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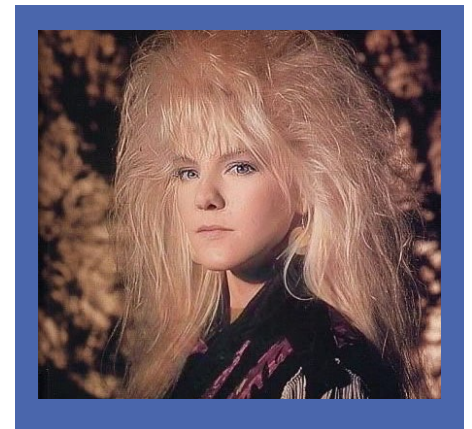
HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

Getting to the *Heart* of the Matter

A Behind the Scenes Look at
Lender & ORCF Loan Committees

Getting to the of the Matter



Jenifer Williams

**HMAC President
Chief Underwriter,
Berkadia**

Favorite Band/Artist:

Weezer

Best All-time Cover:

Give a Little Bit
(Supertramp) by
Goo Goo Dolls

Annisha Zegarski

**FHA Co-Chief
Underwriter, NewPoint**

Favorite Band/Artist:

Grateful Dead

Best All-time Cover:

Walls (Tom Petty) by
The Lumineers

Susan Gosselin

**Deputy Director, ORCF
Production**

Favorite Band/Artist:

Aretha Franklin

Best All-time Cover:

Stop Your Sobbing
(The Kinks) by
Pretenders

Rachel Coleman

**Supervisory Account
Executive**

Favorite Band/Artist:

Lizzo

Best All-time Cover:

Jolene
Miley Cyrus

Jennifer Tadlock

**Supervisory Account
Executive**

Favorite Band/Artist:

Janis Joplin

Best All-time Cover:

Over the Rainbow
IZ



- The purpose of the [Lenders Loan Committee](#) is to identify and evaluate potential risks associated with the loan, including credit, market, physical and operational risk.
 - Lenders consider factors such as the borrower's credit worthiness, the project's feasibility, the loan amount, physical or environmental issues and compliance with HUD's requirements.
 - What risks will HUD identify, and have they been mitigated?



- The purpose of the **ORCF Loan Committee** is to:
 - Confirm that the project meets program requirements
 - Mitigate potential risks associated with the loan
 - Gain multiple perspectives
 - Assure file is documented for audit purposes



Overview

- Evaluation of Borrower
- Evaluation of Transaction
- Transaction Mitigation
- Loan Committee Review
- Loan Committee Insight



Evaluation of the Borrower

Evaluation of Borrower: Lender Perspective

- What is the potential business multiplier factor (i.e. future business)?
- Is the borrower a good credit risk?
- Does the borrower have good industry experience?
- Is there reason to believe that the borrower will be an ethical business partner?
- Does the borrower have ownership experience with the same type of facility and/or in the same market?
- Has the borrower been involved in any other HUD insured transactions?

Evaluation of Borrower: ORCF Perspective

- Creditworthiness
- “Reputational Risk”
- Other Government stakeholders
- How long have the borrower/operator principals been in the industry?
 - 3+ years
 - What types of facilities (SNF, ALF, MC...)
 - Do they operate similar facilities in similar markets with similar reimbursement environments?
 - What is the overall quality of care track record?
 - Star Ratings, G+ Tags, Penalties, PLI Claims, etc.

Evaluation of Borrower: ORCF Perspective

- Key Principal's Experience with HUD Transactions:
 - Projects with our Risk Mitigation Branch?
 - SFF/SFF Candidates?
 - Delinquencies/Defaults?
 - Star Ratings
 - DSCR's
 - Flags in the APPS System?



Evaluation of the Transaction

Evaluation of Transaction: Lender Perspective

- Tiered Approach to transaction risk
 - Tier 1- Project Evaluation
 - Tier 2- Portfolio Evaluation
 - Tier 3- Sponsor Evaluation



Tier 1- Project Evaluation

- Are we able to make a good case for doing this deal on its face?
 - i.e. Does the project performance stand on its own?
 - If not, Tier 2 evaluation is needed
- What is the purpose of the loan?
- Does it provide means for the facility to improve operations?
- Are there any major physical improvements needed?





