



# 2016 \$40MM MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

**Assist qualified homebuyers to purchase their home by providing an annual tax credit.**

April 19, 2016

# CITY COUNCIL ACTION

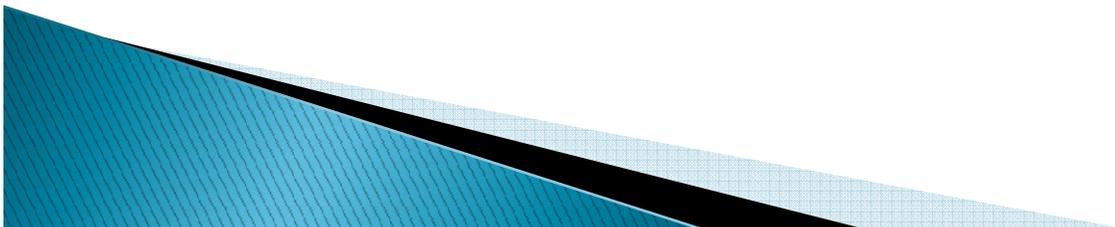
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➤ **Action:**

- **Approve the 2016 MCC Program by allocating the use of \$40MM in Private Activity Bond volume cap and approve the required program documentation.**

➤ **Schedule:**

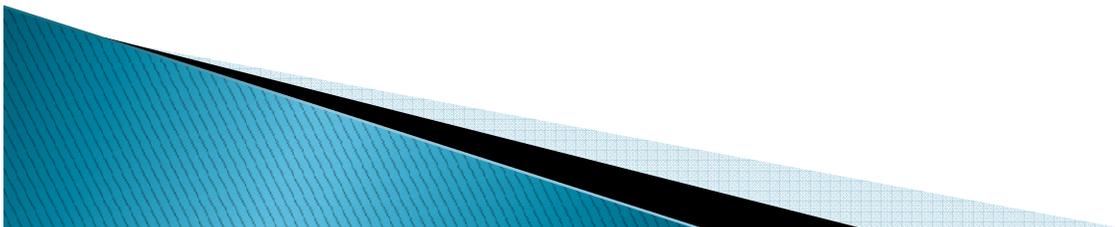
- **April 19<sup>th</sup> – Finance And Services Committee**
- **April 26<sup>th</sup> – Mayor Council**
- **May 2<sup>nd</sup> – 1<sup>st</sup> Reading at City Council**
- **May 9<sup>th</sup> – 2<sup>nd</sup> Reading at City Council (no public hearing required)**



# WHAT IS A MORTGAGE CREDIT CERTIFICATE (MCC)?

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- **The Mortgage Credit Certificate (MCC) Program was created to assist qualified homebuyers to purchase a home by providing an annual tax credit.**
- **An MCC is a certificate awarded by the City authorizing the holder to take certain federal income tax credits.**
- **A qualified borrower who is awarded an MCC from the City's 2016 MCC Program may take an annual credit against their federal income taxes of 25% of the annual interest paid on their mortgage up to a maximum of \$2,000.**
- **The City is making \$40MM of credits available to qualified plan participants.**
  - **Allocating \$40MM of PAB capacity towards this program.**



