SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

November 25, 1985

Budget & Finance Committee
of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Various Matters Regarding Single Family Mortgage Revenue Bond Program

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 recommendations outlined in the attached report.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Solon Wisham Jr.

SOLON WISHAM, JR.
Assistant City Manager

MAILING ADDRESS: P.O. BOX 1834, Sacramento, CA 95809
OFFICE LOCATION: 630 I Street, Sacramento, CA 95814 (916) 444-9210

SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY

Sacramento City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Single-Family Mortgage Revenue Bond Program; Authorization to Issue Bonds for Housing Rehabilitation; Authorization to Request a 1986 State Allocation; Authorization to Commence Activity on a Mortgage Credit Certificate Program

SUMMARY

The Sacramento City Council and the Sacramento County Board of Supervisors are requested to (1) Authorize the Issuance of Approximately $2 million in mortgage revenue bonds (MRBs) to provide funding for a housing rehabilitation program by adopting a resolution that: (a) approves the bond documents related to the program; (b) authorizes a Pricing Committee, comprised of the County Executive, City Treasurer and Executive Director of Sacramento Housing and Redevelopment Agency, or their designees, to approve the sale; and, (c) authorize the Chairperson or Vice Phairperson of the Board or Executive Director of Sacramento Housing and Redevelopment Agency to execute the documents related to the program; (2) Authorize staff to file a request on behalf of the City and County for 1986 bond-issuing allocation of $100 million from the state Mortgage Bond Allocation Committee; and, (3) Authorize staff to file a "Notice of Intent to Issue Mortgage Credit Certificates" (approximately 500 - 600) with the federal Internal Revenue Service in order to operate this program during 1986 and 1987.

MAILING ADDRESS: P.O. BOX 1834, Sacramento, CA 95809
OFFICE LOCATION: 630 I Street, Sacramento, CA 95814 (916) 444-9210

This action is being requested because on November 1, 1985 the City and County received an allocation from the State Mortgage Bond Allocation Committee (MBAC) to issue Single Family Mortgage Revenue Bonds (which includes home improvement bonds) and/or Mortgage Credit Certificates.

BACKGROUND

In late October 1985, staff was notified by the MBAC that the City and County of Sacramento would receive their Single Family Bond Allocation on November 1. Under state law, the City and County have 90 days, but no later than December 31, 1985 to issue bonds or Mortgage Credit Certificates (MCCs). Under the law, if bonds or MCCs are not issued before December 31, 1985, the allocation is forfeited and the City and County are deleted from the allocation list. Declining the allocation also causes a jurisdiction to be stricken from the list. In our case, the City and County would be facing an allocation again in late 1986. Because of the lateness of the 1985 allocation, the MBAC finally agreed to give the City and County, as well as several other issuers who were in a similar position, a full 90 days, or until February 15, 1986 to issue bonds or MCCs.

Staff would like to try to issue bonds by year end, in case Congress adopts proposed changes to the federal tax law in relation to tax exempt housing bonds, with an effective date of January 1, 1986.

You may be interested in knowing that Agency staff held a public hearing vertised for developers who may be interested in participating in a single family new construction program. Requests for applications were sent directly to over 70 potential applicants, the Sacramento Board of Realtors and Building Industry Association. Less than $2 million in developer interest resulted from our advertising efforts. An issue of this size would be extremely expensive for developers and very difficult to market at year end. However, because of our concern over the pending federal tax law changes, staff would like to proceed forward with a) a $2 million home improvement rehabilitation bond issue as was recommended in the 1985 Housing Rehabilitation Program changes adopted by the Board and City Council on November 12 and 19, 1985 respectively; and b) a pilot Mortgage Credit Certificate program as referenced in the federal Policy Report being considered by the Board today. The specific details of the home improvement bond program and MCC program will be presented to you in early 1986.

