

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD ACTION REQUEST

November 13, 2008

Action Item

Presentation, Discussion and Possible Approval of the Neighborhood Stabilization Program Action Plan.

Requested Action

Approve, Deny or Approve with Amendments the Substantial Amendment to the State of Texas 2008 CDBG Action Plan for the Neighborhood Stabilization Program and Approval of changes to the Action Plan based on public comment made prior to final submission to HUD on December 1, 2008.

Background

The Neighborhood Stabilization Program (NSP) is a HUD-funded program authorized by HR3221, the "Housing and Economic Recovery Act of 2008" (HERA), as a supplemental allocation to the Community Development Block Grant (CDBG) Program through an amendment to the existing State of Texas 2008 CDBG Action Plan. The purpose of the program is to redevelop into affordable housing or acquire and hold abandoned and foreclosed properties in areas that are documented to have the greatest need for declining property values as a result of excessive foreclosures.

Texas will receive approximately \$173M, \$71M of which has already been identified by HUD as a direct allocation to 13 cities and counties with the greatest need as determined by HUD. The Texas Department of Housing and Community Affairs along with the Office of Rural and Community Affairs (ORCA) and the Texas State Affordable Housing Corporation (TSAHC) will work together to administer the remaining \$102M funds with TDHCA taking the lead role. TDHCA has updated the counties of greatest need using the HUD NSP formula. Initially the Department proposes to further distribute the funds as follows:

TDHCA Direct Awards	\$ 51M
Select Pool	\$ 31M
TSAHC Land Bank	\$ 10M
Administration	<u>\$ 10M</u>
Total Statewide Funds	\$102M

HUD's initial minimum funding level threshold for individual communities was \$2M in order to concentrate on the highest need areas but their initial allocation was not intended to limit these areas from receiving additional funds from the State allocation. HUD requires that the State allocation be used for the areas of greatest need and has expressed concern about states creating a

distribution model that provides communities with small amounts of funds that have no meaningful impact on stabilization of property values in an area. As such, the Department plans to provide additional direct allocations of *not less than* \$500,000 to communities based on updated data at the county level using a modified version of HUD's formula.

The amendment to the Action Plan proposes that the Department initially set aside funds for and accept applications from communities in 101 counties listed in Exhibit 1 that have been identified as having the greatest need (based on the modified version of HUD's formula and/or the TDHCA updated data.) The amendment to the Action Plan proposes to distribute the funds via three mechanisms:

- 1) Direct Allocation provides an initial reservation amount for the 25 counties identified as having the greatest need;
- 2) Select Pool provides allocations of not less than \$500,000 on a limited competitive basis to communities in 76 additional counties identified as having the next greatest need in the state; and
- 3) Land bank activities through TSAHC provides funding in greatest need communities for a land bank activity since many local communities interested in this activity do not currently have the capacity or authority to complete such transactions.

Cities, counties and non-governmental organizations with the consent of the city or county that they wish to serve will be eligible to apply for Texas NSP funds. Applicants will be required to prove they have the capacity to administer the amount of funds requested.

The amendment to the Action Plan includes a diverse plan for the obligation of these funds due to the varied needs throughout the State. HUD anticipates additional amendments to the State Action Plan as this program gets underway; however, the Department will propose a broader plan as it will be easier to cull activities that are underperforming and expand performing activities rather than justifying entirely new activities. The following activities are proposed:

- Demolish blighted structures.
- Purchase abandoned or foreclosed homes with the intention to sell or rent properties.
- Provide financing such as mortgage financing for households earning 50% or less of the area median income or down payment and closing cost assistance for households earning up to 120% of the area median income.
- Acquire, demolish and/or rehabilitate foreclosed and blighted properties and hold properties for up to 10 years in land banks.
- Redevelop demolished or vacant properties.

The Department anticipates that HUD will approve the final plan and issue final funding authorization by February 2009 and HUD requires all funds to be obligated within 18 months of that date. This very short time period requires that the Department move quickly to allocate funds once authorization is received.

The amendment to the Action Plan calls for applications to be submitted within 30 days of notification on our website that HUD has approved the amendment to the plan. Staff is preparing the full notice and application requirements and will present those to the Board at the December meeting after receiving public comment and HUD input on the draft and after submitting the final plan to HUD on December 1, 2008. It is anticipated that initial applications will contain more detailed information about each community's specific need with additional data collected by the applicant. Entities acquiring property for redevelopment and resale will then have six months to get properties under contract and six months to close on acquisition. Contracts will include these benchmarks and strong adherence to these performance measures will be required or deobligation of unused funds must occur.

The HUD notice for this program was initially published on October 6, 2008 and it requires that the draft amendment to the Action Plan be submitted by November 15, 2008. The Department plans to publish the draft amendment to the Action Plan on the Department's web site immediately upon approval by the Board in order to solicit and receive public comment for the HUD mandated 15 day public comment period. The final Action Plan must be submitted for HUD approval by December 1, 2008. Staff will report on any refinements made to the plan as a result of public comment at the December Board meeting. Staff will also bring forward at the December meeting a request to provide contingent notice of funding or contingent request for proposals and request approval for the Texas Neighborhood Stabilization Program Guidelines – the details of the program that are in the process of being developed and refined based on the comment to be received on the amendment to the Action Plan.

Recommendation

Staff recommends approval of the Draft Substantial Amendment to the State of Texas 2008 CDBG Action Plan for the Neighborhood Stabilization Program and authorization for the Executive Director to make additional changes, as a result of public comment, to the final plan and submit such final plan by the December 1, 2008 due date.

THE NSP SUBSTANTIAL AMENDMENT **DRAFT FOR PUBLIC COMMENT**

Jurisdiction(s): State of Texas, Texas Department of Housing and Community Affairs	NSP Contact Person: Brenda Hull Address: Texas Department of Housing and Community Affairs 221 East 11 th Austin, Texas 78701
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This document is a substantial amendment to the Action Plan for FFY 2008 submitted by the State of Texas. The Action Plan is the annual update to the Consolidated Plan for FFY 2005 through 2009. This amendment outlines the expected distribution and use of \$101,996,848 through the newly-authorized Neighborhood Stabilization Program (NSP), which the U.S. Department of Housing and Urban Development (HUD) is providing to the State of Texas. The NSP funds were authorized by the Housing and Economic Recovery Act of 2008 (HERA) as an adjunct to the Community Development Block Grant (CDBG) Program.

