



HEALTHCARE MORTGAGEE ADVISORY COUNCIL
Financing Seniors Housing for America

UNDERWRITING IN UNCERTAIN TIMES

Moderator:	Daniel Barone, Walker & Dunlop
Panelist:	Susan Gosselin, HUD, ORCF
Panelist:	Ryan Miles, Dwight Capital
Panelist:	Kelly Cush, Walker & Dunlop

MODERATOR & PANELIST



DANIEL BARONE
MODERATOR

SVP – Chief Underwriter
Walker & Dunlop



SUSAN GOSSELIN
PANELIST

Deputy Director, Production
HUD / ORCF



RYAN MILES
PANELIST

Managing Director – Chief
Underwriter
Dwight Capital

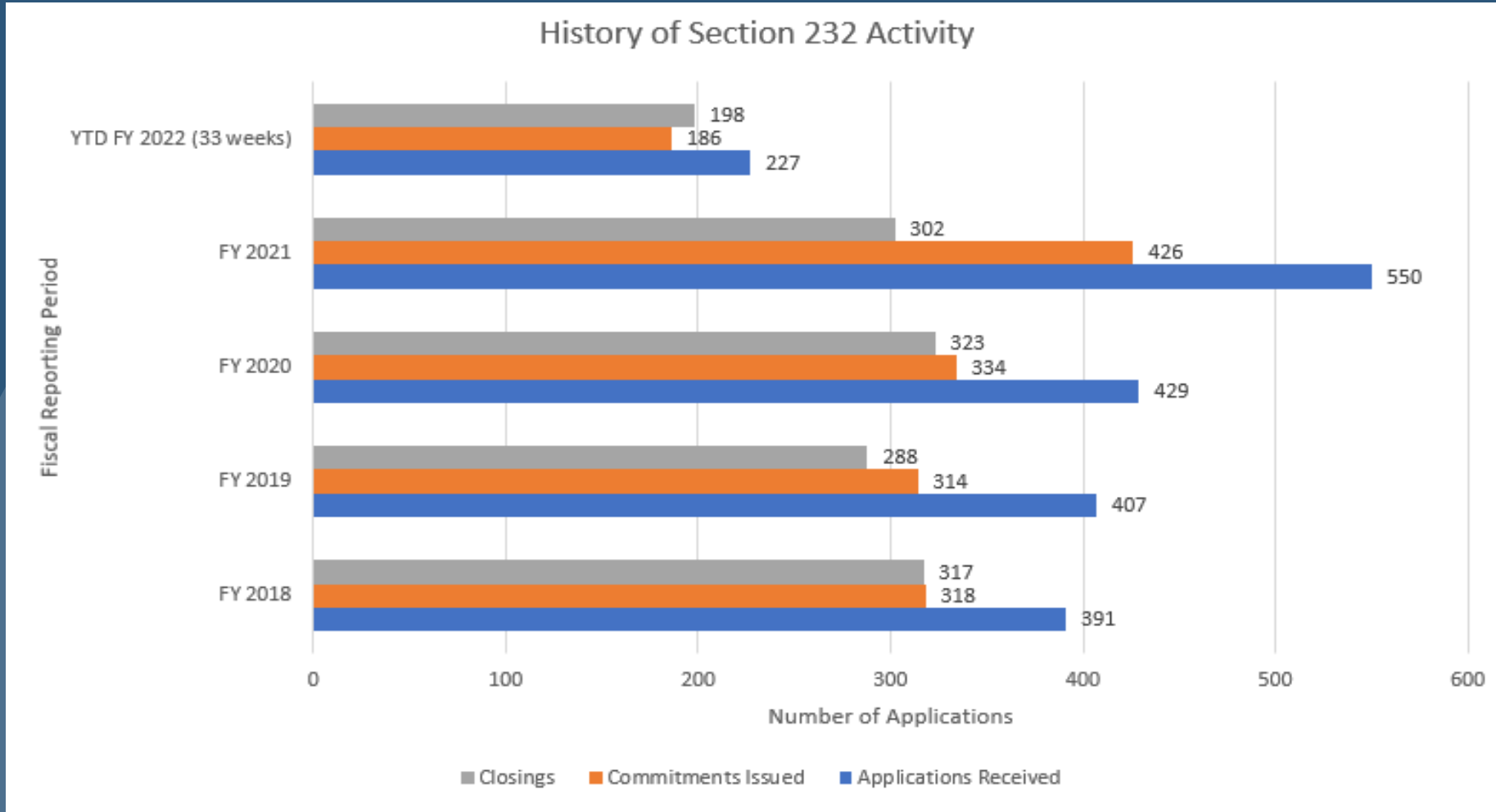


KELLY CUSH
PANELIST

Vice President – Deputy Chief
Underwriter
Walker & Dunlop

SUMMARY OF SECTION 232 ACTIVITY SINCE THE ONSET OF THE PANDEMIC

Overview of Applications, Commitments, and Closings Pre-COVID to Present:



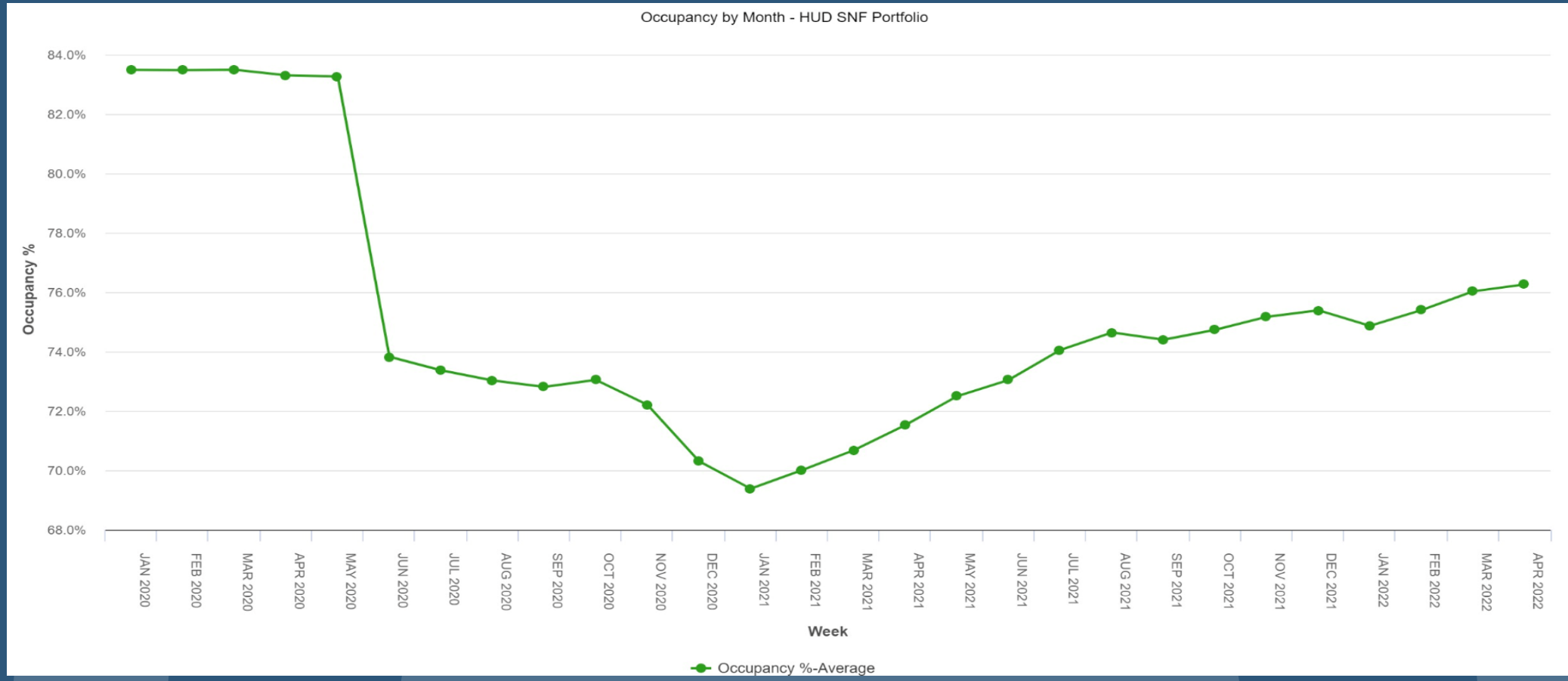
SUMMARY OF SECTION 232 ACTIVITY SINCE THE ONSET OF THE PANDEMIC

Commitments and Closings Since COVID-19:

- *Commitments issued since April 1, 2020:* **798**
- *Closings since April 1, 2020:* **673**
- *Commitments issued during the first 6 months of COVID-19:* **186**
- *Closings during the first 6 months of COVID-19:* **173**

