

# NCSHA 2016 Annual Awards Entry Form

(Complete one form for each entry)

**Deadline: Wednesday, June 15, 2016**

Visit [ncsha.org/awards](http://ncsha.org/awards) to view the Annual Awards Call for Entries.

**Instructions:** Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact [awards@ncsha.org](mailto:awards@ncsha.org) or 202-624-7710.

Fill out the entry name *exactly* as you want it listed in the program.

**Entry Name:** \_\_\_\_\_

**HFA:** \_\_\_\_\_

**Submission Contact:** (Must be HFA Staff Member) \_\_\_\_\_ **Email:** \_\_\_\_\_

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

\_\_\_\_\_

Use this header on the upper right corner of each page:

**HFA:** \_\_\_\_\_

**Entry Name:** \_\_\_\_\_

\_\_\_\_\_

**Select the appropriate subcategory of your entry and indicate if you are providing visual aids.**

<b>Communications</b>	<b>Homeownership</b>	<b>Legislative Advocacy</b>	<b>Management Innovation</b>
Annual Report	Empowering New Buyers	Federal Advocacy	Financial
Creative Media	Encouraging New Production	State Advocacy	Human Resources
Promotional Materials and Newsletters	Home Improvement and Rehabilitation		Operations
			Technology
<b>Rental Housing</b>	<b>Special Needs Housing</b>	<b>Special Achievement</b>	Are you providing visual aids?
Encouraging New Production	Combating Homelessness	Special Achievement	Yes
Multifamily Management	Housing for Persons with Special Needs		No
Preservation and Rehabilitation			

### **Brief Description**

With funding sources becoming increasingly scarce and the process to obtain these funds even more competitive, Colorado Housing and Finance Authority (CHFA), like many other HFAs, is faced with ensuring all resources are used to their maximum potential. This becomes even more delicate as rating agency requirements become more demanding in an evolving industry.

To that end, CHFA's Product Profitability Program has built an infrastructure for measuring and planning how much revenue, expense, and profit each product or service we offer contributes to the bottom line. CHFA's Finance and IT teams have created an activity-based framework for categorizing all revenues and expenses and have deployed a technological tool that compiles these allocations and presents the results via a web-based dashboard. Additionally, these financial results are compared to the product's relative community impact, allowing managers a new level of financial fluency as they see the origin and amounts of fully loaded costs and how those results impact the community.

This "Profitability versus Community Impact" approach is displayed utilizing a four-quadrant matrix, categorizing CHFA's portfolio of over 30 products and services into one of the four quadrants and allowing staff to focus on items of importance (see exhibits A and D). "Having this information brings into the light the degree to which operational decisions made in the past were based on instinct and experience. With this data and a much higher level of sophistication, we can now make decisions that are fully informed. Operating with our eyes wide open has truly transformed the way we conduct our business," states Cris White, CHFA Executive Director and CEO.

### **Why/When it was undertaken?**

The Program's roots lie in the aftermath of the 2009 housing crisis and subsequent bond market collapse. Ginnie Mae securitization became the primary vehicle for single family lending at CHFA; however, increasing delinquency rates through 2012 resulted in \$30M of liquidity being tied up in required buyouts from that portfolio due to the fact that CHFA was the MBS issuer.

Alternative operations were necessary, and to develop them, we needed to thoroughly understand the costs associated with acquiring and servicing a loan. For example, while CHFA's existing chart of accounts tracked salaries for individuals servicing loans, it did not integrate costs from supporting cost centers, such as IT and Legal, to yield fully loaded costs to service. A better understanding of these servicing economics led to the transfer of operations to a sub-servicer, as well as the decision to apply this level of analysis to all products and services.

In late 2014, CHFA formally initiated a project to build a framework and construct tools to assess all CHFA's product and services, which resulted in the Product Profitability Program. Since that time, it has been refined and applied in a number of high-value strategic initiatives.