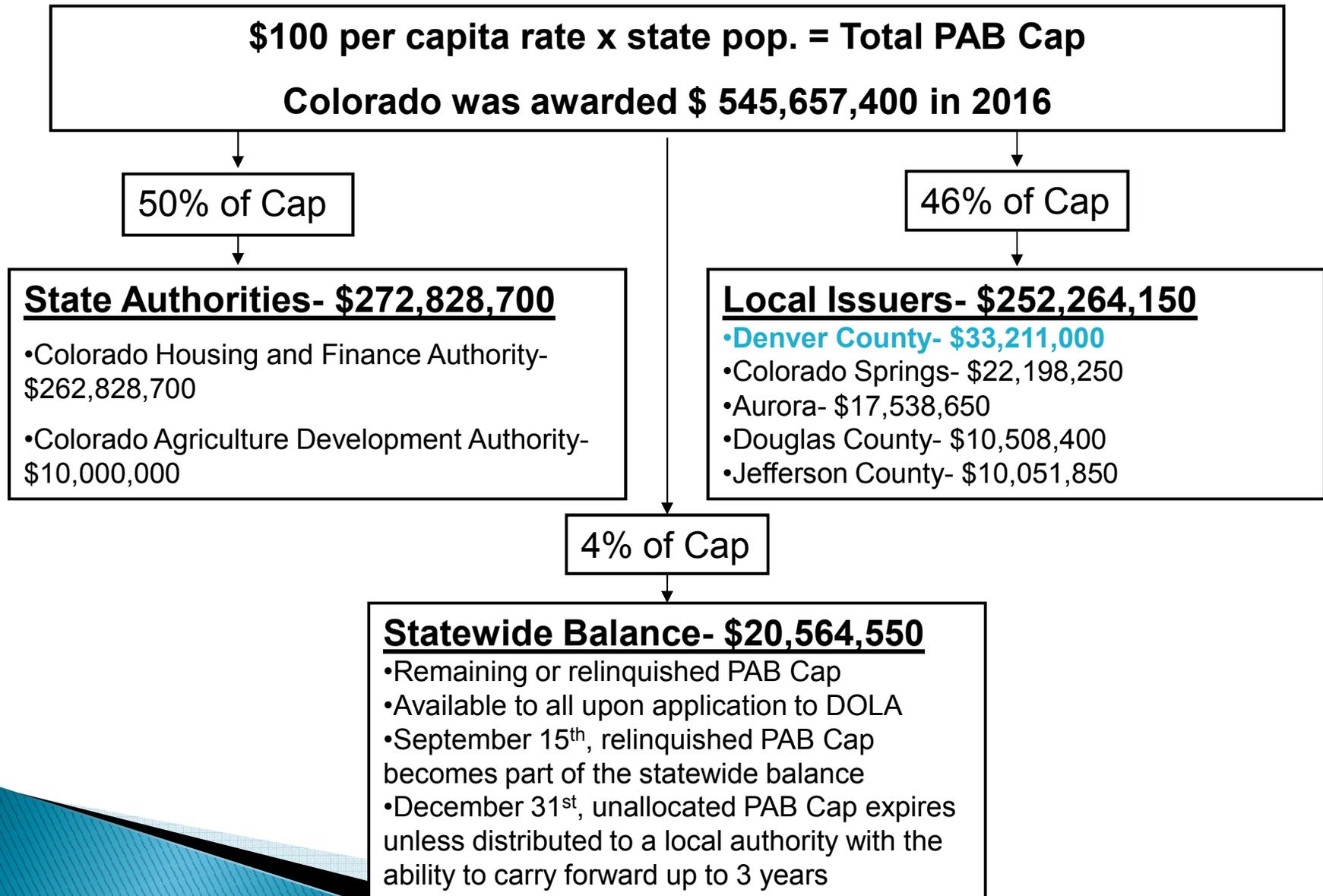
# SAMPLE MCC CALCULATION FOR HOMEBUYER

Variables & Borrower Benefit Summary	
Loan Principal Amount	\$225,000
Mortgage Rate	4.375%
Loan Period in Years	30
Base Year of Loan	2016
Mortgage Interest Paid 2016	<b>\$9,770</b>
MCC Rate	<b>25%</b>
Allowable Tax Credit 2016	<b>\$2,000</b>
Potential Total 30 Year Credit	\$42,530

- Using an MCC has the potential of saving a homeowner thousands over the life of their mortgage loan.

