

TEXAS DEPARTMENT OF HOUSING
AND COMMUNITY AFFAIRS

**TEXAS
BOOTSTRAP
LOAN
PROGRAM
MANUAL**

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<http://www.tdhca.state.tx.us/oci/forms.jsp>

**THIS MANUAL SUPERSEDES ANY PREVIOUS MANUALS.
COLONIA SELF-HELP CENTERS AND NONPROFIT OWNER-BUILDER HOUSING PROGRAMS
PARTICIPATING IN THE TEXAS BOOTSTRAP LOAN PROGRAM SHALL ADHERE TO ALL UPDATED
POLICIES AND GUIDELINES.**

This Program Manual guides Colonia Self-Help Centers (CSHCs) and Nonprofit Owner-Builder Programs (Administrators) to implement the Program in accordance with Title 10, Part 1 of the Texas Administrative Code, which includes but is not limited to the Single Family Umbrella Rule, the Texas Bootstrap Loan Program Rule, the Texas Housing Trust Fund Rule, the Minimum Energy Efficiency Requirements for Single Family Construction Activities Rule and other programmatic and compliance requirements.

This Program Manual is subject to change from time to time. TDHCA shall notify participating CSHCs and Administrators of Program Manual changes in writing via e-mail. TDHCA will provide notice of Program Manual changes at least ten (10) days prior to the effective date of any change. However, changes will be effective on the date set forth in the notice, regardless of length of prior notice.

TDHCA invites all questions, comments and suggestions regarding this manual. Please refer to Chapter 6 for contact information.

CHAPTER 1: COLONIA SELF-HELP CENTER & NONPROFIT OWNER-BUILDER HOUSING PROGRAM PROCEDURES, ROLES AND RESPONSIBILITIES

At no time may the CSHC or Administrator (or its agent) represent that it is acting as an agent or on behalf of TDHCA or the State of Texas. Any such representation may result in revocation of its approved Administrator Certification.

This Program Manual refers to CSHCs and Administrators as Participants.

LOAN ORIGATION & RESERVATION SYSTEM ACCESS AGREEMENT

TDHCA certifies Participants that wish to originate loans under the Texas Bootstrap Loan Program, and who agree to the terms and conditions of the Loan Origination & Reservation System Access Agreement (Loan Origination Agreement) to TDHCA for final execution. TDHCA will provide a copy of the executed Loan Origination Agreement to the Participant and provide instructions on reservation system access.

PARTICIPANT RESPONSIBILITIES

The Participants shall identify and qualify potential Owner-Builder Applicants for loans under the Program. Participants must be available to Owner-Builder Applicants to answer their questions regarding the loan application; collection of back up documentation; timely delivery of required documents to TDHCA; and any other matters related to the origination, processing, closing and funding of a Bootstrap loan. Activities performed by Participants include, but are not limited to:

- Marketing the Program, Participants must comply with Chapter 20.9 under the Single Family Program Umbrella Rule regarding Fair Housing, Affirmative Marketing & Reasonable Accommodations;
- Performing application intake;
- Reviewing the initial loan application to determine if it is complete and accurate;
- Pre-qualifying the Owner-Builder Applicant;
- Pre-approving all aspects of the loan;
- Providing the Loan Estimate to Owner-Builder Applicant;
- Assisting with the collection and completion of loan processing documents; and
- Providing homeownership education to Owner-Builder Applicants prior to the closing of the loan.

SUBMITTING APPLICANT INFORMATION

TDHCA must receive all the documents listed on the **New Reservation Package Checklist within ten (10) business days** of the date the reservation was submitted into the reservation system, **or within one (1) business day of the Participant receiving the following six pieces of information** via The Housing Contract System ([/https://contract.tdhca.state.tx.us/alligator/Login.m](https://contract.tdhca.state.tx.us/alligator/Login.m)), whichever is sooner:

1. Consumer/Applicant name
2. Consumer/Applicant income
3. Consumer/Applicant Social Security Number to obtain a credit report.

4. Property address
5. The mortgage loan amount sought, and
6. An estimate of the value of the property (sales price)

Once all the information on the New Reservation Package Checklist has been uploaded to TDHCA's reservation system, Participants must notify the appropriate TDHCA staff via email that the information has been submitted.

TDHCA will release a Loan Estimate to the applicant, along with the Acknowledgement of Loan Estimate and Intent to Proceed, Service Provider's List and "Your Home Loan Toolkit booklet, within three (3) business days of receiving the six pieces of information referenced above. TDHCA staff will notify the Administrator when the Loan Estimate has been uploaded to the Housing Contract System. The Administrator must ensure that a copy of the Loan Estimate is provided to the applicant to execute. The Loan Estimate and the Intent to Proceed forms must be signed and returned to TDHCA within seven days of the Owner-Builder Applicant executing both forms.

All New Reservation Packages will be reviewed on a first-come, first-serve basis based on the date/time the Reservation is accepted into the reservation system. There will be no expedited applications except for an Owner-Builder Applicant with an annual income of less than \$17,500 and Reservations to Owner-Builders who will reside in counties and municipalities that agree in writing to waive the capital recovery fees, building permit fee or other fees related to the building of the houses to be built with the loan proceeds.

TDHCA will review the New Reservation Package to ensure that the Owner-Builder Applicant meets all Program Rules and guidelines. Within ten (10) business days from the date the Application/Compliance Package was fully received, the Participant will be notified in writing of TDHCA's determination.

If the Owner-Builder Applicant has been deemed eligible, the funds will be reserved for one year from the date of issuance of a Loan Commitment Contract. TDHCA will notify Financial Administration Staff in writing of all Owner-Builder Applicants that have been deemed eligible so funds may be designated and set-aside for the Owner-Builder Applicant. If the Owner-Builder fails to close on the loan on or before the expiration date stated on the Loan Commitment Contract, the Owner-Builder Applicant will be required to re-qualify for the Program. All updated documents must be submitted to TDHCA prior to the expiration date on the Loan Commitment Contract.

If TDHCA staff is unable to deem the Owner-Builder Applicant eligible, TDHCA will notify the Participant in writing within ten (10) business days from the date the Application/Compliance Package was received.

The Department will not accept incomplete New Reservation Packages and notify the Participant in writing of deficiencies. Unresolved deficiencies after fifteen (15) days will cause the Reservation to be cancelled.

If funds are available, the Participant may resubmit another New Reservation Package to TDHCA to be reconsidered for funding.

OWNER-BUILDER HOMEBUYER EDUCATION CLASSES AND HUD-CERTIFIED HOUSING COUNSELING

Participants shall offer homebuyer education classes that cover:

- The financial responsibilities of an Owner-Builder, including the consequences of failure to meet those responsibilities
- Self-help construction of housing by Owner-Builders
- Resources for low-cost building materials available to Owner-Builders, and
- Resources for building assistance available to Owner-Builders
- Mobility counseling must provide the following:
 - poverty rates
 - average income information
 - school ratings
 - crime statistics
 - available area services
 - public transit
 - other items the Participant deems appropriate to fair housing

Participants shall provide homebuyer education to prospective Owner-Builder Applicants prior to the closing of their Program Loan, and will provide certificates to all attendees who successfully complete the homebuyer education course. In addition, Owner-Builders must be provided HUD-Certified Housing Counseling by HUD-certified counselors working for agencies participating in HUD's Housing Counseling Program. TDHCA must receive copies of the Administrator's Homebuyer Education Class and HUD-certified counseling certificates prior to funding.

Participants shall maintain records of all applications for approved and closed Program Loans, with evidence of actions taken with respect to all applications, for a minimum of five (5) years after the Agreement Period. Participants shall furnish such records to TDHCA upon request and at TDHCA's expense.

LOAN SERVICING AGREEMENT

Participants who execute a Loan Origination Agreement with TDHCA may also request to enter into a Loan Servicing Agreement with TDHCA. TDHCA's approval depends on the Participant's capacity to implement specific loan servicing functions.

DEFECTIVE MORTGAGE LOANS

Participants in its capacity under this Program warrant that they shall comply with any law, Program Rules or Policy developed by TDHCA regarding this Program. TDHCA may at any time during the Loan Origination Agreement period and term of the Program loan, review any forms, applications, mortgage documents or other documents. If in TDHCA's judgment, such forms are defective or inaccurate in any material respect, or if the Participant is in breach or violation of any representation, warranty, or covenant of the mortgage loans purchased hereunder, the Participant shall cure the defect:

- a) on or before the thirtieth (30) day from the date Participant is aware, or should have been aware, of such defect,

- b) a time period required by other law, or
- c) a time period agreed upon in writing by TDHCA and the Participant necessary to affect such a cure.

ADMINISTRATIVE FEE

TDHCA will give Participants a ten percent (10%) administration fee upon completion of the house and closing of each mortgage loan.

NOTIFICATION OF CHANGES RELATED TO PARTICIPANT'S BUSINESS

Participants must notify TDHCA immediately of any changes in the Participant's business structure, business functions or contact information. Participants must submit to TDHCA in writing any changes such as, but not limited to, addresses, telephone numbers, revised wiring instructions, and contact persons.

CONFLICT OF INTEREST

No person who is an employee, agent, consultant, officer, trustee, director, member of a governing board or other oversight body, elected official or appointed official of the Participant who exercises or has exercised any functions or responsibilities with respect to Housing Trust Fund activities under the State Act, or who is in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a personal or financial interest or benefit from a Housing Trust Fund assisted activity, or have an interest in any Housing Trust Fund contract, subcontract or agreement or the proceeds hereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter.

