



Business Implementation Plan 2007-2009

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Vision, Mission and Goals

VISION

That every Texan has the opportunity to live in safe, decent, and affordable housing

MISSION

The Texas State Affordable Housing Corporation serves the housing needs of low, very low and extremely low-income Texans and other underserved populations, as defined by the Texas Legislature, who do not have comparable housing options through conventional financial channels

GOALS

To promote statewide partnerships that leverage public/private resources for the creation, preservation and/or redevelopment of affordable housing

To increase lending and housing production in rural and underserved markets

To develop loan products, financing options and special programs not available through conventional lenders

To supplement the technical and financial capacity of other appropriate nonprofit organizations to provide for the multifamily and single-family housing needs of individuals and families of low, very low, and extremely low income

To achieve and ensure the Corporation's self-sufficiency



Corporate Profile and History

Corporate Profile and History

Texas State Affordable Housing Corporation (the “Corporation”) is organized, operated and administered exclusively for the promotion of public health, safety, and welfare through the provision of adequate, safe, and sanitary housing for low, very low and extremely low-income (“low-income”) Texans and other underserved populations.

The Corporation’s primary purpose is to facilitate the provision of affordable housing for Texans for whom traditional channels are not viable through renewable sources of financing that do not deplete the State’s limited resources.

The Corporation was created in May 1994 under the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq., Vernon’s Annotated Texas Civil Statutes, as amended, and under the authority of Article 4413(501), Vernon’s Annotated Texas Civil Statutes. The Corporation is a public nonprofit corporation created by statute. The Corporation obtained its enabling powers and purposes through legislation enacted from the 74th to the 79th Texas Legislatures. The members of the Board of Directors are appointed by the Governor of the State, and confirmed by the State Senate. The Corporation is subject to significant state oversight, including audit by the State Auditor and debt issuance review and approval by the Texas Bond Review Board. The enabling legislation for The Corporation, as amended, can be found at Texas Government Code, Chapter 2306, Subchapter Y, Sections 2306.551 et seq. (the “Act”). All operations of the Corporation are conducted within the state of Texas. The corporate offices are located in Austin, Texas.

A five-member board of directors appointed by the Governor with the advice and consent of the Senate oversees the business of the Corporation. The current members of the Board of Directors are:

Jerry Romero.....	Chair
Thomas Leeper.....	Vice Chair
Jesse Coffey.....	Director
Charles Rencher.....	Director
Jo Van Hovel.....	Director

David Long serves as the Corporation’s President. Prior to his appointment as President, Mr. Long served as the Corporation’s Interim Manager and, as the Corporation’s Vice President of Single Family Programs. Mr. Long has been employed by the Corporation since October 2001.

Katherine Closmann serves as Executive Vice President. Ms. Closmann has been employed by the Corporation since March 2004. Melinda Smith serves as Chief Financial Officer and Treasurer. Ms. Smith has been employed by the Corporation since August 2001. Laura Ross serves as Corporate Secretary. Ms. Ross has been employed by the Corporation since November 2003.

The Corporation is organized, operated and administered in accordance with its enabling legislation. In February 2001, the Corporation was restructured to become a 501(c)(3) nonprofit corporation in order to access additional sources of funding to accomplish its mission.

The Corporation is an approved originating seller/servicer for single family loans with Fannie Mae, Freddie Mac, Ginnie Mae, U.S. Rural Development, FHA, and VA. The Corporation has conduit sales agreements with Countrywide Home Loans, Inc. and Wells Fargo Funding, and with the Community Development Trust, Inc. for multifamily mortgage loans. The Corporation is also a non-member borrower of the Federal Home Loan Bank of Dallas.

Corporate Profile and History

Recent accomplishments include:

- Ø Closed a Multifamily Private Activity Bond transaction on September 24, 2007, the Rainbow Apartments Project, totaling \$34,900,000 and providing for the rehabilitation of over 1000 affordable units at 13 properties around the state.
- Ø Provided compliance monitoring on 36 multifamily properties.
- Ø Provided asset oversight on a total of 131 multifamily properties, 95 under contract with TDHCA and 36 TSAHC properties.
- Ø In the past two years, the Corporation has assisted 1760 individuals achieve the dream of homeownership through our first-time homebuyer programs. A breakdown is as follows:
 - Professional Educators Home Loan Program = 1000 individuals/families
 - Homes for Texas Heroes Home Loan Program = 425 individuals/families
 - Homes Sweet Texas Loan Program = 335 individuals/families
- Ø In 2006 and 2007, the Corporation was awarded an additional \$25 million in each year for a new program, the Home Sweet Texas Loan Program. The Home Sweet Texas Loan Program was made available to those individuals at or below 80 percent AMFI, and there is no professional requirement. The Corporation will assist approximately 400 individuals in financing a home through these funds.
- Ø The Corporation was successful in being awarded \$151 million in additional single family mortgage revenue private activity bond cap for the Professional Educators Home Loan Program and \$50 million in additional authority for the Homes for Texas Heroes Program, allowing the Corporation to serve an additional 1800 families that it would not have otherwise been able to serve.
- Ø Additionally, in yet another effort to preserve volume cap, the Corporation developed and has implemented the Drawdown Program. The Drawdown Program provides funds to refund the maturing principal of portions of outstanding qualified single family mortgage bonds issued previously by the Corporation in an effort to preserve private activity bond volume cap.



Single Family Programs

Single Family Programs

Single Family Bond Programs

The Texas State Affordable Housing Corporation offers various programs to first-time homebuyers wishing to achieve the American dream of homeownership in the state of Texas.

The Corporation makes this possible through the issuance of Single Family Mortgage Revenue Bonds (MRB's) under three separate programs: (1) the Professional Educators Home Loan Program, (2) the Fire Fighter, Law Enforcement or Security Officer, and Emergency Medical Services Personnel Home Loan Program (more commonly known as the Homes for Texas Heroes Program), and (3) the Home Sweet Texas Loan Program.

These programs provide below market 30-year fixed rate mortgage loans to eligible first-time homebuyers through a network of participating lenders across the state. In addition to the low interest rate, these programs offer down payment and closing cost assistance, up to 5 percent of the loan amount, in the form of a grant. The programs are available statewide on a first come, first-served basis, to homebuyers who wish to purchase a newly constructed or existing home within the state of Texas.

These programs were established to acknowledge hard working professionals committed to their professions and their communities, as well as, assisting low income families achieve the dream of homeownership by providing affordable mortgages and down payment assistance.

The Professional Educators and Homes for Texas Heroes Home Loan Programs were established by the 77th and 78th Legislatures respectively. Both of these programs receive direct annual allocations of bond authority. Over the years, through the Legislative process, these programs have gone through several changes, including but not limited to, including new professionals and consistent income limits.

