



2004 ANNUAL REPORT

TEXAS STATE AFFORDABLE HOUSING
CORPORATION

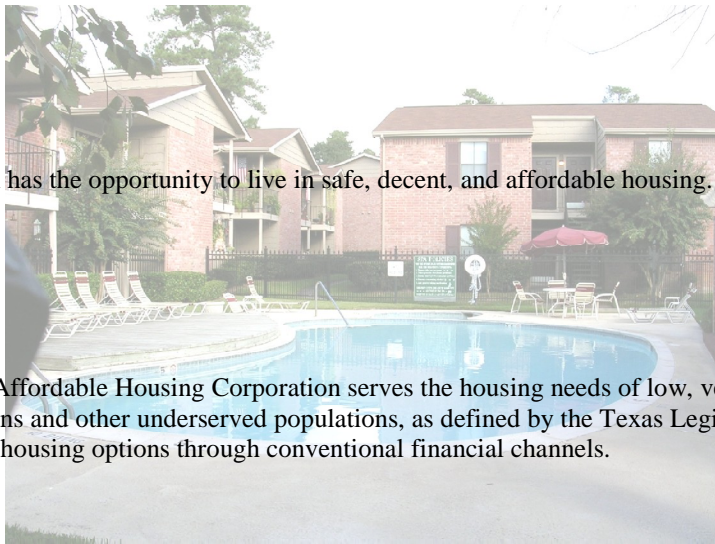
VISION, MISSION, AND CORPORATE PROFILE AND HISTORY

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.



CORPORATE PROFILE AND HISTORY

The Texas State Legislature created Texas State Affordable Housing Corporation (“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 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, VA, and the Community Development Trust, Inc. 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.

Programs offered by the Corporation are provided at no cost to the state or its taxpayers. The Corporation does not receive any state funding, and is not subject to the legislative appropriations process.

PROGRAMS

Single Family

The Corporation offers three different programs for purchasing single family homes in the state of Texas.

The Corporation issues Single Family Mortgage Revenue Private Activity Bonds (“MRB’s”) to finance the creation of affordable single-family homes under two separate programs: (1) the Professional Educators Home Loan Program, and (2) the Fire Fighters and Police Officers Home Loan Program (“Programs”). During the 78th Texas Legislature, the Programs were established under Senate Bill 284 and House Bill

VISION, MISSION, AND CORPORATE PROFILE AND HISTORY continued

1247, respectively, and allocate \$50 million of the State's Ceiling for Private Activity Bond Cap (\$25 million per program) for the exclusive purpose of making single-family mortgage loans to Texas Professional Educators, Firefighters and Police Officers (individuals/families) that are first-time home buyers.

In an effort to serve families seeking to purchase a home who are not able to meet the traditional lending requirements, the Corporation developed the Affordable Homeownership Program for Texas ("Program"). The Program, developed through a partnership between Ameriquest Mortgage Company ("Ameriquest") and the Program, provides borrowers with an affordable mortgage financing option that will allow them the opportunity to achieve the dream of homeownership. As a result of this partnership, Ameriquest has committed up to \$100 million for mortgage loans and the Corporation has committed \$1 million for down payment assistance to the Program

Multifamily

The Corporation offers financing options to multi-family developers through three different programs in an effort to achieve our commitment to provide safe, decent, and affordable housing to Texans who rent.

In 2003, the Texas Legislature allocated 10 percent of the multifamily private activity bond cap to the Corporation so that local governments could be more involved in assessing and addressing their own local multifamily housing needs and at the same time could use the expertise of the state to issue the bonds. The available amount for funding in 2004 for the Private Activity Bond Program was approximately \$39 million. Nonprofit and for profit developers can use the funds to finance acquisition and rehabilitation or new construction. Developers are required to leverage the private activity bond funds by using Low Income Housing Tax Credits (LIHTC) available through the TDHCA.

Unlike Corporation's Private Activity Bond Program, the 501(c)(3) Program is not restricted by the volume cap, except at the discretion of Corporation's Board of Directors. Eligible

facilities for financing include acquisition and rehabilitation, or new construction. 501(c)(3) financing may not be used in conjunction with Low Income Housing Tax Credits. The Program is available to qualified non-profit developers, designated under the Internal Revenue Code as 501(c)(3) organizations and may be used throughout the state of Texas. The Program is available year-round.

