

HAWKINS ADVISORY

2014 UNITED STATES AND AREA MEDIAN GROSS INCOME FIGURES WITH RESPECT TO MORTGAGE REVENUE BONDS AND MORTGAGE CREDIT CERTIFICATES

Please be advised that the Internal Revenue Service has released Revenue Procedure 2014-23, which contains information for issuers of single-family housing bonds and mortgage credit certificates related to the income limits applicable to mortgage revenue bonds and mortgage credit certificates including a “hold harmless” provision.

Revenue Procedure 2014-23 provides for a median gross income figure for the United States of \$63,900 as released by HUD on December 18, 2013. Please note that in calculating 2014 income limits, Section 3 of Revenue Procedure 2014-23 allows an issuer to use either (i) the median gross income for the United States, the state and statistical areas within the state, as released by HUD on December 11, 2012 (collectively, the “FY 2013 Income Figures”) or (ii) the median gross income for the United States, the state and statistical areas within the state, as released by HUD on December 18, 2013 (collectively, the “FY 2014 Income Figures”). In addition, if the issuer uses the FY 2013 Income Figures to calculate high housing cost areas then the issuer must use FY 2013 numbers for all purposes within the high housing cost area formula. Likewise, if the issuer uses the FY 2014 Income Figures to calculate high housing cost areas then the issuer must use FY 2014 numbers for all purposes within the high housing cost area formula. Please note that if an issuer decides to use the 2014 Income Figures to calculate high housing cost areas, such calculation cannot be completed until the release of the 2014 revenue procedure providing safe harbor purchase price limits.

Revenue Procedure 2014-23 supersedes Revenue Procedure 2013-27, which is now obsolete except with respect to the use of the FY 2013 Income Figures as provided in Section 3 of the Revenue Procedure.

Attached is a copy of Revenue Procedure 2014-23. Please contact a member of the Tax Department or Housing Group if you have any questions about the use of this information.

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Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.601: Rules and Regulations.

(Also Part I, §§ 25, 103, 143; 1.25-4T, 1.103-1, 6a.103A-2.)

Rev. Proc. 2014-23

SECTION 1. PURPOSE

This revenue procedure provides guidance with respect to the United States and area median gross income figures that are to be used by issuers of qualified mortgage bonds, as defined in § 143(a) of the Internal Revenue Code, and issuers of mortgage credit certificates, as defined in § 25(c), in computing the income requirements described in § 143(f).

SECTION 2. BACKGROUND

.01 Section 103(a) provides that, except as provided in § 103(b), gross income does not include interest on any state or local bond. Section 103(b)(1) provides that § 103(a) shall not apply to any private activity bond that is not a qualified bond (within the meaning of § 141). Section 141(e) provides that the

term "qualified bond" includes any private activity bond that (1) is a qualified mortgage bond, (2) meets the applicable volume cap requirements under § 146, and (3) meets the applicable requirements under § 147.

.02 Section 143(a)(1) provides that the term "qualified mortgage bond" means a bond that is issued as part of a "qualified mortgage issue". Section 143(a)(2)(A) provides that the term "qualified mortgage issue" means an issue of one or more bonds by a state or political subdivision thereof, but only if (i) all proceeds of the issue (exclusive of issuance costs and a reasonably required reserve) are to be used to finance owner-occupied residences; (ii) the issue meets the requirements of subsections (c), (d), (e), (f), (g), (h), (i), and (m)(7) of § 143; (iii) the issue does not meet the private business tests of paragraphs (1) and (2) of § 141(b); and (iv) with respect to amounts received more than 10 years after the date of issuance, repayments of \$250,000 or more of principal on financing provided by the issue are used not later than the close of the first semi-annual period beginning after the date the prepayment (or complete repayment) is received to redeem bonds that are part of the issue.