To date the following individuals are eligible:

Professional Educators: Defined as a full-time classroom teacher, teacher's aide, school librarian, school nurse, school counselor, or an allied health or nursing faculty member.

Homes for Texas Heroes: Defined as a full-time paid fire fighter, peace officer, corrections officer, juvenile corrections officer, county jailer, EMS personnel, or public security officer.

In an effort to continue serving borrowers, and as allowed under statute, the Corporation applied for additional private activity bond cap from the Bond Review Board in 2006 and 2007. The Corporation was awarded an additional \$25 million each year for a new program, the Home Sweet Texas Loan Program. Given that one of the public purposes of the Corporation is to serve individuals of low, very low, and extremely low incomes, this program ensures we are meeting this target demographic. The Home Sweet Texas Loan Program was only made available to those individuals at or below 80 percent AMFI, and there is no professional requirement. The Corporation will assist approximately 400 individuals in financing a home through these funds.

Furthermore, any individual seeking assistance through any of the Corporation's bond programs must:

- Be a first-time homebuyer, have not had an ownership interest in any principal residence during the last three years or be purchasing a home in a targeted area;
- Reside in the state of Texas;
- Meet the income and home purchase price limits;
- Meet standard mortgage underwriting requirements which demonstrate credit worthiness; and
- Occupy the purchased home as their primary residence.

The biggest changes were made in the 80th Legislative Session. In the past both the Professional Educators and Homes for Texas Heroes Programs received \$25 million annually by statute. In 2007, bond volume

Single Family Programs

cap percentages were assigned to all issuers of qualified mortgage revenue bonds. In fact, 56.66% of the State's ceiling that is available exclusively for reservations by issuers of qualified mortgage bonds is given to housing finance corporations.

Ten percent of the State's ceiling that is available exclusively for reservations by issuers of qualified mortgage bonds is given to the Corporation starting in calendar year 2008. Of that, 54.5 percent shall be allotted to the Professional Educators Home Loan Program. The remaining 45.5 percent of the 10 percent shall be allotted to the Fire Fighter, Law Enforcement Officer or Security Officer, and Emergency Medical Services Personnel Home Loan Program.

Furthermore, the Nursing Faculty Home Loan Program was repealed. Those formerly eligible under the Nursing Faculty Program are now eligible under the Professional Educators Home Loan Program, along with allied health program faculty members.

Given that the Single Family Bond Programs have been so well received and marketed, the need far exceeds the funding capacity awarded annually to the Corporation. Fortunately, the Corporation has been successful in receiving additional volume cap from the Bond Review Board in recent years. The Corporation has been awarded \$151 million in additional single family mortgage revenue private activity bond cap for the Professional Educators Home Loan Program and \$50 million in additional authority for the Homes for Texas Heroes Program, allowing the Corporation to serve an additional 1800 families that it would not have otherwise been able to serve. The Corporation will continue to pursue additional volume cap when necessary and available.

Additionally, the Corporation developed the Drawdown Program. The Drawdown Program provides funds to refund the maturing principal of portions of outstanding qualified single family mortgage bonds issued previously by the Corporation in an effort to preserve private activity bond volume cap.

Goals for 2007 – 2009

Goal 1: Research and identify areas of growth within the State and market the programs to newly hired professionals, especially those professionals added in the 80th Legislature.

Goal 2: Research and identify counties that are not utilizing the programs and develop lender and realtor relations in those areas to promote, advertise and market the programs.

Goal 3: Ensure funds are fully committed annually for all programs.

Goal 4: Develop new strategies and options to increase bond authority; i.e. applying for additional allocation from the Bond Review Board when available, developing programs such as our Drawdown Program to increase overall authority, and exploring the use of open indentures, swaps and/or derivatives in bond structures.

Interim Construction and Land Acquisition Program

The Corporation's Interim Construction and Land Acquisition Loan Program supports our mission to serve the housing needs of low, very low and extremely low-income Texans who do not have comparable housing opportunities in rural and underserved communities. The program accomplishes this by providing short-term financing for site acquisition and interim construction to non-profit and for-profit developers to increase or preserve the stock of affordable single family homes in Texas.

The Corporation only considers proposals for a development that involve the sale of housing units to unrelated third party households. This includes developments involving, but not limited to, single-family or

Single Family Programs

multi-unit residential structures, condominiums, limited equity co-operatives, subdivisions, infill construction, new construction and rehabilitation.

Funding for this program comes from investments made by public and private entities into the Corporation's single family loan pool. The Corporation may also commit its own funds to the program or borrow funds from public or private entities to finance loans. The availability of funds is dependant upon the Corporation's ability to find new investments, and/or borrow funds at reasonable rates and terms. All loan commitments are conditioned upon the availability of funds.

In December 2007 the Corporation's Board approved loan policies to govern the program that provide guidance to staff, borrowers and investors of our process for administering the program. The program policies were a significant step forward in the development of the program and will assist us in increasing investments in the program from private and public entities, create application materials, loan documents and marketing materials for the program.

Goals for 2007 – 2009

The program will set new goals for the coming two year period. The program will require new investments in order to continue operations and the Corporation may need to commit funding for a loan loss reserve pool to attract new investment and grants. The Corporation must also set goals to maximize its utilization of loan funds, create new marketing materials to promote the program and establish performance measures that will maximize the programs impact in rural and communities.

Goal 1: Raise \$1 million dollars annually in new funding for loans.

Goal 2: Establish a loan loss reserve fund of at least \$500,000 in the next two years.

Goal 3: Lend at least 70% of our available loan funds into qualified affordable housing developments.

Goal 4: Create a clear set of marketing materials, website, brochures and presentations for the program.

Goal 5: Target at least 75% of our loans to rural communities in Texas.

Goal 6: Reduce the time for loan applications and closings to less than 4 months.

Affordable Homeownership Program for Texas

The Affordable Homeownership Program for Texas (AHP) was created as a partnership between Ameriquest Mortgage Company ("AMC") and the Texas State Affordable Housing Corporation (the "Corporation"). The use of high priced credit has forced many families to pay higher housing costs than families qualifying for more traditional "A" paper loan rates. The purpose of this program is to serve those families throughout Texas seeking to purchase a home who are not able to meet the traditional lending requirements and make their dream of home ownership a reality. In addition, AHP was designed to provide local non-profit organizations an alternative mortgage product to serve credit challenged borrowers in their communities.