The Direct Lending Program offers permanent long-term financing to developers focusing on increasing and/or preserving the stock of affordable multifamily housing, specifically in rural Texas, small cities, as well as other underserved and difficult to develop areas. The direct lending program focuses on filling the existing financing gaps. Financing for the program is facilitated through the Corporation's existing relationships with real estate investment companies that invest in affordable multifamily housing, specifically the Community Development Trust in New York (CDT) and Federal Home Loan Bank. The Program is available to for-profit and nonprofit developers, municipalities, housing authorities, limited liability companies, corporations, partnerships, owner-builders, and others, engaged in affordable housing development. Projects may be comprised of scattered-sites, senior apartments, affordable assisted living, limited-equity cooperatives, single family rental units and other nontraditional, multifamily, rental housing. All projects must satisfy Community Reinvestment Act ("CRA") criteria. The Program is available year-round.

Asset Oversight and Compliance

Asset Oversight of properties is required by many tax-exempt bond issuers, including the Corporation. Monitoring the financial and physical health of a property aids to ensure not only the repayment of the bonds, but also that the property provides safe and decent housing. Compliance monitoring aids to ensure that requirements set forth by the Internal Revenue Service ("IRS"), including the number of affordable units provided and the quality of resident services, are being provided by property owners.

SINGLE FAMILY PROGRAMS

PROFESSIONAL EDUCATORS AND FIREFIGHTER AND POLICE OFFICER HOME LOAN PROGRAMS

The 2004 Programs were released statewide on March 24, 2004, on a first come, first-served basis, to first-time homebuyers who wishing to purchase a newly constructed or existing home. Through the Programs, eligible borrowers were able to apply for a 30 year fixed rate mortgage loan and receive 5 percent of the mortgage loan amount in the form of a grant to be use as down payment an or closing cost assistance. The programs were accessible to eligible borrowers by directly contacting a trained, participating mortgage lender.

From Program inception, March 24, 2004, through December 31, 2004, the Professional Educators Home Loan Program fully originated the funds available in the non-targeted areas,

which provided 183 professional educators with homes. As of December 31, 2004, there have been no loans originated in any targeted area. On March 24, 2005, the set-aside funds for targeted areas will expire and become available for statewide use.

From Program inception, March 24, 2004, through December 31, 2004, the Firefighters and Police Officers Program has provided 77 firefighters and police officers with homes purchased in non-targeted areas. As of December 31, 2005, there have been no loans originated in any targeted area. On March 24, 2005, set-aside funds for targeted areas will expire and become available for statewide use.

2004 Professional Educators Home Loan Program March 24, 2004 – December 31, 2004

# of Loans Originated Non-Targeted Area	# of Loans Originated Targeted Area	\$20,000,000 Non-Targeted Area Allocation	\$5,000,000 Targeted Area Allocation Set- aside
183	0	\$ 20,000,000	\$ -

2004 Fire Fighters Police Officers Home Loan Program March 24, 2004 – December 31, 2004

# of Loans Originated Non-Targeted Area	# of Loans Originated Targeted Area	\$20,000,000 Non-Targeted Area Allocation	\$5,000,000 Targeted Area Allocation Set- aside
77	0	\$ 7,785,217	\$ -

2004 Programs Grand Totals March 24, 2004 – December 31, 2004

# of Loans Originated Non-Targeted Area	# of Loans Originated Targeted Area	\$20,000,000 Non-Targeted Area Allocation	\$5,000,000 Targeted Area Allocation Set- aside
260	0	\$ 27,785,217	\$ -

SINGLE FAMILY PROGRAMS continued

AFFORDABLE HOMEOWNERSHIP PROGRAM FOR TEXAS

In the 2004, Ameriquest and the Corporation released the Affordable Homeownership Program as a Pilot Program in south Texas. The Program provides the opportunity for borrowers, previously restricted to renting or considering high cost non-traditional lending options, the opportunity to achieve the dream of homeownership. Ameriquest has committed up to \$100 million dollars for mortgage loans and the Corporation has committed \$1 million dollars for down payment assistance to the Program.

The initial release of the Program for Texas was offered as a Pilot Initiative through local organizations including community development corporations, non-profits and other entities involved in affordable housing. With mortgage loans closed under the pilot initiative, the Corporation and Ameriquest will work with local organizations and builders throughout Texas in an effort to expand the availability of the program to Texans statewide.