The Participant may not accept an application or loan application from any of its officers or employees nor any spouse or person related within the third degree of affinity (marriage) or consanguinity (blood) to any officer or employee of the Participant.

FIRST YEAR CONSULTATION AGREEMENT

As part of its internal quality control process, TDHCA reviews all of the loans it funds under this Program to ensure they meet Program Rules and guidelines. In addition, TDHCA reviews all loans that have early payment defaults. Loans determined to be fraudulent are subject to immediate repurchase and could constitute cause for termination of the Participant relationship in accordance to TDHCA's Administrative Rules.

If TDHCA notifies a Participant that an Owner-Builder (Mortgagor) has failed to make a scheduled payment (or any other payment) due under the Program loan within the first twelve (12) months of funding, the Participant is required to counsel and assist the Owner-Builder until the payments are made current.

After consultation and in the event that TDHCA and the Participant are not able to reach a consensus about the attempts to bring the Program loan current per the Loan Origination Agreement, TDHCA may apply appropriate graduated sanctions leading up to, but not limited to, deobligation of funds and future debarment of the Participant from the Program, in

accordance with TDHCA Administrative Rules.

INSPECTION MONITORING AND COMPLIANCE

TDHCA may conduct periodic on-site monitoring and evaluation of the efficiency, economy, and efficacy of Participant's performance. TDHCA will advise Participant in writing of any deficiencies noted during such monitoring. TDHCA will provide technical assistance to Participant and will require or suggest changes in Participant's program implementation or in Participant's accounting, personnel, procurement, and management procedures in order to correct any deficiencies noted. TDHCA may conduct follow-up visits to review and assess the efforts Participant has made to correct previously noted deficiencies.

Participant will cooperate with the TDHCA in arranging for inspections by representatives of the TDHCA to determine the progress of the services provided under the Loan Origination Agreement in accordance with the Program Documents and/or Program Requirements from time to time and will promptly comply with TDHCA's requirements or satisfy any objections regarding this project or the progress thereof. At the completion of construction, if any, and before the release of retainage funds, if any, all construction must pass final inspection. All inspections conducted by the TDHCA are solely for the benefit of TDHCA.

DISBURSEMENT OF FUNDS & REFUNDS

Participants must make all requests for Program funds in accordance with the Loan Origination Agreement and as noted in the Program Rules and Program Manual.

Participants shall refund TDHCA any Program funds that TDHCA determines are the result of overpayment to the Participant, or any Program funds that have not been spent strictly in accordance with the terms of the Loan Origination Agreement, Program Rules, Program Manual or Program documents. The Participant must issue the refund to TDHCA within ten (10) business days after TDHCA submits its request in writing.

REPORTING & RECORDS RETENTION

Participants shall provide any and all reports to TDHCA as required by and in accordance with the Loan Origination Agreement, the Program Rules and Program Manual. TDHCA may use any Program reports, information, and/or products to measure accomplishments in achieving Program objectives.

The Participant shall establish and maintain sufficient records, as specified by TDHCA, including records that demonstrate that each household assisted with funds provided under the Loan Origination Agreement is an income eligible Owner-Builder Applicant. Participant agrees to maintain such records in an accessible location.

All records pertinent to the Program, such as project costs and certification work papers, shall be retained by the Participant for five (5) years following the date of termination of the Loan Origination Agreement. Participants agree that TDHCA or any of its duly authorized representatives shall have the right to access and to examine all books, accounts, records, reports, files, and other property belonging to or in use by Participants pertaining to the Program. Such rights to access shall continue as long as the records are retained by Participant.

Participant agrees to maintain such records in an accessible location.

Open Records. All Participants acknowledge that all information collected, assembled, or maintained by Participant pertaining to the Loan Origination Agreement is subject to the Texas Public Information Act (Chapter 552 of the Texas Government Code) and must provide citizens, public agencies, and other interested parties with reasonable access to all records pertaining to the Program subject to and in accordance with the Laws. Participants agree to cooperate with TDHCA, as applicable, in this regard.

Certification Regarding Undocumented Workers. Pursuant to Chapter 2264 of the Texas Government Code, by execution of the Loan Origination Agreement, Participants certify that the Participant, or a branch, division or department of the Participant does not and will not knowingly employ an undocumented worker, where “undocumented worker” means an individual who, at the time of employment, is not lawfully admitted for permanent residence to the United States or authorized under law to be employed in that manner in the United States. If, after receiving a public subsidy, the Participant, or a branch, division, or department of the Participant is convicted of a violation under 8 U.S.C. Section 1324a(f), it shall repay the amount of the public subsidy with interest, at the rate and according to the other terms provided by an agreement under Texas Government Code Section 2264.053, not later than the 120th day after the date TDHCA provides notification of the violation.

Personal Responsibility and Work Opportunity Act (PRWORA). Under PRWORA, if an individual is applying for funds or other benefits, the Participant may be required to verify that the individual applying is qualified for under PRWORA, Pub. L. 104-193, 100 Stat. 2105, codified at 8 U.S.C. Section 1601 et. seq. as amended by Omnibus Appropriations Act, 1997, Pub. L. 104-208. The Participant must utilize the U.S. Citizenship and Immigration Service's "Systematic Alien Verification for Entitlements" (SAVE) Program. The SAVE Program is an inter-governmental information service initiative which verifies immigration status of benefit applicants.

PRWORA generally requires state and local agencies that directly administer federal programs to verify the immigration status of all applicants for “federal public benefits”, Welfare Act Section 432, 8 USC 1642(b).

PRWORA exempts nonprofit, charitable organizations from any requirement to determine, verify, or otherwise require proof of immigrant eligibility or status. However, nonprofit, charitable organizations that are considered public organizations do *not* qualify for the exemption from PRWORA requirements. Such entities include, but are not limited to: Public Housing Authorities, Local Mental Health Authorities, Housing Finance Agencies, Councils of Government, and their associated instrumentalities or affiliate organizations. Instrumentalities of a city or a county, even if organized as a 501(c)(3), do *not* meet the exemption.

If the Participant is exempt from PRWORA, it may be required to execute and submit a Nonprofit Charitable Organization Certification to TDHCA for review and approval. If the Participant is *not* exempt, it will be required to verify that the individual applying for Program funds is qualified under PRWORA.

LIMITED ENGLISH PROFICIENCY

Participants must have a Language Assistance Plan that ensures persons with Limited English Proficiency ("LEP") have meaningful access and an equal opportunity to participate in services, activities, programs, and other benefits.

Materials that are critical for ensuring meaningful access to a Participant's major activities and programs, including but not limited to Applications, mortgage loan applications, consent forms and notices of rights, should be translated for any population considered least likely to apply that meets the threshold requirements of Safe Harbor LEP provisions as provided by HUD and published on TDHCA's website. Materials considered critical for ensuring meaningful access should be outlined in the Participant's Language Assistance Plan.

If the Participant is required to translate vital documents under Safe Harbors guidelines, they must include in their Language Assistance Plan how such translation services will be provided (e.g., whether the Participant will use voluntary or contracted qualified translation services, telephonic services, or will identify bilingual staff that will be available to assist Owner-Builder Applicants in completing vital documents and/or accessing vital services). If the Participant plans to use bilingual staff in its translation services, contact information for bilingual staff members must be provided.

The plan must be submitted to TDHCA upon request and be available for review during monitoring visits.

Participants must offer reasonable accommodations information and Fair Housing rights information in both English and Spanish, and other languages as required by the inclusion of "least likely to apply" groups to reach populations identified as least likely to apply.

RESERVATION SYSTEM

Under Chapter 2306, Subchapter Z of the Texas Government Code, CSHCs are established as organizations certified by TDHCA as a Nonprofit Owner-Builder Housing Program, as defined under Chapter 2306, Subchapter FF of the Texas Government Code.

Procedures for Reservation System. Participants must input each Owner-Builder Applicant on the Texas Bootstrap Loan Program reservation system. Before entering any information into the reservation system, the Participant **must obtain the census tract number** for the property and **must have verified whether the property is located in the 2/3 Set-Aside or 1/3 Statewide Set-Aside**. If the Participant selects the incorrect allocation, the Reservation will be subject cancellation.

To obtain the census tract number the Participant may use the following website:
<https://geomap.ffiec.gov/ffiecgeomap/>

To verify whether the property census tract is considered part of the 2/3 Set-Aside or the 1/3 Statewide Set-Aside, please visit the census tracts link on the Program webpage:
<https://www.tdhca.texas.gov/sites/default/files/ocidocs/EligibleCensusTracts.xlsx>

A reservation of funds for a Program loan application may be subject to cancellation if all documents listed on the **New Reservation Checklist** are not submitted to TDHCA within ten

(10) business days of the date the Reservation was entered into the reservation system. Input of an Owner-Builder Applicant's information into the reservation system does not guarantee funding.

Prior to issuing a Loan Commitment Contract, TDHCA may decline to fund any Reservation entered into the reservation system if the proposed housing activities do not, in TDHCA's sole determination, represent a prudent use of TDHCA's funds. TDHCA is not obligated to proceed with any action pertaining to any Reservation that is entered, and may decide it is in TDHCA's best interest to refrain from committing the funds. If TDHCA has issued a Loan Commitment Contract to the Owner-Builder Applicant, but the Participant and/or Owner-Builder Applicant has not complied with all the Program Rules and guidelines, TDHCA may suspend funding until the Participant and/or Owner-Builder Applicant has satisfied all requirements of the Program. If the Participant is unable to cure any deficiencies within fifteen (15) days, TDHCA may provide a one-time fifteen (15) day extension or decline to fund the Reservation.

