



TEXAS STATE AFFORDABLE HOUSING CORPORATION
2008 ANNUAL ACTION PLAN

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OVERVIEW

This report is prepared in accordance with SB 284, Legislative 78th Session, which requires the Texas Department of Housing and Community Affairs ("TDHCA") and the Texas State Affordable Housing Corporation ("Corporation") to coordinate regarding the State Low Income Housing Plan ("SLIHP"). The bill amends Section 2306.0722(b) to require TDHCA to provide the needs assessment information compiled for the report and plan to the Corporation. Section 2306.566 is added to require the Corporation to then review the information and develop a plan to meet "the state's most pressing housing needs identified in the needs assessment information" and provide the plan to TDHCA for incorporation into the resource allocation plan in the SLIHP. The Corporation's plan must include specific proposals to help serve rural and other underserved areas of the state. The bill also adds Section 2306.0721(h) to require TDHCA to incorporate the specific results of the Corporation's programs in TDHCA's estimate and analysis of housing supply in each uniform state service region under Section 2306.0721(c)(9).

Sec. 2306.566 of the Texas Government Code reads:

COORDINATION REGARDING STATE LOW INCOME HOUSING PLAN.

- (a) The corporation shall review the needs assessment information provided to the corporation by the department under Section 2306.0722(b).*
- (b) The corporation shall develop a plan to meet the state's most pressing housing needs identified in the needs assessment information and provide the plan to the department for incorporation into the state low income housing plan.*
- (c) The corporation's plan must include specific proposals to help serve rural and other underserved areas of the state.*

HISTORY OF THE CORPORATION

The Texas State Legislature created the Corporation as a self-sustaining non-profit entity to facilitate the provision of affordable housing for low income Texans who do not have comparable housing options through conventional financial channels. Enabling legislation, as amended, may be found in the Texas Government Code, Chapter 2306, Subchapter Y, Sections 2306.551 et seq. All operations of the Corporation are conducted within the state of Texas. 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 Corporation issues mortgage revenue bonds and private activity bonds to finance the creation of affordable multifamily housing units, and to finance the purchase of single family homes 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 referred to as the Homes for Texas Heroes Program), and (3) the Home Sweet Texas Loan Program. Since April 2001, the Corporation has issued over \$291 million in single family and approximately \$540 million in multifamily mortgage revenue bonds. To date, the Corporation has provided over 9,362 units of affordable multifamily rental housing to low income Texans. The Corporation has also served 2650 income eligible individuals and/or families through its single family first-time homebuyer programs. This affordable housing has been provided at no cost to the state and its taxpayers. The Corporation does not receive any state funding, and is not subject to the legislative appropriations process.

The Corporation is organized, operated, and administered in accordance with its enabling legislation as 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 an associate member borrower of the Federal Home Loan Bank of Dallas.

NEEDS ASSESSMENT REVIEW

According to an analysis of the Texas Department of Housing and Community Affairs' (TDHCA) Needs Assessment and other published studies on the subject, the following represent the most pressing housing needs in the state:

GENERAL HOUSING NEEDS

- By 2000, Texas had the second largest total population, 20.9 million, among the states in the United States. By 2010, the population is projected to be between 24.2 and 25.9 million and by 2040 between 35.0 and 50.6 million.¹
- As a result of the growing population, housing demands will change substantially in the coming years with both owner and renter housing growing at nearly equal rates.²
- Affordable housing is in short supply for the extremely low, very low, low, and moderate income brackets, which was caused primarily by the private sector's concentration of development, both single family and multifamily development, in larger metropolitan areas and targeting higher income individuals and families.³
- Many HUD-financed or HUD-subsidized properties, which represent a significant portion of the state's affordable housing portfolio, are at risk of becoming market rate properties.⁴

SINGLE FAMILY HOUSING NEEDS

- Texas may add nearly 3.8 million more students over the next 40 years creating a high demand for educators.⁵
- Population growth will mean increased public service demands and expanding markets for Texas.⁶ The Texas nursing education system is operating close to capacity and faces several impediments to

¹ Texas Department of Housing and Community Affairs, Center for Housing Research, Planning, and Communications, 2005 State of Texas Low Income Housing Plan and Annual Report (Austin, TX: Texas Department of Housing and Community Affairs, 2004).

