



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

A New Methodology for Managing Risk and Allocating Resources

Entry Name _____

Fill out the entry name <i>exactly</i> as you want it listed in the awards program.

HFA _____

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

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

HFA _____

Entry Name _____

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 checked="" type="checkbox"/> YES <input type="checkbox"/> NO

A New Methodology for Managing Risk and Allocating Resources Rental Housing: Multifamily Management

Redesigning the Multifamily Risk Rating Model

Rhode Island Housing has always carefully reviewed all properties within our multifamily loan portfolio. We have also always exercised great care when it comes to allocation of our scarce resources. Recognizing that we have a number of aging properties in our portfolio and many that were nearing the end of their affordability periods, we decided to design a new risk rating model that would not only help us better review and identify the current financial and physical condition of these developments, but could also serve as a tool for allocation of resources and further investment.

A New Method for Assigning Risk

The effort sprang from strategic planning sessions and was incorporated into our strategic initiative to prioritize multifamily preservation. We planned to use the model to prioritize challenges of preserving multifamily developments. We began with a series of interdivisional meetings to identify the goals of this new model and review current systems and staffing capacity to better plan for a series of business process changes and new systems that would improve our service delivery and strengthen the tools that support our approach to sound multifamily management. We believed that a new risk-rating methodology would help us in early identification of emerging risk, management of high-risk loans, and disposition of troubled loans and REOs. We believed a new methodology would help us be proactive in the management of our developments and allocation of resources.

Develop, Test and Document

Staff developed a point system and spent several weeks reviewing all multifamily properties included on our portfolio's "watchlist" against this system to test and validate the model. Once complete, the results were reviewed by Loan Servicing staff to identify areas of the model that needed to be slightly modified. The model was tweaked and staff then graded the balance of developments within our portfolio utilizing this new system.

The full grading process took several months to complete and finalize. The model provides for regular updates, especially as information is received either from the financial audit or compliance departments. For example, financial grades were updated after receipt and review of annual audited financial statements and site condition grades were updated after a physical inspection was conducted by staff. The finished product was a spreadsheet containing the most recent grades of four critical performance indicators, as well as an aggregate score for every development in our portfolio.

An offshoot of this effort was the standardization of inspection forms for our compliance area. This was crucial to the success of the ratings model to ensure consistency of reporting and evaluation.

Our new risk-rating methodology grades (*see attached grading system*) each multifamily property in 4 performance categories and assigns points according to:

- Current and Historic Operating
- Projected Financial Health
- Physical Condition of Property
- Strength of Management

Allocation of Resources

While many HFAs have developed risk rating models for their multifamily portfolio, ours is unique in that Development staff utilizes this data when determining priority of preservation financing and allocation of resources. The Development and Servicing Divisions evaluate each development on a case-by-case basis utilizing the risk rating model as one factor in the preservation decision tree to determine whether or not a preservation transaction should be initiated. If the development is determined not to be a priority for preservation based upon a number of criteria, alternative approaches are reviewed. One alternative is the provision for a Capital Improvement loan to address one or more critical capital needs at a development. Other strategies include deferring preservation if a development is in superior condition.

In some instances a development will not be considered for any alternatives based upon a number of factors including financial health, persistent and high vacancy, capacity of the general partner(s), the inability of the development to generate investor interest or a combination of factors which makes preservation infeasible. In these instances, Rhode Island Housing will work with the general partner(s) to sell the property for potential redevelopment.

Sound Business Decisions

We developed a Decision Tree for our Development staff to utilize as a tool in sustaining our multifamily portfolio, which is an important role for this HFA. The tree allows staff to break down potential decisions in a logical, structured format. The simple format of our multifamily decision tree allows us to analyze each possible outcome, assess the risk and reward of each decision and determine the best course of action for properties in our portfolio.

Each property goes through the same decision path so that all decisions can be transparent, clear and easily documented while providing a much-needed tool for sound business decisions.

Outcomes

To date we have realized several benefits from this new approach. The model assists us in grading all properties currently in Rhode Island Housing's portfolio, which is beneficial to Loan Servicing as we now have the ability to easily recognize sites that are struggling financially or suffering from physical deficiencies. The model also helps us in determining which property managers are providing the most attentive service to their clients.

The re-designed Multifamily Risk Rating model provides a clear and specific method for assigning a risk category to all MF loans in our portfolio. The new model is well-documented, transparent, and validated, increasing overall confidence in the results it provides. The streamlined process improves our ability to communicate more clearly and proactively with our loan servicing and oversight divisions. Using this new methodology, we are able to examine and evaluate property performance, condition, upgrades required and capacity issues.

We are also now better equipped to examine properties well before the end of their 15-year compliance period while also using this as a tool for allocation of our limited resources for funding.

Sustaining the Multi-Family Portfolio Decision Tree