Modification of Loan Reservation. After a Reservation has been secured, the Participant must notify TDHCA of any changes to the Program loan application, such as a cancellation, change in the sales price or change in the loan amount. The Participant will not be permitted to change the names, social security numbers or data pertaining to the Owner-Builder Applicant once the loan has been registered, unless construction has commenced and of the following events has occurred: death, illness, divorce, loss of income, non-performance by Owner-Builder Applicant or for other acceptable reason as approved by TDHCA where the Owner-Builder Applicant is unable to perform.

Origination Procedures and Standards. The Participant shall originate all mortgage loans under this Program in accordance with the Program Rules, Program Manual and Loan Origination Agreement.

Mortgage Loan Terms. Each mortgage loan shall:

- Be made to an eligible Owner-Builder Applicant to provide financing for a single-family dwelling;
- Be evidenced by a mortgage lien note and secured by a mortgage creating either a first lien or second lien on such residence, subject to permitted encumbrances. TDHCA may accept a subordinate lien position if the original principal amount of the leverage mortgage loan is at least fifty-five percent (55%) of the combined loans. However, liens related to other subsidized funds provided in the form of grants and non-amortizing loans, such as deferred payment or forgivable loans, must be subordinate to TDHCA's loan;
- For purchase money loans, payments are due and payable on the first day of each month. Initial principal payments must be paid no later than the first day of the second month following the closing date;
- For residential construction loans, payments are due and payable on the first day of each month beginning no later than the first day of the 12th month following the closing date of mortgage loan.

CHAPTER 2: PROGRAM ELIGIBILITY GUIDELINES

Legislative mandate and Program Rules establish the eligibility restrictions by which TDHCA purchases and funds Program loans with Housing Trust Fund dollars.

Owner-Builders with an income of less than \$17,500 annually shall be given priority for loans under this Program.

LOAN PROGRAM GUIDELINES

TDHCA will fund or purchase loans that conform to the lending parameters and the specific loan Program requirements delineated herein.

Administrator. Nonprofit Owner-Builder Housing Provider.

Annual Household Income. The Owner-Builder Applicant(s) total household income may not exceed 80% of the AMFI for the area in which the property is located as determined by TDHCA, or may not exceed the statewide income limits, whichever is greater. Total household income includes income of the Owner-Builder Applicant combined with the income of any person who resides with the Owner-Builder Applicant(s), including non-purchasing spouses. Tax Returns, W2s, two month's most recent paycheck stubs, or verification of employment must be submitted to document household income. Determining Annual Household Income for this purpose is defined in 24 CFR §5.603.

All household income must be included in determining income eligibility for the Program, regardless of the stability of the income. Income that is not stable will *not* be utilized for determining the debt-to- income ratio.

Owner-Builder Applicant(s) income must be certified by the Owner-Builder Applicant(s) and the Administrator with the execution of the Household Income Certification form.

Appraisal Report. An appraisal is an opinion by a licensed real estate appraiser about the fair market value of a home. TDHCA requires a final appraisal report on all loans to be purchased and/or originated by TDHCA. The Participant must examine the outstanding liens on the residence and compare those to the value of the residence. Participants should ensure that the value represents adequate security for the amount of the loan.

Builder's Risk Insurance. Builders Risk Insurance is a form of property insurance that covers property owners and builders for projects under construction, renovation or repair. Similar to Building and Personal Property coverage, Builders Risk Insurance covers buildings during the course of construction. TDHCA requires Builder's Risk Insurance for all Interim and Residential Construction Loans. The policy must be in effect for one year from the date of closing.

Closing Costs. Eligible closing costs include, but are not limited to: title and transfer costs, title insurance, survey, recording costs, escrow fees, and other similar settlement or fees to the extent that the amount of the fee(s) does not exceed the amount customarily charged in the area, tax and insurance reserves. Other eligible miscellaneous costs which might be associated with closing a real estate transaction include: attorney fees, appraisals, credit reports, prepaid interest, homeowner's insurance, and reserves the lender collects for future taxes and

insurance.

Closing Disclosure. This disclosure is a closing document required by the Consumer Financial Protection Bureau (CFPB) to provide disclosures that help consumers understanding all of the costs of the transaction. This form must be provided to the consumers at least three (3) business days before consummation of the loan and is composed of the HUD-1 and final Truth-in-Lending (TIL) disclosure.

Colonia Self-Help Center (CSHC). As defined under Subchapter Z, Chapter 2306 of the Texas Government Code.

Combined Loan-to-Value (CLTV) Ratio. The combined loan-to-value (CLTV) ratio expresses the amount of all mortgage liens as a percentage of the total appraised value of real property. The CLTV may not exceed 100% of the appraised value. The lien amounts of all loans including forgivable loans must be included in the combined loan-to-value ratio.

Credit report. TDHCA will obtain its own tri-merge credit report upon receipt of an Application/Compliance Package from a Participant. A review of credit activity will be established during TDHCA underwriting.

Document Preparation Fee. TDHCA uses an outside third party to prepare the loan closing documents. The document preparation fee covers the cost of this service. The actual amount of the fee will be disclosed on the Loan Estimate, at the time of application. The Participant or the Owner-Builder Applicant will be responsible for this fee.

Escrow Account. If TDHCA is in a first lien position and will service the loan, TDHCA will require that an account be established to which the borrower contributes monthly payments to cover the anticipated costs of real estate taxes, hazard and flood insurance premiums, and other related costs. TDHCA may require that up to two (2) months of reserves for hazard and/or flood insurance and property taxes to be collected at the time of closing and deposited with TDHCA. In addition, TDHCA may also require that the property taxes be prorated and deposited with TDHCA at the time of closing.

Owner-Builders must pay their property taxes and insurance by depositing monthly funds into an escrow account with the mortgage loan servicer. This ensures that funds are available to pay for the cost of property taxes, insurance premiums, and other assessments when they come due. These funds are included in the Owner-Builders monthly payment to TDHCA. TDHCA will establish and administer the escrow accounts in accordance with the Real Estate Settlement and Procedures Act of 1974 (RESPA).

Hazard Insurance. Hazard insurance is required and must protect against loss or damage from fire, windstorm, hurricane, hail and other hazards covered by the standard extended coverage endorsement. If the property insurance policy includes such limitations and exclusions, the borrower must obtain a separate policy or endorsement from another insurer that provides adequate coverage for the limited or excluded peril. The coverage must provide for claims to be settled on a replacement cost basis. TDHCA must be listed on the policy as Mortgagee. One full year of hazard insurance, plus two month premium will be required to be escrowed. TDHCA must be named as loss payee (or the policy must be endorsed to TDHCA), showing the following address:

Texas Department of Housing and Community Affairs, Its Successors and/or
Assigns
Loan #
P.O. Box 13941
Austin, Texas 78711-3941

Homeownership Education Class. Owner-Builder must successfully complete an Owner-Builder homeownership education class prior to loan closing. Charges for enrollment in an Owner-Builder home ownership education class may not exceed \$50.

HUD Certified Housing Counseling. Owner-Builder must successfully complete HUD-Certified counseling prior to loan closing.

Interest Rate. The only interest rate acceptable by the Program is 0%.

Leveraged Loans. When additional loans are utilized under this Program, lenders are expected to charge reasonable and customary interest rates and fees. The Nonprofit Owner-Builder Housing Program may assist the applicant to negotiate favorable terms.

Projects utilizing non-TDHCA resources will be required to provide information identifying the sources of these additional funds and information about their rates and terms. **This information must be provided to TDHCA on the Loan Submission Form** at the time of application. **In addition a copy of the Note and Deed of Trust for all lien holders** will be required to be submitted to TDHCA prior to loan closing.

Lien Position. A loan made by TDHCA shall be secured by a first lien on the real property if TDHCA's loan is the largest amortized, repayable loan secured by the real property; or

TDHCA may accept parity lien position if the original principal amount of the leveraged loan is equal to or greater than TDHCA's loan; or

TDHCA may accept a subordinate lien position if the original principal amount of the leveraged loan is at least fifty-five percent (55%) of the combined repayable loans; however, liens related to other subsidized funds provided in the form of grants and non-amortizing loans, such as deferred payment or forgivable loans, must be subordinate to TDHCA's payable loan.

Loan Amount. Per household assistance from TDHCA for any Texas Bootstrap Loan Program loans must be a minimum of \$1,000 and may not exceed \$45,000 per household pursuant to Section 2306.754(b) of the Texas Government Code. The Owner-Builder must obtain the amount necessary that exceeds \$45,000 from other sources of funds including other TDHCA funds with the exception of funds being utilized to implement the Texas Bootstrap Loan Program.

Loan Assumption. A Program loan is assumable if TDHCA determines that the buyer complies with all Program restrictions in effect at the time of the assumption.