² Texas A&M University, Center for Demographic and Socioeconomic Research and Education, *A Summary of the Texas Challenge in the Twenty-First Century: Implications of Population Change for the Future of Texas, 2002*.

³ Texas Department of Housing and Community Affairs, Center for Housing Research, Planning, and Communications, 2005 State of Texas Low Income Housing Plan and Annual Report (Austin, TX: Texas Department of Housing and Community Affairs, 2004).

⁴ Ibid.

⁵ Texas A&M University, Center for Demographic and Socioeconomic Research and Education, *A Summary of the Texas Challenge in the Twenty-First Century: Implications of Population Change for the Future of Texas, 2002*.

⁶ Ibid.

producing more graduates—faculty shortages due to retirement, inadequate salaries, and fewer faculty applicants.⁷

- Lack of funds for down payment and closing costs has created one of the greatest obstacles that prevents first-time homebuyers of low-to-moderate-income families, such as the teachers, police officers, and firefighters, from achieving the American dream of owning a home.⁸
- The Texas Education Code establishes a state minimum salary schedule that must be accommodated by all Texas schools for specific public education professionals. The state minimum salary for 2007-2008 ranges from \$27,320 per year for 0 years experience to \$44,270 per year for 20 or more years of experience.⁹
- The base salary for Texas fire fighters differs across the State, but on average ranges from \$19,400 per year to \$58,214.¹⁰
- The base salary for Texas police officers ranges across the State, but on average ranges from \$29,969 per year to \$61,438.¹¹
- The base salary for Texas correctional officers ranges from \$20,844 per year to \$42,127.¹²
- The base salary for Texas juvenile correctional officers ranges from \$20,844 per year to \$47,529.¹³

MULTIFAMILY HOUSING NEEDS

- Renter households are, on average, a lower income group than owner households. More than 37 percent of renter households earn less than 50 percent of the Area Median Family Income, compared to only 16.3 percent of owner households. As a result, renter households are more likely to be in need of housing assistance.¹⁴
- According to the results of the 2003 Community Needs Survey distributed by TDHCA to cities, counties, local housing departments, public housing authorities, and the US Department of Agriculture/Rural Development field offices, approximately 78 percent of respondents felt that there was a severe or significant affordable housing problem in their area and that new rental housing development and the renovation of existing multifamily housing are more important than rental payment assistance.¹⁵
- The lack of affordable housing opportunities leads to severe and extreme housing cost burdens for lower-income groups; in particular, extremely low-income renter households.¹⁶

⁷ Health and Nurses in Texas – The Future of Nursing: Data for Action (Vol. 3 No. 1. 2000. San Antonio, TX: The Center for Health Economics and Policy (CHEP), the University of Texas Health Science Center at San Antonio).

⁸ National Association of Home Builders, *News Details*; March 24, 2004.

⁹ Texas Classroom Teachers Association: http://www.tcta.org/teacher_resources/salary_schedule.html.

¹⁰ Salary.com

¹¹ Ibid.

¹² Texas Department of Criminal Justice Human Resources Division: <http://www.tdcj.state.tx.us/vacancy/coinfo/cosalary06.htm>.

¹³ Texas Youth Commission: <http://austin.tyc.state.tx.us/cfinternet/jobopening/classifications.html>.

¹⁴ Texas Department of Housing and Community Affairs, Center for Housing Research, Planning, and Communications, 2005 State of Texas Low Income Housing Plan and Annual Report (Austin, TX: Texas Department of Housing and Community Affairs, 2004).

¹⁵ Ibid.

¹⁶ Ibid.

