

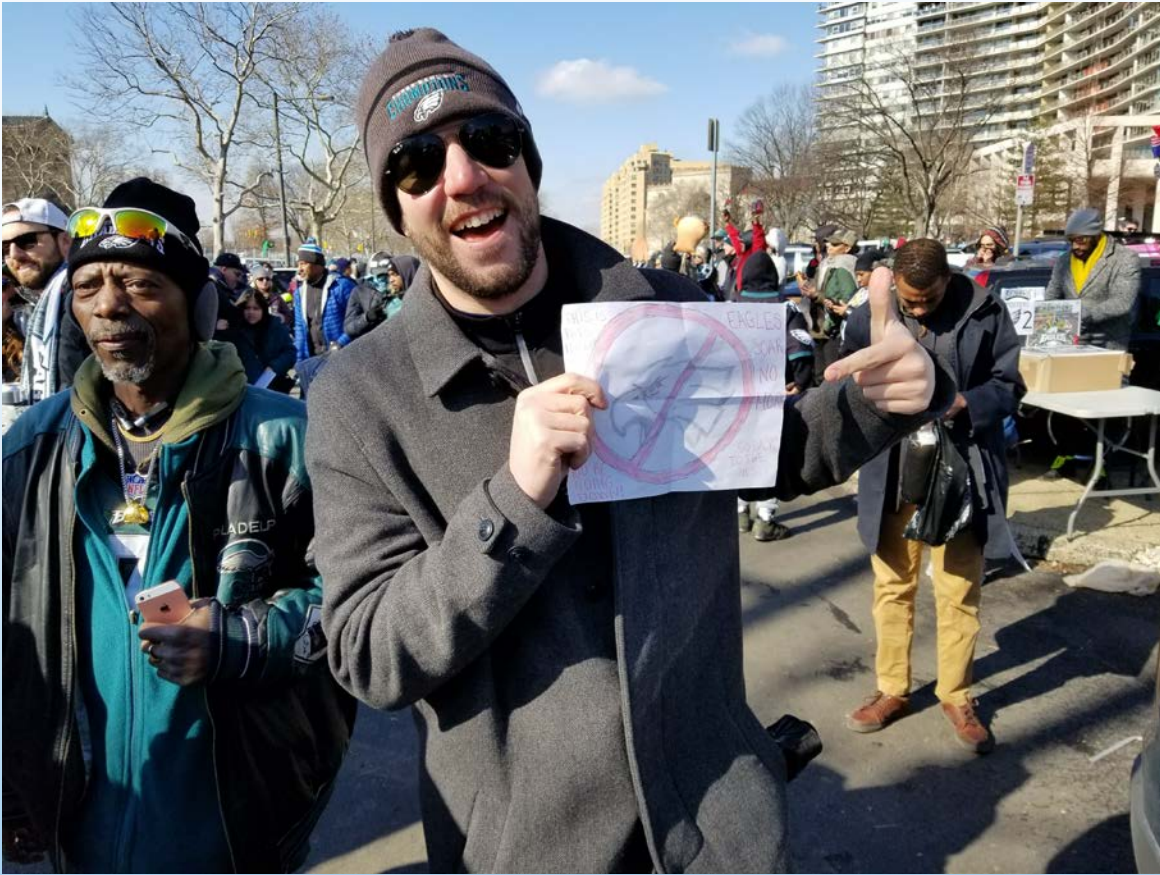
Asset Management in today's Office Space – I'm going to need those TPA reports...

Moderator: Angela Folkers, Love Funding
HUD/ORCF: Philip Head, Asset Management
Panelist: Dale Becker, Walker & Dunlop
Panelist: Debi Martin, Greystone & Co.

Minneapolis – US Bank Stadium – February 4, 2018



Before and After the Game...



