RESOLUTION NO. 82-19

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RIDGECREST APPROVING AN AGREEMENT OF COOPERATION WITH KERN COUNTY FOR THE PURPOSE OF FINANCING HOME MORTGAGES WITH RESPECT TO PROPERTY WITHIN THE CITY AND AUTHORIZING THE EXECUTION THEREOF

WHEREAS, the County is in the process of putting together a revenue bond which would make mortgage funds available in the County and several incorporated Cities at rates that are somewhat less than conventional mortgage interest rates, and

WHEREAS, proposals have been submitted by developers who wish to use this funding in Ridgecrest, and

WHEREAS, a Cooperation Agreement with the County is needed before these proposals can be included in a bond issue, and

WHEREAS, the Agreement does not make the City liable, either legally or morally, for paying off the bonds, and

WHEREAS, this program would be of overall benefit to the City of Ridgecrest,

NOW, THEREFORE, the City Council of the City of Ridgecrest hereby resolves as follows:

1. The Cooperation Agreement between the City and the County of Kern for the purpose of financing home mortgages is hereby approved; and

2. The Mayor is hereby authorized to execute such Agreement of Cooperation on behalf of the City.

APPROVED AND ADOPTED this 7th day of April, 1982, by the following roll call vote:

AYES: Mayor Hockett, Vice-Mayor Bergens, Councilmen Cheshire and Grossman

NOES: None

ABSENT: None

ABSTAIN: None

Harold J Hockett

HAROLD J. HOCKETT, MAYOR

ATTEST:

Jacqueline C. Reed

JACQUELINE C. REED, CITY CLERK

RESOLUTION NO. 82-19

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RIDGECREST APPROVING AN AGREEMENT OF COOPERATION WITH KERN COUNTY FOR THE PURPOSE OF FINANCING HOME MORTGAGES WITH RESPECT TO PROPERTY WITHIN THE CITY AND AUTHORIZING THE EXECUTION THEREOF

WHEREAS, the County is in the process of putting together a revenue bond which would make mortgage funds available in the County and several incorporated Cities at rates that are somewhat less than conventional mortgage interest rates, and

WHEREAS, proposals have been submitted by developers who wish to use this funding in Ridgecrest, and

WHEREAS, a Cooperation Agreement with the County is needed before these proposals can be included in a bond issue, and

WHEREAS, the Agreement does not make the City liable, either legally or morally, for paying off the bonds, and

WHEREAS, this program would be of overall benefit to the City of Ridgecrest,

NOW, THEREFORE, the City Council of the City of Ridgecrest hereby resolves as follows:

1. The Cooperation Agreement between the City and the County of Kern for the purpose of financing home mortgages is hereby approved; and

2. The Mayor is hereby authorized to execute such Agreement of Cooperation on behalf of the City.

APPROVED AND ADOPTED this _____day of_____________, 1982, by the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

HAROLD J. HOCKETT, MAYOR

ATTEST:

JACQUELINE C. REED, CITY CLERK

COMMUNITY DEVELOPMENT PROGRAM DEPARTMENT

C.D. Program Department
Great Western Savings Building
1415 - 18th Street, Second Floor
Bakersfield, California 93301
Telephone (805) 861-2041

COUNTY OF KERN
STATE OF CALIFORNIA

WILLIAM J. MUNGARY
Director
ANOOSH BOZORGMEHR
Assistant Director

March 8, 1982

RECEIVED
MAR 11 1982
City of Ridgecrest
City Hall

William L. Eichenberg, City Administrator
City of Ridgecrest
139 Balsam Street
Ridgecrest, California 93555

Dear Mr. Eichenberg:

The County is in the process of putting together a revenue bond which would make mortgage funds available in the County and several incorporated cities at rates that are somewhat less than conventional mortgage interest rates. There have been proposals submitted by developers in five incorporated cities: Bakersfield, Delano, Ridgecrest, Shafter and Wasco. In order for those proposals to be included in the bond issue, one essential step is for the city to execute a cooperation agreement with the County, the actual issuer of the bonds. Such a cooperation agreement is enclosed along with a suggested resolution.