HUD PORTFOLIO PERFORMANCE DURING COVID-19

Portfolio Occupancy by Month (January 2020 - April 2022):



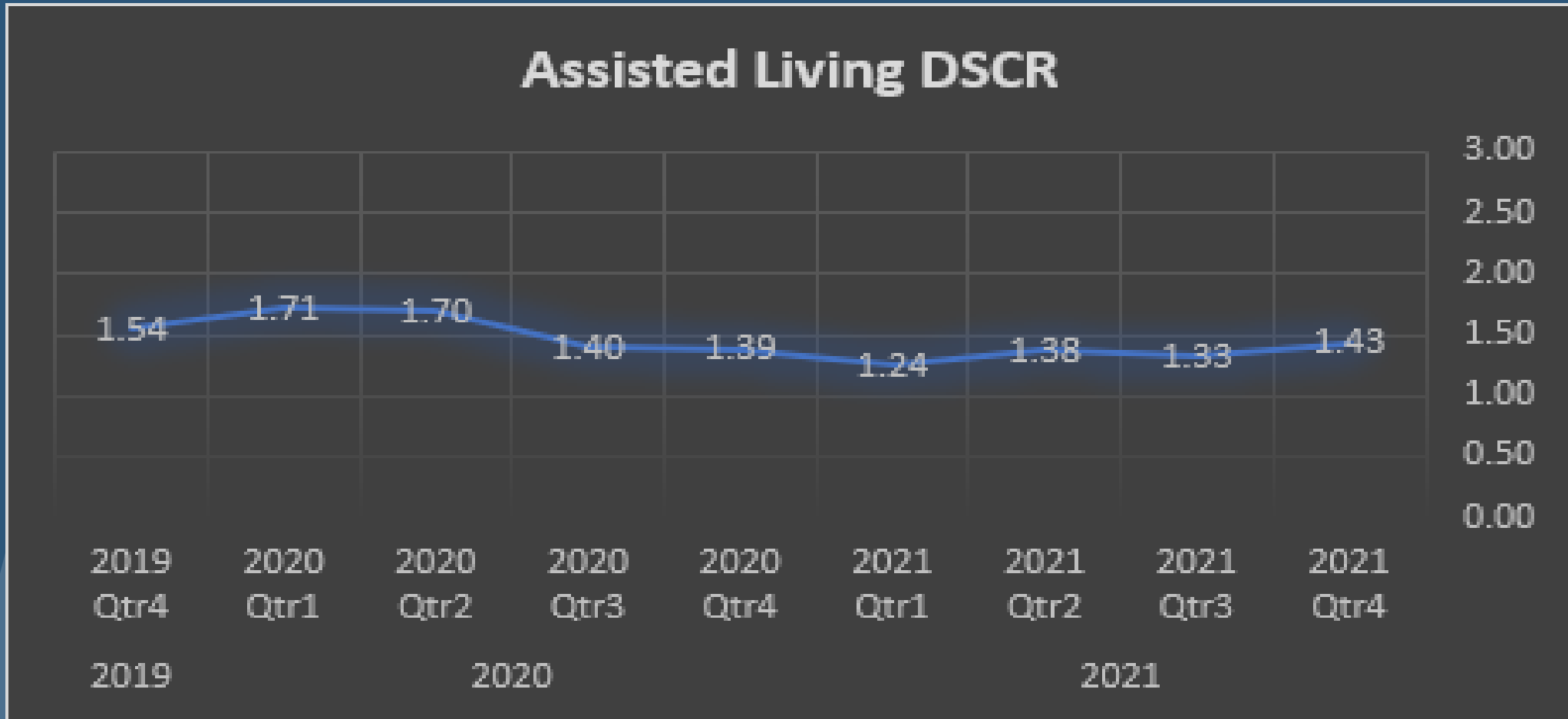
HUD PORTFOLIO PERFORMANCE DURING COVID-19

Portfolio DSCR by Quarter (Q4 2019 – Q4 2021):



HUD PORTFOLIO PERFORMANCE DURING COVID-19

Portfolio DSCR by Quarter (Q4 2019 – Q4 2021):



HUD PORTFOLIO PERFORMANCE DURING COVID-19

Portfolio DSCR by Quarter (Q4 2019 – Q4 2021):



DISCUSSION TOPICS

- Prominent Challenges Lenders are Facing
- ORCF Response and Guidance to Address these Challenges
- Best Practices Going Forward



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

PROMINENT CHALLENGES LENDERS ARE FACING

&

ORCF RESPONSES AND GUIDANCE TO ADDRESS THESE CHALLENGES



PROMINENT CHALLENGES

- Underwriting for the impact of COVID-19 on health care project operations
- Workload management
- Volatility in the current interest rate environment



CHALLENGE: IMPACT ON PROJECT OPERATIONS

- **Financial Health and Overall Profitability**
- **Staffing Concerns**
- **Quality of Care Issues**
- **Other General and State-Specific Risks**



CHALLENGE: IMPACT ON PROJECT OPERATIONS

Financial Health and Overall Profitability

Occupancy and Census Mix:

- Covid-19 Outbreaks
- Changes in Consumer Behavior
- Admission Suspensions
- Temporary Suspension of Elective Surgeries
- Staffing Shortages/ Staffing Fatigue
- 3-Day Stay Waiver Rule



CHALLENGE: IMPACT ON PROJECT OPERATIONS

Financial Health and Overall Profitability

Revenue

- Revenue loss due to declining occupancy
- COVID Stimulus Funds/Grants/Loans
- Rate Increases (COVID Add-ons)
- 3-Day Waiver Rule



CHALLENGE: IMPACT ON PROJECT OPERATIONS

Financial Health and Overall Profitability

Expenses

- Non-Recurring/extraordinary Covid-related expenses
- Variable expenses as a function of occupancy
- Overall increase on a PRD basis resulting from:
 - Increased cost of labor/staffing
 - New and ongoing expenses resulting from Covid-19
 - Supply chain issues



Looking Beyond 2020 Data

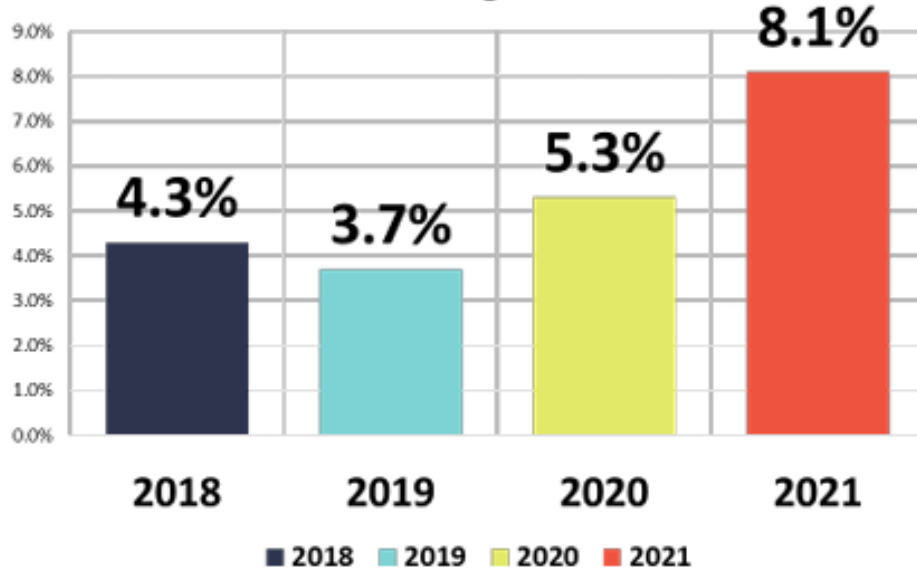
Nursing Average Hourly Wages: 2021 Year Ends*