Under the Program, eligible borrowers have access to an affordable mortgage loan product

and down payment assistance equal to five percent (5%) of the mortgage loan amount. In addition, the Program rewards borrowers 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.

Ameriquest and the Corporation 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 by ACORN Housing. Additionally, borrowers will have intervention assistance available to them during the life of the mortgage loan.

The Corporation and Ameriquest believe the Program will assist eligible borrowers in overcoming the barriers to homeownership.

2004 Affordable Homeownership Program for Texas

Loan Type	# of Loans Originated	Amount (\$) of Loans Originated	Average Interest Rate
1st Lien Loan	16	\$ 1,200,000	7.0% (Adj.)
2nd Lien Loan	16	\$55,000	4% Fixed



MULTIFAMILY PROGRAMS

PRIVATE ACTIVITY BOND PROGRAM

The Corporation offers financing options to multifamily developers through three different programs in an effort to achieve our commitment to provide safe, decent, and affordable housing to Texans who rent.

In 2003, the Texas Legislature allocated 10 percent of the multifamily private activity bond cap to the Corporation so that local governments could be more involved in assessing and addressing their own local multifamily housing needs and at the same time could use the expertise of the state to issue the bonds. The available amount for funding in 2004 was approximately \$39 million.

Nonprofit and for profit developers can use the PAB program to finance acquisition and rehabilitation or new construction. Developers are required to leverage the private activity bond funds by using Low Income Housing Tax Credits ("LIHTC") available through TDHCA.

The Program requires the Corporation to target areas (e.g. cities, metropolitan statistical areas, counties,

etc.) with the greatest need that have expressed local support for affordable multifamily housing. Once selected, the Corporation issues requests for proposals to developers to provide the specific housing development requested by the local target area. Tax-exempt private activity bond financing will be provided to the highest-scoring developer whose proposal meets the housing needs of the target area, subject to available allocation.

During 2004, the Corporation issued requests for proposals for Corpus Christi, McAllen, El Paso, and San Antonio. As a result, the Corporation received applications for developments in San Antonio. The Board authorized the development known as Providence at Marshall Meadows in San Antonio and in January 2005 issued bonds in the amount of \$14,260,000 to finance the development. Marshall Meadows will be a 250-unit multifamily apartment complex with sixty percent (60%) of the units set aside for low income residents.

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. Unlike the Corporation's Private Activity Bond Program, the 501(c)(3) Bond Program is not restricted by volume cap; however, 501(c)(3) financing may not be used in conjunction with low income housing tax credits.

The Program is available year-round to qualified nonprofit developers, designated under the Internal Revenue Code as 501(c)(3) organizations, and may be used throughout 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 requiring that any benefit of abated property tax be transferred dollar-for-dollar into a public benefit program. Because the market has softened for affordable housing in metropolitan areas, and because the program prevents the use of 4 percent tax credits, and also because the abated property taxes cannot be used to help pay off debt service, this program has become inactive.

Due to changes in Legislation that governs this program, its use has diminished, but new projects are being developed to fully utilize this program. During its use and prior to changes to the program, the Corporation generated in excess of \$ 400 million in bonds that produced over 7700 affordable housing units.

DIRECT LENDING PROGRAM

The Direct Lending Program offers permanent long-term financing to developers focusing on increasing

and/or preserving the stock of affordable multifamily housing, specifically in rural Texas, small cities,

MULTIFAMILY PROGRAMS continued

other underserved and difficult to develop areas. The direct lending program focuses on filling the existing financing gaps.

Financing for the program is facilitated through the Corporation's existing relationships with real estate investment companies that invest in affordable multifamily housing, specifically the Community Development Trust in New York ("CDT") and Federal Home Loan Bank.

The Program is available to for-profit and nonprofit developers, municipalities, housing authorities, limited liability companies, corporations,

partnerships, owner-builders, and others engaged in affordable housing development.

Affordable rental housing projects must offer at least 24 units. Projects may be comprised of scattered-sites, senior apartments, affordable assisted living, limited-equity cooperatives, single family rental units and other non-traditional, multifamily, rental housing. All projects must satisfy Community Reinvestment Act ("CRA") criteria. The Program is available year-round.

