



REPORT

DATE: For the Agenda of November 15, 2002 **Item 100**

REPORT NO.: HCR02-095

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 2003 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 a \$25 million allocation of MCCs during the period of January 1, 2003 through December 31, 2003.

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 Median Area Income (MAI) and approximately 42 percent of the buyers are considered low income (at or below 80 percent of MAI) under the MCC Program guidelines.

Previous Related Actions: 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 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 MAI and the maximum purchase price is \$283,688 for existing homes and \$368,085 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) and purchase price limits (up to \$346,730 for existing homes and \$449,881 for new construction) are higher than in non-targeted areas and first-time homebuyer status is waived. In San Diego there are 31 targeted census tracts.

Also, lower income (80 percent or below MAI / \$48,100 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: \$50 per capita. 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. In 2002, approximately \$2.5 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 October 2002).



	Single Family Bond CHFA Allocation	MCCs Statewide Allocation	MCCs All SD County Jurisdictions	MCCs San Diego Housing Commission
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
2002	\$266 million	\$48.4 million	\$26.5 million	\$12.2 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 \$296 million in single family homes (2,604 households) have been purchased within the City with the use of 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 2003, CDLAC requires that 40 percent of the MCC allocation be reserved for low-income households. Since the inception of the MCC Program, 42 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, 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 2003. 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 2003 up to the approved \$25 million in total allocation received.

CONCLUSION

In summary, the introduction of the MCC Program has benefited San Diego's homebuyers. There have been 2,604 homes purchased by 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 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 to potentially assist 248 homebuyers.

ALTERNATIVES

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

Respectfully submitted,

Approved by,

Signature on File with Original Document

Signature on File with Original Document

Jack D. Farris
Housing Finance & Development Manager

Elizabeth C. Morris
Chief Executive Officer

Attachment: 1 – Eligibility Guidelines for MCC Program

