



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



March 2, 1987

APPROVED
BY THE CITY COUNCIL

MAR 10 1987

OFFICE OF THE
CITY CLERK

CITY MANAGER'S OFFICE

RECEIVED

MAR 4 1987

Sacramento City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Authorization of 1986 Mortgage Credit Certificate (MCC)
Program

SUMMARY

This report recommends that a public hearing be held pursuant to federal requirements, and the attached resolution authorizing a Mortgage Credit Certificate Program for the City and County of Sacramento be adopted. The amount of new MCC authority approved is \$15 million, in addition to our 1985 authority of \$11.6 million, for a total program capacity of approximately 2,000 certificates. This report provides a summary of program guidelines (Attachment 1) and a flow chart outlining the MCC application process [Attachment 1(a)]. This report recommends adoption of a resolution to authorize staff to issue MCCs under the 1986 allocation after the required (90) ninety day period. Staff recommends using the existing 1985 MCC program guidelines and operating procedures for the 1986 program until May 1987, at which time procedural changes may be recommended. The existing operating procedure is on file with the Clerk's office.

BACKGROUND

In October 1986, the federal government enacted major tax reform legislation which, among other things, enabled continuation of the MCC program. In November 1986, the State of California requested applications from local governments for use of 1986 bond issuing authority. (Until enactment of the tax bill, there was virtually no housing and economic development bond financing

3-10-87
All Districts

(1)

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in 1986. As you may recall, issuance of bonds is subject to receipt of an allocation by the State. Sacramento's share of the 1986 bond authority was \$60 million which converts to \$15 million in MCC authority.)

Faced with a very short deadline, we applied to the state allocating committee to convert our available bond authority to MCCs. We did this for the following reasons: (1) uncertainty caused by tax reform and low conventional interest rates resulted in insufficient demand for a bond sale for either homeownership or rental housing; (2) given the lateness of the year a bond sale would have been extremely difficult. (Satisfying the requirements of an MCC allocation is easier and less cumbersome than a bond issuance.); (3) sixty million dollars in Sacramento's bond allocation authority would have gone unused without converting to MCCs; (4) the County already had an operational MCC program in place; and (5) MCCs do not require the posting of up-front cost of issuance fees typical of bond sales. We, therefore, had little to lose and everything to gain by converting to MCCs.

Before issuing MCCs authorized under the 1986 allocation, federal law requires a (90) ninety day interim period. The interim period commences from the day the City Council holds a public hearing and authorizes the program. Staff will report back to the Council prior to the end of the (90) ninety day interim period with an evaluation of the program to date and specific policy and program procedure changes, if any seem appropriate.

History of MCCs

MCCs are a relatively new means of providing financial assistance to first time homebuyers. MCCs offer the City and County an alternative to the traditional bond financing for first time homebuyers. (MCCs were first authorized by the federal government in 1984.) In late 1985, the City and County elected to convert \$58 million in available but unused bond authority to MCCs. (Under new federal regulations, bonds can be converted to MCCs at a ratio of 4:1. In 1985, the conversion ratio was 5:1. Therefore, \$58 million in bond authority in 1985 converted to \$11.6 million in MCC authority). During the first half of 1986, staff developed program documents, solicited support from the real estate and lending community, and began issuing MCCs in the 3rd quarter of 1986.

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What Is An MCC?

An MCC provides a federal income tax credit for first time homebuyers. The amount of the credit depends on the total mortgage interest payments made each year and the credit rate of the MCC. Federal regulations allow the credit rate to range from 10 - 50 percent of the individual's annual interest payment, but must average 20 percent for the program as a whole. For ease of administration in the start-up of this program, the credit rate has been set at 20 percent for all homebuyers under the program.

The credit, in essence, is used to assist the homebuyer in obtaining an effective reduction in monthly mortgage payments. For example, on a mortgage loan of \$57,000 at 10 percent for 30 years - interest for the first year would be \$5,683. With a 20 percent MCC, the homebuyer receives a tax credit of \$1,137 (20 percent of \$5,683). To take full advantage of the credit, the homebuyer's federal income tax liability must be at least \$1,137 after all deductions and other credits are taken. Unused credit can be carried forward for three subsequent years if the tax credit exceeds tax liability in any particular year. With the credit, federal taxes are effectively reduced by \$95 per month (\$1,137 divided by 12). The dollars saved in federal taxes is extra income to the homebuyer and therefore can be applied towards the monthly mortgage payment, effectively reducing the mortgage rate from 10 to 7 percent, based on cash flow available to the homebuyer (see Attachment 2 for example).

The rules governing the MCC program are essentially the same as for the Single Family Bond Program. A summary of the rules and guidelines are shown in Attachment 1. Staff proposes using the 1985 program guidelines and operating manual for the 1986 program through May 1987, at which time a program evaluation will identify changes if necessary.

