



FEDERAL HOUSING ADMINISTRATION

# Office of Healthcare Programs

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT



# Office of Residential Care Facilities ORCF

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## **HUD's 232 Program: New Topics in Production and Asset Management**

September 13, 2023

*John Hartung, Director, Policy, Risk Analysis and Lender Relations Division*

*Tim Gruenes, Director, Development*

*Philip Head, Director, Asset Management Division*

*Angela Collier, Deputy Director, Asset Management*

# Our Presenters

**John Hartung** is the Director of the ORCF Policy, Risk Analysis and Lender Relations Division. John oversees responses to lender inquiries and concerns, coordinates Email Blasts and policy publications, and serves on the Loan Committee. Within ORCF, John formerly served as Director of the Risk Mitigation Branch. Before joining ORCF, John worked in HUD's Office of Multifamily Housing as the Program Center Director in Columbus, Ohio, and in various other positions in Headquarters and the field. Before coming to HUD, John practiced law for seven years.

**Philip Head** is the Director of Asset Management in ORCF, where the primary responsibilities are to service mortgages, monitor risk, and minimize claims. Philip oversees a team of Workload Managers and Account Executives who work in partnership with Borrowers and Lenders to ensure each Section 232 loan is financially and operationally strong, that each property provides a safe, quality place of residence, and each loan remains viable for the term of the mortgage. Prior to working in Healthcare, he was the HUD Multifamily Hub Director for Region X in Seattle and served in several other capacities at HUD primarily with the Multifamily program.

# Our Presenters

**Tim Gruenes** graduated from St. Cloud State University with a degree in Real Estate Finance. Tim joined HUD in 1991 and is the Director of Production in the Office of Residential Care Facilities (ORCF) - having previously worked in Multi-Family Development and ORCF Asset Management.

**Angela Collier-Mills** is the ORCF Asset Management Deputy Director. She oversees the Workload Managers for the Division and is based in Washington, DC. Before joining ORCF, she worked in HUD's Office of Multifamily Housing. Angela was also a Compliance Analyst in the office of RESPA, a federal consumer protection law overseen by the U.S. Department of Housing and Urban Development (HUD). Prior to joining HUD, Angela was a Vice President of Operations for the Wholesale Construction Lending Division for SunTrust Mortgage.

# Agenda

- Overview of Section 232 Programs
- Communication
- New Topics in Production
- HCBS, CMS and Single Audit Act
- New Topics in Asset Management
- Comparing Underwriting Projections to Actual Performance
- Resources and Questions

# Overview of Section 232 Program

## Section 232 FHA Insurance

- Lenders provide the loans
- HUD/FHA insures the loans
- Mortgage Insurance Premium covers claims
- Paid by the Borrower

# Overview

- FHA insurance allows for attractive (market) interest rate
  - Portfolio (Average) Interest Rate=3.4%
- Long loan terms-typically 30-40 years-no balloons
- Assumable Loan-with HUD approval



# Eligible Facility Types

- Skilled Nursing Facilities (Nursing Homes)
- Assisted Living Facilities/Board & Care
- Independent Living Units can be up to 25% of the facility
- Can be a combination of the above

# Section 232 Loan Types

- New Construction
- Substantial Rehabilitation
- Existing (refinance or purchase): at least 3 years old
- Combination of the above

# Section 232's Broad Impact

- \$37.4 billion in mortgage insurance
- Approximately 3682 mortgages
- 3,573 projects
- Breakdown of type:
  - 68% - Nursing Home
  - 30% - ALF
  - 2% - Board & Care



# Need More information on 232 Programs?

- Contact your Lender or locate a Lender at:

<https://www.hud.gov/sites/dfiles/Housing/documents/aprvlend.pdf>

- General information on Programs of HUD can be found at:

<https://www.hud.gov/sites/dfiles/Main/documents/HUDPrograms2023.pdf>

# 232 Production Volume

- Applications submitted:
  - FYTD 2023 on pace for 144
  - FY 2022: 317
  - FY 2021: 550 (recent high)
- Closings:
  - FY' 23 on pace for 180 (2 Green MIP)
  - FY' 22: 269
  - FY' 21: 302

# Underwriting Issues of Note

- Increased expenses (particularly staffing)
- Tighter deals-lower DSCR's
- Behavioral residents

# Communication

- Lenders' ability to timely get transactions approved/decisions made by ORCF depends heavily on the completeness and depth of the package/request that the lender sends in.
- That in turn depends heavily on the completeness and accuracy of the information that the lender gets from the property's owner/operator.
- So, your role in working with your lender is extremely important to everyone involved.
- We give lenders feedback on their performance on such topics as Quality Control, Due Diligence and Responsiveness, but we understand the link between their performance and their client's performance.