The Program provided an affordable mortgage financing option to eligible low-to-moderate income Texans with FICO scores between 525 and 610. Under the program, borrowers at or below 80% AMFI have access to an affordable mortgage loan product and down payment assistance up to seven percent (7%) of the mortgage loan amount. In addition, borrowers are rewarded with lower interest rates and lower mortgage payments for making timely mortgage payments. Borrowers can reduce their mortgage interest rate by up to two percent (2%) during the first 48 months of their mortgage loan. Borrowers will receive 50 basis points (.5%) reduction in their mortgage interest rate for every 12 months of on-time payments.

Single Family Programs

The Corporation and AMC believe home buyer education is an essential component to success in home ownership. Under the Program, borrowers will be provided pre and post-closing Home Buyer Education training. Additionally, borrowers will have intervention assistance available to them during the life of the mortgage loan. We believe this training and assistance is essential to the success of the borrowers and the program.

AMC committed funding for the first lien mortgage loans and the Corporation committed funding for down payment assistance to the Program. Since AHP's inception in 2004, AHP has provided over \$2.3 million in first lien loans and over \$151,000 in second lien loans to individuals and families who otherwise might not have achieved the dream of home ownership.

As a result of the recent down turn in the housing market, AMC has withdrawn its partnership from AHP and as a result AHP is currently on hold. The Corporation remains committed to finding alternative financing for deserving borrowers and will continue to pursue additional options for partnerships.

Goals for 2007 – 2009

Goal 1: Seek out opportunities for partnerships and mortgage loan funding for continuing the Program.

Goal 2: Increase the number of participating lenders such as local non-profit organizations and for-profit lending institutions throughout Texas to expand the availability of the program to Texans statewide.

Goal 3: Market the program more effectively to the consumer by starting a 1-800 phone number in conjunction with an online application system, and advertise the program more effectively through press releases.

Goal 4: Explore the possibility of offering AHP to buyers who want to buy existing rather than new homes, possibly through the use of a mandatory home shield purchase.



Multifamily Programs

Multifamily Programs

Multifamily Bond Programs

The Corporation utilizes its authority to issue tax-exempt multifamily housing revenue bonds to provide long-term financing to nonprofit and for profit developers to construct new or rehabilitate existing affordable multifamily developments. The bonds we issue are secured by the real property and are repaid through the income generated from rents paid by tenants or project based rental subsidies. Neither the Corporation, nor the State, or any political subdivision thereof is obligated in any manner for repayment of the bonds.

Currently, the Corporation maintains two tax-exempt bond programs; the Private Activity Bond Program and the 501(c)(3) Bond Program.

Private Activity Multifamily Bond Program

The Corporation serves low, very low and extremely low-income Texans by creating new or preserving existing affordable rental developments through our Multifamily Private Activity Bond (PAB) program. During the 78th legislative session in 2003, the Texas Legislature allotted 10 percent of the State's annual multifamily PAB volume cap to the Corporation. Since 2003 the Corporation has awarded over \$49 million to create or preserve 1,258 units of affordable housing. With approximately \$44 million in volume cap anticipated for 2008, the Corporation will continue to work with a variety of developers serving the Corporation's targeted housing needs in underserved markets across the state.

The Corporation awards its PAB volume cap to qualified developments through an annual request for proposals ("RFP"). The RFP is developed each fall and establishes the guidelines and process that will be used by the Corporation to award financing. The RFP also establishes targeted housing needs that each development must contribute to solving. For the 2008 awards cycle the Corporation has adopted four targeted housing needs; Rural Developments, Senior Housing, Supportive Housing and Preservation of At-Risk Housing.

Previous goals for this program included establishing new targeted housing needs, leveraging private and public financing, and to finance at least three apartment communities each year. To these ends, the Corporation has established new targeted housing needs since the previous business plan, leveraged more than \$25 million in housing tax credits, and has financed 13 apartment communities.

Moving forward the program seeks to achieve similar goals. The Corporation must continue to work with regional and statewide groups to develop housing policy and to identify targeted housing needs for the programs each year. The Corporation should continue to work with both private and public housing finance entities to leverage references for housing. Finally, the Corporation must continue to maximize the use of our funding in rural and underserved markets to demonstrate the effectiveness of our programs.

Goals for 2007-2009

Goal 1: Participate in at least four statewide or regional conferences and meetings to promote our programs and participate in housing policy discussions.

Goal 2: Leverage additional financial resources in each project so that PAB funds are less than 60% of total development costs.

Goal 3: Award more than 50% of our funds to rural and underserved areas outside of the four largest state service regions (Dallas, Houston, San Antonio and Austin)

Goal 4: Award at least 90% of the PAB volume cap on an annual basis.

Multifamily Programs

501(c)(3) Multifamily Bond Program

The Corporation's 501(c)(3) Multifamily Bond Program was created to finance the acquisition and rehabilitation, or new construction, of affordable multifamily housing units throughout the state of Texas. Only qualified nonprofit developers, designated under the internal revenue code as 501(c)(3) organizations, are eligible to apply for the program. In addition to providing safe, decent, and affordable rental housing to residents of the state of Texas, recipients of 501(c)(3) bond financing that also receive tax abatements or reductions must adopt a dollar-for-dollar public benefit program, investing at least one dollar in rent reduction, capital improvement projects, or social, educational, or economic development services for every dollar of abated property tax revenue they receive.

In 2001 and 2002 the Corporation provided \$487 million in financing for the preservation or creation of 7,700 units of affordable housing in the state of Texas. Since 2002 the Corporation has not considered applications or issued bonds under the 501(c)(3) Bond Program and does not anticipate utilizing the program in the near future. Market conditions and legislative changes have made the program less attractive as a means to finance affordable housing. Additionally, many 501(c)(3) developments in the state have faced financial difficulties or been refinanced in the last few years as a result of financial difficulties, showing the weaknesses of the financial structure.

Moving forward, staff believes that the program should remain active but only considered in unique circumstances. The Corporation shall continue to maintain policies and guidelines for the program's operation; however the program will not be promoted. Staff also believes that new program goals should be adopted that reflect the current status of the program.

Goals for 2007 –2009

Goal 1: Establish new program policies to ensure that future opportunities for development can be acted upon by staff in an efficient manner.

Goal 2: Provide updates on the programs portfolio on a quarterly basis to ensure that the Board is aware of staff efforts and the portfolio's status.

Goal 3: Review any requests to restructure or refinance existing 501(c)(3) transactions, and complete the transactions if it will improve the condition of the properties and/or the long-term financial strength of the transaction.

Multifamily Direct Lending

The Multifamily Direct Lending Program supports the Corporation's mission to promote equal access to safe, decent, and affordable housing with an emphasis on serving rural and underserved markets. The program provides long-term financing to non-profit and for-profit developers for the purpose of increasing and preserving the stock of affordable rental housing throughout the state of Texas.