Overall Nursing

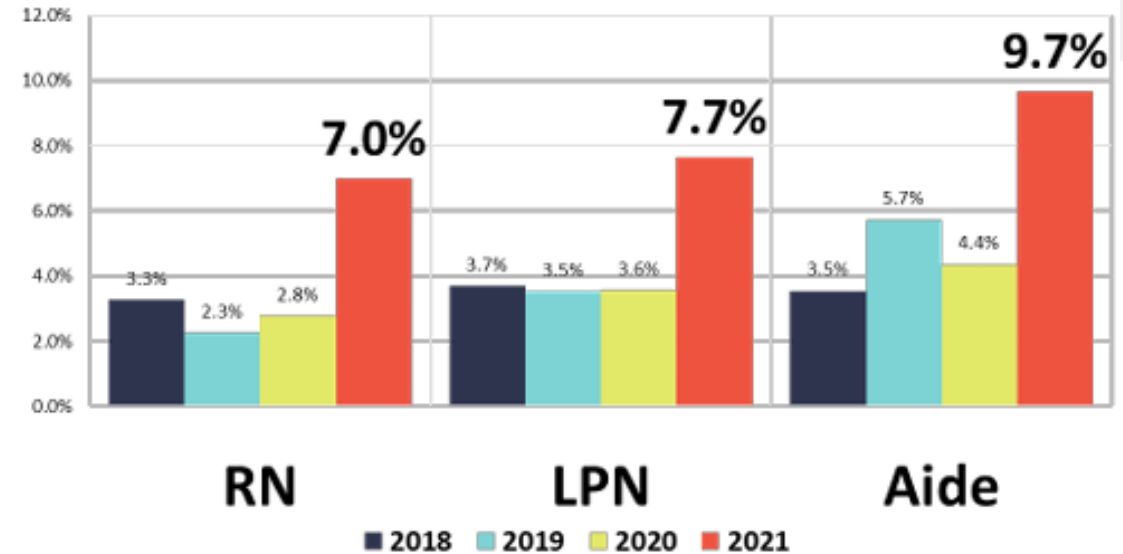


Nursing by Discipline

Growth Rate in Total Average Hourly Nursing Wage



Average Wage per Compensated Hour By Nursing Discipline

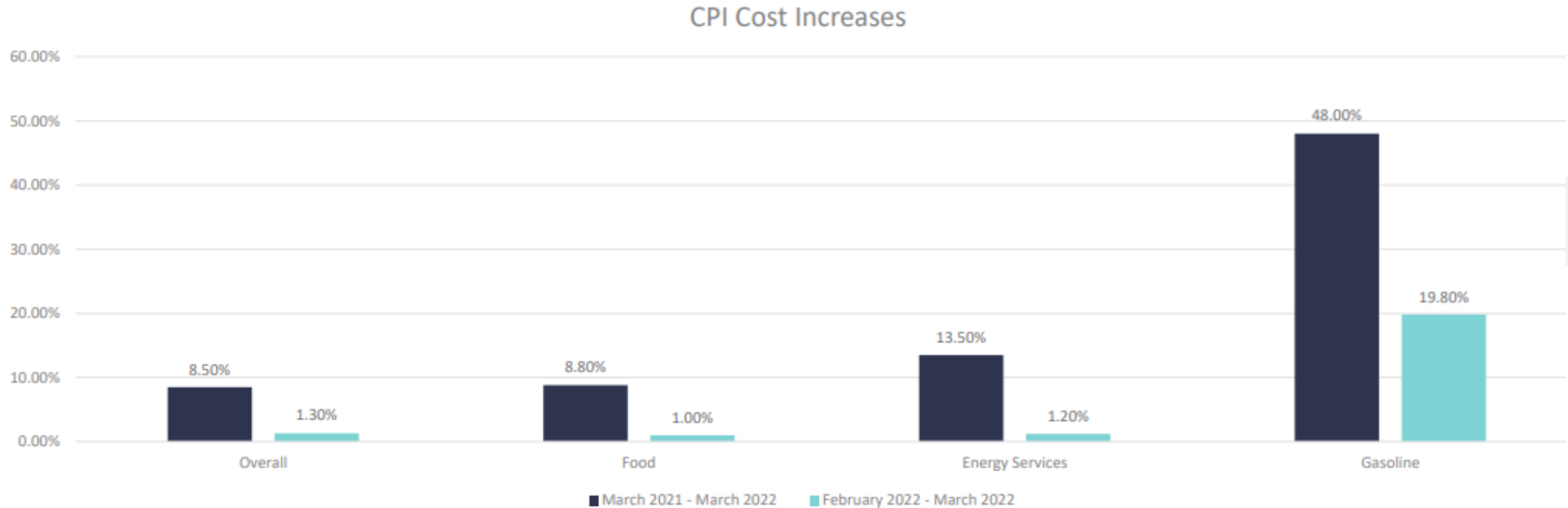


* based on public data on FYE 2021 cost reports released by CMS on 1/12/2022. Includes primarily FYE through June.

Avg Wage Rate increases at all levels doubled in 2021!

Source: [State of SNF Industry](#) –report prepared by CLA in March 2022

Goods and Services – Inflationary Impact



Data shows **annual** overall inflation from March 2021 to March 2022 of 8.5% and additional **monthly** increase from February 2022 to March 2022 of 1.30%. The continued increase in costs of goods and services to skilled nursing facilities will further erode financial margins and potential access to care.

<https://www.bls.gov/news.release/cpi.t01.htm>

Source: [State of SNF Industry – In-Depth Analysis on Increasing Costs and Local Impact](#) report prepared by CLA in May 2022

ORCF RESPONSES AND GUIDANCE



U.S. Department of
Housing and Urban Development

COVID-19 Lender Narrative Addendum, Borrower's COVID-19 Certification

- Required on all transactions
- Certification completed and signed by Owner/Operator
- Narrative addendum completed by Lender
- Do not complete until instructed by reviewing Underwriter
- Typically required just prior to HUD loan committee and again just prior to rate lock

ORCF RESPONSES AND GUIDANCE



U.S. Department of
Housing and Urban Development

OFFICE OF RESIDENTIAL CARE FACILITIES

LEAN 232 UPDATE

COVID-19 Cash Flow Stress Test

- Required on 232/223(f) transactions
- Clarification on instructions for completion provided in the [6/30/2021 Lean Blast](#)
 - Follow instructions provided in the first tab of the Excel workbook
 - Exclude any Covid-related revenues
 - Input actual monthly operating expenses
 - One-time, non-recurring Covid-related expenses may be removed, but ongoing, recurring expenses must be included

Approvable Cash Flow Stress Test Examples:

Ex. 1 – Occupancy and DSCR has re-stabilized back to underwritten level

Period	Actual (T-minus 4)				Actual (T-minus 3)				Actual (T-minus 2)				Actual (most recent)				Test Scenario (based on monthly averages)				Appraisal (divided by 12)			
	Aug-21				Sep-21				Oct-21				Nov-21				Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day
Income Source	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day
Effective Gross Income	\$766,505	100.0%	2,179	\$351.77	\$714,670	100.0%	2,118	\$337.43	\$843,638	100.0%	2,329	\$362.23	\$846,521	100.0%	2,290	\$369.66	\$664,332	100.0%	1,989	\$334.00	\$721,560	100.0%	2,281	\$316.33
Expense Sub-total (except 3 below)	\$557,803		2,179	\$255.99	\$532,543		2,118	\$251.44	\$624,836		2,329	\$268.29	\$645,037		2,290	\$281.68					\$538,872		0	#DIV/0!
Real Estate Taxes	\$3,632		2,179	\$1.67	\$3,503		2,118	\$1.65	\$3,838		2,329	\$1.65	\$3,833		2,290	\$1.67					\$4,993		0	#DIV/0!
Management Fees	\$43,414		2,179	\$19.92	\$38,826		2,118	\$18.33	\$27,018		2,329	\$11.60	\$29,332		2,290	\$12.81					\$36,078		0	#DIV/0!
Replacement Reserves	\$3,167		2,179	\$1.45	\$3,167		2,118	\$1.50	\$3,167		2,329	\$1.36	\$3,167		2,290	\$1.38					\$2,917		0	#DIV/0!
Total Expenses	\$608,016	79.3%	2,179	\$279.03	\$578,039	80.9%	2,118	\$272.92	\$658,859	78.1%	2,329	\$282.89	\$681,369	80.5%	2,290	\$297.54	582,267	87.6%	0	\$283.10	\$582,860	80.8%	2,281	\$255.53
Net Operating Income	\$158,489	20.7%	2,179	\$72.73	\$136,631	19.1%	2,118	\$64.51	\$184,779	21.9%	2,329	\$79.34	\$165,152	19.5%	2,290	\$72.12	\$82,065	12.4%	0		\$138,700	19.2%	2,281	\$60.81
Proposed Debt Service	\$ 35,708	4.44 DSCR			\$ 35,708	3.83 DSCR			\$ 35,708	5.17 DSCR			\$ 35,708	4.63 DSCR			\$ 35,708	2.30 DSCR			\$ 35,708	3.88 DSCR		
EBITARM	\$122,781	16.0%	2,179	\$56.35	\$100,923	14.1%	2,118	\$47.65	\$149,071	17.7%	2,329	\$64.01	\$129,444	15.3%	2,290	\$56.53	\$46,357	7.0%	0		\$102,992	14.3%	2,281	\$45.15
Total Beds			100				100					100								100				
Days			31				30					31								30				
Potential # Res Days	70.3% occupancy		3,100		70.6% occupancy		3,000		75.1% occupancy		3,100		76.3% occupancy		3,000		65.4% occupancy		3,042		75.0% occupancy		3,042	
Actual # Res Days			2,179				2,118				2,329				2,290					1,989			2,281	

Approvable Cash Flow Stress Test Examples:

Ex. 2 – While not yet at UW level, occupancy and DSCR are trending in that direction.

