

Housing Finance Corporation (HFC)

Audit Report Requirements

May 2026

Lunch & Learn Series



Contact Information

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Announcements

Schedule

- The training will run from 12 pm until approximately 1 pm
- Staff will present the training and allow for questions at the end of the presentation

Housekeeping:

- We suggest you silence your phones and put an “out of office” email response, to help avoid distractions during the training
- Please hold questions to the end of the presentation.
- Please limit questions to today's content.



Understanding the HFC User → Auditor → TDHCA structure

HFC USER

Secures an independent Auditor to conduct the annual compliance audit.

AUDITOR

The Auditor performs the annual compliance audit. This audit states whether the Development meets the requirements to qualify for the ad valorem tax exemption under §394.9026.

TDHCA

Reviews completed Audit Reports and assesses overall compliance with Chapter 394 TLGC and 10 TAC Chapter 10, Subchapter J, §§10.1201–10.1207 and issues a monitoring report.

Direct property-specific compliance questions to your Auditor.



Audit Report & Compliance Requirements

§ 10.1204(3)-(4)

Compliance Requirements: Jurisdictional Boundary

The HFC User must provide the Auditor documentation confirming the development's location within the HFC's jurisdictional boundaries.

Acceptable Documents

- GIS boundary map
- Recorded legal description
- Local-government resolution
- Other source approved by TDHCA



Compliance Requirements: Jurisdictional Boundary

If the HFC Development is Outside the Jurisdiction Boundaries

Approval is Required

The Development must be approved by:

- The Sponsor/Housing Finance Corporation (HFC)
- The applicable city or municipality where the Development is located
- The applicable county, if the Development is located outside of city limits
- Any locally sponsored housing finance corporation serving that area

A Development located outside of city limits is considered in an “unincorporated area.” In these cases:

- County approval is also required

Grace Period

For developments acquired on or before September 1, 2025, this documentation requirement does not apply until January 1, 2027.

Compliance Requirements: Equitable Unit Finishes & Amenities

Restricted Units must have the same finishes, equipment, and access to amenities as non-restricted units.

ACCEPTABLE VARIATION

Minor differences in:

- Floor plan layouts
- Paint/color choices
- Design aesthetics

NONCOMPLIANCE

Significant differences in:

- Floor plan square footage
- Unit size variations
- Access to amenities or programs

AUDITOR DOCUMENTATION

- Written certification from HFC User
- Photographic evidence

Must be submitted with Audit Report.

Note: This requirement is subject to the compliance transition timeline for developments acquired before May 28, 2025.

Compliance Requirements: Proportional Unit Distribution

The percentage of Restricted Units in each Unit Type and income restriction category must be equal to or greater than the percentage of that Unit Type in the development as a whole.

If 1-bedroom units make up 30% of all units in a development, then at least 30% of the Restricted Units at each income level must also be 1-bedroom units. You cannot concentrate restrictions on one unit type.

EXAMPLE

Unit Type	Total Units	% of Development	Min. Restricted Units Required
1-Bedroom	40	40%	At least 40% of Restricted Units must be 1-bedroom units at each income level.
2-Bedroom	35	35%	At least 35% of Restricted Units must be 2-bedroom units at each income level.
3-Bedroom	25	25%	At least 25% of Restricted Units must be 3-bedroom units at each income level.

Note: This requirement is subject to the compliance transition timeline for developments acquired before May 28, 2025.

Compliance Requirements: Income Recertification & Available Unit Rule

Occupants of Restricted Units must recertify household income using a TDHCA-approved Income Certification form at each lease renewal.

SCENARIO 1: Exceeds AMI but Below Highest Tier

Redesignate the unit to the next AMI level in the Regulatory Agreement. Reserve the next available comparable unit for a tenant at the original income level.

Example: Unit is 80% AMI. Household recertifies above 80% but below 120%. Unit redesignated to 120%; next available unit reserved for 80% household. Rent may increase with proper notice.

SCENARIO 2: Exceeds Highest AMI Tier in the RA

Reserve the next available comparable unit for a tenant at the highest AMI level in the Regulatory Agreement.

Example: Unit is 120% AMI (highest tier). Household recertifies above 120%. Next available comparable unit must be reserved for a 120% household. Unit retains 120% status until the Available Unit Rule is complied with or violated.

The Available Unit Rule mirrors IRC §42(g)(2)(D) and applies at the Development level.

Compliance Requirements: HCV Marketing, Website & Non-Discrimination

HCV Affirmative Marketing

Developments must affirmatively market Restricted and non-Restricted Units to Housing Choice Voucher households and notify local housing authorities of their acceptance of vouchers.

Evidence must include: notifications to local housing authority, advertising posted at housing authority properties, or mailings sent to housing authority households.