Loan Commitment Contract. TDHCA will issue a Loan Commitment Contract which reserves up to \$45,000 per Reservation for 12 months from the date of the letter. Owner-Builder Applicant

will not need to re-qualify for the Program if the Owner-Builder Applicant closes on the loan on or before the expiration date stated on the Loan Commitment Contract issued by TDHCA. If the Owner-Builder Applicant fails to close on the loan on or before the expiration date, the Owner-Builder Applicant will be required to re-qualify for the Program. Participants must submit an updated loan application, updated pay stubs, updated bank statements, updated tax returns and an updated credit report. After reviewing the updated documents, TDHCA may grant an extension of up to 90 days from the expiration date stated on the Loan Commitment Contract. Participants should be prepared to provide TDHCA with additional information.

Loan Estimate. A form required by the Consumer Financial Protection Bureau which is designed to provide disclosures that will be helpful to consumers in understanding the key features, costs, and risks of the mortgage loan for which they are applying, and must be provided to consumers no later than the third business day after they submit a loan application. The Good Faith Estimate (GFE) and the initial Truth-in-Lending disclosure (initial TIL) have been combined into the Loan Estimate. TDHCA is not required to provide a Loan Estimate if we deem the applicant ineligible and issue a notice of ineligibility before the end of the third business day after receiving the loan application.

Loan Prepayment. Prepayment is permitted in whole or in part, at any time without penalty.

Loan Servicing Fees, Loan Processing Fees, Origination Fees, Underwriter Fees. These fees are prohibited in relation to the origination or servicing of a Texas Bootstrap Loan Program loan, but may be charged as an allowable cost by a third party lender for the origination or servicing of all other loans in connection with a Texas Bootstrap Loan Program loan.

Loan Terms. The maximum Program loan term is 30 years, the minimum Program loan term is 5 years. Forgivable loan terms may not exceed 15 years.

Mortgagee's title insurance policy. A mortgagee's title insurance is required on all loans originated and/or purchased by TDHCA. This is a policy that protects the lender from future claims to ownership of the mortgaged property.

Notice of Electronic Disclosure of Protected Health Information. The Texas Department of Housing and Community Affairs ("TDHCA") is a "covered entity" as that term is defined in Tex. Health & Safety Code Chapter 181, Medical Records Privacy. As such, TDHCA is required to provide this notice of electronic disclosure of protected health information ("Notice") to an individual for whom TDHCA creates or receives protected health information. Protected health information includes information that relates to (1) the past, present, or future physical or mental health or condition of an individual; or (2) the provision of health care to an individual; or (3) the past, present or future payment for the provision of health care to an individual, that is transmitted or maintained in any form or medium, held by TDHCA or its business associates.

If Participant collects or receives documentation for disability, medical records or any other medical information from Owner-Builder Applicant in the course of administering the Program, including to determine income eligibility and other eligibility requirements under the Program Requirements, Participant shall comply with the Protected Health Information state and federal laws and regulations, as applicable, under 10 TAC §1.24, Chapter 181 of the Texas Health and Safety Code, the Health Insurance Portability and Accountability Act of 1996 ("**HIPAA**") (Pub.L. 104-191, 110 Stat. 1936, enacted August 21, 1996) the HIPAA Privacy Rules (45 CFR Part 160

and Subparts A and E of 45 CFR Part 164).

Occupancy Requirement. The Owner-Builder Applicant must occupy the home as their primary residence within 30 days of the latter of: the end of the construction period or the closing of the loan. Any additional habitable structures must be removed prior to closing. Owner-Builder Applicant will be required to sign at closing an Affidavit of Occupancy. Portion of the former structure may be utilized as storage upon TDHCA's written approval prior to closing.

Participant. A Colonia Self-Help Center or a nonprofit organization which submits an application to TDHCA to be certified as an Administrator.

Property Taxes. TDHCA requires that all property taxes be current at the time of closing. TDHCA may also require that the Owner-Builder Applicant deposit up to two months of reserves into an escrow account. Funds from the Program may not be used to pay delinquent property taxes; only in conjunction with an approved repayment plan.

Residency Requirement. Owner-Builder Applicant must have resided in this State for the preceding six months.

Sales Contract. A contract for the purchase/sale, exchange, or other conveyance of real estate between parties. The contract must be in writing, contain the full names of the buyer(s) and seller(s), identify the property address or legal description, identify the sales price, and include signatures by the parties. Sales contracts are also known as agreements of sale, purchase agreements, or contracts for sale and include all the terms pertinent to the sale. All dates agreed to on the sales contract must be valid and enforceable at the time of closing.

Self-Help Agreement. The Owner-Builder Applicant must execute a Self-Help Agreement committing to provide through personal labor at least 65% of the labor necessary to build or rehabilitate the proposed housing working through a state-certified Administrator; or provide an amount of labor equivalent to 65% in connection with building or rehabilitating housing for others through a state certified Administrator; provide through the non-contract labor of friends, family, or volunteers and through personal labor at least 65% of the labor necessary to build or rehabilitate the proposed housing by working through a state certified Administrator or if due to a documented disability or other limiting circumstances the Owner-Builder cannot provide the amount of personal labor otherwise required; provide through the non-contract labor of friends, family or volunteers at least 65% of the labor necessary to build or rehabilitate the proposed housing by working through a state certified Administrator. Time sheets must be kept for each Owner-Builder; an Administrator may use their own timesheets. In addition to the time sheets. The Owner- Builder and Administrator will be required to execute an affidavit of self-help at closing.

Title to Property. Owner-Builder must own or be purchasing a piece of real property through a Warranty deed or a Contract for deed. (When refinancing a contract for deed TDHCA will not disburse any portion of the TDHCA loan until the Owner-Builder receives a deed to the property).

Total Debt-to-Income Ratio. Shall not exceed 45%.

Government Monitoring. The Equal Credit Opportunity Act requires that a lender request the

Owner-Builder Applicant's race, national origin, sex, marital status, and age. While the disclosure of this information is voluntary on the part of the Owner-Builder Applicant(s), it is the Participant's responsibility to complete the Government Monitoring Section of the application by visual observation if the Owner-Builder Applicant(s) does not volunteer the information.

White out and correction tape. Use of white out and correction tape is prohibited. Any corrections made on any application, application documents and loan documents are to be lined out, with the correct information inserted nearby and initialed by all Owner-Builder Applicants.

TYPES OF ELIGIBLE ACTIVITIES

Contract For Deed Conversions. Program funds may be used to convert a contract for deed to a Warranty Deed with a Note and Deed of Trust and facilitate new construction, reconstruction or rehabilitation.

Lot Acquisition. Program funds may be used to acquire land to build a new home.

New Construction. Funds may be used for the development of new single family housing.

Rehabilitation. Funds may be used to improve existing residential housing. Improvements on manufactured homes are not permitted.

TYPES OF FUNDING TRANSACTIONS

All mortgage loans funded by TDHCA will be evidenced by a promissory note and will be secured by a lien on the subject property. The following transaction types are permitted by TDHCA under the Program.

Purchase Money. In a purchase money transaction, all proceeds are used to finance the purchase of a single-family dwelling unit and/or a piece of real property, which will be the Owner-Builder's primary residence within 30 days of closing the loan. In this instance, a permanent loan is made and the Owner-Builder's repayment obligation begins immediately. Loan funds are disbursed in accordance to the Funding Checklist. In certain situations, eligible closing costs may be financed by the loan proceeds.

Residential Construction (One Time Closing with Owner-Builder Applicant). This transaction is treated as a purchase, because it is a one-time closing with the Owner-Builder. Residential construction loan funding is restricted up to 3 draws and a maximum construction period of 12 months or the terms of the Reservation. Loan funds are disbursed in accordance to the "Residential Construction Funding Checklist." A Construction Loan Agreement must be signed by all parties, the term of the agreement shall not exceed 12 months or the terms listed on the Owner-Builder's Loan Commitment Contract.

The Participant must **comply** with the **Construction Requirements for Single Family Affordable Housing** under Section 2306.514 of the Texas Government Code, and with Title 10, Part 1,

Chapter 21, Texas Administrative Code Minimum Energy Efficiency Requirements for Single

Family Construction Activities.

For all **Rehabilitation projects**, Participants must also comply with the **Texas Minimum Construction Standards**.

Builder's Risk Insurance is required to be provided effective from the date of closing for the term of the Construction Loan Agreement.

NOTE: PARTICIPANT IS RESPONSIBLE FOR ENSURING THAT ALL NECESSARY DOCUMENTS HAVE BEEN FILED OF RECORD BEFORE ANY WORK HAS STARTED AND ANY MATERIALS DELIVERED TO THE WORK-SITE. NO MATERIALS CAN BE DELIVERED NOR CAN CONSTRUCTION BEGIN UNTIL THE FOURTH BUSINESS DAY AFTER CLOSING.

The Participant must make certain that TDHCA has completed its required inspections before each draw to support the draw request, except for the 1st draw, which is advanced to start construction.

TDHCA retains ten percent (10%) to comply with statutory requirements to avoid liens by subcontractors. The 10% retainage is released 31 days after the Affidavit of Completion has been filed of record in the county's real property records.

Please note that if the Participant will be building or rehabilitating a home on a lot owned by the Owner- Builder Applicant the Participant must ensure that all appropriate lien documents have been filed of record prior to any work being started and any materials have been delivered to the work-site. TDHCA will not fund a loan where a valid lien was not secured by the Participant.

Interim Construction (Closing with Participant). Interim Construction is a commercial transaction between the Participant and TDHCA. Loan funding is restricted up to 3 draws per property and a maximum construction period of 12 months or the terms of the Reservation. Loan funds are disbursed in accordance to the "Interim Construction Funding Checklist". A Construction Loan Agreement must be signed by all parties; the term of the agreement may not exceed 12 months or terms listed on the Owner-Builder's Loan Commitment Contract.

