

TEXAS STATE AFFORDABLE HOUSING CORPORATION

2005 STATE LOW INCOME HOUSING PLAN (SLIHP)

COORDINATION WITH STATE TEXAS LOW INCOME HOUSING PLAN AND ANNUAL REPORT (SLIHP)

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.

REPORT OVERVIEW

This report is prepared in accordance with SB 284, 78th Session, which requires 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. 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 need 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 and provide affordable housing through methods that do not duplicate those of TDHCA or local housing organizations. 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).

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 two separate programs: (1) the Professional Educators Home Loan Program, and (2) the Fire Fighters and Police Officers Home Loan Program. Since April 2001, the corporation has issued over \$550 million in single-family and multifamily mortgage revenue bonds. To date, the Corporation has provided over 7,700 units of affordable multifamily housing to low income Texans. The Corporation has also served 362 income eligible individuals and/or families through its first-time homebuyer single-family 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, 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.

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 million and 25.9 million and by 2040 between 35.0 million 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 placing a high demand for educators.⁵
- Population growth will mean increased public service demands and expanding markets for Texas.⁶
- Lack of funds for down payment and closing costs has created one of the greatest obstacles that prevent 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.⁷

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

⁷ National Association of Home Builders, *News Details; March 24, 2004*.

- 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 2004-2005 ranges from \$24,240 per year for 0 years experience to \$40,800 per year for 20 or more years experience.⁸
- A base salary chart for Texas police officers ranges from \$32,944 per year to \$46,644.⁹
- A base salary chart for Texas Firefighters ranges from \$24,944 per year to \$41,573.¹⁰
- An estimated \$200 million was anticipated by 43 Texas mortgage institutions when the Corporation asked to anticipate the demand for originating loans in a first-time homebuyer program that offered down payment assistance for professional educators, police officers, and firefighters.

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 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.¹¹
- 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 feel that there is 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.¹²
- 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.¹³
- 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.¹⁴

The Corporation will address these pressing housing needs through the following single family, multifamily, and grant programs for 2005. The following summary of Corporation programs gives the history and accomplishments of our programs in the last year and a plan for achieving greater success with those programs in 2005. A few of the programs mentioned are mandated by the state legislature, as noted, and a few have been undertaken upon our own initiative to fulfill housing needs for identified underserved areas of the state.

SINGLE FAMILY PROGRAMS

Texas Professional Educators Home Loan Program and Texas Fire Fighters & Police Officers Home Loan Program

These Programs are the Corporation's Single Family Mortgage Revenue Private Activity Bond Programs. The Programs were established under Senate Bill 284 and House Bill 1247 in 2003, respectively, and allocate \$50

⁸ Texas Classroom Teachers Association: *State Minimum for 2004 year*.

⁹ Salary.com

¹⁰ Ibid.

¹¹ 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).

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

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, Firefighters and Police Officers (individuals/families) that are first-time home buyers.

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

In October 2004, the 2004 Professional Educators Home Loan Program fully originated the \$20,000,000 in funds available in the non-targeted areas, which financed a total of 182 homes. The Firefighters and Police Officers Program originated \$7,000,000 in funds available in the non-targeted areas, which financed a total of 65 homes, and had \$12,000,000 remaining for new loans as of October 31, 2004. The \$5,000,000 in each Program set aside for targeted areas will be available for non-targeted area loans in March 2005.

2005 Implementation Plan

The Corporation's primary goal for 2005 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 the Programs by attending teacher, police officer, firefighter, home builder, real estate agent, and lender association conventions and trade shows in 2005. In addition, the Corporation will continue to train and develop relationships with mortgage lenders who represent the Programs to the borrowers.

The Corporation believes that one of the best ways to develop the Programs to successfully reach their full capacity is to have regular meetings with statewide and local Texas firefighter, police officer, and teacher associations. The Corporation will continue to hold meetings with the leaders of these associations to assess input received from their members on how to create a more effective, inclusive program. For example, many firefighter and police officer associations have expressed the need to include EMS personnel, county sheriffs, constables, and DPS peace officers. The Corporation has also received public comment suggesting the inclusion of volunteer firefighters, which would help smaller communities keep their volunteer firefighters and would encourage other volunteers to serve their communities. For these changes and any others that would require legislative action, the Corporation will bring these suggestions to legislators for consideration.

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 than 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 between Ameriquest Mortgage Company ("Ameriquest") and the Corporation, provides borrowers with an affordable mortgage financing option that will allow them the opportunity to achieve homeownership. As a result of this partnership, 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 Program was established to serve those individuals and/or families in Texas that are at or below 80% of the AMFI by providing them 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.

The Corporation and Ameriquest believe home buyer education is an essential component to the success of home ownership. Under the Program, borrowers will be provided pre and post-closing Home Buyer 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.

2005 Implementation Plan

The initial release of the Program was limited to a Pilot Initiative in south Texas through a local affordable housing provider (CDC Brownsville). By releasing the Program under a pilot initiative, the Corporation and Ameriquest are able to amend the program guidelines to ensure it meets the needs of eligible individuals/families, as well as to ensure the Program can ultimately be released statewide.

With mortgage loans closed under the pilot initiative in south Texas, the Corporation and Ameriquest will work with local organizations throughout Texas in an effort to expand the availability of the program to Texans statewide. Initial efforts are already underway to market the Program to local community development corporations, non-profits and other entities involved in affordable housing. The Corporation made a presentation on the Program at the annual conference for the Texas Association of Local Housing Finance Agencies (“TALHFA”) in October 2004. In addition, the Corporation and Ameriquest have met with several local organizations interested in participating in the Program. Marketing efforts will continue as the Program is released on a statewide basis during 2005.