Housing Rehabilitation Program

Staff proposes issuing $2 million ($1 million City and $1 million County) in tax exempt mortgage revenue bonds to fund home 200 improvement loans. The program will be consistent with state and federal law and the 1985 Housing Rehabilitation Program changes recently adopted by the Board and City Council. The bond program is intended to provide assistance to individuals who earn between 80% and 120% of median and, therefore, are not eligible for the City and County's existing Community Development Block Grant (CDBG) funded home improvement loan programs.

Under the bond program, the loans will be secured by federal FHA (Federal Housing Administration) Title 1 insurance. Eligible improvements will be those approved under the FHA Title 1 insurance. Loans generally are defined as work that becomes a permanent part of the real estate, but is not a luxury. Attachment B which outlines eligible and ineligible improvements under the FHA Title 2 program. The Title 1 loan ceiling is $15,000 per loan, with a maximum term of 15 years.

To accomplish a rehabilitation issue in less than 60 days, our Underwriter, Paine Webber, has recommended that the City and County issue bonds and then escrow the proceeds since it is unlikely that staff will be able to identify a lender/servicer, obtain bond insurance and a rating, and develop detailed program guidelines before year end. By issuing bonds before December 31 and placing the proceeds in an escrow fund, the County buys time to put the details of the financing in place while technically issuing bonds before year end so that tax law changes occurring after December 31, 1985 will not effect this financing.

There are, however, some legal hurdles to overcome before issuing bonds. However, once these are worked out, staff requests authorization to issue bonds. We will report back to the Board and Council in early 1986 once the program structure and specific details of the bond issue are resolved. The major risk to the County in proceeding forward in this manner is, that if for some unlikely reason, staff is unable to structure and develop a program in early 1986, $2 million in bonds would be redeemed. A bond call would likely not have a negative effect on the marketing of subsequent County housing issues, since the bonds will be priced every seven days or six months. This enables the bond holders to redeem their bonds every seven days or six months. Investors who purchase these bonds generally desire liquid investments and an early bond redemption would probably not be damaging.

The adoption of the resolution that a) approves the documents; b) authorizes a Pricing Committee to accept the sale of the bonds; and, c) designates the Chairman and Vice Chairman of the Board of Supervisors or Executive Director of Sacramento Housing and Redevelopment Agency to execute documents is similar to action taken on previous Single Family and Multifamily bond sales.

Authorization to Request a 1986 Bond-Issuing Allocation

Existing federal law imposes annual limitations on mortgage revenue bonds (MRBs) that may be sold by the qualified bond issuers in a state. This limitation represents an absolute ceiling on the total dollar amount of MRBs that may be issued to finance the purchase of single-family housing units during a calendar year. Under state law, this ceiling is "allocated" to bond-issuing agencies that file formal requests for the allocations.

In order to obtain a single-family allocation for 1986, the City and County of Sacramento must file a request with the state Mortgage Bond Allocation Committee once bonds are issued or a notice of intent to use MCCs is filed. Adoption of the attached resolution would authorize staff to file a formal petition for a 1986 allocation. The amount of MRB-issuance authority requested will be $100 million ($50 million for the City of Sacramento, $50 million for the County of Sacramento). Table I shows the amounts requested and the amounts received from the state allocation committee since 1983.

TABLE I
City of Sacramento and
County of Sacramento
Mortgage Revenue Bond Program
Allocations Requested and Received
1983-85
(Amounts in Millions)

	Mortgage Revenue Bond Allocation	
Year	Requested	Received
1983	$ 35	$30
1984	55	44
1985	100	58
1986	100*	-

Mortgage Credit Certificates

The Federal Tax Reform Act of 1984 first authorized state and local agencies to issue Mortgage Credit Certificates (MCCs) as an alternative to the below-market rate loans produced by the sale of MRBs.

In order to issue MCCs, a local bond-issuing agency must exchange all or a portion of its annual MRB allocation received from the state Mortgage Bond Allocation Committee.

The MCCs are intended to subsidize annual housing costs of participants by lowering annual income tax liability in the form of a federal tax credit. Certificates are used in conjunction with a conventional bank mortgage to acquire new or existing housing units. The certificates, which are issued to qualified first-time homebuyers (similar eligibility requirements as with bond-financing) can be issued in values ranging from 10 percent to 50 percent of the annual interest payable on a conventional mortgage loan.

