



## City Council Staff Report

DATE: November 17, 2010 CONSENT CALENDAR

SUBJECT: APPROVE A RESOLUTION AUTHORIZING THE CITY OF PALM SPRINGS' PARTICIPATION IN THE COUNTY OF RIVERSIDE MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

FROM: David H. Ready, City Manager

BY: Department of Community & Economic Development

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### SUMMARY

The Riverside County Board of Supervisors has authorized the County's Economic Development Agency (EDA) to re-apply to the California Debt Limit Allocation Committee (CDLAC) for an allocation of Mortgage Credit Certificates (MCC) on or about November 24, 2010 where the City agrees to cooperate with the County to undertake the MCC program within City jurisdiction to assist persons or households of limited income to purchase new and existing single family residences located in Palm Springs. The City of Palm Springs began participation in the County's MCC Program for mortgage loans available for first-time homebuyers in Palm Springs two years ago as an additional measure to assist low- and moderate income buyers in the acquisition of new and existing single family homes. Adopting of the attached resolution is necessary for the City to continue its participation in the coming year's MCC Program as a participating unit of general government under County's program.

### RECOMMENDATION:

1. Approve Resolution No. \_\_\_\_\_, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS APPROVE PARTICIPATION IN THE RIVERSIDE COUNTY MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM".
2. Authorize the City Manager to execute all necessary documents.

### STAFF ANALYSIS:

A Mortgage Credit Certificate (MCC) entitles qualified homebuyers to reduce the amount of federal income tax liability for an amount equal to 15% of the mortgage interest paid during the year on their primary mortgage loan. This tax credit advantages to the homebuyer includes:

- To directly reduce the federal income tax liability by the amount of the tax credit; and

- To qualify more easily for a primary mortgage loan which lenders may factor in the tax credit when underwriting the loan, a lender takes this potential increase in income into consideration and the borrower is able to qualify for a larger loan than would otherwise be possible, or an improved borrower qualifying debt ratio.

The MCC Program allows a 15% rate, which can be applied against the interest paid on the mortgage loan. The borrower can then claim a credit on their taxes equal to 15% of the interest paid during the year. Since the taxes paid by the borrower are being reduced, the annual take-home pay is effectively increased. The borrower can still deduct the remaining part of the interest paid as a standard deduction; any unused portion of the credit can be carried forward to the next three years or until used, whichever comes first.

This program can be used with all types of homes, including foreclosures, newly constructed and existing resale, detached or attached single-family, condominium, co-op or manufactured home on a permanent foundation, and may be the "extra cushion" to assist future first-time homebuyers will need to purchase in the City. The following table illustrates how a MCC increases a borrower's "effective home buying power":

Effective Home Buying Power With and Without an MCC

	Without MCC	With MCC
First Mortgage Amount	\$300,000	\$300,000
Mortgage Interest Rate	7%	7%
Monthly Mortgage (P & I Only)	\$1,996	\$1,996
MCC Rate	N/A	15%
Monthly Credit Amount	N/A	\$262.25
"Effective" Monthly Mortgage Payment	\$1,996	\$1,733.75
Annual Income Needed *	\$85,542	\$74,304

\* Annual Income Needed is based on monthly Principal & Interest (P&I) not exceeding 28% monthly income.

There are three basic Homebuyer Eligibility criteria for determining a homebuyer's eligibility for the MCC tax credits:

1. The borrower must be a first-time Homebuyer defined as a person who has not had an ownership interest in improved-upon residential real property for the previous three (3) years.\*

2. The borrower's annual income must fall within the program income limits as follows:

- Maximum Income Outside Target Area<sup>1</sup>
  - Household with 1-2 persons – \$71,000
  - Household with 3 + persons – \$81,650
- Maximum Income Inside Target Area
  - Household with 1-2 persons – \$85,200
  - Household with 3 + persons – \$99,400

3. The home being purchased must fall within the program purchase price limits as follows:

- Maximum Home Purchase Price
  - Outside Target Area – \$450,000
  - Inside Target Area – \$550,000

\* If the home is located in a Target Area census tract, then the first-time homebuyer requirement does not apply and the income and purchase price limits are higher. There is one census tract within the City which qualifies as a Target Area, commonly known as the Warm Sands and Tahquitz River Estates Neighborhoods.

The jurisdiction in which the home is located must be a participant in the County MCC program administered by the EDA. The application process is as follows:

- a. Borrowers must apply for a MCC through an Approved Lender.
- b. The Participating Lender will perform an initial qualification and assist the borrower in completing the MCC submission forms.
- c. Buyer makes offer on home and goes into escrow.
- d. The Lender then submits the MCC application to the County.
- e. The County reviews Borrower and property qualifications and, if they meet the program guidelines, issues a letter of commitment to the Lender.
- f. The Commitment Letter must be issued prior to the close of the loan.
- g. The loan must close within 60 days of the commitment.
- h. Upon loan closing, the Lender submits the MCC Closing Package to the County and the County issues the MCC, with the Lender and borrower each receiving a copy.
- i. The borrower may then claim the tax credit on their Federal Income Tax Returns.

