

NCSHA 2010 Awards
The Asset Management Toolbox

Category: Rental Housing
Sub-Category: Multifamily Management
Entry Name: The Asset Management Toolbox

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- Secretary Raymond Skinner

Responsible, Not Reactive, Risk Assessing

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 is expecting added demand for affordable multifamily housing because of the influx of defense-related workers through the military’s Base Realignment and Closure process.

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 results have been dramatic. The total value of the department’s defaulted loans has been reduced by more than \$60 million and last year there were no defaults among Maryland Housing Fund insured loans. Moreover, the flexibility of these risk assessment tools means they can be adapted to local needs and priorities and replicated by state housing agencies across the country.

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 million and defaulted loans are now virtually nonexistent in DHCD’s risk-rated portfolio.

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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.

Summary

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. 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.