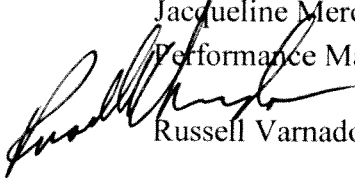


National Council of HUD Locals
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
AFFILIATED WITH AFL-CIO
Council 222

May 22, 2012

MEMORANDUM FOR: Janet Golrick, Assistant to the Deputy Assistant Director for
Multifamily Housing programs, HT

THRU: Jacqueline Mercer-Holli, Director, Employee & Labor Relations &
Performance Management Division, AHEDA

FROM:  Russell Varnado, President, Council 222

SUBJECT: "Sustaining our Investment" Implementation Playbook for field rollout

This memorandum serves a notification of the Union's demand to bargain, the Sustaining our Investment" Implementation Playbook for field rollout." (Attached)

The "Sustaining our Investment" Implementation Playbook for field rollout entails a change in conditions of employment of the affected bargaining unit members.

The initiative is at best risky, or worse, panicked attempts to seal a leaking dike with a bandage. There is a clear lack of human resources, and no apparent plan to acquire additional resources. It is about time to stop chanting the battle cry, "*we must do more with less,*" there is nothing left to do more with, the "Sustaining our Investment" Implementation Playbook predicts severe rain, we are well aware of that, were up to our necks in the flooding, it does not provide instructions on how to build an ark! In any event, it will increase the administrative burden placed on an already overcommitted and stressed workforce, which has little or no incentive to commit to such a management driven initiative.

I have included my views on the attached copy of the Sustaining our Investment" Implementation Playbook for field rollout presentation.

Supplements, 28, 81, 91, and 103 are included by reference. (Attached)

As to your request for authority to conduct a "limited" pilot of the "Sustaining our Investment" Implementation Playbook for field rollout, I have concluded that it is not in the best interest of the impacted bargaining unit employees to approve the pilot at this time. My decision is based on the fact that the Union allowed the realignment of workload in the Multifamily HUB/Program Centers to accommodate the implementation of two major initiatives: Section 8 Contract Administration and Multifamily Accelerated Processing (MAP), based on a significant number of management assumptions and a lot of faith. Specifically, the bargained workload adjustments never happened, the agreement to give priority consideration for all new positions

including the new CAOM positions, through “internal” merit staffing, never happened. Therefore, I have little faith that anything short of a signed supplement will have any impact upon the Agency’s guaranties.

It is well documented that a position description does not constitute a limitation on the assignment of duties. It reflects the duties that have been assigned to a particular position or employee. See *NFFE Local 1622 and Dept. of Army, Hq., Vint Hill Farms Station*, 16 FLRA 578, 581 (1984). As such, much of the “Sustaining our Investment” Initiative involves an increase of the grade controlling, work to be performed by the Asset Managers (AM). A prime example is portfolio risk management which will require the AM(s) to determine the mix of assets to hold in the portfolio which he/she manages, and to determine appropriate actions related to its performance. A fundamental aspect of portfolio management is choosing assets which are consistent with HUD’s objectives and risk tolerance.¹ The ultimate goal of portfolio management is to achieve the optimum return for a given level of risk, which is a new way of doing business, and is directly grade controlling.

The manner in which management implements the aforementioned new way of doing business, will have a dramatic impact on the employees, unless employees are provided revised position descriptions which clearly specify the changes in advance of their implementation. The “Authority” noted that the position description itself is not an assignment of work; the position description is only a description of the work the agency expects will be assigned, the level of supervision, the qualifications for the work, and the range of duties expected. See *NTEU and Dept. of Treasury, IRS*, 6 FLRA 508, 512–13 (1981) (Proposal III).

The implementation of this initiative is not “other duties as assigned.” This is or will become an essential function for the AMs, which will require that the phrase “other duties as assigned” not be used regularly to assign work to employee that is not reasonably related to the basic job description. See *AFGE Local 1999 and AAFES, Dix–McGuire Exch.*, 2 FLRA 153, 159 (1979). Additionally, work based on the words “other duties as assigned” shall not be used for performance appraisal. See *IFPTE Local 25 and Dept. of Navy, Mare Island Naval Shipyard*, 13 FLRA 433, 435 (1983).

More importantly, it has been decided by the Federal Labor Relations Authority that “[e]xcept where the Service would be *significantly* impeded in carrying out its overall mission, duties not specified in an employee’s position description, or reasonably related thereto, will be avoided unless temporarily required by the needs of the service.” See *AFGE, Nat’l INS Council and Dept. of Justice, INS*, 8 FLRA 347, 377–79 (1982)

¹ In risk tolerance is the willingness to tolerate risk in managing investments. A high risk tolerance indicates a willingness to invest in more risky investments, and vice versa. Risk tolerance is based on psychological factors, such as comfort level, and other defined circumstances such as years left until retirement (if any) and level of financial security. The traditional approach is to increase the allocation to asset as risk tolerance diminishes. In practice, risk tolerance is very difficult to quantify

Below are our preliminary proposals:

1. **Documentation of Duties:** The Agency will document in an employee’s Official Personnel File all special or new duties assigned to the employee. *AFGE Local 32 and OPM*, 22 FLRA 570, 570–71 (1986).
2. **Update of Position Descriptions:** All positions classifications impacted by the “Sustaining our Investment” Implementation Playbook for field rollout, will be updated, prior to implementation. The position classification shall distinguish with the portfolio, a project from a program; *i.e.* a project, which has a defined beginning and end, a program as an ongoing operation. Additionally, a project serves to develop, modify, or enhance a product, service, or system and is constrained by the relationships among scope, resources, and time. Programs, on the other hand, encompass the missions, functions, operations, activities, laws, rules, and regulations that an agency is authorized and funded by statute to administer and enforce. Programs normally provide products and/or services to the public. Agencies distribute available funding to carry out these continuing programs and any ongoing staff support they require.
3. **Selection of Navigators:** Selection of personnel for the Navigator position will be via merit selection procedures. Where merit procedures are not used the position will be rotated among all qualified employees.
4. **Promotions/Upward Mobility:** There shall be no adverse impact on any employees’ promotions, upward mobility, or career ladder positions as a result of this reorganization.
5. **Teleworking:** There shall be no adverse impact to the telework agreements of the affected employees.
6. **Reasonable Accommodations:** There shall be no adverse impact to any reasonable accommodation of any affected employee.
7. **Annual Leave:** Annual leave previously approved shall not be rescinded as a result of this initiative.
8. **Interim Rating:** Any employee having a new first line supervisor or an update position description as a result of this initiative shall receive an interim rating by his/her former supervisor of record.
9. **Bargaining Unit Status:** No employee shall be removed from the bargaining unit as a result of this initiative.
10. **Implementation Period:** Management agrees that a implementation period of ninety (90) days will be allow for impacted employees to become acclimated with the new way of doing business. During the acclamation period impacted employee will not be evaluated or have any adverse actions take against them based on performance of the “Sustaining our Investment” Implementation Playbook duties.
11. **Reasonable Accommodations:** Management agrees that any Reasonable Accommodation request that has been previously approved will remain in force.

12. **Use information:** All Information disclosed by employees via the whiteboard, huddles, or other fact finding sessions will be considered “safe harbor,” and will not be used as a basis for performance based actions under § 4300 or § 7500.
13. **Local Bargaining:** Management agrees that in accordance with Article 5 of the HUD/AFGE Agreement, midterm bargaining will be conducted at the local level concerning issues that are unique to the local unit members and more appropriately bargained at that level.
14. **Training:** Management agrees to have union representatives involved in the development of the training that will be provided under this initiative. Management recognizes the goal of the training is to provide the impacted employees with the necessary knowledge to perform their duties.
15. **Maintenance of Status Quo:** The agency will maintain status quo until completion of bargaining.

These are preliminary proposal only and the union reserves the right to amend, add, or delete provisions in accordance with Article 5 of the HUD/AFGE Agreement. I will notify you of the Chief Negotiator’s names at a later date.

Thank you in advance for your cooperation and assistance. If you have any questions about the above items, please do not hesitate to contact me at (202) 402-8033.

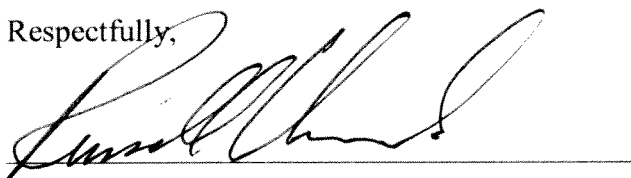
Delegation of Authority

This communication provides the delegation of authority to negotiate implementation of “Sustaining our Investment” Implementation Playbook for field rollout, under the authority of American Federation of Government Employees (“AFGE”) Council 222.

The Sustaining our Investment” Implementation Playbook for field rollout is a national issue, and as such is negotiated under the authority of AFGE Council 222. Effective immediately, _____ is delegated the authority to negotiate the Sustaining our Investment” Implementation Playbook for field rollout. In this capacity the Chief Negotiator will act under the authority of the AFGE Council 222, in accordance with the Agreement between The U.S. Department of Housing and Urban Development and the American Federation of Government Employees, Council 222, and the Constitution and Bylaws, National Council of HUD Locals, Council 222.

This delegation may not be redelegated without my written approval of the President of the Council.

Respectfully,



Russell D. Varnado
President, Council 222

GROUND RULES

Negotiation Ground Rules for Collective Bargaining

Between

The U.S. Department of Housing and Urban Development

And

AFGE Council 222

On the

“Sustaining our Investment” Implementation Playbook for field rollout

Management and labor mutually agree to the following ground rules governing the upcoming Mid-Term bargaining of the “Sustaining our Investment” Implementation Playbook for field rollout. Both parties agree to bargain in good faith and will make every effort to reach agreement.

TEAM STRUCTURE

Spokesperson and Number of Participants

Negotiations will be conducted with one Chief Spokesperson for each side, plus up to four (4) additional Team members participating at the negotiation table. The Team shall be composed of up to three Negotiation Team members and one (1) Technical Advisor.

The Chief Negotiator for Management will be _____. The Chief Spokesperson will have full authority to negotiate and sign a supplement to the Agreement. The negotiating team will consist of:

_____ Negotiation Team Member

_____ Negotiation Team Member

_____ Negotiation Team Member

_____ Negotiation Team Technical Advisor

The Chief Spokesperson for the Union will be _____. The Union’s Chief Spokes Person will have the authority to enter into an agreement. The Union's negotiating team will consist of:

_____ Negotiation Team Member

_____ Negotiation Team Member

_____ Negotiation Team Member

_____ Negotiation Team Technical Advisor

Management and the Union mutually agree to the following ground rules governing negotiations of the “Sustaining our Investment” Implementation Playbook for field rollout which begin on or about _____.

1. Authority to negotiate shall be brought to the table. The Union negotiation team shall have the authority to enter into an agreement.

2. Alternative negotiation method, such a telephonic, or video conferencing will be utilized only upon the written approval of the Council 222 President; the authority to approve such alternative is not delegated to the Chief Negotiator.
3. Each party shall designate a chief negotiator to whom all proposals will be submitted, including requests for information, and general concerns. Negotiations will be conducted by the chief negotiator for each side. Only the chief negotiator will speak for their side unless the negotiator designates a person on a specific topic.
4. Both parties will bargain in good faith and will make every effort to reach agreement.
5. Both parties acknowledge that open communications is essential to the process. Both chief negotiators should encourage members of their negotiating teams to provide input during the negotiations.
6. In the interest of reaching a new agreement as soon as possible, at the conclusion of each session, the parties will establish the date, time, and agenda for the next session.
7. Parties will agree to three (3) negotiation days, during the week of negotiations (Tuesday, Wednesday and Thursday); Monday and Friday will be travel days for members located outside of the headquarters. Additional sessions may be added by mutual agreement of the parties.
8. Contract language, which is tentatively agreed to, shall be initialed by the chief negotiator for each party and put aside. All tentative agreements reached on Articles or sub-sections of Articles are subject to change prior to final agreement on all items. Throughout the negotiations, counter proposals shall be presented in written form, using legislative format for additions and deletions.
9. If the parties reach impasse on a particular article or issue, they agree to move forward with discussion of other articles and to return to the impasse articles at a later time in the negotiation process before requesting the services of a mediator.
10. With one day's notice to the other side's chief negotiator, either party may invite specialists or subject matter experts to present and to respond to questions during negotiation sessions when pertinent topics are under discussion. Only one specialist or subject matter expert for each party may attend the negotiations at any one time. Specialists or subject matter experts who attend negotiation sessions at the request of the union will be granted administrative leave if they are scheduled to work on the date of the session. The cost of required travel to and/or from the formal negotiation sessions shall be paid for by the side requesting the attendance of the specialist or subject matter expert.

