

TEXAS STATE AFFORDABLE HOUSING CORPORATION

ANNUAL ACTION PLAN 2009

According to Section 2306.0721(g), the Texas State Affordable Housing Corporation (“Corporation”) Annual Action Plan must be included as part of the 2009 State Low Income Housing Plan (“SLIHP”).

OVERVIEW

This report is prepared in accordance with Texas Government Code, Section 2306.566, which requires the Texas State Affordable Housing Corporation (“Corporation”) to develop a plan to address the state’s housing needs and provide the plan to the Texas Department of Housing and Community Affairs (“TDHCA”) for incorporation into the resource allocation plans in the State Low Income Housing Plan (“SLIHP”). In accordance with Section 2306.0722(b), TDHCA will provide the needs assessment information compiled for the report and plan to the Corporation. Additionally, the Corporation's plan must include specific proposals to help serve rural and other underserved areas of the state. In coordination with the Corporation, TDHCA will 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.

The corporation shall review the needs assessment information provided to the corporation by the department under Section 2306.0722(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.

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 2001, the Corporation has issued over \$304 million in single family and approximately

\$540 million in multifamily mortgage revenue bonds. 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

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

- 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.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 \$20,000 per year to \$60,000.¹⁰
- The base salary for Texas police officers ranges across the State, but on average ranges from \$30,000 per year to \$62,000.¹¹
- The base salary for Texas correctional officers ranges from \$25,416 per year to \$33,936.¹²
- The base salary for Texas juvenile correctional officers ranges from \$17,376 per year to \$54,765.¹³

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
- 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

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/salarymay08.pdf>.

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.

¹⁷ Ibid.

- In the 2005-2009 State of Texas Consolidated Plan, it is estimated that 2 million people or 9.9 percent 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 percent of all elderly households pay more than 30 percent of their income on housing with 14 percent paying more than 50 percent 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 percent are living below the poverty level; 83,454 low-income households live with the cost burden of paying more than 30 percent 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 percent) 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

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.

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

- 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

SINGLE FAMILY MORTGAGE REVENUE PRIVATE ACTIVITY BOND PROGRAMS

The Corporation Administers the Professional Educators, Homes for Texas Heroes, and Home Sweet Texas Loan Programs. 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 allocate approximately \$60 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 (\$30 million) and Fire Fighters, EMS Personnel, Law Enforcement Officers Corrections Officers, and Public Security Officers (\$26 million) who are first-time home buyers.

In 2006 the Corporation created the Home Sweet Texas Loan Program which is funded by applying for 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. Borrowers must meet income and purchase price limits set by the Corporation, while meeting standard mortgage underwriting requirements demonstrating credit worthiness. The borrower must also occupy the purchased home as his or her primary residence.

Through each Program, eligible borrowers are able to apply for a 30 year fixed rate mortgage loan and receive down payment assistance in the form of a grant. The programs are accessible to eligible borrowers by directly contacting a trained, participating mortgage lender.

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. Over 2800 individuals and families have become homeowners through the assistance offered by the Corporation.

2009 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 2009.

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.

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.

2009 IMPLEMENTATION PLAN

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. The Corporation has created a loan loss reserve pool that can act as insurance on the repayment of funds to investors. The Corporation lent \$750,000 to create 57 homes in the first year of program operations and intends to lend at least 70 percent of its available loan pool to qualified affordable housing developments annually. The Corporation has also created 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 2008 was approximately \$45 million and a similar amount will be available for 2009. 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 2008 to Developers for the provision of rural, senior, preservation of at-risk housing (rehabilitation) and supportive housing. The Corporation received two applications but did not issue bonds this year. Since 2003, the Corporation has awarded \$49,200,000 to create or preserve 1,258 units of affordable rental housing.

2009 IMPLEMENTATION PLAN

The targeted areas of housing for 2009 are Preservation of At-Risk Housing, Assisted Living, Supportive Housing, Hurricane Effected Areas and Rural Housing. These targeted areas are based on current research and information received throughout the last few years.

Most recently, the Corporation conducted an electronic survey with housing stakeholders and conducted an analysis of housing production by state and local bond issuers. The Corporation also reviewed regional market studies from the Texas A&M Real Estate Center. The 2009 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.

The Corporation is currently updating its 501(c)(3) bond program policies.

2009 IMPLEMENTATION PLAN

The Corporation will monitor market conditions but does not anticipate issuing new bonds under the program in 2009. 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 \$7 million in financing to over 1,800 units of affordable housing since the program's inception. To ensure the Corporation can continue to provide flexibility in its financing strategy, new policies for the program were approved in December 2007.

