



City of La Quinta

CITY / SA/ HA/ FA MEETING DATE: February 18, 2014

ITEM TITLE: ADOPT A RESOLUTION TO APPROVE CITY'S PARTICIPATION IN COUNTY OF RIVERSIDE MORTGAGE CREDIT CERTIFICATE PROGRAM

AGENDA CATEGORY:

BUSINESS SESSION:

CONSENT CALENDAR: 6

STUDY SESSION:

PUBLIC HEARING:

RECOMMENDED ACTION:

Adopt a Resolution to approve the City's participation in the County of Riverside Mortgage Credit Certificate Program.

EXECUTIVE SUMMARY:

- The County of Riverside ("County") Mortgage Credit Certificate Program (MCC) assists low- and moderate- income first time homebuyers by providing a tax credit.
- The County's Economic Development Agency (EDA) is in the process of applying for an annual allocation of funds for the MCC, as required by the California Debt Allocation Committee.
- As part of this process, the EDA requires cooperating cities to provide a resolution, resolving to continue the City's participation and marketing of the MCC program.
- The City has been a participant of the MCC program for 20 years.
- The adoption of the attached resolution is necessary for the City to continue its participation in the MCC program, as a cooperating City under the EDA's program.

FISCAL IMPACT:

None.

BACKGROUND/ANALYSIS:

The County has administered the MCC program for all cities and unincorporated areas of the County. The program is designed to assist low- and moderate- income first time homebuyers by providing a tax credit equal to twenty percent of the mortgage interest paid in a given year (Attachment 1). The tax credit amount directly reduces a homebuyer's federal income tax obligation dollar for dollar, allowing lenders to increase the net income of the homebuyer. The increase of cash flow can assist the homebuyer in qualifying for the home mortgage loan and:

1. Allow the borrower to qualify for a higher purchase price
2. Reduce the homebuyer's qualifying ratios to enhance credit worthiness

The County's MCC Program guidelines require eligible jurisdictions to determine each fiscal year period whether or not they would like to participate in the program. The City has participated in the MCC program since 1994. Since then, three households have received program assistance. Other participating Valley cities include Cathedral City, Coachella, Desert Hot Springs, Indio, and Palm Springs. Participation in the program provides another tool, at no cost to the City, to assist in expanding homeownership opportunities for La Quinta residents. Program participation requires the City to give notice of the program in a local publication twice a year. The City will have no other administrative obligations under this program.

ALTERNATIVES:

As this program is cost free to the City and provides financial assistance to low- and moderate- income La Quinta homebuyers, staff does not recommend an alternative.

Report prepared by: Carla Triplett, Housing Coordinator

Report approved for submission by: Les Johnson,

Community Development Director

Attachment: 1. EDA Mortgage Credit Certificate Program Packet/Guidelines

RESOLUTION NO. 2014 -

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
LA QUINTA, CALIFORNIA, APPROVING THE CITY'S
PARTICIPATION IN THE COUNTY OF RIVERSIDE
MORTGAGE CREDIT CERTIFICATE 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 21, 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 the MCC Program; and

WHEREAS, the Board of Supervisors of the County of Riverside ("County") adopted Resolution No. 87-564 on December 22, 1987 establishing an MCC Program; and

WHEREAS, the Board of Supervisors of the County has authorized the 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 will be applying to the California Debt Limit Allocation Committee for an MCC allocation in July 16, 2014 or thereabouts; and

WHEREAS, The City of La Quinta wished 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 the County; and

WHEREAS, the adoption of this resolution is necessary to include the City of La Quinta as participating unit of general government under the County's MCC Program; and

WHEREAS, the City agrees to cooperate with the County to undertake the MCC Program within the 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 County MCC program.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of La Quinta as follows:

SECTION 1: The City of La Quinta agrees 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 County;

SECTION 2: The City of La Quinta agrees to assist the County 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.

PASSED, APPROVED, and ADOPTED at a regular meeting of the La Quinta City Council, held on this 18, day of February, 2014, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

DON ADOLPH, Mayor
City of La Quinta, California

ATTEST:

SUSAN MAYSELS, City Clerk
City of La Quinta, California

(CITY SEAL)

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APPROVED AS TO FORM:

M. KATHERINE JENSON, City Attorney
City of La Quinta, California

Riverside County Economic Development Agency
Mortgage Credit Certificate (MCC) Program

ATTACHMENT 1



Information Packet

July 1, 2013

Riverside County Economic Development Agency Mortgage Credit Certificate (MCC) Program

This publication intent is to provide general information to interested buyers and real estate salespersons regarding the Riverside County Mortgage Credit Certificate Program. After reviewing this material, if you feel that you qualify for the program, please contact a Participating Lender. A list of Participating Lenders is available on our website at www.rchomelink.com under the MCC link.

