

## Portfolio Management Manual

**Portfolio Management is the work of monitoring the performance of multifamily projects during the Affordability Period.**

**Portfolio Managers (PMs) have an assigned roster of 10-40 projects for which they are responsible.**

**It is the PMs job to know how each project is doing at all times. The PM must maintain the relationship between the borrower and HCD to protect HCD's investment and to secure continuing availability of affordable rental housing for disadvantaged, low-moderate income families.**

**The purpose of this manual is to establish procedures to keep track of each transaction and to help PMs do the very best job possible.**

**Duties of the PM are as follows:**

**I. Set up and maintain transaction files. The following documents are needed in every transaction file:**

1. Loan summary. This should be the first thing in the file. This summary should include:
  - a. Borrower – both entity and principal's name (eg XYZ Investments, owner John Smith)
  - b. Amount
  - c. IDIS completion date
  - d. Date affordability wears off
  - e. Transaction structure (eg net cash flow, interest paying monthly, 0% Performance based loan, etc.) What is the required payment schedule? Amount?
  - f. The CRS section (Randi Ladig) has created a summary for each project. I will request copies of these to get this part of the file started.
2. LURA (copy)
3. Contact Log on form to be provided today. This log should be on the front-right prong of the file and be a short way for anyone looking at the file to quickly understand what is happening with the file. Example: 9/1/09; called borrower to indicate all CRS findings now cleared; letter to follow.

**Attachment 1**

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4. Financial Statements for the property and most recent financial analysis of the property on top
5. Current Written Verification of Taxes and Insurance Paid
6. Occupancy/rental report
7. correspondence in reverse order (most recent on top)
8. Evidence of Physical Inspection and CRS Monitoring – use Log as a tool to show this has happened. Log will be provided.

### II. Manage the Portfolio

Each PM has a portfolio of completed projects that require annual compliance monitoring. Each PM has access to the Commercial Monitoring Log, which is a division-wide tabulation of the last date of performance monitoring.

PMs are responsible to ensure that all four aspects of monitoring – physical, program, financial, and notification - take place on each project at least annually. Borrowers/customers identified with a high risk rating, using the Risk Assessment Tool, will be monitored more frequently, according a schedule to be established by the Assistant Director.

PM's must make at least an annual visit to each project in the portfolio and document same by memo to file with copy to AD-Commercial (AD-C).

The Physical Inspection Monitors and Compliance Monitors may jointly execute the monitoring visit. The checklists should be fully completed and should include notes for each file/document reviewed. Copies of documentation may be collected to support any findings or concerns and used as examples during the exit conference.

### III. Income Receipt Procedures

Current HCDD policy is to structure all commercial loans as zero-interest, performance based loans. These loans do not make payments, but are monitored for project performance as detailed below.

Some older portfolio loans do make payments to Commercial Group via check or via bank draft. These payments may be monthly or quarterly, and may be a fixed amount or a net-cash-flow amount, depending upon the contract.

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For projects that make payments, the following procedure applies to income received:

1. Loan payment is received either by a pink deposit slip with the copy of the check attached to it from HCDD Accounts Payable **or** in an 5 X 11 envelope from JPMorgan Chase marked "First Class Mail/Lockbox Data Enclosed." The Lockbox Data usually contains copies of one to three checks along with a detailed report, "Advice of Credit," which shows the date and the amounts that were deposited to account number 103334018.
2. In the Program Income Report(internal Commercial Group (spreadsheet), click on the tab marked "JPMorgan Chase Cash Reporting" and log in the date the check was received by HCDD, Bank Link Date, Project Name, Payment amount and Document #.
3. Post payment to HCDD Subsidiary Ledger (excel format). The Sub-Ledgers can be located on the network drive: M:\WordData\WPDCP\Patsy\RE-Division. There is a folder for each project with sub-ledgers/spreadsheets. The most current one is to be used. The others spreadsheets remain in the folder as back-up. On each row on the spreadsheet, make sure you input the amount due on the due date and input the amount received on the day it was received according to the "Advice of Credit" or the deposit slip. Drag the P&I formula down from the previous P&I; the formulas will automatically determine how much P&I to apply. In most cases, all interest should be paid and the remainder of the amount received, if any, should be applied to principal. Once P&I have been determined, close the month by dragging down the rest of the column information (Beginning Date, Ending Date, Beginning Principal/Interest, Ending Principal/Interest, etc.) to the month's ending date. Be sure to include the check number or any type of identification number on the "Comment" section of the spreadsheet.
4. On a separate sheet of paper, use the P&I stamp and fill in the information (Name, Loan#, Principal, Interest, Total, New UPB, Check#, Date Received, Date Deposited) from the sub-ledger/spreadsheet and assign document #. Attach a copy of the "Advice of Credit", copy of the deposit slip, copy of the check, and a copy of the sub-ledger/spreadsheet. Provide time stamped copies of all documentation to the person responsible in Finance & Administration for coding to SAP.