The “Best” TPA and Change of Operator Submissions



The “Best” TPA and Change of Operator Submissions

- “Best” for the Lender and HUD
 - The deal makes sense
 - Risk mitigation
 - Happy client (Seller and Purchaser)
- “Best” for the Client
 - Execution time
 - Customer service / client satisfaction
 - Almost exclusively tied to execution time



The “Best” TPA and Change of Operator Submissions

- “Assumability” as a feature of the product type
- The clients and/or the collateral can suffer real negative consequences if a TPA or CHOW goes sideways
- TPAs and CHOWs as part of a risk mitigation strategy



The Lender as an “Active” Participant in TPAs/CHOWs



The Lender as an “Active” Participant in TPAs/CHOWs

- Advise the various stakeholders on the TPA/CHOW process
 - TPA/CHOW 101 for new HUD clients
 - Managing client expectations on timing
- Regular status update calls/messages/checklists
- Telling the story of the transaction
 - HUD ORCF TPA/CHOW Lender Narrative
- Coordinating communication between the client and HUD
- Getting the TPA/CHOW submission “HUD ready”



TPA/CHOW 101

- The importance of using HUD-experienced counsel
 - The difference between “Best” and poor outcomes
 - Transactional counsel + HUD counsel
 - For the Lender – 5 hours vs. 50 hours
- Managing expectations on timing
 - The first question that the client always asks
 - These are complex transactions
 - Appropriate time period for Lender and HUD reviews?



TPA/CHOW Timing

Transaction	UPB	HUD Approval (Days)	Facility Type	AR Financing?
Full TPA/CHOW	\$11.7 MM	35	AL/MC	No
Full TPA/CHOW	\$26.3 MM	9	SNF	No
Full TPA/CHOW	\$4.0 MM	35	AL	Yes
Full TPA/CHOW	\$16.8 MM	25	SNF	Yes
Full TPA/CHOW	\$1.6 MM	145	AL/MC	No

- Does not include large portfolios
- HUD Approval = Time from submission to HUD until issuance of the preliminary approval letter



How Do I Improve TPA/CHOW Timing?

- Meet with your HUD Account Executive prior to submission
 - Introduce the parties/stakeholders
 - Explain the transaction
 - Explain any transactional timing constraints
- Tell the story of the transaction
 - At a minimum – usable organizational charts
 - ORCF TPA/CHOW Lender Narrative
 - HUD-2530s via APPS vs. paper submissions
 - Make one complete submission and try not to supplement



How Do I Improve TPA/CHOW Timing?

- Getting the TPA/CHOW submission “HUD ready”
 - “Active” Lenders as more than just a conduit
 - Identify easy mistakes – is everything signed?
 - Make sure that the submission is tabbed correctly
 - Submission logistics – who needs a copy?
- Start thinking about closing prior to HUD approval



Room For Improvement?

- HUD TPA/CHOW Lender Narratives
- Legal review and relative priority
- Managing expectations on timing



Success Stories – Portfolio CHOWs

Portfolio Size	Collective UPB	# of Operators	# of States	HUD Approval
18 Facilities	\$110+ MM	4	3	<45 Days
9 Facilities	\$90+ MM	2	2	<45 Days

- Operators were in receivership
- Multiple Lenders (HUD and non-HUD)
- All Operators had AR financing
- Staged approvals by Operator



ORCF Risk Management



Oh, and remember : the HMAc Conference... we're doing an Office Space theme. So, you know, if you want to, go ahead and wear a suit and tie.