The primary sources of funds available to this program are from investments made by public and private entities into the Corporation's multifamily loan pool. The Corporation may also commit its own funds to the program, borrow funds from public or private entities to finance loans, or act as a conduit lender for public or private financial institutions. The availability of funds is dependant upon the Corporation's ability to find new investments, borrow funds at reasonable rates and terms, or identify secondary purchasers of loans.

The Corporation only considers proposals for developments involving the acquisition, construction and/or rehabilitation of affordable rental housing projects containing at least 10 housing units located within the state of Texas. Developments may be comprised of scattered-sites, senior apartments, affordable assisted

Multifamily Programs

living, limited-equity cooperatives, single-family rental units and other nontraditional multifamily rental housing.

This program helps to expand the flow of much-needed long-term capital to the community development industry by providing fixed rate mortgages that may not be efficiently priced by traditional secondary markets- whether because of their small size (\$5M and under), configuration (scattered site and urban rehabs), affordable aspects, or lack of rated credit enhancement.

The Corporation has provided over \$6.5 million in financing to over 1,500 units of affordable housing, since the program's inception. The last transaction financed, the Rainbow Apartment Projects, included more than 1,000 units and was completed in September 2007. Staff believes that the market for the Direct Lending Program will continue to be strong. The need for financing of multifamily developments in rural and underserved areas is acute. To ensure the Corporation can continue to provide flexibility in its financing strategy, staff has proposed new policies for the program that will continue to allow a wide variety of strategies to be employed to meet market challenges.

During the previous planning cycle, the Corporation set two goals for the Direct Lending Program. First, the program was to re-establish our relationship with CDT and aggressively market the program to developers. While staff has worked on this front no loans have been completed since 2004. The second goal was to finance 6 developments each year through the Direct Lending Program. The Corporation has exceeded this goal by financing fourteen multifamily developments.

For the next two year planning cycle the Corporation will focus on increasing resources for the program, establishing goals to improve the efficiency application processing and increase the visibility of the program statewide.

Goals for 2007-2009

Goal 1: Raise \$2 million dollars for the Corporation's loan pool over the next two years.

Goal 2: Establish a loan loss reserve fund of at least \$500,000 in the next two years.

Goal 3: Lend at least 70% of our available loan funds into qualified affordable housing developments.

Goal 4: Create a clear set of marketing materials, website, brochures and presentations for the program.

Goal 5: Target at least 75% of our loans to rural communities in Texas.

Compliance and Asset Oversight

The Corporation strives to provide quality housing to Low Income Texans. To accomplish this goal the Asset Oversight and Compliance staff conducts bi-annual and annual reviews of every property in the portfolio to ensure safe, decent, and affordable housing. Affordable rents and resident services are verified on all annual compliance visits and are monitored on a monthly basis through the on-line reporting system. Specifically, the Corporation's compliance monitors perform the following activities:

- Ø Desk review of monthly, quarterly and annual reports for each property for compliance with the Regulatory Agreement;
- Ø Timely notification to the property owner and the respective management company of any exceptions noted in the desk review, then monitor and enforce corrective action for any case of continued non-compliance;
- Ø Monitor compliance with applicable rent restrictions through rent roll analysis;

Multifamily Programs

- Ø Desk review of annual operating statements and budgets for compliance with and effectiveness of Resident Services Programs and other documents as required by the Corporation; and
- Ø On-site visits to the properties either bi-annually or annually.

For those properties funded by the Corporation, the Corporation has developed a convenient way for property managers/owners to submit their compliance reports online. All properties started reporting online on or before February 2005. Since that time, properties have been reporting as required on a monthly and quarterly basis, which saves paper and is convenient for the property managers and owners.

In addition, the Corporation is contracted to provide asset oversight services to the Texas Department of Housing and Community Affairs. The contracted properties are bond properties. Between the Corporation's own properties and the properties financed by the Texas Department of Housing and Community Affairs, the Corporation currently is providing Asset Oversight for 131 properties (including the 36 Corporation-financed properties) and Compliance Oversight for 36 properties.

The number of asset oversight reviews conducted by the Corporation for the Texas Department of Housing and Community Affairs are as follows:

✚	2005	50 site visits	11,568 units
✚	2006	73 site visits	16,956 units
✚	2007	86 site visits	19,727 units

In 2007, a combined total of 149 Asset Oversight and 35 Compliance reviews were conducted with a staff of three; however, with the implementation of compliance software the current staff could monitor more properties effectively and efficiently. Consequently, with a goal of marketing for more business gives rise to additional staff in order to accomplish our goals.

The 2005-2007 goal of increasing the number of properties in the Asset Oversight portfolio through third party contracts by 1,000 units was realized with an increase of 8,159 units, indicating an overall increase of 59%.

Goals for 2007 –2009

Goal 1: Continue to provide Asset Oversight and Compliance services to our current portfolio to ensure decent, safe, and quality housing to low income residents in the state of Texas.

Goal 2: Increase the quality of Resident Services being provided to residents who live on properties funded through the Texas State Affordable Housing Corporation.

Goal 3: Hire additional staff for the Asset Oversight and Compliance Department to handle the increased client base and perform other related services such as training.

Goal 4: Implement compliance software for better tracking to increase efficiency.

Goal 5: Develop or expand business relationships with public agencies such as HUD, the Texas Department of Housing and Community Affairs, Housing Authorities, partnering with private owners and property management companies to offer our asset oversight and compliance services, such as unit inspections, file pre-approvals, file organization to increase the Corporation's client base for Asset Oversight and Compliance Services.

Goal 6: Increase the number of properties in the Asset Oversight portfolio through third party contracts by 2,000 units per year over the next two years.



Financial Management

Financial Management

Investments

Total unrestricted cash, cash equivalents and investments at the end of fiscal year 2007 totaled \$6.1 million. The Corporation maintains the right to direct the investment of these unrestricted funds. Funds consist of bank deposits totaling \$100,146, government discount notes totaling \$4,627,046, money market mutual funds of \$119,325 and pooled investment funds totaling \$1,285,050. Cash for investing is generated primarily from on-going program (operating) activity and investment activity. The Corporation anticipates generating \$370,000 in investment income in fiscal year 2008.

Restricted funds at the end of fiscal year 2007 totaled \$254.5 million. The Corporation does not have the right to invest these restricted funds. Cash and cash equivalents totaling \$264,366,399 relate to the Single Family Bond Programs and are maintained in funds managed by the Bond Trustee. Additionally the Corporation maintains six custodial accounts with a combined total of \$170,966 pledged as reserves on two Multifamily Direct Lending Projects funded through the Federal Home Loan Bank.