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### IV. Monitoring the Portfolio

Projects are overseen post-completion by PMs to ensure compliance with the written agreement that governs the relationship between the borrower and HCD. PMs have primary responsibility to ensure that required annual monitoring takes place. Utilizing both in-house and third-party expertise, PMs coordinate and review the results of monitoring activities to ensure the continuing provision of safe, decent, affordable multifamily housing in compliance with all applicable regulations.

Portfolio Management includes:

1. On-site inspection provided by third-party property inspector to ensure Compliance with Standards (24 CFR §92.251).
2. Compliance Monitoring provided by technical support staff from HCDD to ensure compliance with the following:

24 CFR §92.252	Affordable Rental Housing
24 CFR §92.252(f) Period	Subsequent Rents during the Affordability Period
24 CFR §92.203(a) (1)	Initial and Annual Recertification of Tenant Income
24 CFR §92.252(e)	Periods of Affordability
24 CFR §92.253	Tenant and Participant Protection (lease term, prohibited lease terms, tenant selection policy)
24 CFR §92.351	Affirmative Marketing
24 CFR §92.508	Record Keeping and Reporting
24 CFR Part 35	Lead-based Paint

3. Analysis of the financial results of property operations, to be performed by PM, to keep track of the property's financial stability. Often the early signs of property failure can be detected in the financial statements.
4. Notification in writing of the results of the monitoring activity, from the PM to the borrower, with a stated corrective action plan, if one is needed.

### V. Physical Monitoring – Property Inspection Procedures – On-Site Review

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The following steps will be taken:

1. Approximately two weeks before monitoring is due to occur; PMs will contact the third-party inspector chosen by competitive bidding per HCDD Policy 5-8 to ensure the inspector's availability for inspection.
2. PM will send a standard Commercial Group letter to the Borrower notifying them of the upcoming physical standards inspection date. PM will follow up with a telephone call confirming date and time between the three parties: borrower, inspector, and PM.
3. PM will be physically present at the start of the inspection.
4. Physical inspection will include inspection of the exteriors of all buildings and common areas, and the inspection of the interiors of a representative sample of restricted units. **A representative sample consists of all units, if fewer than 20 units are restricted, or 20% of restricted units, whichever is greater.** The inspector will inspect broadly to ensure the project is decent and safe, and not focus solely on the interior of a small number of units.
5. Frequency of property inspections is as follows:
  - Every 3 years for projects with 1-4 units in total
  - Every 2 years for projects with 5-25 units in total
  - Every year for projects with 26 or more units

### VI. Compliance Monitoring – Property/Program Procedures- Entrance, Desk, and On-Site Review

Two weeks before a project is due for Compliance Monitoring, the Compliance Monitor will notify the PM to send a letter to the borrower scheduling the review and providing a reminder checklist of documents that the monitor will need to perform the review on the scheduled date. The Requested Items for Program Compliance Review form is attached, and is self explanatory.

On the date of the monitoring, the Compliance Monitor (CM) will meet with property staff and review performance under the contract for the following topics:

1. Use and Occupancy of the Property: to ensure that the property is being used as specified in the contract and that the borrower is complying with the terms of the contract in terms of the tenants residing in the units post-initial lease up.

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- Residents of HOME-assisted units must earn less than 80% of AMI for the duration of the affordability period. HCD has chosen Part 5 definition of income.
  - Owners must certify and verify tenant income annually by household. CM will test 20% of such verifications annually at monitoring to ensure that proper third party and/or first hand income verification has occurred.
2. Rent: Compliance Monitoring that Borrowers are charging appropriate High HOME Rents and Low HOME Rents. 20% of assisted units must be rent restricted to Low HOME rents for the duration of the affordability period. Compliance Monitor will educate the Borrower about any changes in the dollar amount of HOME rents and utility allowances as they are announced annually by HUD.
  3. Administration: to ensure that lease files complete, that documentation exists to show that tenants received the tenant selection policy and leased terms, and further administrative matters as detailed on the Compliance Checklist.

A random selection of 20% restricted unit tenant lease files will be checked for compliance using the attached Compliance Checklist. For further details, please review the checklists.

### VII. Compliance Monitoring - Financial Monitoring- Desk Review

PMs receive financial reports from the operating properties in their portfolios at least quarterly. If a financial report does not arrive within 10 days of the close of any quarter, the PM will contact the borrower by telephone or in writing, or both, to request the financial results.

The PM will review the financial report and note the cash flow position of the property. PMs will review at a minimum:

1. Rental income versus pro-forma rents. How are they doing? Are rents higher or lower than expected? What will the impact be of these rents? Document this with a dated memo to file.
2. Payables – be sure they are not building up, which may indicate problems with leasing. Occasionally request a payables aging.
3. Vacancy trends and back rent trends. Are delinquent rents up, down, or stable?
4. The PM will **obtain written verification that taxes and insurance have been paid**. Evidence of such payment will consist of:

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1. a copy of the tax bill from HCAD and a copy of the cancelled check for property taxes and
2. a copy of the insurance policy for each property clearly showing expiration date is current.

For those transactions where debt service is required based upon net cash flow, the PM will independently calculate the correct amount to be remitted to HCDD.

