

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: April 11, 2007
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number No. 07-41
Creation of a Mortgage Credit Certificate (MCC) Program

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6466.

ACTION SUMMARY

The accompanying resolution authorizes the Executive Director to explore establishing a Mortgage Credit Certificate (MCC) program through a partnership with the State of Oregon or the City of Portland. PDC cannot establish the program on its own because it does not have authority to issue qualified mortgage bonds. This action would allow the Executive Director to seek a partnership in which PDC would administer the program on behalf of the state or City.

The MCC program would enhance PDC's and the City's ability to meet first-time homebuyer and minority homeownership goals. The program uses private activity bonding authority to provide a tax credit to eligible first time homebuyers. Staff estimates PDC would be able to serve 100-125 first-time homebuyers if the program is established.

RELATIONSHIP TO ADOPTED PLANS AND POLICIES

The MCC helps to achieve the following PDC and Housing Department Strategic Goals:

- Provide wealth creation opportunities.
- Supports City Operation HOME goals to eliminate Portland's minority homeownership gap by 2015.
- Leverage PDC resources with other private resources.
- Increase fees/revenue from programs/activities.
- Develop and implement housing strategies that reflect community and neighborhood goals.
- Provide incentives and/or financial assistance products to achieve 20,000 unit/household production goals.
- Increase homeownership rate by at least one percent from year 2000 to 2011.
- Increase minority homeownership by 1,500 by 2011.
- Assist 3,000 first time homebuyers by 2011.

PUBLIC BENEFIT

- Provides an additional tool to assist first time homebuyers in the city of Portland.

- Increase minority and first-time homebuyers' access to homeownership and wealth creation opportunities.
- Increase PDC's ability to achieve goals stated above.
- Leverages public and private resources to support homeownership goals.
- Increases affordability for first-time homebuyers.

FINANCIAL IMPACT

To create the program, staff estimates that PDC will incur approximately \$30,000 in direct start-up costs for consultants, legal opinions and creation of marketing material plus approximately 200 hours of staff time. These start-up costs will be paid out of the Housing Investment Fund 425. Once created, it will take approximately 1/3 of a full time employee (across multiple disciplines) to administer the program, including processing applications, tracking allocation activity, Internal Revenue Service (IRS) reporting and continued program marketing and lender training. PDC will charge a \$350.00 MCC application fee which will cover these on-going administrative costs.

RISK ASSESSMENT

The MCC program has very limited risks. MCC certificates will be logged in as they are issued by PDC, thus the availability of MCCs will be actively managed. By doing this, it will avoid a risk of oversubscribing MCC certificates from the allotted volume cap. The issuance of MCCs will be based upon Borrower and Lender submission and certification of eligibility for PDC review. PDC will not be underwriting the request, only verifying that the applicant is eligible for the program.

On a quarterly basis the IRS requires agencies administering an MCC program to submit a report of the MCCs issued (IRS Form 8330 – Issuer's Quarterly Information Return for Mortgage Credit Certificates (MCCs.)) The IRS also requires a written annual report.

There is a risk that neither the state nor the City would want to partner with PDC.

WORK LOAD IMPACT

Establishing an MCC program will have an impact on PDC's Neighborhood Housing Program (NHP) and Finance departments. As previously stated this work load impact is expected to be minimal and currently there are sufficient staff resources to absorb the additional work load.

ALTERNATIVE ACTIONS

The Board can decline to adopt the resolution and direct staff to seek other tools to assist homebuyers.

PUBLIC PARTICIPATION AND FEEDBACK

Lenders and community organizations associated with Operation HOME have been briefed on the opportunity to establish an MCC program. Other stakeholders such as realtors, industry professionals, State and City authorities have also been briefed on this initiative;

the resounding response has been that MCCs should be made available in the city and that PDC should move forward in making that happen.

CONCURRENCE

The MCC program was considered at PDC Commissioner Bertha Ferran's suggestion. Staff has shared the concept with community groups and industry professionals through the Operation HOME Initiative and it has received strong support. Staff has also had discussions with the State Bond program staff, which had a lukewarm reception, although we do not expect active opposition. Staff has communicated with a number of Urban Renewal Team managers as to the benefits of the MCC program and how it can assist in the Urban Renewal Area's housing goals. The response has been positive and as the program gets finalized staff will work with the Urban Renewal Area teams to ensure success.

BACKGROUND

The MCC Program, authorized by Congress in the Tax Reform Act of 1984, is an alternative to mortgage revenue bond-backed financing to assist "first time homebuyers" for the purchase of a home. The MCC operates as an IRS tax credit. This tax credit reduces the federal income taxes of the borrower; it entitles a taxpayer to subtract the amount of the credit from their total federal income tax bill. A "tax deduction", on the other hand, is subtracted from adjusted gross income before federal income taxes are computed. When using the MCC tax credit of 20 percent, the homebuyer would still be eligible to deduct the remaining 80 percent of the annual mortgage interest payment not claimed as a credit. Once the homebuyer has gone through the process of calculating other credits and deductions they will have a net amount of federal taxes owed. The remaining 20 percent would be used as a dollar for dollar credit of that net tax liability (see Table 1.)

Table 1 – 20% MCC interest credit example

Loan Amount	Mortgage Interest Rate	Annual Interest Paid	80% Interest Deduction	20% Interest Credit
\$250,000	6.25%	\$15,625	12,500	\$3,125

Based on the illustration above, a family with an annual income of \$70,000 with a federal income tax rate of 25 percent will have a savings of \$2,469 (see Table 2.)

Table 2 – Family savings using a 20% MCC credit

Mortgage Loan	Household Income	Interest Deduction	Taxable Income	Preliminary Tax Payment (Taxable Income x 25%)	MCC 20% Credit	Tax Payment
Mortgage Loan Without an MCC	\$70,000	\$15,625	\$54,375	\$13,5934	n/a	\$13,594
MCC Mortgage Loan	\$70,000	\$12,500	\$57,500	\$14,375	\$3,125	\$11,125

If PDC administers the program for the City or State, the process for issuing an MCC Certificate will be as follows:

The homebuyer applies for the MCC with a participating Lender at the same time he/she makes a formal application for a mortgage loan. The Lender determines the Borrower's eligibility for an MCC and submits an MCC request on behalf of the borrower with a non-refundable fee of \$350 payable to PDC. The PDC loan specialist reviews the MCC request packet for qualifying purposes. Once PDC determines the MCC application packet is completed properly, and the borrower and the transaction are in compliance, PDC issues an MCC Commitment. The MCC Commitment is valid for 120 calendar days. When the loan is ready to close, Lender reviews disclosures and forms for accuracy and delivers MCC documents to PDC. PDC reviews the final MCC documents, endorses the MCC Certificate, and forwards a copy of the document to the Lender and the borrower.

The MCC program enables PDC to leverage non tax increment resources for the benefit of homeownership in the city of Portland. By making this program available through a participating lender process, it creates a network in the industry for the benefit of first time homebuyers and minority homeownership. This program will be sponsored and marketed through Operation HOME.

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