Website Disclosure

The home page of the development's website must include information about the development's compliance with its policies on accepting Housing Choice Voucher holders or other rental assistance.

Non-Refusal of HCV Holders

Developments may not refuse to rent to an individual or family **solely** because they participate in the Housing Choice Voucher program.

Minimum Income Standard Limit

Developments may not require a minimum income standard for HCV households that exceeds 250% of the tenant's portion of rent.

Note: (E), (F), (G), and (H) are NOT deferred for developments acquired before May 28, 2025. These requirements apply immediately.

Compliance Requirements: Lease Protections for Restricted Units

The Auditor must review the development's tenant leases, lease addendums, and leasing policies to confirm each Restricted Unit lease includes the following protections:

Non-Retaliation

Landlord may not retaliate against a tenant for establishing, attempting to establish, or participating in a tenant organization.

Non-Renewal Only for Cause

Landlord may only choose not to renew a lease if the tenant:

- Committed one or more substantial lease violations
- Failed to provide required income/eligibility information
- Committed repeated minor violations affecting livability, health, safety, management, or financial operations

30-Day Notice Required

To non-renew a lease, the landlord must serve written notice no later than 30 days before the effective date of non-renewal.

Non-Waivable Protections

Tenants may not waive these protections in a lease or lease addendum.

Compliance Requirements: Income Restrictions

To qualify for the ad valorem tax exemption, a development must meet one of the following two set-aside tests:

Option 1

At least 10% of residential units reserved as **Lower Income Housing Units (60% AMI)**

AND

At least 40% of residential units reserved as **Moderate-Income Housing Units (80% AMI)**

Option 2

At least 10% of residential units reserved as **Very Low-Income Housing Units (50% AMI)**

AND

At least 40% of residential units reserved as **Middle-Income Housing Units (100% AMI)**

Note: This requirement is subject to the 10-year compliance transition for developments acquired before May 28, 2025.

Compliance Requirements: Rent Restrictions

Monthly Rent for Restricted Units may not exceed 30% of the imputed household income limitation, adjusted for family size, as determined by HUD.

Rent

Any recurring fee or charge a tenant is required to pay as a condition of occupancy, including a fee or charge for the use of a common area, amenity, or facility reasonably associated with the residential rental property.

Rent does not include fees for services or amenities that are optional for a tenant, such as pet fees and fees for storage or covered parking.

For Developments acquired before May 28, 2025, a one time waiver of this requirement applies for occupancy period 1/1/2025-12/31/2025.

Family Size Adjustment

The Auditor defers to the development's Regulatory Agreement and/or other operative document to determine how the family size adjustment is applied.

If the adjustment method is unclear, it is the HFC User's responsibility to provide support showing the method used is acceptable to the HFC.

HCV

If a Restricted Unit is occupied by a Housing Choice Voucher household and the voucher payment standard is less than the unit's monthly Rent, the household may be required to pay the difference between the payment standard and the monthly Rent.

Note: Rent Restrictions are subject to the 10-year compliance transition for developments acquired before May 28, 2025.

Compliance Requirements: Rent Reduction & Public Benefit

It is the sole responsibility of the HFC User to calculate and demonstrate the Rent Reduction for all Restricted Units.

Identify the Rent Reduction

Calculate the difference between the annual Rent charged for each Restricted Unit and the estimated Maximum Market Rent for that unit if unrestricted.

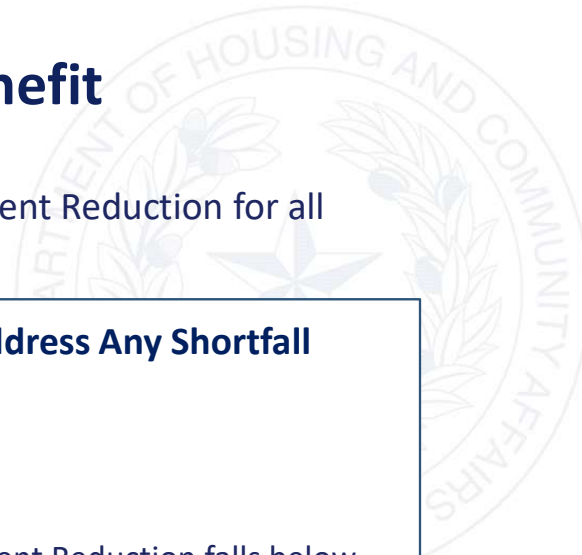
If all units are restricted, the HFC User must provide evidence of comparable market rents (market studies, leasing surveys, HUD Fair Market Rents, or other TDHCA-approved methods).