- Overcrowding may indicate a general lack of affordable housing in a community and lower income renter households experience overcrowded conditions more frequently than higher income households.¹⁷
- In the 2005-2009 State of Texas Consolidated Plan, it is estimated that 2 million people or 9.9% of the total population are 65 years of age and older. The Texas Department of Aging and Disability Services estimates that by year 2040, individuals age 60 and over will comprise 23 percent of the population in Texas. Though the majority of the elderly Texans live in urban areas, rural areas have a higher percentage of elderly relative to the local population. According to the 2000 Census, 13.1 percent of seniors age 65 and over in Texas live below the poverty level. Approximately 30% of all elderly households pay more than 30% of their income on housing with 14% paying more than 50% of their income on housing. Lower incomes combined with rising healthcare costs contribute to the burden of paying for housing.¹⁸
- There is a shortage of affordable housing in the extremely low, very low, low and moderate income brackets. This is primarily caused by the private sector's concentration of development in larger metropolitan areas and targeting higher income individuals and families.¹⁹ Cities with populations between 20,000 and 50,000 have a particularly hard time accessing funds. They cannot access USDA funding and are too small to effectively compete for other funding opportunities.²⁰
- According to the US Census Related Comprehensive Housing Affordability Strategy (CHAS) Data, there are approximately 2,903,671 people living in rural areas of Texas. Of these, 574,843 people or 20% are living below the poverty level; 83,454 low income households live with the cost burden of paying more than 30% of their income on housing expenses; 26,999 occupied units are "overcrowded"; and 5,211 units were found to have substandard conditions such as lack of piped water, utilities, and waste facilities.²¹
- Preservation of existing affordable and subsidized housing stock is an important element of providing safe, decent and affordable housing. The explosive population growth in the metropolitan areas as well as the lack of new construction during the late 80's and early 90's created a huge demand for housing at all income levels. Adding to this problem is the loss of units in the federally subsidized Section 8 portfolio, the USDA/Rural Development portfolio and the pools of tax credit units that have reached their 15 year affordability periods. The USDA/Rural Development portfolio contains smaller rural rental properties which, in many cases, represent the sole affordable housing stock in Texas' smallest towns.²²
- As of the most recent statistical information available, there were 2,676,060 renter occupied housing units in Texas. Eighty-four percent of these were constructed before 1990 with the highest production of rental housing (50.8%) built between 1970 and 1989. Therefore, the majority of rental housing stock in Texas is between 15-35 years old and may be in need of some type of moderate to substantial rehabilitation in order to preserve its functionality.²³

¹⁷ Ibid.

¹⁸ Texas Department of Community Affairs, 2005-2009 State of Texas Consolidated Plan (Austin, Texas, February 2005).

¹⁹ Texas Department of Housing and Community Affairs, Strategic Plan for Fiscal Years 2005-2009.

²⁰ Texas Department of Housing and Community Affairs, Report on the 2004 Regional Advisory Committee Meetings on Affordable Housing and Community Services Issues, November 2004.

²¹ 2000 U.S. CHAS Data, Texas Department of Housing and Community Affairs

²² Texas Department of Community Affairs, 2005-2009 State of Texas Consolidated Plan (Austin, Texas, February 2005).

²³ 2000 U.S. Census Data

HURRICANE-AFFECTED AREA HOUSING NEEDS

- Many Texas Gulf Coast residents were left with damaged or destroyed homes after Hurricane Rita came through the state. On Wednesday, December 21, 2005, the President signed into law, H.R. 4440, the "Gulf Opportunity Zone Act of 2005," to assist the Gulf Coast in its recovery from the past year's hurricane season. The Act defines three "GO Zones" for the areas hit by hurricanes Katrina, Rita, and Wilma.
- According to the U.S. Census Bureau, the estimated population for the state of Texas in 2005 was 22,859,968. Of this figure, 5,416,433 live in the twenty-two designated targeted areas in the GO Zone. Areas designated as "targeted" include the following counties: Angelina, Brazoria, Chambers, Fort Bend, Galveston, Hardin, Harris, Jasper, Jefferson, Liberty, Montgomery, Nacogdoches, Newton, Orange, Polk, Sabine, San Augustine, San Jacinto, Shelby, Trinity, Tyler, and Walker.

The Corporation will address these pressing housing needs through the following single family, multifamily, and grant programs for 2008. The following summary of Corporation programs gives the history and accomplishments of our programs to date and a plan for achieving greater success with these programs in 2008. A few of the programs mentioned are mandated by the state legislature, as noted, and a few have been undertaken upon the Corporation's own initiative to fulfill housing needs for identified underserved areas of the state.

