

Maryland Department of Housing and Community Development (DHCD)

Rental Housing: Multifamily Management

Snapshot

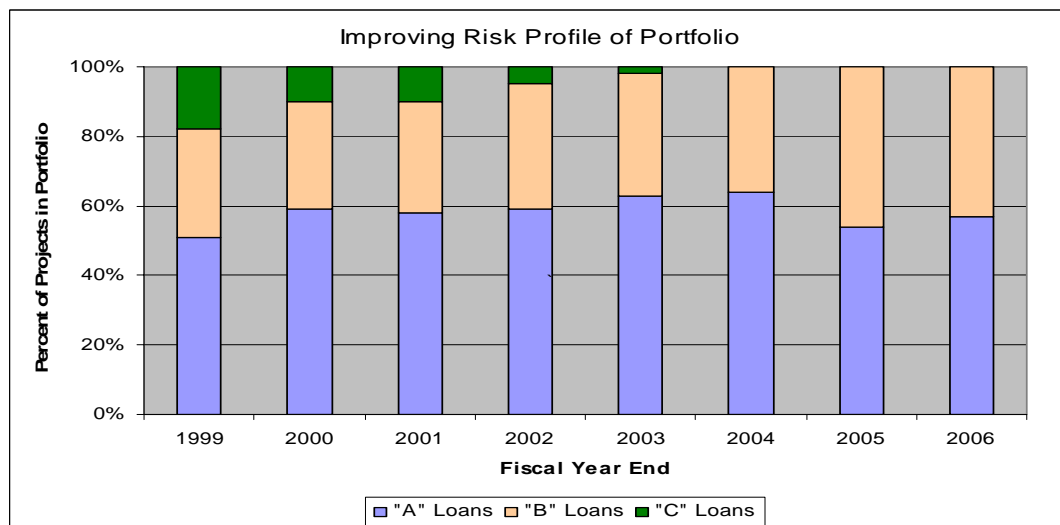
The Maryland Department of Housing and Community Development (MDHCD) strives to balance its public purpose mission and fiscal responsibility, especially in light of the Department's \$138 million loan portfolio. To ensure the Department's asset management is strategically improved, the Department hired additional staff skilled in the strategic decision making techniques of Multifamily Asset Management. New emphasis was placed on training existing staff, and **Strategic Decision-Making Protocols** were designed to spot weaknesses and negative trends more rapidly. Among the many positive results of this new emphasis in strategic decision-making, two facts stand out: there have been no delinquent loans in the portfolio for over three years; defaulted loans have been reduced by \$60 million, and are now virtually nonexistent.

Strategic Decision Making

Our mission is to revitalize communities, encourage home ownership, and expand affordable housing opportunities. Our ability to accomplish this mission depends on sustainable financial resources and, because the Department must maintain a balance between its public purpose mission and fiscal responsibility, increased focus has been placed on management of assets, specifically the Department's \$138 million loan portfolio.

To accomplish this, the Department brought in additional staff skilled in the strategic decision making techniques of Multifamily Asset Management. New emphasis was placed on training existing staff, and **Strategic Decision-Making Protocols** were designed to spot weaknesses and negative trends more rapidly. In addition, the Department instituted improved data collection techniques and new reporting requirements to give both management and staff early warning of difficulty within the portfolio. The operational plan in use today assures that financial risk associated with fulfillment of our public purpose is minimized. This is accomplished through implementation of precise and diligent application of new asset management strategies as outlined below.

- **Risk Rating the Loan Portfolio:** A risk rating system was developed for the multifamily portfolio. Projects rated "A" require standard, annual monitoring; "B" projects require enhanced oversight to prevent or reverse observed financial and physical issues; and "C" projects have financial or physical (technical) defaults. The rating system assigns a specific set of criteria to each rating category, segregates the loans by category, and evaluates each loan against the appropriate criteria. The risk rating process allows individual review of each project. It also helps develop portfolio-wide comparisons and establish financial and property management strategies. It improves accuracy of the calculation for the risk of losses shown in financial statements, and it provides a baseline for evaluation of portfolio trends. Since the implementation of the risk rating protocol, defaulted loans have been reduced by \$60 million, and are now virtually nonexistent.

