



**RBA
AUSTIN HOUSING FINANCE CORPORATION
RECOMMENDATION FOR BOARD ACTION**

**AGENDA ITEM NO.: AHFC-3
AGENDA DATE: Thu 02/12/2004
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SUBJECT: Approve a resolution authorizing the use of single family private activity volume cap allocated to the corporation by the Texas Bond Review Board in an amount equal to \$22,103,775 for implementation of a new Mortgage Credit Certificate program to assist first time homebuyers purchase a new or existing home.

AMOUNT & SOURCE OF FUNDING: N/A

FISCAL NOTE: There is no unanticipated fiscal impact. A fiscal note is not required.

REQUESTING Austin Housing Finance
DEPARTMENT: Corporation

DIRECTOR'S
AUTHORIZATION: Paul Hilgers

FOR MORE INFORMATION CONTACT: Paul Hilgers, Community Development Officer, Neighborhood Housing and Community Development , 974-3108.

PRIOR BOARD ACTION: On August 14, 2003, the Austin Housing Finance Corporation Board authorized AHFC to file the necessary documents to remain on the Texas Bond Review Board waiting list to receive a new allocation of Private Activity Volume Cap authority for a single-family mortgage revenue bond program or a Mortgage Credit Certificate program.

BOARD AND COMMISSION ACTION: N/A

In January of 2001, the Austin Housing Finance Corporation (AHFC) received an allocation of single family private activity volume cap authority that the Corporation used to implement a \$23,000,000 Mortgage Credit Certificate (MCC) Program. The MCC program was structured to complement the S.M.A.R.T. Housing™ initiative in attracting builders within the Austin city limits, and to launch a teacher assistance program. When the program concluded on December 31, 2003, a total of 88 percent of the allocation had been used to assist approximately 158 families in purchasing their first homes.

Based on the percent of allocation used in the MCC program before its expiration on December 31, 2003, the AHFC received a new allocation of \$22,103,775 on January 16, 2004. Staff is seeking board approval to move forward with implementing a new MCC program as described in the attached MCC Information Guide (Exhibit A).

With a projected average loan of \$115,000, the program would assist approximately 192 families totaling \$22 million over the next three years. Staff is recommending extending the contract of the current MCC administrator to accept and review applications, issue the certificates and handle the required documentation and reporting to the IRS; setting the fees for the program at \$175.00 issuance fee plus 1% of the mortgage loan collected at closing; and setting the initial MCC graduated rate as follows: 30% for Loans under \$115,000, 25% for loans between \$115,000 and 140,000, and 20% for Loans above \$140,000 up to the maximum allowed by the program. As in the previous MCC program, participating

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Disposition:

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lenders would be charged \$1.000 to participate in the program. Once approved by the AFHC board and published for 90 days, the first certificates could begin to assist first time homebuyers sometime in June 2004.

By this action, the Board approves the MCC Program as outlined in the attached MCC Program Guide, contract with an administrator to operate the MCC Program, and authorizes the general manager or his designee to execute any and all necessary documents to implement the AHFC 2004 MCC program.

AHFC RESOLUTION NO. 040212-

**BE IT RESOLVED BY THE BOARD OF DIRECTORS OF
THE AUSTIN HOUSING FINANCE CORPORATION:**

Section 1. That the Board of Directors approves conversion of the entire \$22,103,775 single family private activity volume cap authority the Texas Bond Review Board authorized on 16 January 2004 by Docket No. 2823 from a bond financing program to a Mortgage Credit Certificate Program (MCC Program) substantially in accordance with the attached program guidelines set forth as **Exhibit A.**

Section 2. That the General Manager or the General Manager's designee is authorized to make the election for the MCC Program with the Texas Bond Review Board, to finalize the structure of the terms and conditions of the MCC Program, to determine mortgage lender interest for the MCC Program, to enter into agreements with participating lenders for the MCC Program, to appoint a program manager or contract with a program administrator to implement the MCC Program, to conduct a home sales price study with respect to the MCC Program, if necessary, and to file or publish the documents necessary to implement the MCC Program.