The Participant must comply with the Construction Requirements for Single Family Affordable Housing under §2306.514 of the Texas Government Code, and with Title 10, Part 1, Chapter 21, Texas Administrative Code Minimum Energy Efficiency Requirements for Single Family Construction Activities

Builder's Risk Insurance is required to be provided effective from the date of closing for the term of the Construction Loan Agreement.

Once construction is completed the loan between the Owner-Builder Applicant and TDHCA must still be completed. Please refer the Funding Checklist. If TDHCA will be preparing the closing documents for closing between the Owner-Builder Applicant and TDHCA; an improvement survey and an updated title commitment along with copies of covenants, restrictions and easements listed on the title commitment must be provided in order for TDHCA's Legal Department to prepare loan documents.

NOTE: PARTICIPANT IS RESPONSIBLE FOR ENSURING THAT ALL NECESSARY DOCUMENTS HAVE BEEN FILED OF RECORD BEFORE ANY WORK HAS STARTED. DELIVERY OF MATERIALS TO THE WORKSITE AND COMMENCEMENT OF CONSTRUCTION MAY BEGIN THE FOURTH BUSINESS DAY AFTER CLOSING.

The Participant must make certain that inspections are conducted before each draw to support the draw request, except for the 1st draw, which is advanced to start construction.

TDHCA retains ten percent (10%) to comply with statutory requirements to avoid liens by subcontractors. In the event of subordinate lien financing by TDHCA, funding may take place after construction is completed. The 10% retainage is released 31 days after the Affidavit of Completion has been filed of record in the county's real property records.

Purchase of Mortgage Loans. TDHCA may purchase and take assignments from mortgage lenders of notes and other obligations evidencing loans or interest in loans for purchase money transaction and residential construction transactions.

OTHER DOCUMENTS

Blueprints. If activity is interim or residential construction, Participant must provide a set of the proposed blueprints to be approved by TDHCA prior to start of construction. Blueprints must include the required construction requirements pursuant to §2306.514 of the Texas Government Code. All blueprints submitted for approval must be prepared and executed by an architect or engineer licensed by the state of Texas.

Work Write-up. The Participant must submit a work write-up for all rehabilitation projects. Work write-ups must be reviewed and approved by TDHCA prior to start of construction.

Other Contracts. For Purchases, new construction or rehabilitation under the Program the applicable contract should include all addenda and amendments thereto, and be fully signed and dated by all parties. All terms of the contract must be met prior to closing.

CHAPTER 3: UNDERWRITING AND DOCUMENT GUIDELINES

TDHCA's underwriting philosophy is an attempt to determine the ability and willingness of the Owner- Builder Applicant to service the proposed debt, as evidenced by the Owner-Builder Applicant's income, credit worthiness, assets, and the quality and present value of the property in relation to the loan amount requested.

Bank Statements. Owner-Builder Applicant must submit either a Asset Verification Form completed by the financial institution showing the 6 month average balance for the household's accounts OR 6 months of the most recent bank statements for checking accounts and 1 month of the most recent bank statements for savings accounts, all pages. The bank statements must show a beginning and ending balance. If the statements provided are missing either the beginning or ending balance, additional bank statements will be required. If any non-sufficient funds or bank deficiencies are noted in the bank statements, Owner-Builder Applicant is required to submit a written explanation. If any payday loans are noted in the bank statements, the payday loan must be paid off before a Loan Commitment is released. Any out-of-ordinary debits/deposits or credits \$500 or over on submitted bank statements, will require a written and signed statement from the applicant(s). Any bank statement deficiencies are subject for final review to determine applicant eligibility.

Co-signers. TDHCA does not allow co-signers.

Credit Qualifications. Owner-Builder Applicants must have a credit history that indicates reasonable ability and willingness to meet debt obligations. In order for TDHCA to make a reasonable determination, TDHCA obtains a tri-merge credit report on all Owner-Builder Applicants including any non-purchasing spouse submitted to TDHCA for approval. In addition to the initial credit report, TDHCA may at its discretion obtain one or more additional credit reports before loan closing to ensure the potential borrower still meets Program requirements. Acceptable outstanding debt means that all accounts are paid as agreed and are current.

Unacceptable Credit. Owner-Builder Applicants meeting one or more of the following criteria will not be qualified to receive a loan from TDHCA.

- A credit history reflecting payments on any open consumer, retail and/or installment account (*e.g.*, auto loans, signature loans, credit cards or any other type of retail and/or installment loan, with the exception of a medical account) which have been delinquent for more than 30 days on two or more occasions within the last 12 months and must be current for the six months immediately preceding the loan application date.
- If any open payday loans are found on the Applicant(s) credit report, the payday loan must be paid off to mitigate this form of unacceptable credit.
- A foreclosure or deed-in-lieu of foreclosure or a potential borrower in default on a mortgage at the time of the short sale any of which had occurred or been completed within the last 24 months prior to the date of loan application.
- An outstanding Internal Revenue Service tax lien or any other outstanding tax liens where the potential borrower has not entered into a satisfactory repayment arrangement and been current for at least 12 months prior to the date of loan application.
- A court-created or court-affirmed obligation or judgment caused by nonpayment that is outstanding at the date of loan application or any time prior to closing of the Mortgage

Loan.

- Any account (with the exception of a medical account) that has been placed for "collection," "profit and loss" or "charged off" within the last 24 months prior to the date of loan application.
- Any reported delinquency on any government debt at the date of loan application.
- A bankruptcy that has been filed within the past 24 months prior to the date of loan.
- Any reported child support payments in arrears unless the potential borrower has satisfactory payment arrangements for at least 12 months prior to the date of loan.

Mitigation for Unacceptable Credit. The following exceptions will be considered mitigation to the unacceptable credit criteria:

- The potential borrower is a Domestic Farm Laborer and receives a substantial portion of his/her income from the production or handling of agriculture or aquacultural products, and has demonstrated the ability and willingness to meet debt obligations as determined by TDHCA
- The potential borrower has medical accounts that are delinquent or that have been placed for collection.
- The potential borrower provides documentation to evidence that the outstanding delinquency or unpaid account has been paid or settled or the potential borrower has entered into a satisfactory repayment arrangement or debt management plan and been current for at least 12 consecutive months prior to the date of loan.
- The potential borrower submits to TDHCA a written explanation of the cause for the previous delinquency, which is acceptable to the Executive Director or his or her designee.
- Any and all outstanding judgments must be released prior to closing of Mortgaged Loan.
- If a potential borrower an applicant is currently participating in a debt management plan, the trustee or assignee provides a letter to TDHCA stating they are aware and agree with the potential borrower applying for a Mortgage Loan. If a potential borrower filed a bankruptcy, the bankruptcy must have been discharged or dismissed more than 12 months prior to the date of loan application and the potential borrower has re-established good credit with at least one existing or new active consumer account or credit account that is in good standing with no delinquencies for at least 12 months prior to the date of loan application.
- (vii) If a Chapter 13 Bankruptcy was filed, a potential borrower must have satisfactorily made 12 consecutive payments and obtain court trustee's written approval to enter into Mortgage Loan.

Legal Age. All Owner-Builder Applicants must be age 18 or older in order to legally enforce the Note and Deed of Trust in the State of Texas.

Liabilities. The potential borrower's liabilities include all revolving charge accounts, real estate loans, alimony, child support, installment loans, and all other debts of a continuing nature with more than ten (10) monthly payments remaining. Debts for which the potential borrower is a co-signer will be included in the total monthly obligations. For payments with ten or fewer monthly payments remaining, there shall be no late payments within the past 12 months or the debt will be included into the debt ratio calculation. Payments on installment debts which are paid off prior to funding are not included for qualification purposes. Payments on all revolving debts (*e.g.*, credit cards, payday loans, lines of credit, unsecured loans) and certain

types of installment loans that appear to be recurring in nature will be included in the

Debt-to-Income Ratio calculation, even if the potential borrower intends to pay off the accounts, since the potential borrower can reuse those credit sources, unless the account is paid off and closed. If the credit report shows a revolving account with an outstanding balance but no specific minimum payment, the payment must be calculated as the greater of 5% of the outstanding balance or \$10. If the potential borrower provides a copy of the current statement reflecting the monthly payment that amount may be used for the debt ratio calculation.

Payments on any type of loan that have been deferred or have not yet commenced, including accounts in forbearance will be calculated using one percent (1%) of the outstanding balance or monthly payment reported on the potential borrower's credit report for student loans, whichever is less. Other types of loans with deferred payment will be calculated using the monthly payment shown on the potential borrower's credit report. If the credit report does not include a monthly payment for the loan, the monthly payment shown in the loan agreement or payment statement will be utilized. If a potential borrower provides written evidence that debt will be deferred at least 12 months from the date of closing, the debt will not to be included in the debt ratio calculation.

Non-Traditional Credit and Insufficient Credit. Applicants must provide three lines of nontraditional credit such as utility payments, auto insurance, cell phone payments, child care or other credit, as approved by TDHCA, listed in their name and reflecting no more than one 30 day delinquency on payments due to nontraditional creditors within the last 12 months and meet the requirements of Chapter 3's Credit Qualification section.