Mortgage Credit Certificate Schedule				
Year	Mortgage Interest	MCC Rate	Gross Tax Credit	Allowable Tax Credit
2016	\$9,770	25%	\$2,442	\$2,000
2017	\$9,604	25%	\$2,401	\$2,000
2018	\$9,431	25%	\$2,358	\$2,000
2019	\$9,250	25%	\$2,313	\$2,000
2020	\$9,062	25%	\$2,265	\$2,000
2021	\$8,864	25%	\$2,216	\$2,000
2022	\$8,658	25%	\$2,165	\$2,000
2023	\$8,443	25%	\$2,111	\$2,000
2024	\$8,218	25%	\$2,055	\$2,000
2025	\$7,983	25%	\$1,996	\$1,996
2026	\$7,738	25%	\$1,934	\$1,934
2027	\$7,482	25%	\$1,870	\$1,870
2028	\$7,214	25%	\$1,803	\$1,803
2029	\$6,934	25%	\$1,734	\$1,734
2030	\$6,642	25%	\$1,660	\$1,660
2031	\$6,336	25%	\$1,584	\$1,584
2032	\$6,018	25%	\$1,504	\$1,504
2033	\$5,684	25%	\$1,421	\$1,421
2034	\$5,336	25%	\$1,334	\$1,334
2035	\$4,973	25%	\$1,243	\$1,243
2036	\$4,593	25%	\$1,148	\$1,148
2037	\$4,196	25%	\$1,049	\$1,049
2038	\$3,782	25%	\$945	\$945
2039	\$3,349	25%	\$837	\$837
2040	\$2,897	25%	\$724	\$724
2041	\$2,424	25%	\$606	\$606
2042	\$1,931	25%	\$483	\$483
2043	\$1,415	25%	\$354	\$354
2044	\$876	25%	\$219	\$219
2045	\$314	25%	\$78	\$78
	\$179,418			\$42,530

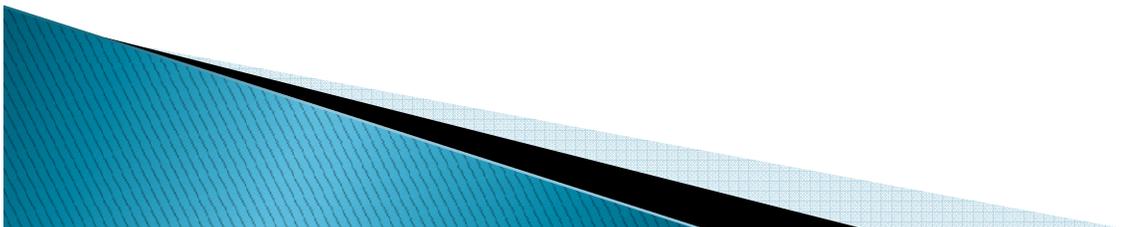
# PRIVATE ACTIVITY BONDS (PAB) UTILIZATION



# 2016 MCC PAB SOURCES

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- Once a local government is awarded the PAB Cap, the IRS allows the PAB Cap to be carried forward up to 3 years
- Sources of \$40MM of PAB allocation for the 2016 MCC Program
  - \$25MM from 2014 Carryforward
  - \$15MM from 2015 Carryforward