11. Bargaining sessions shall be closed to the public. Observers shall be allowed, provided the parties mutually agree. Observers shall be non-participants. Both parties shall refrain from discussing specifics regarding ongoing negotiations outside of the negation area. Each team may communicate with its respective constituency. No negative personal characterizations will be made.
12. Each party is responsible for keeping its own notes. No audio recording devices shall be used in negotiations.
13. Each party reserves the right to caucus, as it deems necessary. Any person has the ability to call a caucus.
14. Each side shall name their negotiating team members before the beginning of negotiations. The Union bargaining team shall be equal to the number of management team members.
15. The Agency Head review will commence promptly at 12:01 a.m. following the last day of negotiation, unless a written agreement between the parties is arrived upon.

The ground rules are agreed to.

Management Chief Negotiator

Date:

Council 222 Delegated Chief Negotiator

Date:

Request for Information

To enable the Council full prepare for negotiation of the Office of Multifamily Housing “Implementation Playbook,” and to enable a full and proper analysis, position formulation, discussion, understanding and negotiation of this matter. Pursuant to Title 5 U.S.C. § 7114(b)(4)(A) and (B); and Articles 3, 4, 17, 18, 22 and 23 of the HUD/AFGE Agreement, we seek the following information:

The terms “documentation” and “communication” shall be interpreted to the broadest extent possible and shall include, but not be limited to, documents in paper, electronic and other form.

1. Any and all workload statistics that support decision to move forward with the “Sustaining our Investment” Implementation Playbook for field rollout.

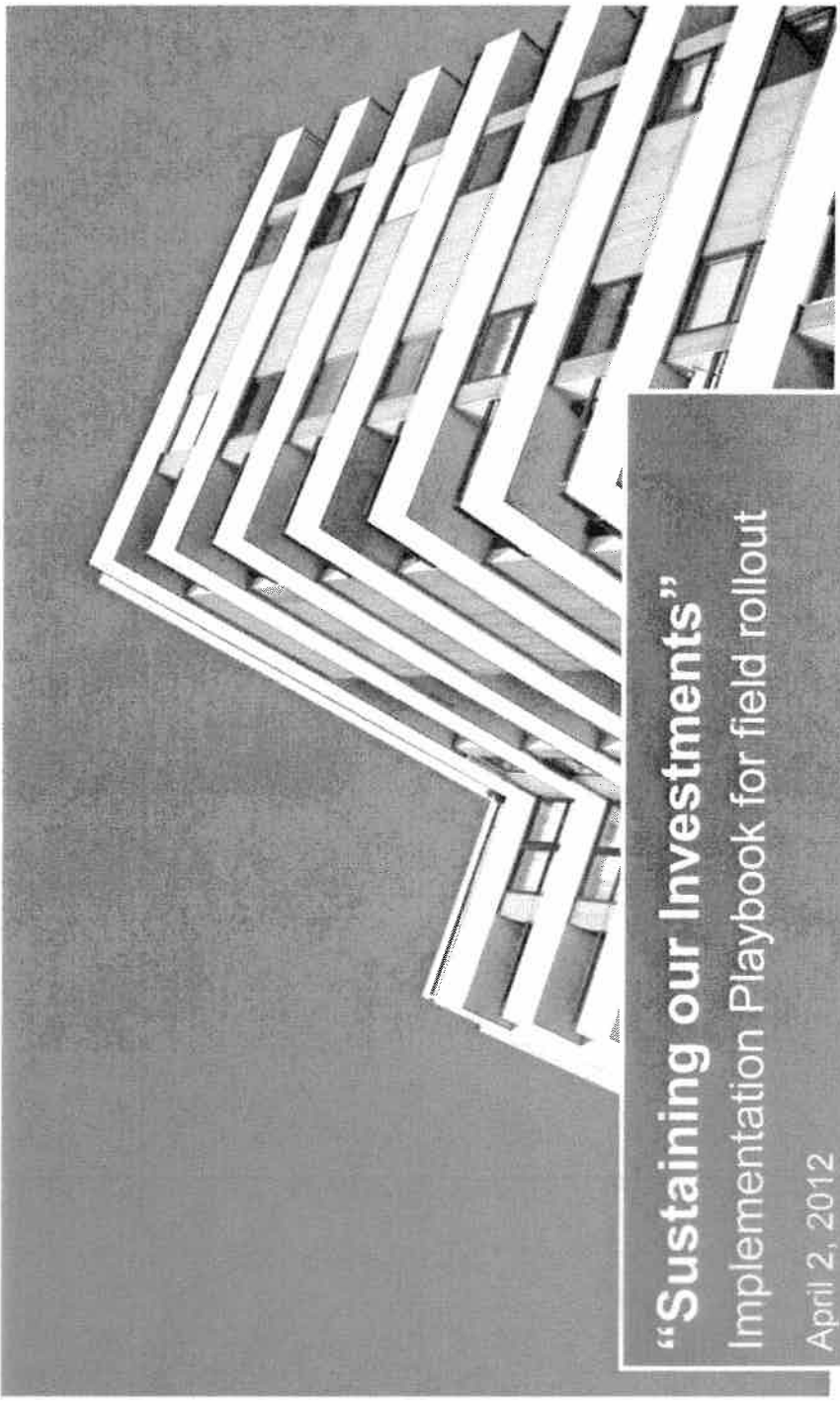
Particularized need:

The Union requires the requested information to enable a full and proper analysis, position formulation, discussion, understanding and negotiation of this matter. Additionally, it will be used to develop proposal and counter-proposal during the negotiation of the “Sustaining our Investment” Implementation Playbook for field rollout.

This information is or should be normally maintained by HUD in its regular course of business. The information should be reasonably available and accessible and is necessary for a full and proper discussion, understanding and negotiation concerning appropriate arrangements for employees adversely affected by projected budget shortfalls. There is no inconsistency with the provisions of the Privacy Act, 5 U.S.C. 552a related to the information being requested. AFGE Council 222 has established the right to such information to fulfill its representational duties towards the bargaining unit employees.

The Union requests that the above specified information be furnished within a reasonable time not to exceed fifteen (15) calendar days. If this request is denied, in whole or in part, please state in writing the name, position title, and grade of the official making the decision, and the statutory, regulatory, or contractual citation it is based upon.

If the Agency is unable to fulfill any request in full, please fulfill it in non-objectionable part, and articulate any denial in detail and/or the Agency’s interest in non-disclosure at the time that it denies the request for information. *See U.S. Department of Justice, Immigration and Naturalization Service, Northern Region, Twin Cities, Minnesota*, 51 FLRA 1467, 1473 (1996), *reconsideration denied*, 52 FLRA 1323 (1997), *aff’d*, 144 F.3d 90 (1998); *IRS- Kansas City*, 50 FLRA at 670.



“Sustaining our Investments” Implementation Playbook for field rollout

April 2, 2012



This document contains pre-decisional opinions, advice, and recommendations that are offered as part of deliberations necessary to the formulation of government policies and processes. It is protected from disclosure under the Freedom of Information Act (“FOIA”) pursuant to the Deliberative Process Privilege under 5 U.S.C. 552(b)(5). This document also contains commercially sensitive and confidential proprietary and trade secret information that is exempt from disclosure under Section (b)(4) of FOIA, 5 U.S.C. 552 et seq.

PRE-DECISIONAL, PROPRIETARY AND CONFIDENTIAL

My comment per slide!
NY comment on each slide!
NY Fed



▪ **Overview of *Sustaining our Investments* frontline transformation**

- Additional details on components
- Selected communication materials: cartoon and videos
- Rollout waves & approach (incl. “Hub and spoke” model)
- 8-week Hub implementation overview (incl. capability building program)
- Program Management Office (PMO): roles and responsibilities

A deep analysis of AM was conducted to better understand opportunities for improvement



What we studied ...

- **Existing HUD practices** – Explored HUD's as-is asset management operations, identifying internal challenges and success stories
- **Individual MF AM sites** – Worked alongside field office staff in Jacksonville, Chicago, and San Francisco
- **Detailed case examples** – Studied ~15 asset management case examples across MF
- **Internal and external perspectives** – Led nearly ~100 asset interviews of internal stakeholders and external industry experts
- **External best practices** – Conducted broad survey of practices that define best-in-class asset management, as performed by leading organizations in the most analogous industries
- **Customer experience** – Through interviews gained perspectives on HUD's interactions with its partners
- **Data analytics** – Analyzed available data to verify hypotheses and scope effects

... and for what purpose

- Understand existing **Asset Management processes** to identify how to make these more **efficient and effective**, so that teams can better manage the increased volume
- Find **collaborative ways of working together** that will increase employee satisfaction as well as improve what MF is able to deliver for our stakeholders
- Look for opportunities within **MF Asset Management to enhance risk management processes within the market rate portfolio**

An in-depth analysis has led to an understanding of the current state as well as critical next steps for AM

1 **Situation**

- Complex AM role (>100 tasks, >100 SOA, many players)
- Challenging and budget-constrained environment
- Low organizational health 

2 **Complication**

- Steep growth of new market rate product
- Limited expansion of frontline risk management processes across MF – leading to increased credit risk
- Weak risk culture underlying

3 **Resolution**

- Well-defined shared vision for AM
- Near-term frontline focus on 3 things: Project Management by Risk, Continuous Improvement, and working together more effectively
- Longer-term portfolio of initiatives for AM

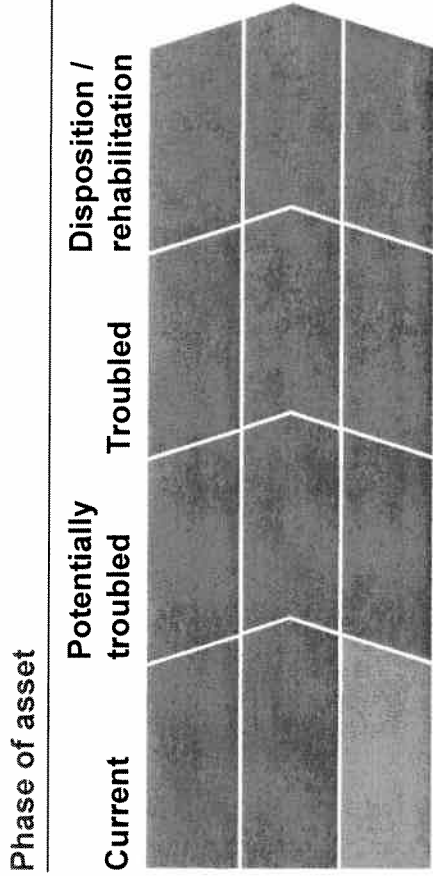
"We can't try to fix just one of the asset management processes – there are too many. We need to build in continuous improvement to start to tackle these one by one" (Hub Director)

"Before the defaults, I was fine – and then the sky fell in. I wish I'd known then what I knew now, I wish I'd known what to expect or how to handle it" (Phoenix PM)

The low organizational health is a major concern for the Board. Additional Admin. Process change and increased workloads will only serve to adversely impact the already poor organizational health.

Project Mgmt by Risk is a great "PR" term that will require a major shift in the way we spend. It is already "Bleed" Workforce. A step! leaving course!

