



TEXAS STATE AFFORDABLE HOUSING CORPORATION
DRAFT 2007 ANNUAL ACTION PLAN

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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.*

OVERVIEW

This report is prepared in accordance with SB 284, 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).

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 and Law Enforcement or Security Officer Home Loan Program, and the newest program, (3) the Nursing Faculty Home Loan Program. Since April 2001, the corporation has issued over \$125 million in single family and approximately \$500 million multifamily mortgage revenue bonds. To date, the Corporation has provided over 8,362 units of affordable multifamily housing to low income Texans. The Corporation has also served 1190 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 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 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
- 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.⁷
- 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 2006-2007 ranges from \$27,320 per year for 0 years experience to \$44,270 per year for 20 or more years of experience.⁸
- A base salary for Texas police officers ranges from \$35,544 per year to \$53,569.⁹
- A base salary for Texas firefighters ranges from \$26,432 per year to \$44,054.¹⁰
- A base salary for Texas correctional officers ranges from \$22,440 per year to \$33,276.¹¹

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*.

⁸ Texas Classroom Teachers Association: *State Minimum for 2006-2007 school year*.

⁹ Salary.com

¹⁰ Ibid.

¹¹ Texas Department of Criminal Justice Human Resources Division:
<http://www.tdcj.state.tx.us/vacancy/coinfo/cosalary06.htm>.

- The Texas nursing education system is operating close to capacity and faces several impediments to producing more graduates—faculty shortages due to retirement, inadequate salaries, and fewer faculty applicants.¹²

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.¹³
- 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.¹⁴
- 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.¹⁵
- 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.¹⁶
- 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.¹⁷
- 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.¹⁸ Cities with populations between 20,000 and 50,000 have a particularly hard time

¹² 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).

¹³ 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).

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Texas Department of Community Affairs, 2005-2009 State of Texas Consolidated Plan (Austin, Texas, February 2005).

¹⁸ Texas Department of Housing and Community Affairs, Strategic Plan for Fiscal Years 2005-2009.

accessing funds. They cannot access USDA funding and are too small to effectively compete for other funding opportunities.¹⁹

- 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.²⁰
- 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.²¹
- 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.²²

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.

¹⁹ Texas Department of Housing and Community Affairs, Report on the 2004 Regional Advisory Committee Meetings on Affordable Housing and Community Services Issues, November 2004.

²⁰ 2000 U.S. CHAS Data, Texas Department of Housing and Community Affairs

²¹ Texas Department of Community Affairs, 2005-2009 State of Texas Consolidated Plan (Austin, Texas, February 2005).

²² 2000 U.S. Census Data

The Corporation will address these pressing housing needs through the following single family, multifamily, and grant programs for 2007. 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 2007. 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.

TSAHC PROGRAM DESCRIPTIONS

TEXAS PROFESSIONAL EDUCATORS HOME LOAN PROGRAM

TEXAS FIRE FIGHTER AND LAW ENFORCEMENT OR SECURITY OFFICER HOME LOAN PROGRAM

NURSING FACULTY HOME LOAN PROGRAM

TEXAS HOME SWEET LOAN PROGRAM

These Programs are the Corporation's Single Family Mortgage Revenue Private Activity Bond Programs. The first three Programs were established by the Legislature in 2001, 2003, and 2005, respectively, and allocate 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.

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 Professional Educator Home Loan Program fully originated the \$25,000,000 bond fund allocation. The Corporation released the 2006 Professional Educator Home Loan Program allocation in February, totaling \$25,000,000 in additional mortgage revenue private activity bonds. This program was extremely successful, fully originating in three months. Since its inception in 2001, the program has financed 746 homes for teachers, teacher's aides, school counselors, school nurses and school librarians.

Additionally, the 2005 Fire Fighter and Law Enforcement or Security Officer Home Loan Program fully originated \$25,000,000 in loan commitments. The 2006 Fire Fighter and Law Enforcement or Security Officer Home Loan Program was released in June, and has committed \$10.2 million to date. Since the inception of this program in 2003, the program has financed 443 homes for fire fighters, peace officers, correctional officers, county jailers, and public security officers.

The Nursing Faculty Home Loan Program was established by the Legislature in 2005. The Corporation released a pilot program of \$3 million in the form of low interest rate loans in May 2006. These funds are

made available to eligible faculty members of either an undergraduate or graduate nursing program in the state of Texas. No loans have been issued to date.

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.

Given the success of the Programs and the rate of loan origination, the Corporation submitted an application requesting an additional allocation of funds to the Texas Bond Review Board in August 2006. The Corporation was successful, and was awarded \$25 million. This new allocation, called the Texas Home Sweet Loan Program, will assist individuals or households whose annual income does not exceed 80% Area Median Family Income (AMFI) purchase homes. Anticipated release date for this program is October 2006.

The Corporation is confident that this allocation will be fully utilized by borrowers at 80% AMFI or below. Over 60% of all loans originated through the 2005 and 2006 Programs served borrowers at 80% AMFI or below. In the 2005 Program Year, 259 loans totaling \$26.8M went specifically to borrowers at this income level. With Program Year 2006 not yet over, the Corporation has to date assisted 188 borrowers at this income level, totaling \$20.4M.