Section 3. That the General Manager or the General Manager's designee is authorized to execute, attest and affix the corporate seal to such agreements, documents, instruments, written requests, budget memorandums, and other papers as may be favorable, necessary, convenient, or required to carry out or assist in carrying out the purposes of this Resolution.

ADOPTED: _____, 2004 _____
Shirley A. Brown

Exhibit A

MORTGAGE CREDIT CERTIFICATE PROGRAM SERIES 2004 Expiring December 31, 2006 AUSTIN HOUSING FINANCE CORPORATION

MCC INFORMATION GUIDE

Austin Housing Finance Corporation ("Corporation") created a Mortgage Credit Certificate Program (the "Program") for the residents of the Eligible Loan Area described below, to help make ownership of new or existing homes located in the Eligible Loan Area more affordable for low to moderate income households, especially first-time buyers. A Mortgage Credit Certificate (an "MCC") increases a family's disposable income by reducing its federal income tax obligations. This tax savings provides a family with more available income to qualify for a loan and meet mortgage payment requirements. In order to participate in the Program, homebuyers must meet certain eligibility requirements, purchase a home, and obtain a mortgage loan through a participating Lender. The Eligible Loan Area consists of the City of Austin, Texas. The Program is to be administered by Housing Administrators, Inc. (the "Program Administrator").

ELIGIBLE BORROWERS

First-time Buyer Requirement: In general, borrowers seeking financing for the purchase of a residence must be first-time buyers or not have owned a principal residence in the past three years.

Maximum Income Limits: For a borrower to receive an MCC, a borrower's adjusted gross income for the last year must be \$58,900 or less for a family of 1 or 2 or \$67,735 or less for a family of 3 or more. In addition, a borrower's current gross annual household income must not exceed the following amount:

	<u>Families of 1 or 2</u>	<u>Families of 3 or more</u>
Non-targeted Area	66,900	80,280
Targeted Area	76,935	93,660

City where the residence is located: City of Austin, Texas

Homebuyer Education: A MCC applicant must complete a Homebuyer Education course provided by the Austin Housing Finance Corporation. The applicant will receive a certificate of completion that is to be provided to the lender.

HOME PURCHASE PRICE LIMITATION

For a borrower to receive an MCC, the purchase price may not exceed:

New S.M.A.R.T HOUSING CERTIFIED homes	\$ 205,677
Existing homes	\$ 175,593
Targeted or Non-targeted areas	

ELIGIBLE PROPERTY

General Information: New and existing single-family houses, townhouses, condominiums, and manufactured housing are eligible. Duplexes, triplexes, and fourplexes are not eligible for the program. The cost of the residence must not exceed the maximum home purchase price limit outlined in this Guide.

Manufactured Homes: Manufactured homes must have at least 400 square feet of living space, a minimum width of 102 inches, and be of a type that is customarily used at a fixed location permanently affixed to real property. Recreational vehicles, campers, and other such vehicles are ineligible.

Financing Terms: The mortgage loan must be financed from sources other than tax-exempt mortgage bonds or veteran's tax-exempt revenue bonds. The mortgage may be a conventional, FHA, VA loan and will be at prevailing market rates. The interest payable under the loan must not be paid to a person who is related to the borrower.

S.M.A.R.T. Housing: All newly constructed properties must be S.M.A.R.T. Housing approved by the City of Austin.

PROGRAM DESCRIPTION

General Information: An MCC is a tax credit that will reduce the federal income taxes of qualified buyers purchasing a qualified residence. As a result, the MCC has the effect of reducing the effective housing mortgage cost. Applications must be made through a participating lender to the Program Administrator prior to closing the loan. The MCC may not be used in connection with the refinancing of an existing loan.