# MCC PROGRAM OUTLINE AND PARTICIPANT REQUIREMENTS

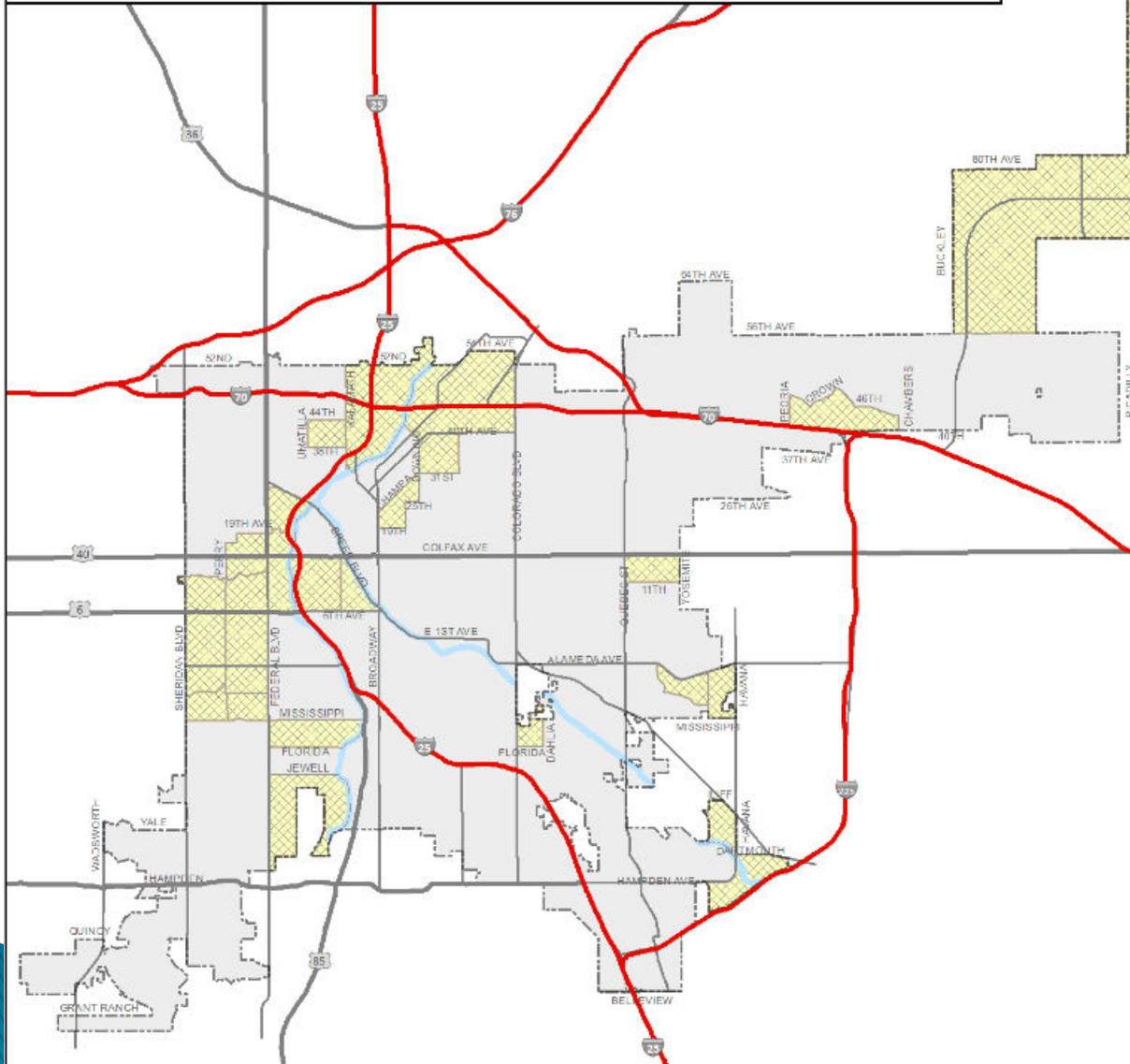
- **Term:** The program will run from May 17, 2016 to December 31, 2018
- **1<sup>st</sup> Time Homebuyer and Primary Home:** It must be the Mortgagor's primary home and they must be either first-time homebuyers or may not have owned a home in the past three years (**except in "Targeted Areas"** and for Qualified Veterans - see Targeted and Non-Target areas on the next slide)
- **Terms, loan type and interest rate:** FHA, VA, & Conventional loans, mortgage rate must be fixed and not exceed 40 years. There is a \$75 application fee and 0.15% of the mortgage amount for the MCC Issuance Fee to paid by the Borrower (\$338 on a \$225K loan).
- **Homebuyer education** required from HUD approved agencies
- **To Help Qualify:** The credit may be used towards qualifying the borrower's income on their mortgage application with a participating mortgage lender
- **W-4 Adjustment:** The Homebuyer may adjust their W-4 to reflect the anticipated tax-credit – providing a higher monthly net income