Goals for 2007 – 2009

Goal 1: Investment of the Corporation's unrestricted cash reserves in a manner which will fulfill the following objectives:

- A. Safety of principal;
- B. Sufficient liquidity to meet the Corporation's cash flow needs;
- C. Diversification to reduce market and credit risk;
- D. A market rate of return for the risk assumed; and
- E. Compliance with all applicable state statutes governing the investment of public funds, including (i) the Corporation's enabling legislation, Texas Government Code, Section 2306, Subchapter Y, and (ii) the Public Funds Investment Act (the "Act"), Texas Government Code, Section 2256.

Goal 2: Minimize fees associated with investments and cash deposits in the bank by bidding depository services to ensure the Corporation is obtaining the best banking services at the lowest possible cost and by meeting quarterly with the Corporation's bankers to review account fees paid and alternatives for reducing or eliminating fees.

Loan Servicing

Loan Servicing Operations are limited to the Corporation's activities as Master Servicer for the Texas Department of Housing and Community Affairs's Single-Family Mortgage Revenue Bond Program issues 52, 53, and 54 ("the Bond Programs"), and servicing of the Corporation's own portfolio of multifamily and second lien mortgage loans. The unpaid principal balance of the servicing portfolio as of the end of fiscal year 2007 is approximately \$106 million of which \$103 million relates to the Bond Programs.

While the Corporation does not own the loans originated under the Bond Programs, it retains the exclusive rights to service these loans. Substantially all of these servicing responsibilities are subcontracted to Countrywide Home Loans, Inc. ("CHL"). Mortgage loan rates in the portfolio range from 5.85% to 6.75%.

Goals for 2007-2009

Goal: Reduce loan delinquency rate to five percent (5%) of total serviced portfolio.



Marketing and Development

Marketing and Development

Marketing

Prior to 2006, marketing and public relations activities of the Corporation centered around the Single Family Bonds Programs, but little or none was done to promote the other programs or the Corporation as a whole.

In the fall of 2006, the Corporation established a formal marketing program. The primary objective of the marketing and public relations program is to promote the Corporation's programs to the groups who are served by or could use our programs. A secondary objective is to promote the Corporation as a whole to those in the housing industry.

Goals for 2007-2009

Goal 1: Single family - Market to associations whose members are eligible for our programs, market to parts of the state with low loan origination, market new program initiatives, such as HomeWorks, and the Interim Construction Land Acquisition Loan Program.

Goal 2: Multifamily - Market Private Activity Bond program and market Direct Lending program through website, email marketing and advertisements.

Goal 3: Asset and Compliance - Market asset oversight and compliance services through the TSAHC website, email marketing and advertisements.

Goal 4: Corporation—Create quarterly newsletter, create corporation brochure, create new booth display for conferences.

Fundraising and Grant Program

The Corporation is a state entity that does not receive state appropriated funds. A 501(c)(3) since 2001, the Corporation must be self-sufficient. It is our belief that in order to further the Corporation's mission we need to expand our visibility and identify new and innovative resources to meet the affordable housing needs of low-income Texans.

Although the Corporation has been a 501(c)(3) nonprofit entity for several years, we did not actively pursue fundraising and grant opportunities until 2006. At the direction of the Board of Directors, the Corporation included fundraising as part of its 2005-2007 Business Plan. In 2006 the Corporation made considerable strides in this area by developing a Fundraising and Grant Program Action Plan and by searching out available grant funding for affordable housing. The Corporation has invested significant time and resources to expand fundraising efforts in support of our housing programs. Executing this new focus has required educating potential funders about the Corporation and its mission, primarily because of our unique quasi-governmental status.

The Corporation has seen some success. In mid-2006, the Corporation received a \$1 million equity investment award from Wells Fargo. In mid-2007, the Corporation received a \$15,000 grant from Freddie Mac.

Goals for 2007 –2009

Goal 1: Update the Fundraising and Grant Program Action Plan that establishes activities and a timeline.

Goal 2: Pursue donations, grants, and sponsorships for all program needs as set forth in our Fundraising and Grant Program Action Plan.

Marketing and Development

Goal 3: Raise a total of \$75,000 through donations, grants, and sponsorships for our affordable housing programs over the next two years.

Goal 4: Add donation ability to the Corporation's website.



New Programs and Initiatives

New Programs and Initiatives

Building Housing Capacity: Partnership

In 2007, the Corporation made a significant attempt to leverage its resources by partnering with other housing nonprofits to tackle initiatives with considerable impact. We believe this is one very important way we can make a bigger impact on the affordable housing needs of Texans. One example is our partnership with housing providers and advocates to create a database and website of subsidized housing in Texas.

The Corporation has partnered with the Texas Low Income Housing Information Service, United Cerebral Palsy of Texas and other housing providers and advocates to create a database of subsidized housing in Texas. The database will be used to create a searchable website for low-income Texans looking for affordable housing. The Corporation committed \$5,000 to fund the start-up phase of the project, and we are actively seeking additional funds from other sponsors. We believe this website and the data we are gathering will be a great asset for low-income Texans looking for affordable housing.

Another example is our collaboration with the United Cerebral Palsy of Texas to plan a summit on low-income housing for those with disabilities. This will be a two-day event in the spring of 2008 and will be aimed at those living with disabilities, housing advocates and decision makers (legislators and government agencies). This will be the first state-wide housing conference for people with disabilities in almost 10 years.

Goals for 2007 – 2009

Goal 1: Complete the creation of the affordable housing locator website by December 2008.

Goal 2: Execute a successful Housing Summit for People with Disabilities in 2008. Our goal is that participants will leave the summit with the determination to work together to create new and innovative housing programs in Texas for people with disabilities.

Goal 3: Strengthen and create new partnerships with other housing providers, associations and advocates. Our goal is to be actively involved in addressing statewide housing issues, such as rural housing and the housing trust fund.

HomeWorks Program

The Corporation will explore the possibility of creating an employer assisted housing program. Employer assisted housing programs are aimed not only at providing an affordable financing product to potential homebuyers, but aid in recruiting new businesses to the State while enhancing existing business by allowing such business to offer incentives not otherwise possible to employees they would like to recruit and retain.

This program would be a partnership between the Corporation and participating employers and their employees. The program, *HomeWorks*, would offer a 30-year fixed rate mortgage through the mortgage lender of the borrower's choice. The program would offer up to \$4,000 in matching funds for downpayment and closing cost assistance courtesy of the Corporation and participating employers across Texas.

The Corporation and the employer will match dollar for dollar, up to \$2,000 each, of an employee's contribution toward downpayment and closing costs. Matching assistance would be provided to the employee in the form of a 3-year deferred forgivable second lien loan (*33.33% is forgiven each year*). If the employee leaves or is terminated by the employer, the remaining balance of the assistance is to be paid back to the Corporation and/or the employer.