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<sup>1</sup> Target Areas are census tracts designated by the Federal government to encourage investment.

- j. Borrowers can realize the tax credit annually as a tax refund or adjust their W-4 withholding form to receive the benefit via an increased pay check.

The EDA will be submitting an application for approximately \$3.4M on or about November 24, 2010 for applicants acquiring homes within the County. Program guidelines include Income restrictions, as well as limits to the purchase price of the home. Future Palm Springs' homebuyers can qualify for the MCC on their own through an approved lender, even if the City does not provide down-payment assistance.

The City started participating in the MCC Program two years ago. Staff recommends approval of the attached Resolution, to provide another tool for qualified first-time homebuyers to purchase a home in Palm Springs.

FISCAL IMPACT:

There is no direct fiscal impact to the City of Palm Springs from the issue of the credits themselves. The tax credits are allocated from the State to the County and then issued to the borrower/buyer. This is another tool to help make the purchase of housing in the City available to a wider pool of qualified buyers. The City would agree, however, to publish an advertisement twice a year to attract prospective buyers. The estimated cost of that advertising is about \$1,000.00 and could be absorbed by the Redevelopment Agency's Low- and Moderate Income Housing Fund.



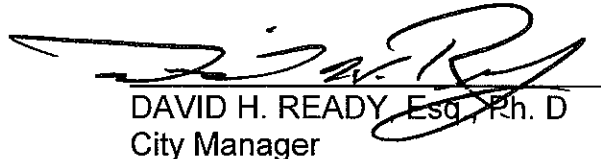
DALE E. COOK, JR.  
Community Development Administrator



JOHN S. RAYMOND  
Director of Community & Economic Development



THOMAS J. WILSON  
Assistant City Manager



DAVID H. READY, Esq., Ph. D.  
City Manager

ATTACHMENT: Resolution

RESOLUTION NO. \_\_\_\_\_

RESOLUTION OF THE CITY COUNCIL OF THE  
CITY OF PALM SPRINGS APPROVE  
PARTICIPATION IN THE RIVERSIDE COUNTY  
MORTGAGE CERTIFICATE (MCC) PROGRAM.

WHEREAS, the Tax Reform Act of 1986 established the Mortgage Credit Certificate Program ("MCC Program") as a means of assisting qualified individuals with the acquisition of new and existing single family housing; and

WHEREAS, pursuant to Division 31, Part 1, Chapter 3.5, Article 3.4 of the California Health and Safety Code Sections 50197 et seq, local issuers are authorized to issue Mortgage Credit Certificates ("Certificates") and administer MCC Program; and

WHEREAS, the Board of Supervisors of the County of Riverside adopted Resolution No 87-564 on December 22, 1987 establishing a Mortgage Credit Certificate Program; and

WHEREAS, the Board of Supervisors of the County of Riverside has authorized the Riverside County Economic Development Agency ("EDA") to administer the MCC Program pursuant to the applicable federal, state and local policies and procedures, and to enter into those agreements necessary for efficient administration of the MCC Program; and

WHEREAS, the County of Riverside ("County") will be applying to the California Debt Limit Allocation Committee ("CDLAC") for a mortgage credit certificate allocation on November 24, 2010 or thereabouts; and

WHEREAS, the City of Palm Springs ("City") wishes to participate in the MCC Program administered by the EDA in connection with mortgage loans it will make available for the acquisition of new and existing single-family housing in Riverside County; and

WHEREAS, the adoption of this resolution is necessary to include the City of Palm Springs as a participating unit of general government under County's MCC program; and

WHEREAS, the City agrees to cooperate with the County of Riverside to undertake the MCC program within City jurisdiction to assist persons or households of limited income to purchase new and existing single family residences located in the city; and

WHEREAS, the City by adopting this Resolution, hereby gives notice of its election to participate in the Riverside County MCC program.

THE CITY COUNCIL OF THE CITY OF PALM SPRINGS DOES HEREBY  
RESOLVE AS FOLLOWS:

SECTION 1. To participate in the MCC Program administered by the EDA in connection with mortgage loans it will make available for the acquisition of new and existing single-family housing in Riverside County;

SECTION 2. To assist the County of Riverside to market the MCC Program within the city's jurisdictional boundary by publishing a general public notice in the local newspaper at least twice a year.

ADOPTED THIS \_\_\_ day of November, 2010.

\_\_\_\_\_  
David H. Ready, City Manager

ATTEST:

\_\_\_\_\_  
James Thompson, City Clerk

CERTIFICATION

STATE OF CALIFORNIA )  
COUNTY OF RIVERSIDE ) ss.  
CITY OF PALM SPRINGS )

I, JAMES THOMPSON, City Clerk of the City of Palm Springs, hereby certify that Resolution No. \_\_\_ is a full, true and correct copy, and was duly adopted at a regular meeting of the City Council of the City of Palm Springs on \_\_\_\_\_, by the following vote:

AYES:  
NOES:  
ABSENT:  
ABSTAIN:

\_\_\_\_\_  
James Thompson, City Clerk  
City of Palm Springs, California