Currently, the City and County's MCC program has 14 participating lenders, who have entered into agreements to qualify applicants (see Attachment 3). As of the writing of this staff report, 80 Mortgage Credit Certificates have been awarded and 138 are pending further review with approval subject to receipt of complete and acceptable application packets. The average household income of applicants is \$26,536. The average purchase price is \$69,483.

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The amount of Mortgage Credit Certificate authority approved in 1985 was \$11.6 million. The program is authorized until December 31, 1987. To date \$3.1 million in MCC authority has been applied for (see Attachment 4 for status of use of funds). If all \$11.6 million is used, we expect, on average, to issue approximately 900 MCCs. The amount of MCC authority requested for approval under the 1986 program is \$15.0 million. Usage of this allocation will begin after the 90 (ninety) day interim period. We expect to issue approximately 1,000 - 1,100 MCCs under the 1986 program, assuming continued use of the 20 percent certificate rate.

FINANCIAL DATA

Few up-front costs are associated with the program. Application fees of \$100 per applicant defrays ongoing program costs. This fee is paid upon funding of the loan and is used to offset our costs to administer the program.

POLICY IMPLICATIONS

No policy changes are recommended at this time.

ENVIRONMENTAL REVIEW

Environmental review is not required for actions requested in the staff report.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of March 2, 1987, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Glud, Moose, Pettit, Sanchez, Sheldon, Simon,
Simpson, Wiggins, Wooley, Yew, Amundson

NOES: None

ABSENT: None

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RECOMMENDATION

The Council is asked to hold a public hearing and adopt the attached resolution that authorizes the 1986 MCC Program. After a 90 (ninety) day interim period, staff is directed to begin issuing certificates against the 1986 program authority.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:

Walter J. Slupe

WALTER J. SLUPE
City Manager

Contact Person: John Molloy
440-1360

RESOLUTION NO. 87-176

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

March 10, 1987

APPROVED
BY THE CITY COUNCIL

MAR 10 1987

OFFICE OF THE
CITY CLERK

APPROVING THE IMPLEMENTATION OF THE MORTGAGE
CREDIT CERTIFICATE PROGRAM AND AUTHORIZING
STAFF TO TAKE ALL NECESSARY ACTIONS
IN CONNECTION THEREWITH

WHEREAS, the City of Sacramento (the "City") has heretofore expressed its intent to approve a Mortgage Credit Certificate Program (the "Program") as authorized by Section 25 of the Internal Revenue Code of 1986, as amended (the "Code") and the temporary Treasury Regulations published in 50 Fed. Reg 19344 (May 8, 1985) promulgated thereunder and Part V of Division 31 of the Health and Safety Code pursuant to its Resolution No. 85-954 adopted on December 10, 1985, and has directed the staff of the Sacramento Housing and Redevelopment Agency (the "Agency") to file all necessary notices with the appropriate state and federal agencies;

WHEREAS, Agency staff has, as of December 15, 1986, filed a formal notice of election with the Internal Revenue Service indicating the City's intent to issue Mortgage Credit Certificates pursuant to its Program;

WHEREAS, Agency staff has provided public notice of the Program as required by Treasury Regulation Section 1.25-7T; and

WHEREAS, Agency staff has heretofore presented to the City Council the "Sacramento Housing and Redevelopment Agency Mortgage Credit Certificate Program Operating Manual", dated May 6, 1986, as well as supporting documentation thereto (collectively, the "Operating Manual").

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

Section 1. The City Council hereby approves the implementation of the Program in the form as proposed by the Agency staff and also approves the Operating Manual in substantially the form as presented to the City Council.

Section 2. The Agency staff is hereby authorized to implement and operate the Program in compliance with the Operating Manual and other rules and guidelines as presented to this City Council and is authorized to take all actions necessary for the implementation and operation of the Program under state and federal law.

Section 3. The Executive Director of the Agency is hereby authorized to appoint an agent to act for the Agency in implementing and operating the Program if he determines in his discretion that an agent is required.

Section 4. This resolution will be in effect upon adoption.

MAYOR

ATTEST:

CLERK

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Mortgage Credit Certificate Program

1986-87

<u>Amount Available</u>		<u>Origination Program Period</u>
*1985 Program	\$11.6 million	Ends December 31, 1987
*1986 Program	\$15.0 million	Ends December 31, 1988

Eligibility Requirements

*First-time homebuyer

*Purchase price not to exceed the following limits:

	<u>Non-Target Areas</u>	<u>Target Areas</u>
New units	\$101,250	\$112,500
Existing units (resale)	\$ 97,200	\$108,000

*New mortgage only (no refinancings).

*Principal residence of purchaser. Cannot be used in trade or business or as investment property.

*MCC used in conjunction with conventional or FHA-insured market rate loan (no bond-backed loans).

