10

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

November 25, 1985

Budget & Finance Committee
of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Single Family Mortgage Revenue Bond Program - Policy Statement Report

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Sacramento City Council.

RECOMMENDATION

The staff recommends approval of the attached resolution approving the Policy Statement Report.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Solon Wisham, Jr

SOLON WISHAM, JR.
Assistant City Manager

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Sacramento City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Single Family Mortgage Revenue Bond Program - Policy Statement Report

SUMMARY

This report recommends adoption of the annual policy statement report for 1986 concerning utilization of Single Family Mortgage Revenue bonds and its subsequent filing with the U.S. Secretary of the Treasury. This policy statement is substantially the same as the statement adopted by the Board of Supervisors for calendar year 1985.

BACKGROUND

Requirements

The Tax Reform Act of 1984 requires that governmental units which intend to issue Single Family Mortgage Revenue bonds in 1985 and thereafter publish an annual policy report, after holding a public hearing, by the last day of the year preceeding the proposed bond issue. The report must contain a ". . . statement of policies with respect to housing development and low-income housing assistance, which such governmental units are to follow in issuing qualified mortgage bonds. . ." The report must also contain an assessment of compliance during the preceeding one year period with ". . . the intent of Congress that. . . local governments are expected to use their authority to issue qualified mortgage bonds. . . to the greatest extent feasible. . . to assist lower income families to afford home ownership before assisting higher income families."

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OFFICE LOCATION: 630 I Street, Sacramento, CA 95814 (916) 444-9210

Proposed Policies

The attached resolution proposes policies with respect to future Single Family Mortgage Revenue bond programs. Although these policies are substantially the same as those proposed in the 1985 policy report, they differ from policies applicable to the 1980, 1982, 1983 and 1984 bond issues, and are more restrictive than what state and federal law currently allow. This report differs from the 1985 report in that it recommends pursuing a bond issue for home improvement loans, and establishing a pilot program to issue Mortgage Credit Certificates (MCCs). For your information, a summary of the proposed 1986 policies and their comparison with past efforts is contained on Table A of this report. Compared to previous issues (1980-84), the major differences in the 1985 and 1986 policies are:

1. A lower maximum income limitation for home buyers of 120% of median income, or $38,292 (state law allows a maximum income of up to 150% of median);

2. Increased targeting to low- and moderate income households;

3. A lower maximum purchase price (commensurate with the lower income limits);

4. Increased targeting of funds to lower priced homes when selecting developers to participate in the program (commensurate with increased targeting to low-income persons);

5. A greater emphasis on existing homes (which generally provide more affordable opportunities for low and moderate income persons) through the use of bond proceeds or mortgage credit certificates; program;

6. Opportunities for the purchase of existing homes outside of "target" areas (to provide increased opportunities for dispersal of low-income persons.

7. Use of of bond proceeds for home improvement loans. This is a new recommendation and was not included in the 1985 report.

As was noted in last year's staff report, the ability to afford a home is sensitive to interest rates. The mortgage revenue bond program, by providing a below market mortgage can increase the supply of affordable housing, particularly for lower income households. The observations and conclusions that motivated our 1985 policies still hold true for our 1986 report, and are enumerated below:

1. Ignoring personal desires, size requirements and locations, all of which influence the availability of homes to individuals, households earning above 120% of the area median income do not need bond financing to find an affordable home. A substantial percentage of both new (67%) and existing (71%) homes available were already available to this group absent the bond program. (Bond rate financing does, however, increase the range of opportunities and gives such households a chance to purchase a more expensive home with the same or lower payments.)

2. At the other end of the income spectrum, households earning less than 50% of median have little opportunity for home ownership at either market rate or bond rate financing. Most of the homes which are affordable under either situation are lower end resale units.

3. The majority of all homes which are affordable to households earning less than 80% of median are resale units, even with favorable financing. Very few new homes are being built at less than the $66,000 deemed affordable by such households.

4. Overall, existing (resale) housing appears to offer the greatest potentials for fulfilling the homeownership aspirations of lower-income households under the bond program. Few new homes are being sold at a price low enough, even under bond financing, for low-income persons to afford.

5. For median income households, opportunities for acquisition of a new home are limited with market rate housing. Only 40% of all new homes surveyed are available at an affordable price. In the absence of bond financing, aspiring home owners at this income level whil have a better opportunity to acquire an existing home, a reasonable number of which are available (54%). With bond financing, however, a substantial percentage of both existing and new homes were available (66% and 57%, respectively).

In addition to the policies adopted in 1985, staff is proposing:

A. A home improvement issue to provide rehabilitation opportunities to homeowners with incomes between 80% and 120% of median, who are not currently being served by the existing City and County rehabilitation programs. This program will begin to address the needs of the 18,000 homes that were found, through a recent survey of the housing stock, to be in need of rehabilitation.

