



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

241a Best Practices

Beating the Odds

MEET THE PANEL



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America



- **Sam Love**
VP & Deputy Chief Underwriter , Walker & Dunlop

As Deputy Chief of the W&D HUD LEAN Team, Mr. Love manages all underwriting functions of government-backed, FHA healthcare loans. He has been involved in deal volume of \$500M of HUD-insured mortgage proceeds as part of the 2323 program for assisted living, board and care and skilled nursing facilities. Apart from his HUD healthcare experience, Mr. Love underwrote over \$1.3B of Multifamily investment opportunities as part of the Cushman & Wakefield Investment Sales Team, with a focus on Institutional pre-stabilized Class A assets in addition to Value-Add and stabilized Core Plus opportunities in the Carolinas. He has a BA from Roanoke College and MBA from Esade Business School.

HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America



- **Talel Aïssi**
Vice President, FHA Seniors Underwriting, Lument

Talel Aïssi is a LEAN Underwriter with Lument, overseeing the underwriting of seniors and hospital transactions. Since joining the precursor firm to Lument in 2016, Lancaster Pollard, Talel has underwritten approximately \$800MM in new LEAN transactions, and over \$900MM in other FHA & agency products. Talel holds an MBA from the University of Maryland, Robert H. Smith School of Business and a Bachelor of Science in Financial Economics from University of Maryland, Baltimore County. Prior to joining Lument, he managed GNMA Fedwire & Euroclear Clearance for Morgan Stanley.

HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America



- Sara Fizur
FHA Closing Manager, Bellwether

Sara began her affordable housing career in 2010, as a Market Analyst working on Rent Comp Studies for Section 8 properties and new construction/rehab LIHTC properties all over the country. This work evolved into a position as Contract Closer for HUD where Sara closed more than 850 LEAN, MAP and RAD deals. In 2018 Sara moved to the Lender side of the industry, and currently oversees the Closing and Construction Loan Administration teams at Bellwether Enterprise Real Estate Capital. Sara holds a bachelor's in criminology, psychology and sociology and a master's in public policy and management from the University of Southern Maine.

HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America



- **Abby Hugill**
Underwriting Workload Manager, ORCF

Abby Hugill joined HUD in 2008 through the MBA Fellows Program. Following the 2-year career development program, she worked for the Office of Healthy Homes before joining ORCF in 2018. She started as an Underwriter and was promoted to Underwriting Workload Manager in May of 2024. Prior to joining HUD, Abby worked in the residential mortgage industry, where she advanced from an Underwriter to AVP of Underwriting and to VP, Regional Operations Manager. She holds a business degree from Michigan State University and an MBA from University of Colorado. Abby has called Colorado home since 2000 and lives in the foothills west of Denver with her husband and two sons, age 11 and 13.



Overview of the Program

Key Criteria

Overview of Program

- Pros of the Program:

- Generally used to finance physical improvements to an existing HUD-insured project.
 - Ex. Add dedicated Memory Care or dementia assistance units
- Existing Mortgage maintains current interest rate
- Davis Bacon Requirements tie back to Section of the Act of first mortgage (more detail on upcoming slide).
- Can help strengthen existing HUD-insured properties.

Overview of Program

- Structuring the Deal:

- Lesser of the following:

- Replacement Costs: 90% of Total Estimated Replacement Cost
 - Subtract any of the following: optional purchase price of leased land, grant or loan funds attributable to replacement cost items, excess unusual land improvements and the unpaid balance of special assessments.
 - Loan to Value: 90% of Difference of As-Is Market Value from As Proposed Market Value
 - Subtract any of the following: optional purchase price of leased land and the unpaid balance of special assessments.
 - Debt Service Coverage: Debt Service on primary FHA-insured loan subtracted from UW NOI/1.45x/Interest rate, initial curtail rate.
 - Total Indebtedness: 90% of proposed value subtracted from-100% of existing debt.
 - Deduction of Grant(s), Loan(s), LIHTC(s), and Gift(s) for Mortgageable Items.

Structuring the Deal continued:

- Term
 - Limited to term of the existing insurance mortgage unless otherwise approved by HUD
 - 10-year minimum.
- MIP - .72%
- Only One Stage Application (can be Two Stage depending on circumstance with a waiver).
- **ORCF – Best Practices/Tips**
 - Key Decision Criteria document intended for New Construction guidance is also helpful to look over for 241a deal. Document is located on the HUD LEAN Website and the link was also circulated in an HMAC Membership e-mail on January 9, 2024. Helpful guidance:
 - Experience if changing principals
 - Financial Capacity for any upfront cash requirement.
 - Appraisal Components
 - Include an analysis of whether NOI will cover the debt service for both loans

Overview of Program

- What do you need to proceed?
 - Appraisal – don't forget shelf life is 120 days
 - Market Study must be part of appraisal report
 - Need Strong Market Study
 - Plans/Specs – generally can move ahead when construction plans/specs are at 80%
 - Costs – Important to get in front of where costs/bids are with GC
- ORCF – Appraisal Best Practices/Tips
 - As-is and As-complete and stabilized values must be provided
 - Market support of the additional beds is crucial – discuss pipeline supply of new units
 - Compare the facility to comps in terms of marketability and level of competitiveness
 - Is there a difference between the licensed and operating beds
 - Look carefully at in-place and rental comps' rates
 - Economies of scale must be fully justified
 - Separate cap rate analysis for both as-is and as-complete and stabilized values
 - Discuss any tax abatements and whether they will extend to any additions

Overview of Program

- Environmental
 - General Floodplain Issues
 - Storage Tanks

- ORCF Best Practices/Tips
 - Try to get Environmental Issues addressed early.

