
MEMORANDUM

DATE: March 12, 2015
TO: Members, Board of Directors
FROM: Juan Salgado, Executive Director
SUBJECT: Mortgage Revenue Bond/Mortgage Credit Certificate (MRB/MCC) Program

BACKGROUND

Application was made to the Arizona Commerce Authority (ACA) in January 2015 to reserve Phoenix IDA's \$53.1 million allocation of MRB/MCC private activity volume cap. The volume cap is usable for either program, MRB or MCC, singly or in combination.

An MCC program provides homebuyers with a federal tax credit equal to a percentage of the interest paid during the year. The homebuyer is required to reduce the mortgage interest deduction by that amount of the tax credit. MCC programs have a first-time homebuyer requirement, can be used for any type of loan, including conventional loans or loans under the Home in Five Advantage (HIF) down payment assistance program (DPA), and have both household income limits and purchase price limits prescribed by law.

The following factors are also presented for your information:

- The single-family bond market has been flat. Given the low market demand, no need is anticipated in 2015 to issue MRBs.
- A program for MCC can tie in to the existing HIF program: many buyers could qualify for both programs and existing DPA program lenders would be a ready source in the new program.
- With a 25% tax credit on the interest paid by a homebuyer, the allocation would translate to assistance to approximately 330 homebuyers.
- Benefit to an average homebuyer: after five years on a \$160,000 loan at 4.5% and a 25% tax credit, the net tax savings, including initial homebuyer costs for MCC issuance, would be approximately \$5,600.
- The HIF program administrator, eHousing, can serve as administrator for an MCC program at low cost to the homebuyer, with ease of use for the 96 existing HIF lenders and will train new lenders.

RECOMMENDATION

I propose initiating an MCC program in 2015 that includes the following elements:

- Use of the available \$53.1 million allocation.

- Add homebuyer education and home inspection requirements.
- Charge a borrower fee of 0.5% of the loan amount, including the program administrator's fee, keeping costs down for homebuyers.
- Contract with eHousing to serve as program administrator.
- Contract with Kutak Rock LLP to serve as bond counsel.
- Pilot with HIF lenders to facilitate a smooth acceptance, simplify training and reward our current lending partners. The pool of lenders would be expanded later in the program, with payment of a nominal fee.
- Begin accepting MCC requests 60-90 days after ACA confirms the allocation.
- Continue discussions with Maricopa County IDA (MCIDA) regarding a joint program that could expand the number of homebuyers. If MCIDA will not be a participant, we hope to get their consent for the Phoenix IDA MCC program to operate throughout Maricopa county. If MCIDA authorizes a joint program, we plan to split all costs and revenues with them.

A budget allocation of \$40,000 is requested for the ACA allocation fee of approximately \$17,000, as well as legal fees and other initial costs of up to \$23,000.

Kutak Rock, as Legal Advisor to the Phoenix IDA, and I recommend that approval of the 2015 MCC program outlined above be granted subject to the terms and conditions contained in the Board Approval Resolution, as reviewed by same.

RESOLUTION NO. 2015-08

RESOLUTION OF THE BOARD OF DIRECTORS OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA AUTHORIZING THE ISSUANCE OF MORTGAGE CREDIT CERTIFICATES (“MCCs”) AND THE ESTABLISHMENT OF AN MCC PROGRAM IN CONNECTION WITH THE ACQUISITION OF NEW OR EXISTING SINGLE-FAMILY RESIDENCES; DESCRIBING THE PARAMETERS OF THE MCC PROGRAM; AUTHORIZING A RESERVATION THROUGH THE ARIZONA COMMERCE AUTHORITY OF AN ALLOCATION OF PRIVATE ACTIVITY BOND VOLUME CAP IN AN AMOUNT NOT TO EXCEED \$53,100,000; DIRECTING THE EXECUTIVE DIRECTOR TO FILE ONE OR MORE ELECTIONS WITH THE INTERNAL REVENUE SERVICE RELATING TO THE MCC PROGRAM; AUTHORIZING THE EXECUTIVE DIRECTOR TO ESTABLISH AN MCC PROGRAM AND DETERMINE THE RATES, TERMS AND CRITERIA THEREIN; AUTHORIZING THE EXECUTIVE DIRECTOR TO GIVE NOTICE AS REQUIRED BY THE FEDERAL TAX LAWS OF THE IMPLEMENTATION OF THE MCC PROGRAM; AND DELEGATING TO THE EXECUTIVE DIRECTOR THE POWER TO TAKE ALL SUCH ACTIONS AS ARE NECESSARY OR APPROPRIATE TO ACCOMPLISH THE FOREGOING