*Minimum 5 percent downpayment made by purchaser.

*Maximum qualified income - \$33,120.

Distribution Policy

*One-third of the MCC amount available is set aside for households with incomes not exceeding \$23,050 (80 percent of median); the balance will be available to households with incomes up to \$33,120 (115 percent of median).

*During the first 12 months of the program, 20 percent in MCC's would be set-aside for mortgages to finance the purchase of housing in specified "target areas".

*Credit Rate on Certificates: 20 percent on all certificates.

*Estimated Total Number of Certificates to be issued under the 1985 Program: 700 - 1,000; 1986 Program: 900 - 1,200.

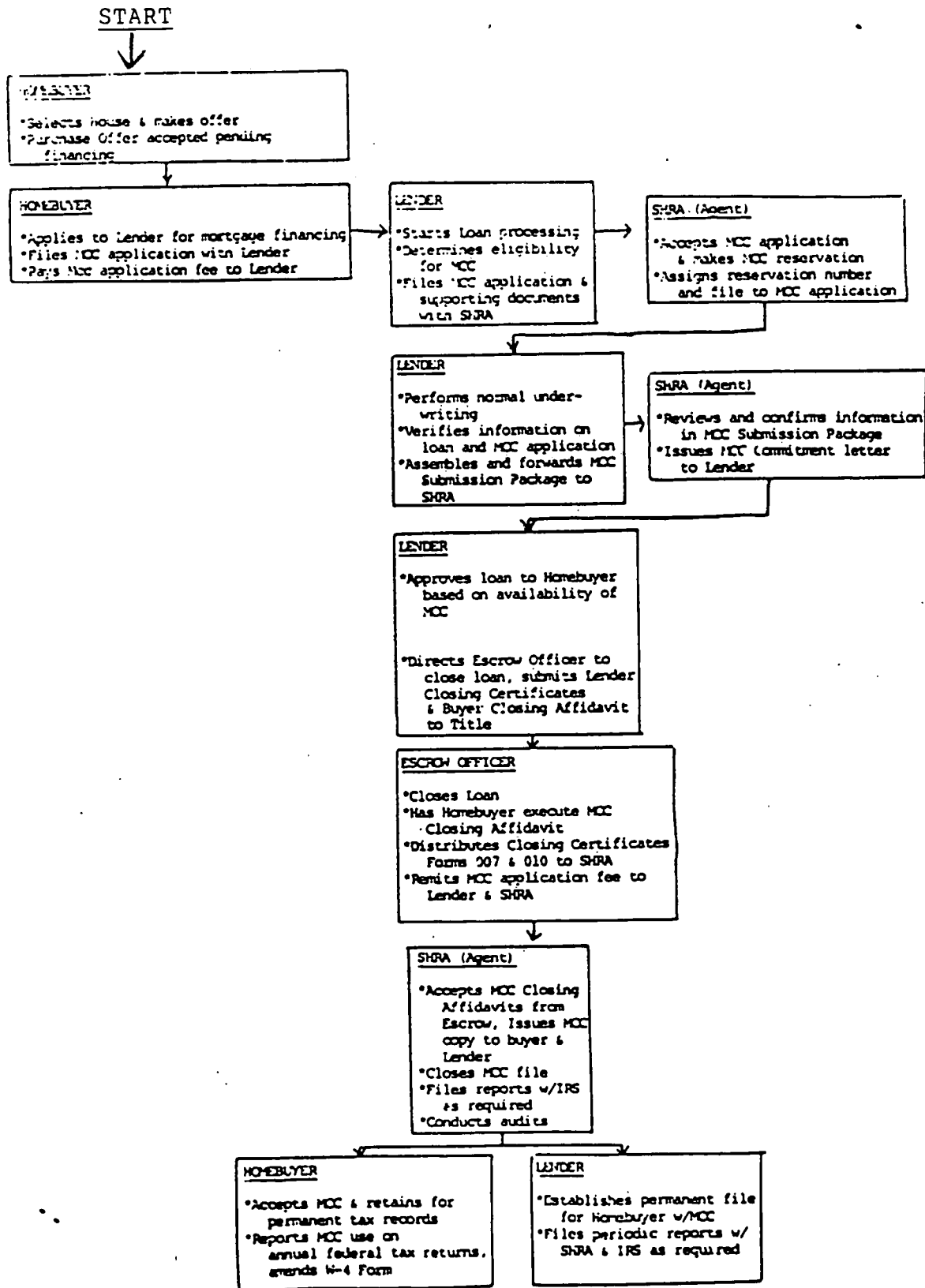
Demographics

*Median Income based on HUD Section 8 median for a family of four - \$28,800.