Underwriting Side

- Pitfalls to get ahead of in Underwriting:

- Get things lined up
- Timing Issues –
 - Appraisal expiration
 - Condition of Plans & Specs 80% or above complete
 - Drives timing of cost review
- Affirmative Fair Housing Marketing Plan Requirements (AFHMP).
 - Process

- ORCF – Best Practices/Tips

- Early Start – submit ‘Memo Requesting Post-Commitment Early Start of Construction’ with application submission

Underwriting Side

- Re-analysis of the existing reserves
 - R4R Funding/Requirements will combine both first and supplemental mortgage.
 - Initial balance/deposit and on-going monthly deposits must be projected for the entire-post improvements.
 - Will Architectural and Cost Report analyze reserves?
 - If the first lienholder is different from 241(a) lender, then lenders should work together to designate who will administer R4R account prior to Firm App submission.
 - Written acceptance of CNA and R4R account from first lender should be submitted with the Firm App documents.
 - Designated lender has authority over R4R accounts and future requirements following 241(a) closing.
- Debt Service Reserve – case by case

Underwriting Side

- Initial Operating Deficit

- Use the most recent version of the IOD worksheet. Submit in Excel not pdf
- NOI components must match the lender's debt service NOI, not the appraisal's NOI.
- Pre-leases and absorption rate proposed must be conservative and in-line with market lease up information, if available.
- Existing facility's occupied beds can be counted as prelease beds in the IOD worksheet.
- Expense ratios are the default IOD worksheet expense ratios. Any deviations must be well-explained.
- The loan amount, term and interest rate must match the lender's narrative.
- On the details and draw requests tab, make sure that the timing of income is appropriate.
- The marketing expense should be shown separately and be in addition to the pre-marketing expense on the MILC form.
- The actual proposed lender IOD and debt service escrow must be shown on the details and draw requests tab.

- ORCF – Best Practices/Tips

Issues:

- **Davis-Bacon**

- If current mortgage was insured under a program that was subject to Davis-Bacon then, Davis-Bacon applies
- If current mortgage was not subject to Davis Bacon or and earlier FHA-insured mortgage that was subject to Davis-Bacon has been paid off prior to the 241a application, then Davis-Bacon does not apply.

- **Green MIP**

- Has to apply to whole facility

- **ORCF Best Practices/Tips**

- Single Stage
- 2-stage?



Closing Issues

HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

[This Photo](#) by Unknown Author is licensed under [CC BY-SA](#)

Closing Process:

• Closing Different from other Programs?

- Overall, the closing process is not substantially different timing wise.
- Understand the loan term to ensure the Note is correct and the P&I is properly calculated. If the loan term is concurrent with the original loan, the final numbers will depend on the closing month.
- The Lender for the original loan and the 241(a) loan may be different. It is important to keep all parties updated, as the Security Instrument from the original loan will need to be modified to include the additional property and endorsements to the title insurance policy insuring the Prior Security Instrument is required prior to Initial Endorsement.
- The Supplemental Note and Supplemental Security Instrument shall each contain a provision that a default under Prior Note evidencing and securing the Prior Security Instrument shall constitute a default under the said Supplemental Note and Supplemental Security Instrument.
- Things to work ahead:
 - Invoices
 - Building Permits

Closing Process:

- Submit updated HUD-5372 (Construction Progress Schedule) and HUD-92328-ORCF (Contractor's and or Mortgagor's Cost Breakdown Schedule of Values) within 30 days of Initial Endorsement
 - This should be more than simply new forms with an updated date.
 - Work with the Borrower's team to ensure the forms consider up-to-date cost and construction duration based on when the actual construction will commence.
- Increase in cost of construction and increased duration of construction will require a Firm Commitment Amendment, but the cost can be amortized over the life of the loan.
- Material cost increase change orders are not acceptable to HUD
- Time extension change orders require the Borrower to come out of pocket to fund soft costs.
 - Both of these costs can place an early financial burden on the Borrower.
- Having an experienced Construction Loan Administrator is a huge key to success
- Helpful info for Lender's Construction Loan Administrator: [New Construction, Substantial Rehabilitation and 241\(a\) with HUD Mortgage Insured Loans Presentation – September 20, 2022](#)

Closing Issues:

• Checklist

• LEAN Email Blast August 28, 2024 – Initial Closing Checklist updated

- The updated checklist does not add any new requirements. It expands on existing practices and reorganizes documents.
- Example – Previous version referenced “Licenses”. Current version references – Facility License, Administrator License and new Licenses / Applications for Licenses.

• Closing Documents

- Many documents are the “Supplemental” version.
- Example – Security Instrument is Form 94000-ORCF. The 241(a) requires the Supplemental version – Form 94000A- ORCF.

• Draw Schedule

- Ensure sources are available when you expect them to be and that all parties agree the order sources will be used.
- Understand Retainage Reduction.
- Verify that expenses are up to date ahead of closing.



Final Thoughts

Each Prospective

Underwriting/Closing/ORCF Perspectives

- Starting to see more 241a's
 - Good way to improve an existing asset
- If anything outside the normal start communicating with ORCF early.
 - Use LEAN Thinking
 - Request Environmental Review process starting early.
- Closing is not more difficult.



Questions?

HEALTHCARE MORTGAGEE ADVISORY COUNCIL
Financing Seniors Housing for America

This Photo by Unknown Author is licensed under [CC BY](#)

Thank you!

HEALTHCARE MORTGAGEE ADVISORY COUNCIL
Financing Seniors Housing for America



- MEMBERSHIP@HMACONLINE.NET

- HMACONLINE.NET