

**EXECUTIVE SUMMARY**

DATE ISSUED: March 10, 2010 REPORT NO: HCR 10-047

ATTENTION: Chair and Members of the Housing Commission  
For the Agenda of April 16, 2010

SUBJECT: Application for Mortgage Credit Certificate Allocation (Citywide)

**SUMMARY:**

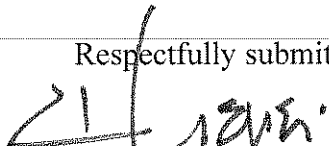
The Mortgage Credit Certificate (MCC) Program, authorized by Congress under the Federal Tax Reform Act of 1984, is an alternative to mortgage revenue bond-backed financing to provide financial assistance for the purchase of owner-occupied housing. Applications for MCC allocations are made by local agencies, such as the Housing Commission, to the California Debt Limit Allocation Committee (CDLAC). 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. 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. 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 requested \$25 million allocation would help approximately 186 families purchase homes.

More than 3,100 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.

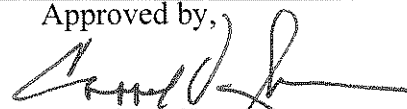
**STAFF RECOMMENDATION:**

That the Housing Commission approve the submission of an application and pay required deposits to the California Debt Limit Allocation Committee for up to a \$25 million MCC allocation during calendar year 2010 and to forward the recommendation to the Housing Authority for final approval.

Respectfully submitted,

  
D. Lawrence Clemens  
Senior Vice President

Approved by,

  
Carrol M. Vaughan  
Executive Vice President and Chief  
Operating Officer

## REPORT

DATE ISSUED: March 10, 2010 REPORT NO: HCR 10-047

ATTENTION: Chair and Members of the Housing Commission  
For the Agenda of April 16, 2010

SUBJECT: Application for Mortgage Credit Certificate Allocation (Citywide)

### REQUESTED ACTION:

The Housing Commission and Housing Authority's approval to submit an application for the Mortgage Credit Certificate (MCC) Program on behalf of the City of San Diego.

### STAFF RECOMMENDATION:

That the Housing Commission approve the submission of an application and pay required deposits to the California Debt Limit Allocation Committee (CDLAC) for up to a \$25 million MCC allocation during calendar year 2010 and to forward the recommendation to the Housing Authority for final approval.

### BACKGROUND:

The MCC Program, authorized by Congress under the Federal Tax Reform Act of 1984, is an alternative to mortgage revenue bond-backed financing to provide 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 \$90 per capita. CDLAC apportions the State's bonding authority among numerous eligible uses. The following chart shows the allocation of MCCs over the past five years (through December 2009).

	<b>MCCs Statewide Allocation</b>	<b>MCCs All SD County Jurisdictions</b>	<b>MCCs San Diego Housing Commission</b>
<b>2005</b>	\$ 64.0 million	\$17.5 million	-0-
<b>2006</b>	\$ 50.6 million	\$20.7 million	\$ 8.9 million
<b>2007</b>	\$ 67.6 million	\$11.5 million	\$ 4.9 million
<b>2008</b>	\$131.8 million	\$36.7 million	\$24.9 million
<b>2009</b>	\$ 95.1 million	\$19.5 million	\$ 8.8 million

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Application for Mortgage Credit Certificate Allocation

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In 2008 the Housing Commission received two allocations of MCCs. The first award of \$8,800,819 was awarded under our normal citywide program guidelines. In December an additional \$16,116,966 was received under the 2008 Housing Act Volume Cap which was emergency federal legislation to help homebuyers and the ailing housing market. This special award of MCCs can only be used by eligible homebuyers purchasing bank-owned properties.

### **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 / \$104,860 for a family of four) and purchase price limits are higher than in non-targeted areas and first-time homebuyer status is waived. [Note: In the City of 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 / \$66,100 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 (\$86,135 for a family of four).

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Since inception of San Diego's MCC Program in August 1990, approximately \$416.9 million has been invested within the city by 3,128 households purchasing homes. The MCC Program provides purchasing leverage and is used with the Deferred Loan Programs and the Down Payment/Closing Cost Assistance Grant Program.

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Approximately 50 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 Act requirements.

### **The Allocation Request**

The requested \$25 million allocation would help approximately 186 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 2010, CDLAC requires that 40 percent of the MCC allocation be reserved for low income households. Over the past three years, 66 percent of the City of San Diego's MCC participants 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:

- 78 - Low-income certificates
- 36 - Targeted certificates
- 72 - Non-targeted certificates

It is unlikely that a \$25 million MCC allocation will be received in the first application round for 2010. Therefore, if the Housing Commission receives less than \$25 million, staff is requesting authorization to resubmit additional MCC applications to CDLAC in 2010 up to the approved \$25 million in total allocation.

#### **Conclusion**

More than 3,100 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.

#### **FISCAL CONSIDERATIONS:**

Approval of the recommendation would result in the expenditure of up to \$10,000 for the application fee and the continued use of an existing \$100,000 performance deposit. Modest buyer and lender fees support staff and administrative costs.

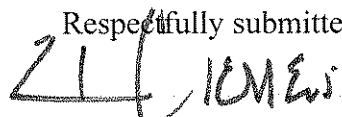
#### **AFFORDABLE HOUSING IMPACT:**

Approximately 186 homebuyers would be assisted in the purchase of their first home. In the last three years homebuyers under the MCC Program had an average income of 78 percent of AMI and approximately 66 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)

#### **ENVIRONMENTAL REVIEW:**

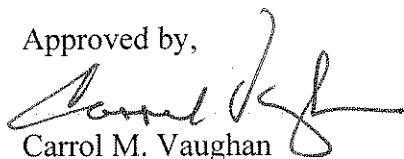
This activity is not a project within the meaning of California Environmental Qualities Act and is categorically exempt and/or excluded under the provisions of National Environmental Policies Act (NEPA); see 24 CFR 58.35(a). These administrative services were exempted and/or excluded under NEPA in connection with the FY10 Budget. The City of San Diego, as Responsible Agency under NEPA, has previously issued the notices covering these services in connection with the approval of the budget.

Respectfully submitted,



D. Lawrence Clemens  
Senior Vice President

Approved by,



Carrol M. Vaughan  
Executive Vice President and Chief  
Operating Officer

Attachments: 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>\$ 74,900</u>
3+ persons	<u>\$ 86,135</u>

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

1 person	<u>\$ 46,250</u>
2 persons	<u>\$ 52,900</u>
3 persons	<u>\$ 59,500</u>
4 persons	<u>\$ 66,100</u>
5 persons	<u>\$ 71,400</u>
6 persons	<u>\$ 76,700</u>
7 persons	<u>\$ 81,950</u>
8 persons	<u>\$ 87,250</u>

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

1-2 persons	<u>\$ 89,880</u>
3+ persons	<u>\$104,860</u>

#### Maximum Purchase Price

##### **Nontargeted Areas:**

Re-sale and new: \$521,341

##### **Targeted Census Tracts and Low Income**

Re-sale and new: \$637,194

### Application fees

There is a processing fee to the homebuyer of \$250 if the buyer is applying for the MCC in conjunction with other Housing Commission loan programs or .002 of the first trust deed loan if applying for the MCC only. 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.

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