

State of Texas Action Plan for CDBG Disaster Recovery Grantees under the Department of Defense Appropriations Act, 2006

Modification # 1

Disaster Recovery Initiative

U.S. Department of Housing and Urban Development (HUD)

Docket No. FR-5051-N-01]

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May 9, 2006

Rick Perry, Governor



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On May 22, 2006, the U.S. Department of Housing and Urban Development (HUD) approved the State of Texas Action Plan for CDBG Disaster Recovery Grantees under the Department of Defense Appropriations Act, 2006 (Action Plan). The Action Plan governs the use of \$74,523,000 in Community Development Block Grant (CDBG) funding for housing, infrastructure, public service, public facility, and business needs in the 29-county area directly impacted by Hurricane Rita. On October 12, 2006, TDHCA staff requested Governing Board approval to modify the Action Plan. An Action Plan amendment was not required because the modification did not add or delete an allowable activity; change allowable beneficiaries; or change funding allocations.

The modification adds the requirement that any assistance provided in a floodplain be provided in the form of a deferred forgivable loan. The Action Plan previously allowed that assistance for housing activities including emergency repairs, rehabilitation, and reconstruction be provided in the form of a grant. The Flood Disaster Protection Act of 1973, as amended (42 U.S.C. 4001-4128) states that federal financial assistance for acquisition and construction activities (including rehabilitation) may not be provided in an area identified by the Federal Emergency Management Agency (FEMA) as having special flood hazards, unless the community where the assistance will be provided is participating in the National Flood Insurance Program and the assisted homeowner agrees to obtain flood insurance as a condition of assistance. To comply with the requirements of the Flood Disaster Protection Act, the Department would be required to verify that homeowners maintain flood insurance coverage for the life of the investment of funds. Although the Department requires evidence of flood insurance coverage as a condition of assistance, it is not feasible to verify on a yearly basis for the life of the improvement whether homeowners maintain coverage, particularly in cases where a home will be reconstructed.

Assistance provided within a floodplain will now be in the form of a three year, zero percent interest, deferred forgivable loan. As part of its loan processing responsibilities, the Department will monitor for flood insurance coverage on a yearly basis for a three year period. If a disaster occurs in the future and a beneficiary previously assisted with disaster funds applies for additional disaster funding but did not maintain flood insurance coverage, no further assistance will be provided.

Deferred forgivable loans will be evidenced by a Note and Deed of Trust against the property and shall be repayable upon sale of the home, whether voluntary or involuntary; refinance; or payoff of any superior lien note, if any, or if the home ceases to be the assisted homeowner's principal residence, whichever is first to occur. Each deferred forgivable loan will be zero percent interest over three years, forgivable at a rate of 33.33% per year of assisted homeowner occupancy.

All loans will be forgiven upon death of the borrower and co-borrower. In the event of sale of the home (voluntary or involuntary), the assisted homeowner will repay the loan balance from the net proceeds of the sale. The net proceeds are the sales price minus superior loan repayment (other than CDBG funds).

The Action Plan was amended under the "Proposed Use of Texas Disaster Recovery Funds", Eligible Activities section. The second bullet under that section on pages 17 is modified to read as follows:

- Housing activities will include but not be limited to single and multifamily acquisition, demolition, repair, rehabilitation, reconstruction, or new construction as appropriate for specific local needs to address damage as a result of Hurricane Rita. Flood buyouts of homes damaged by Hurricane Rita in which the owner will repurchase a home are considered housing activities. Assistance provided in a floodplain will be in the form of a three (3) year, zero percent interest, deferred forgivable loan. All other assistance will be in the form of a grant.

Citizen Participation and Public Input on the Modification

Because this change was not a substantial Action Plan amendment, public hearings specific to this modification were not held. However, the modification was presented to TDHCA's Governing Board for approval on October 12, 2006. No public comment on the Agenda Item was made, and no comments were received by mail or email. The Department consulted with the Councils of Governments (COGs) administering housing activities prior to the Board Meeting and the COGs agreed that deferred forgivable loans should be required.

TDHCA's Governing Board approved this modification on October 12, 2006.