Published analyses of MCCs have indicated that, under certain conditions, MCCs may provide a greater subsidy to first-time homebuyers than mortgage revenue bonds. A detailed description of MCCs is presented in Attachment A.

Existing law requires that any local agency that intends to issue MCCs must file an "election", or notice of intent to issue MCCs, at least 90 days prior to starting a MCC program. Since the City and County currently have the authorization to issue up to $58 million in MRBs, the election must be filed as part of the disposition of the $58 million allocation. We propose electing to issue 500 to 600 certificates, which translates into $56 million in bond allocation. We believe that if we cannot use the full amount of MCCs, and if federal regulations, which are as yet uncertain permit, we may be able to convert unused MCC authority back to bonding authority.

Staff proposes that an MCC program may provide substantial new home-purchasing opportunities for first-time homebuyers. In order to retain its option to issue MCCs in 1986 and 1987, the City and County must file the election prior to December 31, 1985. Staff recommends that it be authorized to formally file the election.

This arrangement would permit staff to design a MCC program for operation in 1986 and 1987. Staff will then return to the City Council and the Board of Supervisors in early 1986 with a proposed program design and plan. Should our authority to issue bonds or

MCCs in 1986 be severely restricted because of the adoption of federal tax law changes, staff will reevaluate the bond or MCC programs based on these changes, and submit a revised plan to you at that time.

ENVIRONMENTAL IMPLICATIONS

Environmental review is not required for operation of this program. Projects receive an environmental review on an individual basis.

FINANCIAL IMPLICATIONS

To issue the home improvement bonds, the City and County will, at a minimum, be required to post $20,000. We expect the cost of issuing the bonds to be financed through bond proceeds.

VOTE AND RECOMMENDATION OF COMMISSION:

At its regular meeting of December 2, 1985, the Sacramento Housing and Redevelopment Commission adopted a motion recommending that you take the above-referenced actions. The votes were as follows:

AYES:

NOES:

ABSENT:

RECOMMENDATION

Staff recommends (1) Authorization of the proposed sale of approximately $2 million in Mortgage Revenue Bonds to finance single-family housing rehabilitation projects by adopting a resulution which: a) approves documents; b) authorizes a Pricing Committee composed of the City Treasurer, County Executive and executive Director of the Sacramento Housing and Redevelopment Agency, or their designees, to approve the sale; and b) authorize the Chairman or Vice Chairman of the Board of Supervisors or the Executive Director of the Sacramento Housing and Redevelopment Agency to execute the documents; (2) Authorization for staff to request a single family MRB Allocation of $100 million for 1986; and, (3) Authorization for staff to file an "Election" with the federal government in connection with the establishment and operation of a Mortgage Credit Certificate program (in an amount equivalent to approximately $56 million of our bond allocation) for 500 to 600 certificates.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

Contact Person: John Molloy
440-1360

TRANSMITTAL TO COUNCIL

WALTER J. SLIPE
City Manager

HS/BL:j
$2M SF MRB
11/25/85

RESOLUTION No.

Adopted by The Sacramento City Council on date of

NOTICE OF INTENT TO ISSUE UP TO
$5.6 MILLION IN MORTGAGE CREDIT CERTIFICATES
USING 1985 MORTGAGE REVENUE BOND ALLOCATION

WHEREAS the City of Sacramento has received a 1985 allocation totaling $29 million from the State Mortgage Bond Allocation Committee; and

WHEREAS the City of Sacramento intends to initiate a Mortgage Credit Certificate Program in 1986 and 1987; and

WHEREAS existing federal regulations published in 50 Fed. Reg. 19344 (May 8, 1985) require the filing with the Internal Revenue Service of an election, indicating a qualified issuer's intent to issue Mortgage Credit Certificates no sooner than 90 days after filing the election; now, therefore,

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

Section 1: The staff of the Redevelopment Agency of the City of Sacramento is hereby authorized to file formal notice (election) with the appropriate federal and state entitles to permit the City to initiate a Mortgage Credit Certificate Program in 1986 and 1987.