### **What it accomplished**

CHFA uses the Program to analyze and price its existing offerings and consider new ones. The interactive dashboards promote unprecedented levels of transparency and collaboration, and the analytics have transformed strategic business decision-making and daily operation management. In turn, departmental silos have broken down, creating an atmosphere where multiple departments, work together to better understand the big picture, as opposed to only focusing on their respective departmental economics. As Jaime Gomez, CHFA COO, attests, "The work we've done has allowed leadership at CHFA to drive better decision-making across the board. The insight the data provides allows us to illustrate to our leadership team where we can fine tune program oversight, which has

helped us amplify the message that greater efficiency and profitability leads us to having a greater impact in the communities we serve.”

### **Innovative**

The framework captures the true cost of all activities in the organization, including directly assigned and allocated overhead (see exhibits B and C). This allows deep dives into things like understanding and tracking the profitability of a single loan from reservation through portfolio exit.

All business unit costs may be benchmarked against outside entities, as well as benchmarked against themselves over time. CHFA, like many nonprofit entities, had a tendency to develop many products and supporting services in-house. The Profitability Program leads not just to questions of increasing efficiency, but to more fundamental questions of whether or not to continue a product or service.

### **Replicable**

The framework is highly replicable. It is largely based on information that is already available within HFAs. Although sophisticated, the allocation engine is powered by Microsoft Excel and its native Visual Basic macro language. The Profitability versus Impact Dashboard utilizes Tableau visualization software, making advanced analytics available to all managers through their web browsers (see exhibits C, D, and E).

The greatest impediment to implementation is organizational culture. For CHFA, “Profitability versus Community Impact” as a framework yields much better results than profitability as a stand-alone initiative, because we are a mission-driven organization. We acknowledge that while every product or service may not be profitable, the beneficial community impact each provides sometimes outweighs the cost. This is a value that everyone in the organization stands behind.

### **Respond to a management challenge opportunity**

Generating and allocating limited resources to their best and highest need is the largest challenge for nonprofit organizations. The “Profitability versus Community Impact” framework provides the data to make high-level decisions and the metrics to guide daily operational performance.

### **Achieve measurable improvements in agency operation**

The Product Profitability Program allowed CHFA to:

- Introduce a single family grant program and aggressively price it  
Loan production grew from \$424M in 2014 to \$746M in 2015. Per-loan operational cost decreased from \$3,110 to \$2,096 during that same time, increasing earnings by over \$4M.
- Target individual products to move from an operating loss to break-even profitability  
Six products/services are targeted in 2016 with a goal of saving CHFA over \$1.7M by moving units to break-even.
- Price single family loans based on their expected return through acquisition, securitization and servicing. By tying the economics of the entire single family operations together, we have been able to increase volume as well as the servicing fee rates. We are boarding loans with servicing strips up to 25 basis points higher than our existing servicing portfolio.

**Provide benefits that outweigh costs**

The cost and staff resources required to develop the Program were relatively insignificant when compared to the benefit. The framework development and deployment were completed primarily with 1.5 to 2 existing employees working part time. Direct employee cost was approximately \$300k.

The benefits have been numerous, as described by Patricia Hippe, CHFA CFO: “Apart from the obvious benefits of managing revenues and expenses more proficiently, allocating revenues and expenses to the business activities that drive them—and not to the business units that have historically budgeted them—has increased cross-functional collaboration and, therefore, an understanding of what it really costs to operate a business activity. This has proven to be invaluable.”

**Demonstrate effective use of resources**

A primary goal of the Program is to provide easy-to-use, highly quantifiable information to measure and manage the effective use of resources

**Achieve strategic objectives**

The Program has had and will continue to have a direct impact on CHFA’s strategic goals, including increasing profitability where applicable, increasing transparency and accountability, and increasing operational efficiency.

**Conclusion**

The Product Profitability Program has transformed CHFA operations. Fact-based decision-making quickly eclipsed decisions all too often influenced by institutional lore and inertia. CHFA derived an enormous amount of value in the discussions and agreements on how to assemble such a model, and the organization continues to realize additional benefit by identifying high-value opportunities based on this new level of insight and perspective.


**Exhibits**

Exhibits A – E are screenshots of CHFA’s Profitability versus Impact Dashboard.