The Texas Department of Housing and Community Affairs (TDHCA) will implement NSP funds, and will work in cooperation with the Office of Rural Community Affairs (ORCA) and Texas State Affordable Housing Corporation (TSAHC) in order to expeditiously deliver and effectively administer these funds. TDHCA will be the lead agency and manage a direct award pool for communities with the greatest need. TSAHC will operate a land bank/trust and will coordinate related activities in communities identified in the plan as having the greatest need and ORCA will co-administer with TDHCA a pool of funds for a second tier of greatest need communities.

A. AREAS OF GREATEST NEED

Section 2301 of the Housing and Economic Recovery Act of 2008 is the enabling legislation for the NSP and it specifies that NSP funds are to be allocated to areas of greatest need based on:

- (A) the number and percentage of home foreclosures in each State or unit of general local government;
- (B) the number and percentage of homes financed by a subprime mortgage related loan in each State or unit of general local government; and
- (C) the number and percentage of homes in default or delinquency in each State or unit of general local government.” Section 2301 (b)(3)

Texas identified two tiers of counties with need. Counties with the greatest need are identified as “Direct Allocation” counties. Remaining counties with significant need are eligible to apply for a pool of NSP funds and are referred to as “Select Pool” counties.

Texas has used HUD’s published methodology for its initial NSP allocations as a base for analysis of need within the State of Texas. However, the Texas NSP formula was developed with three deviations from HUD’s methodology:

- 1) Revised weights for the need factors – 60% for *Foreclosure*, 30% for *Subprime* loans, and 10% for *At-Risk* loans;
- 2) Grouping of loans 60 to 89 days delinquent with loans greater than 90 days delinquent into a single factor renamed *At-Risk*, and
- 3) Use of county to state comparisons due to the availability of most data at only the county level.

$$\begin{aligned}
 & \left| 60\% \right. \times \left| \frac{\text{County foreclosures}}{\text{State foreclosures}} \right. \times \left. \frac{\text{County foreclosure rate}}{\text{State foreclosure rate}} \right| + \\
 & 30\% \times \left| \frac{\text{County subprime loans}}{\text{State subprime loans}} \right. \times \left. \frac{\text{County subprime rate}}{\text{State subprime rate}} \right| + \\
 & 10\% \times \left| \frac{\text{County loans at-risk}}{\text{State loans at-risk}} \right. \times \left. \frac{\text{County at-risk rate}}{\text{State at-risk rate}} \right| \left| \right. \times \\
 & \qquad \qquad \qquad \frac{\text{County vacancy rate}}{\text{State vacancy rate}}
 \end{aligned}$$

As stated by HUD, the highest weight is placed on foreclosures based on the emphasis the statute places on targeting foreclosed homes. However, the Texas methodology places a higher weight on subprime loans than the HUD methodology because of the unique Texas experience. As noted in an article on the Dallas Federal Reserve website, “[In Texas a] major contributing factor to the increase in foreclosures has been the expansion of the originations of subprime mortgages...”¹ HUD’s original formula has been less successful in predicting the areas of greatest need in Texas than in other states. Increasing the weight given to the key catalyst for foreclosure activity provides a better indicator of greatest need for the State.² Vacancy rates as measured by 90 day vacant addresses were

¹ Dallas Federal Reserve. *Residential Foreclosures in Texas Depart from National Trend*. Online. Source: http://www.dallasfed.org/ca/epersp/2008/2_2.cfm. Accessed: November 7, 2008.

² Pearson correlation comparison of HUD’s county foreclosure forecast to Equifax 90-day mortgage delinquency sample data indicates a correlation of only 0.428 for Texas. The LISC foreclosure data show a 0.994 correlation to their delinquency figures. The RealtyTrac Real Estate Owned (REO) counts show a 0.912 correlation to their delinquency figures (the sum of Notice of Default (NOD), Lis Penden (LIS), Notice of Trustee Sale (NTS) and Notice of Foreclosure Sale (NFS)).

used to account for areas most likely to need assistance with the problems associated with abandoned homes due to foreclosure.

The raw data utilized in HUD's methodology was updated to the most current data available from a variety of sources:

Total Mortgages used to calculate rates was provided by LISC Research and Assessment for counties that contain CDBG Entitlement Jurisdictions, while Home Mortgage Disclosure Act (HMDA) data for the period 2004 to 2007 available from the Federal Financial Institutions Examination Council (FFIEC) was used for the remaining counties.

Foreclosures data was provided by LISC Research and Assessment for counties that contain CDBG Entitlement Jurisdictions, while Real Estate Owned (REO) data for the 24 month period preceding August 2008 from RealtyTrac was used for the remaining counties.

Subprime Loans data was provided by LISC Research and Assessment for counties that contain CDBG Entitlement Jurisdictions, while the sum of all subprime loans originated prior to May 2008 from First American Loan Performance was used for the remaining counties.

At-Risk data was provided by LISC Research and Assessment for counties that contain CDBG Entitlement Jurisdictions, while the sum of Notice of Default (NOD), Lis Penden (LIS), Notice of Trustee Sale (NTS) and Notice of Foreclosure Sale (NFS) data for the 24 month period preceding August 2008 from RealtyTrac was used for the remaining counties.

Vacancy data was provided by LISC Research and Assessment for counties that contain CDBG Entitlement Jurisdictions and by the United States Postal Service (USPS) via HUD for the remaining counties.

In HUD's methodology, a state's foreclosures, subprime loans, or at-risk loans figure is adjusted by its foreclosure rate, subprime loans rate, or at-risk rate, respectively. In keeping with HUD's methodology, the increase or reduction to a county's share of foreclosures, subprime loans, or at-risk loans is limited to no more than 30 percent. A county's vacancy rate difference relative to the state average is limited to the county's proportional share of foreclosures, subprime loans, or at-risk loans by a difference of no more than 10 percent.