1 The Asset Management PM role today is very challenging, complicated by the number of activities, programs and players



Major role

- Relationship management
- Risk management
- Work-out management



PMs are also ultimately accountable to manage all the elements across the 'constellation of players', e.g., REAC, DEC, OGC, HQ, Industry, Residents

- x >100 discrete AM activities
- x ~180 sections of the act with different regulatory requirements¹
- + Constant stream of policy adjustments, standards and Congressional requirements
- + Customer service, e.g., tenant complaints, working with lender/servicers

How does this impact customer? With the subject? How "government"?

The industry "played" expenses process, but in "locality" the process are constrained by the process are constrained to the industry process

¹ Across both HC and MF SOURCE Team Analysts, interviews



1 In addition, AM is operating in a constrained environment where we have to learn to do more with less

The external environment is challenging ...

- FY 2012 appropriations and the current policy environment are creating tremendous pressure on government agencies
- Citizens are demanding better, faster services
- More regulation, oversight and enforcement
- Many policy priorities
- Higher volume of work
- Reduced workforce leading to frustrated and overwhelmed staff

HOUSING

HUD budget cuts for 2012 total \$3.8 billion

Federal IT Budget Cuts Will Hit HUD Hardest

... posing many important questions

- How do we operate effectively in an environment where we face unprecedented volume/activity and yet are unable to add the resources we need to achieve a reasonable outcome? **(4)**
- How do we reallocate resources to better manage the changing risks we face (i.e., regulations)?
- How do we proactively transform to deliver on our mission and meet public demand?
- Where can we find and capture savings immediately to manage against current tight budgets and political pressure
- What must be done to close the skill gap created by escalating attrition (economic recovery could push retirements and other separations to >300K in 2011 vs. 244K-250K between 2005-08) and infrequent training **(5)**

*The 5 factors identified & fall well
 are alarming, the present any of those
 are short of addressing any of those
 factors. It appears to be some form!*

1 AM's organizational health¹ leaves room for improvement particular around Capabilities, Motivation, Leadership and Innovation

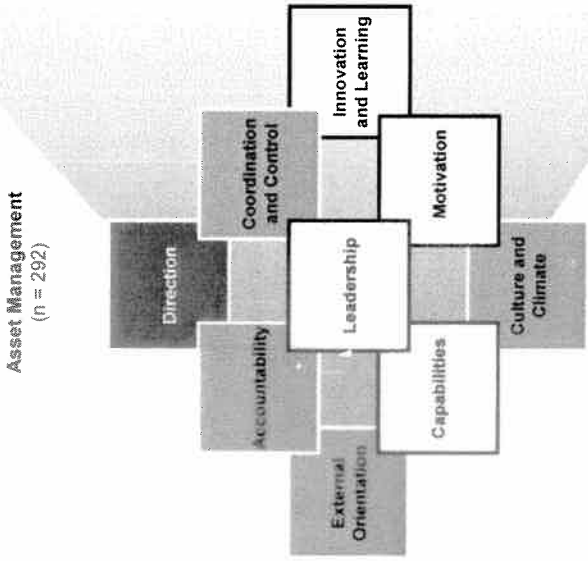
Average percent of employees indicating "strongly agree" and "agree" Level of Organizational Health compared to Public Sector Benchmark²

Public Sector Benchmark

Top Quartile
 Second Quartile
 Third Quartile
 Bottom Quartile

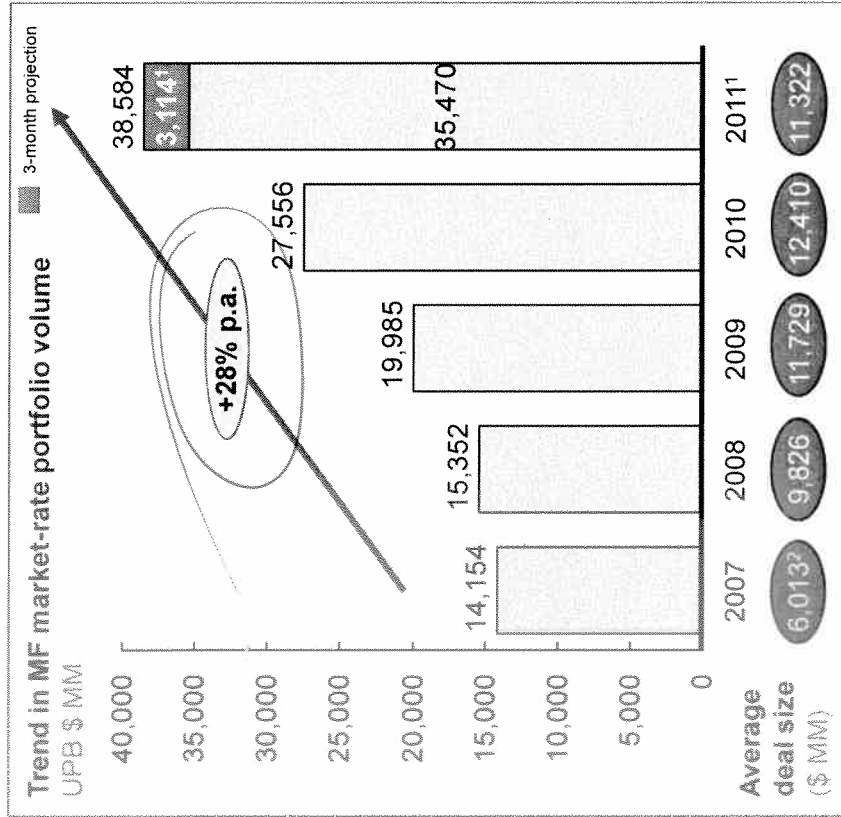
This study is depressing find I can't find the appropriate comments!

Direction	Leadership	Culture and climate	Accountability	Coordination and control	Capabilities	Motivation	External orientation	Innovation and learning
A clear sense of where the organization is heading and how it will get there that is meaningful to all employees	The extent to which leaders inspire actions by others	The shared beliefs and quality of interactions within and across organizational units	The extent to which individuals understand what is expected of them, have authority, and take responsibility for delivering results	The ability to evaluate organizational performance and risk, and to address issues and opportunities when they arise	The presence of the institutional skills and talent required to execute strategy and create competitive advantage	The presence of enthusiasm that drives employees to put in extraordinary effort to deliver results	The quality of engagement with customers, suppliers, partners and other external stakeholders to drive value	The quality and flow of new ideas and ability to adapt and shape the organization as needed



¹ Organizational health consists of nine elements that need to be managed for organizations to perform and transform successfully
² McKinsey's public sector database includes 48 surveys and more than 34,500 respondents across a diversity of international public sector organizations as of January 2012
 SOURCE: McKinsey Organization Practice, FHA Multifamily Housing OHI Survey, (n=531)

2 The MF AM portfolio has shifted over the past several years to more market rate product



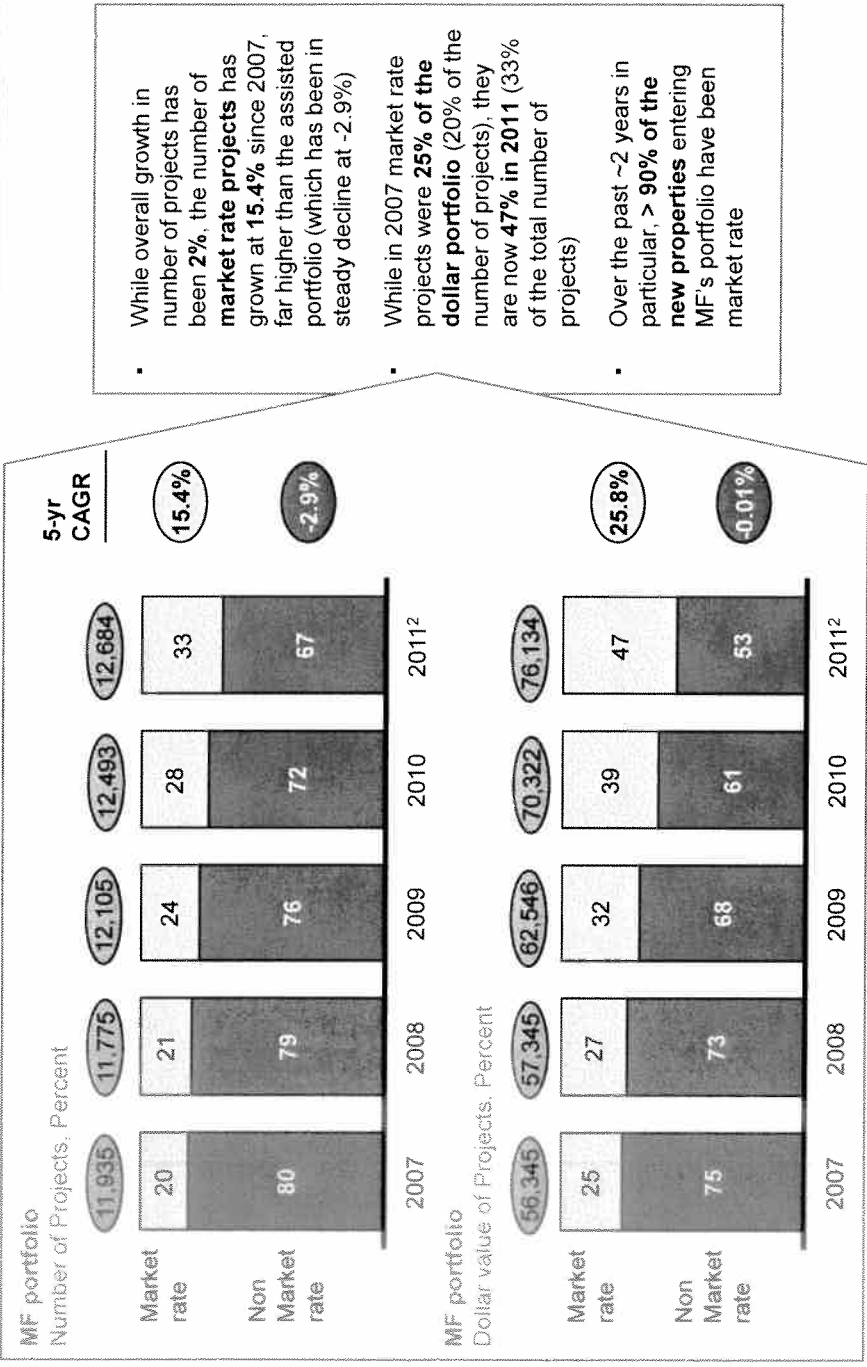
- The dollar volume of the market rate portfolio has expanded dramatically, with a 5-year CAGR of 28% (3-year CAGR 24.5%) due to multiple factors
- Average deal size has also increased substantially, and in 2011 was 15% higher than in 2008 and 88% higher than in 2007
- Evidence suggests that the biggest cause of organizational failure is the steep growth in a financial product without the appropriate mechanisms in place to manage it effectively

1 Data is as of 09/30/2011; 2007-2009, 2010 all as of 12/31, no seasonality assumed from 09/30 to 12/31/2011 projection
 2 Number may be higher, need previous year data to calculate
 SOURCE: FHA data, team analysis

"Sustaining our Investments"

The +28% p.a. annual growth rate, coupled with the 3-year CAGR, project forward a > 21.5% CAGR is a disaster in the long run. The entire is much as the little boy playing the Dice with his finger! With that added Heron because it will fail!

