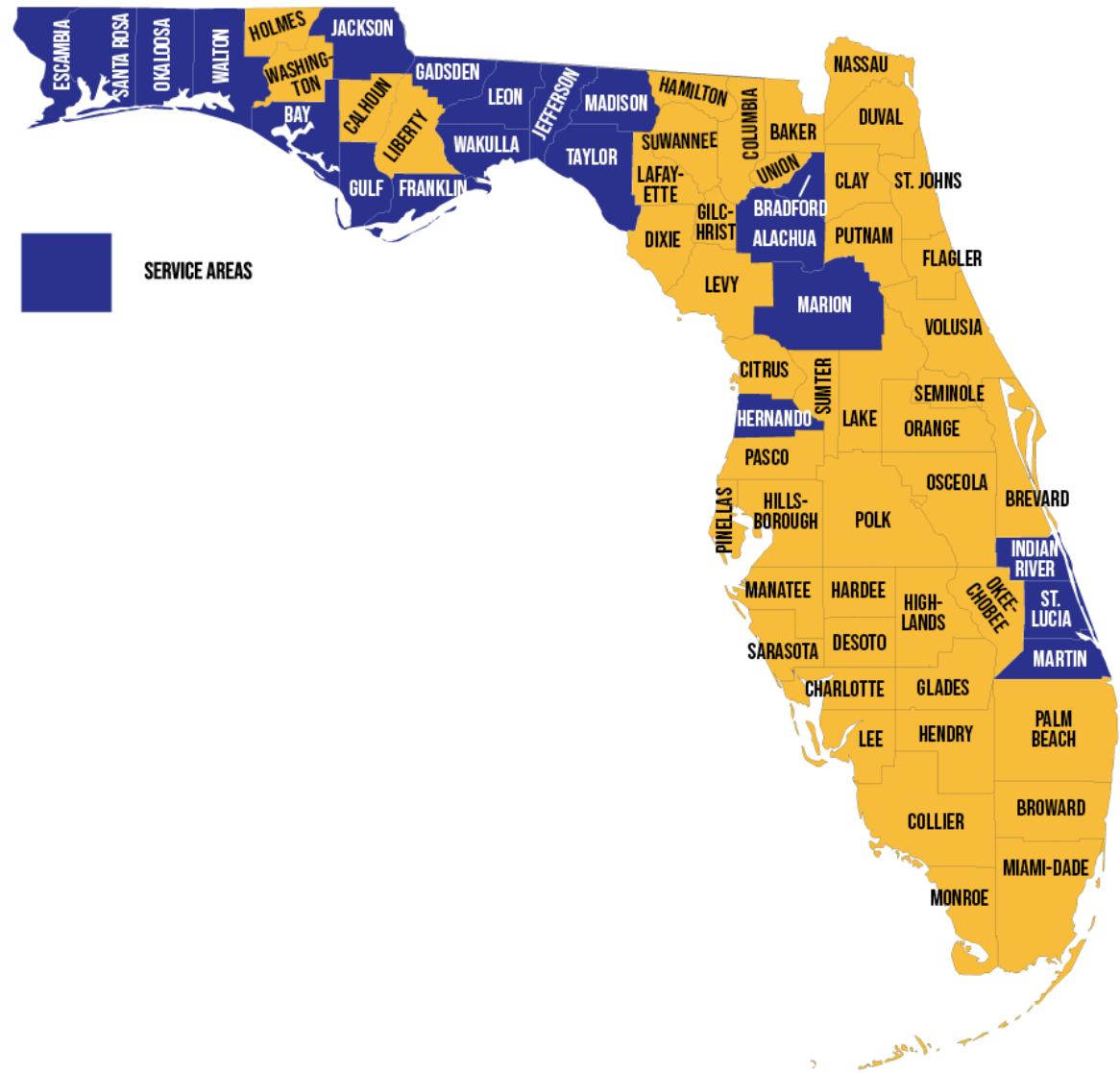




Escambia County Housing Finance Authority (ECHFA) - Serving 21 Counties in Florida

The mission of ECHFA is to help alleviate the shortage of affordable homes available to persons of moderate, middle and low income, which will provide them with safe, sanitary, and decent housing; and to assist in making capital available for the financing of construction, purchase, reconstruction, or rehabilitation of such homes for such persons at interest rates which they can afford.



SERVICE AREAS

Mortgage Credit Certificates (“MCC”) were authorized by Congress in the 1984 Tax Reform Act. The MCC is a direct federal tax credit which homeowners may use to reimburse themselves for 50% of their annual mortgage interest up to a maximum of \$2,000, resulting in a dollar-for-dollar reduction of their annual federal tax liability. The annual benefit to the homeowner is the lesser of the credit amount or the amount of federal taxes owed after all other credits and deductions have been taken. The benefit cannot exceed the homeowner’s federal income tax liability for the year and may in some instances be rolled forward for up to three years if the homeowner does not owe enough tax in a particular year to take advantage of the tax credit. The credit is good for each tax year the mortgage is outstanding, as long as the homeowner uses the home as his or her principal residence. Certain recapture requirements apply if the house is sold or no longer used as the homeowner’s principal residence.