*Average Area Purchase Price: \$112,500 (new units)
\$108,000 (existing units)

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OUTLINE OF MCC PROGRAM



Effective Reduction of Mortgage Interest
Rate Through Use of a 20% MOC

<u>Amount of Mortgage (a)</u>	<u>Interest Rate on Conventional Loan</u>	<u>Annual Interest Payments</u>	<u>First-Year MOC Tax Credit</u>	<u>After-Credit Interest Paid(b)</u>	<u>Effective Interest Rate</u>
\$85,500	10%	\$8,525.04	\$1,705.01	\$6,820.03	7.0%
57,000	10%	5,683.39	1,136.68	4,546.71	7.0%

a) Assumes an underlying conventional loan with a 10 percent interest rate.

b) Derived by deducting annual MOC credit equivalent from annual interest payments.

MORTGAGE CREDIT CERTIFICATE PROGRAM LENDERSList of Participating Lenders

Listed below are those lenders that -- as of October 2 -- have agreed to participate in the Agency's MCC Program. Homebuyers may contact any of these offices to inquire about the mortgage loans that the lender has available to use with the MCCs. These lenders are now authorized to accept MCC applications from eligible homebuyers.

MEDALLION MORTGAGE COMPANY

7840 Madison Avenue, Suite 150
Fair Oaks, California 95628
Telephone: 961-5053
Contact Person: Jodi McCullough

MICAL MORTGAGE INC.

1900 Point West Way, Suite 122
Sacramento, California 95814
Telephone: 646-9530
Contact Person: Karen Fitch

STATEWIDE CITY MORTGAGE

7144 Fair Oaks Boulevard
Carmichael, California 95608
Telephone: 488-6700
Contact Person: Ken Paulson

STATEWIDE CITY MORTGAGE

2143 Hurley Way, Suite 150
Sacramento, California 95825
Telephone: 922-5700
Contact Person: Karilyn Gollnick

STATEWIDE CITY MORTGAGE

9005 Elk Grove Boulevard, Suite 4
Elk Grove, California 95624
Telephone: 423-4170/685-1338
Contact Person: Tony Zogopoulos

COUNTRYWIDE FUNDING CORPORATION

8080 Madison Avenue, Suite 100-A
Fair Oaks, California 95628
Telephone: 965-1813
Contact Person: Pattie Mikulin

COUNTRYWIDE FUNDING CORPORATION

2326 Fair Oaks Boulevard, Suite H
Sacramento, California 95825
Telephone: 924-8906
Contact Person: Joyce Mose

WESTERN MORTGAGE ASSOCIATES

9706-D Fair Oaks Boulevard
Fair Oaks, California 95628
Telephone: 965-1414
Contact Person: Bob Bernard

ICA/WESTLAND MORTGAGE CORP.

3078 Prospect Park Drive
Rancho Cordova, California 95670
Telephone: 636-1400
Contact Person: Betty Bean
John Stassi

LINDSEY AND COMPANY, INC.

1750 Howe Avenue, Suite 600
Sacramento, California 95825
Telephone: 924-9000
Contact Person: Janice Turner or
Rene Robles (334-3310)

GUILD FINANCIAL EXPRESS

1776 Tribute Road, Suite 101
Sacramento, California 95815
Telephone: 923-1776
Contact Person: Jan Priest
Nora Robinson

DELSON FINANCIAL MORTGAGE

6720 Fair Oaks Boulevard, Suite 100
Carmichael, California 95608
Telephone: 487-2111
Contact Person: Jeff Coupe

COLWELL FINANCIAL CORP.

1851 Heritage Lane, Suite 242
Sacramento, California 95815
Telephone: 925-6000
Contact Person: Bruce Kolts

LINDSEY AND COMPANY, INC.

5445 Diablo Drive
Sacramento, California 95842
Telephone: 334-3310
Contact Person: Rene Robles
Wendy Hackley

MCC PROGRAM - USE OF MCC ALLOCATION

1985 Allocation \$11.6 Million (1):

	<u>Amount Available</u>	<u>Committed or Awarded to date "Used"</u>	<u>Percent Used</u>
For Low Income	\$3,828,000	\$ 590,349	15.4%
For Target Areas (2)	2,320,000	33,692	1.4%
Unrestricted	5,452,000	2,505,382	46.0%
TOTAL	<u>\$11,600,00</u>	<u>\$3,129,423</u>	<u>27.0%</u>

1. Allocation Available through December 31, 1987
2. Target area allocation reverts to "unrestricted "on October 28, 1987".

1986 Allocation \$15 Million (1):

	<u>Amount Available</u>	<u>Amount Used (2)</u>
For Low Income	\$ 4,950,000	
For Target Areas (3)	3,000,000	
Unrestricted	7,050,000	
TOTAL	<u>\$15,000,000</u>	

1. Allocation Available through December 31, 1988.
2. Allocation can be drawn on after June 10, 1987.
3. Reverts to "unrestricted" after June 10, 1988.

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