Tier 2- Portfolio Evaluation

- If the risk is financial in nature, does a master lease or limited guaranty structure mitigate the risk?
- Does the performance in the rest of the portfolio suggest that participants are likely to turn performance around in the near term?
- If there is no portfolio lease structure or if the DSC analysis does not mitigate the risk, Tier 3 evaluation is needed



Tier 3- Borrower Evaluation

- Are there factors present to suggest that the borrower could continue to service the debt in tough times?
- Does their previous HUD or lender servicing experience speak to their credit worthiness?
- Is there evidence to suggest a reluctance to walk away from a property?
- If Tier 3 does not provide enough mitigation, consider additional measures

Evaluation of Transaction: ORCF Perspective

- Strength of Borrower and Operator
 - Experience/Reputation
 - Financial Capacity
 - Tenure at Facility
 - Turnaround experience
- Financial Statistics:
 - 1.45+ DSCR
 - LTV
 - Underwritten/Appraised NOI relative to historic operations
 - Financial trends
 - Shifts in Operations (Census Mix, Occupancy, Expenses...)
 - Operating Margins
- Debt payoff
- Quality of Care Levels & History

 PINK FLOYD
A Momentary Lapse of Reason



Transaction Mitigation

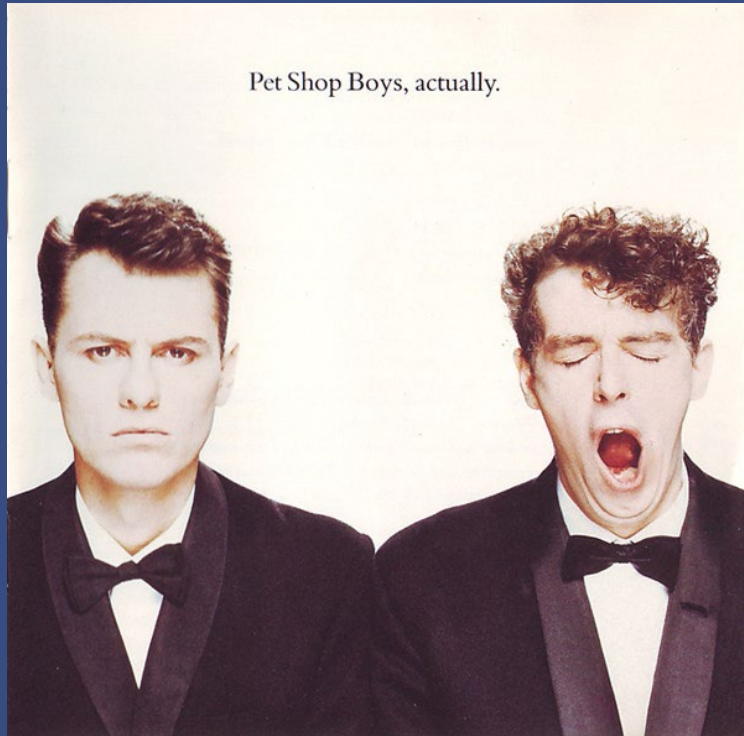
Transaction Mitigation: Lender Perspective

- Could the property be added to a master lease or LGSA structure?
 - Assumption is that the project was not already required to be in a master lease
- Would a debt service escrow mitigate the risk?
 - Possibly
 - For short term performance issues
 - To incentivize improvement in some way (i.e. tie up borrower cash in an effort to drive change)
 - Possibly Not
 - For projects suffering from more than a short-term performance issue we've only bought some additional time.
 - Once the escrow runs out, the question will still be "Is the sponsor willing to walk away from the property?"
- Is there a 3rd party Risk Management Plan that would mitigate operational risk?

Transaction Mitigation: ORCF Perspective

- Debt Service Escrow
- Loan Resizing
- Quality of Care
 - One-Time Risk Assessment (prefer submitted with application)
 - Ongoing Third-Party Risk Program
 - Debt Service Escrow
- Participant Adjustment – Experience, Reputational Risk

Pet Shop Boys, actually.