Enacting the MCC Program has been a great benefit to many first-time homebuyers in Escambia County and the other counties that choose to participate in the Authority’s MCC Program. The credit may be worth thousands of dollars to qualifying homebuyers over the life of their mortgage loan and may in some circumstances be taken into consideration as income in determining initial qualification.



ECHFA MCC PROGRAM - JUNE 13, 2017

The MCC Program utilized the Authority's \$100,000,000 carry-forward allocation that was available for tax-exempt single-family mortgage programs, scheduled to expire December 31, 2017. Because the conversion is a 4-1 basis, the MCC program had an initial private activity bond allocation of \$25,000,000 that will last throughout the origination period, which ended December 31, 2019.

The cost of enacting the MCC program included bond counsel fees, plus the cost of advertising in the counties that elect to participate in the MCC program. IRS regulations require publication in a newspaper of general circulation in each county where the MCC will be offered. The Board approved a motion to authorize the Executive Director to engage professionals to develop and implement a Mortgage Credit Certificate Program for the Escambia County Housing Finance Authority.

MCC PROGRAM 2023

In fiscal year 2023, the Authority began working to add a Mortgage Credit Certificate Program (the “MCC Program”) to its offerings to support first-time homebuyers. The MCC Program utilized the Authority’s \$35,000,000 carry-forward allocation that was available for tax-exempt single-family mortgage programs, scheduled to expire December 31, 2023. Because the conversion is on a 4-1 basis, the MCC program had an initial private activity bond allocation of \$8,750,000 that will last throughout the origination period, which will end December 31, 2025.

MCC can be made available to first-time homebuyers with income limitations established by the IRS that are similar to the income limitations established for the Traditional TBA Program; however, MCC are available to any eligible borrower working with a participating lender, whether the mortgage loan is made through the Traditional TBA Program, or as a stand-alone MCC. Participating lenders pay the Authority a one-time application fee of \$500 to be able to participate in the MCC Program. The Authority also receives either \$350 (if the borrower uses one of the Authority's mortgages with the MCC) or 1% of the purchase price (if the borrower does not use one of the Authority's mortgages) for each MCC issued.



Following the publication of required notices and receipt of private activity bond allocation, the MCC Program became effective December 15, 2023. The MCC Program is administered on behalf of the Authority by Housing and Development Services, Inc. d/b/a eHousingPlus pursuant to a Program Administration Agreement. Many members of the Authority professional team assisted in this review with the Authority Board, including Hilltop Securities, eHousingPlus, CSG Advisors, RBC Capital Markets, and Bryant Miller Olive. The Authority is required to file a Form 8330 with respect to each calendar quarter in which a Mortgage Credit Certificate is issued. eHousingPlus prepares Form 8330 for the Authority's signature and filing with the IRS.



MCC Tax Credit Rate		20%
Loan Amount		\$200,000
Interest Rate		7.00%
Annual Interest Paid ($\$200,000 \times 7.00\%$)		\$14,000
MCC Tax Credit ($\$14,000 \times 20\%$)		\$2,800
Annual Interest Paid After MCC Reduction		\$11,200

Quick Analysis: 20% MCC rate is more beneficial for the Authority and the homebuyers in this high interest rate environment.

- Around 80% of Authority borrowers could benefit from a MCC credit amount of 20%, which would allow them to exceed the annual \$2,000 cap.
- Using a lower tax credit rate of 20% versus 50% (2017 ECHFA MCC program limit), the Authority is able to stretch MCC allocation dollars.

For example: With the 20% tax rate, there is no maximum dollar amount on the annual credit, and most of the Authority's borrowers could receive more than \$2,000.

- Comparatively, at a 50% tax credit rate, every single borrow would be limited to \$2,000 cap (the calculated benefit amount exceeds \$2,000 for most loans).
- Furthermore, at the 20% MCC tax credit rate, the Authority will only use \$1.1M in MCC allocation versus \$2.7M at the 50% MCC credit rate.

The Authority Board determined that 20% would be a good starting point since the benefit helps more homebuyers and allows the Authority to provide more MCC by extending the allocation amount.

Alternatively, the Board could have selected a tiered-structure whereby loans under a certain threshold could have a higher MCC rate (for example, borrowers under \$150,000 purchase price would have 30% MCC tax credit rate).

ESCAMBIA COUNTY HOUSING FINANCE AUTHORITY

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