2004 Multifamily Direct Lending Program

Projects	Location	Amount Funded	Financing	Total # Units
Sagebrush Apartments	Brady, Texas	\$875,000.00	FHLB	60
Bunker Hill Senior Village	Stephenville, Texas	\$550,000.00	FHLB	44
Crossroads Apartments	Wichita Falls, Texas	\$1,525,000.00	CDT	112
Limestone Ridge Apartments	Big Spring, Texas	\$1,004,000.00	CDT	76
Key West Senior Village	Odessa, Texas	\$1,634,000.00	CDT	120



ASSET OVERSIGHT AND COMPLIANCE

The Corporation accomplished many Asset Oversight and Compliance goals in 2004. One of the largest accomplishments was the creation of both an Asset Oversight and Compliance Manual. These manuals help the Corporation's staff to follow procedures and help property owners understand compliance requirements and monitoring procedures. The manuals explain what to do before, during, and after an audit in great detail including examples. It also covers using the online system for the monthly and quarterly reports. An additional manual was also created to aid in the Asset Oversight audits conducted for TDHCA.

In the fall a new online compliance system was launched. The system allows properties to report

all of their monthly compliance reports online, including resident services.

As of January 1, 2005, the Corporation assumed complete responsibility for performing Asset Oversight and Compliance monitoring of the Corporation's properties. This was due in part to the creation of an additional staff position in the summer of 2004.

The following charts show the numbers of portfolios, properties, units, revenue, site visits, and contracted site visits. Table 1 is in relation to the Corporation's properties and Table 2 is in relation to Third Party Asset Oversight Properties.

Table 1
Texas State Affordable Housing Corporation Properties

	Number of Portfolios	Number of Properties	Number of Units	Revenue (Compliance/Asset Oversight)	Site Visits (Compliance/Asset Oversight)
December 2004	8	38	10,001	\$210,340.11/ \$264,405.58	63

Table 2
Third Party Asset Oversight Properties

	Number of Portfolios	Number of Properties	Number of Units	Revenue	Site Visits
December 2004	36	47	10,919	\$528,721.60	47



SPONSORSHIPS AND OUTREACH

The Corporation is a strong advocate of supporting other affordable housing entities in their efforts to educate and promote all aspects of affordable housing in the state of Texas.

In 2004, the Corporation participated as a sponsor for the Texas Statewide Homebuyer Education Program (TSHEP) workshop series presented by TDHCA, which included a Train the Trainer program, Marketing Your Homeownership Program for Maximum Impact program, and two Financial Fitness programs.

In June 2004, the Corporation participated as a sponsor for the Austin Focus Groups that went to benefit United Cerebral Palsy of Texas (UCP). UCP is a national organization whose mission it is to advance the independence, productivity and full citizenship of people with disabilities through an affiliate network.

In August 2004, the Corporation sponsored the Texas Affiliate of Affordable Housing Providers (TAAHP) by being a sponsor of their 2004 Texas Housing Conference. TAAHP is a 501(c)(6) trade organization made up of affordable housing providers. The organization's mission is to increase the supply and quality of affordable housing for Texans with limited incomes.

In October 2004, the Corporation was able to support the Texas Association of Local Housing Finance Agencies (TALHFA) by being a sponsor of their 2004 TALFA Annual Conference. TALFA is a non-profit organization established for the purpose of informing, planning and supporting the needs of local housing finance agencies in their delivery of affordable housing in the State of Texas.

In November 2004, the Corporation participated as a sponsor for the Texas Housing Forum. The Texas Housing Forum is an unincorporated, voluntary organization that seeks to include many viewpoints and encourages open collaboration by bringing a diverse group of stakeholders together to discuss prevalent housing and community development issues.

2004 Donations, Sponsorships and Training Sessions

Texas Statewide Homebuyer Education Program (TSHEP)	
United Cerebral Palsy of Texas (UCP)	
Texas Affiliation of Affordable Housing Providers (TAAHP)	
Texas Association of Local Housing Finance Agencies (TALHFA)	
Texas Housing Forum	
Total Funds Sponsored:	\$5,493.12