The employer would contribute a maximum amount to the program, and offer it to employees on a first-

New Programs and Initiatives

come, first-served basis. The employee must be employed by a participating employer for at least 6 months, with a 3 year commitment to the employer. The employee must participate in a homebuyer education course approved by the Corporation prior to closing on the loan. The employee must meet income and purchase price limits set by the Corporation, while meeting standard mortgage underwriting requirements demonstrating credit worthiness. The employee must occupy the purchased home as his or her primary residence.

Goal for 2007 – 2009

Goal 1: Explore the method by which the Corporation could create, develop, and administer an employer assisted housing program for the purpose of assisting low income families achieve homeownership, while strengthening the economic viability and stability of the State.

First Lien Refinance Program

During 2007, the economic news across the country has been focused on the impact that certain “high-risk” mortgage loans are having on homeowners and the housing market in general. More and more individuals and families are facing the reality of trying to make mortgage payments on home loans they can no longer afford. Many of these individuals and families purchased their homes using non-conventional mortgage loan products, including mortgages with adjustable rates, interest-only payments, and other non-traditional terms.

However, not everyone that purchased a home using a non-conventional mortgage product was aware of the pitfalls associated with increasing interest rates and monthly payments. Many individuals and families seeking to achieve the American Dream of homeownership either did not receive the necessary homebuyer education training, were not prepared for the financial responsibility of owning a home or were in some instances misled by deceptive lenders. Regardless of the reasons, the country is experiencing a foreclosure crisis. Texas had the third highest number of foreclosures in the first 6 months of 2007 with 69,471 or one in every 130 homes during this period, behind only California and Florida.

While several states are beginning to develop various products to address this problem, the ultimate goal of this Program is to remove the threat of foreclosure by providing at risk households with an affordable fixed rate mortgage product that offers predictable monthly payments. With the third highest number of foreclosures in the country, Texas needs to be a leader in this effort. To address this issue, the Corporation will seek to identify both a partner or partners and the funding necessary to establish an alternative financing product to assist at risk households. This new financing product would allow them the opportunity to remain in their home by restructuring their mortgage loans at the same time providing them with the appropriate homebuyer education/training to establish homeownership success.

Goals for 2007 – 2009

Goal 1: Develop program underwriting guidelines and procedures, including eligibility requirements.

Goal 2: Seek out opportunities for partnerships and mortgage loan funding opportunities.

Goal 3: Release as a pilot program to establish administration and loan servicing processes and determine program demand.

New Programs and Initiatives

Housing Development Program

In the 2005-2007 Business Plan the Corporation began discussing the possibility of initiating affordable housing development, rather than simply playing the role of financing entity. The previous business plan set broad goals regarding the exploration of this idea and while the Corporation has considered different opportunities for involvement in housing development a specific business plan or strategy was not created.

There is still significant interest and opportunity for the Corporation to consider direct involvement in housing development as a viable line of business. The Corporation must focus its effort and develop a strategic plan for the program. The strategic plan must identify staffing and funding for the program. More importantly the plan must identify the Corporation's role and responsibility in developments, its targeted housing types (single family or multifamily, new construction or preservation), possible avenues for partnerships with established developers, financing strategies, and clear goals of the program during the two year planning cycle. To that end, the following goal shall be set for the next two year period.

Goals for 2007 – 2009

Goal: Presentation of a strategic plan to the Board in 6 months that clearly establishes the vision, values and objectives of the Corporation's Housing Development Program and creates new goals for the program.

Texas Foundations Fund

The Corporation is developing, and will present for board approval in early 2008, the Texas Foundations Fund (TFF) to support housing initiatives for very low-income families, currently expected to be at or below 50 percent of the area median income. The Corporation will fund TFF through revenues generated from existing programs and donations received. This program is intended to meet the Corporation's goal of providing low-income housing options for very low-income Texans, which is best met through a grant program. Our plan is to seek applications from housing nonprofits whose mission is to serve very low-income Texans. Every year the Foundations Fund would build up funds from program revenue and donations, and a notice of funding availability (NOFA) would be issued when the fund reached a certain level. The NOFA would be issued to nonprofits that provide very low-income housing. Applications would be evaluated according to guidelines established by the Board

Goals for 2007 – 2009

Goal 1: Explore the best legal options for creating the Texas Foundations Fund, including the creation of an irrevocable trust.

Goal 2: Explore the creation of an endowment portion of the Texas Foundations Fund to ensure long-term viability and maximum impact of the fund on future generations.

Goal 3: Explore the methods for funding the Texas Foundations Fund, including the Corporation's revenue from existing programs and methods for fundraising specifically for this new Fund.

Goal 4: Establish the Fund and the Fund Guidelines, including the minimum Fund amount before awards are given, award amounts, and the process and methods for evaluating grant applications.

Goal 5: Award at least \$200,000 for very low-income housing by 2009.



Board of Directors

Board of Directors

Jerry Romero, Chair

El Paso, Texas

As a Wells Fargo Community Development director based in El Paso, Mr. Romero has received numerous recognitions over the years most recently he received an award from The Texas Association of Mexican American Chambers of Commerce for his dedication and extraordinary service to TAMACC. This award was for his success in improving the economic and legislative environment for Hispanic business owners. With over 20 years experience as a banking executive, Mr. Romero's professional contributions include service on boards and committees that impact several aspects of community development including banking, housing, education, small business, economic development, childcare and welfare, and minority owned businesses statewide.

TERM: January 1998 – February 2005 (extended at the Governor's request)

Thomas Leeper, Vice Chair

Huntsville, Texas

Mr. Leeper is currently the City Attorney for the City of the Huntsville. Prior to this, he spent fourteen years engaged in a small town general legal practice. Mr. Leeper frequently dealt with real estate issues including assisting purchasers, sellers and lenders as well as landlord/tenant matters. Mr. Leeper earned a B.B.A. in Finance from Texas A&M University and a Doctor of Jurisprudence from The University of Houston. He has been active in his community with various organizations seeking to aid the local community and its citizens.

TERM: February 2007 - February 2013

Jesse Coffey, Member

Denton, Texas

Mr. Coffey is the retired principal owner of Coffey Development. He began his career with Commercial Credit Corporation, before spending many years in the banking industry and serving in various Executive positions for several financial institutions in Texas, including president and owner of the First National Bank of Sanger. He is a lifetime member of the United Way of Denton County, and has served on the board of directors for the Texas Silver Haired Legislature Foundation and what was formally the Texas Bank in Denton. He currently serves on the board of directors for the Upper Trinity Regional Water District. Mr. Coffey attended Southern Methodist University and the University of Texas.