2009 IMPLEMENTATION PLAN

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 146 properties and compliance oversight for 40 properties²⁴. 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:

²⁴ As of January 1, 2009

| | | |
|------|----------------|--------------|
| 2006 | 73 site visits | 16,956 units |
| 2007 | 86 site visits | 19,727 units |
| 2008 | 99 site visits | 22,279 units |

2009 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

As a 501(c)(3) nonprofit entity, the Texas State Affordable Housing Corporation can actively pursue fundraising and grant opportunities. Since 2006, the Corporation has been making considerable strides to fundraise for new programs, such as the Texas Foundations Fund, the Interim Construction and Land Acquisition Program and the HomeWorks Loan Program. In addition, the Corporation actively fundraises for other Texas initiatives, such as the Texas Foreclosure Prevention Task Force and the Texas Statewide Homebuyer Education Program.

To date, the Corporation has received \$1.5 million in grants and donations.

2009 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.

HOMEWORKS PROGRAM

The Corporation created HomeWorks, an employer assisted housing program, in April of 2008. 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. Such programs can enhance existing businesses by offering incentives not otherwise possible to employees they would like to recruit and retain.

This program is a partnership between the Corporation and participating employers and their employees. HomeWorks offers a 30-year fixed rate mortgage through the mortgage lender of the borrower's choice.

The program offers up to \$4,000 in matching funds for down payment and closing cost assistance courtesy of the Corporation and participating employers across Texas.

The Corporation and the employer match dollar for dollar, up to \$2,000 each, of an employee's contribution toward down payment and closing costs. Matching assistance is provided to the employee in the form of a 3-year deferred forgivable second lien loan (*33.33 percent 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.

Participating employers 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 (80 percent AMFI or below) and purchase price limits set by the Corporation, while meeting standard mortgage underwriting requirements demonstrating credit worthiness. The employee must also occupy the purchased home as his or her primary residence.

2009 IMPLEMENTATION PLAN

The Corporation will continue to have discussions with interested employers across the State. The Corporation is committed to assisting borrowers bridge the gap to homeownership while strengthening the economic viability and stability of the State. The Corporation will also continue its funding raising efforts to secure additional funding for this program.

TEXAS FOUNDATIONS FUND

The Corporation created the Texas Foundations Fund (TFF) in early 2008 to improve the living standards of Texas residents of very low-income and extremely-low income, specifically those at 50 percent or below of the area median family income.

TFF provides grants of up to \$50,000 to nonprofit organizations and rural governmental entities (or their instrumentalities) for the construction, rehabilitation, and/or critical repair of single family homes for homeowners who are Texas residents of very low-income or extremely low-income, with a particular emphasis on serving very low-income disabled and rural Texans and the provision of additional supportive housing services for very low-income residents of multifamily apartment complexes.

The Corporation accepts eligible project proposals through a competitive process. A notice of funding availability is published on an annual basis when the Board of Directors determines that sufficient funds exist to award grants. Proposals are first considered by the Corporation's Advisory Council, whose members are appointed by the Corporation's Board of Directors, with final approval provided by the Board of Directors.

In October 2008, five \$50,000 grants were awarded to the following organizations: Affordable Homes of South Texas, Foundation Communities, Midland Habitat for Humanity, Brazos Valley Affordable Housing Corporation, and United Cerebral Palsy of Texas.

2009 IMPLEMENTATION PLAN

The Corporation awarded the first round of Texas Foundations Fund grant awards in October 2008 to five nonprofit organizations located throughout the state of Texas, whose projects range from the construction or critical repair of single family housing to the provision of supportive services for residents recovering from drug and alcohol abuse.

In total, we calculate the projects will assist more than 100 families and 500 individuals. An emergency second round of funding, which will support very low income residents affected by Hurricanes Ike and Dolly, will be disbursed in January 2009. The Corporation has funded the first two rounds of funding using revenue generated through its other programs. While our Board of Directors will determine how much revenue the Corporation will contribute to the third round of Texas Foundations Fund awards, we estimate that we will be able to fund at least two grant awards in the third round and will fundraise to make additional awards

NEW PROGRAM INITIATIVES FOR 2009

MORTGAGE CREDIT CERTIFICATE PROGRAM

As a result of a decline in bond market conditions and limited investor demand for housing bonds, the Corporation is exploring alternative mechanisms to offer borrowers an affordable tool when purchasing a home. The Corporation is in the process of creating a Mortgage Credit Certificate (MCC) Program.

An MCC is a federal income tax credit designed to assist persons of low to moderate income to better afford individual ownership of housing. With an MCC, the qualified homebuyer is eligible to write off a portion of the annual interest paid on the mortgage as a special tax credit, not to exceed \$2,000, during each year that they occupy the home as their principal residence. The portion or amount of the tax credit is equal to the mortgage credit rate on the MCC multiplied by the annual interest paid. This credit reduces the federal income taxes of the buyer, resulting in an increase in the buyer's net earnings. Increased buyer income results in increased buyer capacity to qualify for the mortgage loan. The MCC has the potential of saving the MCC holder thousands of dollars over the life of the loan.

This MCC Program would be eligible to any borrower eligible under our Professional Educators, Homes for Texas Heroes, and Home Sweet Texas Loan Programs. The same requirements will be applicable for qualifying for an MCC as they are for qualifying for one of the Corporation's mortgage revenue private activity bond programs.