2 With this growth, the portfolio mix has shifted to market rate, from ~25% of Unpaid Principal Balance in 2007 to ~50% of UPB in 2011¹



- While overall growth in number of projects has been 2%, the number of **market rate projects** has grown at **15.4%** since 2007, far higher than the assisted portfolio (which has been in steady decline at -2.9%)
- While in 2007 market rate projects were **25% of the dollar portfolio** (20% of the number of projects), they are now **47% in 2011** (33% of the total number of projects)
- Over the past ~2 years in particular, > **90% of the new properties** entering MF's portfolio have been market rate

¹ FHA data from Office of Evaluation does not match previously received data from Colin Cushman, there is difference of \$170MM dollar volume and 17 projects for 2011
 SOURCE: FHA data, team analysis
 | 8 | *Sustaining our Investments*

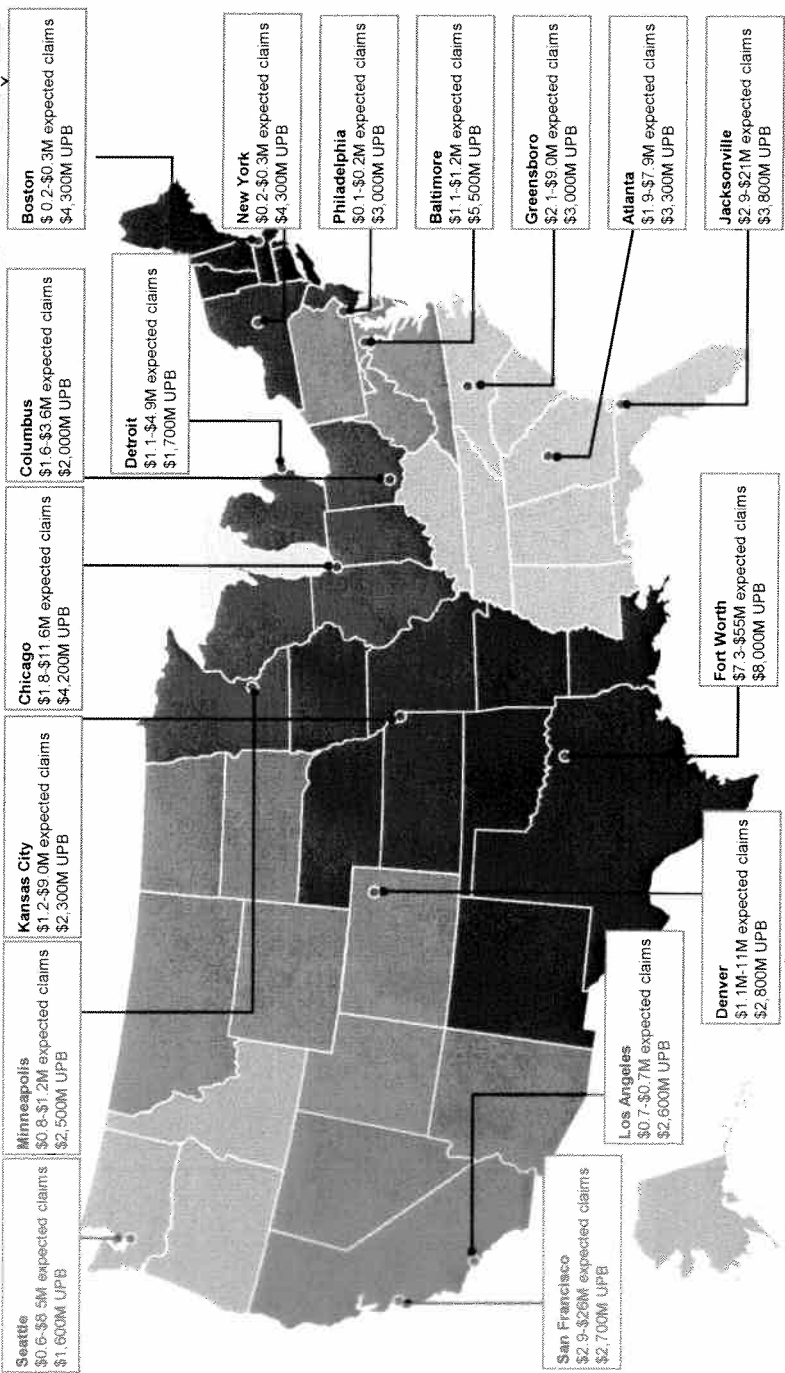
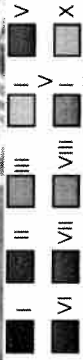
Now Doom & Gloom! Where will the Haven Resides come from?



2 Expected claims are between \$1-\$8M, with the notable exceptions of San Francisco, Jacksonville and Fort Worth

HUD Regions 2011 – Key claims data^{1,2}

\$MM



¹ Only 44% of UPB is covered by an OBIM2 score, therefore this analysis scales expected claims data by HUB to reflect full portfolio of coverage.
² UPB shown is total for the HUB, not just the part of portfolio covered by a score
 SOURCE: FHA data, team analysis, HUD website

Some are program tier (2) plus!

2 Yet against key best practices to reducing credit risk on a commercial real estate portfolio, AM has many observed gaps

○ Large gap
◐ Gap
● Close to best practice

Best practice	Components of best practice	Assessment
1 Monitor individual properties through predictive indicators and 'early-warning systems'	<ul style="list-style-type: none"> a Diverse set of predictive indicators that enable assessment of likelihood of a given property to become troubled b Sufficient frequency of review to enable timely interventions as needed c Consistent and reliable data quality to enable effective assessments d Risk ratings that appropriately weigh individual indicators to assess the "troubledness" of a given property e Early-warning property watchlists based on explicit thresholds for overall risk ratings 	<ul style="list-style-type: none"> a ◐ b ◐ c ◐ d ◐ e ○
2 Monitor portfolio exposure through specific indicators and scenarios	<ul style="list-style-type: none"> a Economic conditions: Unemployment rates, vacancy rates, local property values and performance, interest rates, underwriting standards b What-if scenarios that model expected loss in adverse economic environment c Geographic conditions: Concentrations d Environmental conditions: Pollution, climate, pest infiltration e Performance: Default rates, time to resolution, recovery rates and charge offs f Communication of scenario and portfolio performance results across the organization 	<ul style="list-style-type: none"> a ◐ b ○ c ○ d ○ e ◐ f ○
3 Monitor and manage performance	<ul style="list-style-type: none"> a Borrower/lender information: Portfolio information (in particular troubled properties) by borrower and lender b Internal performance management c External (vendor) performance management (in particular of servicers) 	<ul style="list-style-type: none"> a ◐ b ○ c ○
4 Reduce losses by following a clear, consistent, and timely intervention strategy	<ul style="list-style-type: none"> a Properly maintained catalogue of available loss mitigation options b Clear and easy-to-follow intervention framework 	<ul style="list-style-type: none"> a ◐ b ○
5 Ensure tight linkage and coordination with underwriting activities	<ul style="list-style-type: none"> a Underwriting information readily available and utilized from the get-go by asset management b Asset management insights readily available and utilized for underwriting 	<ul style="list-style-type: none"> a ◐ b ○
6 Ensure the validity of monitoring approach and metrics	<ul style="list-style-type: none"> a Frequent and formalized backtesting of models and key assumptions b Ongoing capture of "real-life" experience vs "automated" strategies 	<ul style="list-style-type: none"> a ○ b ○

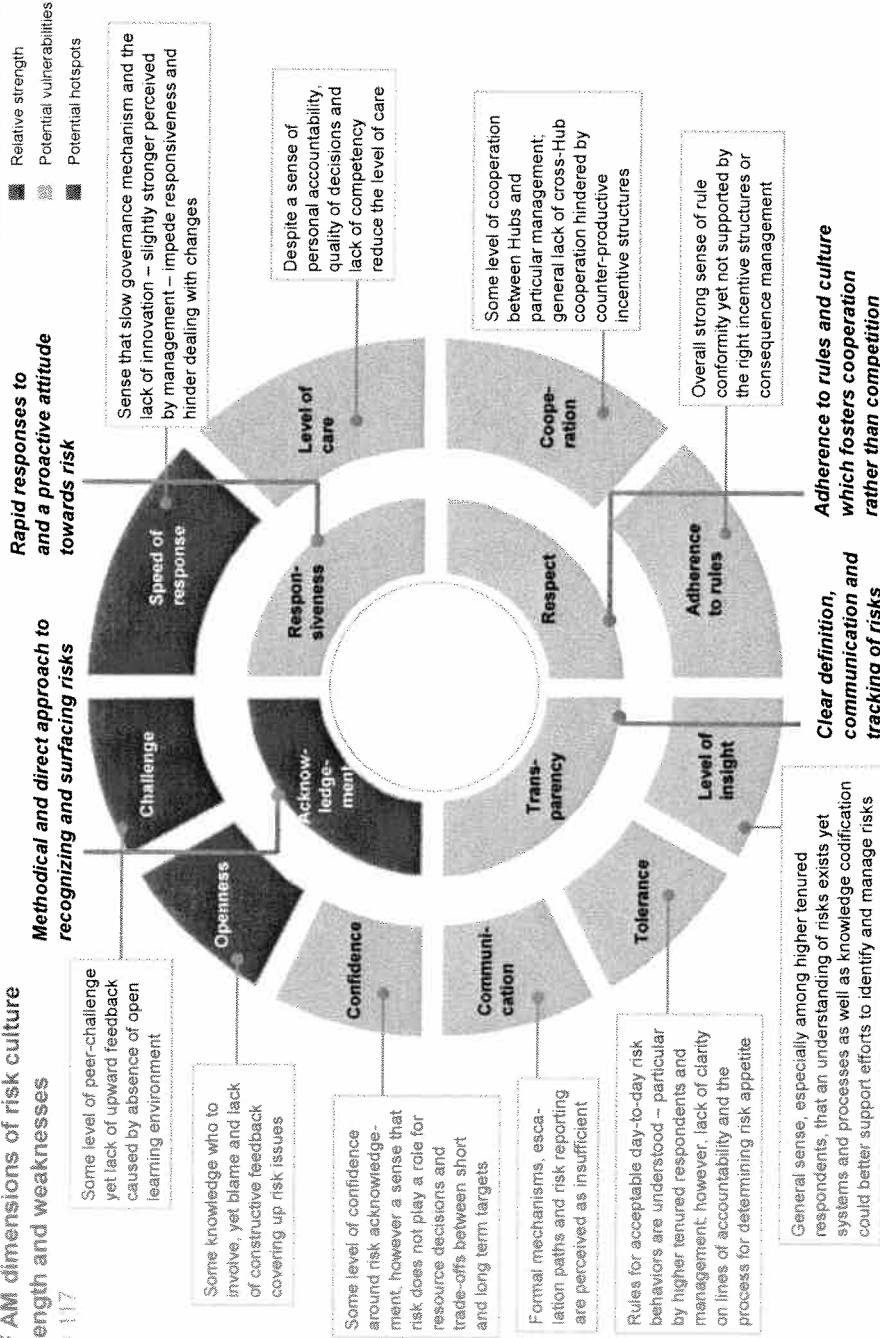
"Inter" - not specific for AM

his further support my view that the current, workforce is not prepared, for the reasons that you outlined, to invest in the 90-100 day window offered!



2 The overall risk profile leaves significant room for improvement in particular in Openness, Challenge and Speed of Response

MF AM dimensions of risk culture strength and weaknesses
n = 117



11 | *Pre-decisional, proprietary, confidential*
"Sustaining our Investments"

Same as last slide!



3 Therefore, we would like to start working to improve Asset Management through a frontline transformation

"Sustaining our Investments"

... to build new ways of working together and solving our problems

... by implementing a continuous improvement system at the frontline ...

Putting in place a new approach to managing projects through a risk focus (Project Management by Risk) ...

