

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Internal Audit of the Real Estate Analysis division

Audit Report # 25-006

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Real Estate Analysis division to examine and assess the Department's underwriting process, and to determine if the underwriting is performed according to applicable rules and completed in timely manner.

Based on our review and analysis, the Real Estate Analysis division is operating effectively at TDHCA in providing necessary analytical reports to management and the TDHCA Governing Board to make well informed decisions for funding affordable housing developments in Texas. OIA concludes that the underwriting process is generally performed accurately and according to applicable rules. We identified some areas for improvement. Management agreed to our recommendations and the details are included in the report.

Observations and Recommendations

- OIA recommends that management establish a uniform and consistent review and documentation process for Team managers to avoid risk of overlooking errors in underwriting reports.
- OIA recommends that management consider either amending QAP to remove the requirements, or to update their process to include them in the decision process.

Objective, Scope, and Methodology

Our scope for this audit included a review of the applicable Texas Administrative Code (Title 10, Chapter 11, Subchapter D), Texas Government Codes (§2306.148 and §2306.185(b), applicable Qualified Allocation Plan (QAP), as well as review of underwriting reports and underlying analysis performed by REA staff.



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Director, Internal Audit

12/2/25
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit of the Real Estate Analysis (REA) division

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") review of the "*Real Estate Analysis division*", its processes and procedures, and internal controls at TDHCA. This audit was conducted in accordance with applicable audit standards and included objectives to review, assess, and evaluate activities and internal controls related to the operation and administration of Real Estate Analysis division, and its compliance with applicable rules and regulations.

The Real Estate Analysis division was included in the internal audit plan for FY 2025 due to its complexity of operations, and lack of any recent internal audit of the division. For this audit we reviewed applicable Texas Administrative Codes, Texas Government Codes, Qualified Action Plan (QAP), and any other applicable rules and regulations. Additionally, we conducted interviews with some of the division staff.

This report is divided into the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. The Underwriting process
- E. Reviews and Recommendations

A. Overall Results

Based on our review and analysis, the Real Estate Analysis division is operating effectively at TDHCA in providing necessary analytical reports to management and the TDHCA Governing Board to make well informed decisions for funding affordable housing developments in Texas. OIA concludes that the underwriting process is generally performed accurately and according to applicable rules. We identified some areas for improvement. The details of our recommendations are included in the later section of the report.

B. Background

The Real Estate Analysis division provides the TDHCA Governing Board and staff with comprehensive analytical reports necessary to make well informed decisions for funding of affordable housing developments. The Division is responsible for analyzing feasibility of proposed multifamily housing activities and preparing a credit underwriting analysis report that will be used by the TDHCA Governing Board in decision making with the goal of assisting as many Texans as possible by providing no more financing than necessary based on an independent analysis of the development's feasibility.

The Real Estate Analysis rules are codified in Texas Administrative Code Title 10, Chapter 11, Subchapter D, §§11.301 – 11.306, Underwriting and Loan Policy as part of the global Qualified Action Plan (QAP).

"Pursuant to Tex. Gov't Code §2306.148 and §2306.185(b), the Board is authorized to adopt underwriting standards as set forth in this section. Furthermore, for Housing Credit Allocation, Code §42(m)(2), requires the tax credits allocated to a Development not to exceed the amount necessary to assure feasibility. Additionally, 24 CFR Parts 92 and 93, as further described in CPD Notices 15-11 and 21-10 require the Department to adopt rules and standards to determine the appropriate Multifamily Direct Loan feasibility".

C. Scope and Methodology

Our scope for this audit included a review of the applicable Texas Administrative Code (Title 10, Chapter 11, Subchapter D), Texas Government Codes (§2306.148 and §2306.185(b), applicable

Qualified Allocation Plan (QAP), as well as review of underwriting reports and underlying analysis performed by REA staff. The objectives for this audit were to examine and assess the Department's underwriting process, and to determine if the underwriting is performed according to applicable rules and completed in timely manner.

D. The Underwriting Process

Application for allocations of Low-Income Housing Tax Credits (LIHTC), or multifamily funding awards, are submitted to the department for consideration. The applications submitted for review and evaluation may include request for Competitive 9% LIHTC, 4% LIHTC, Multifamily HOME only funding, or Combination of competitive Tax Credit Allocation and HOME funding. The applications are reviewed by their respective multifamily program area, and only the highest scoring LIHTC applications are forwarded to REA for their review.

