#### THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

# December 5, 2007 Staff Report

# REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A MORTGAGE CREDIT CERTIFICATE PROGRAM

Prepared by Sarah Lester

**Applicant:** City of Los Angeles

**Contact Information:** 

Name: George Guillen
Address: City of Los Angeles

1200 W. 7<sup>th</sup> Street, 8<sup>th</sup> Floor Los Angeles, CA 90012

**Phone:** (213) 808-8585

Allocation Amount Requested: \$14,893,931 Converted MCC Authority: \$3,723,483

**Applicant's Fair Share Amount:** \$14,893,831 **Converted MCC Authority:** \$3,723,458

**Participating Jurisdictions:** 

City of Los Angeles

**Allocation Information:** 

**Date MCCs will be advertised:** Before November 1, 2007

Expected date of issuance of first MCC: March 1, 2008

Program Status: Existing program

**Program Status:** Existing program

Certificate tax credit rate: 15% (non-targeted areas) and 20% (targeted areas)

Type of housing units to be assisted/average mortgage amount:

New construction units:

Existing resale units:

Rehabilitation units:

Totals units:

3 units (5%) with an average mortgage amount of \$400,000

51 units (90%) with an average mortgage amount of \$375,000

3 units (5%) with an average mortgage amount of \$350,000

57 units with an average mortgage amount of \$375,000

**The above numbers of units are:** X estimates

\_ actual requirements imposed by the Issuer

#### **Past Performance:**

The application indicates the applicant met the 2006 minimum performance requirement that at least 40% of the program participants are lower-income households.

The application indicates the applicant expects to meet the 2007 minimum performance requirement that at least 40% of program participants will be lower-income households.

## **Recommendation:**

Staff recommends that the Committee approve a reduced amount of \$14,893,831 in tax-exempt bond allocation, on a carryforward basis, which is the Applicant's 2007 fair share amount.

#### **DESCRIPTION OF PROPOSED PROGRAM:**

- The 2007 fair share amount for Los Angeles County is \$38,483,239, which is split between the County of Los Angeles and the City of Los Angeles. Based on population, the City of Los Angeles' fair share of the \$38,483,239 is \$14,893,831. The City of Los Angeles operates an MCC program as well as a mortgage revenue bond (MRB) program. The City has requested that all of its 2007 fair share be allocated to its MCC Program. Based on the information contained in the application, the fair share amount will provide about 57 MCCs during a 24 month period at an issuance rate of 4-5 MCCs issued per month.
- Population to be served by the proposed Program (family size, income levels, etc.):

  The proposed Program expects to serve a diverse ethnic composition. The average family size is 3 persons and according to the Applicant, nearly all of the households served have been below 80% of the HUD area median income.
- Estimated number of first-time homebuyers to be assisted: 57
- Housing stock to be purchased (types, unit sizes, etc.):
  According to the Applicant, the housing stock to be purchased will consist of predominantly condominiums and approximately 30% will be single family residences in existing neighborhoods.
- Specific reservations of MCCs for purposes such as low-income targeting, new construction, etc.: The program will reserve 20% of the certificates for federally designated target areas and 40% for families with incomes of at or below 80% of the area median income adjusted for family size.
- Expected duration MCCS will be available and anticipated monthly rate of issuance: According to the Applicant, MCCs will likely be issued at a rate of 4-5 MCCs per month.
- Other homebuyers assistance programs offered by participating jurisdiction(s):

  Small Sites Program This program was established after the 1992 Civil Unrest to support construction of new for-sale single family homes on scattered sites in neighborhoods needing revitalization. The Applicant states that the program is targeted to households with incomes at or below 80% of area median income.

According to the Applicant, City financial assistance consists of a loan for up to 100% of the total development cost per home to the developer. Both for-profit and non-profit developers participate in this program. The Applicant states that funds can be used for site acquisition, predevelopment costs, and construction. The City's loan is repaid when the permanent mortgage is made. The permanent mortgage is most often funded using either mortgage revenue bonds or MCCs. According to the Applicant, the City provides up to \$90,000 in soft second mortgages. The program was expanded in 1996 to include purchase/rehabilitation of single-family homes, particularly nuisance properties, by developers to first time homebuyers.