FINANCIAL OVERVIEW

Texas State Affordable Housing Corporation Statement of Net Assets

	FY 2004	FY 2003	FY 2002
ASSETS			
Current Assets	\$ 6,551,929	7,063,759	6,775,411
Noncurrent Assets	66,330,455	27,149,029	47,855,666
Total Assets	\$ 72,882,384	34,212,788	54,631,077
LIABILITIES & NET ASSETS			
Current Liabilities	\$ 1,988,592	1,089,038	1,243,077
Long-Term Liabilities	61,830,092	24,020,955	44,817,149
Total Liabilities	\$ 63,818,684	25,109,993	46,060,226
Net Assets:			
Invested in Capital Assets	\$ 42,530	56,093	118,593
Unrestricted Net Assets	9,021,170	9,046,702	8,452,258
Total Net Assets	\$ 9,063,700	9,046,702	8,570,851
Total Liabilities & Net Assets	\$ 72,882,384	34,212,788	54,631,077

Statement of Revenues, Expenses and Changes in Net Assets

	FY 2004	FY 2003	FY 2002
Operating Revenue	\$ 3,659,874	3,640,616	2,664,743
Operating Expenses	3,751,070	3,101,455	1,906,705
Operating Gain/Loss	\$ (91,196)	539,171	758,038
Nonoperating Revenues/Expenses	52,102	(7,227)	(2,655)
Net Gain/Loss	\$ (39,094)	531,944	755,383
Total Net Assets, Beginning	9,102,794	8,570,851	7,815,468
Total Net Assets, Ending	\$ 9,063,700	9,102,794	8,570,851

BOARD OF DIRECTORS

***JERRY ROMERO, CHAIR
EL PASO, TEXAS***

As a Wells Fargo Community Development director based in El Paso, Mr. Romero received the Texas Association of Mexican American Chambers of Commerce award for his success in improving the economic and legislative environment for Hispanic business owners. With over 17 years experience as a banking executive, Mr. Romero's professional contributions include service on boards and committees for several aspects of community development including banking, housing, education, small business, economic development, childcare and welfare, and minority owned businesses statewide; and participation in professional organizations such as the American Institute of Banking (past President), Texas Bankers Association and the National Association of Securities Dealers.

TERM EXPIRES: FEBRUARY 1, 2005

***THOMAS LEEPER, VICE CHAIR
HUNTSVILLE, TEXAS***

Mr. Leeper is currently the City Attorney for the City of the Huntsville. Previous 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. He is a shareholder with Smither, Martin, Henderson & Blazek, P.C. in his native Huntsville. 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 EXPIRES: FEBRUARY 1, 2007

***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. From 1997 to 1999 Ms. Van Hovel also served on the National Conference of State Housing Board in Washington D.C.

TERM EXPIRES: FEBRUARY 1, 2007

***CHARLES G. RENCHER, MEMBER
SUGARLAND, TEXAS***

Mr. Rencher is 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 EXPIRES: FEBRUARY 1, 2009

***CHRISTOPHER D. DECLUITT, MEMBER
WACO, TEXAS***

Mr. DeCluitt received a B.S. in Electrical Engineering from Texas A&M University and a J.D. from the University of Tulsa. After working overseas for the National Science Foundation and practicing law for a number of years in Dallas, he returned to his hometown to take up the reins of his family business in land investment, oil & gas investment and professional property management. In his community, Mr. DeCluitt is active in a number of local organizations, including serving as past-president of the Waco Jaycees and teaching classes in legal issues for the Waco police department and a local apartment association.

TERM EXPIRES: FEBRUARY 1, 2009

STAFF

CORPORATE OFFICERS



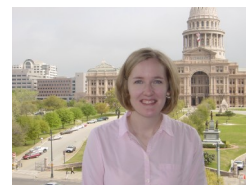
David Long
President



Katherine Closmann
Executive Vice
President



Melinda Smith
Chief Financial Officer



Laura Smith
Corporate Secretary

SINGLE FAMILY AND MULTIFAMILY PROGRAMS

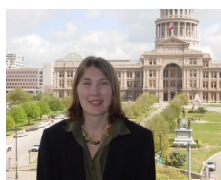


Cathy Dean
Single Family
Programs Manager

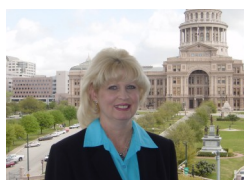


Katherine Closmann
Multifamily Programs

ASSET OVERSIGHT AND COMPLIANCE



Emily Lah
Asset Oversight &
Compliance Manager



Sheila Cruz
Asset Oversight &
Compliance Specialist

ACCOUNTING



Nick Lawrence
Accountant



Cynthia Gonzales
Loan Servicing

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