Section 2: This resolution will be in effect upon adoption.

MAYOR

ATTEST:

CITY CLERK

z:ccMortRevBond

RESOLUTION No.

Adopted by The Sacramento City Council on date of

HOME IMPROVEMENT LOAN BOND ISSUE:
COST OF ISSUANCE FEES

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

Section 1: As a part of the cost of issuing the home improvement bond, $20,000 will be budgeted from the Mortgage Revenue Bond Fund ($10,000 from the City and $10,000 from the County).

Section 2: This resolution will be in effect upon its adoption.

MAYOR

ATTEST:

CITY CLERK

z:ccHomeImpLnBond

RESOLUTION No.

Adopted by The Sacramento City Council on date of

APPLICATION TO THE MORTGAGE BOND ALLOCATION
COMMITTEE FOR AN ALLOCATION TO PERMIT
THE ISSUANCE OF MORTGAGE SUBSIDY BONDS

WHEREAS Chapters 1-5 of Part 5 of Division 31 of the Health and Safety Code of the State of California authorized counties to incur indebtedness for the purpose of financing home mortgages authorized thereby; and

WHEREAS the Federal Mortgage Subsidy Bond Tax Act of 1980 limits the amount of qualified mortgage bonds that may be issued in any calendar year by entities within a state and authorizes the legislature of such state to provide the method of allocation of such bonds within the state; and

WHEREAS Chapter 3.5 of Part 1 of Division 31 of the Health and Safety Code of the State of California governs the allocation of the State ceiling among governmental units in the State having the authority to issue qualified mortgage bonds; and

WHEREAS Section 50191 of the Health and Safety Code of the State requires a local agency to file an application with the Mortgage Bond Allocation Committee prior to the issuance of qualified mortgage bonds; now, therefore,

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

Section 1: The Redevelopment Agency of the City of Sacramento is hereby authorized, on behalf of the City of Sacramento, to submit an application, and such other documents as may be required, to the Mortgage Bond Allocation Committee for an allocation with respect to qualified mortgage bonds to be issued by the City of Sacramento in an aggregate principal amount not to exceed FIFTY MILLION DOLLARS ($50,000,000.00), TWENTY MILLION DOLLARS ($20,000,000.00) entitlement and THIRTY MILLION DOLLARS ($30,000,000.00) in supplemental.

Section 2: The Executive Director of the Redevelopment Agency of the City of Sacramento is hereby authorized to certify for and on behalf of the City that requirements of Section 50191 of the State Health and Safety Code with respect to the application to the Mortgage Bond Allocation Committee have been satisfied.

MAYOR

ATTEST:

CITY CLERK

z:ccMortSubBonds

ATTACHMENT - A

June 18, 1985
California Association of Realtors®

EXECUTIVE SUMMARY

Mortgage Credit Certificates

Housing affordability problems in California have led to an increased use of Mortgage Revenue Bond (MRB) financing. Despite their reauthorization in 1984, President Reagan's recent tax reform proposal would remove their tax-exempt status. This could have tremendously adverse impacts on first-time homebuyers and the entire real estate industry in California.

The 1984 Tax Reform Act also permitted for the first time state and local governments to use all or a portion of their MRB allocation in the form of a Mortgage Credit Certificate (MCC). As an alternative to MRBs, MCCs offer local governments a way to even further lower qualifying income, serve more homebuyers, and create smaller revenue losses to the state and federal treasuries.

MCCs: How Can They Help?

An MCC is a direct credit against federal income tax that can be used by homebuyers to reduce their tax bill in an amount equal to a specified percentage of the interest paid on their mortgage during the year. The credit, "increases" household income which allows a homebuyer to apply their tax savings to their market rate mortgage payment. For example, if a family had a $100,000 mortgage at a fixed interest rate of 13 percent, their annual interest payment would be approximately $13,000. An MCC of 10 percent would provide the homebuyer with a tax credit of $1,300. (This credit can be realized immediately by adjusting the payroll withholdings of MCC users). Since the $1,300 credit would otherwise be paid in taxes, the $1,300 represents "newfound income" to the household and reduces the annual interest paid from $13,000 to $11,700. This then translates into a reduced effective interest rate of 11.7 percent.