Period	Actual (T-minus 4)				Actual (T-minus 3)				Actual (T-minus 2)				Actual (most recent)				Test Scenario (based on monthly averages)				Appraisal (divided by 12)			
	Sep-21		Oct-21		Nov-21		Dec-21		Sep-21		Oct-21		Nov-21		Dec-21		Sep-21		Oct-21		Nov-21		Dec-21	
	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day
Income Source																								
Effective Gross Income	\$981,727	100.0%	5,874	\$167.13	\$1,026,752	100.0%	6,118	\$167.82	\$1,021,920	100.0%	5,981	\$170.86	\$1,044,792	100.0%	6,181	\$169.03	\$951,946	100.0%	5,861	\$162.42	\$1,055,411	100.0%	6,382	\$165.37
Expense Sub-total (except 3 below)	\$751,076		5,874	\$127.86	\$758,768		6,118	\$124.02	\$742,224		5,981	\$124.10	\$732,749		6,181	\$118.55					\$775,250		0	#DIV/0!
Real Estate Taxes	\$26,187		5,874	\$4.46	\$26,187		6,118	\$4.28	\$26,187		5,981	\$4.38	\$26,187		6,181	\$4.24					\$26,417		0	#DIV/0!
Management Fees	\$71,547		5,874	\$12.18	\$95,549		6,118	\$15.62	\$99,377		5,981	\$16.62	\$84,235		6,181	\$13.63					\$52,771		0	#DIV/0!
Replacement Reserves	\$7,288		5,874	\$1.24	\$7,288		6,118	\$1.19	\$7,288		5,981	\$1.22	\$7,288		6,181	\$1.18					\$6,504		0	#DIV/0!
Total Expenses	\$856,098	87.2%	5,874	\$145.74	\$887,792	86.5%	6,118	\$145.11	\$875,076	85.6%	5,981	\$146.31	\$850,459	81.4%	6,181	\$137.59	854,296	89.7%	0	\$143.69	\$860,942	81.6%	6,382	\$134.90
Net Operating Income	\$125,629	12.8%	5,874	\$21.39	\$138,960	13.5%	6,118	\$22.71	\$146,844	14.4%	5,981	\$24.55	\$194,333	18.6%	6,181	\$31.44	\$97,650	10.3%	0		\$194,469	18.4%	6,382	\$30.47
Proposed Debt Service	\$ 64,043	1.96 DSCR			\$ 64,043	2.17 DSCR			\$ 64,043	2.29 DSCR			\$ 64,043	3.03 DSCR			\$ 64,043	1.52 DSCR			\$ 64,043	3.04 DSCR		
EBITARM	\$61,586	6.3%	5,874	\$10.48	\$74,917	7.3%	6,118	\$12.25	\$82,801	8.1%	5,981	\$13.84	\$130,290	12.5%	6,181	\$21.08	\$33,607	3.5%	0		\$130,426	12.4%	6,382	\$20.44
Total Beds			223				223				223				223				223				223	
Days			30				31				30				31				30				30	
Potential # Res Days	87.8% occupancy		6,690		88.5% occupancy		6,913		89.4% occupancy		6,690		89.4% occupancy		6,913		86.4% occupancy		6,783		94.1% occupancy		6,783	
Actual # Res Days			5,874				6,118				5,981				6,181				5,861				6,382	

Approvable Cash Flow Stress Test Examples:

Ex. 3 – Facility is better managing expenses in the more recent months.

Period	Actual (T-minus 4)				Actual (T-minus 3)				Actual (T-minus 2)				Actual (most recent)				Test Scenario (based on monthly averages)				Appraisal (divided by 12)											
	Dec-21				Jan-22				Feb-22				Mar-22				Source Total		% of EGI		# of Days		Per Day		Source Total		% of EGI		# of Days		Per Day	
Income Source	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day	Source Total	% of EGI	# of Days	Per Day
Effective Gross Income	\$695,212	100.0%	2,351	\$295.71	\$801,022	100.0%	2,361	\$339.27	\$671,388	100.0%	2,074	\$323.72	\$656,651	100.0%	2,233	\$294.07	\$448,119	100.0%	2,258	\$198.46	\$635,300	100.0%	2,190	\$290.09	\$635,300	100.0%	2,190	\$290.09	\$635,300	100.0%	2,190	\$290.09
Expense Sub-total (except 3 below)	\$573,681		2,351	\$244.02	\$593,825		2,361	\$251.51	\$543,124		2,074	\$261.87	\$499,054		2,233	\$223.49					\$461,183		0	#DIV/0!	\$461,183		0	#DIV/0!	\$461,183		0	#DIV/0!
Real Estate Taxes	\$11,087		2,351	\$4.72	\$11,087		2,361	\$4.70	\$12,275		2,074	\$5.92	\$12,275		2,233	\$5.50					\$12,492		0	#DIV/0!	\$12,492		0	#DIV/0!	\$12,492		0	#DIV/0!
Management Fees	\$39,236		2,351	\$16.69	\$33,450		2,361	\$14.17	\$31,630		2,074	\$15.25	\$31,630		2,233	\$14.16					\$31,765		0	#DIV/0!	\$31,765		0	#DIV/0!	\$31,765		0	#DIV/0!
Replacement Reserves	\$7,188		2,351	\$3.06	\$7,188		2,361	\$3.04	\$7,188		2,074	\$3.47	\$7,188		2,233	\$3.22					\$2,333		0	#DIV/0!	\$2,333		0	#DIV/0!	\$2,333		0	#DIV/0!
Total Expenses	\$631,192	90.8%	2,351	\$268.48	\$645,550	80.6%	2,361	\$273.42	\$594,217	88.5%	2,074	\$286.51	\$550,147	83.8%	2,233	\$246.37	356368	79.5%	0	\$268.69	\$507,773	79.9%	2,190	\$231.86	\$507,773	79.9%	2,190	\$231.86	\$507,773	79.9%	2,190	\$231.86
Net Operating Income	\$64,020	9.2%	2,351	\$27.23	\$155,472	19.4%	2,361	\$65.85	\$77,171	11.5%	2,074	\$37.21	\$106,504	16.2%	2,233	\$47.70	\$91,751	20.5%	0		\$127,527	20.1%	2,190	\$58.23	\$127,527	20.1%	2,190	\$58.23	\$127,527	20.1%	2,190	\$58.23
Proposed Debt Service	\$ 47,082	1.36 DSCR			\$ 47,082	3.30 DSCR			\$ 47,082	1.64 DSCR			\$ 47,082	2.26 DSCR			\$ 47,082	1.95 DSCR			\$ 47,082	2.71 DSCR			\$ 47,082	2.71 DSCR			\$ 47,082	2.71 DSCR		
EBITARM	\$16,938	2.4%	2,351	\$7.20	\$108,390	13.5%	2,361	\$45.91	\$30,089	4.5%	2,074	\$14.51	\$59,422	9.0%	2,233	\$26.61	\$44,669	10.0%	0		\$80,445	12.7%	2,190	\$36.73	\$80,445	12.7%	2,190	\$36.73	\$80,445	12.7%	2,190	\$36.73
Total Beds			80				80					80								80								80				
Days			31				31					28								30							30					
Potential # Res Days	94.8% occupancy		2,480		95.2% occupancy		2,480		92.6% occupancy		2,240		90.0% occupancy		2,480		92.8% occupancy		2,433		90.0% occupancy		2,433		90.0% occupancy		2,433		90.0% occupancy		2,433	
Actual # Res Days			2,351				2,361				2,074				2,233					2,258							2,190				2,190	

ORCF RESPONSES AND GUIDANCE



U.S. Department of
Housing and Urban Development

OFFICE OF RESIDENTIAL CARE FACILITIES

LEAN 232 UPDATE

COVID-19: Underwriting and Appraisal /Considerations

- Medicaid rate increases are discussed in the [8/27/2021 Lean Blast](#)
 - ORCF will consider recent Medicaid rate increases relative to underwritten NOI when it reflects a standard, ongoing rate increase
 - Lenders can present any Medicaid rate adjustments in the yellow UW columns on the “Rev Sum” and “Hist Exp” tabs of the DC that applies the new Medicaid rate to the most recent T-12 period:

Key Data	FY 2018	FY 2019	FY 2020	T-12 ending 11/30/2020	Appraisal (Market)	Lender's DSC	T-12 Ending 3/31/2021	T-12 Ending 5/31/2021	T-12 Ending 5/31/2021 (Medicaid Rate Adj)
Effective Gross Income	\$16,487,772	\$17,006,567	\$16,239,592	\$15,896,725	\$17,542,174	\$17,542,174	\$15,218,366	\$15,562,895	\$15,872,204
Net Operating Income	\$1,543,074	\$1,174,834	\$1,217,264	\$1,548,939	\$2,614,718	\$2,576,270	\$2,014,382	\$2,425,557	\$2,734,865
Normalized Net Operating Income	\$2,064,821	\$1,527,212	\$1,561,519	\$1,898,806	\$2,614,718	\$2,576,270	\$2,374,531	\$2,800,695	\$3,094,538
Occupancy	92.8%	90.9%	86.0%	84.5%	90.0%	90.0%	79.2%	80.0%	80.0%
Potential # Res Days	57,305	57,305	57,462	57,462	57,305	57,305	57,305	57,305	57,305
Actual # Res Days	53,161	52,080	49,407	48,543	51,575	51,575	45,359	45,869	45,869

ORCF RESPONSES AND GUIDANCE



U.S. Department of
Housing and Urban Development

OFFICE OF RESIDENTIAL CARE FACILITIES

LEAN 232 UPDATE

COVID-19: Underwriting and Appraisal /Considerations

- Medicaid rate increases are discussed in the [8/27/2021 Lean Blast \(Cont.\)](#)
 - Alternatively, Lenders can provide a separate analysis that shows the calculation of the additional revenue the new Medicaid rate will contribute to the NOI:

Average # of Medicaid Days	29,000
Incremental Medicaid Rate Increase	\$ 20.00
Incremental EGI	\$ 580,000
Projected NOI with Medicaid Rate Increase	\$ 2,380,000

ORCF RESPONSES AND GUIDANCE



U.S. Department of
Housing and Urban Development

OFFICE OF RESIDENTIAL CARE FACILITIES

LEAN 232 UPDATE

COVID-19: Underwriting and Appraisal /Considerations

- Financials Tables and NOI (refer to [8/27/2021](#) and [2/23/2022 Lean Blasts](#))
 - Historical Columns:
 - ✓ Show actual historical financials including any temporary rates, expenses, or census changes.
 - ✓ Exclude large cap ex and stimulus funds.
 - Appraisal column - Should tie directly to appraisal.
 - Underwriting column:
 - ✓ Should reflect actual owner/operator and historic operations.
 - ✓ Do not include COVID revenue or non-recurring expenses.
 - ✓ Include ongoing increases in expenses that are anticipated to continue.

Examples of maximizing opportunity for use of optional periods in the DC:

Key Data	FY 2017	FY 2018	FY 2019	FY 2020	Appraisal (Market)	Lender's DSC	T-12 ending 4/30/2021	T-12 ending 9/30/2021	T-12 ending 10/31/2021
Effective Gross Income	\$27,217,014	\$28,694,526	\$31,160,603	\$29,770,738	\$30,600,039	\$30,600,039	\$29,930,436	\$30,463,763	\$31,005,969
Net Operating Income	\$5,774,940	\$5,235,911	\$7,600,334	\$6,234,203	\$6,203,361	\$6,062,800	\$6,276,078	\$6,618,166	\$6,608,267
Normalized Net Operating Income	\$5,027,809	\$4,484,355	\$6,664,503	\$6,083,314	\$6,203,361	\$6,062,800	\$6,234,848	\$6,549,651	\$6,493,710
Occupancy	95.4%	95.1%	95.4%	87.1%	95.0%	95.0%	84.6%	86.9%	87.1%
Potential # Res Days	87,600	87,600	87,600	87,600	87,600	87,600	87,600	87,600	87,600
Actual # Res Days	83,579	83,319	83,543	76,549	83,220	83,220	74,105	76,101	76,290

Key Data	FY 2018	T-9 Ending 9/30/2019	T-2 Ending 12/31/2019	FY 2020	Appraisal (Market)	Lender's DSC	T-12 ending 2/28/2021	T-12 ending 5/31/2021
Effective Gross Income	\$2,315,502	\$2,520,160	\$2,502,901	\$2,543,502	\$2,609,889	\$2,631,347	\$2,631,347	\$2,665,126
Net Operating Income	\$471,488	\$702,364	\$706,056	\$587,757	\$676,824	\$630,109	\$690,289	\$755,222
Normalized Net Operating Income	\$448,167	\$655,062	\$683,714	\$565,783	\$676,824	\$630,109	\$665,200	\$732,928
Occupancy	86.7%	94.3%	89.8%	88.2%	90.0%	95.0%	86.6%	86.0%
Potential # Res Days	21,535	21,535	21,535	21,594	21,535	21,535	21,535	21,535
Actual # Res Days	18,671	20,308	19,338	19,055	19,382	18,640	18,640	18,518

Examples of how NOT to use optional periods in the DC:

Financial columns should be presented in a predictable and consistent order:

Reporting periods should be in chronological order

Why no data for FY 2021?

Key Data	2017 Annualized	FY 2018	FY 2019	T-12 ending 4/30/2020	Appraisal (Market)	Lender's DSC	TTM February 2022	0	FY 2020
Effective Gross Income	\$1,119,926	\$1,005,074	\$1,165,126	\$1,193,548	\$1,261,277	\$1,233,755	\$1,171,882	\$0	\$1,046,304
Net Operating Income	\$383,194	\$185,826	\$309,605	\$324,781	\$353,273	\$297,851	\$333,225	-\$4,127	\$195,494
Normalized Net Operating Income	\$360,260	\$170,800	\$293,781	\$307,820	\$353,273	\$312,731	\$312,731	-\$4,400	\$180,807
Occupancy	86.2%	81.3%	89.9%	91.3%	93.2%	91.3%	82.0%	81.0%	75.7%
Potential # Res Days	16,060	16,060	16,060	16,060	16,060	16,060	16,060	16,060	16,060
Actual # Res Days	13,840	13,050	14,443	14,669	14,965	14,669	13,171	-	12,163

Delete this column

Examples of how NOT to use optional periods in the DC:

Financial performance should support project underwriting:

Key Data	FY 2018	2019 Annualized	FY 2020	T-12 ending 4/30/2021	Appraisal (Market)	Lender's DSC	T-12 ending 12/31/2021	T-12 ending 12/31/2021 actual exp.
Effective Gross Income	\$13,917,934	\$15,677,725	\$16,215,155	\$16,226,796	\$17,086,227	\$17,086,227	\$17,120,960	\$17,120,960
Net Operating Income	-\$1,188,732	\$2,040,969	\$1,636,788	\$1,571,499	\$2,369,672	\$2,284,672	\$1,562,735	\$1,413,335
Normalized Net Operating Income	-\$1,118,043	\$1,913,239	\$1,516,360	\$1,451,069	\$2,369,672	\$2,284,672	\$1,836,626	\$1,687,226
Occupancy	84.6%	86.1%	80.9%	76.7%	84.5%	84.5%	81.5%	81.5%
Potential # Res Days	73,000	73,000	73,200	73,000	73,000	73,000	73,000	73,000
Actual # Res Days	61,793	62,843	59,194	56,026	61,685	61,685	59,489	59,489

Examples of how NOT to use optional periods in the DC:

Do not present unnecessary projections:






Key Data	FY 2018	FY 2019	FY 2020	T-12 ending 7/31/2021	Appraisal (Market)	Lender's DSC	T-12 ending 7/31/2021 Medicaid Rate & 95% Occupancy Adj.	e.g. Adjusted	e.g. Stress Test
Effective Gross Income	\$27,993,134	\$28,777,609	\$26,671,197	\$29,464,293	\$30,782,577	\$31,657,069	\$31,657,069	\$0	\$0
Net Operating Income	\$3,593,582	\$5,412,975	\$4,005,391	\$6,971,804	\$7,316,349	\$9,062,734	\$9,164,580	\$0	\$0
Normalized Net Operating Income	\$2,889,208	\$5,173,957	\$3,771,156	\$6,742,171	\$7,316,349	\$9,062,734	\$8,836,272	-\$565,800	-\$565,800
Occupancy	98.4%	96.5%	85.9%	90.1%	95.0%	95.0%	95.0%	0.0%	0.0%
Potential # Res Days	94,170	94,170	94,428	94,170	94,170	94,170	94,170	-	-
Actual # Res Days	92,658	90,895	81,155	84,818	89,462	89,462	89,462	-	-


↑ ↑
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Examples of how NOT to use optional periods in the DC:

Do not present too many optional reporting periods:

	FY 2018	2019 Annualized	FY 2020	T-12 ending 5/31/2021	Appraisal (Market)	Lender's DSC	FY 2020 w/ COVID Adj.	FY 2020 w/ Medicaid Late COVID Adj.	T-12 ending 9/30/2021	T-12 ending 9/30/2021 excluding COVID Adj.	T-12 ending 12/31/2021 excluding COVID Rev.	T-12 ending 12/31/2021 excluding COVID Exp.
Key Data												
Effective Gross Income	\$7,787,842	\$7,893,035	\$6,781,159	\$6,960,568	\$9,243,160	\$7,077,007	\$6,781,159	\$7,145,883	\$7,120,808	\$7,558,097	\$7,558,097	\$7,558,097
Net Operating Income	\$441,945	\$788,624	\$394,618	\$720,418	\$1,779,540	\$1,718,277	\$1,146,644	\$1,511,368	\$1,273,326	\$2,303,533	\$1,538,760	\$1,878,238
Normalized Net Operating Income	\$225,266	\$603,112	\$534,734	\$956,650	\$1,779,540	\$1,718,277	\$1,212,403	\$1,358,891	\$1,491,090	\$2,303,626	\$1,538,760	\$1,878,238
Occupancy	78.3%	79.8%	56.4%	54.0%	84.0%	54.0%	56.5%	56.5%	54.6%	57.0%	57.0%	57.0%
Potential # Res Days	49,275	49,275	49,374	49,275	49,275	49,275	49,275	49,275	49,275	49,275	49,275	49,275
Actual # Res Days	38,583	39,321	27,837	26,612	41,392	26,612	27,837	27,837	26,910	28,067	28,067	28,067



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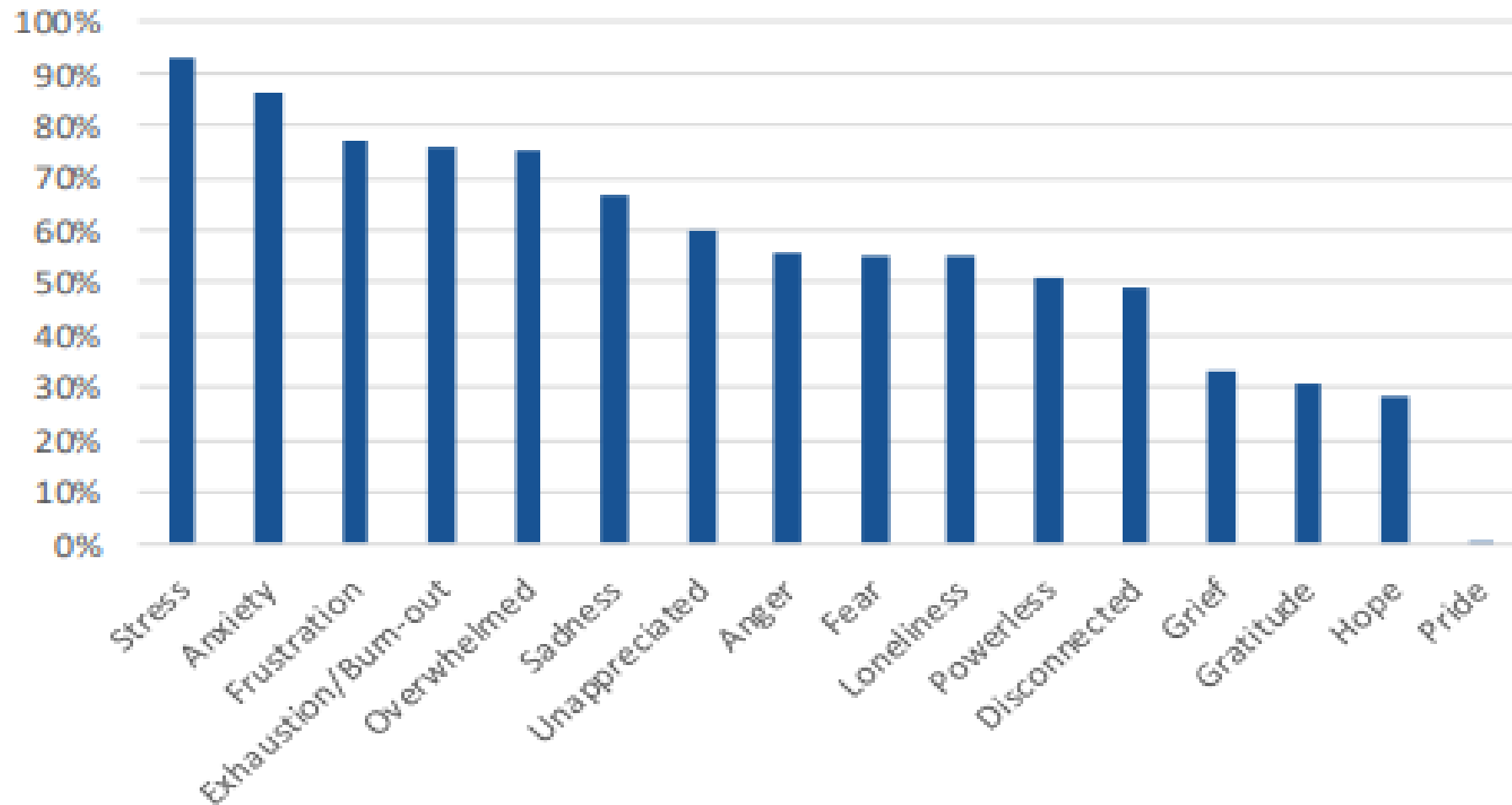
CHALLENGE: IMPACT ON PROJECT OPERATIONS

Staffing Concerns

- Covid-19 “Burnout” and Staffing Shortages
- Vaccination Mandates
- Increased Reliance on Outsourced Staffing
- Staff Turnover
- Waiver of Nursing Aide Training and Certification Requirements

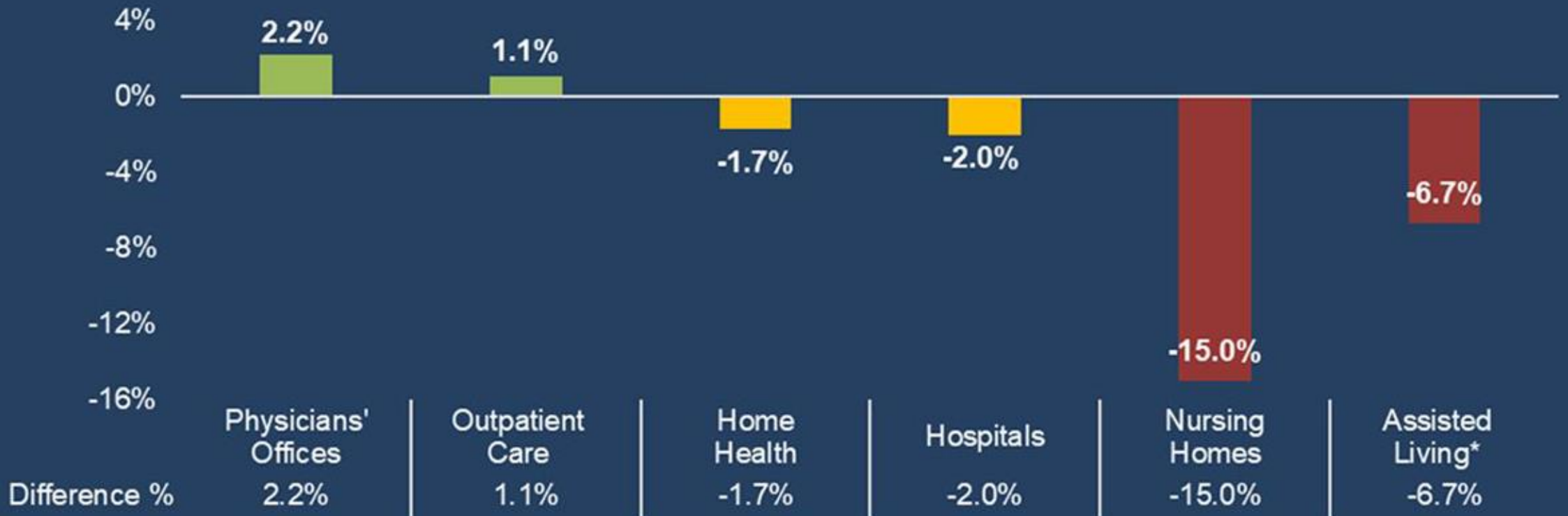


Percentage of Health Care Workers Reporting Feelings from June - September 2020



Source: Data are from Mental Health America and reflect health care workers' answers to the following question about June through September 2020 – "In the last three months, which of the following feelings have you been experiencing regularly? Check all that apply." More details are available here: <https://mhanational.org/mental-health-healthcare-workers-covid-19>