# Rollout of ORCFs Green Mortgage Insurance Premium (MIP) Reduction Rate



Green MIP Notice  
Release Date: May  
19, 2022



Mortgagee Letter  
2022-13 Release  
Date: August 18,  
2022



Effective Date:  
October 1, 2022



PRA Docs Release  
Date: January 20,  
2023





# Overview of ORCF's GREEN MIP Initiative



**In exchange for a lower upfront and annual Green MIP rates, the Borrower must:**

- Pursue an ORCF recognized or approved Green Building Certification, and
- Designing to ORCFs required energy and water usage reductions prospectively, and
- Achieve an Energy Star Score of 75 or better in an annual Statement of Energy Performance (SEP) by utilizing energy and water efficient components for the life of the Green MIP Loan

# Key Points for the Green MIP Initiative

- The Mortgagor will pay a reduced MIP rate for upfront and annual premiums by committing to reduce water and energy consumption *prospectively*
- The Green MIP Rate Reduction is for NC/SR/241(a)s and refinance loans, 223f and 223(a)(7)s
- Eligible projects may use up to 75% reduced underwritten utility operating expenses as part of their expected energy and water reductions
- ORCFs Mortgagee Letter 2022-13, describes the minimum requirements needed for properties to access the Green MIP rate reduction



# Addressing HCBS State Risk

- Deadline for States' compliance with the HCBS Settings rule was 3/17/2023.
- States not meeting the deadline are under Corrective Action Plans to continue receiving Medicaid Waiver funds.
- Most States have now posted Heightened Scrutiny lists- these projects are subject to CMS review and approval.
- Even with State Final Approval, individual projects are subject to ongoing compliance.

Bottom Line- what would happen if Medicaid \$ lost?

# New Topics in Asset Management

- REAC-NSPIRE Update
- The Why, Who, How and When of HUD-Required Action Plans
- Hot Issues
- New Quarterly Financial Statement Reporting Fields

# REAC/NSPIRE Updates

- NSPIRE Final Standards Published on June 22, 2023
- HUD has announced that as of **October 1, 2023**, NSPIRE will officially replace UPCS as the inspection protocol used by REAC Inspectors.
- Assisted-living facilities, Board and Care Facilities, and Intermediate Care Facilities require NSPIRE Inspections.
- For any other Section 232 facilities, the inspection will be conducted only when and if HUD determines, on the basis of information received, such as through a complaint, site inspection, or referral by a State agency, on a case-by-case basis, that inspection of a particular facility is needed to assure protection of the residents or the adequate preservation of the project.

## ACTION PLANS: WHY?

- Your Lender and HUD are vested along with Borrowers and Operators in the success of these facilities.
- While HUD requires that Borrowers/Operators and Lenders regularly report risks and threats to viability of facilities, we also proactively identify potential risks with the Lender, based on various data, primarily quarterly financial reporting the Portal, late or delinquent mortgage payments, CMS quality of care citations, NOI's, SFF designations, failing REAC inspections

# Action Plans

## **Examples of Primary Risks Requiring Action Plans:**

- Delinquent Or Defaulted Mortgage Payments
- A Debt Service Coverage Ratio Below 1.0 (from Healthcare Portal)
- Special Focus Facility (SFF-D) Designation
- Quality Of Care Issues, Especially When Combined With  $< 1.0$  DSCR
- Missing Financials Reports
- Operator or Lender Identified Risks (e.g., threats to revoke license, state regulatory changes impacting revenue, legal actions, bankruptcies, etc.)

