



THE ART AND SCIENCE
OF UNDERWRITING

HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

Give and Take: The Art of Underwriting a 232 Loan

Moderators:

Annisha Zegarski, Co-Chief Underwriter, NewPoint
Jenifer Williams, Chief Underwriter, Berkadia

Panelists:

Rachel Coleman, Supervisory Account Executive, HUD
Abby Hugill, Supervisory Account Executive, HUD
Jennifer Tadlock, Supervisory Account Executive, HUD
Holly Drake, Supervisory Account Executive, HUD



Purpose

In an effort to process applications more quickly, ORCF would like to share common items that frequently delay applications.

General Underwriting/Application Submissions:

- Org Charts should clearly identify Controlling Participants.
- Consolidated Certs need to have attachment for legal matters explanation.



- Previous Participation/ Consolidated Certs/Mortgage Credit of principals.
- Follow the guidelines (HB Ch 6.1.E for mortgage credit, HN 15-16 for Previous Participation) on who needs what level of vetting in which area.

Participant review

For Mortgage Credit: (HB Ch 6.1.E.1)

- If an individual has more than 25% ownership in a borrower, they must be included as a principal in the transaction, regardless of whether they are controlling or not.
- If an entity is a passthrough, they do not need to be included as a principal, but their owner does if they own more than 25% of the borrower.
- Note on Trusts: A determination of the principals of a trust requires an analysis of which individuals control the assets of the trust and what restrictions are placed upon them. Individuals who have effective control of trust assets should be treated as principals (typically the trustee). The Lender Narrative should explain the Lender's identification of trust principals.

For Previous Participation Review (APPS): (HN 16-15)

- If an entity or individual does not have control, they do not need to undergo previous participation review.

Org Charts must follow HN 16-15

- All ownership entities need to end with the individual(s) owning the entity. They cannot end with an entity or just the 0% manager.

Staffing and Demand



- Be sure the most recent list of staffing questions are answered in LN (Email Blast June 26, 2024).

- Summarize market supply and demand and make a conclusion.
- Don't just copy and paste tables from the appraisal; lender must analyze and conclude sufficient market.

Debt Review

Summarize/itemize debts to be refinanced efficiently and succinctly.

- **Confirm eligibility for debt less than 2 years old.**
- **Don't be mysterious about IOI debts; summarize why they are eligible.**
- **Confirm no interest accrual on IOI debt is included.**
- **Schedule of Debt to be Refinanced should show the total being refinanced by the subject, not just pooled debt total.**
- **When debt is allocated, Lender must provide allocation of the TOTAL pooled debt. All collateral projects must have an allocation. Include methodology for allocation.**



- For debt less than 2 years old
 - What's the debt, why is it eligible and what documentation shows that
- Recent purchases – settlement statement needed
- Capital Expenditures are costs that incurred to make significant betterments to the property
 - Not short term costs that support day to day operations
 - HMAC recommends that this be secured by a Note

- Check the 92264A/MILC, Sources & Uses
 - check for number consistencies, be sure proposed escrows are included.
- Financials no older than 90 days when application submitted.
- Watch the queue and be ready to submit updated financials if current submit is over 90 days.
 - HUD is doing their best to manage the queue and make their review more efficient



- Use/Follow the checklists as ORCF has put lots of guidance on the checklist to help Lenders submit the most efficient applications.
 - As an example, for AR Reviews it says to submit the redline ICA and often a non-redline version is submitted.
 - Be sure to include the CMS survey rating line from the template and don't make HUD ask for them. **

The use of a T-6

Application must meet 1.45 DSCR with the UW and actual T-12 NOI at application submission, inclusive of proposed R4R (unless using 11/20/23 Email Blast guidance to allow for a T-6.)

- In addition to the previously established benchmark of 1.45 DSCR on the T12, ORCF is generally willing to consider a T12 adjusted for a new published Medicaid Rate offset by some increase in expenses and an annualized T6 for purposes of initiating the review.
 - T6 actual NOI annualized (no adjustments for rate increases may be applied);
 - T12 NOI adjusted to reflect a documented increase in Medicaid rate, if applicable, offset by some increase in expenses. The offset can be achieved by applying a reasonable, stabilized historical operating margin to the increased revenue.
 - Any documented rate increases must be in effect as of the date of the T12.

Quality of Care/CMS ratings:



- Check CMS when projects are nearing top of the queue. If there is a new survey the LN must be updated. HUD can open an RAI while projects are waiting in the queue for updated submissions.
- Mitigate QOC risks with the available special conditions (all three or any combination of the three that are warranted). Please see the Special Conditions matrix.
- If a CMS consumer alert (red hand) is active on the subject, follow guidance in 11/20/23 Email Blast including providing an upfront Risk Management Assessment.
- Operator Portfolio – quality of care of the Operator as a whole, star ratings on entire portfolio – HUD and Non-HUD insured

HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

Appraisal and Environmental Reviews

Appraisal Reviews:

The appraisal team has gained massive efficiency in appraisal reviews. Any of the below scenarios negates these gains:

- Significant loan increases after firm issuance; changing underwriting after a firm is issued is generally NOT acceptable.
- Debt reallocations during underwriting creates a cascade of document changes and opportunity for time consuming mistakes. Also, might kick a deal back to appraisal review.
- New appraisals after HUD has started processing.