What is a Mortgage Credit Certificate? A Mortgage Credit Certificate (MCC) entitles qualified homebuyers to reduce the amount of their federal income tax liability by an amount equal to 20% of the interest paid during the year on a home mortgage. This tax credit allows the buyer to qualify more easily for a loan by increasing the effective income of the buyer. The buyer takes the remaining 80% of the mortgage interest as a deduction. When underwriting the loan, a lender considers this and the borrower is able to qualify for a larger loan than would otherwise be possible. The following table illustrates how a MCC increases a borrower's "effective home buying power":

Table 1		
Effective Home Buying Power With and Without a MCC		
	Without MCC	With MCC
First Mortgage Amount	\$300,000	\$300,000
Mortgage Interest Rate	4%	4%
Monthly Mortgage (Principal & Interest Only)	\$1,432	\$1,432
MCC Rate	N/A	20%
Monthly Credit Amount	N/A	\$200
"Effective" Monthly Mortgage Payment	\$1,432	\$1,232
Annual Income Needed	\$61,371	\$52,800

How does a Mortgage Credit Certificate actually work? Assume the homebuyer bought a home with a mortgage amount of \$300,000 with an interest rate of 4% with the monthly mortgage payment of \$1,432 as illustrated above.

- (1) The homebuyer would pay a total of $\$300,000 \times 4\% = \$12,000$ of interest during the first year (loan amount x interest rate).
- (2) Because the homebuyer has a Mortgage Credit Certificate, the homebuyer could receive a federal income tax credit of \$2,400 (20% x \$12,000). If the homebuyer income tax liability is \$2,400 or greater, the homebuyer will receive the full benefit of the MCC tax credit. If the amount of homebuyer tax credit exceeds the amount of his/her tax liability, the unused portion can be carried forward (up to three years) to offset future income tax liability.
- (3) The remaining 80% of the mortgage interest or \$9,600 (\$12,000 less \$2,400) qualifies as an itemized income tax deduction.

Riverside County Economic Development Agency Mortgage Credit Certificate (MCC) Program

- (4) To receive immediate benefit of the MCC tax credit, the homebuyer would file a revised W-4 withholding from with the homebuyer's employer to reduce the amount of federal income tax withheld from his/her wages and increase homebuyer's take home pay by \$200 per month ($\$2,400 \div 12$).
- (5) By applying the increase in the homebuyer take home pay of \$200 towards his monthly mortgage payment of \$1,432; his effective monthly payment becomes \$1,232 ($\$1,432$ minus $\$200$).

What is the difference between a "tax credit" and a "tax deduction"? A "tax credit" entitles a taxpayer to subtract the amount of credit from their total federal tax bill whereas a "tax deduction" is subtracted from adjusted gross income before federal income taxes are computed.

What happens if the homebuyer cannot use the entire amount of the MCC credit for the year in which it applies? If the amount of the MCC exceeds the homebuyer's tax liability, the unused portion of the credit can be carried forward to the next three years or until used, whichever comes first.

How long does the MCC last? The MCC is in effect for the life of the loan as long as the home remains the borrower's principal residence. The MCC is not transferable to a new loan when refinancing, nor can it be assigned or transferred to a new buyer or another home. In addition, the MCC Program includes a nine year recapture provision which provides for payment of a recapture tax to the IRS if the property ceases to be the borrower's primary residence within nine years from the close of escrow. The amount of tax recapture is determined by formula, and provided to the borrower at the time the application. After expiration of the nine year period, the borrower may dispense of the property without incurring penalty, but would lose the future benefits of the MCC.

Who qualifies for a MCC? The three basic qualifications are: (1) the borrower must be a first time Home Buyer; (2) the borrower's annual income must fall within the program income limits; and (3) the home being purchased must be within the program purchase price limits and in an eligible location. If the home is located in a Target Area Census Tract, then the first-time buyer limitation does not apply and the income and purchase price limits are higher.

What is a first-time Home Buyer? A first time Home Buyer is defined as a person and their spouse who have not had an ownership interest in improved-upon residential real property nor claimed any real estate or mortgage related income tax deductions for the previous three (3) years.