Equal Credit Opportunity Act. TDHCA and/or the Participant on behalf of TCHCA will comply with all federal and state laws and regulations relating to the extension of credit, including the Equal Credit Opportunity Act (ECOA) (15 U.S.C. 1691 et seq.) and its implementing regulation at 12 CFR Part 1002 (Regulation B) when qualifying potential borrower to receive a single family Program loan from TDHCA.

TCHCA reserves the right to deny assistance in the event that the senior lien conditions are not to the satisfaction of TCHCA, as outlined in the Program Rules.

Section 403.055 of the Texas Government Code and Section 231.006-7 of the Texas Family Code prohibits issuing state funds or granting state loans to persons who are delinquent in paying child support or other debt owed to the state, such as taxes or a guaranteed student loan.

If any party to the proposed transaction is subject to these provisions, the loan may not be completed until the delinquent amounts have been paid or the appropriate arrangements have been made. This prohibition extends to any business entity in which the delinquent debtor has at least a 25 % interest.

When calculating the debt-to-income ratio, the Owner-Builder Applicant must include all proposed mortgage payments, mortgage insurance (if applicable), property taxes and property and/or flood insurance.

Cash Asset Restriction. Owner-Builder Applicants must not have cash assets in excess of \$25,000. Funds in deferred tax accounts (such as Individual Retirement Accounts, 401Ks, etc.)

will not be considered cash assets. Applicant with unrestricted cash assets in excess of \$25,000 must use such excess funds towards the acquisition of the property in lieu of loan proceeds. Unrestricted cash assets for this purpose are Net Family Assets defined in 24 CFR §5.603.

Maximum Household Income. The Owner-Builder Applicant(s) total household income may not exceed 80% of the AMFI for the area in which the property is located as determined by TDHCA, or may not exceed the statewide income limits, whichever is greater. Total household income includes income of the Owner-Builder Applicant combined with the income of any person who resides with the Owner- Builder Applicant(s), including non-purchasing spouses. Tax Returns, W2s, recent paycheck stubs, or verification of employment must be submitted to document household income. Determining Annual Household Income for this purpose is defined in 24 CFR §5.603.

Combined Loan-to-Value Ratio. Combined loan-to-value ratio shall not exceed 100% of the appraised value. Lien amounts of forgivable loans *must* be included in the combined loan-to-value calculation.

Non-Purchasing Spouse. An Owner-Builder Applicant's spouse who does not apply for the loan will be required to execute the Information Disclosure Authorization Form and the Deed of Trust as a "non-purchasing" spouse; however, the "non-purchasing" spouse will not be required to execute the note.

For credit underwriting purposes the non-purchasing spouse's debts and obligations will be considered in the Owner-Builder Applicant's total debt-to-income ratio. The Owner-Builder Applicant will be qualified using obligations for which the Owner-Builder Applicant and non-purchasing spouse are personally or jointly liable. Only the income of the Owner-Builder Applicant will be used in determining the total debt to income ratio. For Program eligibility purposes, the income of a non-applicant spouse must be included in the calculation of family income. Tax Returns, W2's, Social Security or Disability Income, Child Support and recent pay check stubs, or Verification of Employment must be submitted to document household income.

Required Payments. Equal monthly payments of principal to amortize the loan are required and due to the mortgage servicer on the 1st of the month. Monthly escrow payments of taxes and insurance are also required and will be collected by the mortgage servicer.

Tax Returns. Owner-Builder Applicant(s) is required to submit copies of tax returns for the previous two years. Tax returns must include all schedules and W-2 forms. Tax transcripts and W-2 transcripts from the IRS can be submitted in lieu of tax returns and W-2 forms.

Total Debt-to-Income Ratio. Maximum of 45%. When calculating the debt-to-income ratio Administrator must include the proposed mortgage payment, taxes and insurance, HOA fees, etc..

Eligibility Income. The total Household income including all income (salary, tips, bonus, overtime, alimony, child support, etc.) received by the Owner-Builder Applicant, co-applicant and/or any other persons living in the home. This income is used to determine whether the household income exceeds 80% of the Area Median Family Income or 80% of the State Median

Family Income, adjusted for household size, whichever is greater. No income is excluded in this calculation. Determining Eligibility Income for this purpose is defined in 24 CFR §5.603.

Qualifying Income. Income used to calculate the Owner-Builder Applicant’s debt-to-income ratio. It is the income of the Owner-Builder Applicant and co-applicant—excluding any income not received consistently—for the past 12 months from the date of application. Income Received for less than 12 months such as retirement annuity or court ordered payments will be considered only if it is expected to continue at least 24 months in the foreseeable future. Examples of excluded income includes, but is not limited to, income from a full or part-time job that lacks a stable job history, potential bonuses, commissions, and child support that is not received on a consistent basis.

INCOME AND EMPLOYMENT

Verification of Employment. Employment history must cover a two (2) year history. Any employment gaps of more than thirty (30) days require an explanation signed by the Owner-Builder Applicant. Employment gaps are subject to additional review.

Two month’s, most recent, consecutive pay stubs showing year-to-date (YTD) gross earnings are required to be submitted with Application/Compliance Package.

Note: if the pay stubs do not show YTD gross earnings, a Verification of Employment (VOE) showing YTD gross earnings and “paid through” date may be used.

Verification of Employment must contain and/or provide the following information:

- Date of employment;
- Current position;
- Base salary and how it is paid;
- Year-To-Date and past year’s earnings;
- Probability of continued employment;
- Likelihood of continued overtime and/or bonuses, if available;
- If the employee is paid on an hourly basis, the number of hours worked weekly.
- Name, Date, Signature and Phone number of Manager, Supervisor or Owner providing verification.

Income Stability. In addition to verifying current earnings, consideration must be given to the Owner- Builder Applicant’s employment and earnings history, and the likelihood of income continuation in the future. Frequent job changes, which demonstrate advancement in the same line of work, can be considered favorably. However, depending on the type of employment, frequent job changes without advancement may be an indication of instability. On the other hand, if the type of job makes it necessary for the Owner-Builder Applicant to frequently change jobs, the Owner-Builder Applicant has maintained a steady income stream and has been in the same line of work for two years, the job changes should not be viewed unfavorably.

Income must be derived from a legal and verifiable source and must have a U.S. source. Caution should be exercised if income appears to be declining. The Applicant may be required to provide a signed letter of explanation explaining a significant decline in income.

Salaried or Hourly Owner-Builder Applicants.

Documentation: W2s for the preceding 2 year period and pay statements covering the most recent 30 day period or a fully completed Verification of Employment.

Bonus, Overtime and Shift Differential. Overtime and bonus income can be used for qualification if the Owner-Builder Applicant has received this type of income for the most recent two years, the bonus or overtime earnings trend is stable or increasing and the employer indicates that the bonus or overtime earnings are likely to continue. A two-year average of bonus or overtime income is used for underwriting.

Shift differential can be considered part of base income if it is normal for the Owner-Builder Applicant's field of employment and a pattern of this type of earnings can be established.

Documentation: W2s for the preceding 2 year period and payroll earnings statements covering the most recent 30 day period or a fully completed Verification of Employment (Fannie Mae form 1005) (Form 8).

If the bonus or overtime income represent 25% or more of Owner-Builder Applicant's income, 2 years' signed federal tax returns with all schedules are required.

Commission or Quota Income. Commission or quota income can be used for qualification if the Owner-Builder Applicant has received this type of income for the most recent two years and the commission/quota earnings trend is stable or increasing.

Frequently, individuals receiving commission income incur business expenses. Commission income should be reduced by the amount of business expenses.

A 2-year average of adjusted commission or quota income is used for underwriting.

Documentation: 2 years signed federal income tax returns with all schedules or a fully completed Verification of Employment.

Part-Time and Second Jobs. Part-time and second job income is acceptable if the Owner-Builder Applicant has a one-year history of this type of employment, the earnings level has been stable, and a strong likelihood of its continuation can be established.

Documentation: W2s for the preceding year period and payroll earnings statements covering the most recent 30 day period or a fully completed Verification of Employment.

Seasonal Income (including Farm Labor). Seasonal income may be used for qualification if the Owner-Builder Applicant has a 2-year employment history and the employer verifies a likelihood of continued seasonal employment. A 2-year average is used for underwriting.

Documentation: W2s for the preceding 2-year period and payroll earnings statements covering the most recent 30 day period or a fully completed Verification of

Employment

Unemployment Compensation. Unemployment compensation may be used for qualification *only* if the Owner-Builder Applicant is seasonally employed and has a history of receiving unemployment compensation, and periods of employment and unemployment can be reasonably predicted.

Documentation: 2 years' federal tax returns with all schedules and letters or exhibits from paying agencies to verify amount, frequency and duration of payments.

Employment by a Relative or Interested Third Party. Additional income documentation is required if the Owner-Builder Applicant is employed by a relative, closely held family business, the seller, the real estate agent, escrow company, or any other interested third party.

Documentation: 2 years' federal tax returns with all schedules

Self-Employed Owner-Builder Applicants. Self-employed Owner-Builder Applicants must have a two-year history evidenced by federal tax returns. The income should be an average of the past 2 years tax returns and year-to-date profit and loss statement; unless the Owner-Builder Applicant's previous employment was in the same line of work. Income must not indicate a declining pattern.

Documentation: 2 years federal tax returns with all schedules;
Year-To-Date Profit and Loss Statement (not older than 90 days), or Fannie Mae's Self-Employed Income Analysis form

Income Tax Affidavit. In accordance with the provisions of Section 6012 of the Internal Revenue Code an Income Tax Affidavit and a copy of the Non-Filing Statement issued by the IRS must be provided when an Owner-Builder Applicant was not required to file a tax return based upon gross income.