Also enclosed is a summary of developers' commitments and the bond program. As the State Mortgage Bond Allocation Committee has allocated only $29.1 million in bond authority to Kern County, it is clear that there must be a shrinkage in these commitments. A feasibility study is now underway which will undoubtedly eliminate some of the developments as being infeasible and make recommendations on the market for housing in the County and cities which will indicate that a scaling back of some projects is necessary. The summary figures are therefore subject to change and we will keep you informed as they affect your locality.

The effect of the cooperation agreement is to make it possible to originate loans using bond proceeds in your city. Without the agreement, your area would have to be left out of the issue. The agreement does not make the city liable, either legally or morally, for paying off the bonds. In fact, the County itself is not liable either, as the bonds are backed only by mortgage payments reserve accounts, and insurance.

If the City is in favor of the program being made available, execution of the agreement is essential at the earliest date possible. Please return three (3) copies of the agreement to us. Contact Mark Smith, or me, if you have any questions.

Very truly yours,

William J. Mungary, Director
Community Development Program Department

WJM:MAS:ayt

Enclosures

xc: Each Supervisor
County Administrative Office
County Counsel

AGREEMENT OF COOPERATION

THIS AGREEMENT, made and entered into this _____ day of ____________, 1982, by and between the COUNTY OF KERN, a political subdivision of the State of California ("County") and the CITY OF RIDGECREST, a municipal corporation ("City"),

W I T N E S S E T H:

WHEREAS, pursuant to Section 52000 et seq., of the California Health and Safety Code, County proposes to undertake a Home Mortgage Finance Program and to issue Home Mortgage Revenue Bonds to provide funds to make or acquire home mortgages to be made with respect to eligible homes and eligible mortgagors within the boundaries of both the unincorporated area and certain incorporated areas of Kern County; and

WHEREAS, one of the areas within which County proposes to provide funds to make or acquire home mortgages is within the boundaries of the incorporated area of the City of Ridgecrest; and

WHEREAS, City desires to cooperate with County in the making or acquiring of such home mortgages, all as authorized by Section 52020 of the California Health and Safety Code and as hereinafter provided;

NOW, THEREFORE, in consideration of the terms and conditions herein set forth, IT IS MUTUALLY AGREED that County shall be authorized to and shall use its best efforts to make or acquire home mortgages to be made with respect to eligible homes and eligible mortgagors within the boundaries of the City of Ridgecrest; subject, however to the applicable provisions of Section 52000 et seq., of the California Health and Safety Code and the proceedings to be had and taken for the issuance of the above described Home Mortgage Revenue Bonds, including the availability of proceeds of such Home Mortgage Revenue Bonds for such purpose.

IN WITNESS WHEREOF, County and City have caused this Agreement of Cooperation to be executed by officers thereunto duly authorized as of the date hereinabove set forth.

COUNTY OF KERN

____
Chairman, Board of Supervisors

Approved as to Form
Office of County Counsel

____

ATTEST

____
Clerk, Board of Supervisors

Recommended and Approved as
to Content
Community Development Program Dept.

____

CITY OF RIDGECREST

____
Mayor

"City"

Approved as to Form
City Attorney

____

ATTEST

____
City Clerk

Recommended and Approved as
to Content

____

February 8, 1982

MORTGAGE REVENUE BOND
Program Summary

Location	Reservations ($ Million)	Approximate # of units	Approximate Price/House
Bakersfield City	25.15	410	$61,340.00
Metro Bakersfield	12.88	241	53,443.00
Other County	3.74	62	60,322.00
Ridgecrest	9.0	154	58,400.00
Delano	3.0	52	57,692.00
Shafter	.47	7	67,142.00
Wasco	2.5	45	55,500.00
TOTAL	$56.74	971	$58,434.00