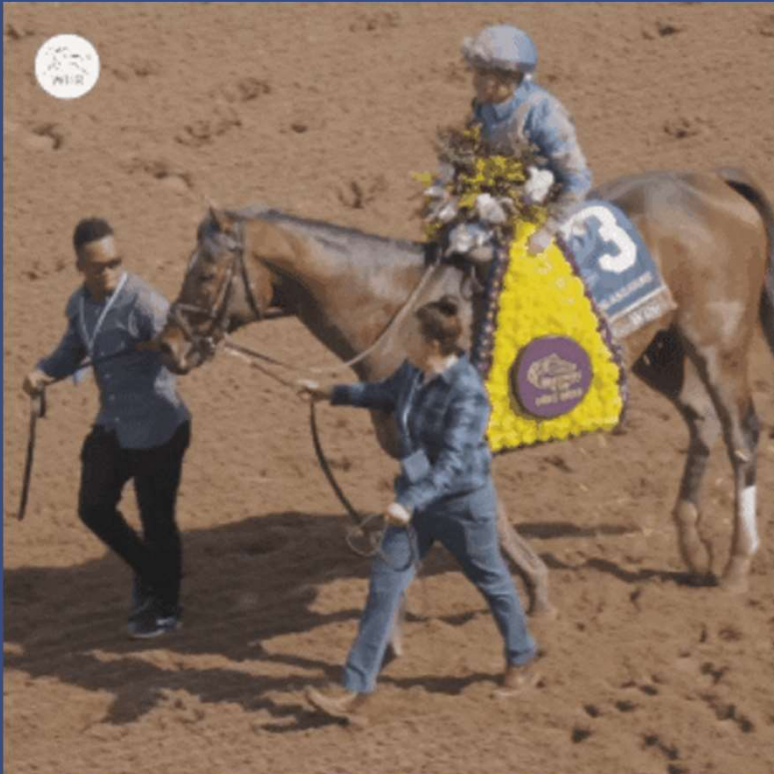
HEROS reviews:

- Phase I consultant completing the HEROS review helps with reviews being completed faster.
- Lenders should be thoroughly reading the assembled environmental documents and act on any triggers or follow up actions in reports. Missing this follow up will cause tremendous delays in processing because HUD will require the follow up actions be completed.

Decision Circuit

- **Financials:** The ORCF appraisers are often unable to find the TTM/YTD financials included in the appraisal report as part of the portal submission which hinders their ability to confirm the reconciliation with source financials. While ORCF requires financials in the application to be within 90-days of submission, the TTM/YTD financials should also be included in the portal for the appraiser to utilize.
- HMAC email regarding **Expense Adjustments** – 07/26/24
 - HUD doesn't want significant adjustments
 - It is critical that any expense or income adjustments are noted individually and not lumped together.
 - Any item included as an expense/revenue adjustment needs to be clearly described in the explanation cell (column J). Ideally this description matches the language in the P&L. If excel financials are submitted, the Lender can reference the cell number in the description so the appraiser can go directly to the item.





• Example of a Successful Application

- This application went to loan committee less than 3 weeks from application assignment even though it had a lot of complexities due to the application being very well put together.

- **Environmental:** Repairs included ground disturbance
 - The lender contacted Lean Thinking ahead of time to complete Tribal Consultation, Endangered Species Review and Coastal Zone Management Review. They then included the correspondence in the application in Section 1.
- **NOI:** Historical and T-12 NOI numbers were below the appraised numbers.
 - The lender underwrote the project at 71% LTV, so HUD was able to get comfortable with the project despite the ORCF appraiser having some concerns with the appraised value.
- **Other Facilities Owned, Operated and Managed:**
 - Clearly listed their other facilities in the Lender Narrative and which ones are HUD insured and which aren't so HUD could look them up quickly and easily.
- **Quality of Care:** This project had quality of care issues.
 - Clearly explained G+ tags and fines.
 - Completed a one time risk assessment ahead of time and included a table in the Lender's Narrative showing each recommendation from the report and what the facility was doing to implement the recommendation.
 - Proactively included 3 month Quality of Care Debt Service Escrow and 3rd Party Risk Management Program in addition to the Risk Management Assessment that was completed prior to application submission.

- **Master Lease:**

- Included a clear explanation of why a LGSA was proposed instead of a Master Lease

- **Organization Charts:**

- Included clear organization charts in compliance with Notice H16-15

- **Turnaround Examples:**

- Included turnaround examples in the Lender's Narrative

- **Debt:** Allocated Bank debt and partnership debt.

- Included clear explanation, documentation and allocation table. The debt was complicated, but the lender explained the debt and the documentation provided clearly and succinctly.

- **Special Conditions:**

- Used the Special Conditions Menu so all of the proposed conditions used the exact language HUD would use.



HEALTHCARE MORTGAGE ADVISORY COUNCIL
Financing Seniors Housing for America

