TEXAS STATE AFFORDABLE HOUSING CORPORATION
2012 ANNUAL ACTION PLAN

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INTRODUCTION

This plan 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. According to Section 2306.0721(g), the Corporation's Annual Action Plan must be included in the 2012 State Low Income Housing Plan ("SLIHP") prepared by the Texas Department of Housing and Community Affairs ("TDHCA").

In accordance with Section 2306.0722(b), TDHCA will provide the needs assessment information compiled for the SLIHP report to the Corporation. In addition to addressing the needs in general, the Corporation's plan must include specific proposals to help serve rural and other underserved areas of the state.

CORPORATION OVERVIEW

The Texas State Affordable Housing Corporation, created in 1994 by the Texas State Legislature, is a self-sustaining non-profit entity whose mission is to serve the housing needs of low, very low and extremely low-income Texans and other underserved populations who do not have comparable housing options through conventional financial channels. The Corporation's enabling legislation can be found in Texas Government Code, Chapter 2306, Subchapter Y, Sections 2306.551 et seq.

The Corporation's only office is located in Austin, Texas. A five-member Board of Directors, appointed by the Governor, oversees the business of the Corporation. In addition, the Corporation has a five-member Advisory Council appointed by the Board of Directors. The Advisory Council assists with fundraising activities and reviews and recommends to the Board the funding of grant applications under the Texas Foundations Fund program. None of the Corporation's programs and operations are funded through the State's appropriations budget process.

The Corporation is statutorily authorized to issue mortgage revenue bonds and other private activity bonds to finance the purchase and creation of affordable housing. Over the course of its history, the Corporation has utilized over $700 million in single family and approximately $540 million in multifamily bonding authority. Bond issuances are used to finance the creation and preservation of affordable multifamily housing and the following first-time homebuyer programs:

- Professional Educators Home Loan Program
- Homes for Texas Heroes Program
- Home Sweet Texas Loan Program
- Mortgage Credit Certificate Program

Using its mission as guidance, the Corporation has developed the following additional programs and activities to help meet the needs for affordable housing in Texas:

- Direct Lending
- Affordable Communities of Texas
- Asset Oversight and Compliance
- Texas Foundations Fund
- Foreclosure Prevention
- Development

CORPORATION OBJECTIVE

Since its inception, the Texas State Affordable Housing Corporation's mission has been to serve the housing needs of low, very low and extremely low-income Texans and other underserved populations. However, given its relatively small size and limited funding sources, the Corporation determined in 2010 it could be more effective in meeting its mission if it defined the underserved populations it will strive to serve. Using feedback from its Board, stakeholders, funders, and staff, the Corporation developed a strategic plan that identifies people with disabilities and people living in rural areas of the state as the populations it will aim to serve.

A review of the housing analysis included in the annual State Low Income Housing Plan and other published studies on housing needs provides a picture of the critical need for affordable housing throughout Texas and provides statistical information on the housing challenges faced by special needs and other underserved populations. Research conducted by the national Housing Task Force of the Consortium for Citizens with Disabilities found that as many as 2.4 million households with disabilities have "worst-case housing needs," defined by the United States Department of Housing and Urban Development ("HUD") as unassisted renters with income below 50% of their area's median income who pay more than half of their income for housing or live in severely substandard housing, or both. Similarly, the incidence of poverty is much higher for persons ages 25 to 64 with a severe disability or non-severe disability as compared to no disability.

In conjunction with the Association of Rural Communities in Texas ("ARCIT"), the Corporation conducted a Rural Housing Survey of 1,400 rural government officials in 2010. Although the response rate was just under 10%, the respondents provided insight on housing challenges in their communities, such as the need for affordable single family homes. For example, less than 8% of rural communities who responded have a local housing finance corporation, city or county housing department, or non-profit housing developers. Additionally, almost one-third of respondents stated that no organizations in their community currently address or create affordable housing.

In 2012, the Corporation's objective will continue to be to explore ways it can modify current programs to help serve more people with disabilities and those living in rural areas.

PROGRAM DESCRIPTIONS AND IMPLEMENTATION PLANS

FIRST-TIME HOMEBUYER PROGRAMS

Research shows that homeownership provides numerous economic and social benefits to families and their communities. Neighborhoods with higher rates of homeownership often have lower crime rates, more civic participation, better health and educational outcomes for children, and lower rates of teen pregnancy. One study found that homeownership especially benefits children from lower-income families.[1]

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 are allocated 10 percent of the State's Private Activity Bond Cap for the exclusive purpose of making single family mortgage loans to Texas professional educators and fire fighters, EMS personnel, law enforcement officers, corrections officers, county jailers and public security officers who are first-time home buyers.

