



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

*Hot Topics at a
Cool 88 MPH*

UW Hot Topics



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America



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Express Lane tips:



Criteria:

- Maximum of 70% loan to value.
- A minimum debt service coverage ratio using unadjusted* trailing 12-month net operating income (including the underwritten reserve for replacement deposit) as follows:
 - 2.0x for the skilled nursing facility portion of the facility
 - 1.6x for the non-skilled nursing facility portion of the facility
 - * "Unadjusted" is defined as having no modifications to net operating income (e.g. no adjustments for bad debt, management fee, rate increases, etc.)
- The following quality of care attributes (on skilled nursing facilities):
 - Minimum of 2 Star Medicare.GOV Overall star rating, and
 - Minimum of 2 Star Medicare.GOV Health Inspection star rating, and
 - No Red Hand (abuse/neglect) indicator on Medicare.GOV, and
 - No "G" tags or higher in the previous 12 months.

Express Lane tips:



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Criteria:

- All identified controlling participants must have no history of FHA insurance claims or defaults (60+ days late) on FHA-insured loans. Prior FHA program experience is not required.
- Not more than 20% of the facility's revenue can be attributed to a special use.
- The Operator must have been in place at the facility for two or more years prior to the application submission - owner in non-lease situations, and lessee in lease situations.
- The mortgage amount must not exceed:
 - \$70 million for the greater New York City area - i.e. five county-level administrative divisions/boroughs: The Bronx, Brooklyn, Manhattan, Queens, and Staten Island plus Long Island and Westchester County), or
 - \$50 million for any other area.
- The application must be ready to underwrite and a Firm Commitment decision must be able to be made immediately upon submittal (e.g. no outstanding environmental/previous participation review issues that need to be resolved, not awaiting an OHP Corporate Credit Review to be completed, etc.)

Issues that have limited eligibility to the Express Lane:

- PCNA / ESA issues
- Documentation for capex – HUD prefers invoices, do not utilize accounting ledgers
- CCR limits considerations - Submission pushed Borrower and/or Operator over CCR threshold.
- having a G tag in last 12 months
- less than 2 years of ownership
- If OHP determines that the application does not meet the criteria of the Express Lane during its review, the application will be placed in the 223(f) Queue based upon the application submittal date.



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
 - ORCF requires that this be secured by a Note prior to application submission

Debt Review



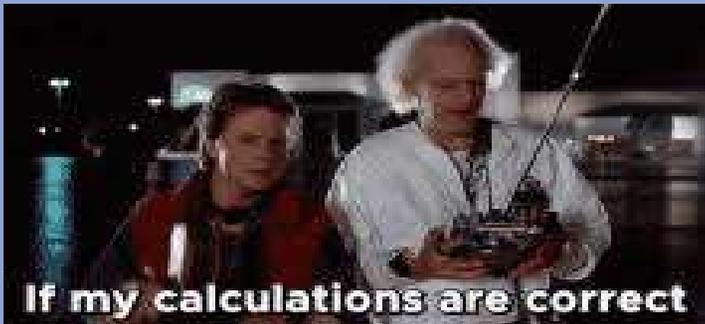
Helpful
Tips

Debt Allocation Chart: Please provide a clear chart showing how debt is allocated and explain allocation methodology.