HMAc ANNUAL CONFERENCE
June 13-14, 2019



ORCF Risk Surveillance Dashboard – Key Metrics

EPD	MDDR	REAC	DSCR	DSCR	STAR Rating		Health Critical Tags		Fire Safety Critical Tags		SFF REPORT
Count	Days Delinquent	Score	T12 DSCR	Period Ending	Current	Previous	Survey Date	Scope Severity	Survey Date	Scope Severity	Date
48	2,570	68	(0.09)	9/30/2018							
10	379	None Reported	No Data	12/31/2016			2017-12-07	K	2018-08-01	C	
10	349	None Reported	No Data	12/31/2016			2018-07-17	J	2018-10-02	F	
11	1,961	None Reported	No Data	6/30/2016							
4	530	None Reported	No Data	9/30/2017							
2	469	77	No Data	9/30/2018	4	4			2016-09-16	F	
2	469	95	No Data	3/31/2016							
	803	79	No Data	9/30/2016			2018-06-06	L	2018-06-06	F	
	288	95	0.09	9/30/2018							
	104	83	(8.25)	12/31/2017	3	3			2018-09-14	F	
	73	82	(0.03)	9/30/2018							
	73	85	(0.07)	12/31/2018							
	1,657	80	(0.17)	3/31/2018							
	165	89	(0.48)	12/31/2018					2018-10-26	E	
	165	95	(0.10)	12/31/2018	5	5			2018-02-09	C	
	73	88	0.61	9/30/2018	3	3			2018-08-31	E	
	72	46	No Data	9/30/2018							
	73	86	0.66	9/30/2018							9/26/2018



ORCF– Portal Operator Reporting

- Quarterly operator data is a key element of the Risk Surveillance Dashboard
- We give DSCR a lot of attention as a project performance metric
- Data quality of operator submissions is currently a major concern
- Time spent by servicers ensuring data is correct and operators are submitting statements should allow lenders and HUD to focus on real concerns and not false alarms
- What would we like to see in the next iteration of the Portal for operator reporting?



ORCF Risk Management

**Servicer's Notification to
HUD of Risks to Healthcare
Project and Action Plan for
Remedy**
Section 232

U.S. Department of Housing
and Urban Development
Office of Residential
Care Facilities

OMB Approval No. 2502-0605
(exp. 06/30/2017)

Public reporting burden for this collection of information is estimated to average 0.5 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation that must be submitted to HUD for [approval](#) and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number. |

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Section 232 – Project Risk Notifications

The Office of Residential Care Facilities (ORCF) is responsible for asset and risk management of all Section 232 insured projects. Lenders/Servicers also provide routine reviews of these projects.



ORCF Risk Management

Financial Risk Metrics of Operator

Key indicators of the Operator financial statements will be used to monitor performance and to measure against future routine reviews. Typically the annual and quarterly reviews are all that are necessary for monitoring the financial operations of a project; however, HUD does reserve the right to require monthly financial reports (of the Operator, the Borrower, or both) to be submitted (to HUD, the Servicer or both) if financial indicators suggest this level of monitoring is needed or if noncompliance with HUD business agreements (by the Borrower, Operator or Management Agent) is suspected.

Key Questions

	Yes	No
1. Does the quarterly analysis of Operator financials indicate a debt service coverage ratio (DSCR) below 1.20?	<input type="checkbox"/>	<input type="checkbox"/>
a. If yes, has the DSCR dropped below 1.20 for two or more consecutive quarters? N/A	<input type="checkbox"/>	<input type="checkbox"/>
b. Has an action plan been established by the Operator? N/A	<input type="checkbox"/>	<input type="checkbox"/>
c. Has the Borrower been notified of the low DSCR? N/A	<input type="checkbox"/>	<input type="checkbox"/>
2. Has the DSCR dropped below 1.00 for two or more consecutive quarters? ..	<input type="checkbox"/>	<input type="checkbox"/>
a. If yes, has the Borrower been notified of the DSCR? N/A	<input type="checkbox"/>	<input type="checkbox"/>
b. If yes, has the action plan been reevaluated by the Operator? N/A	<input type="checkbox"/>	<input type="checkbox"/>



ORCF Risk Management

Type of notification (check all that apply; then click on hyperlink next to checkbox to immediately jump to that section of the narrative):

