the home purchaser for the loan and the MCC, the lender submits an application for a MCC to the Housing Commission. SDHC staff reviews the application for program compliance, and reserves a MCC for the buyer; the credit certificate is issued after escrow closing.

The existing MCC program has met with great interest by lenders and real estate agents in San Diego. One hundred fifty lenders and brokers are enrolled in the program, and training sessions are regularly held for lenders and brokers.

DISCUSSION

The amount of private activity bonds that can currently be issued in California is mandated in federal law: \$50.00 per capita or \$1.6 billion annually. In 2003, the per capita rate will begin an incremental increase through the year 2007, at which time it will rise to \$75 per capita. CDLAC is responsible for apportioning this bonding authority among eligible uses. The overall allocation of bonds by category is shown in the chart prepared by the California Debt Limit Allocation Committee (Attachment 2).

In the past five years, the amount of funding CDLAC has allocated to MCCs dropped from over \$1 billion to a low of \$99 million in 1998. The 1999 allocation, however, was increased to \$234 million. Single-family bonds reserved for the CHFA have averaged over \$226 million during the last five years. The following chart shows the allocation of MCCs over the past five years (figures are current as of September 2001).

	Single Family Bond CHFA Allocation	MCCs Statewide Allocation	MCCs All SD County Jurisdictions	MCCs San Diego Housing Commission
1997	\$217 million	\$253 million	\$20.8 million	\$9.2 million
1998	\$200 million	\$99 million	\$11.1 million	\$4.9 million
1999	\$234 million	\$234 million	\$16.4 million	\$7.5 million
2000	\$217 million	\$217 million	\$18.3 million	\$8.0 million
2001	\$265 million	\$145.3 million	\$20 million	\$9.3 million

Many localities would like to see CDLAC reverse its actions of the past few years to achieve a higher allocation of bond authority for MCCs. It is the position of these localities, including the City of San Diego, that MCCs are an efficient tool to readily help families achieve homeownership. San Diego's available household allocation has ranged from 462 MCCs in 1994 to 90 in 1999. To achieve a more equitable distribution of MCCs to localities, the Commission has been actively participating with CDLAC over the past year in discussions to modify the allocation procedures.

This year's allocation reflected a change in CDLAC's distribution of the allocation for single-family housing bonds with the fair distribution between state and local programs. CDLAC also required that at least 40 percent of the allocation be targeted to households most in need of assistance, namely to low-income (80 percent or less of MAI) families. To build on this new direction, a bonus pool of allocation will be awarded to those programs which achieve deeper affordability and target those neighborhoods most in need. The bonus pool will only be available to local issuers of single-family housing programs recognizing the diversity of priorities and needs throughout the State.

It is unlikely that \$75 million of MCC allocation will be available in the first application round for 2002. Therefore, if less than \$75 million of MCC allocation is allocated to the Housing Commission in the first application round, staff requests blanket authorization to resubmit the MCC application and reapply to CDLAC several times in 2002 up to the approved \$75 million in total allocation.

CONCLUSION

In summary, the MCC program has benefited San Diego's first-time homebuyers. Over 2,587 homebuyers have purchased homes they could not have afforded without the MCC. Lenders are eager to participate in a program that caters to the first-time buyer, and helps lenders meet their Community Reinvestment Act (CRA) requirements. Considering the modest costs of program application and administration, coupled with the minimal liability to the City, it is recommended that the Commission proceed on behalf of the City with this application for a \$75,000,000 allocation of Mortgage Credit Certificate authority to potentially assist 1,025 first-time homebuyers.

ALTERNATIVES TO RECOMMENDATION

1. Do not make an application for MCCs at this time. This alternative would result in the closure of the MCC program.
2. Make an application for single-family bonds instead of MCCs. CDLAC's experience has found that the single-family bond program is generally cost effective only when the allocation exceeds \$10 million. For the past three years, the Commission has received allocations of less than \$10 million. Additionally, the single-family bond program is not structured to allow local jurisdictions the flexibility afforded by the MCC program.

Respectfully submitted,

Steven L. Mikelman
Director of Operations

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

Attachments: 1. Eligibility Guidelines for MCC Program
2. CDLAC Chart

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% median area income)

1-2 persons \$ 56,900

3+ persons \$ 65,435

Low-Income 20% set-aside (80% median area income)

1-2 persons \$ 36,400

3+ persons \$ 45,500

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

1-2 persons \$ 68,280

3+ persons \$ 79,660

MAXIMUM PURCHASE PRICE

Nontargeted Areas:

Re-sale: \$213,497 New: \$280,468

Targeted census tracts:

Re-sale: \$260,941 New: \$342,794

Application fees

One-time fee to buyer of \$300. Lender retains \$50, forwards \$250 check with application package to Commission. One-time program participation fee of \$300 from each lender covers 12 months. A \$250 fee for each additional 12 months, until allocation exhausted.