



*2013 Annual Awards Entry Form*  
(Complete one for each entry.)

Entry Name Default Prevention and Management

HFA Maryland Department of Housing and Community Development

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Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013**.

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

## NCSHA 2013 Awards

**Category:** Rental Housing  
**Sub-Category:** Multifamily Management  
**Entry Name:** Default Prevention and Management

### Background

Like other state housing agencies, the Maryland Department of Housing and Community Development must constantly balance its mission to promote and preserve affordable multifamily housing for the state's hardworking low and moderate income families against its obligation to manage its assets in a responsible and sustainable way.

This high wire act is especially important in the current economic climate as an increasing number of families find themselves compelled to turn to the rental market because they have lost their homes through foreclosure or because they cannot raise the downpayment and settlement costs to buy a home. In addition, Maryland continues to add demand for affordable multifamily housing as a result of the influx of defense-related workers through the military's Base Realignment and Closure process (BRAC).

The department's asset managers have developed a unique set of tools that enable them to assess and constantly monitor risk so that negative trends and impending weaknesses can be identified and addressed before they become problematic. This holistic approach to risk management allows the department to focus on strategic decision-making and to be proactive rather than reactive.

### The Risk-Rating System

DHCD developed a Risk Rating System for its multifamily loan portfolio. Projects rated "A" require standard annual monitoring. "B" projects require an enhanced plan, and "C" projects may have financial or physical/technical defaults. DHCD's 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 not only allows individual review of each project, but also helps develop portfolio-wide comparisons and the establishment of improved financial and property management strategies. The Risk-Rating System also improves the accuracy of calculations for the risk of losses shown in financial statements, and it provides a baseline for evaluation of portfolio trends. We continue to minimize defaulted loans utilizing this approach.

## **The Borrower's Report Card**

The Borrower's Report Card allows borrowers, our stakeholders, to share in the methods and management of their assets and interests. The Report Card uses certain indicators, such as ratings on physical inspections and timeliness of report submissions to develop a borrower profile to predict the probability of poor, average, or sustained good performance.

DHCD's use of the Borrower's Report Card encourages borrowers to be informed and aware of the condition of their property. This enables them to understand the importance of solid planning to meet their financial commitments to the Department. Additionally, future lending decisions involving the borrower are based on the results of the borrower's score. The borrower's report card:

1. Alerts borrowers to their need to meet financial and regulatory commitments, including various reporting deadlines;
2. Provides crucial information and feedback to the lending arm of DHCD;
3. Serves as an aid in the resolution of cash flow disagreements and arrearages; and
4. Strengthens the partnership between DHCD and its Borrowers.

## **New Web Based Portal System**

DHCD created an advanced web based portal system that allows for the submission and review of annual financial statements. This paperless process allows for an efficient flow of information including a report tracking system and an analysis of up to 5 years of financial information. Generated reports can be exported which can be formatted using 6 different methods to provide a modified and constructive analysis. The chart and data tables below are only a small excerpt of the financial characteristics the system creates.

### **Summary:**

The agency's implementation of the Default Prevention and Management System through the Borrower's Report Card, the Risk Rating System and the Web Based Portal System overall improved Financial Tracking has strengthened our ability to detect potential problems early enough to allow proactive intervention. Our borrowers are better informed and are more able to understand, and therefore meet, their financial commitments to the agency. Increased focus has been placed on strategic decision-making processes and protocols that allow asset managers to spot negative trends and impending weaknesses before they become problematical. Follow-up procedures are put in place as part of a remedial task for identified problems. The Maryland Housing Fund FY 2012 Annual Report to the General Assembly stated that was the ninth straight year MHF reported no multi-family insured loans in either financial or physical default. The operational plan in use today takes into consideration all of the aspects of the asset instead of attacking each issue as it arises. Risk rating and meticulous comparison of the state of projects in the portfolio by Portfolio Managers has led to greater strength and stability in the Agency's loan portfolio.

<b>Debt Service Coverage Ratio (DSCR)</b>	
Audit Year	2012
Net Operating Income	\$333,250
Lien Position	1
Repayment Term	MP
Description	DHCD
Debt Service/Annual P&I	\$257,700
Interest Subsidy	0
Adjusted Debt Service	\$257,700
Debt Service Coverage Ratio	1.29