Exhibit A

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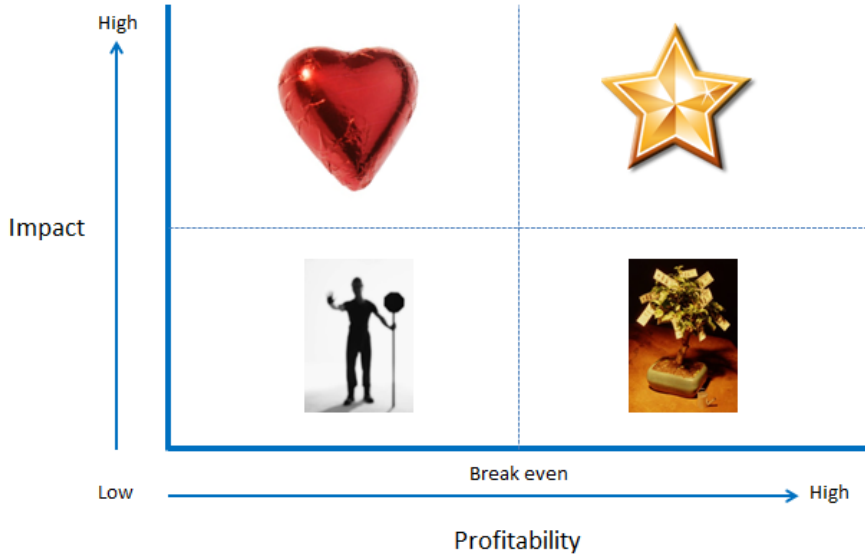
what is profitability | community impact v profitability explained | measuring community impact | community impact v profitability | business unit profitabilit >



### community impact v profitability explained

CHFA delivers a portfolio of products and services to accomplish its mission. Managing these products and services is a balancing act as we seek to deliver the most benefit with limited resources.

Some of our offerings are profitable while others are not. It isn't a bad thing that some lose money so long as they are providing a large benefit. We just have to be able to offset the losses with other offerings that generate profitability.



High

Impact

Low

Break even

High

Profitability

Adapted from The Matrix Map: A Powerful Tool for Mission-Focused Nonprofits

**Exhibit B**

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what is profitability | community impact v profitability explained | measuring community impact | community impact v profitability | business unit profitabilit >



**what is profitability?**

**Profitability**

Revenue (cash in) less Expense (cash out) = Profitability

**Key Concepts**

A **Business Unit** is any product or service that takes in revenue. Examples: MF servicing or SF First Loans.

A **Cost Center** is any support unit that does not take in Revenue. All of its activities take place for the benefit of Business Units or for CHFA as a whole. Examples: Legal, HR, IRM.

**Business Unit Direct Revenue and Expense** are budgeted items reported to managers on a monthly basis. These funds are allocated directly from CHFA's accounting system.

**Cost Center Direct Expense** are for activities carried out by a support unit in direct support of a business unit. Examples - special operations project for Multi Family or IRM support of SF First loans.

**Cost Center Indirect Expense** (or overhead) are any remaining expenses that do not occur for the specific benefit of a single Business Unit. Examples include HR, Marketing, Executives and IT desktop support. These expenses are allocated to the Business Units based on the relative amount of salaries inside each business unit.

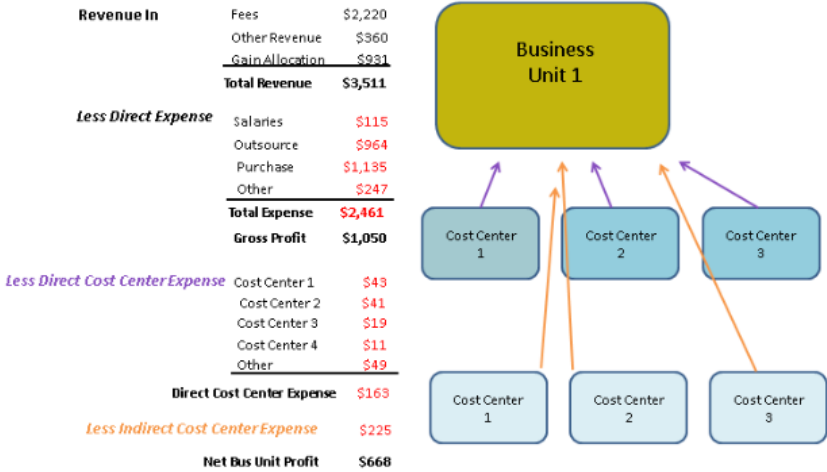


Exhibit C

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measuring community impact < community impact v profitability business unit profitability cost center expense overview cost center business unit alloca >