.03 Section 143(f) imposes eligibility requirements concerning the maximum income of mortgagors for whom financing

may be provided by qualified mortgage bonds. Section 25(c)(2)(A)(iii)(IV) provides that recipients of mortgage credit certificates must meet the income requirements of § 143(f). Generally, under §§ 143(f)(1) and 25(c)(2)(A)(iii)(IV), these income requirements are met only if all owner-financing under a qualified mortgage bond and all certified indebtedness amounts under a mortgage credit certificate program are provided to mortgagors whose family income is 115 percent or less of the applicable median family income. Under § 143(f)(6), the income limitation is reduced to 100 percent of the applicable median family income if there are fewer than three individuals in the family of the mortgagor.

.04 Section 143(f)(4) provides that the term "applicable median family income" means the greater of (A) the area median gross income for the area in which the residence is located, or (B) the statewide median gross income for the state in which the residence is located.

.05 Section 143(f)(5) provides for an upward adjustment of the income limitations in certain high housing cost areas. Under § 143(f)(5)(C), a high housing cost area is a statistical area for which the housing cost/income ratio is greater than 1.2. The housing cost/income ratio is determined under § 143(f)(5)(D) by dividing (a) the applicable housing price ratio by (b) the ratio

that the area median gross income bears to the median gross income for the United States. The applicable housing price ratio is the new housing price ratio (new housing average purchase price for the area divided by the new housing average purchase price for the United States) or the existing housing price ratio (existing housing average area purchase price divided by the existing housing average purchase price for the United States), whichever results in the housing cost/income ratio being closer to 1. This income adjustment applies only to bonds issued, and nonissued bond amounts elected, after December 31, 1988. See § 4005(h) of the Technical and Miscellaneous Revenue Act of 1988, 1988-3 C.B. 1, 311 (1988).

.06 The Department of Housing and Urban Development (HUD) has computed the median gross income for the United States, the states, and statistical areas within the states. The income information was released to the HUD regional offices on December 18, 2013, and may be obtained by calling the HUD reference service at 1-800-245-2691. The income information is also available at HUD's World Wide Web site, <http://www.huduser.org/portal/datasets/il.html>, which provides a menu from which you may select the year and type of data of interest.

.07 The most recent nationwide average purchase prices and

average area purchase price safe harbor limitations were published on July 1, 2013, in Rev. Proc. 2013-28, 2013-27 I.R.B. 28.

SECTION 3. APPLICATION

.01 When computing the income requirements of § 143(f), issuers of qualified mortgage bonds and mortgage credit certificates must use either (1) the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 11, 2012, or (2) the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 18, 2013.

.02 If an issuer uses the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 11, 2012, to compute the housing cost/income ratio under § 143(f)(5), the issuer must use the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 11, 2012, for all purposes under § 143(f). Likewise, if an issuer uses the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 18, 2013, to compute the housing cost/income ratio

under § 143(f)(5), the issuer must use the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on December 18, 2013, for all purposes under § 143(f).

SECTION 4. EFFECT ON OTHER REVENUE PROCEDURES

.01 Rev. Proc. 2013-27, 2013-24 I.R.B. 1243, is obsolete except as provided in §§ 3.01, 3.02, or 5.01 of this revenue procedure.

.02 This revenue procedure does not affect the effective date provisions of Rev. Rul. 86-124, 1986-2 C.B. 27. Those effective date provisions will remain operative at least until the Service publishes a new revenue ruling that conforms the approach to effective dates set forth in Rev. Rul. 86-124 to the general approach taken in this revenue procedure.

SECTION 5. EFFECTIVE DATES

.01 Issuers must use the United States and area median gross income figures specified in § 3.01 of this revenue procedure for commitments to provide financing that are made, or (if the purchase precedes the financing commitment) for residences that are purchased, in the period that begins on December 18, 2013, and ends on the date when these United States and area median gross income figures are rendered obsolete by a new revenue procedure.

DRAFTING INFORMATION

The principal authors of this revenue procedure are David White and James Polfer of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure contact Mr. White or Mr. Polfer at (202) 317-6980 (not a toll-free call).