3 The Project Management by Risk (PMR) approach aims to help PMs prioritize their work and focus on what matters most



● Quantitative ● Qualitative

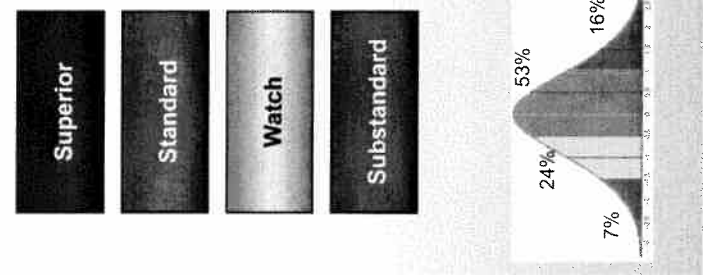


Insured

Insured and assisted

Assisted

- 1 DSCR
- 2 Quick ratio
- 3 Occupancy ratio
- 4 Reserves per unit
- 5 Loan to value
- 6 Double Trigger Ind.
- 7 MSA vac. rate
- 8 MSA net absorption rate
- 9 Owner / Management
- 10 Property
- 11 Market
- 12 Extraordinary circumstances



PMs are responsible for holding OWNERS to actions, workload on high performing properties will be reduced

1 OBM2 does not cover entire insured portfolio, but next version will cover all insured and predict probability of claim
 2 Housing risk score focuses on risk to loss of units (quantity) or loss of quality, assuming a given level of investment

3 MF AM would benefit and should build a Continuous Improvement (CI) system around 5 core elements

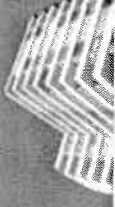
CI will be high impact given current dynamics in MF AM

- Responsible for large amount of complex / confusing work
- Operating in a constrained environment (e.g., budget, attrition)
- Portfolio has changed in recent years, changing work required and risk profiles (e.g., shift toward market-rate introduces need for new tasks for PMs)
- Culture poses challenges to performance¹
 - Does not enable innovation
 - Hierarchical
 - not open / trusting
 - Has a broken risk culture

- 5 core initiatives will form the basis of a continuous improvement system for PMs
- 1 White boards** for an easy-to-use, visual system to manage performance relative to goals and responses to issues *new word for dashboard board*
 - 2 Huddles** to establish a forum to discuss performance, set goals, surface issues, and jointly problem solve issues *? Employees! Do not trust manager!*
 - 3 Problem solving system** to surface and solve asset management and mitigation issues
 - 4 Standard work** to facilitate asset management processes and enable best practice sharing and focused performance dialogues
 - 5 Capability building** to strengthen the technical, managerial and personal skills needed to deliver on risk and continuous improvement elements *training? What will the Asset Manager do the 21st Century? how?*

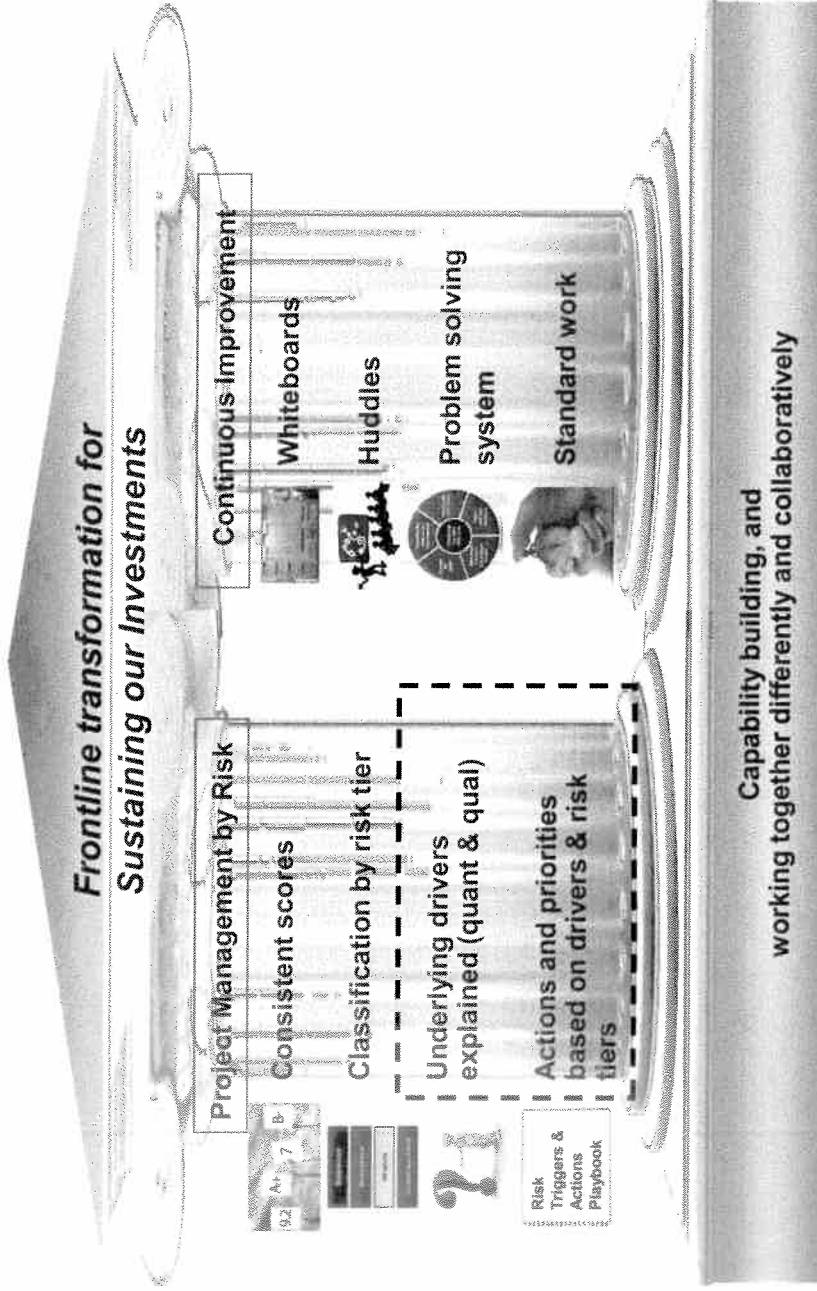
Detail follows

¹ Per results of OHI and Risk Culture surveys.

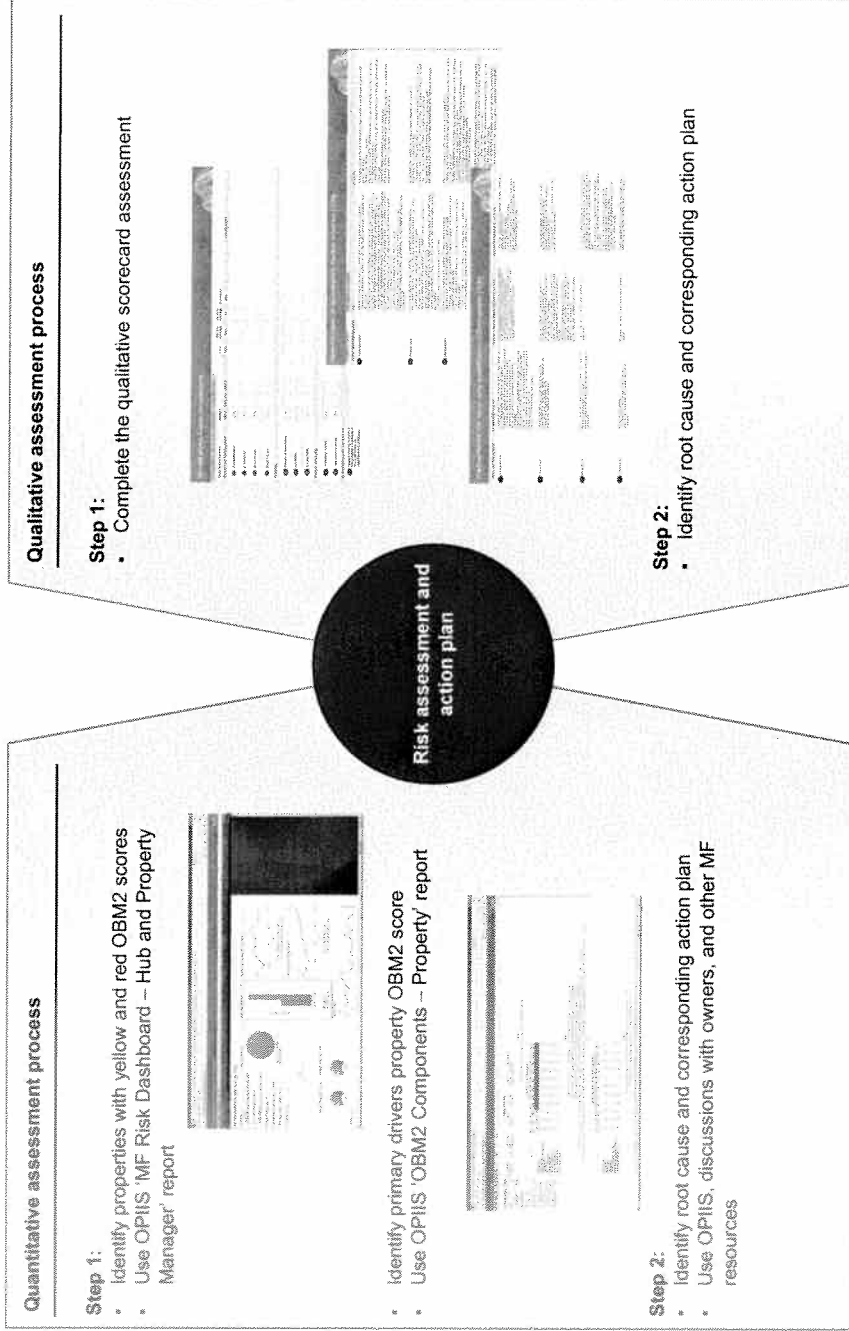


- **Overview of *Sustaining our Investments* frontline transformation**
 - **Additional details on components**
 - Selected communication materials: cartoon and videos
- Rollout waves & approach (incl. “Hub and spoke” model)
- 8-week Hub implementation overview (incl. capability building program)
- Program Management Office (PMO): roles and responsibilities

Sustaining our Investments will be built on two core pillars of change and a foundation of capability building



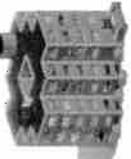


Process for identifying at-risk properties will be driven by quantitative and qualitative assessments

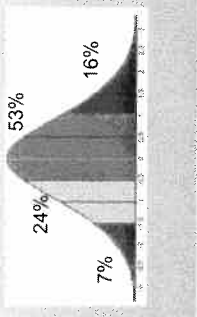


The Project Management by Risk (PMR) approach aims to help PMs prioritize their work and focus on what matters most

● Quantitative ● Qualitative



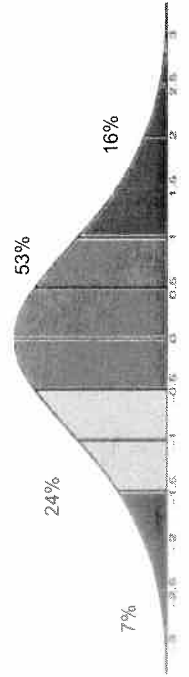
<p>1 Score</p> <p>Insured </p> <p>Insured and assisted </p> <p>Assisted </p>	<p>2 Classify</p> <p>Superior</p> <p>Standard</p> <p>Watch</p> <p>Substandard</p>	<p>3 Explain</p> <ol style="list-style-type: none"> 1 DSCR 2 Quick ratio 3 Occupancy ratio 4 Reserves per unit 5 Loan to value 6 Double Trigger Ind. 7 MSA vac. rate 8 MSA net absorption rate 9 Owner / Management 10 Property 11 Market 12 Extraordinary circumstances 	<p>4 Act</p> <p>PMs are responsible for holding OWNERS to actions, workload on high performing properties will be reduced</p>
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1 OBM2 does not cover entire insured portfolio, but next version will cover all insured and predict probability of claim
 2 Housing risk score focuses on risk to loss of units (quantity) or loss of quality, assuming a given level of investment

2 Classify: at-risk properties are classified into four risk tiers, dependent on quantitative and qualitative assessments, with identified primary drivers

Classification	Classification methodology	Quantitative	Qualitative
Superior	Expected claim ¹ (EC) < \$20 AND Qualitative points ² = 0	1 Debt service coverage ratio (DSCR)	2 Quick ratio (QR)
Standard	EC < \$2,000 AND Qualitative points < 1	3 Occupancy ratio (OR)	4 Reserves per unit (RPU)
Watch	\$2,000 < EC < \$32,000 OR 1 < Qualitative points < 2	5 Loan to value (LTV)	6 Double Trigger Indicator (DTI)
Substandard	EC > \$32,000 OR Qualitative points > 2	7 Market vac. rate (MVR)	8 Market net absorption rate (MNAR)
		9 Owner / Management	10 Property
		11 Market	12 Extraordinary circumstances