Apply the 50% Public Benefit Test

The total Rent Reduction for all Restricted Units must equal at least 50% of the estimated ad valorem taxes that would have been imposed on the development if not exempt.

Address Any Shortfall

If the Rent Reduction falls below 50% of estimated taxes, the HFC User must pay the shortfall to each applicable taxing jurisdiction on a pro rata basis based on each authority's share of the combined aggregate millage rate.



Note: This requirement is subject to the 10-year compliance transition for developments acquired before May 28, 2025.

Compliance Requirements: Rent Reduction First Applies

The first Audit Report to include the Rent Reduction test depends on the development type:

RULE:

First Rent Reduction test applies to the first Tax Year after the acquisition Tax Year.

EXAMPLE:

Example: Development acquired July 24, 2025. Acquisition tax year = 2025. First Audit Report due June 1, 2026. First Rent Reduction test = Tax Year 2026, on the Audit Report submitted June 1, 2027.

RULE:

First Rent Reduction applies to the first Tax Year after the Tax Year in which construction first begins.

EXAMPLE:

Example: Construction begins February 1, 2026. First tenant occupies September 15, 2027. First Audit Report due June 1, 2028. First Rent Reduction test = Tax Year 2027, included in that same Audit Report.

Compliance Requirements: Rent Reduction Details

$$\text{Rent Reduction per Unit} = \text{Maximum Market Rent} - \text{Actual Rent on Rent Roll}$$

HCV / Rental Assistance Units

Use the tenant-paid portion of rent (not the full contract rent) for units occupied by HCV holders or other rental assistance recipients.

Vacant Restricted Units

Use the maximum permitted rent under the Regulatory Agreement for all months the unit was vacant.

Vacant Market Rate Units

Use the Maximum Market Rent for that Unit Type for all months the unit was vacant.

Estimating AD Valorem Taxes

Development Type	Estimation Method
Occupied – acquired by HFC	Actual taxes from no earlier than the Tax Year prior to acquisition, with a stated escalation factor.
Occupied – already tax exempt at acquisition	Public appraisal district value; or independent appraisal, third-party tax report, or other TDHCA-approved method if no appraisal district value.
New Construction	Public appraisal district value; or independent appraisal, third-party tax report, or other TDHCA-approved method if no appraisal district value

Compliance Requirements: Post- May 28 Acquisitions

Developments Acquired After May 28, 2025

A development acquired by an HFC after May 28, 2025, must comply with all requirements in this Subchapter no later than the end of the Tax Year following the year of acquisition.

There is no phased compliance period. Full compliance is required by the end of the first full Tax Year after acquisition.

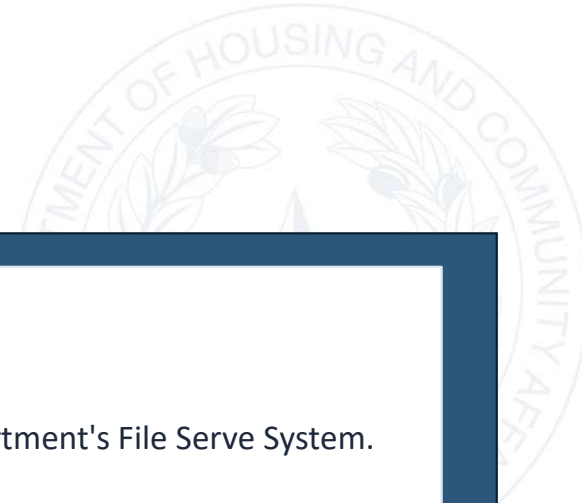
Auditor Records Retention

The Auditor must retain monitoring records and papers for each Audit Report for **three years**.

Upon request, the Auditor must provide copies to **TDHCA** and/or the **Chief Appraiser**.

Reporting Requirements

How to Submit Your Audit Report



1

Request Serv-U Access

HFC User or Auditor must email hfc@tdhca.texas.gov to request access to the Department's File Serve System.

2

Submit via File Serve System

All Audit Reports, supporting documentation, and required forms must be submitted through the Serv-U system.

3

Confirm Submission

After submitting, send a confirmation email to hfc@tdhca.texas.gov notifying the Department that your submission has been completed.

Questions & Answers



Please limit questions to today's content

HFC Webpage: <https://www.tdhca.texas.gov/housing-finance-corporation-compliance-monitoring>

HFC Email Address: hfc@tdhc.texas.gov

Next Session: Wednesday, May 27, 2026, covering Income and Rent Requirements under TAC §10.1205

- Register at: <https://attendee.gotowebinar.com/register/6329781143733841495>



Thank you!

Texas Department of Housing and
Community Affairs

RESOURCES CAN BE FOUND ONLINE AT TDHCA.TEXAS.GOV.