WHEREAS, The Industrial Development Authority of the City of Phoenix, Arizona (the “Authority”) is a nonprofit corporation designated as a political subdivision of the State of Arizona (the “State”) incorporated with the approval of the City of Phoenix, Arizona (the “City”), pursuant to the provisions of the Constitution of the State and under Title 35, Chapter 5 of the Arizona Revised Statutes, as amended (Section 35-701 through 35-761, inclusive) the (“Act”); and

WHEREAS, the Authority is authorized and empowered, among other things, (a) to issue single family mortgage revenue bonds and/or mortgage credit certificates use the proceeds thereof in accordance with the Act, (b) to contract with and employ others to provide for and to pay compensation for professional services and other services as the Authority shall deem necessary, and (c) to pledge its property and revenues to secure the payment of the principal of and premium, if any, and interest on its revenue bonds; and

WHEREAS, the Authority is an authorized issuer of “qualified mortgage bonds” described in Section 143 of the Internal Revenue Code of 1986, as amended (the “Code”) and receives volume cap under Section 146 of the Code to issue such qualified mortgage bonds and other private activity bonds; and

WHEREAS, Section 25 of the Code and the regulations promulgated thereunder permit the Authority to exchange its authority to issue qualified mortgage bonds and other private activity bonds for which it has volume cap in order to issue mortgage credits certificates (“MCCs”) under a qualified mortgage credit certificate program; and

WHEREAS, the Authority is considering the creation of its 2015 Qualified Mortgage Credit Certificate Program (the “MCC Program”) in an amount not to exceed \$53,100,000; and

WHEREAS, the Authority desires to direct its Executive Director to apply to the Arizona Commerce Authority for an allocation of private activity bond volume cap for the MCC Program; and

WHEREAS, in connection with MCC Program the Authority desires to elect not to issue up to \$53,100,000 of private activity bonds volume cap which it could otherwise issue from its available private activity bond volume cap (including any carryforward).

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of The Industrial Development Authority of the City of Phoenix, Arizona, as follows:

Section 1. The Authority approves and authorizes the MCC Program to issue MCCs, pursuant to one or more elections, to qualified homebuyers and homeowners who incur mortgage loans for eligible purposes. The parameters and purposes of this MCC Program are attached hereto as Exhibit A and are now before the members of the Authority. Such parameters are hereby approved in substance, with such changes and modifications as the Executive Director, the staff and counsel to the Authority deem necessary and advisable, and are incorporated by reference as part of this Resolution.

Section 2. The Executive Director of the Authority is hereby authorized to apply, on behalf of the Authority, to the Arizona Commerce Authority for an allocation of \$53,100,000 of private activity bond volume cap in connection with the MCC Program.

Section 3. The Authority finds and determines that it is necessary to exchange its allocation of private activity bond volume cap set forth in Section 2 for the authority to issue MCCs. The Authority directs the Executive Director to make one or more elections, pursuant to Section 25 of the Code, not to issue up to an aggregate of \$53,100,000 of private activity bonds (the “nonissued bond amount”) that the Authority is authorized and has volume cap available to issue (including any unused carryforward). The nonissued bond amount shall be allocated to implement the purposes of the MCC Program. To effectuate the foregoing, the Executive Director is directed to file notice of such elections with the Internal Revenue Service, as required by the Code and the regulations.