CORPORATION PROGRAM DESCRIPTIONS

TEXAS PROFESSIONAL EDUCATORS HOME LOAN PROGRAM

TEXAS FIRE FIGHTER , LAW ENFORCEMENT OR SECURITY OFFICER, AND EMS PERSONNEL HOME LOAN PROGRAM HOME SWEET TEXAS LOAN PROGRAM

These Programs are the Corporation's Single Family Mortgage Revenue Private Activity Bond Programs. The first two Programs were established by the Legislature in 2001 and 2003, respectively, and allocated, until this recent legislative session in 2007, a total of \$55 million of the State's Ceiling for Private Activity Bond Cap for the exclusive purpose of making single family mortgage loans to Texas Professional Educators (\$25 million); Fire Fighters, Law Enforcement Officers, and Corrections Officers (\$25 million); and Nursing Faculty (\$5 million) who are first-time home buyers.

In the 80th legislative session in 2007 changes were made to the Programs, including adding new eligible professionals to both programs (adding emergency medical services personnel and juvenile corrections officers to the Texas Fire Fighter, Law Enforcement or Security Office, and Emergency Medical Services Personnel Home Loan Program, and adding allied health faculty and nursing faculty to the Professional Educators Home Loan Program) and changing the way private activity bonds are allocated to the Programs. In the past, both the Professional Educators and Homes for Texas Heroes Programs received \$25 million each and the Nursing Faculty Home Loan Program received a \$5 million set aside on bond cap.

In 2008, the Corporation will receive 10 percent of the bond cap set aside for issuers of single family mortgage revenue bonds. In addition, the new law specifies that of that 10 percent, 54.5 percent shall be allotted to the Professional Educators Home Loan Program and 45.5 percent shall be allotted to the Texas Fire Fighter, Law Enforcement or Security Officer, and Emergency Medical Services Personnel

Home Loan Program. The Nursing Faculty Home Loan Program was repealed and nursing faculty are now eligible under the Professional Educators Home Loan Program.

In 2006 the Corporation created the Home Sweet Texas Loan Program by applying for, and receiving, \$25 million in bond cap after the collapse of the set-asides for all state issuers of bonds. The Home Sweet Texas Loan Program is available statewide with no professional requirements to those at or below 80 percent of the AMFI.

The Programs are available statewide on a first come, first-served basis, to first-time homebuyers who wish to purchase a newly constructed or existing home. Through each Program, eligible borrowers are able to apply for a 30 year fixed rate mortgage loan and receive 5 percent of the total loan amount as down payment assistance in the form of a grant. The programs are accessible to eligible borrowers by directly contacting a trained, participating mortgage lender.

The 2005 and 2006 Professional Educators Home Loan Programs fully originated the \$50,000,000 bond fund allocation. In 2007, the Corporation released a total of \$101 million for the Professional Educators Home Loan Program. This amount includes \$76,000,000 that the Corporation applied for during the bond collapse. This program continues to be extremely successful. Since its inception in 2001, the program has financed over 1500 homes for teachers, teacher's aides, school counselors, school nurses and school librarians.

Additionally, the 2005 and 2006 Fire Fighter and Law Enforcement or Security Officer Home Loan Program fully originated \$50,000,000 in loan commitments. The 2007 Fire Fighter and Law Enforcement or Security Officer Home Loan Program was released in May, and has committed the full \$25 million allocation. Since the inception of this program in 2003, the program has financed over 750 homes for fire fighters, peace officers, correctional officers, county jailers, public security officers, and emergency medical services personnel.

Since the inception of both the Professional Educator Home Loan Program in 2001 and the Fire Fighter and Law Enforcement or Security Officer Home Loan Program in 2003, the Corporation has only seen the demand for these programs increase.

The Gulf Opportunity Zone Act of 2005 expanded the eligibility for our single family bond programs significantly. Some of the principal provisions included in the Gulf Opportunity Zone Act of 2005 relate to private activity bonds for financing residential property located in a GO Zone, specifically, but not limited to, those funds used for "targeted area" residences. "Targeted area" means that part of the Eligible Loan Area that has been or may be designated from time to time as a qualified census tract or an area of chronic economic distress in accordance with section 143(j) of the Internal Revenue Code.

Section 1400T of the Gulf Opportunity Zone Act provides that for purposes of section 143, each residence in a designated area is treated as a "targeted" area residence (for financing provided from 12/21/05 through 12/31/2010), thus eliminating the first-time homebuyer requirement, and applying the higher targeted area purchase price and income limitations (state income limitation of 140% AMFI).