Each county received a need score calculated based on the formula described above. Those counties encompassing Jurisdictions identified on HUD's formula list, but failing to meet HUD's \$2M minimum threshold were given a priority weight in scoring. A minimum score of 6,650 relates to eligibility to receive a direct Texas NSP allocation. Dollar amounts for the direct Texas NSP allocations were calculated using the formula described above with HUD direct allocations to CDBG Entitlement Jurisdictions (\$76M) added to the Texas State funds of \$102M for a total of \$178M. The total was then

reduced by the 10% earmarked for administrative costs. The resulting allocation amount was reduced by the published HUD direct award less administrative cost. For example, the Texas formula may indicate a total HUD direct and direct State NSP allocation of \$10M for County X; however, County X received a HUD direct allocation of \$7M. Therefore, County X’s direct State NSP allocation would be reduced to \$3M (\$10M minus \$7M).

In addition, priority weight was given to counties with Jurisdictions identified as CDBG Entitlement Jurisdictions. These communities currently have mechanisms in place to administer CDBG funds; therefore, the weight is added to account for capacity to quickly implement NSP projects. As a result, counties with CDBG Entitlement Jurisdictions will either be noted for direct allocations or be eligible to participate as a Select Pool county.

The result is direct allocations to CDBG Entitlement Jurisdictions within 25 counties, including:

<i>County Name</i>	<i>Direct Texas NSP Allocation</i>	<i>Need Score</i>
Tarrant	\$7,320,349	13320
Dallas	4,684,332	10684
Cameron	3,465,632	9466
Bexar	3,150,408	9150
Hidalgo	3,005,258	9005
Harris	2,875,584	8876
Nueces	2,522,253	8522
Collin	2,278,454	8278
Webb	2,025,812	8026
Travis	2,017,952	8018
Montgomery	1,697,675	7698
El Paso	1,648,634	7649
Brazoria	1,586,234	7586
Potter	1,579,681	7580
Jefferson	1,498,945	7499
Denton	1,166,500	7166
Taylor	1,099,259	7099
Williamson	1,066,554	7067
Bell	1,064,488	7064
Lubbock	1,057,705	7058
Galveston	1,003,104	7003
Wichita	803,464	6803
Fort Bend	726,857	6727
Ector	699,232	6699
McLennan	647,971	6648

Based on their need score, the following 76 counties are eligible to submit application as a Select Pool county:

County Name	Need Score
Gregg	6143
Tom Green	6055
Grayson	5809
Brazos	5761
Victoria	5741
Orange	5634
Bowie	5593
Harrison	5583
Midland	5507
Smith	5502
Comal	5498
Hays	5326
Ellis	4325
Johnson	4284
Kaufman	3964
Parker	2295
Bastrop	1898
Hood	1658
Liberty	1508
Hunt	1473
Henderson	1432
Rockwall	1266
Wise	996
Hill	766
Burnet	766
Navarro	746
Guadalupe	683
Randall	567
Angelina	495
Wood	463
Matagorda	452
Lamar	401
San Patricio	391
Atascosa	389
Milam	366
Maverick	359
Jim Wells	341
Eastland	316

County Name	Need Score
Van Zandt	300
Kleberg	296
Grimes	292
Hale	269
Palo Pinto	243
Nacogdoches	242
Hopkins	242
Kendall	234
Coryell	230
Cooke	224
Kerr	210
Medina	196
Aransas	184
Caldwell	183
Wilson	176
Gonzales	169
Waller	167
Anderson	165
Val Verde	165
Montague	165
Llano	165
Washington	159
Fannin	159
Walker	152
Upshur	152
Brown	150
Cherokee	145
Jackson	131
Austin	127
Starr	115
Wharton	114
Polk	111
Gillespie	106
Jasper	106
Leon	105
Willacy	105
Erath	103
Howard	102

B. DISTRIBUTION AND USES OF FUNDS

The NSP funding is available to entities operating in counties meeting the threshold of greatest need as defined by the State through a greatest needs score and methodology described above. In order to better address the diversity of geographies in need across Texas, the State has established a multi-level approach to the distribution of funds to communities with greatest need and a set-aside for Land Banking activities. Texas has consolidated land bank activities through TSAHC because of the limited legal authority for such activities at the local level in most areas of the state. The following table summarizes the initial breakdown of Texas NSP funds:

Program Distribution of Texas NSP Funds:

Direct Allocation	\$ 50,692,336
Select Pool	\$ 41,274,512
Land Banking	\$ 10,000,000
Administration (10%)	\$ 10,196,685
Total Texas NSP Allocation	\$101,966,848

Direct Allocation: The State will provide a reservation for a specified amount of direct NSP allocation for use in the top-ranked counties identified based upon the need factors. Cities, counties and non-governmental organizations with the consent of the city or county that they wish to serve are eligible to apply and are encouraged to work with other entities in their community to document the specific needs in their community.

To remain qualified for the reservation amount of a direct allocation identified in Exhibit 1, initial applications within each eligible county must be submitted within 30 days of notification on the TDHCA web site that HUD has approved this Substantial Amendment. Failure to meet this deadline will result in the reserved funds returning to the State.

Eligible applicants within the county should coordinate to ensure that their proposals consistently address the needs in their communities and do not duplicate the needs identified for each county. Duplication of requests for a county will delay the allocation agreement for a community and could result in a reduced amount of time available for applicants to contract for specific acquisitions. In the initial application, applicants are required to identify:

- 1) The geographic neighborhoods and communities targeted for Texas NSP funds within their jurisdiction,
- 2) The Texas NSP eligible activities proposed to meet the specific needs in each area, and
- 3) The strategy for maximum revitalization and impact of funds.

The form of the information required for preliminary applications will be made available in the Texas Neighborhood Stabilization Program Guidelines to be found at www.tdhca.state.tx.us.

Select Pool: In order to better address the diversity of geographies across Texas, including those in rural areas and urban peripheries which have the greatest need, the

State has established the Select Pool. The State will competitively award Texas NSP funds to communities for the greatest need counties listed on Exhibit 1. To address HUD's concern about allocating small amounts of funds that have no meaningful impact on stabilizing of property values in an area the awards will be a minimum of \$500,000. Cities, counties and non-governmental organizations with the consent of the city or county that they wish to serve are eligible to apply.