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, the Corporation allocated over \$9.6 million to targeted areas. To date, 73 loans totaling \$8.6 million have been committed.

2007 IMPLEMENTATION PLAN

The Corporation's primary goal for 2007 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 2006 and 2007.

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. In fact, the Corporation has submitted an application, totaling \$100 million, to the Texas Bond Review Board requesting additional volume cap to specifically serve qualifying borrowers under the Professional Educators Home Loan Program. The outcome of this application is still to be determined.

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 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.

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 will 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.

The Corporation and Ameriquest believe homebuyer education is an essential component to the success of home ownership. Under the Program, borrowers will be 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 52 loans to individuals and families who otherwise might not have achieved the dream of home ownership.

2007 IMPLEMENTATION PLAN

The initial release of the Program in 2004 was limited to south Texas through a local affordable housing provider (CDC Brownsville). In 2005, the Corporation released the Program statewide and continues to market the program to local community development corporations, non-profits and other entities involved

in affordable housing. The Corporation will also begin an aggressive marketing campaign in 2006 and 2007, by starting a 1-800 phone number in conjunction with an on-line application system and through the issuance of press releases and other marketing materials.

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 2006 was approximately \$40 million, and a similar amount will be available for 2007. Nonprofit and for profit developers can use the funds to finance 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 RFP, subject to available allocation.

The Corporation issued requests for proposals in 2006 to Developers for the provision of rural, senior, rehab, and hurricane-affected area multifamily housing. The Corporation did not receive proposals in response to these four statewide requests for proposals.

2007 IMPLEMENTATION PLAN

In previous years, the Corporation targeted multifamily housing by specific geographic areas and by housing need and attempted to meet these targets by issuing requests for proposals per development. Attempting to meet targeted housing needs by issuing requests for proposals per development has not been as efficient or effective as the Corporation had hoped. As a result, for the 2007 program the Corporation will issue a single request for proposals to Developers who, if chosen, would agree to meet the Corporation's targeted housing needs by using the Corporation's entire bond cap allocation. Choosing one or more developers to receive the allocation will enable the Corporation to partner with the developers to meet the specific housing needs of the State.

The targeted areas of housing need would still include targets such as rehabilitation, senior housing, supportive housing, rural housing pools, hurricane-affected areas, or migrant farm worker housing. These targeted areas are based on current research and information received in previous 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. Similarly, Corporation staff has identified senior housing and migrant farmworker housing as potential target areas for which specific requests for proposals could be issued.

For some of the targeted areas of housing need mentioned above, 4 percent tax credits and tax-exempt bonds together are not sufficient to provide a positive cash flow to 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. Possible sources of funds may include monies from the HOME and Housing Trust Fund programs, USDA/Rural Housing Service, and grants from other interested groups specific to the housing need.

The Corporation will issue the requests for proposals to Developers, which will include the targeted areas of housing need, in November of 2006.

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 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 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, Inc. and the Federal Home Loan Bank of Dallas have been the Corporation's principal partners for this program.

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 have provided 412 units of affordable housing to low income Texans.

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The Corporation is committed to administering and marketing our capabilities under this program in 2007. To this effort, the Corporation will market the program on its website and at public hearings across the state and will provide information to current and previous clients of the Corporation.

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.

The Corporation is currently providing asset oversight for 133 properties and compliance oversight for 35 properties. In May of 2006 TDHCA contracted with the Corporation to provide asset oversight services for multifamily properties financed through their bond program. As a result, the Corporation is performing asset oversight services for 54 more properties than last year and has added an additional staff person to help perform these added duties. The Corporation staff performs annual on-site compliance reviews and at least yearly on-site asset oversight reviews for these properties.

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The Corporation will continue to provide asset oversight and compliance monitoring for our current portfolio. The Corporation will also work to contract with other entities to expand our asset oversight and compliance monitoring portfolio of business.

GRANT PROGRAM

Although the Corporation has been a 501(c)(3) nonprofit entity since 2001, the Corporation had not actively pursued fundraising and grant opportunities until this year. A number of program shortfalls made it clear the contribution a grant program could make to the success of our affordable housing programs. First, the Corporation provided the Single Family Professional Educator, Fire Fighter, Police Officer and Security Officer Programs \$400,000 from its cash reserves for down payment assistance in 2002, \$200,000 in 2004, and over \$400,000 in 2005. In addition, for the 2004 Private Activity Bond Program the Corporation provided from cash reserves a \$500,000 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, 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 and Land Acquisition Program.

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 addition, the Corporation received a low-interest loan from Wells Fargo for three areas: the Interim Construction and Land Acquisition Loan Program, Single Family Down Payment Assistance, and Multifamily Gap Financing Assistance.

2007 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. In 2007 the Corporation, through its newly hired Manager of Marketing and Development, will execute its Fundraising and Grant Program Action Plan and will use the \$1.05 million award from Wells Fargo to further affordable housing in the state. 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 2007.