Tax Transcripts Wage & Income Summary (W2s) and Non- Filing Statements can be requested from the Internal Revenue Service website.

OTHER INCOME SOURCES

Alimony and Child Support. Alimony and child support income may be used for underwriting purposes if appropriately verified and only if it is expected to continue at least 24 months in the foreseeable future. Payments should have been received on a regular basis for the previous 12 months. If there is no court-ordered child support payments, a notarized statement from the applicant indicating that they receive no child support will be required.

Documentation: A 12-month history ledger from the Attorney General's Office or the government office handling payments or court confirmation to verify receipt.

A notarized statement from the applicant stating that they receive no child support.

Retirement and Social Security Income. Retirement and Social Security Income can be used only if it is expected to continue at least 24 months in the foreseeable future. A Borrower or Co-Borrower receiving Social Security Income as a payee on behalf of an 18 year old dependent will be calculated as Eligibility Income but will not be included in Qualifying Income calculations

Documentation: Current year award letter or 12 months' bank statements, or most recent federal tax returns.

Disability and VA Benefits. Disability and most VA benefits are acceptable income. Short-term disability payments can be considered if the Owner-Builder Applicant has a scheduled return-to-work date and will continue to receive the same salary earned prior to the disability. VA education benefits cannot be considered because they offset expenses.

Documentation: Letter or distribution form from the Veteran's Administration Office.

Welfare and Public Assistance. Welfare and public assistance income may be considered as long as the purchase of real property will not disqualify the Owner-Builder Applicant from future payments. In addition the Owner-Builder Applicant must provide proof of the probability of continuance.

Documentation: Recent entitlement letter.

UNACCEPTABLE INCOME SOURCES FOR QUALIFYING PURPOSES

- Automobile allowance (except to offset an auto payment; offset may not exceed 100% of the auto loan payment)
- Expense account benefits
- VA education benefits
- Retained earnings in a corporation
- Any source of income that is illegal or cannot be verified
- Income from outside the United States that is not paid by a U.S. based company in U.S. dollars
- Food Stamps
- Earned Income Credit

Alternative Documentation. Alternative documentation may be used for all transactions PROVIDED that the use of the specific alternative documentation is approved by TDHCA. Copies of alternative documentation should be certified as true copies by the Administrator. An employee of the Administrator must certify each copy. The originals should not contain alterations, erasures, or whiteouts. Both the front and back of each canceled check must be included if provided as verification.

Third Party Verifications. Verifications provided by third parties must be certified by Administrator. Any alterations must be initialed by the individual providing the verification.

Expired Documents. Verification documents must be no more than ninety days (90) old on the date of submission to TDHCA.

CHAPTER 4: PROPERTY GUIDELINES AND RELATED ISSUES

PROPERTY STANDARDS

The home being built or rehabilitated must be a single-family residence located within the State of Texas. Manufactured homes are not eligible. Program funds may not be used to pay delinquent property taxes.

The residence must be occupied as the principal residence of the Owner-Builder within thirty (30) days of the later of the end of the construction period or the closing of the loan. Any additional habitable structures must be removed from the property prior to closing. Portion of the former structure may be utilized as storage upon TDHCA's written approval prior to closing.

If the Participant is utilizing Program funds to construct the home they must conform to Section 2306.514 of the Texas Government Code, Construction Requirements for Single Family Affordable Housing and with the Texas Administrative Code, Title 10, Part 1, Chapter 21 Minimum Energy Efficiency Requirements For Single Family Construction Activities regardless if the property is located within an incorporated area or not.

If the Participant is utilizing Program funds for an Interim or Residential Construction the Participant must comply with the Texas Administrative Code, Title 10, Part 1, Chapter 21 Minimum Energy Efficiency Requirements for Single Family Construction Activities (Exhibit 5), and/or with the Texas Minimum Construction Standards.

PROPERTY INSPECTIONS

Applicable to all construction activities.

Interim inspections of construction progress may be required to document a Draw request.

Final inspections are required for all Single Family construction activities. The inspection must document that the activity is complete; meets all applicable codes, requirements, zoning ordinances; and has no known deficiencies related to health and safety standards.

A copy of the final inspection report must be provided to TDHCA and to the household.

Third party certification of compliance with the Minimum Energy Efficiency Requirements for Single Family Construction Activities under 10 TAC 21 is required, as applicable.

New construction requirements. A Certificate of Occupancy shall be issued prior to final payment for construction, as applicable. In instances where the local jurisdiction does not issue a Certificate of Occupancy for the Activity undertaken, the Participant must provide to TDHCA documentation evidencing that the Single Family Housing Unit has passed all required building codes in accordance to Title 10, Part 1, Chapter 20.10 (a)(2), Texas Administrative Code of the Single Family Umbrella Rule.

Participant must demonstrate compliance with Section 2306.514 of the Texas Government Code, "Construction Requirements for Single Family Affordable Housing," and applicable Program Rules.

Reconstruction requirements. The initial inspection must identify all substandard conditions listed in Texas Minimum Construction Standards (TMCS) along with any other health or safety concerns unless the unit has been condemned. A housing unit condemned by a governmental entity will not be rehabilitated.

A copy of the initial inspection report must be provided to TDHCA and to the Owner-Builder Applicant as applicable. The initial inspection may be waived if the local building official certifies that the extent of the subject property's substandard conditions is beyond repair, or the property has been condemned.

All substandard conditions identified in the initial inspection report shall be addressed in the work write- up and cost-estimate in adequate detail to document the need for reconstruction.

Participant must demonstrate compliance with Section 2306.514 of the Texas Government Code, "Construction Requirements for Single Family Affordable Housing," and other Program Rules.

Rehabilitation requirements. The initial inspection must identify all substandard conditions listed in TMCS along with any other health and safety concerns.

A copy of the initial inspection report must be provided to TDHCA and to the Owner-Builder Applicant.

All substandard conditions identified in the initial inspection report shall be addressed in the work write- up and cost-estimate in adequate detail to ensure that all substandard conditions are properly corrected.

Final inspections must document that all substandard and health and safety issues identified in the initial inspection have been corrected.

Participants shall meet the applicable requirements of the TMCS. TMCS requirements may be waived only through the process provided in Section 20.16, Waivers and Appeals, of this Chapter.

The Certificate of Occupancy may serve as the final inspection if available and acceptable in the Program Rule.

All deficiencies noted on the inspector's report must be corrected prior to the final draw of funds.

Correction of cosmetic issues, such as paint, wall texture, etc., will not be required if acceptable to the Program as outlined in the Program Rule or if utilizing a Self-Help construction Program.

Inspector Requirements. Inspectors hired to verify compliance must meet Program requirements as outlined in the Program Rule, as applicable.

Within city limits and extraterritorial jurisdictions, municipal code inspectors shall conduct all inspections for local code requirements as applicable.

All non-municipal code inspectors shall conduct inspections using applicable construction standards prescribed by TDHCA, and TDHCA-approved inspection forms and checklists as applicable.

TDHCA reserves the right to reject any inspection report if, in its sole determination, the report does not accurately represent the property conditions or if the inspector does not meet Program requirements. All related construction costs in a rejected inspection report may be disallowed until the deficiencies are adequately cured.

The Participant and/or the Owner-Builder Applicant will be responsible for the selection and/or the fee of a licensed inspector.

APPRAISAL REQUIREMENTS

An Appraisal Report will be required by TDHCA on each loan prior to closing.

SURVEY REQUIREMENTS

A survey sufficient to induce a title company to issue a title insurance policy without the standard survey exception is required where Program funds are used for construction or acquisition because:

- (1) the rehabilitation project is enlarging the footprint; or
- (2) the Activity is reconstruction, new construction, or acquisition of an existing home.

If allowed by the Program Rules or NOFA, existing surveys for acquisition only activities may be used if the owner certifies that no changes were made to the footprint of any building or structure, or to any improvement on the Single Family Housing Unit, and the title company accepts the certification and survey.

TDHCA reserves the right to determine the survey requirements on a per Activity basis if additional survey requirements would, at the sole discretion of TDHCA, benefit the Activity.

TITLE INSURANCE

Title Commitment. A copy of the preliminary title report including complete legal description, and copies of covenants, conditions and restrictions, easements, and any supplements thereto are required.

The effective date of the preliminary title report should not be more than sixty (60) days old at the time the request for Closing Document is submitted to TDHCA's Legal Department or no more than ninety (90) days old at the time the Funding Request is submitted to TDHCA. Copies of any covenants and/or restrictions listed on Schedule B#1 must be provided to TDHCA prior to TDHCA preparing legal documents.

Title Policy Insurance. Title policy insurance is insurance against loss from defects in title to real property and from the invalidity or unenforceability of mortgage liens. It protects an Owner's or Lender's financial interest in real property against loss due to title defects, liens or other matters. The title insurance must be written by a title insurer licensed to do business in the jurisdiction where the mortgaged property is located.

TDHCA requires a Mortgagee's policy of title insurance in the amount of the loan, showing TDHCA as a proposed insured. TDHCA also requires a T-19, T-30 & T-36 endorsements.

Interim Construction Title Binders TDHCA requires interim construction title binders on Residential and Interim Construction Loans. TDHCA will accept a title binder during the construction period and will then require a mortgagee title policy upon conversion to the permanent loan.

