

THE NSP SUBSTANTIAL AMENDMENT

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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. Land bank/trust activities will be coordinated with TSAHC and 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.

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

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 need score of 6,500 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% allowed 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 Texas NSP allocation of \$10M for County X; however, County X received a HUD direct allocation of \$7M. Therefore, County X's direct Texas 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.

All counties with a minimum need score of 100 will either be noted for direct allocations or be eligible to participate as a Select Pool county.

The result is reservations for use by eligible entities in 25 counties:

<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 the county need score, eligible entities within the following 76 counties may submit an application to receive allocations from the Select Pool:

<i>County Name</i>	<i>Need Score</i>
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

<i>County Name</i>	<i>Need Score</i>
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. The first level, Direct Allocation, is a reservation of a specified amount available to eligible entities in 25 counties identified as having significant need. The second level, Select Pool, is an initial allocation of \$500,000 available to entities in up to 76 additional counties with significant need. Texas will administer land bank activities in conjunction with 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	\$ 50,692,337
Select Pool	\$ 31,077,826
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. Requests for amounts in excess of the identified direct allocation amount for each county will be considered after the initial thirty-day deadline.

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. If needed, the State will allocate not less than \$500,000 to multiple entities based on their proportionate need and the county’s available direct allocation amount.

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 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 eligible entities in the greatest need counties listed on Exhibit 1. The first priority for Select Pool funds will be based on the selection criteria described below for applications submitted by Select Pool Counties within 30 days of notification on the TDHCA web site that HUD has approved this Substantial Amendment. After thirty days, the State will consider applications from both Select Pool and Direct Allocation 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.

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. Requests for amounts in excess of \$500,000 for each county will be considered after the initial thirty-day deadline.

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 form of the information required for applications will be made available in the Texas Neighborhood Stabilization Program Guidelines found at www.tdhca.state.tx.us after the final plan has been approved by 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; a higher Need Score indicates greater need. 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 capacity, 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.

The Texas NSP Program will use the definition provided by HUD’s *Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008*, published in the *Federal Register* on October 6, 2008, as follows:

“*Blighted structure.* A structure is blighted when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare.”

(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. 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.

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

Housing that is constructed or rehabilitated with NSP funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of completion. In the absence of a local code for new construction or rehabilitation, the housing must meet the most current International Building Code. In addition, all NSP funded housing must meet the Texas Minimum Construction Standards for the TDHCA HOME Program, as published in the Texas NSP Program Guidelines. NSP assisted new construction or rehabilitation will comply with HOME Program lead-based paint requirements including lead screening in housing built before 1978 in accordance with 24 CFR Part 92.355 and 24 CFR Part 35, subparts A, B, J, K, M, and R. Multifamily housing assisted with NSP funds must meet the accessibility requirements at 24 CFR part 8, which implements Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. Section 794) and covered multifamily dwellings, as defined at 24 CFR 100.201, and the design and construction requirements at 24 CFR 100.205, which implement the Fair Housing Act (42 U.S.C. 3601-3619). Finally, NSP assisted housing must meet Energy Efficiency Standards in accordance with Section 2306.187 of the Texas Government Code.

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 \$25,491,712.

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. 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. Currently, it is not possible to specify the number of low- and moderate-income dwelling units ($\leq 80\%$ AMI) reasonably expected to be demolished or converted as a direct result of NSP-assisted activities.

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 80% 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, but previously improved, 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 following table indicates the minimum number of units reasonably expected to be served by proposed activity at each income level (Note the same unit may fall within several activities):

<i>Income Level</i>	<i>Clearance</i>	<i>Financing Mechanisms</i>	<i>Acquisition</i>	<i>Rehabilitation</i>	<i>Land Bank/Trust</i>
Under 50% AMI	-	200	75	75	100
51% to 80% AMI	-	250	75	100	125
81% to 120% AMI	-	250	75	100	75
Total	35	700	225	275	300

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 took public comment on the draft plan at the board meeting. This document was revised to reflect public comment received by 5:00 PM, November 26, 2008. In addition to public comment, comment was solicited from the local HUD office and incorporated into this draft. Public comment was received at the TDHCA Board meeting as well as by mail, electronic mail and fax.

