

C O U N C I L C O M M U N I C A T I O N

TO: THE CITY COUNCIL COUNCIL MEETING DATE: SEPTEMBER 7, 1988
FROM: THE CITY MANAGER'S OFFICE

SUBJECT: MORTGAGE CREDIT CERTIFICATE PROGRAM (DISCUSSIGN AND APPROPRIATE ACTION)

GENERAL OVERVIEW

The Mortgage Credit Certificate Program, authorized by Congress in the Tax Reform Act of 1984, is an alternative to mortgage revenue bond-backed financing as a means of providing financial assistance to average-income families for the purchase of single-family housing. In 1985, the State of California adopted legislation authorizing cities and counties to make Mortgage Credit Certificates available in their communities.

MORTGAGE CREDIT CERTIFICATE

The MCC is a federal tax credit. The MCC tax credit reduces the federal income taxes of qualified borrowers purchasing modestly priced homes, thus having the effect of subsidizing their monthly mortgage payments. For example, a borrower with a 10% fixed rate 30-year mortgage of \$90,000 would make \$790.00 in mortgage payments each month. By using a 20% MCC, \$158, (20% of \$790) of the monthly payment can be taken as a tax credit toward that buyer's Federal income tax liability.

The JRS and state agencies have established program guidelines which set the maximum sales price for new and existing units, as well as the maximum household income of the home purchasers. These limits are different for each city and county and are periodically revised based upon what should be average for the area; the limits for Lodi are \$101,000 for a newly constructed home and \$85,000 for an existing, previously occupied home assuming a median household income of \$28,600 for the city.

PROGRAM ADMINISTRATION

The MCC Program can be implemented in-house or on contract; larger cities, particularly in Southern California often implement it in-house. Smaller cities and counties have found it to their advantage to utilize outside housing consultants, such as CFN Financial Services. If an outside consultant were used the City's role in administering MCC's would only include promotion and coordination of the program.

The application fee for the MCC Program is around \$5300. For this reason, MCC's usually work out better in cities that have large numbers of new homes since developers can pay the application fee. In a strictly resale market, either the city or an association of realtors would have to pay the application fee and they are usually less willing to do so.

BACKGROUND INFORMATION

The City of Lodi does not have any new single-family homes selling for under the MCC Program's limit of \$101,000. The lowest priced new units are in Johnson Ranch

City Council
September 7, 1988
Page 2

and Tandy Ranch, starting in the low \$120,000's and \$140,000's respectively. Schaefer, Sues and Boyd Realtors estimates the median new home is selling for \$150,000 to \$169,000 in Lodi.

There are some existing, preoccupied homes in Lodi selling under \$85,000 though concrete numbers are not available. The Lodi Board of Realtors does provide a median selling price of \$122,573 for a resale home which suggests that the number of homes that qualify for this program is probably not significant.

CONCLUSION

This program is unique because it is not restricted to low and moderate income categories and includes average income persons. However, the unavailability of any new homes priced within the MCC's limit and the moderate number of eligible resale homes means the program will likely not have much of an impact in Lodi. Staff feels the MCC Program would be ineffective here and recommends that we do not adopt the program at this time.

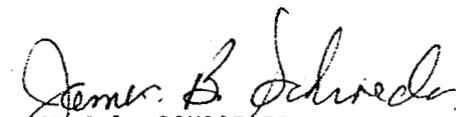

JAMES B. SCHRÖEDER
Community Development Director

EXHIBIT A



Public Finance Division

RECEIVED
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ALICE H. ATWORE
CITY CLERK
CITY OF LODI

August 1, 1988

Fred Reid
P.O. Box 3006
Lodi CA, 95241-1910

SUBJECT: MORTGAGE CREDIT CERTIFICATION PROGRAM

Dear Fred:

This letter is to make you aware of an opportunity for your city to make Homeownership a reality for average income home buyers. If your City Council acts, you can ensure that moderate families realize the unique American Dream of Homeownership and at the same time benefit your local Builders, Realtors, and Lenders.

MORTGAGE CREDIT CERTIFICATES

In 1981 the U.S. Congress adopted amendments to Tax Exempt Bonding Regulations which, among other things, enacted a new type of tax credit known as the Mortgage Credit Certificate (MCC).

Rather than issuing Tax-Exempt Revenue Bonds to assist moderate-income Home Buyers, Cities and Counties are now permitted to issue MCCs to eligible average income households for the purchase of their first home. For the typical city in Northern California, households earning up to \$30,000 annually can receive a Tax Credit of up to \$2,000 each year, if they purchase an existing, or newly constructed home selling for under \$101,000.

Issuance of an MCC to an average household entitles them to a dollar-for-dollar Tax Credit of up to \$2,000 on their Federal Income Taxes. This in turn greatly assists them in meeting the loan-qualification requirements of private lenders, as well as having more income available to pay their monthly mortgage.

ENACTMENT OF AN MCC PROGRAM

MCC Programs are currently in operation in a small but growing number of California cities and counties. The program is Effective, Practical, and it Accomplishes exactly what it was designed to - Provide significant Financial Assistance to average income households buying their first home.

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An MCC program requires an initial action by your city council to start the program. Next, your local Builders, Realtors, and Lenders are made aware of the availability of MCC and the issuance of individual MCCs incorporated in their Listing, Selling and Financing procedures. Lastly, MCCs are issued to qualified homepurchasers as authorized by your jurisdiction.

CFN FINANCIAL SERVICES, PUBLIC FINANCE DIVISION

Most cities, rather than hiring expensive permanent staff, retain a private firm, such as ours, CFN Financial Services, to administer the program. Unlike most housing programs, an MCC PROGRAM can be implemented at minimal COST to your city. We are CONFIDENT that after the advantages are presented to your City Manager, Planning Director, or City Attorney, your Council will - with the strong support of your local Builders, Realtors, Lenders, and, most of all, Prospective Homeowners - elect to participate.

Knowing that you will undoubtedly have several questions, be assured that we will return all "Inquiry Calls" promptly and without obligation.

Please contact us at (408)462-2646!

Sincerely,



David Laughlin
Director, Public Finance Division

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Community Development Director