Percent Change in Health Care Sector Employment Feb 2020-Jan 2022

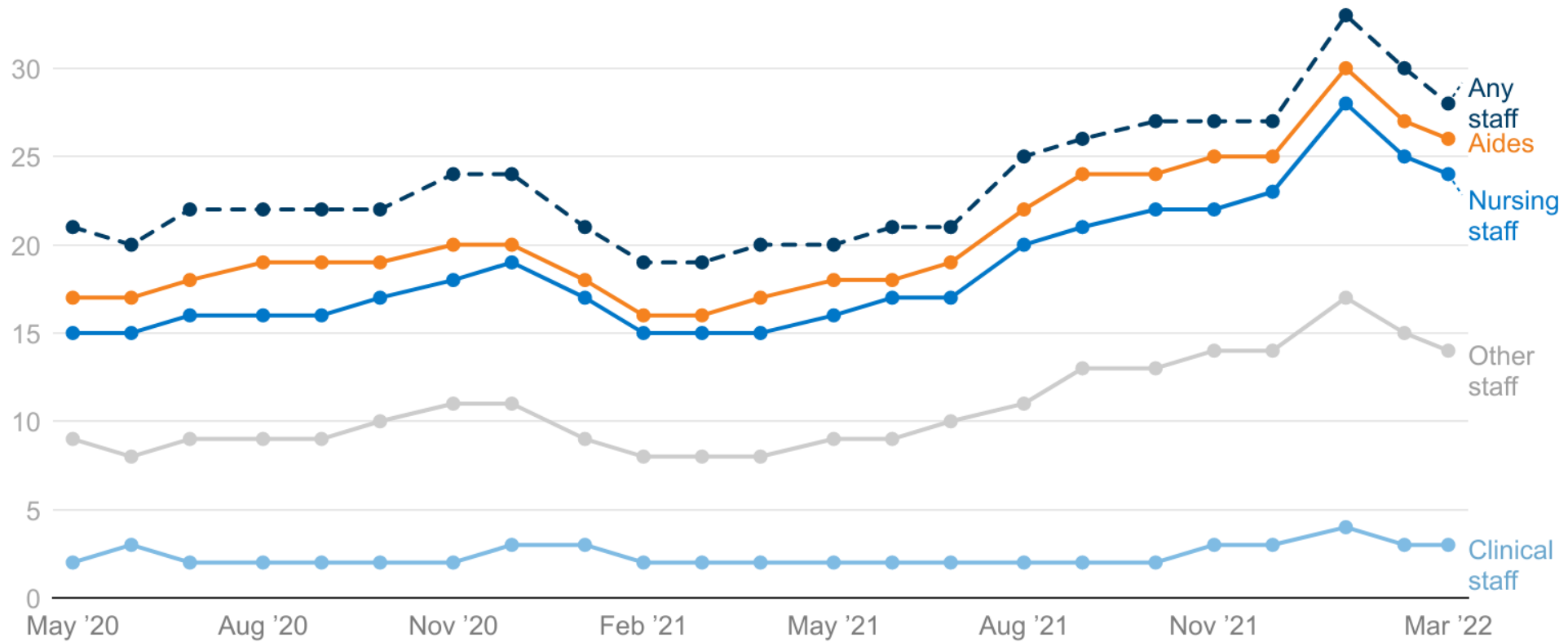


Source: Bureau of Labor Statistics (BLS) February 2020 – January 2022

*Assisted Living BLS data through December 2021

Figure 1

Share of Nursing Facilities Reporting Staffing Shortages, May 2020-March 2022

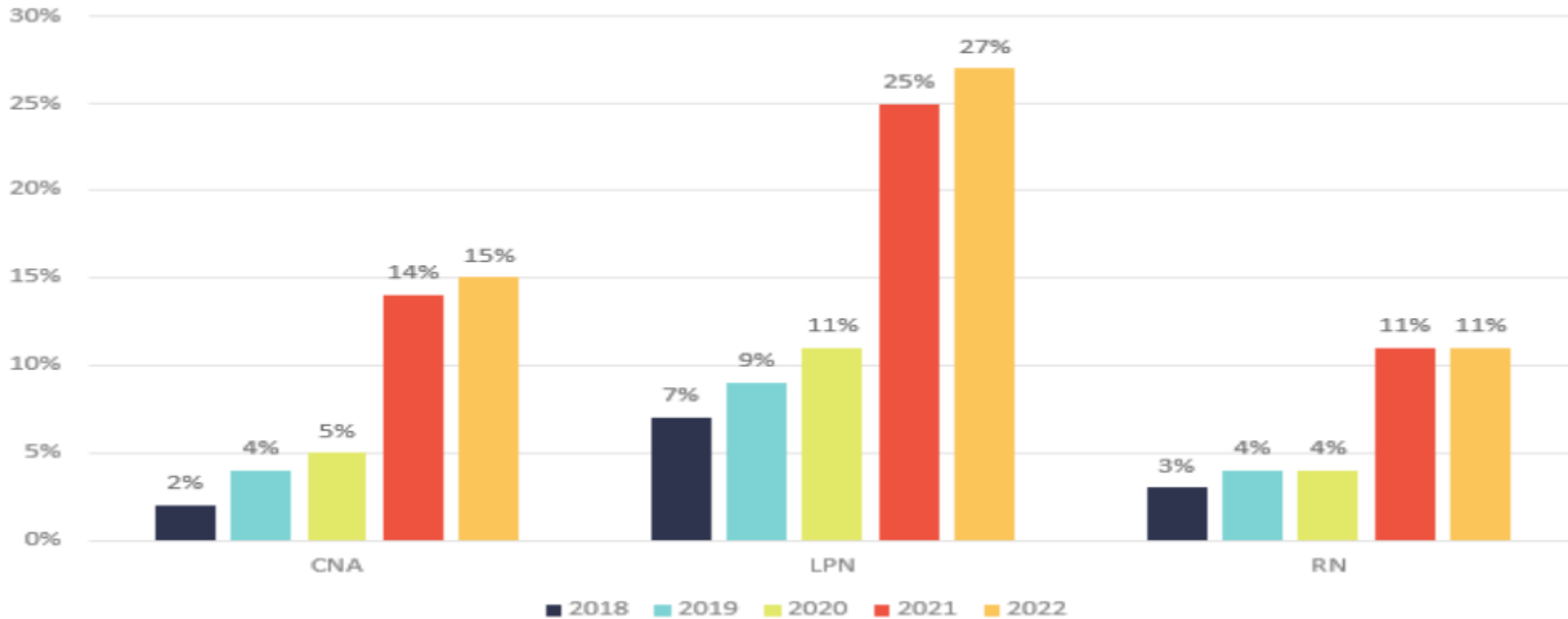


NOTE: Data points are limited to the last week of reported data for each month. Peak shortage of 34% cited in the text occurred in the week of January 23rd, so it is not shown explicitly in the figure. See methods for details on data and analysis.

SOURCE: KFF analysis of CMS COVID-19 Nursing Home Data, as of the week ending on 3/20/2022



Contracted Nursing Percentage of Total Nursing



Data Source: CLA Survey of 2021 and 2022 Nursing Costs and Hours

Source: [State of SNF Industry – In-Depth Analysis on Increasing Costs and Local Impact](#) report prepared by CLA in May 2022

CHALLENGE: IMPACT ON PROJECT OPERATIONS

Quality of Care



CMS Enhanced Focus on Infection Control



Annual Re-licensure Surveys Stalled



Staffing Shortages/High Staff Turnover



ORCF RESPONSES AND GUIDANCE



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LEAN 232 UPDATE

Staffing Shortages (Refer to the [8/27/2021 Lean Blast](#))

- Report on project's staffing status
- Discuss utilization of contract/agency staffing
- If underwritten occupancy exceeds current occupancy, analyze if there is staffing capacity
- Discuss how expenses will be impacted by changes in occupancy and wage growth
- Interview market competitors and research local news reports and publications regarding staffing challenges

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LEAN 232 UPDATE

Vaccination Mandates (Refer to the 11/15/2021 Lean Blast)

- CMS Interim Final Rule (IFR) - Federal vaccine mandate for healthcare workers
 - Discuss facility's compliance status or plan to comply with the IFR
 - Discuss potential adverse impact on staffing
 - Resident and Staff vaccination rates are now available on CMS' Nursing Home Compare:

Resident vaccination

↑ Higher percentages are better

93.5%

National average: 87.9%
Ohio average: 83.5%

Resident boosters

↑ Higher percentages are better

41.9%

National average: 80.5%
Ohio average: 74.3%

Staff vaccination

↑ Higher percentages are better

90.6%

National average: 87.1%
Ohio average: 76.7%

Staff boosters

↑ Higher percentages are better

63.8%

National average: 50.7%
Ohio average: 40.4%

CHALLENGE: IMPACT ON PROJECT OPERATIONS

Other General and State-Specific Risks

- Ward Beds
- Colorado Olmstead Settlement Agreement
- Always refer to the Updated State Risk Summary Grid Available on the ORCF website
- Reduced Debt Seasoning Timeframes During the Covid-19 Years