As a result of the designation of "targeted areas", coupled with the elimination of the first-time homebuyer requirement and increased income and purchase price limitations, the funds set aside for

"targeted areas" have been originating quickly. In 2006 and 2007, the Corporation allocated over \$44 million to targeted areas. To date \$40.6 million have been committed, assisting over 360 individuals.

2008 IMPLEMENTATION PLAN

The Corporation's primary goal for 2008 will be to continue to develop a financing structure that minimizes the Programs' mortgage interest rate and offers the best possible down payment assistance grant to the borrowers. Down payment assistance is especially critical when the spread between conventional mortgage rates and tax-exempt mortgage rates have reached historical lows. The Corporation will also continue to advertise and to receive input about the Programs by attending home builder, real estate agent, lender, and the various professional trade associations' conventions and trade shows in 2008.

In addition, the Corporation will continue to train and develop relationships with mortgage lenders and realtors who represent the Programs to the borrowers.

Given the demand for first-time homebuyer programs, other financing options available to the Corporation through its enabling legislation will be explored. If demand continues, the Corporation will continue to submit applications to the Texas Bond Review Board requesting additional volume cap during the collapse to serve new first-time homeowners.

AFFORDABLE HOMEOWNERSHIP PROGRAM FOR TEXAS

One of the Corporation's main initiatives is to provide housing opportunities to Texans that do not have comparable housing options through conventional financial channels. Many families throughout Texas seeking to purchase a home are not able to meet the traditional lending requirements and, up to now, have had no other option but to rent. In order to meet this need and provide deserving families with a financing alternative for achieving the American dream of homeownership, the Corporation developed the Affordable Homeownership Program for Texas ("Program").

The Program, developed through a partnership with a national lender and the Corporation, provided borrowers with an affordable mortgage financing option that allows them the opportunity to achieve homeownership. As a result of this partnership, the national lender committed up to \$100 million dollars for mortgage loans and the Corporation committed \$1 million dollars for down payment assistance.

The Program was established to serve those individuals and/or families in Texas that have FICO scores between 525 and 610 and who are at or below 80% of the AMFI by providing them access to an affordable mortgage loan product and down payment assistance in an amount up to seven percent (7%) of the mortgage loan amount. In addition, the Program rewards borrowers who make timely mortgage payments with lower interest rates and lower mortgage payments. Borrowers receive a 50 basis point (.5%) reduction in their mortgage interest rate for every 12 months of on-time payments. As a result, Borrowers can reduce their mortgage interest rate by up to two percent (2%) during the first 48 months of their mortgage loan.

Homebuyer education is an essential component to the success of home ownership. Under the Program, borrowers are provided pre- and post-closing Homebuyer Education Training by ACORN Housing. ACORN Housing is a national housing counseling organization, helping low and moderate income homebuyers and homeowners since 1986. Additionally, borrowers will have intervention assistance available to them

during the life of the mortgage loan. We believe this training and assistance is crucial to the success of this Program.

Since 2004, the Program has provided ___ loans to individuals and families who otherwise might not have achieved the dream of home ownership. At this time, the Corporation has put the program on hold as we search for a new national lender to step in to provide the mortgage loans for this important program.

2008 IMPLEMENTATION PLAN

At this time, the program is on hold as the Corporation searches for a new national lender to step in to provide the mortgage loans for this important program.

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 involves the sale of housing units to unrelated third party households. This includes developments involving, but not limited to, single-family or 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 and with creating application materials, loan documents and marketing materials for the program.

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The program will require new investments in order to continue operations; therefore the primary goal for the next year will be to raise at least \$1 million dollars in new funding. To assist in this goal, the Corporation will create a loan loss reserve pool that can act as insurance on the repayment of funds to investors. The Corporation intends to lend at least 70% of its available loan pool to qualified affordable housing developments. As the funding for the program increases, the Corporation will create a marketing campaign for the program that includes the development of web-based materials, marketing brochures, presentation materials, and clear document packages for borrowers. Staff will work with regional and statewide associations to promote the program at conferences and training events. The Corporation will track the number, cost and location of affordable housing units produced by the program to determine if the Corporation is fulfilling its mission to serve underserved populations and areas in Texas.