Section 4. The Authority authorizes the Executive Director to establish an MCC Program to issue MCCs for the purposes set forth in this resolution. For such MCC Program, the Executive Director may establish one or more credit rates for the mortgage loans described therein, determine the program expiration date, select the types of mortgage loans for which MCCs may be issued, approve the terms and conditions on which participating lenders make loans that are eligible for MCC financing, prepare necessary program documentation, and make other determinations as appropriate, all in accordance with the terms and provisions of Section 25 of the Code and the regulations

thereunder and this Resolution. The Executive Director and the staff are hereby directed to further define the MCC Program parameters as necessary to maximize the availability of lower cost financing to low and moderate income persons under the MCC Program.

Section 5. The Executive Director shall give notice to the public of establishment of each MCC program as required by Section 25 of the Code and the regulations thereunder prior to the issuance of any MCCs under the MCC Program.

Section 6. Kutak Rock LLP is hereby appointed as bond counsel in connection with the transaction.

Section 7. None of the members of the governing body of the Authority nor any director, officer, official, Executive Director, employee or agent of the Authority is subject to any personal liability or accountability by reason of the transaction described herein.

Section 8. In the event of the inability or unavailability of any official of the Authority to perform any duty assigned to such official by the terms of this Resolution, any officer or employee of the Authority authorized to act for such official is hereby authorized and directed to so.

Section 9. All acts and doings of the officers of the Authority which are in conformity with the purposes and intent of this Resolution are in all respects approved, ratified and confirmed.

Section 10. The provisions of this Resolution are hereby declared to be separable, and if any action, phrase or provision is for any reason declared to be invalid, such declaration does not affect the validity of the remainder of the sections, phrases and provisions.

Section 11. This Resolution shall be effective immediately.

Section 12. Notice of Arizona Revised Statutes section 38-511 is hereby given. The provisions of said statute are by this reference incorporated herein to the extent of their applicability to matters contained herein under the laws of the State of Arizona.

[Signature page follows.]

ADOPTED AND APPROVED this 12th day of March, 2015.

THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF PHOENIX, ARIZONA

By: _____
Juan Salgado, Executive Director

EXHIBIT A

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA

MORTGAGE CREDIT CERTIFICATE 2015 PROGRAM PROGRAM PARAMETERS

The mortgage credit certificate (“MCC”) program will be established pursuant to Section 25 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder to complement the Authority’s single-family bond program (the “Bond Program”). The following is an outline of the general parameters of the MCC program.

1. The MCC program will follow the same general parameters applicable to the types of borrowers and type of properties which qualify for financing through the Bond Program. Likewise, the same type of certifications will be required of the recipient of the MCC.
2. MCCs shall be issued in connection with mortgage loans for the acquisition, construction, improvement and/or rehabilitation of single-family residences within the Authority’s jurisdiction.
3. MCCs will be issued under the MCC program to be established by the Executive Director. The MCC program will have the certificate credit rates, eligible loans and other terms and conditions determined by the Executive Director, all in accordance with Section 25 and the regulations.
4. The MCC program will be conducted through the end of the second calendar year following the calendar year in which the Authority elects not to issue an amount of private activity bonds, or such shorter period selected by the Executive Director, unless a longer period is permitted by the federal tax laws.
5. MCCs shall not be required to be issued in conjunction with the debt of any particular lender.
6. MCCS shall be transferable, to the extent permitted by regulations of the Secretary of the Department of the Treasury of the United States of America and as approved by the Authority.
7. MCCs may be used for or with respect to any particular developers or developments as shall be determined by the Executive Director.
8. The mortgage credit rate on the MCCs shall not be less than 10% nor more than 50%. The Executive Director may establish separate mortgage credit rates for each loan type within a particular program.
9. The Executive Director shall notify the Secretary of the Treasury of the United States of America of any mortgage credit certificate revocation.

10. The Authority may charge a processing fee, as established by the Executive Director, to each recipient of an MCC to defray the costs of administering the MCC Program.
11. During the first year of each MCC program, at least 20% of the MCCs shall be targeted to persons incurring loans relating to residences in certain targeted areas.
12. MCCs may be reissued in connection with certain mortgage loan refinancings at the discretion of the Executive Director.