ELIGIBILITY FOR LIMITED DEBT SEASONING EXCEPTIONS

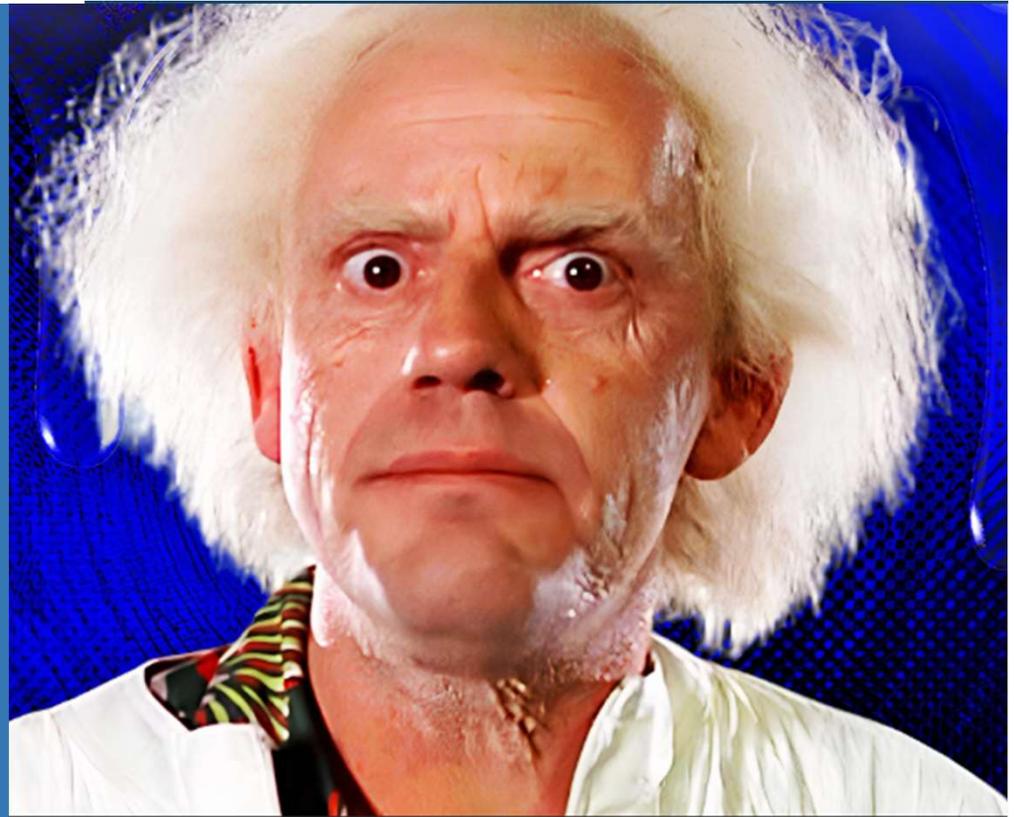
Certain low risk refinances under Section 223(f) are eligible for reduced debt seasoning times based on the respective loan-to-value and the portion of existing debt used for project purposes.

- As a reminder, and as detailed in ORCF's Section 232 Handbook 4232.1, Section II, Chapter 3 (3.13 (D)), consideration for less than two years seasoning requires:
 - "3+ years of stabilized historical cash flow which supports the value."
 - This historical cash flow should support the value on an in-place basis, and not subject to adjustments, including updated reimbursement rates.
 - ORCF recognizes that some upward trend in cash flow is anticipated as a result of increasing reimbursement rates; however, historical cash flow trends are expected to support the proposed value prior to any adjustments, and should not reflect significant variations in net operating income (NOI) over the observed periods.
 - If you are uncertain if a project meets the requirements for reduced debt seasoning, please send an inquiry to Lean Thinking for further guidance prior to submitting an application.



Making the Case for 3 Years of Stabilized Operations

- Instances that do NOT meet this requirement:
 - Change in operator in the last 3 years
 - Addition or shuttering of a building wing
 - Significant change in payor mix or occupancy
 - Addition of an income stream considered a special use by ORCF
 - Increase in NOI primarily due to savings in staffing expense



Making the Case for 3 Years of Stabilized Operations

- Instances that are nuanced and could potentially meet the requirement:
 - A purchase of the real estate by an existing operator or management agent
 - Facilities impacted by COVID, with a clear recovery timeline
 - Facilities with significant Medicaid rate bumps that are not considered temporary or due to a shift in care acuity
 - History includes extraordinary expense not expected to reoccur
 - Considering using a rolling 36 month analysis
 - The more nuanced, the more discussions and examples that are needed. You can always go to LT as a resource.

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Management Agents: Do I Have one?

When there is a Management Fee Being Earned, there are 3 Potential Courses of Action

- 1) Not underwriting the management agent, you have a consultant
- 2) Underwriting the management agent
- 3) Underwriting a management who additionally qualifies as an operator



Course of Action 1: (Administrative / Consulting Services Classification):

- Services provided to the facility
 - Record maintenance
 - Accounting, payroll, AP, or AR services
 - Risk Mgmt Consulting Services (QAPI plans, QC activities, review/tracking of incident reporting)
 - Consulting/Advising on Staff Hiring (as long as the management agreement is clear that final decision-making authority remains with the operator) (BACK OFFICE OPERATIONS – not resident facing)

Management Agents: Do I Have one? Cont...

Course of Action 2 (Management Agent Classification):

- The mgmt. agreement contains language indicating the entity has control of day-to-day operations – resident facing activities
- The mgmt. agreement contains language indicating the entity has control over hiring & firing of staff, especially the Administrator/Executive Director or Director of Care



Course of Action 3 (Management Agent w/ Operator Classification):

- The entity holds the facility license or CON
- The entity contracts with providers (Medicare, Medicaid, HMOs)
- The entity has access to and/or control of the facility operating accounts

In these cases, the management agent is required to sign the operator regulatory agreement.