In 2006 the Corporation created the Home Sweet Texas Loan Program which is funded by applying for mortgage revenue bonding authority not used by other bond issuers after a specified date. The Home Sweet Texas Loan Program is available statewide to those at or below 80 percent of the area median family income.

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 federal guidelines, while meeting standard mortgage underwriting requirements and 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 may receive down payment assistance in the form of a grant. The programs are accessible to eligible borrowers by directly contacting a participating mortgage lender.

Since the inception of the Professional Educators Home Loan Program in 2001, the Homes for Texas Heroes Home Loan Program in 2003, and the Home Sweet Texas Loan Program in 2006, the Corporation has seen the demand for these programs steadily increase. Over 3,700 individuals and families have become homeowners by utilizing these programs.

In 2009 the Corporation established the Mortgage Credit Certificate ("MCC") Program as another option for eligible first-time homebuyers. The MCC Program is made possible by converting Single Family Mortgage Revenue Bonds into mortgage credit certificates. The Corporation's MCC Program serves the same populations as the three home loan programs described above.

Under the MCC Program, the qualified homebuyer is eligible to take a portion of the annual interest paid on the mortgage as a special tax credit, up to $2,000 each year that they occupy the home as their principal residence. An MCC has the potential of saving the homebuyer thousands of dollars over the life of the loan. And although the MCC Program is not a home loan program, the homebuyer is required to have a fixed rate mortgage loan. To date, the Corporation has served 1,600 first-time homebuyers under the MCC Program.

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[1] **Source: National Association of Realtors, Research Division, "Social Benefits of Homeownership and Stable Housing" August 2010, p. 1-14. (This is a synthesis of other studies, not research conducted by the National Association of Realtors)**

Every homebuyer who utilizes one of the Corporation's first-time homebuyer programs must complete a homebuyer education course prior to closing on the purchase of their home. Several studies show that pre-purchase counseling can significantly reduce the delinquency rate for homeowners who participate as well as improve their financial decision-making over time.[2]

2012 Implementation Plan

In 2012 the Corporation plans to continue to offer its programs for first-time homebuyers, which entails developing a bond financing structure that is appealing to bond investors but also minimizes the programs' mortgage interest rates and offers the best possible down payment assistance to the borrowers. Although conventional mortgage rates have reached historic lows, the Corporation finds that down payment assistance is still especially critical to the demographic it serves. Given the success and demand for the Mortgage Credit Certificate Program, the Corporation will continue to provide this program as another alternative for homebuyers. If, due to market conditions, the Corporation is unable to issue bonds for the home loan programs in 2012, then other avenues to assist first-time homebuyers will be explored.

Above and beyond the statutory requirements of the programs, the Corporation plans to explore ways to increase homeownership for households in which one or more members have a disability and for those households in rural areas of the state. The Corporation also will work to broaden the reach of the programs through the recruitment of additional lenders, especially in areas of the state with low utilization of the programs.

For many years, the Corporation has promoted and supported successful homeownership not only through its first-time homebuyer programs but by also by supporting the Texas Statewide Homebuyer Education Program administered by the Texas Department of Housing and Community Affairs ("TDHCA"). In 2010, the Corporation created an online educational tool that provides step-by-step information on the home buying process, information about mortgage rates, and a glossary of mortgage terms in both English and Spanish. This tool, available on www.tsahc.org, also estimates the potential interest rate a homebuyer can expect based on their FICO score.

In 2012, the Corporation will expand this online resource to include a directory of all nonprofit housing counseling organizations across Texas and a calendar of the homebuyer education, financial education, credit counseling and foreclosure prevention counseling classes and workshops offered by the nonprofits. This is a tool that is not currently available in Texas and we hope it will provide valuable information for Texas consumers.

Foreclosure Prevention

The Corporation is a founding member of the Texas Foreclosure Prevention Task Force ("Task Force") and has supported the Task Force by providing ongoing fundraising and program administration services. Since the creation of the Task Force in 2008, the Corporation has raised approximately $930,000 to support statewide foreclosure prevention efforts.

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[2] Source: Steven P. Hornburg, "Strengthening the Case for Homeownership Counseling: Moving Beyond A Little Bit of Knowledge," Joint Center for Housing Studies, Harvard University, December 2004. p. 28.