MULTIFAMILY PRIVATE ACTIVITY BOND PROGRAM

The Texas Legislature in 2003 allocated 10 percent of the multifamily private activity bond cap to the Corporation. The available amount for funding in 2007 was approximately \$44 million, and a similar amount will be available for 2008. Nonprofit and for profit developers can use the program to finance the acquisition and rehabilitation or new construction of multifamily residential rental units across the state. Developers are encouraged to leverage the private activity bond funds by using Low Income Housing Tax Credits (LIHTC) available through TDHCA.

The Corporation's Private Activity Bond program statute requires the Corporation to target areas with the greatest housing need that have expressed local community support for affordable multifamily housing. The statute also requires the Corporation to solicit proposals from developers who would provide the specific housing development that would address the targeted housing need outlined in the request, whether for senior, rehabilitation, rural, supportive, migrant farm worker, or other specific housing need. Applications received in response to the request for proposals issued by the Corporation will be scored and ranked using criteria that analyzes the Developer's qualifications, experience and willingness to provide the types of multifamily housing targeted by the Corporation. Tax-exempt private activity bond financing will be allocated to the highest-scoring proposal that meets the identified housing needs of the Request for Proposals, subject to available allocation.

The Corporation issued requests for proposals in 2007 to Developers for the provision of rural, senior, preservation of at-risk housing (rehabilitation), and supportive housing. The Corporation received two applications and issued \$34,900,000 to one developer to finance the acquisition and rehabilitation of 13 properties around the state. Since 2003, the Corporation has awarded \$49,200,000 to create or preserve 1,258 units of affordable rental housing.

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The targeted areas of housing for 2008 are Preservation of At-Risk Housing, Senior Housing, Supportive Housing, and Rural Housing. These targeted areas are based on current research and information received throughout the last few years. In 2004 and 2005 the Corporation solicited participation in the private activity bond program by sending letters to mayors of all cities with a population over 10,000 people and all county judges. Discussing the various needs with each interested city and county highlighted the diversity of needs for different areas of Texas. The larger metropolitan areas believed they were saturated with multifamily housing, but were interested in rehabilitation or redevelopment of existing multifamily housing that had fallen into disrepair. Cities with a lower population, generally not in urban areas, expressed interest in developing new multifamily housing to fill their affordable housing needs.

Most recently, the Corporation conducted an electronic survey by email to known stakeholders, and the targeted housing needs from 2007 were confirmed as those still most needed in the state. As a result of this fact-finding, the Corporation targeted housing needs for 2008 and included those in its 2008 Request for Proposal (RFP). The 2008 RFP is an evergreen RFP that will stay outstanding until all volume cap set aside for this program is allocated.

MULTIFAMILY 501(C)(3) 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. Unlike the Corporation's PAB program, 501(c)(3) financing does not use volume cap allocation and applications can be considered year-round. Also different from the PAB program is that 501(c)(3) financing may not be used in conjunction with low income housing tax credits. Only qualified nonprofit developers, designated under the internal revenue code as 501(c)(3) organizations, are eligible to apply for 501(c)(3) financing.

In addition to providing safe, decent, and affordable rental housing to residents of the state of Texas, recipients of 501(c)(3) financing 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) program as a result of market changes and legislatively mandated changes.

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The Corporation will monitor market conditions and will reactivate the program if demand shows the need for this type of financing to create needed multifamily affordable housing. Non-profit developers may choose to apply under the Corporation's Multifamily Private Activity Bond Program to be eligible for bond financing in addition to 4 percent tax credit equity.

MULTIFAMILY DIRECT LENDING PROGRAM

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 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. In 2003 and 2004, the Corporation provided permanent financing in the aggregate amount of \$5,628,000 for five (5) separate developments in Odessa, Wichita Falls, Big Spring, Brady, and Stephenville. These developments provided 412 units of affordable housing to low income Texans. The last transaction financed, the RHAC Texas Portfolio, 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.

2008 IMPLEMENTATION PLAN

The Corporation is committed to administering and marketing our capabilities under this program in 2008. The Corporation has included the following goals in its 2007-2009 Business Plan for this Program. First, the Corporation intends to establish and update yearly lending policies that will guide our utilization and management of the program. Second, to expand our impact in the market, the Corporation will actively fund raise for new sources of investment, and secondary market purchasers for the Corporation's loan portfolio. The Corporation has set a goal of raising \$2 million for the Corporation's Multifamily Direct Lending loan pool over the next two years.