1 Expected claim thresholds were calculated using OBM2 probabilities of uncured default and calibrated to the 93rd, 69th and 16th percentiles
 2 Qualitative thresholds are preliminary and should be further tested with the portfolio

These four project classification categories are linked to both credit and housing risk and define parameters of PM action



Classification	Description
Superior	<ul style="list-style-type: none"> Projects rated superior represent both a low credit risk and low housing risk Superior projects warrant limited project manager supervision
Standard	<ul style="list-style-type: none"> Projects rated standard represent either a low credit risk or a low housing risk, and do not exhibit any other factors that warrant concern Standard projects warrant some project manager supervision, but supervisory actions will be event driven
Watch	<ul style="list-style-type: none"> Projects rated watch represent an elevated level of concern, either for credit risk or housing risk Watch projects warrant ongoing project manager supervision; supervisory actions are proactive and exceed event (reactive) monitoring and intervention Watch projects may warrant the most project manager supervision, as the potential for impact may be greatest
Substandard	<ul style="list-style-type: none"> Projects rated substandard represent the highest level of concern, either for credit risk or housing risk (or both) Substandard projects may warrant the most project manager supervision due to interventions required

All current PM actions should then be redistributed based on risk classification

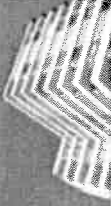


PRELIMINARY & INCOMPLETE

Classification	Time share	Examples of activities / changes to status quo
Superior		<ul style="list-style-type: none"> FO/Hub automatic approval for all reserve for replacement, residual receipt withdrawals and rent increases (within set thresholds) No additional review required unless there are new circumstances (events)
Standard		<ul style="list-style-type: none"> Same treatment as projects rated superior, except if project has tripped a red flag (e.g., audit flag), then PM will review additional documentation (e.g., financials) and follow-up with management
Watch		<ul style="list-style-type: none"> All current processes (reviews and approvals) are applicable, new risk intervention strategies may be applicable PMs must obtain monthly accounting reports and progress updates from property management
Substandard		<ul style="list-style-type: none"> PMs must complete all current processes, and an exhaustive list of risk intervention strategies PMs/ supervisors will need to involve other relevant stakeholders (e.g., HQ, DEC, OAHF)

These designations (particularly what PMs can stop doing for blues and greens) must be decided and communicated to the field

Once primary drivers of risk are identified, Project Managers should follow the IRRE action framework (insured only, non defaulted)



INSURED ONLY¹

Action category	Action component	How to execute
Investigate If owner is committed, has capacity and issues are minor	<ul style="list-style-type: none"> Review property financials Review peer and market data Ask owner and management agent for explanation Consult Multifamily (MF) experts 	<ul style="list-style-type: none"> Use OPIIS to determine root cause in financials Use OPIIS (PRT and REIS data) to establish fact base that property is underperforming Call or have a meeting with owner to obtain explanations Call or email MF experts to help evaluate owner/management responses and data
	Recommend If owner is noncommittal, lacks capacity or issues are major	<ul style="list-style-type: none"> Owner creates and commits to an Overall Property Improvement Plan (OPIP) with one or more of the following three components: <ul style="list-style-type: none"> Marketing and Physical Improvement Plan Expense Management and Process Improvement Plan Capital Plan
Require	<ul style="list-style-type: none"> Owner is nonresponsive or refuses to commit to an OPIP and HUD MF must mandate OPIP, or Issues facing property are so severe that a formal agreement for an OPIP is required 	<ul style="list-style-type: none"> Send letter to owner stating owner is in noncompliance with the regulatory agreement; after 30 days → Send Notice of Violation (NOV); after 30 days → Send Notice of Default (NOD)
	Enforce	<ul style="list-style-type: none"> Mandate management agent removal Recommend owner for civil money penalties (CMPs) Remove owner from property

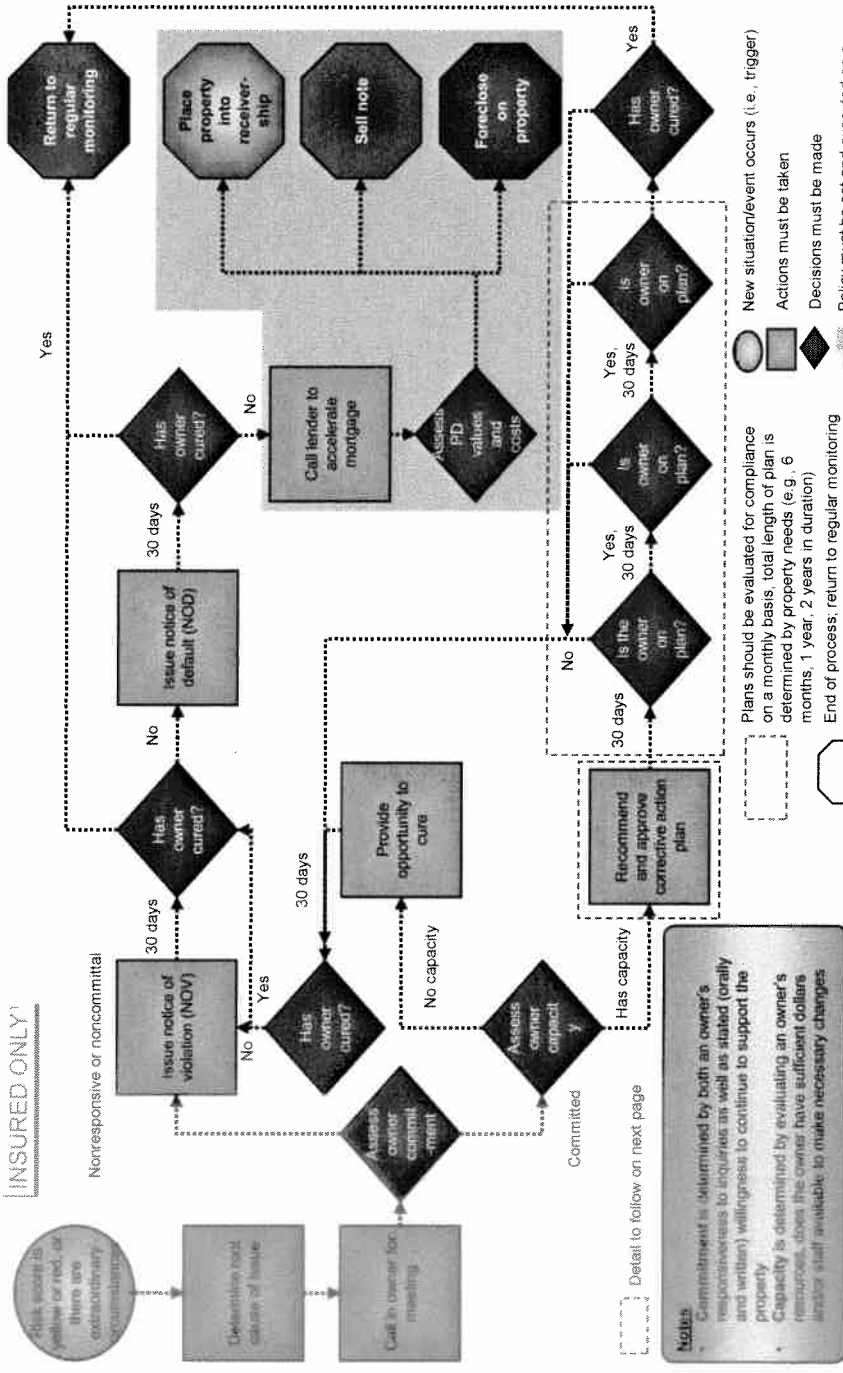
Least severe, most frequent

Note: All actions above can be taken prior to claim

¹ Insured and assisted, assisted only properties may follow similar path, however time frames and enforcement actions may differ

Most severe, least frequent

The IRRE action framework - process flow - involves a number of steps, each dependent on the one that precedes it (current loans)



INSURED ONLY

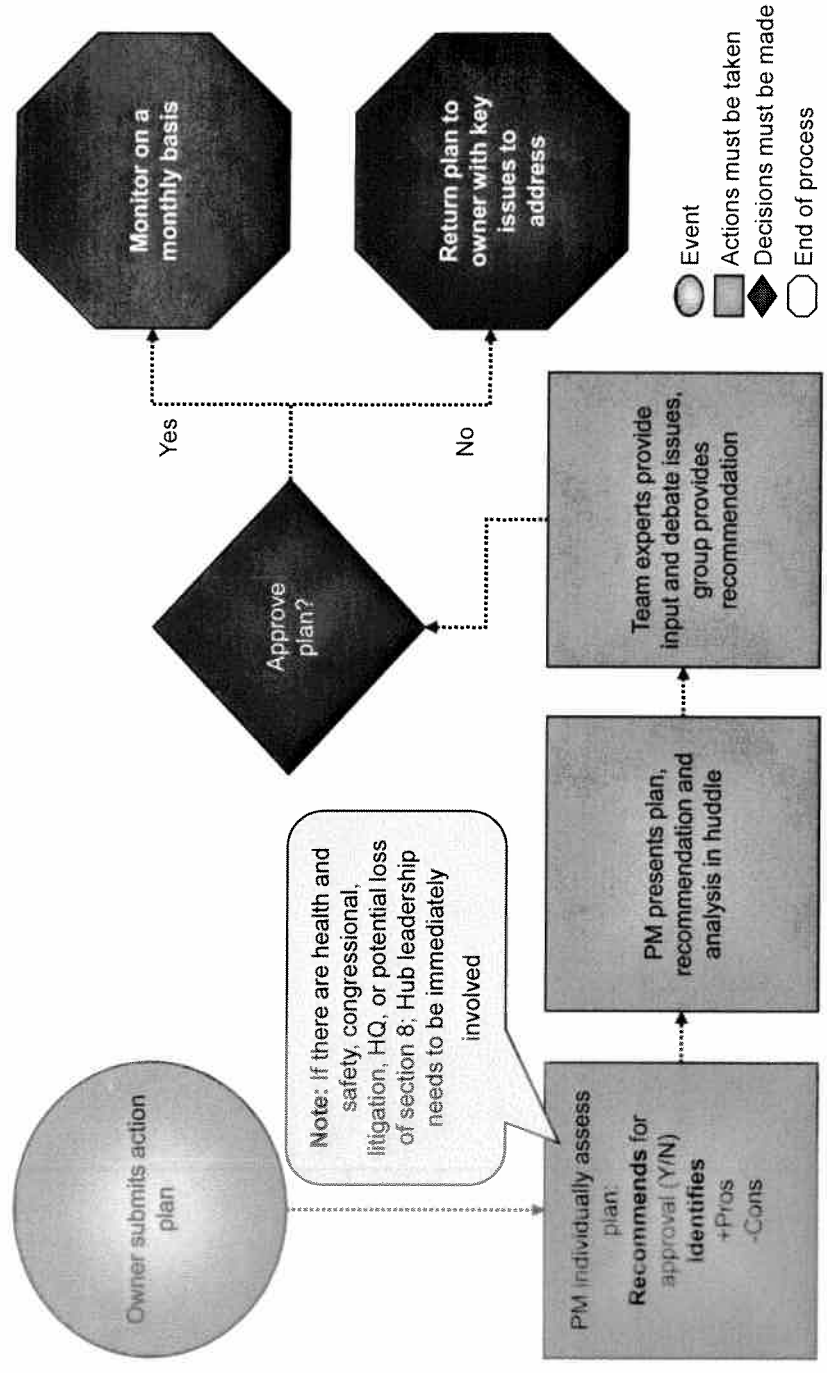
Plans should be evaluated for compliance on a monthly basis, total length of plan is determined by property needs (e.g., 6 months, 1 year, 2 years in duration). End of process, return to regular monitoring may include frequent reassessments (e.g., the property is now on the watchlist) or take action to remove owner.

Notes
 * Commitment is determined by both an owner's responsiveness to inquiries as well as stated (orally and written) willingness to contribute to support the property.
 Capacity is determined by evaluating an owner's resources, does the owner have sufficient dollars and/or staff available to make necessary changes.