B. A pilot program to issue mortgage credit certificates (MCCs) as an alternative to mortgage revenue bonds.

Mortgage Credit Certificates were proposed under the deficit reduction act of 1984. MCCs are issued instead of Mortgage Revenue Bonds, and are counted against the City and County's bond allocation for issuing Mortgage Revenue Bonds (MRBs). Requirements under the MCC program are essentially the same as the bond program (e.g., first time homebuyer, maximum income qualification, and maximum purchase price limitations). Under the MCC program, qualified homeowners obtain conventional market rate financing. The "Certificate" then provides a tax credit to the homeowner, which has the effect of buying down the interest rate on the mortgage. The certificate designates the percent of interest credit the person can take in any one year, and ranges from a 10% credit to a 50% credit, but in any case, cannot exceed $2,000 per year. Attachment 1 of Exhibit A provides an illustration of how MCCs work.

The MCC program is a pioneering venture, as only a few entities nationwide have established MCC programs. MCCs may provide an opportunity to make moderately priced homes available to first time homebuyers who otherwise would not be able to purchase a home.

FINANCIAL IMPLICATIONS

There are no direct financial implications to the Agency resulting from this action. The implications to program participants are outlined above.

POLICY IMPLICATIONS

The actions proposed in this staff report are consistent with those adopted for 1985.

ENVIRONMENTAL IMPLICATIONS

There are no environmental impacts due to the adoption of the proposed policies.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of December 2, 1985, the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES:

NOES:

ABSENT:

RECOMMENDATION

Staff recommends adoption of the attached resolution approving the Policy Statement Report for the Single Family Mortgage Revenue bond Program and authorizing its transmittal to the U.S. Secretary of the Treasury.

Respectfully submitted,

WILLIAM H. EDGAR
Executive Director

Contact Person: John Molloy
440-1360

TRANSMITTAL TO COUNCIL

WALTER J. SLIPE
City Manager

BL:j
11/26/85
SF Pol Report

RESOLUTION No.

Adopted by The Sacramento City Council on date of

MORTGAGE REVENUE BOND POLICY REPORT
UNDER INTERNAL REVENUE CODE SECTION 103A

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

Section 1: The Single Family Mortgage Revenue Bond Policy Report attached to the staff report as Exhibit A is hereby approved.

Section 2: The Executive Director of the Sacramento Housing and Redevelopment Agency is hereby authorized and directed to submit the Policy Report to the United States Secretary of the Treasury in compliance with the requirements of Section 103A of the Internal Revenue Code.

____
MAYOR

____
CITY CLERK

z:ccSingleFam

RESOLUTION NO. ____

Adopted by the Isleton City Council on date of

MORTGAGE REVENUE BOND POLICY REPORT
UNDER INTERNAL REVENUE CODE SECTION 103A

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF ISLETON:

Section 1: The Single Family Mortgage Revenue Bond Policy Report attached to the staff report as Exhibit A is hereby approved.

Section 2: The Executive Director of the Sacramento Housing and Redevelopment Agency is hereby authorized and directed to submit the Policy Report to the United States Secretary of the Treasury in compliance with the requirements of Section 103A of the Internal Revenue Code.

____
MAYOR

____
CITY CLERK

z:ccIsleSingleFam

RESOLUTION NO. ______

Adopted by the Galt City Council on date of

MORTGAGE REVENUE BOND POLICY REPORT
UNDER INTERNAL REVENUE CODE SECTION 103A

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF GALT:

Section 1: The Single Family Mortgage Revenue Bond Policy Report attached to the staff report as Exhibit A is hereby approved.

Section 2: The Executive Director of the Sacramento Housing and Redevelopment Agency is hereby authorized and directed to submit the Policy Report to the United States Secretary of the Treasury in compliance with the requirements of Section 103A of the Internal Revenue Code.

____
MAYOR

____
CITY CLERK

z:ccGaltSingleFam

RESOLUTION NO. _____

Adopted by the Folsom City Council on date of

MORTGAGE REVENUE BOND POLICY REPORT
UNDER INTERNAL REVENUE CODE SECTION 103A

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF FOLSOM:

Section 1: The Single Family Mortgage Revenue Bond Policy Report attached to the staff report as Exhibit A is hereby approved.

Section 2: The Executive Director of the Sacramento Housing and Redevelopment Agency is hereby authorized and directed to submit the Policy Report to the United States Secretary of the Treasury in compliance with the requirements of Section 103A of the Internal Revenue Code.

____
MAYOR

____
CITY CLERK

z:ccFolSingleFam

TABLE A
PROPOSED AND CURRENT POLICIES
SINGLE FAMILY MORTGAGE REVENUE BOND PROGRAM

Policy Area	Proposed Policies for 1985 and 1986	1980-1984
A. Housing Policies		
1. Use of Proceeds	. Initially, only acquisition; possible future use for rehabilitation	. Acquisition only
2. Unit Types	. Single family homes, detached or attached (including condominiums, townhouses and coops)	. Same, except for condominiums
3. Targeting of Proceeds	. New or existing housing; 40% of proceeds reserved for existing housing for one year, subject to underwriting and marketing constraints. Twenty percent would continue to be set aside for target areas (B1, below) and up to 20% could be used on resale homes anywhere in the City or County (B2, below).	. New or existing housing; approximately 40% of proceeds may be used for existing housing. The 1984 issue sets aside 20% for target areas only, otherwise proceeds are used for new construction.
4. Maximum Purchase Price - New Homes	. 110% of safe harbor limits for new homes (results in $123,750 currently)	. 120% of safe harbor limits in targeted areas ($135,000); 110% of safe harbor limits elsewhere
5. Maximum Price - - Existing Housing	. The average price of existing housing (approximately $108,000 currently)	. 120% of average existing price in targeted areas ($129,600); 110% of average in other areas ($118,800)