ASSET OVERSIGHT AND COMPLIANCE

Asset oversight of properties is required by many bond issuers, including the Corporation and TDHCA, to monitor the financial and physical health of a property and to provide suggestions for improvement. Compliance monitoring ensures that the borrowers are providing the required number of affordable units to income eligible households and that quality resident services are being provided to all residents of the property. Periodic on-site inspections and resident file reviews of affordable units ensure that federal requirements relating to the tax-exempt status of the bonds are followed.

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 and serves to streamline paper and provide convenience to the properties.

The Corporation is currently providing asset oversight for 131 properties and compliance oversight for 36 properties. In May of 2006 TDHCA contracted with the Corporation to provide asset oversight services for multifamily properties financed through their bond program. 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

2008 IMPLEMENTATION PLAN

The Corporation will continue to provide high quality asset oversight and compliance monitoring services to the properties in our current portfolio and intends to increase the effectiveness and efficiency of the program. First, the Corporation intends to develop and implement compliance software for better tracking purposes. The Corporation will also work to contract with other entities to expand our asset oversight and compliance monitoring portfolio of business. The Corporation will pursue new asset oversight and/or compliance business relationships with public agencies such as HUD, the Texas Department of Housing and Community Affairs, Housing Authorities, or partnering with private owners and property management companies.

GRANT PROGRAM

Although the Corporation has been a 501(c)(3) nonprofit entity since 2001, the Corporation did not actively pursue fundraising and grant opportunities until last year. The Corporation needs to fundraise to sustain current programs and to add new programs. 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. In 2006, the Corporation hired a Manager of Marketing and Development to actively pursue fundraising opportunities. In addition, the Corporation received a low-interest loan from Wells Fargo in the amount of \$1.05 million for three areas: the Interim Construction and Land Acquisition Loan Program, Single Family Down Payment Assistance, and Multifamily Gap Financing Assistance. The Corporation has used \$500,000 of this award for the Multifamily Gap Financing Assistance Program (now part of our Multifamily Direct Lending Program) to help finance the acquisition and rehabilitation of 13 properties around the state. The Corporation has committed \$542,000 of this award for the Interim Construction and Land Acquisition Program to help finance the development of 170 single family homes.

The Corporation intends to fund two new programs described more fully below, the HomeWorks Loan Program and the Texas Foundations Fund, with grants and donations.

2008 IMPLEMENTATION PLAN

The Corporation's mission of affordable housing matches many foundation and grant objectives, and provides multiple opportunities for corporate sponsorship and cross-promoting. The Corporation will work to fundraise for grants and will pursue low-interest loans for the Texas Foundations Fund, the HomeWorks Loan Program, the Multifamily Direct Lending Program, and the Interim Construction and Land Acquisition Program. In addition, the Corporation will solicit corporate partners in the home improvement, home appliance, and large retail business sectors for down payment assistance for our Professional Educator, Fire Fighter, Police Officer, Security Officer, and Nursing Faculty bond programs. We will request a grant for down payment assistance and coupons for participating borrowers, such as \$50 off a refrigerator, or a \$100 coupon to the home improvement store. The Corporation will also work with national computer manufacturers to contribute a computer to every teacher, firefighter, police officer, corrections officer, or nurse educator that closes a loan through our program, and negotiate with telecommunications companies to contribute phone/internet service packages. These are just a few of the fundraising activities and initiatives that the Corporation will undertake in 2008.

NEW PROGRAM INITIATIVES FOR 2008

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 businesses 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-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.

Texas Foundations Fund

The Corporation is developing, and will present for board approval in early 2008, the Texas Foundations Fund (TFF). The TFF will support housing initiatives for very low-income families, currently expected to be at or below 50 percent of the area median income. The Corporation intends to 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 Texas Foundations Fund would build up funds from program revenue and donations, and a notice of funding availability (NOFA) would be issued when the fund reaches 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

Before presenting the TFF Program to the board, Corporation staff will explore the best legal options for creating the Texas Foundations Fund, including the possible creation of an irrevocable trust. Staff will also 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. Most importantly, Staff will evaluate how to fund the Texas Foundations Fund, including the Corporation's revenue from existing programs and methods for fundraising specifically for this new Fund. In addition, Guidelines will be developed for evaluating grant applications.