PROPERTY INSURANCE

Hazard Insurance. Hazard insurance protects the homeowner against property damages caused by a fire or a severe storm. TDHCA requires hazard insurance for protection against loss or damage from the following perils: fire, windstorm, hail, explosion, and riot, and civil commotion, damage by aircraft, vehicles or smoke.

Homeowner's policies or package policies that provide property and liability coverage are acceptable. All risk policies are also acceptable.

In the case of a construction/permanent loan, builder's risk coverage is required for the construction period, provided that the premium for a 12-month homeowner's policy is collected at closing for the purchase of a homeowner's policy at the end of construction.

Amount of Required Coverage. The amount of hazard insurance coverage at the time the loan is originated must be no less than 100% of the current insurable value of the improvements.

Insurance Document Requirements. Evidence of insurance must be obtained prior to loan funding. Insurance premiums for at least 12 months must be paid in advance.

Flood Insurance. Flood insurance is required for all structures located in special flood hazard areas where the U.S. Federal Emergency Management Agency (FEMA) has mandated flood insurance coverage. TDHCA requires a life of loan flood certification on all loans. All homes must be built above the floodplain.

Flood insurance will *not* be required if:

- The Participant or Owner-Builder Applicant obtains a Letter or Map Amendment from FEMA stating that the area is no longer classified as a special flood hazard area. The letter must include a map illustrating the amended flood hazard area.

An Owner-Builder Applicant may elect to obtain flood insurance even though flood insurance is not required. However, the Owner-Builder Applicant may not be coerced in obtaining flood insurance unless it is required in accordance with this section.

Life-of-loan Flood Certifications. TDHCA requires Life-of-loan flood certifications in the Program Funding Package. Life-of-loan flood certifications guarantee monitoring for FEMA flood map revisions and community participation status changes for the term of the loan. Life-of-Loan certifications are transferable and help to ensure compliance with federal regulations.

Builder's Risk Policies. A builder's risk policy is acceptable while the dwelling is under construction as long as it meets TDHCA's requirements. An acceptable policy either: (1) names the borrower as the Insured; or (2) contains a builder's risk endorsement for a policy issued to the borrower. A policy issued only to a contractor is not an acceptable substitute. A builder's risk policy should automatically convert to full coverage when the dwelling is completed. Otherwise, acceptable insurance must be obtained to coincide with the expiration of the builder's risk provisions of the policy.

CHAPTER 5: APPLICATION PROCESS, REQUIREMENTS AND SUBMISSION

PERFORMANCE BENCHMARKS

The Participant and Owner-Builder Applicant will be required to build and or rehabilitate the home and close on the loan on or before the expiration date stated on the Loan Commitment Contract. If the Owner- Builder fails to close on the loan on or before the expiration date stated on the Loan Commitment Contract, TDHCA may grant an extension of up to 90 days from the expiration date stated on the Loan Commitment Contract. The Owner-Builder Applicant will be required to re-qualify for the Program. All updated documents must be submitted to TDHCA prior to the expiration date on the Loan Commitment Contract.

PARTICIPANT REQUIREMENTS

The role of the Participant is to identify and assist Owner-Builder Applicants in submitting complete application packages to TDHCA. The Participant is required to submit the following package to TDHCA:

NEW RESERVATION PACKAGE

Purpose: The New Reservation Package must be delivered to TDHCA so that TDHCA can begin processing the loan application .

Delivery: The New Reservation Package must be submitted to TDHCA electronically by a system approved by TDHCA. TDHCA will not accept the New Reservation Package by email. For extenuating circumstances TDHCA may waive this requirement on a case by case basis.

Timing: TDHCA will make every attempt to reach an underwriting decision within ten (10) business days of its receipt of a completed New Reservation Package. TDHCA staff will review the New Reservation Package. After TDHCA staff completes its review the file will be submitted to the Program Services Division for underwriting review. Once Program Services has completed their review TDHCA staff will be notified in writing of the determination. (For the New Reservation Package to be complete, the property being purchased must be identified).

- New Reservation Packages must be submitted to TDHCA for approval. TDHCA will determine if the application complies with the Owner-Builder qualifications.
- Once TDHCA approves the applicant it will issue an **Loan Commitment Contract** to the Participant. The Participant may proceed to collect additional documentation listed under the Closing Checklist and the Loan Commitment Contract to begin preparation of the loan documents.

However, if there are deficiencies in the package submitted, TDHCA will notify the Participant in writing. All deficiencies must be received by TDHCA within ten (10) business days from the date of notification or the loan will be considered withdrawn.

Incomplete Application/Compliance Packages will not be accepted. All incomplete packages will be returned to the Administrator and the Reservation will be cancelled. If

funds are available the Participant may resubmit a new Reservation and the Application/Compliance Package to TDHCA in order to be reconsidered for funding.

Note: *The Participant must inform TDHCA that it is ready to proceed to closing. An improvement survey along with an updated title commitment and copies of covenants, conditions and restrictions, easements and any supplements thereto in listed in the title commitment, tax certificates and copies of the Note and Deed of Trust for all lien holders are required to be submitted to TDHCA in order for the TDHCA Legal Department to prepare the loan closing documents.*

Documents to TDHCA Legal Department. Please allow up to 30 days from the date the file is forwarded to TDHCA's Legal Department for TDHCA to prepare the necessary closing documents.

The Participant and TDHCA must provide to the Owner-Builder Applicant the Closing Disclosure no later than three business days before “consummation” of the transaction. The Participant and TDHCA must work with the closing agent to prepare the Closing Disclosure before providing the Closing Disclosure to the Owner-Builder Applicant. Consummation is the point in time when a consumer becomes contractually obligated to the creditor on the loan.

TDHCA will prepare the Closing Disclosure for TDHCA's loan. TDHCA will work with the Participant and closing agent to ensure that the Closing Disclosure is accurate and delivered timely to the Owner-Builder Applicant. The closing agent is still responsible for providing the Closing Disclosure to the seller.

Prior to setting a closing date the Participant must contact the appropriate TDHCA staff to begin the process of scheduling a closing and preparing the Closing Disclosure. TDHCA uses an outside company to prepare TDHCA's loan closing documents. The Document Preparation fee covers the cost of this service; and the Participant or the Owner-Builder Applicant will be responsible for the cost of this service. The actual amount of the fee will be disclosed at the time of application.

FUNDING PACKAGE

Once the loan is closed and ready to be funded by TDHCA, it is important to submit the documents listed on the appropriate funding checklist. If TDHCA or its agent prepares the closing document, the closing agent will be instructed in the closing letter to return all closing documents to the Program Services Division in the Austin Office. The Loan Closer will notify the TDHCA Staff and the Participant of any missing documents or corrections that are needed in order to fund the loan.

For Interim Construction transactions.

Initial Draw Request (may be up to 90% of the construction cost up front to commence construction) must be submitted after the Construction Loan Agreement (CLA) and the loan closing documents have been executed in order for the loan to be funded by TDHCA. Once the executed CLA and the closing documents are submitted by the closing agent to TDHCA, funds will be wired. The Administrator must contact TDHCA to schedule inspections at 40% (before interior walls are covered) and 100% completion.

- Construction must commence no later than 60 days after initial draw is funded.
- Final Draw Request may be submitted when construction is complete. All documents requested in the Interim Construction Funding Checklist must be submitted along with the final draw request. *TDHCA is not able to disburse the final draw until 31 days after the Affidavit of Completion has been filed of record in the county's real property records.*

Once construction is completed the transaction between the Owner-Builder Applicant and TDHCA must still be completed. Please refer to the Purchase Money Checklist. If TDHCA will be preparing the closing documents an appraisal report, improvement survey, tax certificates and an updated

title commitment along with copies of any covenants, restrictions, and easements listed on the title commitment must be included in the request to legal.

For Residential transactions

- Initial Draw Request (may be up to 90% of the construction cost up front to commence construction) must be submitted after the Construction Loan Agreement (CLA) and the loan closing documents have been executed in order for the loan to be funded by TDHCA. Once the executed CLA and the closing documents are submitted by the closing agent to TDHCA, funds will be wired directly to the closing agent or Administrator for disbursement. The Administrator must contact TDHCA to schedule inspections at 40% (before interior walls are covered) and 100 % completion. Construction must commence no later than 60 days after initial draw is funded.
- Final Draw Request may be submitted when construction is complete. All documents requested in the Residential Construction Checklist (Refer to Form 21) must be submitted along with the final draw request. *TDHCA is not able to disburse the final draw until 31 days after the Affidavit of Completion has been filed of record in the county's real property records.*

CHAPTER 6: CONTACT INFORMATION

Reservation and Closing Packages:

Texas Department of Housing and Community Affairs
ATTN: Luis Diaz – Single Family Loan and Asset Manager
P. O. Box 13941
Austin, Texas 78711-3941
Phone: (512) 475-3843
luis.diaz@tdhca.texas.gov

Funding Packages:

Texas Department of Housing and Community Affairs
ATTN: Jennifer Escobedo – Closing Specialist
P. O. Box 13941
Austin, Texas 78711-3941
Phone: (512) 475-0447
Jennifer.escobedo@tdhca.texas.gov

Loan Servicing:

Texas Department of Housing and Community Affairs
Attn: Stephanie D’Couto -- Loan Servicing Manager
P.O. Box 13941
Austin, Texas 78711-3941
Phone: (512) 475-3957
stephanie.dcouto@tdhca.state.tx.us