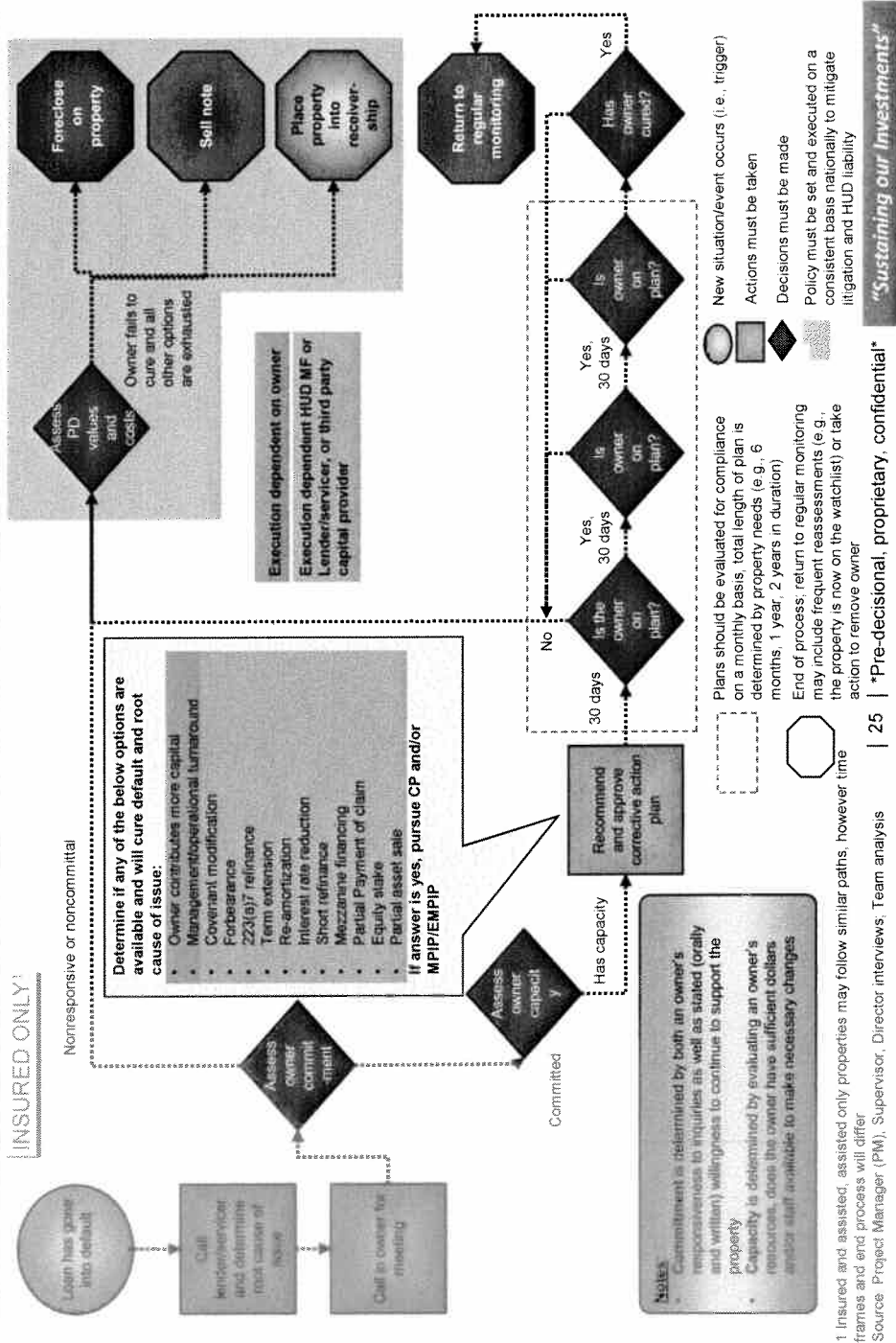
1 Insured and assisted, assisted only properties may follow similar paths, however time frames and end process will differ.
 Source: Project Manager (PM), Supervisor, Director interviews, Team analysis

Sustaining our Investments

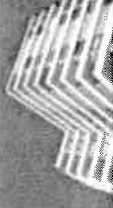
PMs should leverage their office leadership and fellow teammates to assess and approve proposed action plans



The IRRE action framework - process flow - involves a number of steps, each dependent on the one that precedes it (in default)



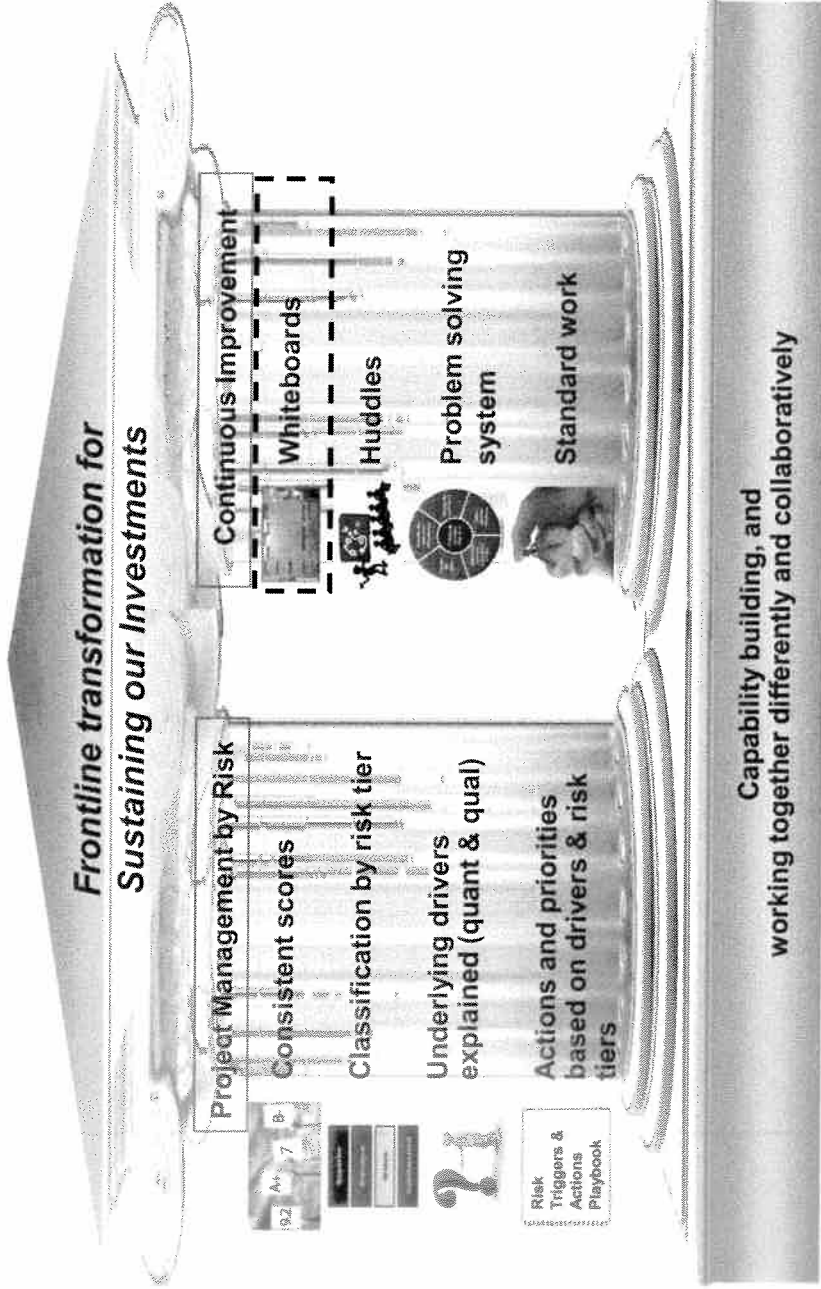
For greater detail, consult the
Risk Triggers & Actions Playbook (R-TAP)



R-TAP contains

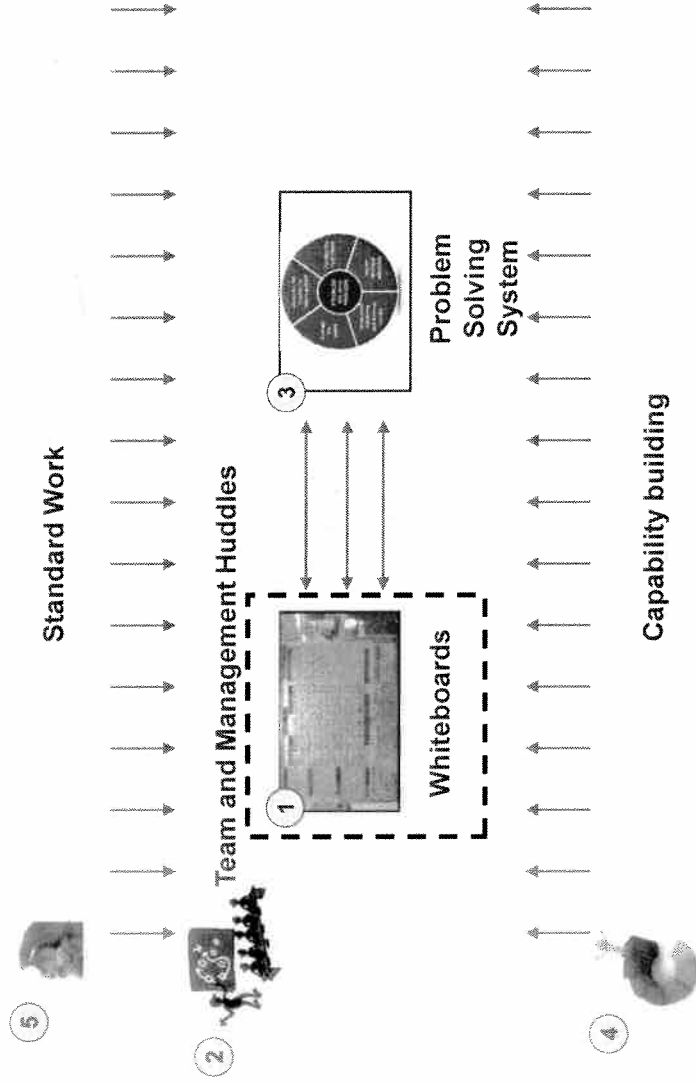
- Project Management by Risk overview
- IRRE action framework
- Investigate: Quantitative
- Investigate: Qualitative
- Recommend
- Require and Enforce
- OPIIS overview
- Glossary

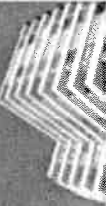
Sustaining our Investments will be built on two core pillars of change and a foundation of capability building





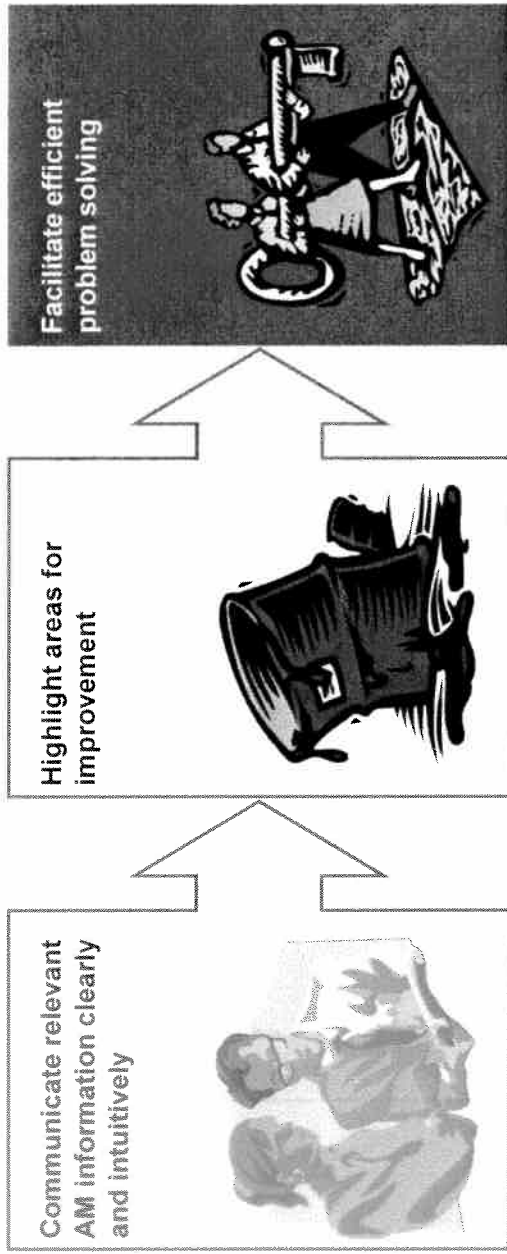
The Whiteboard is part of a larger system aiming to embed continuous improvement in AM





A Whiteboard is about creating transparency to inform decision-making

A strong Whiteboard seeks to:



*Overall goal focus on overall goals!
 Employee will use as tool for
 that they need from overall
 tool*

What visual management is and isn't



What it isn't ...