### business unit profitability

Direct Revenue	2013		2014		2015		2016	
	Actual	Actual	Budget	Actual	Budget	Actual	Actual	
Interest	\$1,461,789	\$2,100,699	\$1,747,678	\$3,481,214	\$3,324,612	\$754,535		
Gain / Loss on Sale of Loans	\$23,093,655	\$23,846,453	\$21,847,875	\$50,064,512	\$52,929,000	\$11,952,960		
Servicing Fees	\$923,485	\$547,860	\$431,670	\$674,961	\$291,590	\$111,803		
Fees	\$620,393	\$257,756	\$190,545	\$546,459	\$442,644	\$167,126		
All Other	(\$8,394,158)	(\$7,404,580)	\$535,909	(\$2,059,582)	\$518,527	\$76,545		
<b>Total Direct Revenue</b>	<b>\$17,705,164</b>	<b>\$19,348,187</b>	<b>\$24,753,677</b>	<b>\$52,707,565</b>	<b>\$57,506,372</b>	<b>\$13,062,969</b>		
<b>Direct BU Expense</b>								
All Other	\$772,745	\$2,185,963	\$759,602	\$10,840,413	\$12,430,167	\$2,207,088		
Salaries & Benefits	\$986,437	\$679,395	\$762,830	\$765,275	\$1,275,292	\$289,511		
Interest	\$0	\$0	\$0	\$0	\$0	\$0		
Down Payment Assistance			\$7,327,500	\$16,003,653	\$19,780,800	\$4,102,499		
SRP	\$6,957,099	\$7,109,640	\$7,399,350	\$12,512,726	\$12,960,000	\$2,577,796		
<b>Total Direct BU Expense</b>	<b>\$8,716,281</b>	<b>\$9,974,998</b>	<b>\$16,249,282</b>	<b>\$40,122,067</b>	<b>\$46,446,259</b>	<b>\$9,176,895</b>		
<b>Cost Center Direct</b>								
All Other	\$15,767	\$26,685	\$85,710	\$55,232	\$46,440	\$10,526		
IT	\$24,349	\$14,639	\$46,979	\$110,093	\$106,049	\$22,554		
Accounting	\$67,787	\$60,136	\$35,119	\$48,800	\$32,440	\$6,878		
IRM	\$23,905	\$29,206	\$38,155	\$35,811	\$43,370	\$11,871		
Legal Svc	\$95,815	\$97,656	\$98,882	\$75,138	\$72,606	\$16,375		
AM - Quality Team	\$12,773	\$278,160	\$364,322	\$380,468				
<b>Total Cost Center Direct</b>	<b>\$240,397</b>	<b>\$506,482</b>	<b>\$669,166</b>	<b>\$705,541</b>	<b>\$300,906</b>	<b>\$68,205</b>		
<b>Cost Center Indirect</b>								
All Other	\$206,923	\$290,563	\$349,059	\$342,563	\$387,127	\$95,939		
IT	\$199,438	\$191,969	\$230,761	\$236,152	\$261,762	\$59,611		
Exec	\$144,049	\$179,696	\$198,606	\$193,503	\$235,198	\$64,462		
Accounting	\$98,483	\$91,010	\$83,978	\$117,875	\$87,486	\$19,540		
AM - Real Estate Svc		\$105,812	\$92,710	\$89,370	\$9,298			
Marketing and Community Relatio..	\$47,425	\$70,885	\$105,232	\$87,480	\$126,717	\$22,256		
<b>Grand Total</b>	<b>\$696,318</b>	<b>\$929,934</b>	<b>\$1,060,347</b>	<b>\$1,066,943</b>	<b>\$1,107,588</b>	<b>\$261,807</b>		
<b>Net Profitability</b>								
	<b>\$8,052,168</b>	<b>\$7,936,772</b>	<b>\$6,774,882</b>	<b>\$10,813,014</b>	<b>\$9,651,619</b>	<b>\$3,556,063</b>		