Benefit Amount: The size of your annual tax credit will be based on the amount of the mortgage as follows: 30 percent of the annual interest paid on the mortgage loan for loans under \$115,000, 25 percent of the annual interest paid on the mortgage loan for loans between \$115,000 and \$140,000, and 20 percent of the annual interest paid on the mortgage loan for loans above 140,000, however the maximum amount of the tax credit shall not exceed \$2,000 per year. The credit cannot be larger than the borrower's annual federal income tax liability; after all other credits and deductions have been taken into account. MCC credits in excess of the taxpayer's current year tax liability may, however, be carried forward for use in the subsequent three years. For an example of how MCC's work, see the MCC Worksheet.

Assumability: The MCC can be transferred only upon issuance of a new certificate by the Program Administrator. The person assuming your loan will have to qualify just as a new borrower would be required to qualify under the Program.

Tax Credit Versus Tax Deduction: A mortgage interest deduction differs from a mortgage tax credit in a number of ways. For example, all homebuyers, regardless of income, may take a mortgage interest deduction, whereas mortgage tax credits are available only to holders of MCC's. The dollar value of a mortgage interest deduction depends upon your tax bracket. If you are in the 15 percent tax bracket, you will save 15 cents in taxes for each dollar of mortgage interest paid. With the MCC, you will save \$1 for each \$1 of credit received. Using an MCC and itemizing your deductions on Schedule A of Form 1040 will require you to reduce your mortgage interest deduction by an amount equal to your mortgage tax credit claimed.

Length of Benefit: Each year, your mortgage tax credit will be calculated on the basis of the applicable percent of the MCC times the total interest you paid on your mortgage loan that year with a maximum benefit of \$2,000 per year. The MCC will be in effect for the life of your mortgage loan, so long as the residence remains your principal residence.

Recapture of Tax Credit: Your MCC will be subject to certain requirements imposed by federal law concerning the recapture of a portion of the mortgage tax credit benefits granted to you upon the sale of your residence within nine years from the date of purchase. In no event will the recapture tax exceed the lesser of (i) 6.25% of the highest principal balance of your mortgage or (ii) one-half of your taxable gain on the sale of your residence. A separate recapture tax disclosure form is available from participating lenders explaining how these requirements operate.

APPLICATION INFORMATION

Where to Apply: You may apply for a MCC in person at any participating lender or may call Austin Housing Finance Corporation's ("AHFC") Community Lending Office for assistance call (512) 476-3863. You may apply for a MCC through only one lending office. Any lender who has completed and filed a Lender Participation Agreement with the Program Administrator may participate in the Program. If your lender is not a participating Lender, have them contact the Program Administrator or "AHFC's Community Lending Office for a copy of the MCC Participation Agreement.

How to Apply: At the time of your application for an MCC, you will need to supply the Lender with the name of your employer, general credit information such as account numbers for loans, credit cards and bank accounts. After you have filled out and signed the application, the Lender will forward your application to the Program Administrator. Upon receipt of a qualifying application, the Program Administrator will issue an MCC Commitment Letter that will reserve an MCC for three months for a loan for Existing Housing and six months for a loan for New Housing. At loan closing and upon submission of the required Program documents in compliance with the guidelines and an MCC Issuance Fee of 1% of your loan amount plus \$175, the MCC will be issued directly to you. Extensions are allowed upon request and the submission of a \$25.00 MCC Extension Fee.

MCC's cannot be transferred from one lender to another. In the event you desire to change lenders, the MCC application and commitment will be revoked and the application process must start over with the new lender.

FOR FURTHER INFORMATION

Telephone Numbers: If possible, please direct any inquiries you may have about our Program to one of the participating Lenders or Martin Gonzalez, Bond program manager at 499-3103 or contact the AHFC's Community Lending Office at (512) 476-3863. If you are not able to obtain sufficient information in this manner, you may telephone the Program Administrator at Housing Administrators, Inc., 4505 Spicewood Springs Road, Suite 110, Austin, Texas 78759 at 512/346-6506. Information Guides are available through the Lenders and the Program Administrator. This Guide is a general summary of an extremely complex and technical program. Although we have attempted to ensure the accuracy of this Guide, it is subject to federal regulations and the Program documents, and may be changed without notice.