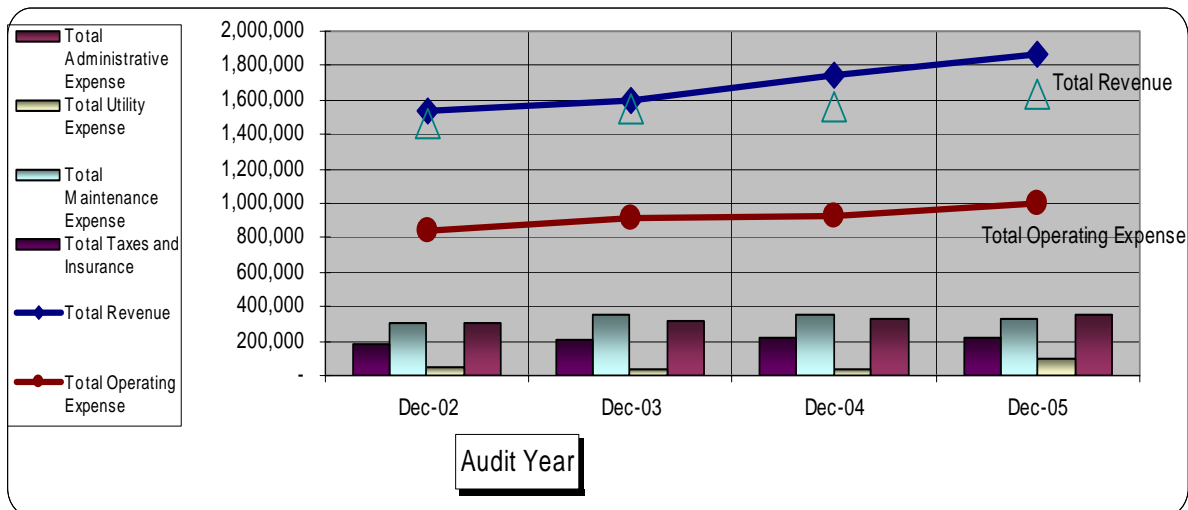


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- **Borrower’s Report Card:** The Borrower’s Report Card uses certain indicators to develop a borrower profile to predict the probability of poor, average or sustained good performance. The Department’s use of the Borrower’s Report Card encourages informed, aware borrowers, who understand the importance of planning to meet their commitments. Future lending decisions are based on the results of the respective borrower’s score and are used as a compliance tool.

The Report Card:

1. Alerts borrowers to the necessity to meet financial and regulatory commitments, including reporting deadlines;
 2. Provides crucial information and feedback to the lending arm of the Department;
 3. Has proven to be an aid in the resolution of cash flow disagreements and arrearages; and
 4. Strengthens the partnership between the Department and its borrowers.
- **AMO Training:** The Department’s Asset Management Officers (AMO) regularly attend IREM, CHAM, and other professional training to maintain a high level of proficiency. The Secretary’s support of career development, which includes paying for staff to pursue special designations and degrees, is a valuable recruiting tool. Asset Manager training now accounts for over 90% of our division’s training budget.
 - **Financial Scenarios and Portfolio Modeling:** A financial model was designed to reveal outcomes based on financial scenarios that could be tracked. The model includes all relevant financial data, which is tracked and then compared to the forecasted performance. The different scenarios and strategies are evaluated and adapted as necessary to obtain the best possible outcomes. Subsequently, application of differing strategies is implemented under different or changing market conditions.
 - **Improved Financial Tracking:** A protocol was established that standardized the review and analysis of property financial reports. The review process now encompasses the property condition, identifies trends in operational benchmarks, tests compliance with loan and program restrictions, and provides comprehensive trending and financial benchmark comparisons.



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RESULTS: Long-Term Benefits of the Department's Strategic Decision-Making Protocol

- ✓ There have been no delinquent loans in the portfolio for over three years.
- ✓ Early detection of potential problems allows proactive intervention, and an early opportunity to cure troubled properties.
- ✓ Informed, aware Borrowers are better able to understand and meet their commitments.
- ✓ Continually increased awareness, and comparison of the state of projects in the portfolio by Asset Managers leads to strength and stability of the Department's loan portfolio.
- ✓ A well-trained staff fosters quality asset management.
- ✓ Stabilized and improved health of the State's Mortgage insurance entity, the Maryland Housing Fund, allowing that entity to offer new insurance for the first time in a decade.
- ✓ With improved financial strength of the overall agency, including its mortgage insurance arm, consideration of a potential upgrade to the Department's multifamily bond resolution is now possible.