

# Welcome to the Inaugural Healthcare Mortgagee Advisory Council Conference 2018



October 25 – 26, 2018



# Asset Management Update

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Moderator: Dale Becker, Walker & Dunlop  
Panelist: LaRue E. Johnson Jr., CBRE  
Panelist: Ken Morton, Discovery Field Inspections  
HUD/ORCF: Tim Gruenes, HUD ORCF  
HUD/ORCF: Phillip Head, HUD ORCF

# Asset Management Update - Topics

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- June 2018 St. Louis Lender/Service Summit
- September 2018 HUD OIG Report
- Section 232 Portal
- Section 232 REAC Inspection Primer



# June 2018 St. Louis Lender/Servicer Summit

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- Tracking Lender performance on servicing/asset management similar to Production
- Discussion of a requirement to have Lenders/Servicers submit a Quality Control Plan specific to servicing and asset management functions
- Discussion of instituting a control file concept for asset management
- Prepayment approvals and terminations
- Continued emphasis on the “Changes in Collateral” checklist
  - Phase I requirements for Changes in Collateral submissions



# June 2018 St. Louis Lender/Service Summit

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- Moving away from the “TPA” terminology (Full/Modified/Light)
  - “Change in Ownership”
- Strict enforcement of the 5 bps HUD TPA Review Fee for any transactions that constitute a “change of control”
- Mandatory use of the Lender Narrative
- Lender disclosure obligations
  - Operator/Service Risk Notification



# September 2018 HUD OIG Report

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- Audit Report was issued on September 17, 2018
- Audit Report Number: 2018-BO-0001
- Objective:

“Our audit objective was to determine whether HUD had sufficient financial information and used this information to adequately assess and monitor the financial status of the nursing homes.”



# September 2018 HUD OIG Report

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## Summary of Findings in Audit Report:

- The OIG was critical of delaying assignments/claims as borrowers, operators, and lenders worked on turnaround plans.
- The OIG was critical of how HUD ORCF and DEC followed up on Regulatory Agreement violations that were identified as a part of the review of annual audited financial statements.
- The OIG was critical of how HUD ORCF classified facilities as either troubled, potentially troubled, or not troubled.



# September 2018 HUD OIG Report

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## Summary of Findings in Audit Report:

- The OIG was critical of how HUD ORCF evaluated quarterly financial submissions for “accuracy, completeness, and timeliness.”
- The OIG was critical of how HUD ORCF and DEC, “had no policy to penalize operators and did not impose penalties on owners that did not submit accurate and complete data in a timely manner.”





# September 2018 HUD OIG Report

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The OIG was critical of delaying assignments/claims as borrowers, operators, and lenders worked on turnaround plans.

Question:

Are any policy changes planned to shorten the timetable for workouts? Denying extensions for election to assign?



# September 2018 HUD OIG Report

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The OIG was critical of how HUD ORCF and DEC followed up on Regulatory Agreement violations that were identified as a part of the review of annual audited financial statements.

Question:

Are any policy changes planned to pursue Regulatory Agreement violations related to financial submissions more aggressively?



# September 2018 HUD OIG Report

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The OIG was critical of how HUD ORCF classified facilities as either troubled, potentially troubled, or not troubled.

Question:

Are any policy changes planned to change how loans are classified? Can servicers expect that more loans will be moved to the ORCF Risk Mitigation team?



# September 2018 HUD OIG Report

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- The OIG was critical of how HUD ORCF and DEC, “had no policy to penalize operators and did not impose penalties on owners that did not submit accurate and complete data in a timely manner.”

## Question:

Are any policy changes planned to pursue borrowers, operators, or lenders for unsubmitted or inaccurate quarterly financial submissions?



# Asset Management – Section 232 Portal

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- Submission of Financials
  - New loans – Informed submission due first full quarter after closing
    - Loan with a 12.31.XX FYE closes in February – submit quarter ending 6.30.XX
    - Loan with a 5.31.XX FYE closes in October – submit quarter ending 2.28.XX
  - May lead to gaps in Data
  - Incorporate FYE to correctly show missing or overdue financials
    - Non 12.31.XX FYEs show up as missing in Upload Status Reporting
  - Develop concise exception reports to identify potentially troubled loans
    - YTD DSCR \ Quarterly DSCR \ Change in NOI \ Change in Days Utilized



# Asset Management – Section 232 Portal

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- Reserve for Replacement & Non Critical Repair Submissions
  - R4R – 7,148 transactions, average approval 4.6 days, 4,624 same day
  - NCR – 691 transactions, average approval 4.9 days, 200 same day
- Other Project Actions (OPAs)
  - New HUD-9807 Process
  - Goal being the mandatory submission via the portal of all OPAs
- Key Contacts
  - Technical Issues - Email [HHCP@hud.gov](mailto:HHCP@hud.gov)
  - Conceptual \ Enhancements – [Philip.Head@hud.gov](mailto:Philip.Head@hud.gov)



# Section 232 REAC Inspection Primer

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What is the REAC inspection?

- Inspections began in 1998
- All properties with HUD financial involvement are inspected
- Inspections are done 2 years post Initial Endorsement Date +/- 90 days
- Performed by HUD trained certified inspectors



# Section 232 REAC Inspection Primer

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## Golden Rules of the Inspection

- If it's there, it must operate as designed
- If it's repaired, it must be repaired to industry standards
- It's a "Picture in Time"





# Section 232 REAC Inspection Primer

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## Preparing for a REAC Inspection

- Consider obtaining a Pre-Inspection Prep “Expert”
- Consider developing an “Expert” within the organization
- Understand the major scoring items -TRIAGE!
- Consider obtaining a pre inspection Database Adjustment (DBA)



# Section 232 REAC Inspection Primer

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## The Day of the Inspection

- Make sure all residents and common area tenants are notified
- Have all required materials ready for the inspector upon arrival
- Have enough staff available to expedite the inspection
- Make sure you have access to ALL areas of the property - no exceptions!



# Section 232 REAC Inspection Primer

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## The Aftermath...

- Look for your score the day after the inspection
- Be prepared to request post inspection DBAs
- Consider working with an expert at post DBAs



# Section 232 REAC Inspection Primer

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Tips for filing DBAs:

[https://www.hud.gov/program\\_offices/  
public\\_indian\\_housing/react/products/pass/  
pass\\_guideandrule](https://www.hud.gov/program_offices/public_indian_housing/react/products/pass/pass_guideandrule)



# Section 232 REAC Inspection Primer

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## Technical Review

- ▶ [What is a Technical Review?](#)
- ▶ [How to submit a request for a Technical Review?](#)
- ▶ [What is the time limit for submitting a request for a Technical Review?](#)
- ▶ [What can be expected in response to a request for a Technical Review?](#)
- ▶ [Examples of appealed items and Appropriate Documentation](#)

## Database Adjustment

- ▶ [What is a Database Adjustment?](#)
- ▶ [How to submit a request for a Database Adjustment?](#)
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## Helpful Links

- ▶ [Exigent Health & Safety \(EHS\) Deficiencies](#)
- ▶ [25 Most Cited Deficiencies for Public Housing](#)
- ▶ [25 Most Cited Deficiencies for Multifamily Housing](#)
- ▶ [Technical Review and Database Adjustment Guideline](#)
- ▶ [PASS Library](#)
- ▶ [PASS Archive](#)