	<b>Non-Targeted Area</b>	<b>Targeted Area</b>
<b><u>Eligible Area:</u></b>	Entire City and County of Denver	Designated Census Tracts in City and County of Denver
<b><u>Eligible Participants:</u></b>	First-time homebuyers	Non first-time homebuyers
<b><u>Maximum Household Income:</u></b>		
Household size of 2 or less	\$95,880	\$95,880
Household size of 3 or more	\$111,860	\$111,860
<b><u>Maximum Home Cost:</u></b>		
1-Unit Residence	\$439,926	\$495,000
2-Unit Residence	\$439,926	\$495,000



# 2016 Mortgage Credit Certificate Program

City and County of Denver  
Office of Economic Development



### Program Description

The 2016 Denver MCC program allows qualifying borrowers to receive an annual federal income tax credit = 25% of the annual interest they pay on their mortgage loan.

### First-time Homebuyers

Cannot have owned a home in the past three years (except in "Targeted Areas"). Targeted Areas are census tracts designated by HUD as underserved in mortgage loan origination.

Eligible Areas:	Non-Targeted	Targeted
	Entire City & County of Denver	

Eligible Users:	First-time homebuyers	Non first-time homebuyers

Maximum Household Income*	Non-Targeted	Targeted	
	Household size of 2 or less	\$95,880	\$95,880
	Household size of 3 or more	\$111,860	\$111,860

Maximum Home Cost*	Non-Targeted	Targeted	
	1-unit home	\$439,926	\$495,000
	2-unit home	\$439,926	\$495,000

\*subject to change

- Targeted Areas
- City & County of Denver

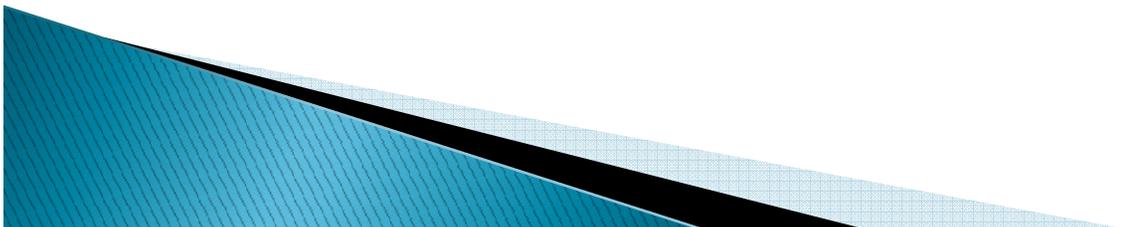
Map Date: April 2016. Map Created By: Denver Office of Economic Development. Data Sources: DenverGIS, HUD, City and County of Denver.



# 2015 & 2012 MCC PROGRAM RESULTS

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- ▶ **2015 Mortgage Credit Certificate Program (through 3/31/16):**
  - Originated \$35.4 million out of \$37.5 million of available program funds.
    - Expect to fully originate all \$37.5 million by mid-May 2016.
  - 142 MCCs have been issued in the 2015 Program.
  - The average participant income was \$54,304.
  - The average home purchase price was \$235,711
  - 2015 MCC Program will expire officially on December 31, 2017.
  
- ▶ **2012 Mortgage Credit Certificate Program:**
  - Fully originated the \$25 million of available program funds.
  - 139 first-time homebuyer families used the MCC Program.
  - The average participant income was \$51,643.
  - The average home purchase price was \$191,057
  - 2012 MCC Program expired on December 31, 2014.



# HOW DOES HOMEBUYER USE THE MCC?

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- A homebuyer claims the tax-credit on their annual tax return using IRS Form 8396.
- As long as the home is the primary residence of the homebuyer, the tax-credit can be claimed for the life of the mortgage loan as long as the homebuyer has the federal income tax liability to benefit from the annual tax-credit in any given year.