6. New Housing Allocation Priorities	. Priority 1 - homes under $60,000 Priority 2 - homes between $60,000 and $80,000	. None specified
7. Rehabilitation	. $2 - $5 million of the issue be set for home improvement loans on existing housing	. None specified

B. <u>Development Policies</u>

1. Targeted Areas	. 20% of proceeds for new and existing housing for one year in census tracts specified by the Internal Revenue Service. These can be purchased by non-first time homebuyers.	. Same
2. Non-Target Areas	. An additional 20% of proceeds reserved for existing housing for one year anywhere in the City and County, provided reservation funding available from realtors, mortgage bankers or others, or achieved through a pilot Mortgage Credit Certificate Program.	. Developers <u>may</u> use up to 20% of their reservations for new or existing residences not identified in their development agreements.
3. CDBG, Redevelopment areas	. Priority to developer proposals in these areas	. None specified

C. Low-Income Assistance

1. Maximum Income	. 120% of median for both new and existing residences (results in approximately $38,000 maximum)	. 150% of median ($47,874) for new residences; 120% of median for existing residences
2. Income Group Targets	. 1/3, minimum, of proceeds for low- and moderate income families (less than 80% of median) . 1/3, minimum, for median-income families (80%-100% of median) . Income targets may be revised after six months if insufficient interest is evidenced.	. No targets for entitlement allocation . 50% of supplemental allocation for existing homes targeted for existing homes targeted to families earning less than 80% of median

EXHIBIT A

COUNTY OF SACRAMENTO

on behalf of itself and

The Cities of Sacramento, Folsom,

Isleton and Galt

Tax Identification No. 94-6000529 County of Sacramento

Tax Identification No. 94-6000410 City of Sacramento

Tax Identification No. 94-6000334 City of Folsom

Tax Identification No. 94-6000349 City of Isleton

Tax Identification No. 94-6000339 City of Galt

POLICY REPORT UNDER SECTION 103A

CITY AND COUNTY OF SACRAMENTO
SINGLE FAMILY MORTGAGE REVENUE BOND PROGRAM

POLICY STATEMENT REPORT

CONTENTS

PART I: Policies

- A. Introduction
- B. Congressional Intent
- C. State Legislative Basis
- D. Program Goals
- E. Housing Policies
  1. Use of Proceeds
  2. Targeting of Proceeds
  3. Need for Targeting
  4. Methods for Targeting
  5. Relation to Low-income Assistance Policies
- F. Development Policies
  1. Geographic Area Targeting
  2. Targeted Areas
  3. Basis for Area Selection
  4. Types of Targeted Units
  5. Relation to Low-income Assistance Policies
- G. Low-Income Housing Assistance Policies
  1. Income Group Targeting
  2. Method of Targeting Proceeds
  3. Relation to Housing Policies
- H. Housing Potentials Analysis

PART II: Compliance with Previous Report

PART III: Compliance with the Intent of Congress

PART IV: Summary of Hearing Comments

CITY AND COUNTY OF SACRAMENTO
Single Family Mortgage Revenue Bond Program
Policy Statement Report

PART I: POLICIES

A. INTRODUCTION

Home ownership is an aspiration of many, if not most residents of the community. This aspiration is becoming increasingly difficult to achieve, particularly for first-time home buyers, due, in part, to increasing prices, high mortgage interest rates and drastic curtailment of governmental assistance programs.

At the current conventional lending rate (approximately 11.5%) a median priced home resale in Sacramento ($79,500) would require monthly payments of approximately $750, if the loan were amortized over a 30-year period with a 5% downpayment.

It is the policy of the City and County of Sacramento to stimulate construction of homes, preserve the existing housing stock through rehabilitation loan assistance make home ownership opportunities available to a wider segment of the population and encourage single family home ownership and neighborhood revitalization in Redevelopment and Community Development Block Grant (CDBG) target areas. Toward these ends, the County, as the issuer, plans to issue qualified single family mortgage bonds and/or mortgage credit certificates (the "Bonds/Certificates") in 1986 in compliance with the intent of Congress, the policies of the California State Legislature and the following locally developed goals and policies.

These policies are intended as general guides to the development and structuring of future bond issues. Specific criteria for individual bond issues will need to reflect bond market conditions and underwriting constraints at the time of specific program development.

B. CONGRESSIONAL INTENT

On July 18, 1984, Congress enacted into law the Tax Reform Act of 1984. This Act imposes certain requirements on issuers of qualified single family mortgage bonds and mortgage credit certificates. One of these requirements is that issuers publish a statement of their policies with respect to housing, development, and low-income housing assistance and report on their compliance (for the one-year period preceding the date of the report) with the intent of Congress that qualified mortgage bond issues and mortgage credit certificates assist lower income families to afford home ownership before assisting higher income families. In order to qualify for a federal tax exemption for interest on qualified mortgage bonds to be issued in 1986, this statement must be published prior to December 31, 1985. As Sacramento County plans to issue qualified single family mortgage bonds and/or mortgage credit certificates in 1986 on behalf of itself and the Cities of Sacramento, Folsom, Isleton and Galt, the following report is being published in order to comply with the requirements of the Tax Reform Act of 1984 and the Regulations thereunder.