Any concerns will be brought to the attention of the Division Manager so that the account may be more closely monitored. Additional training or technical assistance may be offered to assist the Borrower to continue to provide affordable housing.

### **VIII. Exit Conference**

At the end of the visit, the monitors will meet again with key representatives of the borrower's organization to present the tentative conclusions from the monitoring visit. The exit conference has four objectives:

- To present preliminary results of the monitoring visit including acknowledging positives;
- to provide an opportunity for the borrower to correct any misconceptions or misunderstandings;
- to secure additional information from borrower's staff to clarify or support their position; and
- To correct any deficiency, providing an opportunity for borrower's staff to report on steps taken to correct the matter.

Compliance Monitors will maintain careful notes during the exit conference in order to document information given the borrower and whether the borrower agreed with the tentative findings. At the end of the conference, there should be a clear understanding of the areas of agreement and disagreement about the monitoring results.

The Compliance Monitor will take the work papers from the onsite interview and prepare a spreadsheet that details the results of the monitoring, any observations, concerns, or findings, and explains the corrective action needed to be taken by the borrower. This spreadsheet will be sent to the RM within five business days of the monitoring.

The Compliance Monitor will note any deficiencies on the Monthly Compliance Report that is prepared for each property. This report is provided in summary form to the PMs.

Should the Compliance Monitor note that an over-income tenant occupies HOME-assisted unit, CSR will notify borrower and PM in writing that the next available unit must be occupied by a low-income tenant. Additional training will be provided to borrowers and property managers to assist with compliance on income targeting upon request.

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Within 5 business days, the PM will prepare and send a letter that details the results of the monitoring and the required corrective actions to the borrower, with a copy of the spreadsheet. The letter will identify:

- Specific problems (e.g. misspent funds, problems with internal control, non-compliance with program requirements);
- Type of corrective action required (e.g. repaying federal funds, establishing new policies and procedures; whether a corrective action plan is necessary; the time frame for the borrower to take the corrective action with specific due dates stated);
- Technical assistance that is available from the City of Houston, if appropriate;
- Any additional reports that the borrower may have to provide the City of Houston; and
- Any additional monitoring HCDD will perform to verify that the corrective action has taken place (e.g. site visit to view renovated facilities, document review of new policy or revised accounts ledger).

### **IX. Post Visit Procedures**

The PM is responsible to review the Monthly Compliance Report and check on progress toward resolving outstanding issues. The PM and CSR staff work together to ensure that the borrower has taken the necessary steps to correct the problems identified. To do so, PMs should request additional documentation and make follow-up visits to the project. The PM or CSR staff should document communication with the borrower concerning problem areas in writing, via email or via letter.

The PM staff should continue to follow up with the project until the outstanding findings have been resolved. A site visit may be necessary to verify that smaller chores have been completed. Upon successful resolution of the findings, a final letter or email shall be sent to the borrower clearing all findings and acknowledging resolution of concerns, with a copy to the file.

If the Borrower fails to respond or to make progress in correcting findings or concerns, HCDD will work with the City of Houston Legal Department to resolve the dispute.

### **X. Delinquency and Work-Out Loan Procedure**

When a Borrower fails to perform under the contract, HCDD's first obligation is to protect the availability of affordable housing available to low income households. For

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this reason, all new transactions have been structured with LURAs that precede even the first lien lender's rights to a property.

On older transactions, each property is handled on a case-by-case basis. The RM, Supervisor, and AD-C will work as a team to accomplish the following goals:

1. Keep the Director of HCDD fully apprised of change.
2. Engage the assistance of the Legal Department to try to protect the City's interest in the event of foreclosure.
3. Other duties as assigned

### **XI. Other Responsibilities of PMs**

PMs have other tasks as part of their job description and reflected on the EPE plan. These include the following:

1. Preparation of RCAs as needed to restructure loans
2. Risk rating of portfolio
3. Covering for fellow workers who may be out for illness or other reasons
4. Ensuring excellent customer service to both our borrowers, who are our direct customers, and to property residents, who are our beneficiaries. PMs are to use intelligence, discretion, and discernment to avoid "not seeing the forest for the trees".

**Our goal is 100% compliance with contracts and continued availability of quality affordable housing for Houston's most disadvantaged families.**

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## Technical Assistance Procedures

The City of Houston has undertaken to enhance monitoring of the HOME program by working with borrowers on a regular basis to help them stay in compliance with HOME policies and procedures. The following Technical Assistance Activities have been implemented:

1. A Property Manager's Packet has been developed to help owners and managers achieve compliance. (see sample attached).
2. Property Managers are made aware of the HOME Program web page, and specifically the new *Compliance in HOME Rental Projects: A Guide for Property Owners*
3. Both compliance staff and portfolio managers have been directed to notify borrowers about changes to HOME Program income and rent limits in a timely manner. Income limits for extremely low, very low, and low-income households are available on the Housing Department web site.
4. Owners and managers are given at least ten days notice of compliance visits. Compliance staff work to resolve questions at the time of the visit if at all possible.
5. Compliance staff have been assigned to specific properties to help develop good relationships between HCD and borrowers and to facilitate informal technical assistance via phone call or personal visit if needed.