MULTIFAMILY PROGRAMS

Multifamily Private Activity Bond Program

The Texas Legislature in 2003 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, and a similar amount will be available for 2005. 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.

The Corporation's Private Activity Bond program statute 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. The statute also requires the Corporation to issue requests for proposals to developers to provide the specific housing development requested by the local target area, whether for senior, rehabilitation, mixed income, mixed use, or other housing needs. 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.

The Corporation issued requests for proposals in 2004 for Corpus Christi, McAllen, El Paso, and San Antonio. The Corporation received applications for developments in San Antonio. The development known as Providence at Marshall Meadows in San Antonio was induced by the Board and is scheduled for final approval for \$15,000,000 in bond financing in December of 2004. Marshall Meadows will be a 250 unit multifamily apartment complex. Sixty percent of the units will be set aside for low income residents.

2005 Implementation Plan

For the 2005 program, the Corporation solicited participation from cities that were targeted for the 2004 program year but that did not receive funding through the program. The Corporation also sent letters to mayors of all cities with a population over 10,000 people and all county judges to solicit their participation in the 2005 private activity bond program. Discussing the various needs with each interested city and county has shown the diversity of needs for different areas of Texas. The larger metropolitan areas believe they are saturated with multifamily housing, but would like to rehabilitate or redevelop existing multifamily housing that has fallen into disrepair. Cities with a lower population, generally not in urban areas, have expressed interest in developing senior housing, multifamily housing, and other new construction to fill their affordable housing needs. Many cities, counties, and experienced developers agree that the 4 percent tax credits and tax-exempt bonds are not sufficient to cash flow developments in areas where the area median income is lower than the state average. Funding sources from outside these traditional financing methods must be obtained.

The Corporation will target areas in November and December of 2004 and will issue requests for proposals to developers for housing developments in those target areas in December of 2004 and possibly January of 2005. The time to turn in a proposal will be extended from the last program year to allow developers the chance to obtain other funding for the development to fill the gap in financing. We anticipate a return deadline for proposals of early March 2005.

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 requiring that any benefit of abated property tax must 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.

2005 Implementation Plan

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.

Multifamily Direct Lending Program

The Corporation's Multifamily Direct Lending Program provides permanent financing for the purpose of increasing and preserving the stock of affordable multifamily housing units throughout the state of Texas. The major focus of this program is to provide financing for smaller developments in rural and underserved areas of the state where a bond financing is not practical. The Corporation's ability to offer permanent financing is facilitated through existing relationships with real estate investment companies that invest in affordable multifamily housing. The Community Development Trust in New York and the Federal Home Loan Bank of Dallas are the Corporation's principal partners for this program.

The Corporation provided permanent financing for developments in Wichita Falls, Big Spring, Brady, and Stephenville in 2003 and 2004.

2005 Implementation Plan

The Corporation is committed to training staff in 2005 to undertake the responsibilities of administering and marketing our capabilities under this program. The Corporation will pursue the program primarily through the Community Development Trust because it assumes 100 percent of the risk on the loan to the borrower so that our funds can be used for other Corporation programs. The Federal Home Loan Bank requires that we assume 25 percent of the risk on the loans.

Asset Oversight and Compliance

Asset Oversight of properties is required by many issuers of bonds, including the Corporation and TDHCA, to monitor the financial and physical health of a property to ensure that the bonds can be repaid and that the property provides the safe and decent housing that the borrowers promised to provide when they received the tax-exempt bond financing. Compliance monitoring ensures that the borrowers are providing the number of affordable units and the quality of resident services that they promised to provide and, in the case of affordable units, that the IRS requires to be provided to receive the tax-exempt bond financing.

The Corporation is currently providing asset oversight for 86 properties and compliance oversight for 38 properties. The Corporation staff performs yearly on-site compliance reviews and at least yearly on-site asset oversight reviews for these properties.

2005 Implementation Plan

The Corporation will continue to provide asset oversight and compliance monitoring for our current portfolio. In addition, the Corporation will implement its online compliance monitoring system in early 2005 to better track compliance for the Corporation and to make the compliance monitoring process easier for the property

managers and owners. The Corporation will also work to contract with other entities to expand our asset oversight and compliance monitoring business. Compliance monitoring and asset oversight revenues are used to fund current single family and multifamily programs, and with more revenue more funding could go toward those housing programs.

Grant Program

The Corporation provided the Single Family Professional Educator, Fire Fighter, and Police Officer program with \$400,000 from its cash reserves for down payment assistance in 2002, and in 2004 provided over \$200,000 in funding from its cash reserves for down payment assistance. For the 2004 Private Activity Bond Program the Corporation has committed to funding up to \$500,000 as a soft second loan for the Providence at Marshall Meadows development in San Antonio. The Corporation does not receive state appropriations and cannot sustain this level of subsidy for its programs and continue to stay in business. Both of these experiences, as well as reviewing other critical unmet housing needs identified by TDHCA and the Corporation, have prompted us to pursue the creation of a Grant Program to fund the following programs: Single Family Down Payment Assistance, Multifamily Gap Financing Assistance, Homebuyer Education, and an Interim Construction Guarantee Program.

2005 Implementation Plan

We will pursue the creation of a Corporate Partners Program and Tax Deductible Gifts Program. The Corporate Partners Program would give our Partners certain advertising rights for certain programs. For instance, the Corporation could solicit corporate partners in the home improvement and home appliance businesses for down payment assistance for our Family Professional Educator, Fire Fighter, and Police Officer programs. We would ask for 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 Corporate Partner would benefit from the program by receiving certain advertising rights for the single family programs. The Tax Deductible Gifts Program would allow individuals and foundations with a housing mission to make tax deductible gifts to the corporation for all of our housing programs.

Information regarding these programs is available on the Corporation's website at www.tsahc.org.