Loan Committee Review

Loan Committee Review: Lender Perspective



- Loan Committee Submission Order of Review
 - Decision Circuit
 - Existing Debt
 - Risks & Strengths
 - Special Conditions
 - Remaining Narrative

Loan Committee Reviews (Lender Perspective)

Decision Circuit

- Valuation is #1 reason deals die, so I review to make sure appraised value is well-supported and that any flags in the DC have been well-justified and appropriately mitigated
- Is historical bad debt at the property reasonable?
 - If significantly below market, then has a review of the AR Schedule of Aging been conducted to confirm that income has not been overstated for the purposes of increasing the valuation?



Existing Debt

- Is the write-up well written and is the classification of debt accurately and clearly described?
- If any debt is less than 2 yrs old, were we able to confirm it was project-related?
- If any of the debt was non-project related (i.e. equity recapture), have we limited the HUD loan to the appropriate LTV?
 - Have we presented a convincing argument for 2 yrs of stabilized operations?
- Has a review of the borrower balance sheet and UCC filings confirmed all borrower debt has been considered?

Loan Committee Reviews (Lender Perspective)

Risks & Strengths

- Have we detailed a complete list of risks?
 - Have we mitigated our risks as a lender?
 - Have we met our HUD disclosure requirements?
 - Have we also made an effort to be a good lending partner with HUD by accurately noting risks we identified during underwriting & explaining how we considered & mitigated those risks?
- When viewed as a whole, do the risk mitigants & strengths make a strong case that the deal should be done?

Find the Grandma
in this pic

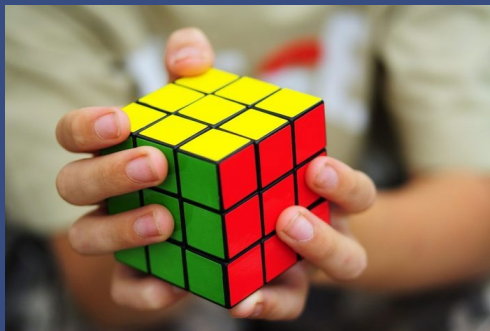


Special Conditions

- Conduct a word search for “special condition” in narrative & compare results with the SCs listed at the end of the narrative to verify that every time we noted the need for a SC, it has been added to the list.
- Review rest of narrative and add any additional SC recommendations to the list.

Loan Committee Review: Lender Perspective

- The following factors need to be reviewed and explained in LC. LC members need to have a comfort level in every point below.
 - Financial Statistics – DSCR, LTV, Value per bed (in line with comps?), Occupancy, Cap rate, Interest rate – are these achievable?
 - Borrower, Operator, and Principals strength – what is their prior experience?
 - Occupancy / Census trends
 - Financial Performance – Is the NOI stable or trending upwards? Is Staffing an issue?
 - Debt – make sure this follows the debt seasoning rules / matrix
 - Quality of care - what is the star rating and improvement plans?



Loan Committee Review: Lender Perspective

- The following factors need to be reviewed and explained in LC. LC members need to have a comfort level in every point below.
 - Sources and Uses – review of the numbers
 - Strengths / Risks and mitigants – have the risks been properly identified and mitigated?
 - Market, PCNA or ESA issues
 - Recent purchase - Are there enough factors to support this application and relevant turnaround examples?
 - HUD's Portfolio: will this asset ultimately be a good addition to HUDs portfolio?



ALL AGING ROCK STARS
AND ACTORS LOOKS LIKE HER

imgflip.com

Loan Committee Review: ORCF Perspective

- Financial Metrics:
 - Historic vs. underwritten NOI – Trend/Comparison
 - DSCR, LTV, Value per Bed/Loan Amount per Bed
 - Staffing – relation to NOI/operating margin and quality of care
- Debt: Age, Project Related, IOI debt, Allocation
- Quality of Care – Subject & Overall/Other Facilities
- Participant Experience – Demonstrated experience owning/operating similar facilities for 3+ years



Loan Committee Review: ORCF Perspective

- Big Picture Look at Type of Transaction & Associated Risk Level
 - Refinance with Stable Performance?
 - Recent Purchase Quick Turnaround (RPQT) – Relevant turnaround examples?
 - RPQT100% – Taking out ~100% of purchase price?
 - Limited Debt Seasoning – Stable operating history?
- Helpful if Lenders address in the Transaction Overview Section of the Lender’s Narrative