The Treasury has recently issued temporary regulations for MCC programs. To be considered "qualified" an MCC program must meet the following criteria:

- Certificate rates can be set between 10 and 50 percent, however, any rate above 20 percent can not result in a credit exceeding $2,000 per year;

- MRB allocation can be converted to MCC's at a ratio no greater than 5 to 1. For example $25 million in MRB authority can be converted to a maximum of $5 million in MCC authority.

In addition to these and other program regulations, homebuyers must meet the following qualifications:

- The homebuyer can not have owned a home in the previous three years and must use the home as a principal place of residence (i.e., first-time homebuyer);

- The home they plan to purchase must be within the issuing jurisdiction, a single family dwelling and can not exceed 110 percent of the average area sales price.

Many of the other regulations regarding MCC's are similar to existing MRB regulations.

The Sacramento Example

The following example illustrates how MCCs work.
In December of 1984, the Sacramento Housing and Redevelopment Agency sold $44.8 million in mortgage revenue bonds and now offers fixed rate mortgages to qualified borrowers at 10.65 percent.

Qualifying income is the determining factor in purchasing a home. A family has sufficient qualifying income if it can afford to spend no more than 30 percent of its income on principle and mortgage payments. Sacramento's median priced home in 1984 was $74,673. At a market rate loan of 13.02 percent and a 5 percent downpayment, monthly payments would equal $786. The minimum income needed to qualify for this purchase would be $31,440.

Using the Sacramento program as an example, Table 1 compares a "market rate" qualifiying income with that required under the existing MRB program and two possible MCC programs.

Table 1

Comparisons of Qualifying Income Under
Alternative Programs in Sacramento

	Conventional Financing	MRBs	17% MCC Rate	21.5% MCC Rate
Mortgage Interest Rate	13.025(1)	10.65	13.025(1)	13.025(1)
Monthly Mortgage Payment (P&I)	$ 786	$ 657	$ 786	$ 786
Mortgage Credit Rate	NA	NA	17%	21.5%
Monthly Credit Amount	NA	NA	$ 129	$ 165
"Effective" Monthly Payment Amount	$ 786	$ 657	$ 657	$ 621
Qualifying Income (2)	$31,440	$26,280	$ 26,280	$ 24,480

Assumes home price of $74,673, 5 percent downpayment, and mortgage amount of $70,939.
(1) Underlying market rate loan
(2) Assumes 30% of monthly income spent for principal and interest payments
NA - Not Applicable

The first example of the 17 percent MCC rate is structured to provide an equivalent amount of assistance to the homebuyer as that received from the Sacramento MRB program. In addition, a higher,maximum MCC rate is shown to illustrate how an MCC can further reduce the qualifying income. With a lower qualifying income, more people can afford to purchase a home.

The Sacramento example can be extended to other regions in California to highlight the advantages MCCs provide over MRBs in high cost areas. Four areas were examined for this financing comparison. Qualifying incomes for a conventional market rate, a 10.65 percent MRB program and an equivalent MCC program, and the maximum possible MCC rate are all illustrated in Table 2. These figures were determined using median home prices and the same 10.65 percent mortgage rate as in the Sacramento MRB program.

Table 2

A Regional Comparison of Alternative
Financing Assistance Programs

		Qualifying Income		
Region	Median Income 1984 (1)	Conventional Financing(2)	MRB & Equivalent MCC (3)	Maximum MCC (4)
Sacramento	$30,723	$31,440	$26,280	$24,480
Los Angeles	$30,863	$48,560	$40,600	$39,040
San Diego	$28,993	$42,200	$35,280	$33,480
San Francisco	$29,666	$54,720	$45,720	$44,400
Orange County	$35,904	$56,280	$47,040	$44,640

All examples assume purchase of median-priced home. Principal and interest payments are 30 percent of household annual income. Assumes 5 percent down and 13.025 percent fixed rate financing for the conventional loans, and 10.65 percent for the MRB program.

