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

Entry Name **Restoring Trust in Rental Housing**
HFA **Virginia Housing Development Authority**
Submission Contact **Brian Matt**
Phone **(804) 343-5520** **Email** **Brian.Matt@vhda.com**
Program Contact **Jeremy Kahl**
Phone **(804) 343-5670** **Email** **Jeremy.Kahl@vhda.com**

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 Virginia Housing Development Authority

Entry Name Restoring Trust in Rental Housing_

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

"VHDA's team approach ensures that the appropriate team will be on site and available to audit and inspect a property during a coordinated visit, thus minimizing and, perhaps, eliminating the need for multiple visits during the year. Ultimately, I believe this approach will result in saving valuable time for my staff which would normally have been lost due to multiple inspections and audits during the year."

- Joyce Martin, Regional Property Manager for Amurcon Realty, Inc.

Brief Description

The underwriting of a multi-million dollar multifamily loan is as much of an art as it is a science. The origination of a new loan is just the beginning of a very long relationship between the lender and the borrower. At VHDA, our loans are long term (typically 30 years or more), and require a partnership of trust with the borrower to ensure effective monitoring and servicing of these loans without creating an undue burden on the borrower. It is essential that the structure of the organization—and the policies and procedures in place—ensure that we effectively and efficiently perform our compliance and regulatory responsibilities while protecting VHDA's security in the properties in our multifamily portfolio.

VHDA has adopted a team approach with respect to the underwriting and monitoring of properties in our portfolio. In this "cradle to grave" approach, representatives from all relevant departments are involved throughout the lifecycle of a loan, from the underwriting to its eventual maturity or payoff. Development, compliance and asset management, servicing, legal, and finance staff all have defined roles to play. VHDA recently restructured all departments to better serve this new approach and our customers alike. The combined efforts of staff from across VHDA, and throughout all stages of the property lifecycle, ensure the assets are properly maintained while saving property management agents time and effort.

When/Why It Was Undertaken

VHDA's loan portfolio experienced considerable growth from the early 1990s until the beginning of the recession. With the economic downturn, properties began to experience problems typical to those throughout the industry: stagnant or falling rents, rising resident delinquencies, and increasing resident concessions. Older properties in our portfolio were in need of continual upkeep, and the funds to accomplish this became scarce. Property values decreased, causing owners to become more reluctant to infuse funds when necessary.

Also, structural challenges were beginning to impact both developers and rental housing investors. Section 8 contracts were beginning to expire, and properties began to reach the end of their initial 15-year compliance periods. Significant challenges began depressing the value of low-income housing tax credits, and investors were far more likely to abandon a financially troubled project than in the past. In short, the face of our multifamily portfolio was changing, and risk management practices became a central point of emphasis.

VHDA decided that establishing a team approach, inclusive of all areas and specialties in the multifamily arena, would replace the more compartmentalized process in place for many years to help encourage collaboration and leverage focused expertise. Risk management required a more holistic approach to underwriting, monitoring, and servicing our loan portfolio. VHDA redesigned our approach to better serve our development and investment partners by reducing costs and maximizing the likelihood that new and existing rental housing would produce sufficient income to weather the recession.

What VHDA Has Accomplished

The shift to an integrated "cradle to grave" approach to developing, servicing and monitoring the multifamily portfolio provides the following benefits:

- Efficiency gains from tighter coordination and the resulting cost avoidance
- Increased understanding of issues that must be considered during underwriting, ensuring new loans are optimally positioned to thrive, and furthering VHDA's ability to fulfill its mission. This is facilitated via the Loan Review Committee
- Improved ability to proactively address emerging challenges in VHDA's portfolio, thereby reducing the probability of default and related losses

In an effort to improve efficiencies and improve customer satisfaction, the Asset Management and Program Compliance Departments have merged and transitioned to a regionally-based model. Property monitoring processes were re-engineered to schedule visits in a manner that maximizes coverage with fewer disruptions to property staff and tenants. The new processes also yield much better information about the health of each property and the specific region where it is located, thereby enhancing risk management capabilities. Furthermore, as the portfolio grows, VHDA expects staffing needs to grow at a slower pace than under the old protocols.

The team approach has formally brought together representatives from all areas in our multifamily line of business. During underwriting, Development Officers work with Asset Managers to analyze the local rental market based on information from internal systems and third-party providers. Compliance Officers provide input regarding the complexity of proposed rent and income restrictions, as most properties have a combination of programs such as project based Section 8 and low-income housing tax credits. All of this information is considered by the Loan Review Committee when determining the viability of the deal. Construction Control Officers are then involved throughout the process to ensure that the properties are built or renovated in an acceptable manner.

VHDA's Servicing Department staff provides feedback about loan performance for other properties owned or managed by the developer, as well as providing input on financing structure (e.g., when new debt is added to existing debt). VHDA's Finance Department staff provides input on the optimal structure of the financing based on the proposed funding sources and any existing financing structure. Finally, Legal Department staff provides insight into past experience with the developer, and ensures the Development Officer is aware of any challenges relevant to underwriting.