Required Mitigant for Quick Turn-Around Projects:

- Verify Operator has ample Turn-around Experience

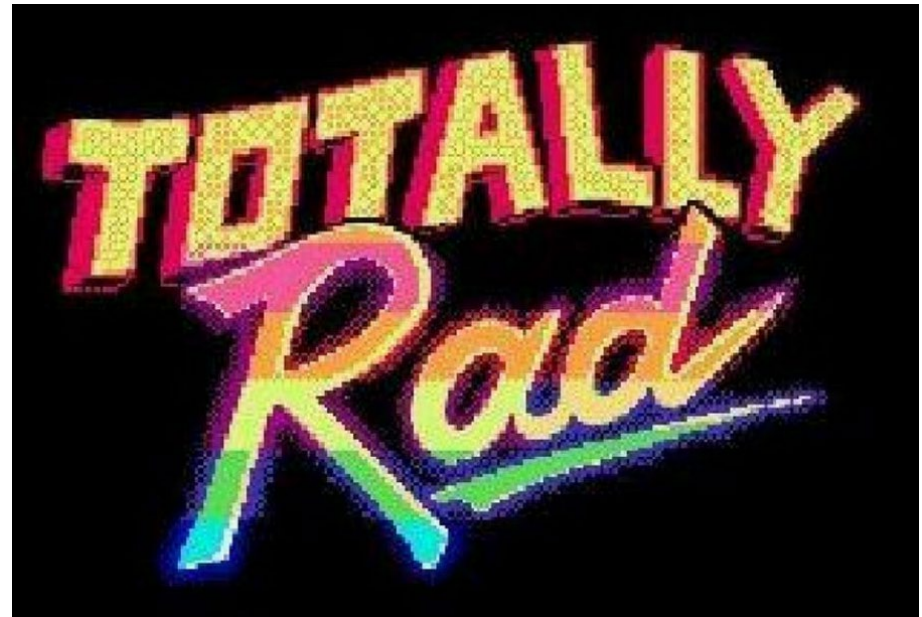
Additional Potential Mitigants for High-Risk Projects:

- Debt Service Reserve Escrow
- Low LTV
- Strong track record with HUD over 5-10 years.
- Master Lease/LGSA with other stable projects.
- Maintaining significant borrower equity in the Project.

Recent Purchase, Quick Turn-Around, & 100% of Purchase Price		High Risk ↑ ↓ Low Risk
Quick Turn-Around & 100% of Purchase Price		
Recent Purchase & Quick Turn-Around		
Recent Purchase & 100% of Purchase Price		
Fluctuating Historical Performance	Without IOI Debt	
	Includes Eligible IOI Debt	
Steady Ramp-Up Over 3+ Years	Without IOI Debt	
	Includes Eligible IOI Debt	
Stable Performance Over 3+ Years	Without IOI Debt	
	Includes Eligible IOI Debt	
Limited Debt Seasoning Exception: New HUD Project (≤70% LTV)		
Limited Debt Seasoning Exception: Existing HUD Project w/ Surplus Cash Note (≤70% LTV)		



Meet your Loan Committee



Meet the of the ORCF Loan Committee

Tim Gruenes



Margaritaville

Gary Sever



Don't Go Breaking My Heart (Duet with Rachel)