(1) State Personal Income 1929-82, U.S. Department of Commerce
(2) California Association of REALTORS®. All prices are annual medians.
(3) An MCC rate of 17 percent produces a monthly payment amount equivalent to MRB loan at 10.65 percent.
(4) The maximum MCC rate is the highest credit rate allowable given the restriction that rates in excess of 20 percent cannot confer a subsidy in excess of $2,000 annually.

As clearly seen in Table 2 an MCC retains its advantages over MRBs throughout various regions in the state. In fact, in the highest cost areas, an MCC is a much more effective form of assistance than an MRB; that is, the qualifying income can be lowered more under the MCC alternative.

Since MCCs are more cost-effective than MRBs, more households can be assisted. Returning to the Sacramento example, the $44.8 million in MRB authority, taking into account program costs, could assist 550 households purchasing the median-priced Sacramento home. Substituting MCCs providing the equivalent amount of assistance, 743 Sacramento households could purchase the area's median-priced home. This is 35 percent or 193 more families than under the Sacramento MRB program. Furthermore, at the even higher level of assistance, (maximum MCC rate of 21.5 percent) 587 households can be assisted which is still higher than the number aided in the MRB program. Table 3 shows how MCCs aid more families both in Sacramento and in Los Angeles, one of the highest-priced areas of the state.

Table 3

Number of Households Assisted: A Comparison of Alternative Programs

	MRBs (1)	Equivalent MCCs (2)	Maximum Rate MCCs (3)
Number of Households Receiving Assistance:			
Sacramento	550	743	587
Los Angeles	356	481	409
Mortgage Volume Provided			
Sacramento	$38.98	$52.7	$41.7
Los Angeles	$38.98	$52.7	$44.8

(1) Assumes the same $44.8 million for purposes of example only.
(2) Equivalent MCC rate is 17 percent.
(3) In Sacramento the maximum credit allowed is 21.5 percent. In Los Angeles under the same program parameters, it is 20 percent.
(4) Refers to volume of mortgage financing provided by bonds or private lender mortgages under MCC programs.

Another important advantage of MCCs over MRBs is their lower cost to both state and federal treasuries. If we compare once again the MRB program in Sacramento with the equivalent MCC program, this point is clearly highlighted. Assuming that a mortgage on a median-priced Sacramento home is held for 12 years (FHLBB average) $104,070 is paid in interest. A 17 percent credit of this amount times 743 households assisted results in a total loss in revenue to the federal treasury of $13.14 million.

By comparison, the revenue lost in an equivalent MRB program is much greater. By adhereing to government estimates that bond holders are on average within the 30 to 40 percent marginal tax brackets, we can obtain a range of revenue losses. If the bonds have an annual yield of 10 percent over the same 12 year period, the estimated cost to the federal treasury for the Sacramento MRB program would be between $16.1 and $21.5 million. In addition, if 75 percent of the bondholders are

California residents paying between 7 and 9 percent in state income taxes, the losses to the state treasury are between $2.8 and $3.6 million. Table 4 shows that when these losses are distributed among the number of households assisted, the MCC program results in roughly half of the lost revenue than that of a comparable MRB program.

Table 4
Estimated Revenue Loss Under Alternative Programs to Federal and State Treasuries

	MRBs	MCCs
Federal Treasury	$16.1-21.5 million (1)	$13.14 million (3)
State Treasury	$2.8-$3.6 million (2)	0
Cost per Household Assisted	$34,360 - $45,636	$17,691

(1) Assumes $44.8 million bond issue with 10 percent annual yield over 12 years and that bond holders are in the 30 percent marginal tax bracket (lower estimate) or the 40 percent tax bracket (upper estimate).

(2) Assumes 75 percent of bonds issued are purchased by California residentsa and that holders are in the 7 percent tax bracket (lower estimate) or the 9 percent tax bracket (upper estimate).