# ACTION PLANS: WHY?

Upon identifying a potential risk, typically the Lender will reach out to the Borrower/Operator to determine whether the risk is valid, and not a result of bad information, for example, data entry errors.

For risks that are validated, Borrowers/Operators are asked to provide an Action Plan (AP) to address the Risk. Why do we require APs?

- To ensure all parties are aware of a risk
- To ensure a proactive plan is in place to address the risk
- To get the earliest possible start on working through risks that threaten the viability of a facility moving forward



## ACTION PLANS: WHY?

*Early identification of risks and proactive action plans greatly increase the prognosis for future viability.*

# WHAT IS A HUD-REQUIRED ACTION PLAN?

## *Simply Put:*

One or more specific steps to address the root cause(s) – not symptoms - of each identified risk, ideally with timelines and target progress measures.

## ACTION PLANS: WHO?

Action Plans should originate from the Borrower/Operator at the request of the Lender. This assures HUD that the B/O owns and is driving the action to address the risk

Please reach out to Lenders, who may have input, or who may also involve our staff as needed. Occasionally due to circumstances beyond anyone's control a monitoring plan may be the only realistic AP

## ACTION PLANS: WHO?

Most of our Owners and Operators have deep experience in the industry. Our role is not to question strategies or dissect Action Plans. Again, our interest is knowing that you are aware of the risk(s) and have specific plans/actions to address the underlying causes of risk. A few sentences is often all that is needed; we don't need to know the comprehensive details of a marketing plan, but that you have implemented a new marketing plan targeting X should be sufficient.

## ACTION PLANS: WHO?

Our team, working through Lenders, does look to see that an Action Plan demonstrates identifiable actions and an understanding of the underlying cause (root cause) of a problem.

*For example, if the risk is DSCR below 1.0, an Action Plan stating “we will increase revenue” or “reduce expenses” does not state how that will be accomplished. Decreased revenue or increased expenses are symptom(s) of another problem. Understanding the root cause of risk is vital to devising an effective action plan.*

*“If I had an hour to solve a problem, I'd spend 55 minutes thinking about the problem and five minutes thinking about solutions.”*

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- ALBERT EINSTEIN



**“Great plan. Could we get some more details?”**

## ACTION PLANS: WHEN?

Currently ORCF issues new risk notifications every other month to Lenders. Lenders are expected to reach out promptly to discuss these with the lender.

Lenders monitor plans and informs us on a recurring basis: (monthly, quarterly, as determined by the timelines/progress report due date) whether the plan is on schedule or not, and if not, have the Operator/Borrower reevaluate and provide amended risk mitigation steps, progress reports, as appropriate.



# Action Plan Guidance Reminders

## **Lean Blasts - February 26, 2020- Action Plans**

- Operators are required by 24 CFR Section 232.1015 to provide to HUD and the Lender/Servicer prompt notification of circumstances placing the value of the FHA-insured security at risk.
- Effective October 3, 2019, Lender/Servicers, Borrowers, and Operators are required to use the Operator's and/or Borrower's Notification to HUD of Threats to Permits and Approval (HUD-93335-ORCF) & The Servicer's Notification to HUD of Risks to Healthcare Projects and Action Plan for Remedy (HUD-93334-ORCF) when notifying relevant parties of risks to the FHA-insured security and for communicating action plans for remedy.

# New Quarterly Financial Statement Reporting Fields

COMING SOON

Operators will be required to provide as part of their quarterly financial data:

- **Trade Accounts Payable > 90 Days** - Trade Accounts Payable aged over 90 days (about 3 months) as of the end-date of the reporting period.
- **Patient Accounts Receivable > 90 Days** - Patient Accounts Receivable aged over 90 days (about 3 months) as of the end-date of the reporting period.

