



REPORT

DATE ISSUED: July 21, 2016

REPORT NO: HCR16-063

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of July 29, 2016

SUBJECT: Application for Mortgage Credit Certificate Allocation

COUNCIL DISTRICT: Citywide

REQUESTED ACTION

The San Diego Housing Commission recommends that the Housing Authority of the City of San Diego approve the submission of an application on behalf of the City of San Diego for a Mortgage Credit Certificate Program allocation of up to \$25 million to assist first-time homebuyers in the City of San Diego.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) recommend that the Housing Authority of the City of San Diego (Housing Authority) take the following actions:

- 1) Approve the submission of an application and payment of required deposit to the California Debt Limit Allocation Committee (CDLAC) for a Mortgage Credit Certificate (MCC) Program allocation of up to \$25 million;;
- 2) If the Housing Commission receives less than a \$25 million allocation, authorize staff to submit additional MCC applications to CDLAC in 2017 up to the approved \$25 million in total allocation;
- 3) Approve recommended changes to the MCC eligibility guidelines, as detailed in the summary of this report;
- 4) Authorize the President and Chief Executive Officer (President & CEO), or designee, to:
 - a. Execute any and all documents necessary to effectuate the transaction and implement the project in a form approved by General Counsel, and to take such actions as are necessary, convenient and/or appropriate to implement the approvals upon advice of General Counsel; and
 - b. Further authorize the President & CEO, or designee, to take such actions as are necessary, convenient and/or appropriate to implement this approval and delegation of authority by the Housing Commission upon advice of General Counsel.

SUMMARY

The MCC Program, authorized by Congress under the Federal Tax Reform Act of 1984, provides financial assistance for the purchase of owner-occupied housing. In 1985, the State of California (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.

The Internal Revenue Code sets the guidelines for income and purchase price limitations. MCCs can be issued in designated high cost areas and in targeted census tracts to buyers earning up to 140 percent of Area Median Income (AMI). Sales price limits are based on the average area purchase price safe harbors as published annually by the IRS. The limits are set at 90 percent and 110 percent of the average area purchase price in non-targeted and targeted areas respectively. In addition, the IRS allows issuers to provide MCC credit amounts ranging from 10 percent - 50 percent of the interest paid on their mortgage annually.

The Local Program

An MCC reduces the federal income tax liability of the homebuyer, resulting in an increase in the homebuyer's net earnings and an increase in the homebuyer's capacity to qualify for a home loan. The homebuyer applies for an MCC as a stand-alone application or in conjunction with the Housing Commission's deferred loan and closing cost grant programs. Homebuyers work with one of the Housing Commission's participating lenders to submit the application while in escrow to purchase their home. Housing Commission staff reviews the application for program compliance and issues the MCC commitment. The MCC certificate is issued to the homebuyer after the close of escrow and is registered with the IRS. It is good for the life of the loan; it is non-transferable; and it is revoked if the certificate holder moves out of the qualifying home.

Since the inception of the City of San Diego's MCC Program in August 1990 (approved on June 19, 1989, in report HCR 89-140), the Housing Commission has issued 3,501 MCCs to assist households with their home purchase. On August 14, 1995, the Housing Authority of the City of San Diego approved changes to the MCC program (report HCR 95-154) to provided either a 15 or 20 percent credit to buyers as follows:

Category	Income Limit	MCC Credit Amount
Low Income	80% AMI	20%
Targeted Census Tract	140% AMI	20%
Non-Targeted Census Tract	115% AMI	15%

Recommended Changes

To streamline the eligibility criteria, help bridge the gap of affordability and to remain competitive with other jurisdictions, staff recommends the program be modified to offer 20 percent credits to all MCC applicants and to increase the income limit in non-targeted census tracts to 140 percent of AMI (allowed per Title 26 - Internal Revenue Code, §143). In the event San Diego ever ceases to be a designated by the IRS as a high-cost area, the income limit in non-targeted areas would revert to 115 percent of AMI. If approved, the Housing Commission's MCC program would be as follows:

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Eligible Area:	City of San Diego
MCC Credit Amount:	20%
Income Limit:	
1 - 2 persons	120% AMI (currently \$102,000)
3 + persons	140% AMI (currently \$119,000)
Sales Price Limit:	
Targeted	110% of Average Area Purchase Price (currently \$669,277)
Non-Targeted	90% of Average Area Purchase Price (currently \$547,591)
Application Fee:	
Standalone	\$500
With SDHC Loan & Grant	\$300

The Allocation Request

The requested \$25 million allocation would help approximately 137 families purchase a home. The IRS requires 20 percent of the allocation be set aside for targeted census tracts for a period of one year, and CDLAC requires 40 percent of the allocation be reserved for low-income households. During Fiscal Year 2016 (July 1, 2015 – June 30, 2016), of the 42 MCCs issued, 81 percent of recipients purchased in a targeted census tract or were considered low income.

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

Category	Estimated No. of Certificates
Low Income (80% AMI, currently \$68,000 for a family of 4)	55
Targeted Census Tracts	27
Non-Targeted Census Tracts	55

It is unlikely that a \$25 million MCC allocation will be received in the first application round for 2017. Therefore, if additional funding is needed, staff is requesting authorization to submit additional MCC application(s) to CDLAC in 2017 up to the approved \$25 million in total allocation.

The following table shows the MCC allocations received over the past 5 years.

Year	Allocation	Percentage Allocated as of July 2016
2012	\$9.2 million	100%
2013	\$8.8 million	100%
2014	\$25 million (2 awards received)	*52%
2015	\$0 (no application submitted)	n/a
2016	\$0 (no application submitted)	n/a

**52% represents approximately 63 MCCs. It is anticipated the remainder of the 2014 allocation will be committed by the end of calendar year 2016.*

AFFORDABLE HOUSING IMPACT

With an award of \$25 million, approximately 137 MCCs will be issued to first-time homebuyers in a three-year period.

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this action were not in the Fiscal Year 2017 (July 1, 2016 – June 30, 2017) Housing Authority approved budget. It is anticipated staff will issue approximately 35 MCCs from this award during Fiscal Year 2017. Approving this action will increase the Fiscal Year 2017 total budget by approximately \$14,000 in MCC fee revenue. The remaining 102 MCCs will be issued in Fiscal Year 2018 (July 1, 2017 – June 30, 2018) and Fiscal Year 2019 (July 1, 2018 – June 30, 2019), generating fees of approximately \$40,800.

Fiscal Year	Sources		Uses	
2017	MCC Fees (35 @ \$400)	\$14,000	CDLAC Application Fee	\$10,000
2018	MCC Fees (51 @ \$400)	\$20,400	Unrestricted Bond Reserves	\$22,400
2019	MCC Fees (51 @ \$400)	\$20,400	Unrestricted Bond Reserves	\$22,400
	TOTAL	\$54,800	TOTAL	\$54,800

ENVIRONMENTAL REVIEW

The submission of an application for the MCC Program is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Section 15378(b)(4), as it is government fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.

Respectfully submitted,

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Approved by,

Deborah N. Ruane

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