(3) Assumes mortgage is held for 12 years with total interest paid for thie 12 years period of $104,070 assuming a conventional market-rate of 13.025 percent, and a credit certificate rate of 17 percent.

The final important advantage of MCCs over MRBs is what appears to be lower administrative costs. The Mortgage Subsidy Act of 1980 set the maximum allowable reimbursement for administrative costs from bond proceeds at 1.125 percentage of the bond amount. Thus the $44.8 million issue in Sacramento would cost, for the 30 years of the bond in present value terms, about $16 million or approximately $29,070 for each of the 550 mortgages that could be funded in the program. In fact, this is a conservative estimate since many localities further subsidize MRB programs according to published reports.

The comparable MCC program would have smaller on-going costs than an MRB program since there are no bonds to service. Similarly, up-front costs would be lower, since there are no bonds to be issued. There would, however, be some up-front costs, although these would be similar to conventional loan processing costs which range from $150 to $200 per loan. In addition there could be substantial costs in initial program development and implementation, although many of the costs have already been incurred in effect in the process of developing local MRB programs. Nevertheless an alternative source of funding would be required to cover these administrative costs since MCCs do not have any sort of arbitrage fund. It is most likely that these costs would be passed on to MCC applicants in the form of some kind of application fees.

The advantages of MCCs are especially crucial in light of current federal efforts to reduce the budget deficit and reform the tax system. The drastic increases in the use of MRBs in recent years reflect the dependence of first-time homebuyers in California on this form of assistance. MCCs, due to the advantages cited previously will more effectively and efficiently meet the needs of these homebuyers. And so in response to recent political developments which suggest that the demise of the tax-exempt housing bond is near, efforts must be taken to institute MCC programs to ensure continued aid to first-time homebuyers.

ATTACHMENT B

TABLE II
Page 1

FHA CLASS 1 LOAN

Eligible Improvements

Eligible improvements that may be made closely correspond to the rehabilitation priorities established by local rehabilitation programs supported by CDBG funds. Specifically, the eligible improvements for Class 1 loans include:

- enlarging a structure;
- repairing or replacing plumbing and electrical systems;
- improving heating systems, such as installation of stoves, oil burners, or coal, gas and electrical systems;
- painting and plastering;
- insulating, including installation of siding and awnings;
- installing new bathrooms, kitchens, living rooms, bedrooms, and closets (built-in kitchen equipment is eligible in residential structures);
- repairing or replacing roofs, ceilings, windows, stairways, floors, and carpets (carpets, must be affixed as permanent parts of the real estate);
- grading and landscaping, permanent lawn sprinkler systems, constructing private sidewalks, curbs, fences, and driveways; installing a septic tank or cesspool; drilling a well and installing pumping equipment and piping (these improvements must be on property occupied by the structure);
- constructing an attached building, such as a garage, for a completed house;
- installing solar energy systems and other energy-conserving improvements.

Ineligible Improvements

HUD has determined that certain types of improvements cannot be financed through Title 1 because they are luxury items, do not improve the basic livability of a dwelling, or are not a permanent part of the realty. Items that cannot be financed with a Title 1 loan include:

- barbecue pits
- bathhouses
- burglar alarms or burglar protection bars
- dumbwaiters
- demolition of structure, unless the purpose is to improve the existing structure remaining on the property
- farm or dairy equipment (except bulk milk tanks and milk coolers)
- equipment and machinery such as presses, drills, lathes, and similar items used in industrial or commercial establishments
- flower boxes
- greenhouses (unless commercial greenhouses)
- airplane hangars
- kennels
- kitchen appliances that are designed and manufactured to freestanding and are not permanently affixed as an integral part of a residential structure
- outdoor fireplaces or hearths
- penthouses
- photo murals
- radiator covers or enclosures
- stands
- steam cleaning or exterior surfaces
- swimming pools
- television antennas
- tennis courts
- tree surgery
- valance or cornice boards
- waterproofing of a structure by pumping or injecting a substance into the earth near or under basements, foundations, or floors.