



## **REPORT TO CITY COUNCIL**

**To:** Honorable Mayor and Members of the City Council

**From:** Grant Yates, City Manager

**Prepared by:** Richard J. MacHott, Planning Manager

**Date:** August 14, 2018

**Subject:** Riverside County Mortgage Credit Certificate Program Participation

### **Recommendation**

adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, APPROVING PARTICIPATION WITH THE COUNTY OF RIVERSIDE MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM.

### **Overview**

The County of Riverside Economic Development Agency (EDA) has requested that the City participate in the Mortgage Credit Certificate (MCC) program for the 2019 and 2020 calendar years. The City Council has authorized participation in the MCC program in previous years and since 2012, fourteen homebuyers in the City of Lake Elsinore have taken advantage of the benefits afforded by the MCC program.

A Mortgage Credit Certificate (MCC) entitles qualified homebuyers to reduce the amount of their federal income tax liability for an amount equal to 20% of the mortgage interest paid during the year on their primary mortgage loan. The advantages to the homebuyer include:

- The homebuyer's federal income tax liability is directly reduced by the amount of the tax credit;
- Homebuyers can qualify more easily for their primary mortgage because loan-lenders may factor in the tax credit when underwriting the loan application, which may allow the borrower to (i) qualify for a larger loan amount, or (ii) improve the borrower's qualifying debt ratios.

It should also be noted that 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.

### **Homebuyer Eligibility Criteria**

The three basic criteria for determining a homebuyer's eligibility for MCC tax credits are as follows:

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. However, if the prospective home is located in a Target Area census tract, then the first-time buyer requirement does not apply and the income and purchase price limits are higher. Target Area census tracts within Lake Elsinore are shown on the attached map. (Exhibit 2).
2. The borrower's annual income must fall within the MCC income limits as follows:  
  
Maximum Income Outside Target Area
  - Household w/ 1-2 persons: \$73,300
  - Household w/ 3+ persons: \$84,295Max Income Inside Target Area
  - Household w/ 1-2 persons: \$87,960
  - Household w/ 3+ persons: \$102,620
3. The home being purchased must fall within the following program purchase price limits:
  - Max Home Purchase Price Outside Target Area: \$349,411
  - Max Home Purchase Price Inside Target Area: \$427,058

Furthermore, the residence purchased in conjunction with an MCC must be the borrower's principal residence and may not be used as a business, rental or vacation home. The home may be a new or re-sale, detached or attached single-family home, condominium unit, a co-op unit, or a manufactured home on a permanent foundation. The home must be located within the City limits of participating cities.

#### Mortgage Credit Certificate Application Process

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:

1. Borrowers must apply for a MCC through a Participating Lender.
2. The Participating Lender will perform an initial qualification and assist the borrower in completing the MCC submission forms.
3. Buyer makes offer on home and goes into escrow.
4. The Lender then submits the MCC application to the County.
5. The County reviews Borrower and property qualifications and, if they meet the program guidelines, issues a letter of commitment to the Lender.
6. The Commitment Letter must be issued prior to the close of the loan.
7. The loan must close within 60 days of the commitment.
8. 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.
9. The borrower may then claim the tax credit on their Federal Income Tax Returns.
10. Borrowers can realize the tax credit annually as a tax refund or adjust their W-4 withholding allowances form to receive the benefit via an increased paycheck.

The following table is an example, provided by EDA, which illustrates how an MCC may increase a borrower's potential home buying power:

<b>Effective Home Buying Power With and Without an MCC</b>		
	<b>Without MCC</b>	<b>With MCC</b>
<b>First Mortgage Amount</b>	\$300,000	\$300,000
<b>Mortgage Interest Rate</b>	4%	4%
<b>Monthly Mortgage (Principal &amp; Interest Only)</b>	\$1,432	\$1,432
<b>MCC Rate</b>	N/A	20%
<b>Monthly Credit Amount</b>	N/A	\$200
<b>"Effective" Monthly Mortgage Payment</b>	\$1,432	\$1,232
<b>Annual Income Needed *</b>	\$61,371	\$52,800
* Annual Income Needed is based on monthly Principal and Interest (P&I) not exceeding 28% of monthly income.		

### **Fiscal Impact**

The fiscal impact to the City's General Fund will be minimal as the entire program is implemented by the County of Riverside Economic Development Agency. The only participation requirement of the City is the noticing of the program in the local newspaper twice a year.

### **Exhibits**

- A. - Mortgage Credit Certificate Program Resolution
- B. - Map Showing Federally-Designated Targeted Areas within the City of Lake Elsinore