What are Target Areas? Target areas are census tracts designated by the Federal government to encourage investment. Target area census tracts may be found by going to EDA's website at www.rchomelink.com and then clicking on the MCC link.

Riverside County Economic Development Agency Mortgage Credit Certificate (MCC) Program

What are the income and acquisition cost limits? The following table contains the present income and purchase price limits:

Table 2 Riverside County MCC Income and Acquisition Cost Limits for 2014		
Maximum Income*	Outside Target Area	Inside Target Area
Household with 1 - 2 persons	\$68,100	\$81,720
Household with 3 or more persons	\$78,315	\$95,340
Maximum Home Purchase Cost	Outside Target Area	Inside Target Area
New & Existing Home	\$461,538	\$564,103

* Maximum income refers to the gross annual household income of the mortgagor(s) and all persons 18 and older who will live in the residence

What are the qualifying locations? Riverside County can issue MCC's to buyers who are purchasing a home that is located in any unincorporated area or within the boundaries of a participating city. Currently, the following cities are participating in the County's MCC Program: Beaumont, Blythe, Calimesa, Canyon Lake, Cathedral City, Coachella, Corona, Eastvale, Hemet, Indio, Lake Elsinore, La Quinta, Moreno Valley, Murrieta, Norco, Palm Desert, Palm Springs, Perris, Riverside, San Jacinto, Temecula and Wildomar.

What kinds of properties are eligible? The residence purchased in conjunction with a MCC must be the borrower's principal residence and may not be used as a business or vacation home. The home may be a detached or attached single family home, condominium unit, a co-op unit, or a manufactured home on a permanent foundation.

How do I apply for a Mortgage Credit Certificate? Borrowers must apply for a MCC through a Participating Lender. The Participating Lender will perform an initial qualification and assist the borrower in completing the MCC submission forms. The Lender then submits the MCC application to the County. The County reviews the Borrowers qualifications and, if they meet the program guidelines, issues a letter of commitment to the Lender. The Commitment Letter must be issued prior to the close of the loan. The loan must close within 60 days of the commitment. 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. The borrower may then claim the tax credit on their Federal Income Tax Returns. The borrower can receive the money annually as a tax refund or adjust his or her W-4 withholding form to receive the benefit via an increased pay check.

Riverside County Economic Development Agency Mortgage Credit Certificate (MCC) Program

What are the loan terms? The loan terms depend on the Lender and type of loan you use. Depending on the mortgage marketplace and the borrower requirements, each Lender can set its own interest rate, length of mortgage term, down payment requirement, fees, points, closing costs and other loan terms. MCC's may be used with fixed, fifteen or thirty year term loans, including FHA 203(b), VA, FNMA, FHLMC and privately insured loans. MCC's may not be used in conjunction with bond backed loans, such as Cal-Vet or California Housing Financing Authority (CalHFA) loans.

Is there a fee to receive a MCC? The maximum total fee for a MCC is \$400.00. Of this, the County collects a \$300.00 Non-Refundable application fee which may be paid by any person (buyer, seller, lender, etc.). Participating Lenders may charge up to \$100.00 for their processing of the MCC. Therefore, the total maximum charge in association with the MCC is \$400.00. This is separate from the other fees associated with purchasing a home, such as escrow fees, loan origination and processing fees and closing costs. Your lender can provide you with a breakdown of the total fees associated with obtaining a mortgage loan.

How do I find an Approved Lender? The County maintains a list of Participating Lenders who have agreed to participate in the County's MCC Program. If you are interested in purchasing a home and feel that you will qualify for the MCC Program, you must contact one of the Participating Lenders directly.

How does a Lender become approved for the MCC Program? In order to participate in the County's MCC Program, each lender must enter into a Lender Participation Agreement with the County. The Lender Participation Agreement details the lenders responsibilities for assisting Borrowers in obtaining a MCC. Once the lender agrees to participate in the MCC Program and signs the Lender Participation Agreement, the Lender must attend MCC training, provided by EDA. Upon completion of this process, the lender may submit MCC applications through the County's Program.

What happens if I refinance my home? Once you refinance the first mortgage on your home you will automatically lose the benefits of the MCC Program.

For More Information: If you would like to apply for a MCC, please contact one of the Participating Lenders by going to www.rchomelink.com and following the MCC link. If you have any questions or need additional information about the MCC Program please contact:

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Riverside, CA 92504
951-343-5469