# 232 Healthcare Portal

- All Production and Asset Management transactions must be submitted by the **Lender** via the 232 Healthcare Portal. Mail and email requests are not permitted. The Healthcare Portal can be found at: <https://www.hud232portal.com/>
- Access Questions must be submitted through the Portal.
- The Healthcare Portal can be found at: <https://www.hud232portal.com/>
- Lenders that need help logging in should contact: [HHCP@hud.gov](mailto:HHCP@hud.gov)
- More information and training aids on the Portal are available at: [https://portal.hud.gov/hudportal/HUD?src=/federal\\_housing\\_administration/healthcare\\_facilities/residential\\_care/232\\_healthcare\\_portal](https://portal.hud.gov/hudportal/HUD?src=/federal_housing_administration/healthcare_facilities/residential_care/232_healthcare_portal)

# Lease Accounting and Project Audited Financial Statements

- The Financial Accounting Standards Board (FASB) has revised the policy for accountants on the GAAP Standards for Lease Accounting.
- Borrower Regulatory Agreement, Paragraph 26e,
  - HUD's expectation is that Operating Leases should not be construed as finance leases.
- Should a review of the Operating Lease in accordance with FASB ASU 2016-12 lead an auditor to the conclusion that the FASB ASU definition of a finance lease would apply, we would anticipate that the auditor would note a **GAAP exception in the Notes to the Financial Statement.**
- The audit should continue showing the project assets (e.g., R4R, escrows) properly as assets of the HUD Borrower, in accordance with the Regulatory Agreement.

# Non-Profit Project Audited Financial Statement Submissions

- **Non-profit owners** with unpaid principal balances of \$750,000, *or more at any time during the owner's fiscal year*, are subject to the **Single Audit Act (SAA)**. For more information about SAA filing requirements, see 2 CFR, subpart F.
- While filing audited Financial Statements through REAC FASS satisfies ORCF program guidance, auditees subject to the SAA must also submit audits to the Federal Audit Clearinghouse (FAC) [Federal Audit Clearinghouse - Home \(census.gov\)](https://www.census.gov/auditclearinghouse/)
- SAA submissions to the FAC must reference an **Assistance Listing Number (ALN)**.  
*Note-the acronym ALN has just recently replaced the more commonly known Code of Federal Domestic Assistance (CFDA) number.*
- **The correct ALN for all ORCF projects is 14.129.** For example, a Section 232 pursuant to Section 223(f) would use the Section 232 ALN of 14.129, *not* the MFH ALN for 223(f)s.
- As noted on the FAC website, the Federal Audit Clearinghouse now requires filers to use a **Unique Entity Identifier (UEI) in lieu of an EIN**. You can find more information about the UEI on the FAC FAQ page [Federal Audit Clearinghouse - FAQs \(census.gov\)](https://www.census.gov/auditclearinghouse/faqs/)

# Tools for Comparing Underwriting Projections to Actual Performance

- Borrower/lender applicants endeavor to set revenue and expense expectations based on historical performance and additional information.
- Traditionally, AM has not had a ready means to compare on an ongoing basis a project's actual NOI and DSCR, the values that the Borrower, Lender and HUD anticipated when processing the deal.
- We've now gone back several years and entered the data in a way that allows us to readily compare projected and actual.
- This can help us discern concerning shifts/trends, relevant on a deal-specific basis and more broadly to loan origination and loan servicing



# Resources

# Email Blasts

- Receive Lean 232 Updates via ORCF's *Email Blasts*. The *Email Blasts* contain information relevant to all Section 232 stakeholders.
- To sign up, leave your email address at the following link:  
[https://www.hud.gov/federal\\_housing\\_administration/healthcare\\_facilities/residential\\_care/email\\_blast\\_signup](https://www.hud.gov/federal_housing_administration/healthcare_facilities/residential_care/email_blast_signup)

You'll receive an email message asking to confirm your registration. Upon confirmation, you will receive the *Email Blasts* when they are published.



# Changes to Lean Thinking

- On Monday, September 11, Lean Thinking became part of the HUD/FHA Resource Center.
- You will now receive an automated email response from the system acknowledging the receipt of the email and a service request number from a “donotreply” mailbox.
- When you receive your answer, it will be from a “donotreply” mailbox.
- If your question was escalated to the ORCF Team, you will receive an escalation email from the “donotreply” mailbox.
- If you have a follow-up question to the answer you received, it will be treated as a new request, and will be assigned a new service request number.

# Questions?

We will entertain some questions now, as time allows.

For Additional Questions

Please send to:

[LeanThinking@hud.gov](mailto:LeanThinking@hud.gov)

Thank you for joining us today!