



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

Out of the Money: Problem Solving for Troubled Loans

Panelists



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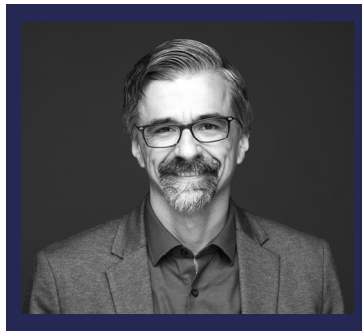
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Part 1: Common Threads

What problems does asset management see repeatedly & how can they better be addressed in underwriting?



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Part 2:

Where do the efforts of underwriting and asset management converge?

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Corporate Credit Reviews & Changes in Ownership



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False Alarms Triggered By Incorrect Data in Portal



False Alarms Triggered By Incorrect Data Submitted to Lean Portal

At loan committee

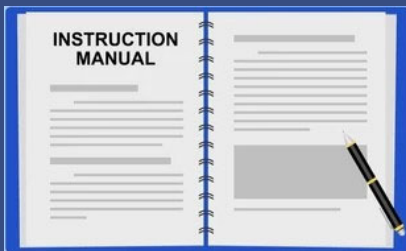
- Low portfolio DSCR for existing HUD loans in the portal is flagged, resulting in:
 - Risk mitigation requirements
 - Additional time in processing while portal numbers are reconciled



Post-closing

- Unnecessary action plans
 - Frustrates borrowers
 - Creates more work for underwriting and servicing teams

Best Practices For Preventing False Alarms



Providing instruction and advising to borrowers/operators who submit financial info directly to portal

Financial analysis training for asset management and underwriting teams covering:

- PropCo/Opco structure impact to financial statements
- Line items that should be excluded
- Consideration of COVID Income



Creating internal lender monitoring processes that trigger the review of submitted financial data in response to tracked metrics

On new loans for existing borrowers, underwriting & asset mgmt. teams should collaborate to reconcile financials and portal data ahead of HUD submission



Action Plans

Work schedule for the first 12 weeks of the season



	Mon.	Tue.	Wed.	Thu.	Fri.	Sat.	Sun.
35	Padd.	Lunge +	Trot.	Stretch.	Dress.	Stretch.	Trot. U
36	Padd.	Lunge +	Trot.	Stretch.	Dress.	Canter 1	Trot. U
37	Walk.	Lunge +	Trot.	Cavalet.	Dress.	Stretch.	Muscle b.
38	Padd.	Lunge +	Stretch.	Mech.	Dress.	Stretch.	Trot. U
39	Padd.	Lunge	Stretch.	Méca.	Dress.	Canter 2	Trot. U
40	Walk.	Lunge	Trot.	Cavalet.	Dress.	Stretch.	Show
41	Walk.	Lunge +	Trot. U	Cavalet.	Dress.	Stretch.	Muscle b.
42	Padd.	Lunge	Stretch.	Mech.	Dress.	Canter 2	Trot. Y
43	Walk.	Lunge	Trot.	Cavalet.	Dress.	Stretch.	Show
44	Hack. W	Lunge +	Trot. U	Cavalet.	Dress.	Stretch.	Muscle b.
45	Walk.	Lunge +	Trot.	Mech.	Dress.	Stretch.	Show
46	Hack. W	Lunge	Mech.	Cavalet.	Dress.	Canter 2	Trot. U

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Action Plans

Opportunity for UW & AM collaboration because:

- Required lender narrative is underwriting-focused
- AM teams find it difficult to obtain plans from borrowers and operators
- Monitoring action plans is difficult for AM teams due to variance between them



Why do borrowers and operators struggle with action plans?

- HUD forms are complicated and difficult
- Completing action plans takes away time from operating their properties
- Difficulty in articulating efforts they may have already begun implementing
- And in the worst case, they lack the capacity or capability to address the problem.



When Underwriting & Asset Management Efforts are Combined

- Trouble can be identified and headed-off to avoid bigger problems down the road
- Lenders can provide a better client experience
- The partnership between HUD and lenders is improved



Part 3:

How should lender teams approach problem-solving?

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Root Cause Analysis

- Identifies the underlying problem and makes evaluating potential solutions easier
- Eliminates time wasted in pursuing solutions that only address symptoms of a larger problem
- Increases the odds of deciding on an effective solution that improves the situation

But how can we identify the root cause?

The “Five Whys” Approach

- A problem-solving technique that helps to efficiently identify the root of a problem quickly
- Start by stating the problem to be solved and then ask “why” that happened.
- Typically, the answer to the first “why” should prompt another “why” and the answer to the second “why” will prompt another and so on until you reach an answer without a “why” to ask
- Most root causes can be determined in 5 iterations of “Why” questions.



In Practice...

- It helps you be a better detective, but a detective still needs to be able to put pieces together to build a case (or in this instance, a plan of action)
- It is possible that a root cause is inconclusive, but 5 whys can still frame where you need to focus.
- It isn't always clear when to stop asking questions.
 - In these cases, consider whether the answer to the why looks like a symptom or a cause.
 - Symptom Example- An answer like “inadequate cash flow” provides no insight into how to address the problem
 - If answer looks like a symptom, continue digging
- There are often multiple root causes underlying risks. When you see compound answers to why questions, you may need to follow each separate root cause.

Why is the facility's DSCR < 1.0?

A: Revenue is inadequate to cover expenses

A: Census is down at the facility, reducing revenue

A: Census never recovered from COVID-19

A: Several patients died when COVID first hit, and the community is reluctant to place residents back

A 5th "Why" could be useful (why did patients die...) but you have enough to conclude an action plan targeted towards building back the facility's reputation in the community might be appropriate

WHY?



Part 4: Next Steps

Problem Solving in Action

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Good Action Plans:

- Identify a root cause
- Are easily actionable for borrower or operator
- Require manageable monitoring effort by lender's servicing team

Developing a Plan

Lender review of action plan:

- Does the plan identify a credible root cause?
- Does the proposed action relate directly to that root cause?
 - Is the proposed plan of action one that would be acceptable to mitigate the same risk if it were encountered during the underwriting process?
- If not, provide guidance to borrower/operator to address



Options for identifying plans that are easily actionable:

- Mirroring plans of correction already drafted and accepted for licensing purposes
- Pulling info from already-finalized marketing plans that are beginning to be implemented
- Pulling info from internal risk mitigation or QAPI meetings related to the root cause
- Pulling info from 3rd party risk assessment plans
- Providing detail to operator on action plans that the lender has seen in similar instances on other loans. *

Monitoring & Follow-up Considerations

ORCF Perspective:

- Action plans are tools to make sure HUD, Lender, and Participants are on the same page about what the risk is
- Plans need to include actionable, measurable steps to evaluate whether the risk is improving.
- Severity of risk & time needed for steps to have an impact should factor into the cadence of updates.
- Action Plans should facilitate communication between HUD and Lenders to prompt appropriate next steps if/when conditions deteriorate or new risks emerge.



Lender Perspective:

- Does the follow-up timeline fit the risk?
 - If risk is considered moderate
 - Check-ins might be more spread out
 - If risk is considered high
 - Check-ins might need to be more frequent
- What is the lender process in place to manage the check-ins?
- What would next steps be if improvement is not seen?

Questions?



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