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Writer's direct dial: 512 475-3296
Email: bobby.wilkinson@tdhca.texas.gov

Murray Calhoun
3224 26th Street
Metairie, LA 70002

RE: Appeal of Underwriting Recommendation – Fredericksburg Seniors (25035)

Mr. Calhoun:

The Department received the above-listed Application on February 27, 2025. The Application proposes the acquisition and rehabilitation of an existing 48-unit USDA property in Fredericksburg. 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 \$1,270,000, with the land valued at \$625,000 (49.21%) and the buildings at \$645,000 (50.79%).

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 \$470,000 in value attributable to the USDA loan transfer and \$292,000 to the TDHCA loan transfer, 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 (49.21% land / 50.79% building) to the Applicant's proposed acquisition cost of \$1,588,146 results in an allocated land cost of \$781,568 and building cost of \$806,578. The Applicant, however, did not apply any portion of the favorable financing to land and



instead allocated a portion of it exclusively to the building. This approach overstates the eligible building acquisition cost by \$156,568. Consequently, the Underwriting Report published on May 27, 2025, recommends a reduced annual 9% Housing Tax Credit allocation of \$587,092, reflecting a \$135,186 reduction in equity proceeds. The reduction can be offset through an increase in Deferred Developer Fee, and the project remains financially feasible.

The Applicant timely appealed the Underwriting Report on June 2, 2025. The appeal argues that favorable financing should not be allocated according to the appraisal-derived ratios, as the original USDA and TDHCA loans financed the land and building in different proportions. Specifically, the Applicant asserts that the USDA loan covered approximately 20% of land cost, while the TDHCA HOME loan financed building rehabilitation only, with no land component. The appeal further states that if TDHCA applied appropriate percentages to favorable financing, there would be no credit cut.

The Application was underwritten using standard REA procedures that ensure consistency across all applications. Applying the appraised land/building value ratios to the value of transferred favorable financing reflects the benefit received 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.

In anticipation that you will want this matter presented to the Department's Governing Board, this appeal has been placed on the agenda for the meeting to be held on July 10, 2025. If you have any questions, please contact Cody Campbell at cody.campbell@tdhca.texas.gov.

Sincerely,



Bobby Wilkinson
Executive Director