C. STATE LEGISLATIVE BASIS

The California State Legislature has found and declared that ". . . there exists within the State a serious shortage of decent, safe, and sanitary housing which is affordable to many persons in the state. This shortage is exacerbated during periods of rising interest rates, particularly as high interest rates have the effect of diminishing the number of otherwise creditworthy buyers from qualifying for private sector mortgage capital sources. In order to remedy this adverse effect on potential home buyers on the lower end of the purchasing spectrum, it is necessary to implement a public program to reduce the cost of mortgage financing for single-family purchases by those persons unable to compete for mortgage financing in the conventional mortgage market. . . ." (California Health and Safety Code Paragraph 52001.). The California State Legislature has additionally found and declared that ". . . it is necessary and essential that counties and cities be authorized to directly and indirectly make long-term, low-interest loans to persons not presently eligible for financing through private sector lending institutions to finance construction, rehabilitation, and acquisition of homes in order to encourage investment and upgrade local areas" (California Health and Safety Code Paragraph 52002).

D. PROGRAM GOALS OF SACRAMENTO COUNTY

1. To provide expanded home ownership opportunities to low and moderate income persons.

2. To increase the supply of housing available to low and moderate income individuals in the community by stimulating the construction of new housing units.

3. To assist in the revitalization of areas with concentrations of low- and moderate income persons.

4. To provide expanded opportunities to low and moderate income households to rehabilitate homes and, hence, preserve the County's housing stock.

E. HOUSING POLICIES

1. Use of Proceeds

a. Bond proceeds may be used to finance the acquisition of newly constructed and existing residences and to provide home improvement loans, based on market feasbility.

b. The proceeds of bonds may be used to finance the purchase of single family homes and individual condominiums and cooperative units.

2. Targeting of Proceeds

a. The proceeds of bonds or Mortgage Credit Certificates (MCCs) may be utilized for either new or existing (resale) housing.

b. Twenty percent of bond proceeds will be set aside for one year for use in target areas.

c. Conditional on the interest of realtors, mortgage companies, or other parties interested in and capable of paying the reservation fees required, twenty percent of the proceeds from each bond issue will be made available for the acquisition of existing housing in non-target areas and anywhere in the City or County for a minimum of six months after bond proceeds are first made available for the purchase of loans. If bond proceeds are not dedicated to resale homes in non-target areas, Mortgage Credit Certificates may be used to meet this 20% resale requirement.

d. The maximum purchase price of a new home to be financed through bond proceeds or MCCs, shall be 110% of the most current average purchase price safe harbor limitation for new homes published by the Department of the Treasury for the Sacramento Metropolitan Statistical Area. (Under this formula, the maximum purchase price in 1985 is $123,750

e. The maximum price of an existing home to be financed through bond proceeds or MCCs shall be the most current average purchase price safe harbor limitation for existing homes published by the Department of the Treasury for the Sacramento Metropolitan Statistical Area. (Under this formula, the maximum purchase price in 1985 is $108,000).

f. In the allocation of bond proceeds to developers of new housing, first priority shall be given to proposals for homes at or under $60,000. Second priority shall be given to proposals for homes between $60,000 and $80,000.

g. Bond proceeds may be used for home improvement loans to low and moderate income households located anywhere in the City or County.

3. The Need For Targeting

Targeting was based on analysis of the availability of both existing and new housing affordable to the several income groupings in the County. (The analysis is included in Section H of this report.) Generally, it was concluded that:

a. Affordable housing opportunities already exist for households earning above 120% of the median income for the County.

b. Without bond financing, there are limited opportunities for the acquisition of new homes by households earning the areas' median income. With below market interest rates, a substantial number of both new and existing homes would be affordable.

c. The bulk of available homes which are affordable to low-income households are resale units. Few new homes are being built at an affordable price.

d. Existing homes offer the greatest opportunities for fulfilling home ownership aspirations of low-income households.

e. A substantial number of homes (18,000) were found to be in need of housing rehabilitation. Home improvement loans will help preserve the housing stock and assist low and moderate income households obtain financing that they cannot otherwise obtain.

4. Methods For Targeting

Proceeds will be targeted according to the following criteria:

a. The salability of bonds involving high percentages of proceeds allocated to existing housing opportunities

b. The interest of lending institutions and their commitments to participation in future programs involving existing housing opportunities.

c. The interest of developers and their commitment to the provision of housing affordable to low-income households. Priority will be given to proposals for homes priced at less than $60,000.

d. Demand for both existing and new housing opportunities as evidenced by market studies and previous experiences.

e. The opportunities for distribution of bond proceeds throughout the City and the County. Priority will be given to homes and projects located in Federally designated target areas, Community Development Block Grant Areas and Redevelopment Areas.

f. The availability of a range of house sizes, including two, three and four bedroom units.

g. New projects that are ready for occupancy will have priority over those still under construction, or in the planning phase. This will fulfill the intent of using bond proceeds as quickly as possible.

h. Bond proceeds for new homes will be allocated to high quality products, and to developers with demonstrated experience.