As a result of the redesigned team process, an immediate improvement in information sharing was seen, thereby improving risk management. Traditionally, Asset Managers prepared "trouble/watch list" reports on a quarterly basis to identify properties that may pose a financial risk to the Authority. As a result of the team process, the reports were refined to incorporate the input from VHDA's Servicing Department about loan status and history. The Multifamily Development Department relies on these reports to gauge the health of properties in various markets throughout the state, and assists the VHDA Controller in determining the proper size of VHDA's loan loss reserve.

A "workout team" meets monthly to discuss properties that are showing signs of concern, such as late mortgage payments or the need for temporary debt relief. Our multifamily Real Estate Owned (REO) team reviews properties in our REO portfolio and determines stabilization strategies for properties to expedite sale to private ownership.

The merger of Compliance and Asset Management is resulting in more efficient audits and inspections of properties across VHDA's entire portfolio, which includes low-income housing tax credits and project based Section 8. How we approach the renovation of existing properties has improved as well. Compliance and Asset Management has gained an enhanced awareness of any issues and has a thorough understanding of the needs of the properties it monitors.

Ultimately, VHDA's emphasis on its team approach to multifamily lending has created greater communication between staff across the array of business units. <u>The result has been a decreased number of properties having difficulty within the first two years of operation</u>. Strong, conservative underwriting and a focus on effective management has enabled properties to avoid the problems that they might have experienced otherwise.

Why it is Meritorious and Meets NCSHA Award Judging Criteria

<u>Innovative</u>
VHDA recognized the need to re-engineer existing risk management processes, establishing a "cradle to grave" approach to help foster innovation and collaboration. The combined efforts of staff from across VHDA, and throughout all stages in the property lifecycle, ensure the assets are properly maintained while saving management agents time and effort.

<u>Replicable</u>
Formally integrating the work from various departments during the underwriting and long term monitoring of the loan portfolio is easily replicable. Any HFA can accomplish this by merging some departments and formalizing the team approach between all departments.

Responds to an important state housing need
The recent recession and its continued impact on housing means risk management must be a central concern for lenders. New properties developed in the team environment ensure that all points of view are considered during underwriting, enhancing the property's likelihood of success. Areas of the state most in need of affordable housing benefit from the available financing, and the possibility of that housing stock being lost due to default is reduced.

Demonstrates measurable benefits to HFA targeted customers
As a result of our new team approach, VHDA is better able to address a variety of short- and long-term workout scenarios that enable properties to overcome challenges that otherwise could jeopardize their ongoing viability. This proactive approach also enables VHDA's customers to continue providing quality affordable housing, our borrowers to remain in good standing, and VHDA to avoid significant losses of some or all of the mortgage loans.

Proven track record of success in the marketplace
According to a Moody's report (p. 2), *"One notable agency that is very active in the multifamily market is the Virginia Housing Development Agency (VHDA) (G.O. Aa1 Stable). VHDA continuously monitors all of the properties in their portfolio, producing quarterly reports and actively works out projects with financial difficulties. Our June 30, 2011 survey indicated that VHDA had $10 million in loan losses over the prior 5 years. These losses were covered by a $64.5 million loan loss reserve, thereby not imparing the financial position of the HFA. Furthermore, VHDA's financial resources, in combination with in-depth knowledge of local real estate markets and managing its REO properties, enable it to generate revenue through operations during the down cycle and then sell the properties when values rose. This strategy resulted in a $6.3 million 5-year gain in 2012."*

Benefits that outweigh the costs
Better coordination between all departments involved with the multifamily loan portfolio enhances underwriting and ensures a more coordinated approach to portfolio servicing and monitoring. The increased coordination provides both financial and efficiency benefits to VHDA, as well as to management agents.

Demonstrates effective use of resources
The team approach allows for a more thorough underwriting of a property, which takes into consideration critical input from a variety of areas with knowledge of a.) the market, b.) the proposed borrower, and c.) management of the property. Financing resources can be used to ensure a product that provides residents with quality housing. Additionally, VHDA staff is able to share their expertise and knowledge of issues that may affect the viability of a property. By leveraging the knowledge of all VHDA staff, we are able to use our resources to their maximum potential.

Effectively employs partnerships
Working as a team – from the submission of a loan application to its eventual payoff – has facilitated the transition from loan underwriting to the monitoring of the property in the future. Whether it is our working relationship with owners, management agents, or localities, our new approach to the development of quality housing facilitates a trust that improves relationships with our stakeholders throughout the state.

Achieves strategic objectives
Creating rental housing that is positioned to thrive despite a challenging business climate enables VHDA to remain a trusted force for quality, affordable rental housing. Our re-engineered team process helps avoid costly foreclosures and other default-related costs, resulting in savings that can provide the basis for a stronger housing climate.

Conclusion
VHDA's team approach to developing, servicing and monitoring its rental housing portfolio provides tangible, strategic benefits to the Authority, trust with its development partners, and more housing stability for low- and moderate-income Virginians. According to Moody's, "VHDA's financial resources, in combination with in-depth knowledge of local real estate markets and managing its REO properties, enable it to generate revenue through operations during the down cycle and then sell the properties when values rose. This strategy resulted in a $6.3 million 5-year gain in 2012." We consider both this statement and positive customer statements as strong endorsements of the value of our holistic approach to risk management.