February 8, 1982

MORTGAGE REVENUE B[illegible] PROGRAM RESERVATIONS

Developer	Reservation ($ million)	Approximate # of units	Location	Comment/Status
Diamond H Corporation	.8	18	Bakersfield	
Tricor Properties	5.0	87	Bakersfield	Condo Conversion commitment may drop
Karpe Construction	.5	7	Bakersfield	lowered commitment 2/9/82
Richard C. Bailey	.3	5	Metro *	May increase commitment
Golden Empire Development Co.	2.32	37	Bakersfield	
Greenfield Properties (Reeder)	8.0	147	Metro *	
Hilltop Developers, Inc. (Reeder)	2.5	45	Wasco	
Presido Construction, Inc.	.74	11	7 Shafter 4 unspecified	
Stockdale Enterprises, Inc.	.65	10	Bakersfield	

* Metro means the County area outside Bakersfield City Limits

Developer	Reservation ($ million)	Approximate # of units	Location (s)	Comment/Status
Batey Development, Inc.	.25	4	Bakersfield	
Vernon D. Strong Realty	1.0	17	Unspecified scattered sites	
Budget Homes, Inc.	1.0	17	Delano	
Coleman Construction	5.0	80	Bakersfield	
Silvercrest Industries, Inc.	2.0	35	Delano	
Gannon Enterprises	1.0	17	Metro	
Sondco, Inc.	3.42	57	Rosamond	
San Joaquin Estates	1.0	14	Metro	
Loma Vista Construction	1.97	30	Bakersfield	

Developer	Reservation ($ million)	Approximate # of units	Location	Comment/Status
Orbit Industries	.27	4	Bakersfield	
China Lake Investments, Inc.	6.0	109	Ridgecrest	
Barratt Northern California	2.0	44	Metro	
Butch Boynton	.25	7	Metro	May increase commitment
Hadco Development Co.	.328	5	Mojave	
The Gregory Co.	3.0	45	Ridgecrest	
Great Western Builders, Inc.	5.0	75	68 Bakersfield 7 Metro	
Park West	2.4	44	Bakersfield	

FACT SHEET

HOUSING MORTGAGE REVENUE BONDS

What are Housing Mortgage Revenue Bonds?

Under State and Federal law, bonds may be issued by localities to make mortgage money available. Because interest on these bonds is free of Federal taxes (and California State taxes for bondholders who live in the state), bond buyers are willing to accept less interest than they would on taxable bonds. Therefore, the mortgages originated under revenue bond programs typically have an interest rate which is several points less than conventional mortgage rates.

The bonds are called "mortgage revenue bonds" because the payments that homeowners make over the life of the mortgage pays off the bonds. The locality does not pledge its full faith and credit to pay off the bonds and there is no liability in this regard.

Who can qualify?

Under state law, those who make up to 120 percent of the statewide median household income can apply for a loan. This is calculated to be about $34,000 per year at present. In addition, under Federal law, a buyer cannot have been a homeowner during the last three years.

What are the prices of homes which can be purchased?

House prices cannot exceed 90 percent of the average area purchase price of single family residences in the County over the last year. In Kern County, this has been calculated to be in the $60,000 to $70,000 range. Included are houses which have already been built, but have not been sold (standing inventory).

What lenders and builders will participate?

Financial institutions and builders in Kern County will be invited to attend meetings to determine whether or not they would like to participate in the program. It is not possible to predict which ones will wish to meet the program requirements. In any event, before bonds are sold, interested lenders and developers will make a commitment for a certain portion of the bond proceeds.

What cities will participate?

The County will be the issuers of the bonds, but each city can decide (by vote of the City Council) whether or not to be included. Cities in which developers have buildable projects will most likely wish to be a part of the bond issue.