Eligible applicants within the county jurisdiction should coordinate to ensure that their proposals do not duplicate the needs identified for each county. Duplication of requests for a county will delay the allocation agreement for a community and could result in a reduced amount of time available for applicants to contract for specific acquisitions.

The first priority for Select Pool funds will be based on the selection criteria described below for applications submitted within 30 days of notification on the TDHCA web site that HUD has approved this Substantial Amendment. Applications submitted after this deadline will be considered on a first-come first-served basis from all eligible greatest need counties. If an oversubscription of requests for funds occurs the State will form a wait list and any lower scoring or subsequently filed applications will be placed on the wait list to be allocated as funds are available. The form of the information required for preliminary applications will available in the Texas Neighborhood Stabilization Program Guidelines found at www.tdhca.state.tx.us after the final plan has been submitted to HUD.

Selection Criteria and Priorities

The State of Texas has established the priorities and scoring described below that will be used in the application review process. While the criteria are important to demonstrate a successful proposal, the scoring structure was designed to ensure that the State complies with the HUD Notice designed to prioritize areas of greatest need, meets applicable CDBG regulations, and effectively spends the funds:

Maximum Total Score = 100 Points

- Greatest Need (50 Points)
- Neighborhood Stabilization (20 Points)
- Low-Income Households (20 Points)
- Partnerships & Coordination (10 Points)

Greatest Need (50 Points): The State will give priority to proposals that address the greatest need as represented on Exhibit 1. If an applicant has locally available, verifiable data that documents a greater need than established under the methodology described above, they may submit it for consideration. This may include but is not limited to U.S. Postal Service data, local financial institution data, and local government records. The State will consult with HUD to determine whether the additional data source is verifiable and acceptable by HUD standards.

Neighborhood Stabilization (20 Points): The Texas NSP requires applicants to connect their NSP-funded activities to housing foreclosure and abandonment problems caused by

problematic mortgage lending activities. However, priority will be given to applications which identify specific properties for eligible activities and potential eligible buyers.

Assistance to Low-Income Households at or Below 50% AMI (20 Points): In order to emphasize affordability for households at or below 50% of the area median income (AMI), the State will give priority to proposals that will serve persons in this income category beyond the Texas NSP minimum allocation wide requirement of 35% for non-land bank activities. Proposal scores will be prorated according to the additional percentage of funds that will benefit households at or below 50% AMI.

Partnerships & Coordination (10 Points): The State will give priority to those applicants that demonstrate effective cooperation in addressing needs by providing evidence of communication and planning with other entities in the area to be served. This priority will include proposals submitted by city and county governments, nonprofits and regional efforts to efficiently manage NSP funds. The applicant must demonstrate a strong management role in the program delivery.

C. DEFINITIONS AND DESCRIPTIONS

(1) Definition of “blighted structure” in context of state or local law.

"Economically depressed or blighted area" according to 2306.004 of the State of Texas Government Code means an area:

(A) that is a qualified census tract as defined by Section 143(j), Internal Revenue Code of 1986 (26 U.S.C. Section 143(j)) or has been determined by the housing finance division to be an area of chronic economic distress under Section 143, Internal Revenue Code of 1986 (26 U.S.C. Section 143);

(B) established in a municipality that has a substantial number of substandard, slum, deteriorated, or deteriorating structures and that suffers from a high relative rate of unemployment; or

(C) that has been designated as a reinvestment zone under Chapter 311, Tax Code.

(2) Definition of “affordable rents.”

The Texas NSP will adopt the HOME program standards for affordable rents at 24 CFR 92.252(a), (c), (e) and (f).

(3) Describe how the grantee will ensure continued affordability for NSP assisted housing.

The Texas NSP will adopt the HOME program standards for continued affordability for rental housing at 24 CFR 92.252 and homeownership at 24 CFR 92.254.

Note: The Texas NSP will follow the Single Family Mortgage limits under Section 203(b) of the National Housing Act which are allowable under HOME program standards. However, in order to ensure affordability, reduce the risk of additional foreclosures, and maximize the use of the funds; the Texas NSP will go a step further based on market appraisals of the homes. The combined cost of acquisition, rehabilitation, reconstruction and/or new construction activities for any property with existing improvements funded with NSP funds will be restricted to not more than 125% of the “as is” appraised value at acquisition of any property (including demolition and acquisition). Further, acquisition and demolition of any structure will only be allowed if the “as is” appraised value of the structure is less than 50% of the total appraised value of the property (lot and structure).

(4) Describe housing rehabilitation standards that will apply to NSP assisted activities.

For incorporated areas, local building codes and standards will be applied. For unincorporated areas the International Residential Code/International Building Code will be applied to all housing activities. All rehabilitation activities will be required to have inspectors, licensed by the Texas Real Estate Commission (TREC) and using the latest inspection forms promulgated by TREC, to perform initial and final inspections; all items noted on the report that are needed to bring the property up to the applicable code must be corrected. In addition, the Texas Minimum Construction Standards will be utilized for new and rehabilitation housing construction activities.

D. LOW INCOME TARGETING

Each subrecipient will be required to target as a goal at least 35% of their non-administrative allocation to benefit households with incomes less than or equal to 50% of area median income however the level of achievement of this goal may vary by area and activity. The estimated amount of funds that will be utilized for housing individuals and families whose incomes do not exceed 50% of area median income will be at least \$25,499,212.

E. ACQUISITIONS & RELOCATION

The Texas NSP will emphasize the acquisition and conversion of dwelling units that will ultimately be affordable to low and moderate income households. The Texas NSP will limit the effective acquisition cost as described in response to C3 above and as such, it is anticipated that most of the units acquired for conversion will be acquired at prices that would make them marginally affordable or affordable, but in substandard condition, to households earning less than 120% of the area median income.