- | | |
|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Failure to File Financial Statements | <input type="checkbox"/> Accounts Receivable (AR) Loans |
| <input type="checkbox"/> Financial Risk Metrics of Operator | <input type="checkbox"/> Unauthorized Distributions |
| <input type="checkbox"/> Failure to Make Lease Payment | <input type="checkbox"/> Bankruptcy |
| <input type="checkbox"/> Default of Master Lease | <input type="checkbox"/> Professional Liability Insurance (PLI) |
| <input type="checkbox"/> Special Focus Facility (SFF) | <input type="checkbox"/> Fidelity Bond Coverage |
| <input type="checkbox"/> State Inspections | <input type="checkbox"/> Termination of Insurance |
| <input type="checkbox"/> Legal Judgments | <input type="checkbox"/> Delinquent Mortgage Payments <i>(after 29th day)</i> |
| <input type="checkbox"/> Threat to Abandon Project | <input type="checkbox"/> Other Circumstances |
| <input type="checkbox"/> REAC Inspections | |

IMPORTANT – Date lender/servicer notified of risk:



ORCF– Risk Management Routine

HUD AE's send Risk Surveillance Dashboard indicators to Servicer for high risk (troubled) or watch (potentially troubled) assets and schedule monthly meeting.

Servicers should compare indicators to their own watch lists and research HUD indicators



ORCF-Servicer Monthly Risk Meeting Goals

- Validate the risk. Correct false alarms or DQ issues (Portal quarterly submissions, etc.)
- Where risk is real, determine and document the root cause of the problem (i.e., not that census is low, but WHY is census low), and whether it appears to be a correctable problem
- Establish an action plan to address or mitigate the risk. Where action plans are already established, review progress. Is the situation improving, deteriorating, or staying the same?
- Where projects continue to deteriorate, amend the action plans, set clear deadlines for next actions, and escalate the strategy as needed (change of operator, DEC sanctions, penalties, etc.)



ORCF– Risk Management Routine

GUIDING PRINCIPLES:

- Time is of the essence. The earlier we are on top of risk, the more flexibility we have to deal with it
- There should be an action plan for every valid risk that is identified
- There should be time frames associated with every action plan to ensure ailing projects don't continue to deteriorate and linger unaddressed