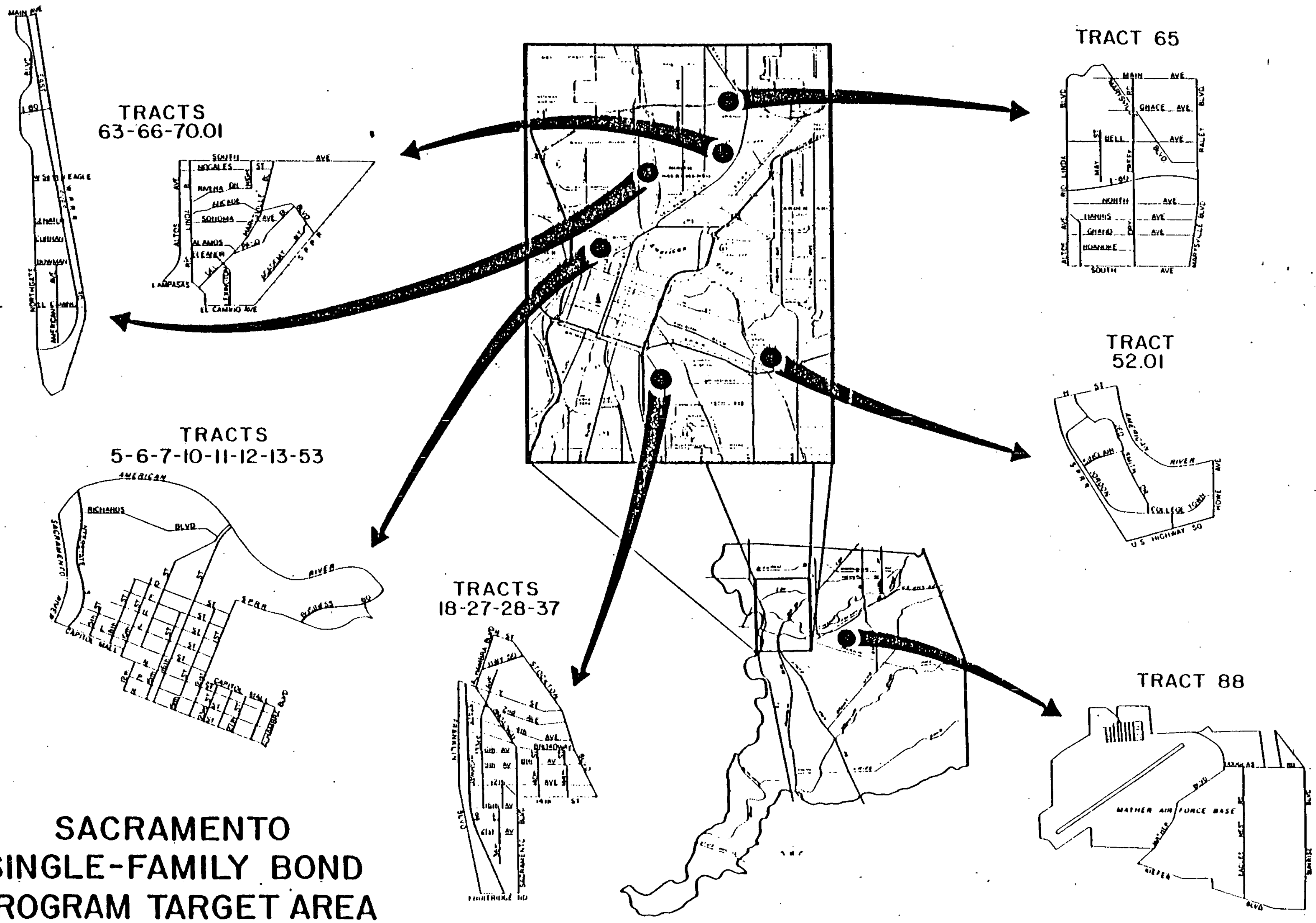
5. <u>Relation to Development and Low-Income Housing Assistance Policies</u>

The policies and targeting criteria will afford increased opportunities for home ownership by low- and moderate income households and will contribute to the achievement of the targets identified in Section G.1 below.

F. <u>DEVELOPMENT POLICIES</u>

1. <u>Geographic Area Targeting</u> (Map 1)

a. Twenty percent of bond proceeds shall be reserved for loans on new or existing homes located in targeted areas (see Map 1) for a period of one year after bond proceeds are first made available for purchase of loans. Targeted areas shall be census tracts in which at least 70% of the families have incomes no higher than 80% of the Statewide median.



SACRAMENTO SINGLE-FAMILY BOND PROGRAM TARGET AREA

b. An additional 20 percent of bond proceeds or some level of MCCs may be reserved for first time home-buyers for loans on existing residences located outside of targeted areas.

c. Priority will be given to developer proposals for construction projects located in Federally designated Target Areas, Community Development Block Grant areas and Redevelopment Areas.

d. The issue may contain a home improvement element to help revitalize neighborhoods and the general housing stock.

e. Where possible, bond proceeds or MCCs will be used to provide housing assistance in redevelopment and CDBG target areas.

2. <u>Targeted Areas</u>

a. Federally designated Target Areas for 1985 include Census Tracts 5, 6, 7, 10, 11, 12, 13, 18, 27, 28, 37, 53, 63, 64, 66, 70 and 88.

b. Community Development Block Grant and Redevelopment target areas.

