

Virginia Housing Development Authority ***Restoring Trust in Rental Housing***

"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 requires a partnership with the borrower to ensure effective monitoring and servicing of these loans without creating 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 the VHDA 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, asset management, compliance, servicing, legal, and finance staff all have defined roles to play, from the earliest stages of underwriting through maturity. 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.

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: rents were stagnant or falling, resident delinquencies were on the rise, and resident concessions began to increase. The 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.

Additionally, 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. Risk management required a more holistic approach to underwriting, monitoring, and servicing our loan portfolio. VHDA determined the need to redesign our approach to better serve its 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
- Improved ability to proactively address emerging challenges in VHDA's portfolio, thereby reducing probability of default and related losses

In an effort to improve efficiencies and improve customer satisfaction, the Asset Management and Program Compliance Departments were merged. 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

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much better information about the health of each property, 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. Construction Control Officers are involved throughout the process to ensure that the properties are built or renovated in an acceptable manner.

VHDA's Servicing Department staff provide 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" (comprised of staff from the departments previously mentioned) 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) Department now plays an active role in meetings of the workout team in order to engage in possible upcoming foreclosure activity. An "owned property team" reviews properties in our REO portfolio and determines stabilization strategies for properties to expedite sale to private ownership.

The merger of Asset Management and Program Compliance 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. The manner in which we approach the renovation of existing properties has improved as well. Asset Management and Program Compliance have now gained an enhanced awareness of any issues, and have a thorough understanding of the needs of the properties they monitor.

Ultimately, VHDA's emphasis on its team approach to multifamily lending has created greater communication between staff across the array of business units. The result has been a decreased number of properties having difficulty within the first two years of operation. 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

Innovative

VHDA recognized the need to re-engineer existing risk management processes, establishing a "cradle to grave" approach. Representatives from various departments are involved from the underwriting of a loan to its eventual maturity or payoff. 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.

Replicable

Formally integrating the work from various departments during the underwriting and long term monitoring of the loan portfolio is easily replicable. This has been accomplished by the merger of some departments and the formalizing of the team approach between all departments.

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Responds to an important state housing need

In light of the recession and continued impact on housing, risk management remains a central concern for lenders. The formalized team concept ensures that scarce resources are dedicated to those areas most in need of attention throughout the state. New properties are developed in the team environment, ensuring that all points of view are considered during the underwriting of the property and thereby enhancing the property's likelihood of success. Therefore, those areas of the state most in need of quality, affordable housing benefit from the financing resources available, and the chance that affordable housing stock is lost due to default is reduced.

Demonstrates measurable benefits to HFA targeted customers

As a result of the 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 could jeopardize their ongoing viability. Fifteen properties entered into workout agreements with VHDA for temporary relief of some portion of their debt service. All of these properties were able to resume full debt service payments following the workout period. The total outstanding mortgage balances for these properties is \$37 million. These successful workouts enabled VHDA's customers to continue providing quality affordable housing, VHDA's borrowers continued to remain in good standing with VHDA, and VHDA avoided significant losses of some are all of the mortgage loans.

Proven track record of success in the marketplace

VHDA has closed on 79 new multifamily loans with mortgage loan balances of \$246 million since January 1, 2011. ***All loans have remained current, proving that VHDA's new, integrated method yields results.***

Benefits that outweigh the costs

The better coordination between all departments involved with the multifamily loan portfolio enhances underwriting and ensures a more coordinated approach to the servicing and monitoring of the portfolio. The increased coordination provides benefits to VHDA as well as management agents.

Demonstrates effective use of resources

The team approach allows for a more thorough underwriting of a property, taking into consideration the various input from a variety of areas that have knowledge relating to a.) the market, b.) the proposed borrower, and c.) management of the property. Resources with respect to the financing of the property can be used in a manner that results in a quality product that provides quality housing for the residents. 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 utilize our resources to their maximum potential.

Effectively employs partnerships

Our relationships with our owners, management agents, and localities have benefited from this approach. From the submission of a loan application to its eventual payoff, working as a team has facilitated the transition from the underwriting of a loan to the monitoring of the property in the future. Whether it be our working relationship with providers of the housing or the localities in which they are located, the development of quality housing improves our relationships with our stakeholders throughout the state.

Achieves strategic objectives

Creating rental housing that is positioned to thrive despite the challenging business climate enables VHDA to remain a force for quality, affordable rental housing. As noted earlier in this submission, the re-engineered team process helps avoid costly foreclosures and other default-related costs, resulting in savings that can in turn 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, its development partners, and low- and moderate-income Virginians. None of the \$246 million in multifamily developments financed under the new processes have experienced defaults, while reducing risk in 15 troubled properties totaling \$37 million in outstanding balances. These results, combined with customer feedback, prove the value of the new, holistic approach to risk management.