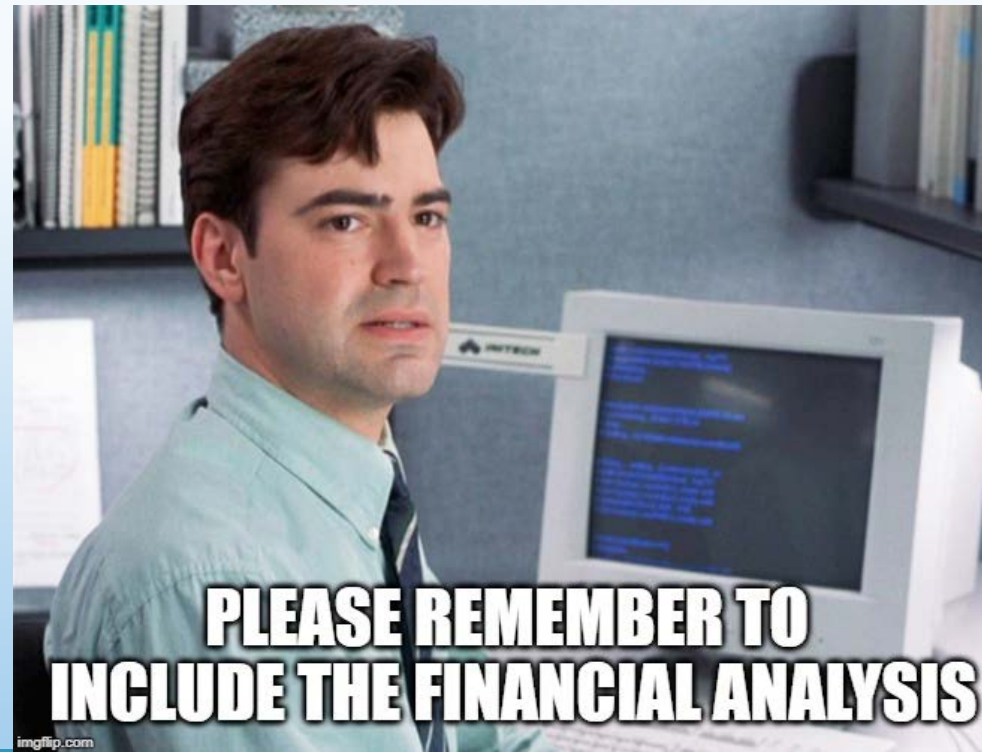


ORCF– Risk Management Routine

- Hope is not an action plan. Inaction only results in success in the movies.



Accounts Receivable Financial Analysis



HMAC ANNUAL CONFERENCE
June 13-14, 2019



Accounts Receivable Financial Analysis

Why is the analysis necessary?

- The analysis must be performed in order to determine the health of the facility and the ability to support the additional debt. There must be adequate NOI available for the additional interest & fees charged on the A/R loan. The A/R Loan amount should not exceed 85% of eligible receivables aged no more than 120-days.
- The analysis can be performed on an individual or a portfolio basis.
- Please note that the analysis required post closing is the same as what is required for A/R Financing when the loan is underwritten.



Analysis Process: The analysis must include the terms and conditions of the A/R loan, the proposed security for the loan, any fees that would be associated with the loan and the proposed interest rate for the loan.

Pull the current Accounts Receivable (A/R) Financing checklist and the Account Receivable Narrative Template from the HUD website. The checklist will provide you with all of the required documentation required for approval. The Narrative will guide you through all of the steps necessary for the submission to HUD for approval.

There are three items that must be used in order to complete your analysis:

1. The A/R Loan Documents
2. Ageing Receivables Report
3. T-12
 - Obtain T-12 operating statements and accounts receivables schedules for 0-90 days, 91-120 days, 121-150 days & 151+ days.
 - Determine your NOI for the T-12 operations and resulting debt service coverage ratio.
 - From the receivables schedule, split out all governmental receivables from other receivables for each period of time outline above.
 - The borrowing base should not exceed 85% of government receivables aged 120-days.



Accounts Receivable Financial Analysis

Special Situations:

In certain situations, HUD can approve extending the eligible receivables that are between 120-days and up to 180-days if there are circumstances that cause excessive delays in the governmental payor reimbursements and the delay in payment is impacting the project's financial viability.



Accounts Receivable (A/R) Financing

A/R Lender: _____
 A/R Borrower and
 FHA#: _____
 Maximum Loan Amount: \$ _____
 Current Balance: \$ _____
 Current Maturity Date: _____

Key Questions

complete questions using loan documents, financial analysis, and A/R Receivable analysis

	Yes	No
1. Does the A/R financing require any guarantees from the Owner, Operator, or Parent of the Operator?	_____	_____
2. Does the A/R financing involve multiple facilities and/or borrowers?	_____	_____
a. Does the A/R financing involve any non-FHA-insured properties?	_____	_____
b. Does the A/R financing involve facilities located in multiple States and/or HUD jurisdictions?	_____	_____
3. Is there an identity of interest between the A/R Lender and the A/R Borrower?	_____	_____
4. Is there any conflict of interest between the A/R Lender and the Mortgagor or its principals?	_____	_____
5. Does the maximum A/R loan amount exceed 85% of the Medicaid and Medicare accounts receivable less than 121 days old? (OIHCF Director may approve waiver from 120 days to 150 days if justified. OIHCF HQ must approve waiver over 150 days for special or unique circumstances.)	_____	_____
6. Are more than 30% of Medicaid and Medicare accounts receivable over 90 days old?	_____	_____
7. Does the AR Lender have less than 3 years experience in providing AR financing?	_____	_____
8. Does the AR Lender lack the financial controls and capability to monitor the Operator's performance?	_____	_____
9. Are the Mortgagor and Operator out of compliance with any business agreements with HUD? (i.e., in default on those agreements, not current on financial submissions, etc.)	_____	_____

If you answer "yes" to any of the above questions, please address below.