Updated State Risk Summary Grid
(Print Version [here](#))

State Risk Category	Facility Characteristics	Risk Mitigation to Consider
Medicaid Waivers (1915(c)) & Medicaid State Plan Option (1915(i)) – Final Home and Community-Based Services (HCBS) Settings Rule - high Medicaid Census & combos including SNF beds	<ul style="list-style-type: none"> • Non-SNFs with very high Medicaid Census (e.g., >=80%) • Combined SNF/ALFs that rely on Medicaid for non-SNF residents whose DSCR falls below 1.0 with a minimal decline in Medicaid Census or Rate <p>(NOTE: CMS will require combined SNF/ALF settings to undergo "heightened scrutiny")</p>	<p>Indicate whether facility is at risk of being unable to comply with the HCBS Settings Rule.</p> <ul style="list-style-type: none"> • Refer to the Statewide Transition Plan (here), CMS responses to or approval of the Plan, State requirements (either enacted or proposed) and/or State Medicaid Agency Input (including documentation of a setting survey or evidence of "heightened scrutiny" having been conducted) indicating the likelihood of compliance. • If unable to determine from the above, discuss the facility's compliance with HCBS Settings requirements (here). <p>If facility appears unable to comply, or will be out of compliance for a time, demonstrate one or more of the following:</p> <ul style="list-style-type: none"> • Subject facility's ability to operate without Medicaid Waiver residents, including a demonstrated market and capacity for serving a different resident mix, more private pay residents, etc.; • Long-term operating and Debt Service Escrow in an amount that adequately mitigates risk of being out of compliance for a time, a demonstrated market for private pay and a demonstrated capacity to eventually come into compliance; and/or • Project's ability to convert to a viable alternative residential care facility type, that a market exists and Certificate of Need process would allow for such a conversion, and the operator has financial capacity to withstand such a transition if it is anticipated that coming into compliance will not be possible.
Medicaid Reimbursement Delays	SNFs that will not have AR Financing, but that are in a state with a history of reimbursement delays	<p>Provide evidence of a recent history (e.g. last six months) of timely payments (e. g. payments made in 60 days)? If unable, demonstrate one or more of the following:</p> <ul style="list-style-type: none"> • Accounts Receivable Financing will be required for the project as a condition for firm commitment; • Long-Term Debt Service Escrow in an amount that adequately mitigates risk of future payment delays; or

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

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LEAN 232 UPDATE

Ward Beds (Refer to the [3/24/2021 Lean Blast](#))

- COVID-19 has enhanced the risk of ward beds regarding functional obsolescence
- Lenders should consider the project NOI's sensitivity to the loss of ward beds
- Assess state-specific risks pertaining to ward beds
- Marketability of ward beds is fading



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LEAN 232 UPDATE

Updated State Risk Summary Grid and Colorado Olmstead Settlement Agreement (Refer to the 5/9/2022 Lean Blast)

- Check the ORCF website for updates to the State Risk Grid Summary often and be on the lookout for any impending regulatory changes for the state in which your project is located
- Colorado Olmstead Settlement Agreement may impact SNF occupancy in the State
 - In March 2022, the Dept. of Justice notified the State of Colorado that it is in violation of the ADA for allowing its long-term care system to segregate individuals with physical disabilities in institutional settings and nursing home facilities.
 - The State is now working to transition eligible SNF residents to community-based long-term care services.

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COVID-19 and Reduced Debt Seasoning Timeframes – the “Four Buckets”

Projects Impacted by Covid-19 Purchased in 2017 or Earlier		Projects Impacted by Covid-19 Purchased in 2018 or After	
BUCKET #1 <i>T-12 NOI Has Returned to Stabilized Levels</i>	BUCKET #2 <i>T-12 NOI Has Not Yet Re-Stabilized</i>	BUCKET #3 <i>T-12 NOI Has Returned to Stabilized Levels</i>	BUCKET #4 <i>T-12 NOI Has Not Yet Re-Stabilized</i>
No Debt Service Escrow (or “Earn-out” of Non-Project Related Debt) Required	Debt Service Escrow (or “Earn-out of All or a Portion of Non-Project Related Debt) Required	Debt Service Escrow (or “Earn-out of All or a Portion of Non-Project Related Debt) Required	Not eligible for debt seasoning exception

CHALLENGE: WORKLOAD MANAGEMENT

- Application Volume
- Queue
 - Deal Monitoring (while in queue and on if hold)
 - Managing Internal/External Expectations
- Vendors Delays
- Lender Staffing
- Additional Requirements
 - Cash Flow Stress Test
 - COVID Narrative Appendix



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LEAN 232 UPDATE

Workload Management and Projects in the Queue (refer to [5/9/2022 Lean Blast](#))

- Applications should be ready for assignment and review at submission
- “Readiness” Criterion:
 - T-12 NOI plus underwritten RFR meets or exceeds the 1.45x DSCR
 - Project is trending toward the underwritten and appraised metrics
 - Three most recent months of the Cash Flow Stress Test are above 1.45x DSCR, and the full T-12 average is above the 1.45x DSCR
 - Lender has clearly identified any Covid-related expense adjustments (refer to [2/23/2022 Lean Blast](#))
 - Lender has proposed mitigation for unstable operations impacted by Covid-19 or other risk factors

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LEAN 232 UPDATE

Workload Management and Projects in the Queue (refer to [5/9/2022 Lean Blast](#)) *Cont.*

- Lenders are to notify ORCF of submitted applications that are not ready for assignment
- Applications not yet ready will be placed on temporary hold
- When ready to come off temporary hold, projects are placed back in the queue as of their original queue entry date
- ORCF notes that recently they have seen many applications delayed due to environmental issues that should have been resolved prior to submission. Lenders are encouraged to utilize the environmental checklist tool on the ORCF website to help identify any issues up front and consult with LeanThinking prior to submission.

CHALLENGE: INTEREST RATE VOLATILITY

- Impacts on Applications
- 232/223(a)(7) & IRR's
- Deals on Hold



ORCF RESPONSES AND GUIDANCE



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LEAN 232 UPDATE

232/223(a)(7) Loans - Locking Interest Rates that Above Underwritten Rates (refer to 5/9/2022 Lean Blast)

- Submit all rate lock amendments to ORCFCloser@hud.gov
- Payback period for a7 transaction costs may not exceed 10 years
- For applications with no change or an increase to the current interest rate, provide justification for how the transaction will benefit HUD

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LEAN 232 UPDATE

232/223(a)(7) Loans - Locking Interest Rates that Above Underwritten Rates (refer to 5/9/2022 Lean Blast) *Cont.*

- If the underwritten interest rate is no longer feasible, the rate lock amendment must address the following:
 - Indicate that the rate lock is higher than the underwritten rate.
 - Include a financial analysis that confirms the underwritten NOI (including underwritten RFR) supports a DSCR greater than 1.11x.
 - Include an updated Executive Summary portion of the a7 Lender Narrative.
 - Provide a detailed explanation and justification of any one-time Covid-19 expenses that have been removed from the financial analysis.

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LEAN 232 UPDATE

232/223(f) Loans - Locking Interest Rates that Above Underwritten Rates (refer to 5/9/2022 Lean Blast)

- All 223(f) projects must have a minimum DSCR of 1.45x – ***ORCF will not deviate from this requirement.***
- If the underwritten interest rate is no longer feasible, the rate lock amendment must address the following:
 - Indicate that the rate lock is higher than the underwritten rate.
 - Submit an updated cash flow stress test using financials dated within 90 days - DSCR must be above 1.45x
 - Submit an updated Decision Circuit using financials dated within 90 days – NOI + underwritten RFR for the T-12 period must be above 1.45x
 - Provide a detailed explanation and justification of any one-time Covid-19 expenses that have been removed from the financial analysis.

BEST PRACTICES GOING FORWARD



BEST PRACTICES TODAY

- Identify and thoroughly disclose perceived risks in the application
- Provide sufficient explanation and mitigation for those risks
- Underwrite applications in accordance with the guidance provided
- Adopt and utilize more conservative underwriting practices
- When in doubt, contact leanthinking@hud.gov



BEST PRACTICES TODAY

- Submit applications that are not immediately ready for review and assignment
- Overlook obvious risks and ignore the guidance provided
- Identify risks without also providing sufficient justification/mitigation
- Assume a strategy that worked on one specific transaction will apply across the board in all other cases. Applications are evaluated by ORCF on a case-by-case basis.



THANK YOU!