**Business Unit**  
(Multiple valu... ▾)

**Offering**  
(All) ▾

**Allocation**  
(All) ▾

**Exhibit D**

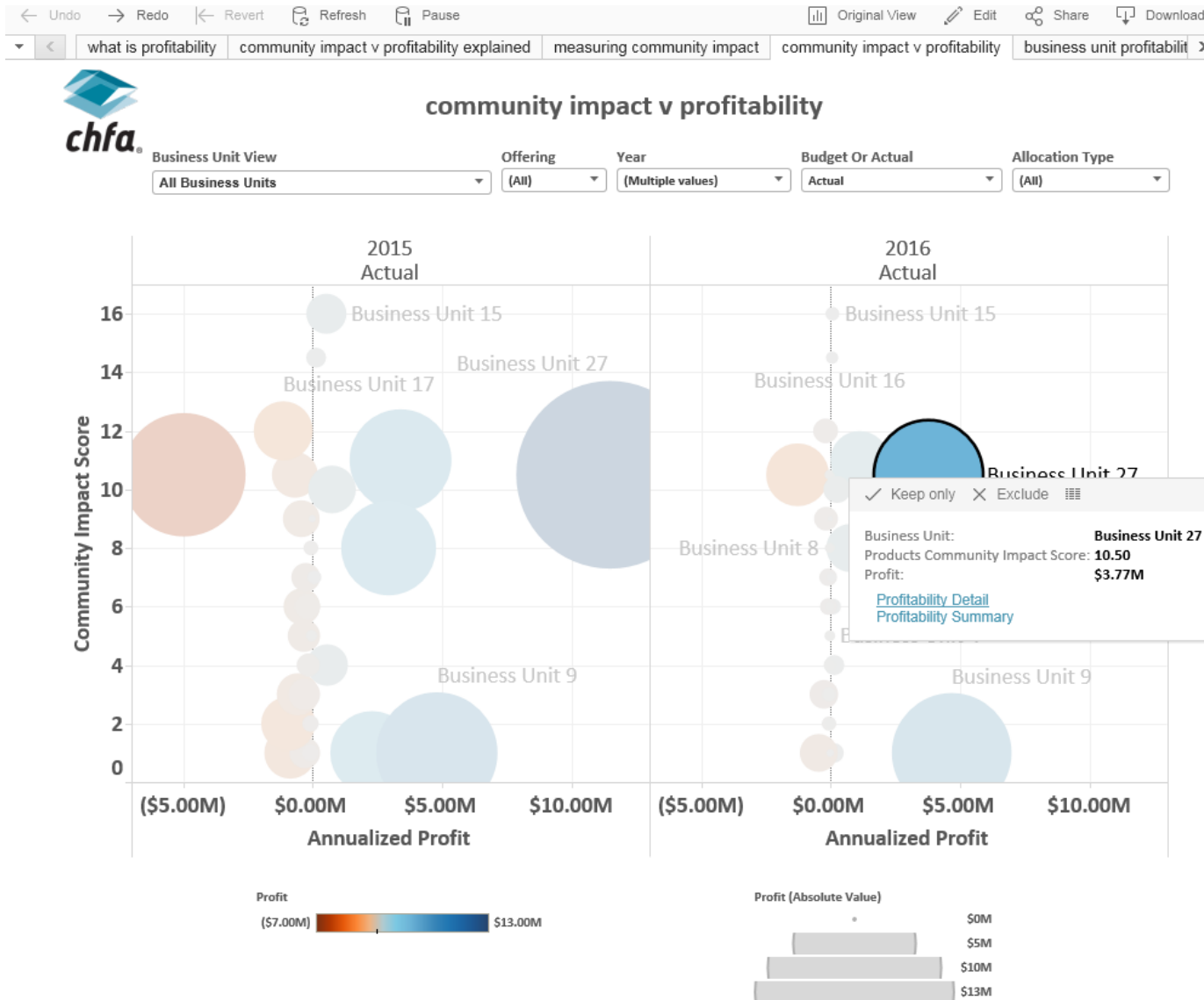




Exhibit E

