

## **City of Portland Strategy**

### **Housing Production & Preservation: Asset Management & Loan Servicing**

The goal of the asset management & loan servicing program is to support and deliver affordable, quality housing that best meets the needs and priorities of the city. This is done in partnerships with developers (for-profit and non-profit), government agencies, lenders, and community partners.

#### **Asset Management & Loan Servicing Needs**

Portland policy requires subsidized properties to remain affordable for up to sixty years. Therefore, there is a great incentive to ensure the sustainability of new and existing affordable housing assets. This is done in partnership with industry partners.

Affordable housing portfolios developed with public funding are facing challenges due to a number of factors:

- Deferred maintenance.
- Construction defects.
- Aging buildings.
- Rent increases are limited by financing agreements and/or regulatory restrictions.
- Revenues from sources other than rents are down. Decreased levels of production have meant a drop in development fees for non-profit partners who depend on these fees to cross subsidize other services.
- There are fewer operating subsidies, resulting in diminished levels of operating support for non-profit developers.
- Lending policy has not been aligned with housing policy.
- Lenders have not had sufficient historical data to inform their decisions about appropriate levels of operating support.

Employing an asset management approach to evaluating the state of the City's housing portfolio will allow for:

- Informed underwriting based on current data and historical track records
- Alignment of financing tools with project type, e.g. grants, loans, amortized repayment, cash flow repayment.
- Alignment of underwriting assumptions for tenant services, physical maintenance, quality management, and reserves.
- Rightsizing non-profits borrowers' loan portfolios to reflect the projects ability to pay, which in turn assures long term sustainability.

#### **Asset Management & Loan Servicing Program Description**

To support the long-term city policy for new and existing rent-restricted affordable housing, the Asset Management & Loan Servicing Program has identified the following main focus areas:

### **1. Long-Term Financial Stability**

For each property (and portfolio of properties) to be stable, its financing must encompass the true operating costs, including costs of maintenance, resident services, and development of a reserve sufficient to meet the long-term needs of the property. The Asset Management & Loan Servicing Program addresses these needs prospectively, by providing PHB underwriters with up-to-date data about similar projects to inform underwriting assumptions. It also addresses these needs retroactively, by evaluating and analyzing project and portfolio financial performance, and identifying areas in need of attention. Borrowers may be invited to submit restructure requests when a project is unable to meet its debt service obligation.

### **2. Compliance**

Compliance is a key component of the Asset Management & Loan Servicing program. PHB may be contractually-obligated by project loan documents to monitor and report on certain aspects of a project for up to 60 years. This monitoring and reporting may include:

- Regulatory Compliance
  - Tenant Household Income
  - Project Rent Compliance
- Financial Compliance
  - Project Financial Performance
  - NOI (Net Operating Income)
  - DCR (Debt Coverage Ratio)
  - Reserve Account Contributions and Withdrawals
- Affirmative Marketing
  - Affirmative Marketing/Tenant Screening
  - Management Practices
- Physical Property Inspections
- Capital Needs Assessments

### **3. Industry Collaboration**

The Asset Management & Loan Servicing Program is always open to input from stakeholders and actively seeks out opportunities for collaboration with regulators, other funders, developers, and other stakeholders.

In recent years, PHB has worked closely with industry leaders to develop best practices and streamline processes, in order to generate cost savings to PHB and its housing provider partners.

One example of this is the Streamlining Initiative. It is a group effort to streamline the project compliance process to minimize borrower impact and maximize partnerships. The Streamlining Initiative is a consortium of government and non-profit affordable housing funders such as the

Oregon Housing and Community Services (OHCS), Home Forward, the Network for Oregon Affordable Housing (NOAH), HOME jurisdictions. Through these efforts, for 2011 the number of inspections went from 227 to 105, estimated property management hours spent went from 12,485 to 5,775, with an estimated savings of \$134,200. This process continues to improve and is currently co-managed by PHB and OHCS. The successes from the Streamlining efforts have received national attention to the point where HUD has begun a national pilot.

#### **4. Links to Services**

For residents and projects to be successful, there must be a process in place to assist people who need housing to locate available and suitable housing. These issues are primarily addressed through the Housing Access & Stabilization Program Access & Stabilization and Supportive Housing strategies.

#### **Program Tools**

- Updated underwriting guidelines and compliance objectives
- Industry conversations
- Loan restructures to include a comprehensive review to identify financial hardships
- A coordinated approach to Housing Finance, Asset Management, and Loan Servicing
- Regular review of project financials
- Tenant surveys
- Affirmative Marketing Re-certification forms

#### **Funding and/or Restructure Requests**

A project may submit funding and/or restructure requests as follows:

1. A project sponsor may apply through a competitive Notice of Funds Availability (NOFA) process to fund both, capital needs and restructure how its debt to the City is to be repaid; or for the development of a new affordable housing project.
2. A project sponsor may notify the Asset Management and Loan Servicing team that it is unable to service its debt to the City and request technical assistance. Following a financial review and, often, an organizational assessment, the team submits the request to PHB's Housing Investment Committee for determination.
3. During its periodic review of the City's affordable housing portfolio, the Asset Management and Loan Servicing team may identify projects experiencing financial hardships and will work with sponsors to identify possible solutions.

#### **Program Eligibility**

Asset management and loan financing programs are available to partners that own and/or manage publicly funded housing affordable to households with incomes below 80% MFI. The

programs are particularly intended for agencies with housing stock subject to the City's sixty-year affordability requirements.

### **Potential Barriers**

The main limiting factor to the success of the Asset Management & Loan Servicing Program is funding availability. Proposed federal budget cuts and changes to allocation formulae have reduced funding the City has available to undertake these activities.

The industry needs to identify capital resources which would allow a complete recapitalization for all projects in need of assistance. Although the Asset Management & Loan Servicing Program can assist agencies in developing sustainability plans for the projects in their portfolios, a sustainability plan must be implemented consistently over time in order to be successful. Inadequate or deferred project maintenance could jeopardize the sustainability of the project. In addition, high costs associated with vacancies and turnover rates, unanticipated damage to units, high insurance premiums, high utility costs, and other market conditions may affect the long-term financial viability of the project.

### **Partner Agencies and Organizations**

- The State of Oregon is a key partner in efforts to align financing with project types and to streamline compliance.
- The Housing Development Center (HDC) assists non-profit partners by providing technical assistance on development, restructuring, compliance and asset management.
- The Community Development Law Center assists with the development of model property management agreements.
- Oregon Opportunity Network is an important partner in efforts to develop new underwriting standards. Its members have participated in open and honest discussions, and have provided the City with historical project performance data and with current cost estimates for activities including tenant services, physical maintenance, and quality property maintenance.

### **Complementary Local, Regional and National Efforts**

The importance of preserving affordable housing stock has been acknowledged on a national level, as the increasing cost of new construction makes preservation imperative. While certain high profile efforts focus on extending periods of affordability (see Housing Preservation & Development Preservation and Rehab strategies), maintaining the financial health of rent-restricted properties is equally important. See generally, *Resource Mapping: Charting a Course to Successful Social Housing in Portland, Oregon*. The Enterprise Foundation, January 2004.

### **Geographic Service Areas (Including areas of Low-Income Families and/or Racial/Minority Concentration)**

City-wide

**MONITORING**

A description of PHB's Monitoring program is in Section One