



AHFC 2

**Regular Item  
CITY OF AUSTIN  
RECOMMENDATION FOR COUNCIL ACTION**

**AGENDA ITEM NO: 648  
AGENDA DATE: 4/6/2006**

**Subject:** Approve a resolution authorizing the use of \$25,000,000 of Private Activity Volume Cap authority received from the Texas Bond Review Board to implement a new Mortgage Credit Certificate program to assist first time homebuyers.

**Requesting Department:** AHFC

## Exhibit A

### MORTGAGE CREDIT CERTIFICATE PROGRAM SERIES 2006 Expiring December 31, 2008 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: 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	71,100	81,765
Targeted Area	85,320	99,540

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 or another approved homebuyer counseling agency or secure a waiver. 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 or existing homes priced under \$210,375

## 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:** Applications for MCC's are made at the same time as the mortgage loan application. 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 manager of Bond Programs for information on how to become an MCC Participating Lender.

**How to Apply:** At the time of the MCC application, and mortgage loan application at participating Lender, the applicant will provide a check or money order payable to Housing Administrators, Inc. for \$50.00. It must be made after the mortgage loan application has been completed and the lender's preliminary assessment of the application indicates a favorable possibility of making the loan and MCC. The \$50.00 MCC application fee is non refundable and non transferable. If a new mortgage loan application with a different lender is pursued, a new MCC fee will be required. 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 974-3103. 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.

**MCC Program – Below the Line 03-23-06:**

**PRIOR BOARD ACTION:** August 14, 2005 Board approved filing of necessary documents to apply to Texas Bond Review Board 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.

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This action approves the Mortgage Credit Certificate (MCC) Program as outlined in the attached MCC Program Guide (Exhibit A) and authorizes the general manager or his designee to execute any and all necessary documents to implement the AHFC 2006 MCC Program.

The Austin Housing Finance Corporation (AHFC) is empowered by state legislation to issue non-recourse Mortgage Revenue Bonds or Mortgage Credit Certificates to assist first time homebuyers with the purchase of their first home.

In 2004, the Corporation received Private Activity Bond Authority of approximately \$22,000,000. The Corporation used the authority to carry out a Mortgage Credit Certificate (MCC) program to assist first-time homebuyer families. Through February 28, 2006, the 2004 MCC program has assisted 172 families in purchasing their first home. The average mortgage of those assisted is \$ 114,069. Of the homes purchased, 59% are existing homes, and 41% are new SMART Housing™ certified homes. Families assisted by the MCC program are comprised of 60 one-person households, 40 two-person households, 36 three-person households, 27 four-person households, and nine five-or-more person households. Demographics of the families assisted include: 77 White, 18 African American, 75 Hispanic, and two unknowns. The income ranges of the families assisted are: 39 families with incomes below 40% MFI, 73 between 40-65% MFI, 34 between 65-80% MFI and 26 between 80 - 115% of MFI (currently 56,875 for a family of four). It is expected the new program will assist an additional 10 families who currently hold outstanding MCC commitments.

The 2004 MCC Program has achieved the State required 95% origination threshold and AHFC filed a new application with the Texas Bond Review Board for additional private activity volume cap authority as authorized on August 14, 2005, by the AHFC board.

AHFC received a \$25 Million Private Activity Bond Authority allocation the Texas Bond Review Board on March 30, 2006. Staff is seeking board approval to move forward with implementation of the 2006 MCC Program as described in the attached MCC Information Guide (Exhibit A).

With a projected average loan of \$115,000, the program will assist approximately 217 families 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 an application fee for the program at \$50.00 an issuance fee at \$175.00 plus 1% of the mortgage loan payable at the closing; and setting the initial MCC graduated rate as follows: 30% for Loans

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RCA Serial#:

Published:

Disposition:

Adjusted version published:

**RESOLUTION NO.**

**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 \$25,000,000 single family private activity volume cap authority the Texas Bond Review Board authorized on March 30, 2006 by Docket No. 3168 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 document necessary to implement the MCC Program.

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 lenders will be charged \$1,000 to participate in the program. Once approved by the AFHC board and published for 90 days, the first certificates is anticipated to be issued to assist first time homebuyers in July 2006.

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: \_\_\_\_\_, 2006

ATTESTED: \_\_\_\_\_

Shirley A. Gentry  
Secretary

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