June 26, 1981

Fact Sheet

SUMMARY OF TEMPORARY AND PROPOSED SINGLE FAMILY MORTGAGE SUBSIDY BOND REGULATIONS

Mortgage Subsidy Bond Tax Act of 1980

- On December 5, 1980, Congress enacted the Mortgage Subsidy Bond Tax Act of 1980 (Title XI of the Omnibus Reconciliation Act of 1980) which imposes a number of restrictions on the use of mortgage subsidy bonds, including single family mortgage subsidy bonds. Single family mortgage subsidy bonds are tax-exempt bonds the proceeds of which are used to finance single family owner-occupied homes. The lower tax-exempt interest rates on the bonds make it possible to provide mortgages for individuals at rates below conventional home mortgage interest rates.

Summary of the Temporary and Proposed Regulations

- The regulations provide rules in both temporary and proposed form to implement the provisions of the Act relating to the use of tax-exempt, single-family mortgage subsidy bonds. The temporary regulations may be relied upon on an interim basis until final regulations are published. In addition, as proposed rules, the regulations allow for a 60 day comment period and a public hearing to be followed by issuance of final regulations.

- The principal restrictions imposed by the statute, and implemented by the regulations, are as follows:

Mortgage Subsidy Bonds -- General

- With two exceptions, interest on all single family mortgage subsidy bonds is includible in income and subject to tax for income tax purposes. The two exceptions are "qualified mortgage bonds" and "qualified veterans mortgage bonds." Under the statute and regulations, however, the exception for qualified mortgage bonds applies only through December 31, 1983; after that date, no qualified mortgage bonds may be issued.

Qualified Mortgage Bonds

- A qualified mortgage bond issue is an issue (1) all of the proceeds of which (exclusive of issuance costs and amounts invested in a reasonably required reserve) are used to finance owner-occupied residences and (2) which meets the several requirements described below.

  -- Residence requirements: To qualify for financing, a residence must be the principal residence of the mortgagor. "Residence" includes stock held by a tenant-stockholder in a cooperative housing corporation; it does not include a typical mobile home.

  -- "First-time" homebuyer requirement: In general, an eligible mortgagor may not have had a present ownership interest in a principal residence at any time during the three years prior to obtaining financing through a qualified mortgage bond. This rule does not apply to loans made for residences located in certain "targeted areas." In addition, it does not apply to qualified home improvement loans or qualified rehabilitation loans, which are defined in the statute and the regualtions.

  -- Purchase price limitation: The acquisition cost of an eligible residence may not exceed 90% (110% in the case of targeted area residences) of the average area purchase price of single family residences in the SMSA or county in which the residence is located. The regulations provide that the acquisition cost does not include items, such as furniture, appliances, etc., that are not fixtures.

  -- Market limitation: The total amount of single family mortgage subsidy bonds that may be issued in a State in a calendar year is limited to the greater of $200 million or 9% of the average aggregate principal amount of mortgages for single family, owner occupied residences executed during the immediately preceding 3 calendar years in the State. Half of this State limitation is allocated to State housing finance agencies and the remaining half is divided among all other issuers within the State. Either the Governor or the State legislature, however, may alter this allocation among various issuers within the State.

  -- Targeted areas: A portion of bond proceeds must be made available for a period of at least one year for mortgages in targeted areas within the issuer's jurisdiction. The required portion is the lesser of 20% of the lendable proceeds of an issue or 40% of

(2) Arbitrage. In addition to meeting the arbitrage requirements that apply to all tax-exempt bonds, the temporary regulations restrict the effecti rate of interest on mortgages provided with the proceeds of qualified mortgage bond to one percent over the yield on the issue of the bonds. Also restricted is the amount of money which may be invested in non-mortgage investments, such as reserve funds, which may not exceed 150 percent of the debt service for any bond year. The arbitrage earned on such non-mortgage investments must either be credited to the mortgagors or it may be given to the U.S. Treasury.