TERM: December 2005 - February 2009

Charles G. Rencher, Member

Sugarland, Texas

Mr. Rencher is a broker and owner of Horizon Southwest Properties in Houston, where he directs all projects of the firm including property management, sales, appraisals, and real estate development.

TERM: December 2003 - February 2009

Jo Van Hovel, Member

Temple, Texas

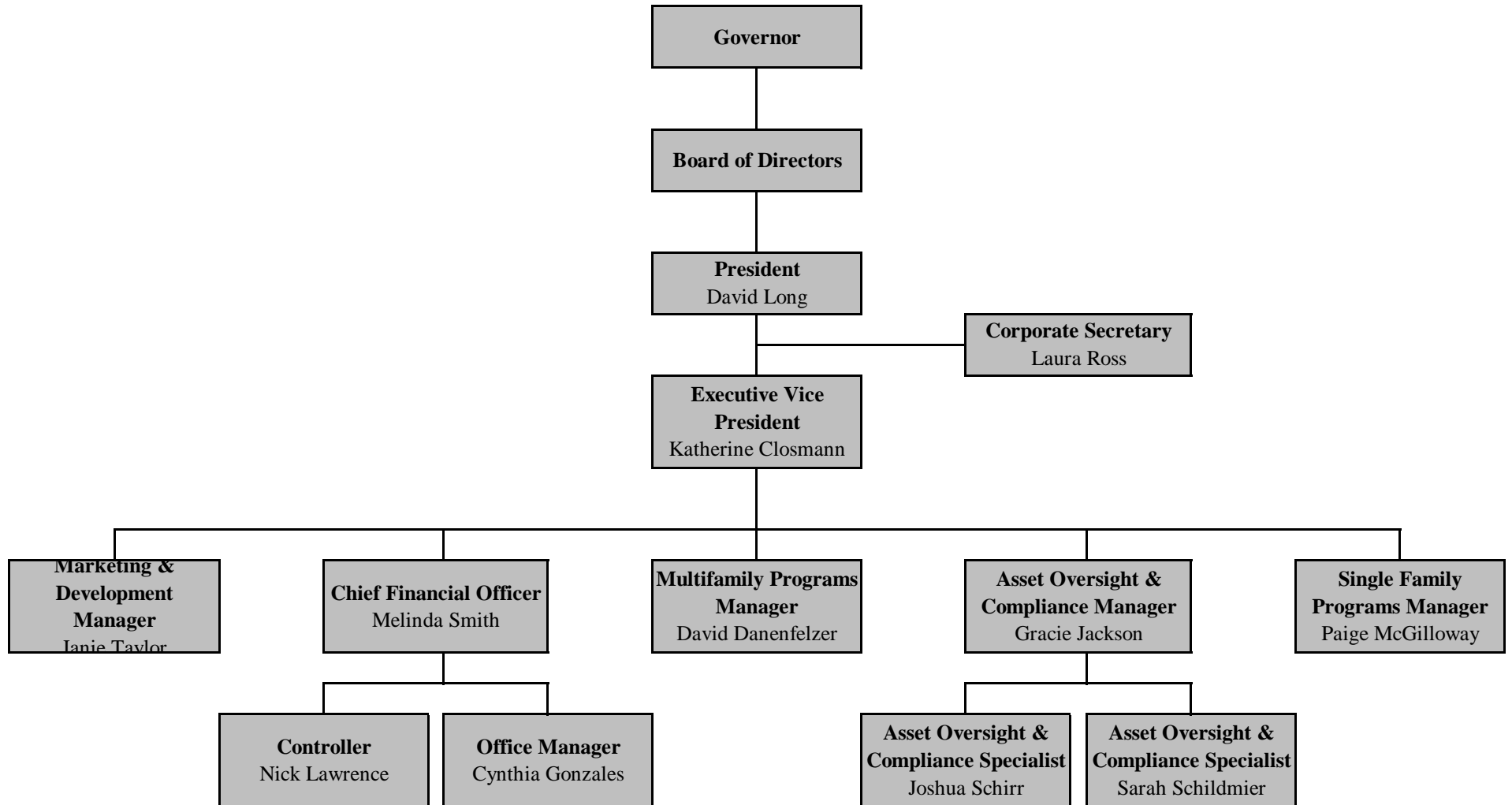
While serving as a licensed abstractor, Ms. Van Hovel was appointed Country Recorder by the Wilkin County Commissioner in Breckenridge, Minnesota. Ms. Van Hovel later obtained her real estate license in Minnesota and North Dakota and taught real estate classes in addition to serving as a commercial and lakeshore real estate professional. In 1993, Minnesota Governor Carlson appointed Ms. Van Hovel to the Minnesota Housing Finance Board, a board on which she served until 1999. From 1997 to 1999 Ms. Van Hovel also served on the National Conference of State Housing Board in Washington D.C.

TERM: February 2007- February 2013



Corporate Officers and Staff

Texas State Affordable Housing Corporation 2007



Corporate Officers and Staff

Officers:

David Long, President

David Long is currently the President of the Texas State Affordable Housing Corporation. Mr. Long has been employed with the Corporation since October 2001.

Prior to working for the Corporation, Mr. Long spent 10+ years with the State of Texas, 5 years serving as the Manager of Loan Administration for the Texas Department of Housing and Community Affairs; prior experience includes nine years in the banking industry in Texas. Mr. Long earned a B.B.A. in Finance from California State University at Fullerton.

Katherine Closmann, Executive Vice President

Katherine Closmann is currently the Executive Vice President of the Texas State Affordable Housing Corporation. Ms. Closmann has been employed with the Corporation since March 2004.

Before working for the Corporation, Ms. Closmann was a senior attorney with Andrews Kurth L.L.P. in the Austin office. Ms. Closmann's practice at Andrews Kurth L.L.P. was with the public finance section of the firm where she started working on behalf of the Texas State Affordable Housing Corporation as part of their bond counsel team. In years past, Ms. Closmann worked for the Texas Legislature, as a staff person of both the House Research Organization and the Sunset Advisory Commission. In addition, Ms. Closmann was the Policy Director of the Texas Healthcare and Bioscience Institute. Ms. Closmann received her B.A. in English and her J.D. from the University of Texas at Austin.

Melinda Smith, Chief Financial Officer

Melinda Smith is currently the Chief Financial Officer for the Texas State Affordable Housing Corporation. Ms. Smith has been employed by the Corporation since August 2001.

Ms. Smith is a Certified Public Accountant licensed in the State of Texas and has 27 years of accounting and auditing experience. Ms. Smith's work experience includes 7 years with the Texas Department of Housing and Community Affairs as Director of Internal Audit and then as Chief Financial Officer and 10 years in public accounting including her most recent position as Senior Audit Manager for KPMG Peat Marwick, L.P. Ms. Smith graduated with a B.A. in Business Administration from Portland State University in 1980 and was licensed to practice public accounting in Texas in 1982.