For example, the Corporation supports the Task Force's statewide foreclosure outreach initiatives, which encourage homeowners facing foreclosure to seek assistance from a local HUD-approved housing counseling agency. Performing outreach to delinquent homeowners is particularly important in Texas, where the foreclosure process can take as few as 41 days to complete. These outreach initiatives include producing and distributing the Texas Foreclosure Intervention Resource Guide, providing funding to support local foreclosure prevention workshops, and administering a loan modification scam alert campaign to help homeowners identify and avoid mortgage loan modification scams.

In addition, the Corporation administers public and private funding to support foreclosure prevention counseling sessions for delinquent borrowers. The Corporation also administers the State of Texas' National Foreclosure Mitigation Counseling ("NFMC") Program in partnership with TDHCA. The NFMC Program is a federal program that provides funding for foreclosure counseling services.

Since 2008**,** the Corporation has administered funding to local HUD-approved housing counseling agencies to support approximately 5,750[3] foreclosure prevention counseling sessions for Texas homeowners at risk of foreclosure. This funding has allowed participating counseling agencies to increase their capacity and ensure counseling services remain free for the homeowners who need them.

Statistics collected on the effectiveness of foreclosure prevention counseling show that counseling is an important tool in helping homeowners avoid foreclosure A study released in early 2011 by the Urban Institute concludes that homeowners who receive counseling are 70% more likely to avoid foreclosure than homeowners who don't.

2012 Implementation Plan

In its annual forecast in December 2011 financial information and risk management firm TransUnion said it expects nationwide mortgage delinquencies in 2012 to drop to about 5% from 5.9%. Although the decline in expected mortgage delinquencies is encouraging news, nationwide mortgage delinquency rates have historically been at around 1.5% to 2%, but soared as high as 6.9% during the recent recession. Since its peak at the end of 2009, the rate has slowly gone down but is still well over normal levels.

As a result, the Corporation plans to continue its fundraising efforts to support foreclosure prevention counseling and other foreclosure prevention activities in Texas. The Corporation also plans to support new initiatives adopted by the Task Force's leadership committee in 2012 and hopes to continue to partner with TDHCA to explore any federal funding available for foreclosure prevention in 2012.

Direct Lending Programs

The Corporation operates two lending programs that provide financing to developers for the construction or redevelopment of housing that serves the needs of low-, very low- and extremely

[3] As of November 8, 2011

low-income Texans in rural and underserved communities. All homes or apartments built using the Corporation's funding must be affordable to households earning 80% or less of the area median income and must meet the Corporation's housing construction standards.

Since 2003 the Corporation has awarded more than $8.5 million in loans for rental home development, and more than $1.7 million for single-family homeownership development. In 2007, the Corporation committed $2 million for a revolving loan fund and has since focused its efforts on providing loans leveraging additional funds from the Federal Home Loan Bank of Dallas, Wells Fargo Bank, the Meadows Foundation and the Community Development Trust.

Loan Production	2011	Total
Loans Made	2	16
# of Single Family Homes	15	99
# of Rental Units	50	1945
Total Amount of Loan Funds Approved	$950,000	$11,046,287
Total Value of Constructed Properties	$1,275,000	$113,460,000
Estimated Jobs Created[4]	64	1257

2012 Implementation Plan

The Corporation's direct lending program has experienced steady growth over the past three years and we expect the program to continue to grow in 2012. With its current sources of funding, the Corporation has kept up with demand from those developers seeking short-term loans. In 2011, the Corporation became the first correspondent lender for the REO Capital Fund in Texas, which will provide the Corporation with the ability to leverage up to $10 million in additional financing for short term acquisition and construction loans. However, the Corporation anticipates funding to be much less available for longer term rental developments under our direct lending program. In order to ensure continued growth of the program, the Corporation will make efforts to acquire additional sources of capital for long-term lending. This will likely take the form of other correspondent or partnership lending agreements with partner banks, CDFIs or government agencies.

Affordable Communities of Texas Program

The Affordable Communities of Texas ("ACT") program works to stabilize communities experiencing high rates of foreclosure by working with nonprofit and government agencies in Texas to acquire and redevelop foreclosed homes, vacant land and tax foreclosed properties. The Corporation has created a network of local nonprofit partners which grew from three in 2009 to nineteen in 2011. These local partners work with program staff to identify available foreclosed properties in their communities, complete due diligence, and—using funds from the Corporation in some cases—facilitate the purchase of the target properties. The Corporation land bank's most properties and works with the local partners to complete redevelopment or construction of homes which will be sold or rented to low-income households.

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[4] **Using estimate of $94,000 per job created, the mid-point of the federal range formula for calculating job creation ($92,000 - $96,000)**

The ACT program has primarily been funded with grants the Corporation received as well as more than $6.2 million received through the federally-funded Neighborhood Stabilization Program ("NSP") administered in Texas by TDHCA.