(3) Compliance. If only three of the mortgage eligibility provisions (i.e. new mortgages, principle residences, three year non-ownership, or purchase price limitations) are complied with, the issue may still be treated as a qualified mortgage bond if three requirements are met. First, the issuer must prove that a good faith effort was made to satisfy all requirements before the mortgages were executed. Second, 95 percent of the lendable proceeds of an issue devoted to owner financing must be placed in qualifying mortgages. The 5 percent margin for non-qualifying mortgages protects the issuer from inadvertent error or mortgage fraud. Third, any failure to

meet the 5 percent requirement for woner financing must be corrected within a reasonable amount of time or the bonds will revert to a taxable issue.

(4) Qualified Veterans Mortgage Bonds. As in the case of qualified mortgage bonds, qualified veterans mortgage bonds may be issued to finance new mortgages for single-family, owner occupied, principle residences. Unlike the qualified mortgage subsidy bonds, however, the first-time homebuyer requirements and the purchase price limitations are not applicable.

The controversy over the rules revolves essentially around two issues--the 1% over yield limitation and the requirement that 95% of the mortgages must be eligible or the tax-exempt status of the bonds will be lost.

Among other things, the first requirement limits the amount of fees which can be added to the interest rate to cover issuance and servicing costs. This may mean that a portion of the servicing costs will have to be picked-up locally to make the issue feasible.

Second, the 95% requirement will require a great deal of investigation and verification of the individual mortgagors to ensure that 95% of mortgages comply with the purchase price, principle residence, and three year non-ownership requirements. The penalty for non-compliance is steep since it can mean that the bonds will convert to a taxable status.

Comments on the rules are due August 31, 1981. Please send a copy of your comments to Paula Jarvis or Sandy Reinsel at NACo.

A bill has been introduced by Rep. Duncan of Tennessee which would liberalize the arbitrage limits from 1% to 1½%. The bill is not included in the Republican tax package, therefore, no action is expected to be taken on the bill in the near future.

Temporary Regulations on Single-Family Mortgage Subsidy Bonds Issued

On July 1, the Internal Revenue Service issued temporary regulations to implement provisions of the Mortgage Subsidy Bond Act enacted by Congress last December. The temporary regulations which may be relied upon on an interim basis until final regulations are published, are effective for governmental obligations for the use of single-family mortgage subsidy bonds issued after April 24, 1979.

A summary of the major provisions imposed by the interim regulations follows:

(1) Qualification Requirements. All qualified mortgage subsidy bond proceeds for single family homes must be used to finance new mortgages for permanent residences. Permanent residences, according to the regulations may include stock held by tenant-stockholders in a cooperative housing corporation and manufactured houses permanently attached to real property. This does not include the typical mobile home.

The mortgage subsidy bond regulations are geared to assist first time homebuyers; prohibiting any mortgagor who has owned a home in the previous three years. These homeownership restrictions, however, do not apply to qualified home improvement or rehabilitation loans or residences in designated target areas. Target areas, according to the provisions are areas of chronic economic distress or census tracts in which 70 percent of the families have an income that is 80 percent or less of the median statewide family income. A portion of the bond proceeds equal to the lesser of 20 percent of the lendable proceeds of an issue or 40 percent of the average aggregate mortgage volume in the jurisdiction during the preceding three years must be made available for a period of at least one year for mortgages in these areas.

Although there is no income limitation on mortgagors, the regulations limit the maximum purchase price of a residence, not to exceed 90 percent of the average purchase price of single-family houses in the SMSA or the county in which the residence is located. (110% for targeted area residences).

The total amount of single-family subsidy bonds which a state may issue each year is limited to $200 million or 9 percent of the average of all single-family home mortgages originated in the state during the preceding three years. The state finance agencies receive half of the states allocation and the other issuers within the state receive the remaining half.