Laura Ross, Corporate Secretary

Laura Ross is currently the Corporate Secretary for the Texas State Affordable Housing Corporation. Ms. Ross has been employed with the Corporation since November 2003.

Prior to working for the Corporation, Ms. Ross served as an Administrative Assistant with J.P. Page & Co., a relocation firm located in Dallas, Texas. Ms. Ross earned a B.A. in History from the University of Texas at Austin. Ms. Ross is certified by the Neighborhood Reinvestment Corporation, NeighborWorks America, as a Homebuyer Education Provider.

Staff (in alphabetical order):

David Danenfelzer, Multifamily Programs Manager

David Danenfelzer is currently the Manager of Multifamily Programs for the Texas State Affordable Housing Corporation. Mr. Danenfelzer has been employed with the Corporation since January 2007.

Mr. Danenfelzer was previously Administrator of Multifamily Programs at the Texas Department of Housing and Community Affairs. He directly oversaw the administration of the Texas Housing Trust Fund and managed multifamily lending for the Department. He awarded more than \$30 million in loans through the Federal HOME Investment Partnerships Program, Housing Trust Fund, and Texas' Preservation Incentives Program over his three year tenure with TDHCA. Mr. Danenfelzer has nearly 10 years of experience in affordable housing, community development and historic preservation as a former employee

Corporate Officers and Staff

of Enterprise Community Partners Inc. and an independent consultant. He was a co-founder of the Austin CHDO Roundtable and was Board President for Pineywoods CDFI at its inception. Mr. Danenfelzer received his B.S. from the University of Wisconsin, Madison and MSCRP from the University of Texas at Austin.

Cynthia Gonzales, Office Manager

Cynthia Gonzales currently performs the Corporation's loan servicing activities and functions as Office Manager for the Texas State Affordable Housing Corporation. Ms. Gonzales has been employed with the Corporation since June 1997.

Prior to working for the Corporation, Ms. Gonzales worked in loan servicing at Temple-Inland Mortgage Corporation. Prior to that she worked at North Carolina National Bank in the Real Estate Owned Department. Ms. Gonzales began working for the Corporation when it was the Non-Profit 501(c)4 of the Texas Department of Housing and Community Affairs.

Nick Lawrence, Controller

Nick Lawrence is currently the Senior Accountant for the Texas State Affordable Housing Corporation. Mr. Lawrence has been employed with the Corporation since September 2002.

Prior to working for the Corporation, Mr. Lawrence worked in the accounting departments of Southern Systems, Inc. and United Heritage Insurance. Mr. Lawrence earned a B.B.A. in Accounting from Concordia University at Austin.

Gracie Malveaux-Jackson, Asset Oversight and Compliance Manager

Gracie Malveaux-Jackson is currently the Asset Oversight and Compliance Manager of the Texas State Affordable Housing Corporation. Ms. Jackson has been employed with the Corporation since February 2006.

Prior to working for the Corporation, Ms. Jackson was the Compliance Manager for Corcoran and Jennison Management in Dallas, Texas with the oversight of 9 properties in the Dallas/Houston area. Prior to that position, she was the Compliance Manager for Homes for America Holdings in Dallas, Texas with the oversight of properties in Texas/Florida and Indiana. Ms. Jackson has also worked with the Beaumont Housing Authority as a Section 8 Counselor/Supervisor; Property Assistant Manager/Manager for Western Rim Properties in Dallas, Texas. Her background has been in HUD government subsidized and government regulated programs. Ms. Jackson has earned the following designations: CAM and CTCS.

Paige McGilloway, Single Family Programs Manager

Paige McGilloway is currently the Single Family Programs Manager for the Texas State Affordable Housing Corporation. Ms. McGilloway has been employed with the Corporation since January 2006.

Prior to working for the Corporation, Ms. McGilloway served as the Project Manager for Program Awards with the Texas Department of Housing and Community Affairs, managing the multi-million dollar federally allocated HOME Investment Partnerships Program, furthering the development and rehabilitation of affordable housing throughout the state. Ms. McGilloway has six years of experience in the planning and development field, both on the local and state level. Ms. McGilloway received a Bachelor's of Environmental Design from Texas A&M University and a Master's of Urban and Environmental Planning from the University of Virginia. Additionally, Ms. McGilloway completed the Project Management Certification offered by the University of Texas, further enhancing her project management skills and overall business practices.

Sarah Beth Schildmier, Asset Oversight and Compliance Specialist

Sarah Beth Schildmier is currently an Asset Oversight and Compliance Specialist for Texas State Affordable Housing Corporation. Ms. Schildmier has been employed with the Corporation since December 2007.

Corporate Officers and Staff

Prior to working at the Corporation, Ms Schildmier worked as a Leasing Professional for Consolidated Management in Muncie, Indiana and did her internship for her M.A. in Family and Consumer Sciences with Southern Management Inc. in the Washington D.C. area. Ms. Schildmier graduated from Ball State University where she received a B.S. in Business Administration with a Risk Management and Insurance major and a Residential Property Management minor. She also received a M.A. in Family Consumer Science from Ball State University with a focus in Residential Property Management. Ms. Schildmier has also received her NALP and CAM designations.

Joshua Schirr, Asset Oversight and Compliance Specialist

Joshua Schirr is currently an Asset Oversight and Compliance Specialist for the Texas State Affordable Housing Corporation. Mr. Schirr has been employed with the Corporation since September 2006.

Prior to working at the Corporation, Mr. Schirr worked as an assistant manager for Washington Quarter Apartments in Avon, Indiana. Before that, Mr. Schirr served as a Graduate Assistant in the Family and Consumer Sciences Department at Ball State University. Mr. Schirr received a B.S. and M.A. in Family Consumer Science with a focus in Residential Property Management from Ball State University. Mr. Schirr has also received his NALP, CAM, and COS, designations.

Janie Taylor, Marketing and Development Manager

Janie Taylor is currently the Marketing and Development Manager for the Texas State Affordable Housing Corporation. Ms. Taylor has been employed with the Corporation since August 2006.

Prior to working for the Corporation, Ms. Taylor was the Senior Public Relations Specialist for Samsung Austin Semiconductor where her duties included public relations, internal communications and corporate philanthropy. Prior to joining Samsung, Ms. Taylor was employed as a Public Information Specialist with the Texas Lottery and a Corporate Communications Specialist at Sematech. Ms. Taylor earned a B.A. in Communication Arts from Our Lady of the Lake University in San Antonio.