3. <u>Basis for Area Selection</u>

Plans for Community Development Block Grant and Redevelopment Areas include the provision of affordable housing opportunities as major goals. Additionally, new housing units and rehabilitation loans will contribute to overall revitalization efforts of these areas.

4. <u>Types of Targeted Units</u>

Bond proceeds targeted to each may be used either for new construction, for existing housing units or for home improvement loans.

5. <u>Relation to Housing and Low Income Housing Assistance Policies</u>

The availability of bond proceeds and MCCs for purchase of existing housing throughout the County will increase the homeownership opportunities for low- and moderate income families and will contribute to the achievement of the targets identified in Section G.1. below.

G. LOW INCOME HOUSING ASSISTANCE POLICIES

1. Income Group Targeting

a. The proceeds of bonds will be used exclusively to assist households with incomes below 120% of the median household income of Sacramento County. (For the 1984 bond program, the median household income was estimated to be $31,916.)

b. At least one-third of the proceeds of bonds will be targeted to low- and moderate-income families (less than 80% of the median household income), and at least one-third of the bond proceeds will be targeted to families earning between 80% and 100% of the median household income of the County.

c. The percentage allocations in (b) above may be revised from time to time, if there are an insufficient number of creditworthy applicants for loan proceeds.

2. Method of Targeting Proceeds

Proceeds will be targeted to potential home buyers in accordance with the above policies on a first-come, first-served basis. Developers and lenders shall be required to make a good faith effort to seek qualified applicants through such actions as advertising the availability of funds in local newspapers, contacting community organizations involved in housing assistance, and contacts with the Sacramento Home Loan Counseling Center. Targeting of bond proceeds to developers with lower cost homes will assist in these endeavors.

3. Relation to Housing and Development Policies

The income group targeting policies are interrelated with the Housing and development Policies in Section B1 above. Allocation of bond proceeds and MCCs to existing housing and to lower cost newly constructed housing will increase the opportunities for participation by lower income households.

H. HOUSING POTENTIALS ANALYSIS

The proposed policies are based on analysis of the availability of affordable housing opportunities to different income goups under alternative mortgage interest rate assumptions. Comparisons were made of a recent sample of all new homes sold in 1984, as reported by the Sacramento

Board of Realtors and with new housing units offered by the 75 developers participating in the 1984 bond program. The results of the analysis are summarized on Table 1.

Data on existing housing were derived from actual sales made through the Multiple Listing Service between January 1, 1985 and September 30, 1985. The median selling price for the approximately 5,000 homes was $79,500 (approximately $3,000 higher than the median as reported in the last half of 1983 and first half of 1984).

Data on new homes were derived from a sample of 922 homes sold in 1984, as reported by the Construction Industry Research Council.

A third affordability factor included on Table 1 is the actual price distribution of sales through the 1983 bond program. The overwhelming majority of the 400 homes sold through this issue were newly constructed.

The first portion of Table 1 analyzes the purchase potentials of households in different income groups expressed as a percent of the 1984 estimated median income of $31,916 at the currently estimated bond interest rate of 10%. It further assumes a 95% loan-to-value ratio and a maximum allowable payment of principal, interest, taxes and insurance equal to 33% of gross income.

To illustrate the use of this table, take, for example, a household earning the median income ($31,916). At the 10% bond rate, a home costing less than $90,000 would be considered affordable to such a household under the above underwriting criteria. Approximately 66% (the total of 17, 25, and 26%) of all resale homes sold through MLS over the past year sold for under this price as did 57% of <u>all</u> new homes sold in 1984.
Finally, approximately 77% of homes under the 1983 program sold at less than the price affordable to a median income household.

The second portion of Table 1 illustrates the potentials for home ownership of the same income groupings under the same eligibility criteria, but with an assumed 11.5% conventional interest rate. The median income household, in this instance, could afford to pay only $81,000, thus ownership opportunities would be considerably more restricted. Only 54% of resale and 40% of the available new homes would be considered affordable.

TABLE 1

HOME OWNERSHIP POTENTIALS

	% of median income	income	Bond Program Potentials - 10.0%: maximum affordable home	Homes Available: 1985 resale sales	Homes Available: 1984 total new sls.	Homes Available: 1984 bond avail.	Homes Available: 1983 bond sales	Conventional Rate Potentials-11.5%: maximum affordable home	Homes Available: 1985 resale sales	Homes Available: 1984 total new sales
				12%	14%	0%			15%	19%
$50,000	150%	$47,874	$ 133,000					$122,000		
				11%	10%	0%	12%		14%	14%
$40,000	120%	$38,299	$ 108,000					$ 97,000		
				12%	14%	30%	12%		17%	27%
	median	$31,916	$ 90,000					$ 81,000		
$30,000				26%	39%	50%	32%		26%	26%
	80%	$25,533	$ 72,000					$65,000		
						20%				
				23%	10%		34%		19%	12%
$20,000	50%	$19,958	$ 57,000					$50,000		
				17%	8%	0%	11%		9%	2%
				100%	100%	100%	100%		100%	100%
Number of Units				5,059	922 (Sample)	616	407		5,059	922

Under 50% of median income
50% - 80% of median: low income
80% - 100% of median: moderate income

CONCLUSIONS

The above comparisons graphically illustrate the benefits of the Mortgage Revenue Bond Program towards increasing the supply of affordable housing, particularly for lower-income households. The table points up the sensitivity of home ownership fulfillment to changes in interest rates. Specific conclusions which provide the basis for the proposed policies include:

1. Ignoring personal desires, size requirements and locations, all of which influence the availability of homes to individuals, households earning above 120% of the area median income do not need bond financing to find an affordable home. A substantial percentage of both new (67%) and existing (71%) homes are available without bond financing. (Bond rate financing does, however, increase the range of opportunities and gives such households a chance to purchase a more expensive home with the same, or lower payments.)

