



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

[www.tdhca.texas.gov](http://www.tdhca.texas.gov)

Greg Abbott  
GOVERNOR

### BOARD MEMBERS

Leo Vazquez, *Chair*  
Kenny Marchant, *Vice Chair*  
Cindy Conroy, Member  
Anna Maria Farías, Member  
Holland Harper, Member  
Ajay Thomas, Member

June 24, 2025

Writer's direct dial: 512 475-3296  
Email: [bobby.wilkinson@tdhca.texas.gov](mailto:bobby.wilkinson@tdhca.texas.gov)

Jonathan Campbell  
LCJ Development, Inc  
PO Box 489  
New Caney, TX 77357

RE: Appeal of Underwriting Recommendation – Azle Oaks Apartments (25038)

Mr. Campbell:

The Department received the above-listed Application on February 27, 2025. The Application proposes the acquisition and rehabilitation of an existing 116-unit USDA property in Azle. An appraisal that meets the requirements of 10 TAC §11.304 (relating to Appraisal Rules and Guidelines) was submitted with the Application, which indicates an "as-is, as-restricted" value of \$1,950,000. The appraisal allocated \$750,000 (38.46%) to the land and \$1,200,000 (61.54%) to the buildings.

In accordance with 10 TAC §11.304(c)(10)(E), the appraisal includes a valuation of the favorable financing associated with the property. Specifically, it identifies \$575,000 in value attributable to the 515 USDA loan to be transferred, as required:

(E) For any Development with favorable financing (generally below market debt) that will remain in place and transfer to the new owner, the appraisal must include a separate value for the existing favorable financing with supporting information.

While the 2025 TDHCA Qualified Allocation Plan (QAP) does not explicitly prescribe how favorable financing should be allocated between land and building acquisition costs, the Department's Real Estate Analysis (REA) division applied its longstanding underwriting methodology. For over a decade, REA has consistently allocated favorable financing between land and building in proportion to the respective appraised values. This methodology is embedded in the TDHCA underwriting model and has been applied uniformly to USDA applications that include favorable financing to substantiate their acquisition price.

In this case, applying the appraisal-derived ratios (38.46% land / 61.54% building) to the Applicant's proposed acquisition cost of \$2,447,238 results in an allocated land cost of \$942,888 and building cost



of \$1,508,622. However, the Applicant allocated all favorable financing to the building and reported a land value of only \$565,910—\$184,090 below the appraised land value of \$750,000. After applying the proportional allocation of favorable financing, the Applicant's eligible building acquisition cost is overstated by \$376,978. As a result, the Underwriting Report published on June 12, 2025, recommends a reduced annual 9% Housing Tax Credit allocation of \$1,999,705, reflecting a \$2,467 reduction in equity proceeds. With this small reduction in equity, the project remains financially feasible.

The Applicant timely appealed the Underwriting Report on June 17, 2025. The appeal argues that favorable financing should not be allocated according to the appraisal-derived ratios, because at cost certification, a CPA will not consider favorable financing because it is not a variable that adds value or has any aspect that impacts the land. The Applicant asserts this is because the favorable financing is not earned by the land but is earned by the buildings. The Applicant further state that USDA 515 did not provide financing for affordable land, they financed affordable Housing. The appeal does acknowledge that the appraised land value is \$750,000, not the \$565,190 submitted in the Application.

The appeal also references the 2023 Cleveland Square 9% Application (#23081), in which TDHCA accepted a land value equal to the appraised amount. In that case, however, the allocation of favorable financing had no effect on the credit allocation because the Applicant submitted a land value that exceeded the appraised value by \$106,860.

The Application was underwritten using standard REA procedures that ensure consistency across all applications. The benefit of favorable financing should be allocated in proportion to the value of the underlying assets it supports. This reflects the advantage gained by the current Applicant and prospective new owner. This approach is logical, consistently applicable, and transparent.

A third-party buyer would not have access to historical loan disbursements and could not reasonably be expected to determine how the original financing was applied to costs by the previous owner. What is relevant for underwriting purposes of the current tax credit Application is the benefit that the new ownership derives from the below-market financing it will assume. The methodology used by REA appropriately captures that benefit and ensures equitable treatment across all applicants. Accordingly, your appeal is denied.

A staff draft of the 2026 QAP will be published and any public comment regarding the allocation of favorable financing can be provided in writing for the Department's consideration.

If you have any questions, please contact Cody Campbell at [cody.campbell@tdhca.texas.gov](mailto:cody.campbell@tdhca.texas.gov).

Sincerely,

A handwritten signature in blue ink that reads "Bobby Wilkinson II". The signature is written in a cursive style with a double underline at the end.

Bobby Wilkinson  
Executive Director