NCSHA 2008 AWARDS
Maryland Department of Housing and Community Development

Category: **Rental Housing**
Sub-Category: **Multi-Family Management**
Entry Name: **Asset Management**

BACKGROUND

DHCD's Asset Managers have, over years of professional practice, developed a formulaic approach to asset management that is key to the enduring health of the State of Maryland's project portfolio. This set of implements for risk/loss mitigation is proactive and assures that the financial risk associated with fulfillment of our public purpose will be minimized.

Responsible Asset Management

The accomplishment of DHCD's mission to revitalize communities, encourage homeownership, and expand affordable housing opportunities depends on sustainable financial resources. Designing and maintaining a hands-on personal approach to asset management was necessary to meet public purpose objectives and, at the same time, ensure financial stability. DHCD sought to place an increased focus on strategic decision-making processes and protocols that allow asset managers to spot negative trends and impending weaknesses *before* they become problematic. The Department wanted to develop an operational plan that takes into consideration all of the aspects of the asset instead of attacking each issue as it arises.

Vigilance: The Risk-Rating System, the Borrower's Report Card, Improved Financial Tracking

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. Since the implementation of the Risk Rating protocol, the total value of DHCD's defaulted loans has been reduced by over $60,000,000, and defaulted loans are now virtually nonexistent in DHCD's risk-rated portfolio.

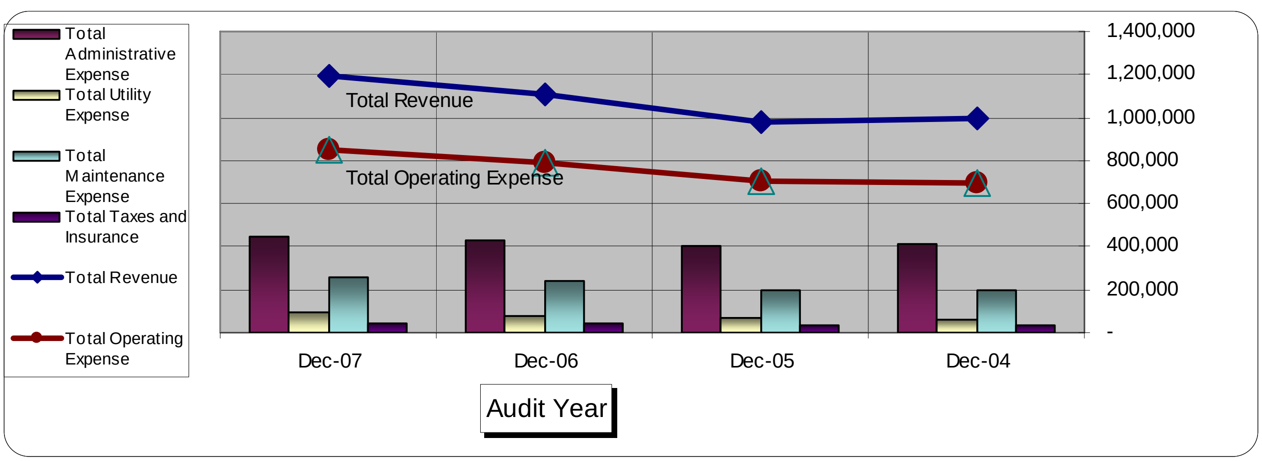
The Borrower's Report Card

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 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.

Improved Financial Tracking
DHCD established a protocol that standardizes the review and analysis of property financial reports. The review process now assesses the property's condition, identifies trends in operational benchmarks, tests compliance with loan and program restrictions, and provides comprehensive trending and financial benchmark comparisons. The chart below is representative of tracking for a property in the portfolio.



ACCOMPLISHMENTS
The Agency's implementation of the Borrower's Report Card, the Risk Rating System and 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.

JUSTIFICATION FOR NOMINATION
Such 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. 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 Asset Managers has led to greater strength and stability in the Agency's loan portfolio. Thus, the implementation of such protocols demonstrates effective use of resources and provides benefits that outweigh costs.