Summary of Public Comment

Direct Allocation

City of Corpus Christi

The State should consider direct allocations based on urban areas rather than solely counties. Urban areas with Participating Jurisdictions should have greater consideration based on the NSP timeline.

City of Conroe

Do not give direct allocations to the counties rather than the cities. Adding another layer to the allocation process by requiring the cities to apply to the counties for funding would go against the intent of the Council of Mayors.

City of Denton, City of Killeen

Do not emphasize collaborative efforts with the goal of one application from each county. The most efficient and effective method would be direct allocations to CDBG Entitlement Jurisdictions within each “high need” county. Entitlement Jurisdictions can make a greater impact with NSP funds by combining them with other CDBG dollars. Due to time constraints of the NSP, cities should be able to make the decision whether or not to involve nonprofits and how to set up the programs through which they should participate.

City of Lewisville

NSP funding would be best served by direct allocation to CDBG Entitlement Communities rather than allocation by county. It is not clear how, within a collaboration, jurisdictions, counties and nonprofits can determine the split of NSP funding.

City of Brownsville

Direct allocations should be made to Cities as well as Counties.

City of Irving

The City of Irving should receive a direct allocation. Dallas County has indicated they would support a direct allocation to the City of Irving.

Brazos Valley Affordable Housing Corporation

Participating Jurisdictions should be given priority weight similar to that given to CDBG Entitlement Jurisdictions.

City of Denton, City of Killeen

Provide an allocation of \$500,000 directly to cities and counties that are not receiving a direct allocation from HUD and are identified as being in a “high need” area based on TDHCA’s formula calculations.

City of Bryan

Entitlement Jurisdictions should receive priority in the select pool application process, or reduce the threshold need score for direct allocation from 6500 to 5000.

Brazos Valley Affordable Housing Corporation

The total need score (6,764) for 10 counties currently participating in the Brazos Valley/Washington County HOME Consortium exceeds the minimum threshold for a direct allocation. This issue needs to be addressed.

Application

City of Missouri City

CDBG Entitlement Communities are capable of administering the NSP without the additional roadblock of applying through the State. A direct allocation, without an application process, should be made to previous CDBG grantees.

City of Denton, City of Killeen

If applications are required, they should be limited to a brief explanation of how funding will be expended, how the potential grantee has identified eligible foreclosed properties, and how existing programs will expedite the obligation and expenditure of NSP funds.

Program Income

Brazos Valley Affordable Housing Corporation

Subgrantees should not be limited by the State with regards to NSP activities and program income.

City of Waco

The requirement to payback these funds leaves little incentive or ability for a participant to utilize these funds. There will be few recipients that want to take on any more liability with a declining HUD budget and staffing issues.

Demolition

City of McKinney

Allow clearance (demolition) of blighted structures to include unfinished new construction located in areas that do not necessarily benefit low-, moderate- and middle-income persons.

Interest Rate

Habitat for Humanity

Nonprofits should be able to apply directly for the NSP funds; but the way the State has structured it is satisfactory. Change the 1% interest rate on NSP-funded loans to 0% interest. Historically, Habitat does not charge an interest rate and, therefore, would not be able to participate in the program if a 1% interest rate is required.

Targeting ≤50% AMI

Brazos Valley Affordable Housing Corporation

Areas deemed to have the greatest need based on the State's and HUD's needs analysis are predominantly areas with the highest median income. Those areas with the highest median income should be required to produce proportionately more assistance to low income households at or below 50% of AMI in meeting the set-aside requirements. This

will help to level the disparity for households residing in lower median income areas who would otherwise qualify for assistance.

Coats/Rose

Target families with incomes at or below 50% of AMI with rental housing, not homeownership. Rental housing development should be a more prominent program activity in the Texas NSP Plan. Do not limit single and multifamily rental housing to only 15%.

Administrative Costs

City of Denton, City of Killeen

A minimum of 5% of administration should be provided to the cities and counties that develop and implement programs.

City of Lubbock

At least 5% to 6% of administrative funds should be passed to agencies implementing the NSP.

City of Waco

Subrecipients should receive administrative funds.