By the end of 2011, the Corporation had purchased more than 300 homes and vacant lots.

The ACT program also incorporates a Buyer's Agent initiative, wherein the Corporation provides to local partners foreclosed property listings available through its participation in the National Community Stabilization Trust ("NCST"). The Corporation is the only statewide coordinating agency in Texas for NCST.

2012 Implementation Plan

The ACT program has far exceeded its original program targets for funding utilization and unit acquisitions. The ACT program has proven to be a good model for creating affordable housing for low-income families, increasing the capacity of nonprofit local partners and providing a viable alternative to traditional property acquisition strategies. Several local partners for the program are in rural areas of the state or provide housing for people with disabilities, and the Corporation will work to encourage even more housing activity that assists those two underserved populations through the ACT program. In 2012, the Corporation will continue to work with existing local partners to complete the purchase and redevelopment of properties. The Corporation will also make efforts to increase the number of local partners, especially in areas of the state where a local partner is currently not involved with the program.

Multifamily Bond Programs

The Corporation's Multifamily Bond program encourages private investment in the construction or rehabilitation of affordable rental housing through the issuance of tax exempt private activity bonds ("PAB"). As a conduit issuer (i.e., the Corporation does not invest its or the State's funds in developments) it receives 10 percent of the State's multifamily PAB allocation each year (which is expected to be approximately $53 million in 2012). The Corporation makes available to developers its multifamily PAB allocation each year through a Request For Proposals application process.

In 2011, the Corporation issued more than $47 million in multifamily PABs for the acquisition and rehabilitation of 1,732 affordable multifamily housing units in four communities. The Corporation increased its portfolio of PAB financed multifamily properties to more than $97 million in bond funds and more than 2,900 in total units.

2012 Implementation Plan

Financial market conditions over the last three years left investors with little interest in multifamily private activity bonds. This lack of interest made multifamily bond programs an unattractive financing tool for developers across the state. In 2011, the Corporation was pleased to see renewed interest in multifamily private activity bonds with its issuance of $47 million in bonds for the HDSA development. The Corporation is optimistic that interest in the program will only increase in 2012 and that it will be able to finance new construction or acquisition/rehab multifamily projects.

The Corporation's Board of Directors is required by statute (Texas Government Code 2306.565(b)) to identify and adopt target areas of housing need within Texas for the allocation of multifamily PABs. Public comment regarding the program target areas and guidelines was requested during the fourth quarter of 2011. The Board has formally adopted the following target housing needs and will only approve funding applications that fulfill at least one of the following targeted housing needs:

- *Preservation and Rehabilitation of At-Risk Rental Housing*: The preservation and rehabilitation of existing affordable rental housing developments is defined as existing affordable housing in need of significant structural repairs and mechanical systems updates.
- *Rural and Smaller Urban Markets Housing*: Rural rental housing developments must be located within an area that is outside the boundaries of a primary metropolitan statistical area ("PMSA") or metropolitan statistical area ("MSA"); or within the boundaries of a PMSA or MSA, if the area has a population of 20,000 or less and does not share a boundary with an urban area. Smaller Urban rental housing developments must be located within a city of less than 100,000 persons, but not within or adjacent to a PMSA or MSA of more than 500,000 persons.
- *Disaster Relief Housing:* The Corporation shall consider any eligible multifamily residential rental housing development, including rehabilitation and new construction, located in any one or more Texas counties identified in a Federal Emergency Management Agency disaster declaration.
- *Senior and Supportive Housing Developments*: Senior and Supportive Housing Developments must meet at least one of the following definitions:
  - A proposed development that meets the requirements of the federal Fair Housing Act and: a) is intended for, and solely occupied by, individuals 62 years of age or older; or b) is intended and operated for occupancy by at least one individual 55 years of age or older per unit, where at least 80% of the total housing units are occupied by at least one individual who is 55 years of age or older; and where the owner publishes and adheres to policies and procedures which demonstrate an intent by the owner and manager to provide housing for individuals 55 years of age or older. (See 42 U.S.C. Section 3607(b)); or
  - A development financed under the PAB program in accordance with limitations set by the Internal Revenue Service on Assisted Living Developments, and is a) affordable rental housing combined with minimal medical or supportive services; b) targeted to persons with disabilities, but with at least 60% of units open to any qualified renter; and c) at least 10% of the units are affordable to persons earning less than 30% of the area median income; or
  - A development that will be primarily marketed to high risk populations and will include common space for intensive supportive services to be provided on-site. This may include developments targeted to at-risk youth populations, persons facing homelessness, or other special needs populations, as approved by the Corporation. Supportive Housing Developments must be designed so that at least 30% of all units are accessible to persons with mobility impairments as defined by the Fair Housing Accessibility Design Standards.