- Only performance boards
- Applicable in only manufacturing settings
- A way to punish individual performers
- Only workplace organization
- Flavor of the week



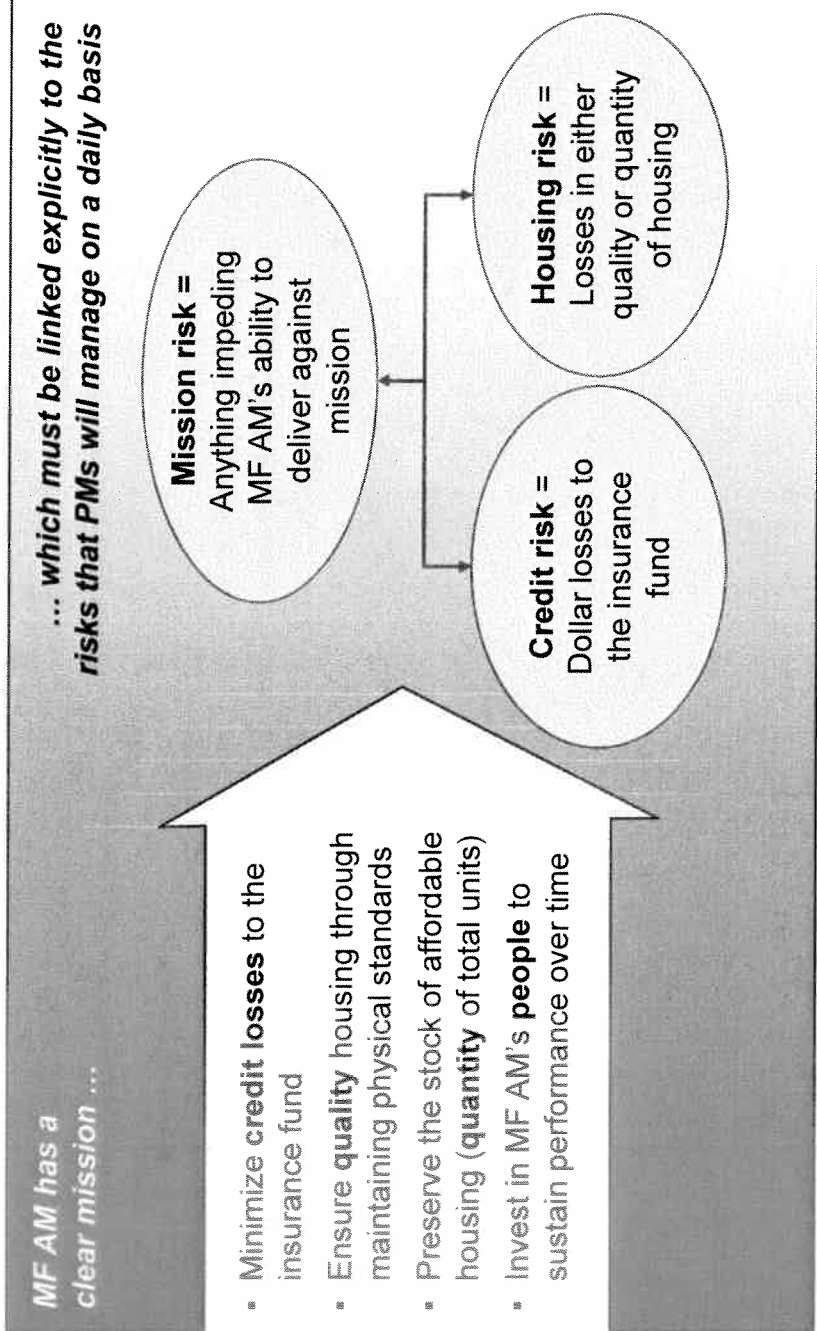
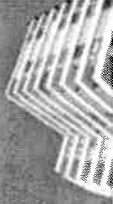
What it is ...

- A powerful tool
- **Helpful in any environment** where you want to improve communication, transparency, efficiency, and performance
- **Shows critical metrics** that tell us how we are doing and what is working, what can be improved
- **Facilitates performance dialogs** that celebrate success and identify ways to improve



2
1

Whiteboards will help to achieve MF AM's mission by supporting risk management and mitigation done by PMs



Proposed Whiteboards

Team Name _____

Huddle Rules

Huddle Agenda

Huddle Leader

Time keeper

Goals and Pipeline tracker

Goals and trends

Manage credit risks
(# properties with red / yellow score)
Goal = 100

Ensure quality housing
(# properties REAC PASS scores <60)
Goal = 100

Preserve stock Units
(% units preserved of total units at risk)
Goal = 100.0

"Invest in people"
Team barometer

Monthly average

Week _____

1 10

Tracking of projects

Property	PM	Score	Drivers	Root cause	Action taken	Deadline
1						
2						
3						

Property	PM	Assignment	PM	Deadline
1				
2				
3				

Extraordinary assignments

Assignment	PM	Deadline

Pipeline

Property	Dev / PM	%	Meeting date	Hand-over date

"Sustaining our Investments"

ADMINISTRATIVE

Boudry

Different ownership is assigned to update various sections on the boards in different frequencies



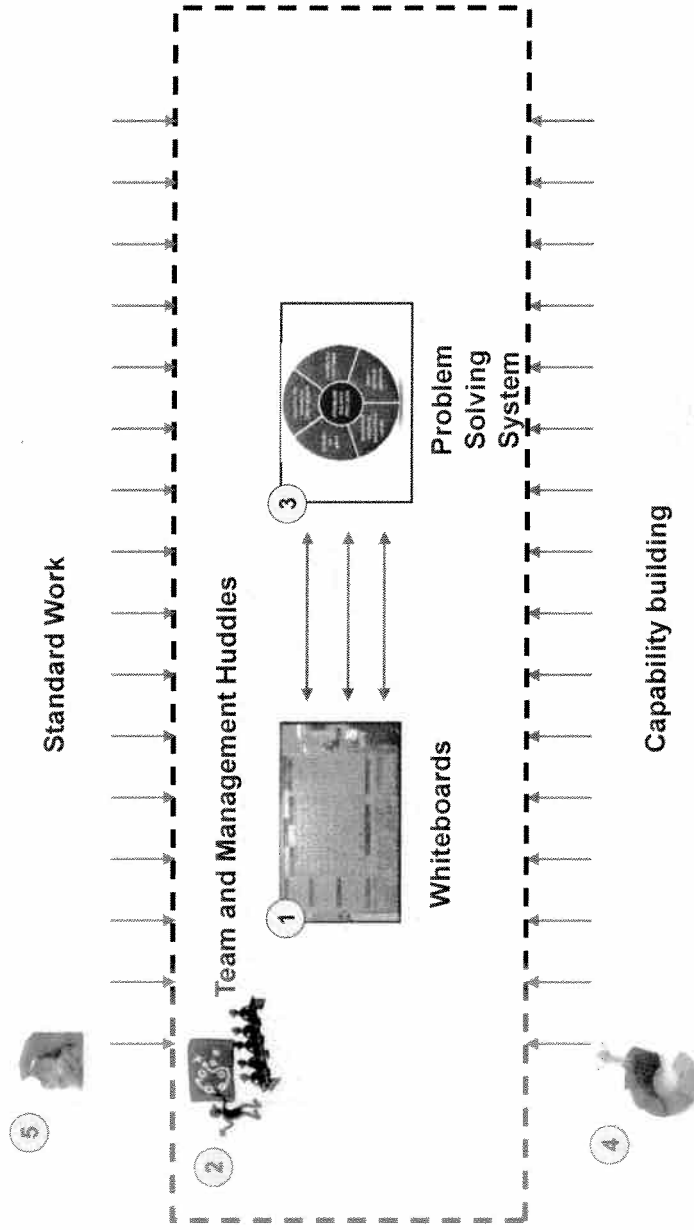
Goals and trends	Tracking of properties at risk	Extraordinary assignments	Pipeline
<p>Minimize credit losses</p> <p>Who</p> <ul style="list-style-type: none"> PMs, Supervisors (Rita/June) <p>When</p> <ul style="list-style-type: none"> Monthly <p>How</p> <ul style="list-style-type: none"> Preparation with OPIS data Update on print-out while monitoring data in Excel 	<p>Property PM Score Drivers Root cause Action taken Deadline</p> <p>1 2 3</p> <p>Market risk</p> <p>1 2 3</p> <p>Assisted</p> <p>1 2 3</p> <p>Property</p> <p>Weekly team accomplish</p> <p>Who</p> <ul style="list-style-type: none"> PMs, Supervisor <p>When</p> <ul style="list-style-type: none"> Weekly <p>Announcements</p> <ul style="list-style-type: none"> Celebrations Trainings 	<p>Assignment PM Deadline</p> <p>Who</p> <ul style="list-style-type: none"> PMs, Supervisor <p>When</p> <ul style="list-style-type: none"> Ongoing 	<p>Property % of completion Expected hand-over date</p> <p>Who</p> <ul style="list-style-type: none"> Assigned PM (Rita/June) <p>When</p> <ul style="list-style-type: none"> Weekly <p>How</p> <ul style="list-style-type: none"> OPIS information

1 In absolute numbers a 1d percentage of total properties

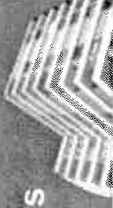
Sustaining our Investments will be built on two core pillars of change and a foundation of capability building



The Whiteboard is part of a larger system aiming to embed continuous improvement in AM



Teams will use weekly huddles to discuss priorities and improve ways of working together to achieve AM's mission



How will Huddles work?

- Who will lead the Huddle?
 - Responsibility for leading Huddles will be rotated among members of the team
- Who will attend the Huddles?
 - All AM team members are expected to participate
- When will Huddle meetings happen?
 - Weekly; scheduling to be decided on a team by team basis prior to first Huddle
- Where are Huddles held?
 - Teleworkers are expected to call-in
 - At the whiteboard
- How long will the Huddle meetings be?
 - 20 minutes
- What are the key goals of the Huddle meetings?
 - Bring the Team together
 - Recognize achievement
 - Support Team efforts through problem solving

The weekly PM leader of the Huddle will

- Follow up with other PMs to update the whiteboard in advance of the Huddle
 - Understand time needed to cover whiteboard content
 - Note key points and next steps throughout the huddle; recap these at the end of the meeting and distribute these notes via email after the huddle
- A list of PMs and the next date they will lead the Huddle will be included on the board

Time	Topic
4-5 min	Celebrate "Weekly Team Accomplishments" led by Supervisor
~2 min	Review goals and trends – review team performance against each of the 4 mission goals on the whiteboard, led by Supervisor
8-12 min	Review and Prioritize entries on the White Board – led by weekly huddle leader, team to discuss <ul style="list-style-type: none"> ▪ Identify potential obstacles to achievement of Goals and Priorities ▪ Set aside time outside of the Huddle to explore detailed solutions to obstacles ▪ Reach consensus about how to achieve goals and priorities
2-3 min	Recap of key takeaways – weekly leader closes with a recap of key takeaways from the discussion
1-2 min	Final thoughts – weekly leader asks each team members to provide a final, short thought
~20 min	Total time (per week)