Location in More than One County

City of Lewisville

It is unclear how a jurisdiction located in more than one county will be treated under the application process.

Per Unit Limit

City of Lubbock

The 125% of “as-is” appraised value at acquisition limit for combined cost of acquisition, rehabilitation, reconstruction and or new construction activities will make it almost impossible to commit and expend NSP funds within the time period allowed if at all. The resulting limits may preclude properties requiring expensive mitigation such as lead based paint removal. It is recommended that the Single Family Mortgage limits under Section 203(b) along with the HUD Section 221(d)(3) limits be substituted.

Coats/Rose

Program funding per unit should not exceed \$100,000, which would generate 1,020 affordable homes rather than the State’s estimate of 540 affordable units.

100% Mortgage Financing

City of Lubbock

Households with up to 80% AMI should be eligible to obtain 100% mortgage financing from NSP funds.

Long Term Affordability

Coats/Rose

Many of the activities proposed in the Texas NSP Plan do not specify any affordability compliance term. All homeownership activities could be affordable for a 30-year term with a shared appreciation deed of trust securing the NSP loan, and all activities should require an enforceable affordability compliance period of at least 15 years. In addition, we recommend TDHCA use a “shared net proceeds” affordability enforcement mechanism as described in the HOME regulations 24 CFR 92.254. The following documents can also be required by TDHCA to maintain affordability in a shared net proceeds homeownership program: a purchase option and right of first refusal held by the NSP lender, a deed of trust, a promissory note, and a subordination agreement between the NSP lender and the first lender.

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, as defined in this Action Plan, 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 will not be utilized to target the 25% requirement for 50% AMI.

This activity may also be used in conjunction with or coincidental to other eligible activities described in this Amendment, and the costs and outcomes for Clearance in those activities have been counted in 6 and 7 below.

(5) Location Description: Areas within the greatest need counties in Texas identified on Exhibit 1, as Direct Texas NSP Allocation or Select Pool Eligible.

(6) Performance Measures: It is estimated that 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 foreclosed property at a discount and/or rehabilitate the property. Appraisals will be required for the purposes of determining the statutory purchase discount. The acquisition of foreclosed properties may be financed if the acquisition of the property is for not more than 85% of the approved appraisal fair market value of the property at the time of foreclosure. The acquisition of abandoned property may be funded if the property 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 property activities may also be considered a financing mechanism.

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

Homebuyers who qualify as 51-120% AMI will be eligible for NSP eligible rehabilitation costs, down payment assistance, reasonable closing costs, principal reductions, and gap financing needed 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 affordability 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 upon the recapture provision at 24 CFR 92.254(a)(5)(ii) as follows:

1. Recapture of the amount of the NSP investment reduced on a prorata share based on the time the homeowner has owned and occupied the unit measured against the required affordability period. The recapture amount is subject to available shared net proceeds in the event of sale or foreclosure of the housing unit.

2. In the event of sale or foreclosure of the housing unit, if the shared net proceeds (i.e., the sales price minus closing costs; any other necessary transaction costs; and loan repayment, other than NSP funds) are in excess of the amount of the NSP investment that is subject to recapture, then the net proceeds may be divided proportionately between TDHCA and the homeowner as set forth in the following mathematical formulas:

$$\frac{\text{NSP investment}}{\text{NSP investment} + \text{homeowner investment}} \times \text{net proceeds} = \text{NSP amount to be recaptured}$$

$$\frac{\text{NSP investment}}{\text{NSP investment} + \text{homeowner investment}} \times \text{net proceeds} = \text{amount to homeowner}$$

Households earning less than 50% AMI 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 0% 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. Again, recapture will be based on shared net proceeds as described above.

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.

This activity may also be used in conjunction with or coincidental to other eligible activities described in this Amendment, and the costs and outcomes for Financing Mechanisms in those activities have been counted in 6 and 7 below.

(5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1 as Direct Texas NSP Allocation or Select Pool Eligible.

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

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

(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% AMI. Approximately \$15,000,000 of NSP funds will be budgeted for rehabilitation, down payment, gap financing and closing cost assistance to assist 500 households between 51-120% AMI.