. if a mortgage is assumed, the principal residence, three year and purchase price requirements must be met by the new mortgagor, at the time of the assumption.

-- Compliance: If a mortgage financed by bond proceeds fails to meet one or more of the mortgage eligibility requirements (i.e., the principal residence, "first-time" homebuyer, purchase price, new mortgage or assumption requirements), the issue still will be treated as a qualified mortgage bond issue if three requirements are met. First, the issuer must attempt in good faith to meet all such requirements. Second, 95 percent of the lendable proceeds of the issue must be placed in qualifying mortgages. The 5 percent margin for nonqualifying mortgages protects the issuer from inadvertent error or mortgagor fraud. Third, any failure to meet such requirements for mortgages comprising less than 5 percent of the lendable proceeds must be corrected within a reasonable period of time after it is discovered. With respect to the remaining requirements, an issue will be treated as satisfying such requirements if the issuer in good faith attempted to meet such requirements and any failure was due to inadvertent error, after taking all reasonable steps to comply.

-- Safe harbor: To facilitate the ability of issuers to meet some of the restrictions, the Treasury Department will publish safe harbor purchase price limitations and State ceiling amounts. These safe harbor numbers may be relied upon by an issuer. Where an issuer has available more accurate and comprehensive data, an issuer will be free to use a different limitation computed from such data.

Qualified Veterans Mortgage Bonds

° A qualified veterans mortgage bond issue is an issue substantially all of the proceeds of which are used to provide residences for veterans and which is secured by a pledge of the full faith and credit of the issuing State. As in the case of qualified mortgage bonds, the residences must be single family, owner occupied residences which are the principal residence of the mortgagor and generally the mortgages must be new mortgages. Other requirements applicable to qualified mortgage bonds (e.g., the first-time homebuyer requirement, the purchase price requirement, etc.) do not apply to qualified veterans mortgage bonds.

Registration requirement: Any qualified mortgage bond or qualified veterans mortgage bond issued after December 31, 1981, must be issued in registered form.

o o o

the average aggregate mortgage volume in the targeted areas within the issuer's jurisdiction during the preceding 3 calendar years.

A targeted area is an area that is either a qualified census tract or an area of chronic economic distress. A qualified census tract is a census tract in which at least 70% of the families have an income that is 80% or less of the statewide median family income. An area of chronic economic distress is an area designated by a State and approved by the Secretaries of Housing and Urban Development and Treasury in accordance with four criteria specified in the statute. The regulations allow States, after weighing all the criteria, to use discretion in making designations provided that the total population in areas of chronic economic distress does not exceed 20 percent of the total population in the State, exclusive of the population in qualified census tracts.

-- <u>Arbitrage</u>: In addition to the arbitrage requirements that apply to all tax-exempt bonds, three principal arbitrage requirements must be satisfied. First, the effective interest rate on the mortgages financed by the proceeds of a qualified mortgage bond may not exceed 1 percentage point over the yield on the issue. The regulations set forth a series of rules for computing the effective interest rate on the mortgages.

The second arbitrage restriction is that the amount invested in nonmortgage investments, such as a reserve fund, at a yield higher than the yield on the bonds may not exceed at any time during any bond year 150 percent of the debt service for such bond year. Furthermore, such amount must be promptly and appropriately reduced as mortgages are repaid and actual monthly mortgage payments are reduced. Proceeds invested for certain temporary periods are excepted from the 150 percent rule.

The third arbitrage requirement is that all arbitrage earned on nonmortgage investments be paid or credited to mortgagors. Alternatively, an issuer may elect to pay the arbitrage earned on nonmortgage investments to the United States. A limited amount of arbitrage may be retained by the issuer, however, if the effective interest rate on mortgages financed by the issue is less than 1 percentage point above the yield on the bonds.

-- <u>Other requirements</u>: As a general rule, the proceeds of qualified mortgage bonds may not be used to acquire or replace existing mortgages. In addition,