2. At the other end of the income spectrum, households earning less than 50% of median have little opportunity for home ownership at either market rate or bond rate financing. Most of the homes which are affordable under either situation are resale units.

3. For median income households, opportunities for acquisition of a new home are severely limited with market rate housing. Only 40% of all new homes surveyed are available at an affordable price. (In late 1984 when the conventional market rates were 13%, only 15% of all new homes surveyed at that time were affordable to median income households.) In the absence of bond financing, aspiring home owners at this income level will have a better opportunity to acquire an existing home, a reasonable number of which are available (54%). With bond financing, however, a substantial percentage of both existing and new homes were available (66% and 57%, respectively).

4. The majority of all homes which are affordable to households earning less than 80% of median are resale units, even with favorable bond financing. Relatively few new homes are being built at less than the $72,000 deemed affordable by such households.

5. As a generalization, bond financing and MCCs appear to have greater impact on the fulfillment of home ownership aspirations of households earning less than median than of those earning more than the median.

6. Overall, existing (resale) housing appears to offer the greatest potentials for fulfilling the homeownership aspirations of lower-income households under the bond or MCC programs. Few new homes are being sold at a price low enough, even under bond financing, for low-income persons to afford.

7. The availability of home improvement loans will assist low and moderate income households in rehabilitating their homes.

PART II: COMPLIANCE WITH PREVIOUS REPORT

The County of Sacramento did not issue bonds in 1985.

PART III: COMPLIANCE WITH INTENT OF CONGRESS

On December 20, 1984, The County issued Single Family Bonds in the aggregate principal amount of $44,800,000 (the "1984 Bonds") in an effort to assist lower-income families to afford home ownership. The following information is provided with respect to the 1984 Bonds:

1. Method of Distributing 1984 Bond Proceeds.

   The criteria for distribution included: sales prices of homes, geographic location, the relation of square footage to price, the sizes of units, readiness for occupancy, and developer experience.

2. Assistance to Lower-Income Families.

   As of the writing of this report, approximately 30% of the bond pool has been used to fund loans. Attachment 2 provides a summary of who is benefitting from the bond issue. You will note that 30% of the loans were made to individuals who earned between 50% and median income.

3. Income Levels

   The income levels used in the 1984 issue were in strict compliance with State law. With respect to $39,347,000 of bond proceeds, household income does not exceed (a) 150% of median household ($47,874) with respect to loans for new residences; or (b) 120% of Median Household Income ($38,299) with respect to Loans for existing residences; and, (2) in the case of Loans made from $4,800,000 of "supplemental" Bond proceeds Household Income does not exceed (a) 120% of Median Household Income ($38,299) with respect to Loans for new residences; or (b) 100% of Median Household Income

($31,916) with respect to Loans for existing residences; provided, however, that no less than half the funds allocated for Loans for existing residences shall be for households whose income does not exceed 80% of such Median Household Income.

On June 16, 1983, the County issued Single Family Bonds in the aggregate principal amount of $30,000,000 (the "1983 Bonds") in an effort to assist lower-income families to afford home ownership. All of the proceeds have been originated. Attachment 3 provides a summary of the beneficiaries of the issue. The following information is provided with respect to the 1983 Bonds:

- The Bond proceeds were allocated based on the criteria set forth in Section 3.1.B above.

- The maximum household income is 150% of Median Household Income, where the mortgagor will be the first occupant of the Home and 120% of such Median Household Income where the mortgagor will not be the first occupant of the Home, provided that at least 20% of the principal amount of Home Mortgages made with respect to Homes where the mortgagor will not be the first occupant thereof must be made to mortgagors whose household income does not exceed 110% of such Median Household Income. Median Household Income for the Program, using Statewide Median, was $28,277 per year.

PART IV: SUMMARY OF HEARING COMMENTS

Public hearing on the proposed Policy Report was duly noticed and held on December 11, 1985 for the City and County of Sacramento and City of Isleton, December 16, 1985 for the City of Folsom and December 17 for the City of Galt. The minutes of the meeting and any written testimony that was received are attached.

This report is submitted by the undersigned elected representative of jurisdiction.

Chairperson, Board of Supervisors

(SEAL)

Mayor, City of Sacramento

Mayor, City of Folsom

Mayor, City of Galt

Mayor, City of Isleton

BL:j
11/25/85
Pol Stmt Rpt

HOW MORTGAGE CREDIT CERTIFICATES WORK

To illustrate how the MCC works, consider the situation of an individual who purchases a home on January 1 with a $100,000, 13 percent conventional, fixed market rate mortgage secured from a mortage lender (Table 1). At the end of the first year of ownership, approximately $13,000 in mortgage interest will have been paid by the homebuyer. The following table shows how a mortgage credit certificate works to reduce the individual's tax bill and therefore reduce the "effective" rate of interest on the mortgage paid by the borrower.