However, it is anticipated that few if any of the single family acquisitions will involve properties that are previously restricted for occupancy to households earning less than

120% of the area median income. This is because the foreclosure rate for homes originally funded with existing State of Texas programs is much lower than the foreclosure rate of privately funded homes as a result of the State's history of more conservative lending policies. Since most properties will be vacant, abandoned and foreclosed, it is not anticipated that relocation will occur. However, the Texas NSP will require adherence to the guidelines set forth in the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (49 CFR part 24).

The Texas NSP anticipates making at least the following number of homes available to low-, moderate-, and middle-income households as a result of NSP-assisted activities within the first two years of the program:

50% or less AMI: 250 units (\$25,499,212)
51% to 80% AMI: 175 units (\$28,148,975)
81% to 120% AMI: 115 units (\$28,148,975)

F. PUBLIC COMMENT

This draft Substantial Amendment was posted on the TDHCA website on November 9, 2008 for Texas Department of Housing and Community Affairs Board consideration at their November 13, 2008 meeting. Solicitation of public comment and the minimum 15-day comment period commenced at that time. The TDHCA Board takes public comment on all agenda items and will consider comment on the draft plan at the November 13, 2008 TDHCA Board meeting. This document will be revised to reflect the public comment received by 5:00 PM, November 26, 2008.

G. NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)

(1) Activity Name: Clearance (Removal of Blight)

(2) Activity Type: NSP Eligible Use (D) Demolish Blighted Structures

CDBG Eligible Activity: 24 CFR 570.201(d) Clearance of blighted structures only

(3) National Objective: Benefits areas with low, moderate and middle-income persons as defined in the NSP Notice ($\leq 120\%$ of area median income). (LMMA)

(4) Activity Description: This activity, when funded exclusive of other eligible activities, is anticipated to be used on a limited basis to address urbanized areas of greatest need where grantees can prove that blighted structures are affecting property values in the area. This activity will allow a grantee to remove dangerous structures that pose a threat to human health, safety, and public welfare and allow for the future private redevelopment of the property. This activity, when funded exclusive of other eligible activities, will be restricted to areas that meet the State definition of “blighted area”. Benefit will be restricted to LMMH area-wide benefit. This activity will not be utilized to target the 25% requirement for 50% AMI. This activity may also be used in conjunction or coincidental with other eligible activities such as acquisition, rehabilitation, redevelopment or land bank, and the costs and outcomes for Clearance in those activities have not been counted in 6 and 7 below. Similarly when Clearance occurs in conjunction with another eligible activity it is not restricted to a State defined “blighted area” described in 5 below but must occur in the area defined in the location description of the other eligible activity.

(5) Location Description: Areas meeting the definition in 2306.004 of the State of Texas Government Code within the greatest need counties in Texas identified on Exhibit 1.

(6) Performance Measures: 35 structures will be demolished due to blight for area-wide benefit of LMMA beneficiaries.

(7) Total Budget: NSP Funds \$1,000,000

(8) Responsible Organization: Texas Department of Housing and Community Affairs, 221 East 11th St., Austin, TX, 78701, Attention Michael Gerber, Executive Director

(9) Projected Start Date: February 2009

(10) Projected End Date: 18 months from commencement of program for commitment of funds to specific projects

(11) Specific Activity Requirements: N/A

G. NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)

(1) Activity Name: Financing Mechanisms

(2) Activity Type: NSP Eligible Use (A) Establish finance mechanisms for purchase and redevelopment of abandoned homes, foreclosed upon homes and reconstructed or redeveloped residential properties.

CDBG Eligible Activities: 24 CFR 570.206 Activity delivery costs; 24 CFR 570.201 (a) Acquisition, (b) Disposition, (i) Relocation, (n) Homeownership Assistance; 24 CFR 570.202 Rehabilitation

(3) National Objective: Benefits low, moderate and middle-income persons as defined in the NSP Notice ($\leq 120\%$ of area median income). (LMMH)

(4) Activity Description: This activity will provide affordable homeownership opportunities by providing financing mechanisms to assist homebuyers to purchase a home. The acquisition of foreclosed homes may be funded if the acquisition of the home is for not more than 85% of the approved appraisal fair market value of the home at the time of foreclosure. The acquisition of abandoned homes may be funded if the home has been vacant for at least 90 days and the seller has not made payment on the mortgage or taxes for at least 90 days. The subsequent acquisition or conversion of eligible rehabilitated or redeveloped home activities may also be considered a financing mechanism.

Down payment and closing cost assistance will be provided to households earning 51% to 120% AMFI for an eligible property. Households earning less than 50% AMFI may obtain up to 100% mortgage financing as well as down payment and closing costs assistance if needed to make a property affordable.

Homebuyers who qualify as 51-120% AMFI will be eligible for CDBG eligible down payment assistance, reasonable closing costs, principal reduction and gap financing needed for them to qualify for private mortgage financing. Assistance will be in the form of a deferred forgivable loan at 0% interest and a term based upon the amount of funds provided in accordance with the TDHCA and HUD requirements. The loans are to be repaid (if any of the following occurs before the end of the term): at the time of resale of the property; refinance of the first lien; repayment of first lien or if the unit ceases to be the assisted homebuyer's principal residence. The amount of recapture will be based on the pro-rata share of the remaining loan term.

Households earning less than 50% AMFI may obtain 100% mortgage financing to purchase a foreclosed or abandoned single family house which will be the primary residence within 30 days of closing the mortgage loan. The mortgage loans will be for 30 years with a 1% interest rate and repayment obligations will begin immediately. Closing costs will be financed with the loan proceeds. Mortgage documents (Promissory Note and Deed of Trust) will be utilized to provide security for the repayment of the loan,

registered against the property, with stated rights and remedies in the event of default. The Texas Neighborhood Stabilization Program Guidelines will outline mortgage underwriting criteria to determine the ability and willingness of the homebuyers to service the proposed debt as evidenced by the homebuyers' income, creditworthiness, assets, and the quality and present value of the property in relation to the loan amount requested.

All NSP assisted homebuyers will be required to complete at least 8 hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan.

(5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1.