Susan Gosselin



Under Pressure

Eduardo Mattei



Mr. Brightside

Jen Buhlman



Dream On

Philip Head



Hit Me With Your Best Shot

John Hartung



The Gambler

Angela Collier



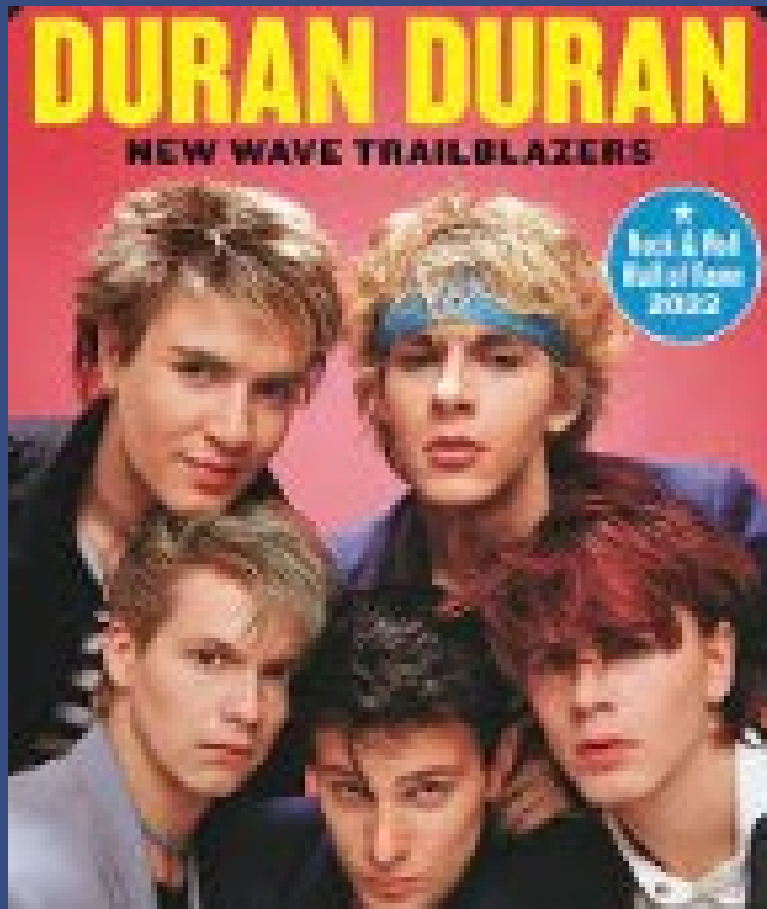
Walking On Sunshine



Loan Committee Insight

Loan Committee Insight: Lender Perspective

- Most important goal is to present a well-supported case for a deal
 - Comments should be focused on identifying and mitigating risks
 - Comments should additionally be focused on confirming that known concerns for HUD are noted, well explained, and mitigated appropriately
- Secondary goal is for comments to encourage future critical thinking for underwriters when they encounter similar deal dynamics. It takes lots of practice to be able to evaluate & mitigate risk appropriately!





Loan Committee Insight: Lender Perspective

- Does this application provide benefits to the facility?
 - Are they investing in the facility itself?
- Do the financial statistics look good?
- Have all the risks been mitigated?
- Are there any physical or environmental issues that require remediation?

- Agreed - It takes lots of practice to be able to evaluate & mitigate risk appropriately!



Loan Committee Insight: ORCF Perspective

- Impact on HUD's Portfolio: Consideration is given to how the loan fits into HUD's overall loan portfolio.
- Financial Metrics – how do they hold together?
- Debt – long-term, recent IOI debt, allocation?
- Participant Experience – “who are the people” & operating “brand name”?
- Quality of Care – quality ratings for an owner/operator larger portfolio
- Performance of Other FHA-insured – troubled indicator, DSCR's, star ratings. Have participants been good business partners?
- State risk
- Rural locations

Risks / Mitigants



**THINGS NOBODY
SAID IN THE 80S...**



www.facebook.com/80to90

"I lost my phone"

Oversupply:

There is currently a slight oversupply in the market of -61 beds with the market reporting an average weighted occupancy of 82.8%.



Recent Purchase:

The facility was just purchased on May 11, 2023, as part of a two-facility portfolio. The purchase involved two 75-bed AL/MC facilities located in Anystate.

On the date of the purchase, an IOI operator took over the license, putting a third party management agent in charge of operations.



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Historical Operations have less than 1.45 DSCR

Trailing twelve operations at the facility average 1.25 DSCR.



Low Star Rating

The facility currently has a one-star rating due to their receipt of 2 IJ tags over the previous two years.