Table 1

How An MCC "Reduces" the Mortgage Interest Rate
($100,000 mortgage loan at 13.0 percent interest rate)

Annual Interest Paid	Credit Certificate Rate	First Year Tax Credit (1)	"After-Credit" Interest Paid (2)	"Effective" Interest Rate
$13,000	10%	$1,300	$11,700	11.7%
$13,000	15%	$1,950	$11,050	11.1%
$13,000	20%	$2,600	$10,400	10.4%

(1) Calculated by multiplying interest paid ($13,000) by the credit certificate rate. This is the amount by which the homebuyer's overall federal tax bill is reduced during the first year the MCC is in effect.
(2) Interest paid less the tax credit provided by the MCC.

The issuing public agency can tailor the MCC to the need and circumstances of the buyer by issuing a certificate for a credit equal to 10 percent of the interest paid, or 15 percent, or any other figure up to 50 percent except that, if it is for more than 20 percent, there is a $2,000 "cap" on the credit amount allowed.

In this example a 20 percent tax credit "lowers" the effective interest rate paid by the borrower by 2.6 percentage points, reducing the buyer's mortgage rate from the 13 percent market rate to an effective rate of 10.4 percent. The taxpayer's deduction for interest on the qualifying mortgage would also decline by the amount of the credit, or $2,600, leaving $10,400 to be claimed in mortgage interest deductions, in contrast to the $13,000 the borrower would otherwise be able to claim in the absence of the tax credit.

In subsequent years the value of the tax credit in dollars will be less because the proportion of interest paid declines relative to principal as the taxpayer builds up equity in the home. By the twelfth year, interest paid has been reduced to approximately $12,100 so the value of the 20 percent MCC, for example, is now $2,420 as opposed to the $2,600 during the first year.

1984 SINGLE FAMILY DEMOGRAPHICS

MEDIAN INCOME

L.T. 50%	1	(1%)
50%-80%	10	(14%)
50%-100%	22	(31%)
100%-120%	16	(23%)
120%-150%	21	(30%)

SEX/MARITAL STATUS

MALE	25	(36%)
FEMALE	14	(20%)
MARRIED	31	(44%)
total	70	

RACIAL CHARACTERISTICS

WHITE	58	(83%)
BLACK	0	
ORIENTAL	4	(6%)
HISPANIC	3	(4%)
OTHER	5	(7%)
total	70	

BORROWER AGE

UNKNOWN & L.T. 25	11	(16%)
25 - 34	40	(57%)
35 - 59	19	(27%)
60+	0	
total	70	

HEAD OF HOUSEHOLD

MALE	49	(70%)
FEMALE	21	(30%)
total	70	

1984

HOUSEHOLD SIZE

SIZE	NUMBER	PERCENT
1	30	(43%)
2	19	(27%)
3	15	(21%)
4	6	(9%)
5		
6		
7+		
total	70	

TARGET/ NON-TARGET AREA

TARGET	8	(11%)
NON-TARGET	62	(89%)
TOTAL	70	

NUMBER OF BEDROOMS

ROOMS	NUMBER	PERCENT
1	4	(6%)
2	22	(31%)
3	34	(49%)
4	10	(14%)
5+		

BUY DOWNS

3-2-1	37	(53%)
2-1	6	(9%)
1	4	(6%)
NONE	23	(33%)
total	70	

1983 SINGLE FAMILY DEMOGRAPHICS

MEDIAN INCOME

L.T. 50%	1	(0.2%)
50%-80%	60	(14%)
50%-100%	128	(31%)
100%-120%	94	(23%)
120%-150%	133	(32%)
total	416	

SEX/MARITAL STATUS

MALE	103	(25%)
FEMALE	78	(19%)
MARRIED	235	(56%)
total	416	

RACIAL CHARACTERISTICS

WHITE	342	(82%)
BLACK	9	(2%)
ORIENTAL	33	(8%)
HISPANIC	11	(3%)
OTHER	21	(5%)
total	416	

BORROWER AGE

UNKNOWN & L.T. 25	82	(20%)
25-34	258	(62%)
35-59	69	(17%)
60+	7	(2%)
total	416	

HEAD OF HOUSEHOLD

MALE	324	(78%)
FEMALE	91	(22%)
UNKNOWN	1	(0.2%)
total	416	

1983

HOUSEHOLD SIZE

SIZE	NUMBER	
1	135	(32%)
2	175	(42%)
3	65	(16%)
4	36	(9%)
5	4	(1%)
6	1	(0.2%)
7+		
total	416	

TARGET/ NON-TARGET AREA

TARGET	1	(0.2%)
NON-TARGET	415	(99.8%)
TOTAL	416	

NUMBER OF BEDROOMS

ROOMS	NUMBER	
1	11	(3%)
2	105	(25%)
3	248	(60%)
4	51	(12%)
5+		
UNKNOWN	1	(0.2%)
TOTAL	416	

BUY DOWNS

3-2-1	152	(37%)
2-1	63	(15%)
1	16	(4%)
NONE	185	(44%)
total	416	