(6) Performance Measures: 700 households will be assisted through the Financing Mechanisms activity as follows:

- 200 households – 50% AMFI and below
- 250 households – 51-80% AMFI
- 250 households – 81-120% AMFI

(7) Total Budget: The Department anticipates leveraging its down payment and closing cost assistance with up to \$60,000,000 in private mortgage lending funds to assist households between 51-120% AMFI. Approximately \$15,000,000 of NSP funds will be budgeted for down payment, gap financing and closing cost assistance to assist 500 households between 51-120% AMFI.

Approximately \$28,000,000 of NSP funds will be utilized to provide 100% mortgage financing and closing cost assistance to 200 households at 50% AMFI and below.

Approximately \$43,000,000 of NSP funds in total will be utilized for the Financing Mechanisms activity.

(8) Responsible Organization: Texas Department of Housing and Community Affairs, 221 East 11th Street, Austin, Texas 78701, Attention: Michael Gerber, Executive Director.

(9) Projected Start Date: February 2009

(10) Projected End Date: 18 months from commencement of program for commitment of funds to specific projects. It is anticipated that program income will result in ongoing program activity.

(11) Specific Activity Requirements:

- Purchase money for foreclosed properties will reflect acquisition of the foreclosed property at a 15% discount

- 1% interest rates will be charged for up to 100% financing for 50% and below AMI
- 0% interest will be charged for homeownership assistance (down payment, closing costs, gap financing)

G. NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)

(1) Activity Name: Acquisition of Real Property

(2) Activity Type: NSP Eligible Use (B) Purchase and rehabilitate homes and residential properties that have been abandon or foreclosed upon, in order to sell, rent or redevelop such homes and properties.

CDBG Eligible Activities: 24 CFR 570.201(a) Acquisition, (b) Disposition

(3) National Objective: Benefit to low, moderate and middle income persons as defined in the NSP Notice ($\leq 120\%$ of area median income). (LMMH)

(4) Activity Description: To implement this activity, units of local governments and nonprofit organizations will purchase residential properties that have been abandoned or foreclosed upon. Such foreclosed properties must be purchased at a discount to ensure purchasers are paying below-market value for the property. Appraisals will be required for the purposes of determining the statutory purchase discount. Units of local governments or nonprofit organizations will be eligible to purchase abandoned or foreclosed properties to rehabilitate and sell to households earning 120% AMFI or below. 35% of all properties acquired must be sold to households earning 50% AMFI or below. Properties must be rehabilitated and sold to eligible households within 24 months of acquisition.

NSP funds will be provided to units of local governments and nonprofit organizations to purchase properties at the statutory discount. NSP funds will be required to be repaid to the Department within 24 months of acquisition. Properties being sold to households earning 50% or below AMFI funds can be provided 100% mortgage financing including closing costs (see Financing Mechanisms activity) through the Department utilizing NSP funding.

(5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1.

(6) Performance Measures: 225 properties will be purchased through the Acquisition activity to benefit the following households:

- 75 households – 50% AMFI and below
- 75 households – 51-80% AMFI
- 75 households – 81-120% AMF

(7) Total Budget: Approximately \$24,000,000 of NSP funds will be utilized to acquire foreclosed or abandon properties.

(8) Responsible Organization: Texas Department of Housing and Community Affairs, 221 East 11th Street, Austin, Texas 78701, Attention: Michael Gerber, Executive Director.

(9) Projected Start Date: February 2009

(10) Projected End Date: 18 months from commencement of program for commitment of funds to specific projects. It is anticipated that program income will result in ongoing program activity.

(11) Specific Activity Requirements:

- Foreclosed properties will be acquired at a 15% discount

G. NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)

(1) Activity Name: Rehabilitation

(2) Activity Type: Rehabilitate houses acquired through the Acquisition activity to provide housing opportunities for households earning less than 120% of Area Median Income.

NSP Eligible Use (B) Rehabilitate homes and residential properties that have been abandon or foreclosed upon, in order to sell, rent or redevelop such homes and properties.

CDBG Eligible Activities: 24 CFR 570.202 Rehabilitation, Reconstruction and New Construction

(3) National Objective: Benefit to low, moderate and middle income persons as defined in the NSP Notice (\leq 120% of area median income). (LMMH)

(4) Activity Description: This activity will rehabilitate properties acquired though the Acquisition of Real Property activity to Texas Minimum Construction Standards.

The purpose of the financial assistance is to provide decent, safe, and sanitary housing for low to middle income residents by the rehabilitation and/or improvement of existing structures to a condition that brings the structure into in compliance with Texas Minimum Construction Standards to ensure all repairs and improvements will contribute to the long term structurally sound housing stock in the area. Rehabilitation cannot exceed 125% of the initial appraised value of the property including acquisition.

A preliminary property inspection utilizing the most current Property Inspection Report as promulgated by the Texas Real Estate Commission shall be conducted to determine the condition of the unit and to prepare a list of the code deficiencies and items in need of repair. This will also help determine if the unit can be repaired within the limits of the NSP, and whether the unit requires more rehabilitation than what is possible through the provisions of the NSP. Improvements must meet all city building codes and cost effective energy measures. Improvements must be physically attached to the property and be permanent in nature (e.g., shed or garage located separately from the house are not eligible). Improvements may include cook stoves, refrigerators, and other necessary appliances are eligible items, but will only be considered when they are not in working order or the repair would not be cost effective.

Assistance will not be used for luxury items, including but not limited to barbeque pits, deck around swimming pool, equipment (used commercially or industrially, farm or dairy), exterior hot tubs, greenhouses, irrigation systems, luxury doors, saunas, spas, or whirlpools, television satellite dishes, and other items as described in the Texas Neighborhood Stabilization Program Guidelines.

Demolition of a structure will only be allowed if the appraised value of the structure is less than 50% of the total appraised value of the property (lot and structure) which has

major structural conditions that were either inadequate original construction, or has failing foundation, floor, wall, ceiling, roof, and exterior systems. The reconstruction or new construction activities after demolition cannot exceed 125% of the initial appraised value of the property (including demolition and acquisition).

(5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1.