Terms and Conditions

<<Description of the significant terms and conditions of the A/R Loan, including (1) how the maximum A/R loan amount is determined (e.g., an amount up to XXX% of the net collectible value of A/R Borrowers accounts receivable due from eligible payors (e.g., Medicaid, Medicare) up to XXX days past the date of service); (2) Describe how receivables will be dated and lockbox accounts are to be managed (e.g., number of lockbox accounts, daily sweeps, etc.); (3) describe security interest in lockbox accounts; and, (4) describe any other pertinent terms and conditions affecting FHA/HUD's and the FHA Lender's security interests that are not discussed below.>>

Terms and Conditions: complete with information from loan documents

- Maximum amount of advances available during the term: \$ _____.
- Advances are limited to: (describe how maximum advance is determined) _____.

- Term: _____.
- Payment Terms/Financing Fees (Interest Only, etc): _____
- Late Payment Fees: _____
- Interest Rate on Unused line: _____

Mechanisms for Operator receipts, disbursements and control of operator funds:

Provide narrative description of flow of funds. Insert cash flow chart and use to complete section

PROGRAM GUIDANCE:

There shall be no material change in Operator's business or financial condition. There shall be no material default in any of Operator's obligations under any contract or compliance with applicable laws.

Describe the flow of all funds, into and out of lock box – point of origination and final destination.

Collateral / Security

Defined in Loan documents

<<describe the A/R Lender's Collateral/Security for the loans. Identify all assets in which the A/R Lender will be taking a security interest - for example, A/R Borrower's accounts receivable, provider agreements, etc.>>

Permitted Uses

Defined in Loan Documents

<<describe the permitted uses of the A/R loan funds. For example, transaction fees incurred in connection with the A/R Loan; refinancing existing debt; working capital needs in connection with their operations at the FHA-insured facilities; etc.>>

Payment Priorities

Defined in Loan documents

<<describe the payment priority of A/R funds in priority order. For example, (1) to pay the "Obligations" (as defined in the A/R loan agreement) then due under the A/R loan agreement; (2) to pay A/R Borrower's costs of operations, including but not limited to rent, payroll, taxes, management fees, etc.; (3) distributions to equity holders, but only to the extent expressly permitted by the terms of the A/R loan agreement. The payment priority provisions will also be addressed in the Intercreditor Agreement and Rider to Intercreditor Agreement (collectively, the "Intercreditor Documents") to be executed between A/R Lender and Lender. The Intercreditor Documents are under review by HUD legal counsel and are subject to HUD approval.>>

PROGRAM GUIDANCE:

Attachment C of Notice 08-09, Rider to Intercreditor, para. 3 – states in part the following: (i) first, to pay current debt service obligations to AR Lender, (ii) second, to pay Lessee's costs of operations including, but not limited to, rent and all other payment obligations due under its Lease with Landlord, payroll and payroll taxes, ordinary maintenance and repairs and management fees ("Current Operating Costs") and (iii) (third) after the payment of Current Operating Costs, subject to applicable restrictions in the AR Lender Loan Documents and Lessee Regulatory Agreement, AR Advances may be distributed to Lessee's shareholders, partners, members or owners, as the case may be.