Focus on Quality of Care risk



Risk Profile #1 Quality of Care

Small portfolio

Purchased >2 years ago

Refi taking out 100% of purchase price

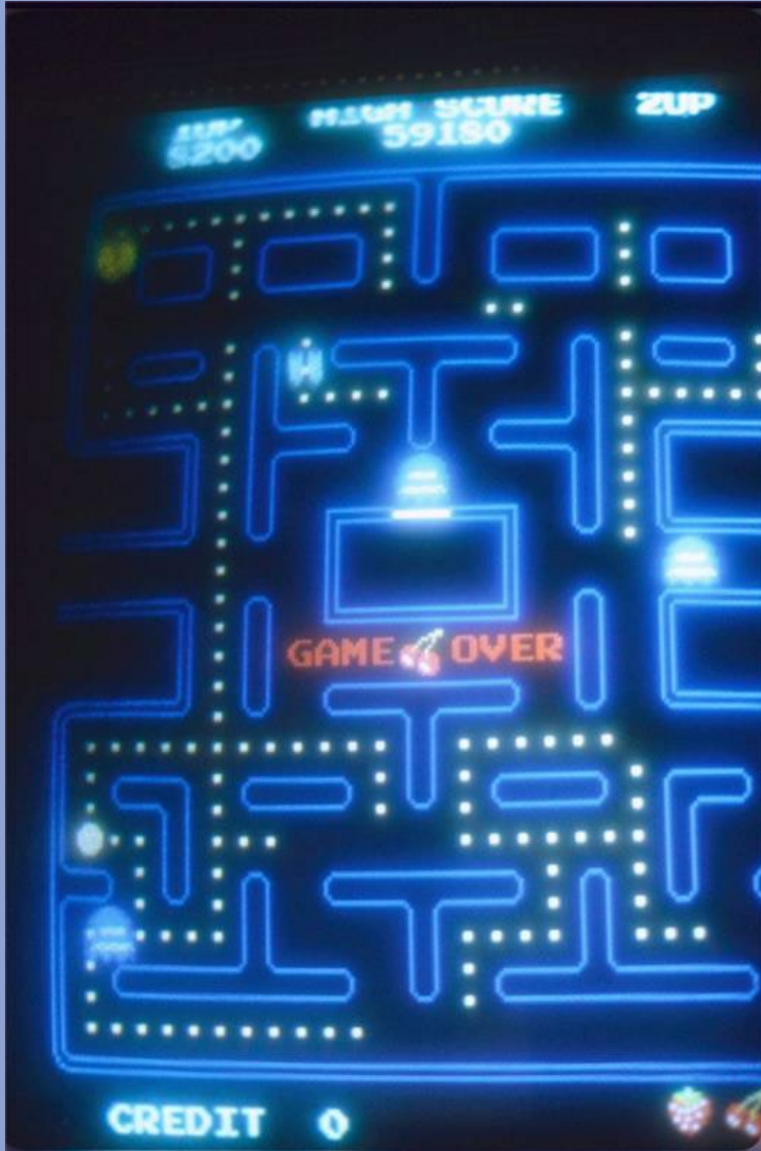
IOI debt being paid off

RPQT – Recent Purchase Quick Turn-Around

Projects had lower end star ratings at purchase and many fell even lower first year of new owner/operator



EXAMPLE



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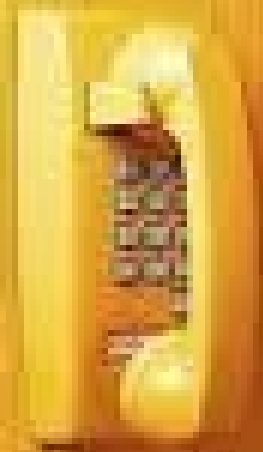
Risk Profile #2 Quality of Care

Two small portfolios of new business with owner/operator groups who have existing HUD-insured portfolios

The star ratings for the existing HUD-insured portfolios averaged 1-star and included some SFF-C facilities or facilities that had recently graduated from SFF-D

Lenders for both portfolios were told that no new business for these owner/operators would be processed until there was tangible evidence indicating QofC was improving (which is a difficult ask in the “noisy” CMS environment right now)

**Hard to believe I once had a
phone attached to a wall.**



**When it rang, I'd pick it up
without knowing who was
calling. Amazing I'm still alive**

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Risk Profile #3 Rural Market

Project in smaller rural market

Metrics are slowly rebounding post-COVID

Contract staffing had been used since the pandemic



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