(6) Performance Measures: 275 properties will be rehabilitated to benefit the following households:

- 75 households – 50% AMFI and below
- 100 households – 51-80% AMFI
- 100 households – 81-120% AMF

(7) Total Budget: Approximately \$11,770,163 of NSP funds will be utilized to rehabilitate properties acquired through the Acquisition of Real Property activity.

(8) Responsible Organization: Texas Department of Housing and Community Affairs, 221 East 11th Street, Austin, Texas 78701, Attention: Michael Gerber, Executive Director.

(9) Projected Start Date: February 2009

(10) Projected End Date: 18 months from commencement of program for commitment of funds to specific projects. It is anticipated that program income will result in ongoing program activity.

(11) Specific Activity Requirements:

- 30-year mortgages for 100% financing for 50% or below AMI
- Tenure will principally be homeownership; single and multi-family rental properties will be approximately 15% of the units made available
- HOME Program standards for continued affordability for rent and homeownership will be followed

G. NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)

- (1) Activity Name: Land Bank/Trust
- (2) Activity Type: NSP eligible uses defined under §§2302(c)(3)(B thru E)
- (3) National Objective: Benefits areas with low, moderate and middle-income areas as defined in the NSP Notice (\leq 120% of area median income). (LMMA)
- (4) Activity Description: The Texas State Affordable Housing Corporation (TSAHC) will coordinate local and statewide land banking activities using NSP funds. TSAHC will operate the program under its Affordable Communities of Texas (“ACT”) program, a statewide land trust that provides long-term affordability to low and moderate income households through the use of shared-equity agreements, limited-equity agreements, ground leases, and other regulatory restrictions.
- (5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1.
- (6) Performance Measures: TSAHC estimates that 200 properties could be acquired under the ACT program using NSP funds. Properties acquired will ultimately benefit the following households:
 - 100 households – 50% AMFI and below (a significant portion of this may not be realized within the four year time limit.)
 - 125 households – 51-80% AMFI
 - 75 households – 81-120% AMF
- (7) Total Budget: NSP funds \$10,000,000
- (8) Responsible Organization: Texas State Affordable Housing Corporation, David Long, President, P.O. Box 12637 Austin, TX 78711-2637
- (9) Projected Start Date: March 2009
- (10) Projected End Date: Ongoing however all properties will be dispensed by March 2019
- (11) Specific Activity Requirements: Pursuant to §2306.555(b) of the Texas Government Code, TSAHC, a 501(c)(3) nonprofit corporation, is authorized to operate the program and carry out activities necessary to hold real property, demolish dilapidated structures, rehabilitate structures and provide financing, grant or other methods of funding to create or preserve affordable housing.

The ACT program draws its design and policies from similar programs initiated by municipalities, states, the National Community Stabilization Trust and the U.S. Department of Housing and Urban Development’s Asset Control Area program. It

provides training and technical assistance to local government entities and nonprofits that seeks to create local community land trusts and land banks, and provides for partnerships between the Corporation and local entities, not authorized under state statute to land banks and land trusts.

The ACT program depends heavily on creating partnerships with local entities, including housing finance corporations, public housing agencies and nonprofit entities, in order to manage housing assets and identify qualified low-income households to purchase or lease housing assets. The program also partners with national and statewide banks, financial institutions and government entities to acquire foreclosed housing assets at significant discounts below the appraised market value. All properties acquired using NSP funds shall be purchased at or below the minimum pricing requirements noted in HERA.

In utilization of NSP funds for land banking activities it is understood that other eligible activities under HERA may be encompassed. These activities include but may not be limited to purchasing properties, including vacant land, foreclosed housing units, foreclosed rental units, tax foreclosed housing units, foreclosed commercial properties and associated activities including maintaining land and housing assets in good condition, demolishing vacant and dilapidated structures, rehabilitating housing units that require minimal repairs to meet federal, state and local housing standards, and to cover overhead, training, technical assistance and any other eligible expense under the NSP program guidelines.

TSAHC anticipates that at least two-thirds of all acquisitions will be held under the ACT program for a period of at least 5 years prior to resale or rental to low-income households. To ensure that the program will meet the affordability requirements of HERA, TSAHC shall place deed restrictions and/or regulatory agreements on at least 25% of properties acquired to benefit households at or below 50% of area median income. All properties acquired under the program shall meet the minimum affordability terms required under HERA. Additionally, restrictions will also require all future rehabilitation and construction meets federal standards.

G. NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)

(1) Activity Name: Redevelopment

(2) Activity Type: NSP eligible use (E) Redevelop Demolished or Vacant Properties

CDBG Eligible activities: 24 CFR 570.201(a) Acquisition, (b) Disposition, (c) Public Facilities, (e) Public Services, (i) Relocation, (n) Homeownership Assistance (restricted)

(3) National Objective: Benefit to low, moderate and middle income persons as defined in the NSP Notice ($\leq 120\%$ of area median income). (LMMH)

(4) Activity Description: Redevelopment of demolished or vacant properties will address areas of greatest need throughout the state wherever there are large amounts of demolished or vacant properties that are contributing to declining land values.

This activity will be utilized to supplement the 25% requirement for 50% AMI. Redeveloped properties are anticipated to focus on redevelopment to permanent use structures for special needs populations.

(5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1.

(6) Performance Measures: 15 properties will be rehabilitated to benefit the following households:

- 15 households – 50% AMFI and below

(7) Total Budget: NSP funds \$2,000,000

(8) Responsible Organization: Texas Department of Housing and Community Affairs, 221 East 11th Street, Austin, Texas 78701, Attention: Michael Gerber, Executive Director.

(9) Projected Start Date: February 2009

(10) Projected End Date: 18 months from commencement of program for commitment of funds to specific projects. It is anticipated that program income will result in ongoing program activity.