Approximately \$28,000,000 of NSP funds will be utilized to provide 100% mortgage financing, rehabilitation and closing cost assistance to 200 households at 50% AMI 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
- 0% interest rates will be charged for up to 100% financing for 50% and below AMI
- 0% interest will be charged for homeownership assistance (rehabilitation, 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 benefit households earning 120% AMI or below. Properties must be rehabilitated and made available 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 unless maintained as rental property under program requirements. Assistance to rental property restricted to households earning 50% or less of AMI may have an interest rate at 0% fully amortized over 30 years. Properties being sold to households earning 50% or below AMI funds can be provided 100% mortgage financing including closing costs (see Financing Mechanisms activity) through the Department utilizing NSP funding.

This activity may also be used in conjunction with or coincidental to other eligible activities described in this Amendment, and the costs and outcomes for Acquisition of Real Property in those activities have been counted in 6 and 7 below.

(5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1 as Direct Texas NSP Allocation or Select Pool Eligible.

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

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

(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
- Permanent financing is available for multifamily properties targeting households at or below 50% AMI
- Tenure will principally be homeownership; however, single and multifamily rental properties are anticipated to meet the HUD requirement for 25% of NSP used to fund activities benefitting households at 50% AMI and below
- Compliance with the HOME Program property standards and affordability requirements for both rental and homeownership activities

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

(1) Activity Name: Rehabilitation

(2) Activity Type: Rehabilitate property 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 abandoned 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 to Texas Minimum Construction Standards, as defined in the Texas NSP Program Guidelines.

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.

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.

This activity may also be used in conjunction with or coincidental to other eligible activities described in this Amendment, and the costs and outcomes for Rehabilitation in those activities have been counted in 6 and 7 below.

(5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1, as Direct Texas NSP Allocation or Select Pool Eligible.

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

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

(7) Total Budget: Approximately \$11,770,163 of NSP funds will be utilized to rehabilitate 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:

- Permanent financing is available for multifamily properties targeting households at or below 50% AMI
- Tenure will principally be homeownership; however, single and multifamily rental properties are anticipated to meet the HUD requirement for 25% of NSP used to fund activities benefitting households at 50% AMI and below
- Compliance with the HOME Program property standards and affordability requirements for both rental and homeownership activities

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 persons as defined in the NSP Notice ($\leq 120\%$ of area median income). (LMMA)
- (4) Activity Description: Assemble, temporarily manage, and dispose of vacant land for the purpose of stabilizing neighborhoods and encouraging reuse of the property.

The Texas State Affordable Housing Corporation (TSAHC) will offer partnerships to local entities with limited capacity to administer land banking activities. In addition, TSAHC may own and operate a land bank for areas of greatest need without available local partners. TSAHC will operate the land bank 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.

This activity may also be used in conjunction with or coincidental to other eligible activities described in this Amendment, and all costs and outcomes for Land Bank/Trust in those activities have been counted in 6 and 7 below.

- (5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1 as Direct Texas NSP Allocation or Select Pool Eligible.
- (6) Performance Measures: It is estimated that 200 properties could be acquired using NSP funds. Properties acquired will ultimately benefit the following households:
- 100 households – 50% AMI and below (a significant portion of this may not be realized within the four year time limit.)
 - 125 households – 51-80% AMI
 - 75 households – 81-120% AMI
- (7) Total Budget: NSP funds \$10,000,000
- (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: 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.

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 the Texas Minimum Construction Standards, as defined in the Texas NSP Program Guidelines.

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, but previously improved properties will address areas of greatest need throughout the state wherever there are large amounts of demolished or vacant, but previously improved 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.

This activity may also be used in conjunction with or coincidental to other eligible activities described in this Amendment, and the costs and outcomes for Redevelopment in those activities have been counted in 6 and 7 below.

(5) Location Description: The greatest need counties in the State of Texas identified on Exhibit 1 as Direct Texas NSP Allocation or Select Pool Eligible.

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

- 15 households – 50% AMI 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% interest 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

County Name	Direct Texas NSP Allocation	Select Pool Eligible	Need Score
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
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

County Name	Direct Texas NSP Allocation	Select Pool Eligible	Need Score
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