REA division is notified by the respective program area when an application is ready for their review and evaluation. Division management assigns the application to a real estate analyst for review. The analyst performs a comprehensive review that includes evaluation of the affordable housing activity using the established guidelines published in the Department's rules, qualified allocation plan (QAP), or the applicable HOME rules and regulations. Some of the factors evaluated by the real estate analyst include:

- Operating feasibility
- Net Operating Income
- Debt Coverage Ratio
- Income (ex; rent)
- Expenses (ex; general administrative expense, management fees,...etc.)
- Environmental site assessment

After the real estate analyst conducts their review and evaluation of the application, it is submitted to the REA management for their review. Once the management review is complete, the underwriting report is posted to the department's website. The report¹ provides an outline and reconciliation of the application information submitted by the applicant. The report content will be based upon information that is provided in accordance with 10 TAC chapters 11, 12, or 13, or in a Notice of Funds Availability (NOFA), as applicable. The posted report includes the recommended award of funds or housing credit allocation amount.

¹ 10 TAC, § Rule 11.1: Underwriting Report-Sometimes referred to as the Report. A decision-making tool prepared by the Department's Real Estate Analysis Division that contains a synopsis of the proposed Development and that reconciles the Application information, including its Page 29 of 217 financials and market analysis, with the underwriter's analysis. The Report allows the Department and Board to determine whether the Development will be financially feasible as required by Code §42(m), or other federal or state regulations.

For all applications the Department will consider the amount in the funding request of the pre-application and application to be the amount of Housing Tax Credits requested and will reduce the applicant's request to the maximum allowable amount under applicable rules through the underwriting process. A recommendation for a reduced allocation could occur due to Internal Revenue code which requires that tax credits allocated to a development should not exceed the amount necessary to assure feasibility. While the Housing Tax Credit request amount for an application may be reduced through the underwriting process or at the written request of staff, the Department will otherwise consider the requested amount final. The Tax Credit request amount cannot be changed through the Administrative Deficiency process.

E. Reviews and Recommendations

As part of this audit OIA selected nine applications to review for accuracy, completion, and compliance with applicable rules. The review included testing to verify the accuracy of calculations and recommendations in REA underwriting reports, and to assess and evaluate the comprehensiveness of management reviews. Based on the sample selected auditor did not identify any errors in the calculations and recommendations in the QAP-mandated items in the underwriting reports. However, the auditor did identify some inconsistencies in the documentation and record keeping by Team managers in their reviews.

Team managers' review of underwriting reports is not consistently documented, and the auditor cannot confirm that the reviews themselves are consistent or comprehensive. One manager does not document discussions with underwriters; the available evidence shows amendments to the report language, but auditor cannot verify review of calculations or supporting information. One manager uses a checklist. For the other two managers, there is no evidence of review except questions and corrections, so auditor cannot verify which items were checked and confirmed correctly. Another manager sometimes leaves feedback as comments in the workbook, rather than notes. She is also the author of numerous comments throughout the workbook that provide guidance and are part of the template. These practices make it difficult to identify which comments are actionable for the underwriter and could cause increased risk of overlooking errors in the underwriting reports. It is also more difficult to evaluate managers' performance.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-006.01	OIA recommends that management establish a uniform and consistent review and documentation process for Team managers to avoid risk of overlooking errors in underwriting reports.	February 1, 2026	REA Managers

Management Response

Since we now have three managers doing reviews, standardizing the review process is a good idea. We will develop a comprehensive manager review checklist.

The Auditor also noted that the underwriting reports are not compliant with QAP and TAC. The inclusion of personal credit reports in Section A of the report, and timely cost certifications and other issues in Section C, imply that these should have some bearing on the decision-making process; by not considering them, REA risks approving developments contrary to the QAP.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-006.02	OIA recommends that management consider either amending QAP to remove the requirements, or to update their process to include them in the decision process.	11/2026	Compliance, Asset Management, REA, and TDHCA exec

Management Response

The reviews required in this section of the QAP are performed by other divisions in the Department, including Compliance and Asset Management. REA will have to discuss a QAP change with those divisions and TDHCA executive team. These changes will have to be memorialized in the 2027 QAP.

We like to extend our appreciation to staff and management of Real Estate Analysis division for their cooperation and assistance during the course of this audit.

Sincerely,



Mark Scott, CPA, CIA, CISA, CFE, MBA
Internal Audit Director

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