(11) Specific Activity Requirements: 3-year redevelopment loans for up to 100% financing at 0% serving households earning 50% or below AMI

Exhibit 1. Texas Neighborhood Stabilization Program County Need Score

County Name	Direct Texas NSP Allocation	Select Pool Eligible	Need Score
Tarrant	7,320,349		13320
Dallas	4,684,332		10684
Cameron	3,465,632		9466
Bexar	3,150,408		9150
Hidalgo	3,005,258		9005
Harris	2,875,584		8876
Nueces	2,522,253		8522
Collin	2,278,454		8278
Webb	2,025,812		8026
Travis	2,017,952		8018
Montgomery	1,697,675		7698
El Paso	1,648,634		7649
Brazoria	1,586,234		7586
Potter	1,579,681		7580
Jefferson	1,498,945		7499
Denton	1,166,500		7166
Taylor	1,099,259		7099
Williamson	1,066,554		7067
Bell	1,064,488		7064
Lubbock	1,057,705		7058
Galveston	1,003,104		7003
Wichita	803,464		6803
Fort Bend	726,857		6727
Ector	699,232		6699
McLennan	647,971		6648
Gregg		Gregg	6143
Tom Green		Tom Green	6055
Grayson		Grayson	5809
Brazos		Brazos	5761
Victoria		Victoria	5741
Orange		Orange	5634
Bowie		Bowie	5593
Harrison		Harrison	5583
Midland		Midland	5507
Smith		Smith	5502
Comal		Comal	5498
Hays		Hays	5326
Ellis		Ellis	4325
Johnson		Johnson	4284
Kaufman		Kaufman	3964
Parker		Parker	2295
Bastrop		Bastrop	1898
Hood		Hood	1658
Liberty		Liberty	1508
Hunt		Hunt	1473
Henderson		Henderson	1432
Rockwall		Rockwall	1266
Wise		Wise	996
Hill		Hill	766
Burnet		Burnet	766
Navarro		Navarro	746
Guadalupe		Guadalupe	683
Randall		Randall	567
Angelina		Angelina	495
Wood		Wood	463
Matagorda		Matagorda	452
Lamar		Lamar	401
San Patricio		San Patricio	391
Atascosa		Atascosa	389
Milam		Milam	366
Maverick		Maverick	359
Jim Wells		Jim Wells	341
Eastland		Eastland	316
Van Zandt		Van Zandt	300
Kleberg		Kleberg	296

Exhibit 1. Texas Neighborhood Stabilization Program County Need Score

County Name	Direct Texas NSP Allocation	Select Pool Eligible	Need Score
Grimes		Grimes	292
Hale		Hale	269
Palo Pinto		Palo Pinto	243
Nacogdoches		Nacogdoches	242
Hopkins		Hopkins	242
Kendall		Kendall	234
Coryell		Coryell	230
Cooke		Cooke	224
Kerr		Kerr	210
Medina		Medina	196
Aransas		Aransas	184
Caldwell		Caldwell	183
Wilson		Wilson	176
Gonzales		Gonzales	169
Waller		Waller	167
Anderson		Anderson	165
Val Verde		Val Verde	165
Montague		Montague	165
Llano		Llano	165
Washington		Washington	159
Fannin		Fannin	159
Walker		Walker	152
Upshur		Upshur	152
Brown		Brown	150
Cherokee		Cherokee	145
Jackson		Jackson	131
Austin		Austin	127
Starr		Starr	115
Wharton		Wharton	114
Polk		Polk	111
Gillespie		Gillespie	106
Jasper		Jasper	106
Leon		Leon	105
Willacy		Willacy	105
Erath		Erath	103
Howard		Howard	102
Lee			72
Bandera			71
Mitchell			64
Madison			63
Chambers			62
Moore			57
Fayette			55
Lampasas			53
Bosque			51
Cass			51
Andrews			45
Calhoun			45
Colorado			44
Uvalde			44
Blanco			43
San Jacinto			41
Freestone			41
Bee			41
Hockley			40
Limestone			38
Houston			36
Panola			36
Deaf Smith			36
Young			32
Shelby			31
Tyler			31
Robertson			30
Rains			30
Trinity			29

Exhibit 1. Texas Neighborhood Stabilization Program County Need Score

County Name	Direct Texas NSP Allocation	Select Pool Eligible	Need Score
Somervell			28
Morris			28
Nolan			27
Gaines			27
Marion			26
Rusk			26
Lavaca			26
Gray			24
Dallam			23
Titus			22
Callahan			21
Falls			21
Burleson			21
Franklin			20
Hutchinson			19
Frio			19
Pecos			19
Hamilton			18
Sabine			18
Jack			17
DeWitt			17
Jones			17
Refugio			17
Dawson			17
Duval			16
Bailey			16
Camp			15
Ochiltree			15
Zapata			14
Scurry			14
Comanche			14
Coleman			13
Brooks			13
Parmer			13
Carson			13
Clay			13
Jim Hogg			13
Wilbarger			12
Yoakum			12
Brewster			11
Floyd			11
Terry			11
Lamb			11
Live Oak			10
Crosby			10
Stephens			10
San Saba			10
McCulloch			10
San Augustine			10
Reeves			9
Lynn			9
La Salle			9
Dimmit			9
Runnels			9
Ward			9
Swisher			9
Zavala			9
Castro			8
Newton			8
Martin			8
Mason			8
Kimble			8
Wheeler			8
Crane			7
Winkler			7

Exhibit 1. Texas Neighborhood Stabilization Program County Need Score

County Name	Direct Texas NSP Allocation	Select Pool Eligible	Need Score
Karnes			7
Childress			7
Crockett			6
Sutton			6
Reagan			5
Delta			5
Red River			5
Archer			5
Haskell			4
Hemphill			4
Hansford			4
Donley			4
Mills			4
Armstrong			4
Sherman			4
Hall			4
Presidio			3
Coke			3
Hardeman			3
Fisher			3
Garza			2
Real			2
Baylor			2
Schleicher			2
Culberson			2
Irion			2
McMullen			2
Cochran			2
Goliad			2
Menard			1
Roberts			1
Concho			1
Oldham			1
Edwards			1
Throckmorton			1
Hudspeth			1
Kinney			1
Collingsworth			1
Foard			1
Upton			1
Lipscomb			1
Knox			1
Shackelford			1
Loving			1
Jeff Davis			0
Borden			0
Briscoe			0
Cottle			0
Dickens			0
Glasscock			0
Hardin			0
Hartley			0
Kenedy			0
Kent			0
King			0
Motley			0
Sterling			0
Stonewall			0
Terrell			0