## **Metro Mortgage Assistance Plus Program (MMA+): Companion Program to MCC**

- City provides 4% down payment assistance grant in exchange for a slightly higher interest rate.
- Same maximum income limits and same homebuyer education requirements from HUD approved agency.
- No maximum purchase price, no first time homebuyer requirement, there are minimum credit score requirements, home purchase can be located in Metro Mayor Caucus area.

# COMBINING MCC AND MMA+ PROGRAMS

## Comparison of 1<sup>st</sup> Year Housing Costs Utilizing the City's MCC and MMA+ Programs:

- \$237,000 Purchase Price
- 5% Down Payment Requirement
- 30 Year Mortgage
- 28% Tax Rate
- Tax Liability Allows Homebuyer to Take Full Interest Deduction and Full Mortgage Credits
- Homebuyer Itemizes Deductions

Housing Cost Comparison After 1st Year*				
Housing Cost Type:	Using MCC and MMA+		Not Using City Programs	
	Applicable %	\$ Amount Equivalent	Applicable %	\$ Amount Equivalent
Down Payment	5%	\$11,842	5%	\$11,842
Estimated Closing Costs	1%	\$2,250	1%	\$2,250
MMA+ Down Payment Assistance	4%	(\$9,474)	0%	\$0
1st Year of Mortgage Payments (Principal and Interest)	@ 4.375% Interest Rate	\$13,481	@ 4.00% Interest Rate	\$12,890
Mortgage Credits	25% of Interest Paid up to \$2,000 Limit	(\$2,000)	25% of Interest Paid up to \$2,000 Limit	\$0
Value of Mortgage Interest Tax Deduction	Tax Rate Multiplied by Deductible Mortgage Interest	(\$2,176)	Tax Rate Multiplied by Deductible Mortgage Interest	(\$2,500)
<b>Total 1st Year of Housing Costs</b>		<b>\$13,924</b>		<b>\$24,483</b>

\* All else equal

1st Year of Housing Cost Savings from Utilizing the MCC and MMA+ Program:	<b>\$10,559</b>
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# COMBINING MCC AND MMA+ PROGRAMS

## Housing Cost Savings Utilizing the City's MCC and MMA+ Programs:

- \$237,000 Purchase Price
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- 30 Year Mortgage
- 28% Tax Rate
- Tax Liability Allows Homebuyer to Take Full Interest Deduction and Full Mortgage Credits
- Homebuyer Itemizes Deductions

Comparison of Housing Costs				
Year	Year #	Using City Programs- Total Housing Costs	Not Using City Programs- Total Housing Costs	Total Housing Cost Savings by Using City Programs
2016	1	\$13,924	\$24,483	\$10,559
2017	2	\$9,352	\$10,436	\$1,084
2018	3	\$9,400	\$10,483	\$1,083
2019	4	\$9,451	\$10,532	\$1,081
2020	5	\$9,503	\$10,583	\$1,079
2021	6	\$9,559	\$10,636	\$1,077
2022	7	\$9,616	\$10,691	\$1,074
2023	8	\$9,677	\$10,748	\$1,072
2024	9	\$9,740	\$10,808	\$1,068
2025	10	\$9,808	\$10,870	\$1,062
<b>Total</b>		<b>\$100,029</b>	<b>\$120,268</b>	<b>\$20,239</b>

Potential for \$20,239 in housing cost savings in the first ten years of the loan.

# Questions?

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## MCC Program Partners:

- **Issuer** - City and County of Denver



- **Program Administrator** - Raymond James & Associates, Inc.



- **Bond Counsel** – Kutak Rock, LLP



- **Financial Advisor** – Hilltop Securities (fka FirstSouth West Company)



- **Local Lenders** - 41 Denver area mortgage lenders in the 2015 program