Secondary Financing Assistance – The City provides secondary "gap" financing assistance for low and moderate income households which purchase in City-assisted developments. Up to \$90,000 in secondary financing assistance is available to households with annual incomes of less than 80% of median income. Payment on the secondary financing assistance is deferred until the title to the property changes or the home is re-sold, at which time the principal of the loan is due with 0% interest charged. According to the Applicant, MCCs have been used in conjunction with this program.

Low Income Purchase Assistance with Rehab Program (LIPAR) – The City of Los Angeles, Low Income Purchase Assistance with Rehab Program assists low income families to buy homes and to upgrade properties. The LIPAR program uses local lenders to process and underwrite first mortgages. The City provides downpayment and closing costs assistance and, where property improvements are required, a detailed rehabilitation assessment, construction supervision, a sizeable second mortgage and a construction reserves.

The majority of these loans have been made with MCCs. The Departments believes that approximately 144 of these loans will be funded in 2008. Over 500 low-income families have benefited from this program since its inception in the mid-to late 1990s, using the purchase/rehab option.

Eligibility for the program is limited to lower income households earning no more than 80% of the median income set by HUD.

This program is available to first-time buyers purchasing properties in need of at least \$5,000 of repairs. The City provides a second mortgage loan of up to \$115,000 plus ADDI. The rehab loan is subject to 3% simple interest and fully deferred until sale or transfer of the property. The gap assistance is subject to shared appreciation and is also fully deferred until sale or transfer of the property. In addition, the City provides a rehabilitation needs assessment and construction supervision.

• Any other features unique to the proposed Program: None indicated.

## **PURCHASE PRICE INFORMATION:**

# The proposed maximum limits are:

Unit Type	Average Area <a href="Purchase Price">Purchase Price</a> *	Non-Target Area Maximum <u>Purchase Price</u>	Target Area Maximum <u>Purchase price</u>	
New Units Existing Units	\$477,355 \$477,355	\$429,620 \$429,620	\$525,091 \$525,091	
*This is established by (check one):		<ul> <li>_X IRS safe harbor limitations</li> <li>_As determined by special survey</li> <li>(See application attachment "H" attached)</li> </ul>		

# **Expected average sales prices of the estimated units to be assisted:**

New units	\$445,000
Existing units	\$416,000
Rehabilitated units	\$390,000

## **MAXIMUM INCOME LIMITATIONS:**

Area median income on which maximum program limits are based: \$56,500

Applicable standard that defines the area median income:

HUD statewide median	<u>X</u> HUI	O county MSA median
Local median as determined by a special	study	
(See application attachment "I" attache	d)	

Percent of MCCs reserved for IRS-designated target areas in the jurisdiction(s): 20%

## **Proposed maximum income limits:**

<u>Household Size</u>	Non-Target Area	Target Area
1-2 persons	\$88,800	\$88,800
3+ persons	\$102,120	\$103,600

# **DESCRIPTION OF PUBLIC BENEFITS:**

# **Past Program Performance:**

<u>Year</u>	Amount of Allocation Awarded	Amount of Allocation Used	Number of MCCs Issued	Status of Outstanding MCC Authority
2004	\$10,668,906	\$6,755,020	33	\$978,471
2005	\$0	\$0	0	N/A
2006	\$0	\$0	0	N/A

<sup>\*</sup> Expired December 31, 2006

Pursuant to CDLAC Procedures Section 18.I.E.1.,2., the Applicant has:

- 1. Demonstrated that no Mortgage Credit Certificate authority from the year two years prior to the current year has been unused (other than minor amounts not to exceed \$1 million); and
- 2. Certified that any Mortgage Credit Certificate authority remaining from the year prior to the current year will be used before the use of new Mortgage Credit Certificate Authority.

<sup>\*</sup> According to the Applicant, there were two primary factors behind the Los Angeles Housing Department not being able to utilize all of its 2004 MCC allocation. The first was that home prices for Los Angeles rose to historic highs causing affordability issues for most first-time homebuyers. Secondly, with interest rates at historic lows during this time period, the majority of buyers using LAHD down payment assistance also used bond financing in place of traditional financing.