ASSET OVERSIGHT AND COMPLIANCE

Asset oversight and compliance monitoring of multifamily properties financed through multifamily tax-exempt bonds is required by many bond issuers, including the Corporation. In addition, the Corporation requires asset oversight and compliance monitoring of multifamily properties financed through its Direct Lending Program. We believe these important reviews are one of the best ways to ensure properties are providing safe and decent affordable housing to their residents.

Through the activity of asset oversight, the Corporation monitors the financial and physical health of a property and provides suggestions to property owners and managers for improvement. Asset oversight staff conducts an annual on-site inspection of each property and issues an annual report on each property. Reports are submitted to property owners, managers, and other stakeholders and are available online at www.tsahc.org.

Compliance monitoring ensures that property owners and managers 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. The Corporation has an online reporting system that allows each property manager to complete the Certificate of Continuing Program Compliance and report resident services activities monthly. Annual 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.

In 2011, the Corporation provided asset oversight and compliance reviews for 29 bond-financed properties with a total of 5,148 units.

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The Corporation will continue to provide asset oversight and compliance monitoring services to the properties in its current bond and direct lending portfolio. The Corporation's compliance policy was updated in late 2011 and will be implemented in 2012. The compliance policy was updated to include a "Notice to Residents of Assistance Available for Resolving Health and Safety Issues." Once the policy is implemented, residents of properties financed through the Corporation's multifamily bond program will know to contact Corporation staff to report serious health and safety issues that are not being resolved in a timely manner by property managers and owners. Corporation staff will investigate any complaint and attempt to resolve the issue by working with property management and owners. Corporation staff will contact city code enforcement personnel after other resolution options have been exhausted.

The Corporation will continue to regularly review its programs and policies to identify ways to increase the performance of the properties under review. In addition, the Corporation plans to continue to market its asset oversight and compliance capabilities to other organizations and public agencies.

Texas Foundations Fund

The Corporation created the Texas Foundations Fund ("TFF") in early 2008 to make grants aimed at improving 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. Funding for the TFF comes from the Corporation's own income and private funds raised.

TFF provides grants of up to $50,000 to nonprofit organizations and rural governmental entities (or their instrumentalities) for (i) the construction, rehabilitation, and/or critical repair of single family homes for Texas homeowners, with a particular emphasis on serving people with disabilities and rural Texans and (ii) the provision of supportive housing services for residents of multifamily rental units.

The Corporation accepts and evaluates eligible project proposals through a competitive process. A notice of funding availability ("NOFA") is published on an annual basis if 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.

The Corporation has completed four award cycles of the Texas Foundations Fund. Nineteen applicants have been awarded $50,000 each to carry out eligible activities, totaling $950,000. Four of the nineteen awards were given to entities specifically for the purpose of assisting individuals who experienced damage due to Hurricanes Ike and Dolly.

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The Corporation anticipates conducting a funding round of the Texas Foundations Fund program in mid-2012. Prior to a funding round, the Corporation's Board of Directors determines the amount available for grants based on income and private funding received. In addition, program staff and the Advisory Council members will review TFF program guidelines prior to a NOFA being released to determine if any changes are needed based on feedback from stakeholders.

Development

As a 501(c)(3) nonprofit entity, the Texas State Affordable Housing Corporation actively pursues grants and other investments from corporations, private foundations and government entities. The Corporation's development program, established in 2006, works to fundraise for programs such as the Texas Foundations Fund, Direct Lending, and Affordable Communities of Texas. In addition, the Corporation actively fundraises for other initiatives, such as the Texas Foreclosure Prevention Task Force and the Texas Statewide Homebuyer Education Program administered by TDHCA.

In addition to grants, the Corporation actively pursues program-related investments ("PRIs") for its Direct Lending program. PRIs are low-cost loans and equity investments provided at below-market rates by foundations and financial institutions to support charitable activities.

Since 2006, the Corporation has raised $2.8 million in grants and PRIs from corporations, individuals and foundations.

2012 Implementation Plan

In 2012, the Corporation plans to continue to apply for grants and program-related investments from existing supporters, as well as funding partners that can further its ability to assist underserved populations in attaining affordable housing. The Corporation also plans to revamp its strategic fundraising plan to better focus its human resources on growing the development program of the Corporation.