Interest Rate Defined in loan documents

<<Indicate the fixed rate or clearly describe how the floating interest rate is determined, include the base rates or index, the spread over the base rate, and any minimum/maximum rate limitations.>>

Fees Defined in loan documents

<<describe the fees associated with the A/R loan that the A/R Borrower is required to pay. The list of fees should clearly identify one-time origination fees; ongoing fees associated with the loan (e.g., unused line fees or annual renewal fees); late payment; early termination; and any other significant charges. If appropriate, provide the historical A/R loan costs at the facility for the YTD and last 3 fiscal years.>>

Financial Analysis

<<provide a financial analysis that demonstrates that the A/R Borrower and the facilities involved with the A/R loan have sufficient financial capacity to pay all operating expenses, A/R financing costs and loan payments; and all rent and/or debt service payments. The analysis should include the following items: (1) overall lending capacity for each facility involved; (2) description of assumptions regarding A/R loan amount, interest rate, annual expenses, etc. (this should assume maximums to stress test the A/R financing); (3) an analysis of the Operator's 12-month trailing operating statements (see below) and the impact the of the A/R financing; (4) a comparison of the 12-month trailing NOI to the original or proposed underwriting of the NOI for the FHA loan (as applicable); (5) the impact on the Mortgagor's debt coverage after payment of the A/R Loan expenses and payments; and, (6) any additional financial analysis need to support the feasibility of the A/R loan for the facilities involved.>>

<<Note: This section is likely to be provided by the FHA Lender(s). If there are multiple FHA Lenders involved, each lender will need to provide an analysis for their respective loans based on a pro rata assumption of each facilities contribution to the total A/R loan capacity.>>

<<An Example Lending Capacity Analysis is below.

use Aging Receivables report to complete below table.

Accounts Receivable Aging

(Double click inside the Excel Table to add information.)

	0-90 days	91-120 days	121-150 days	151+ days	% 91+ days
Medicare					
Medicaid					
Other Govt					
Subtotal	\$ -	\$ -	\$ -	\$ -	
Non-Govt*					
Total	\$ -	\$ -	\$ -	\$ -	

*Non Govt. is considered when determining HUD's maximum A/R loan amount.

#DIV/0! of Medicare, Medicaid, and Other Government A/R less than 121 days old is over 90 days old.

\$ - HUD Maximum Loan Amt = 85% of Medicare, Medicaid, and Other Govt A/R 120 or less days old.

A/R Lender Maximum Loan Amount A/R Lender Maximum Loan Amount is the Lesser of A/R Loan or 85% of eligible receivables as defined by HUD.

<<An Example Financial Analysis is below.

Assuming the \$1.2M maximum A/R loan limit and an annual interest rate of 8.0% and that the entire amount is outstanding for the year infers an annual interest expense of \$100,000. In addition to the interest, the other ongoing fee is the collateral management fee, which would be a maximum of \$15,000 per year for the same assumed balance. An analysis of the Operator's 12 month trailing financial statement (XXX 2009 - XXX 2010) is below:

12-month Trailing Operating History

Operating Revenue	\$ 9,000,000
Operating Expenses	(7,000,000)
Net Operating Income (NOI)	\$ 2,000,000
Lease Expense / Rent	(1,200,000)
NOI After Lease	\$ 800,000
Non-Operating Revenue	\$ (10,000)
Non-Operating Expenses	(75,000)
Non-Operating Income (Expense)	\$ (85,000)
NOI Available for A/R Expenses	\$ 715,000
A/R Fee: Interest	(100,000)
A/R Fee: Collateral Management	(15,000)
NOI After A/R Expenses:	\$ 600,000

Use T-12 operating statements to complete and adjust for RE taxes, insurance, and RR as needed.

As shown above, there is more than sufficient NOI at the XXX facility to cover the recurring annual expenses associated with its portion of the A/R financing.

The original underwriting assumed an NOI of \$1,400,000. The 12-month trailing NOI is \$2,000,000. The annual debt service including the original MIP amount is \$725,000 per year. Adding the A/R fees equates to a total Debt Service & A/R expense of \$840,000 per year. The 12-month trailing NOI offers 2.38 coverage of the total Debt Service & A/R expense.

>>

Recommendation

<<The FHA Lender's recommendation that FHA accept the A/R Loan proposal.>>

ON BEHALF OF THE PANEL, I WAS TOLD...



...TO TELL YOU THANK YOU!

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