



NCSHA HOUSING CREDIT CONNECT 2019: *STRENGTHENING COMPLIANCE THROUGH ASSET MANAGEMENT*

June 13, 2019
San Francisco, CA

tcamre.com | mrsoftware.com



CONTENTS

1. Organizing AM for HFAs
2. HFA Approaches to Preservation
3. The RAD Revolution and AM
4. Data Management Opportunities

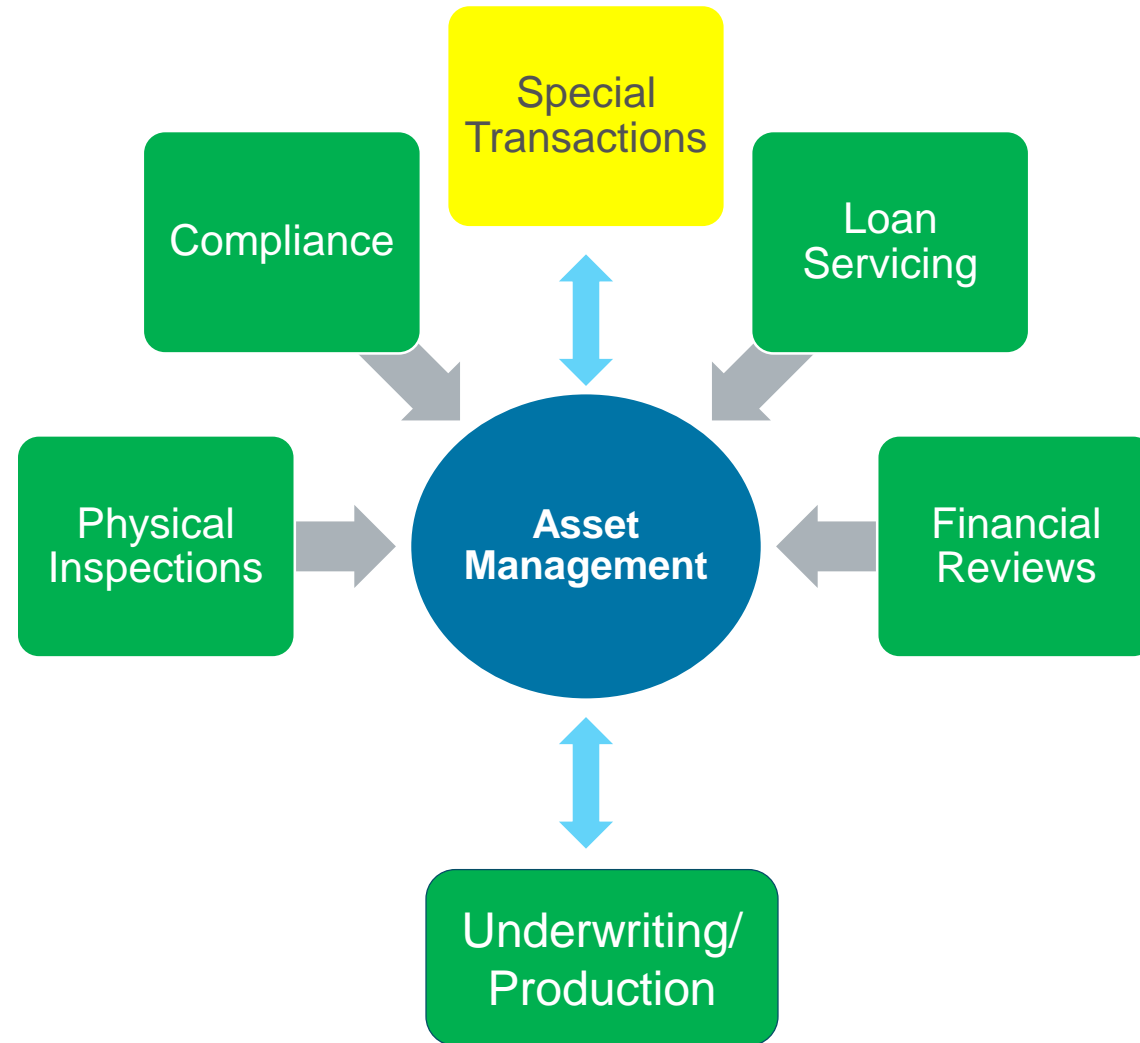
ORGANIZATIONAL SOLUTIONS

Compliance Monitoring	Operational AM	Transactional AM
<ul style="list-style-type: none"> -Tenant file reviews -Physical inspections 	<ul style="list-style-type: none"> -Financial reviews -Audit reviews -Budget reviews -Risk rating -Watchlist monitoring 	<ul style="list-style-type: none"> -Workouts -Refinancings -Recapitalizations -Dispositions -Preservation

- Different areas require different skillsets and commitments

ORGANIZATIONAL SOLUTIONS (CONT'D)

Asset managers or “information aggregators” who inform transaction specialists



ASSET MANAGEMENT & PRESERVATION AT HFAS

- State HFA AM practices
 - AM at many state HFAs – heavily focused on compliance but many have adopted operational AM (albeit light on preservation)
 - Preservation often an important goal but few HFAs have created an explicit set of policies for AM
 - Some have taken steps to encourage action including incentives or set-asides in QAPs
 - Many rely on 4% LIHTC and the market to take care of properties “aging out”

ASSET MANAGEMENT & PRESERVATION AT HFAS (CONT'D)

■ Other observations:

- ❖ HFAs generally doing a good job making sure properties stay in responsible ownership
- ❖ Transition to next stage – generally gone well but much of it due to favorable capital market environment conditions and demand for MF investments
- ❖ HFAs and others – not always taking advantage of the Y15 transitions to get back money they have in deals (potential resource for future deals)

ASSET SOLUTIONS

- Different solutions for different situations
 - ❖ Three basic scenarios:
 - 1) Property in a hot area and too expensive to keep affordable
 - 2) Naturally affordable even without restrictions but is falling down
 - 3) Most common – property's unrestricted rents will be higher but not much higher than restricted rents
 - ❖ In all cases, introduce new incentives before Year 30
- Develop policies and tools to help prioritize preservation needs and figure out how to use limited dollars

HOW RAD IS CHANGING ASSET MANAGEMENT FOR PHAS & OTHER OWNERS

Multiple New Financing Partners

- The PHA now has obligations to lenders, equity investors, syndicators and tax credit allocators
- Each property has its own set of financial providers, documents and requirements

Each Property Stands on its Own

- Each property operates as a self-contained cost and revenue center
- All revenue, expenses and funding must be diligently tracked for each property individually

New Compliance Requirements

- In addition to meeting HUD requirements, PHAs must now meet compliance requirements of lenders, housing finance agencies, tax credit investors and allocating agencies

Focus on Financial Returns

- Each property's stakeholder expects underwritten financial returns, in the form of tax and cash benefits
- The PHA too has an opportunity to realize financial returns from the asset - including net cash flow - if it is managed effectively

Shift in Mindset

- From: Managing the day-to-day, struggling to cover costs and address immediate capital needs
- To: Investing in and operating the properties as long-term financial as well as physical assets of the PHA and community

PUBLIC AGENCIES HAVE COMPLEX DATA MANAGEMENT NEEDS

- Responsible for multiple programs, that usually have changed considerably over the years
 - First mortgage loans/risk share
 - Subordinate loans
 - LIHTC allocations
 - Rental subsidies
 - Inclusionary zoning/deed restrictions
 - Ground leases
- Information and responsibilities are often silo'ed, making it difficult to get a full picture of the portfolio or a specific situation
- Systems don't talk to each other and key information is maintained in spreadsheets or even in paper files
- Subordinate loans cannot be serviced like "hard debt", but require extra calculations to determine surplus cash available for contingent debt service

Data Management Needs of Public Agencies