Recent Purchase, Quick Turnaround Projects

Defined as...

- Purchase or Significant operational changes (within the last 2 years)
- Track record at this project doesn't support underwritten levels or there is a short Track record (less than 2 years operating relatively in line with underwritten levels)
Often includes repayment of all or most partnership debt

Reminder... that HUD views these as having elevated risk – make sure you have enough support and turnaround examples, preferably leave some equity in the deal

Reminder... that the 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.)



Turnaround Examples

For turnarounds, the operator must have a proven track record of successful turnarounds and maintaining operations. In support, the FHA Lender will provide in the Lender Narrative documentation from other similar project operations, including:

- i. Project name and address
- ii. For a time period (3 or more years) including before, during and after transition to the new operator:
 1. Revenue
 2. NOI
 3. Number of beds or residents or units
 4. Occupancy



Complete the Turnaround template for other facilities in their portfolio to support the Operator's abilities (minimum of 2)

Phase	Previous Operator	At Time of Transition	Post-Transition New Operator	Stabilized New Operator
Date/Year	FYE 2021	TTM April 30, 2022	FYE 2023	TTM 3/31/2025
Revenue	\$6,061,436	\$6,726,861	\$8,506,891	\$11,032,451
Expense	\$5,595,478	\$5,570,321	\$9,093,237	\$9,857,396
NOI	\$465,958	\$1,156,540	\$(586,346)	\$1,175,055
Occupancy	75%	78%	91.23%	94%
CMS Star Rating	2	3	3	3

Quality of Care/CMS Ratings:

Quality of Care: Will be discussed further in a separate session



- 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). DS Escrow, One time Risk Management Plan and Ongoing Risk Management Plan. 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

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When Escrows are Recommended

- The topic of escrows often come up when there are concerns over QofC or an application involving a recent purchase.
- A Debt Service Escrow can often be viewed as a risk mitigation tool for ORCF.
- Release provisions: If you proactively recommend a DS or QofC escrow or if you expect it may be required, pay attention to the release provisions.
 - Min Coverage: 1.45x vs. Underwritten Coverage
 - Star Ratings: 3-star overall or 3-star Health Inspection
- How to Avoid an Escrow Special Condition:
 - Up-front Risk Assessments on projects with QofC concerns
 - Sponsor with documented turnaround experience (the more the better!)
 - Defendable NOI for value

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What are Special Use Facilities?

- In the 232 Program, the term Special Use Facility references a facility that is:
- Statutorily eligible under Section 232 of the National Housing Act but which...
 - *Serves a resident group that requires specialized care & poses risks of a type or degree not present in other residential care facilities.*
- Examples (among others):
 - Behavioral Health Residents
 - Mentally Ill Residents
 - Bariatric Residents
 - Residents aged 21-65 requiring specialized treatment of serious mental illness (excluding dementia and intellectual/developmental disabilities)



Getting ORCF's initial take on Special Use Facility via Lean Thinking: First review "Characteristics of Successful Applications"



Review HUD's Matrix

Type	Loan Term	Experience	Maximum LTV	Recent Purchase, Quick Turnaround	Limited Debt Seasoning Exception
Assisted Living/Board and Care Medicaid Waiver with an Enhanced Services Contract	20 years or less	5+ years of relevant experience with this type of facility	60% LTV	No	No
SNF with regular license, but has MI/DD as a primary or secondary diagnosis (20% or more of the facility's revenue)	35 years or less	5+ years of relevant experience with this type of facility	80% LTV	No	No
SNF with regular license, but has MI/DD as a primary or secondary diagnosis (one wing/nominal part of the facility-Less than 20% of revenue)	35 years or less	5+ years of relevant experience with this type of facility	80% LTV	Yes	Yes
Drug and/or Alcohol Rehabilitation Facilities or Transitional Housing	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible

Getting ORCF's initial take on your Special Use Facility: Lean Thinking

- Come to Lean Thinking before applying. Here are topics to cover in LT.
- **The Resident Population**
 - What makes them special?
 - Discuss diagnoses, services needed, etc.
 - For behavioral care, distinguish primary v. secondary &, % residents below 65
- **The Facility Itself**
 - Location, age, design, condition
 - Characteristics for primary diagnosed MI population. Locked wards, wings?
 - Functional obsolescence? (wards, aged plant, marketability at market rate)
 - Type of License(s)
- **The Proposed Loan: LTV and Loan Term**



Getting ORCF's initial take on your Special Use Facility: **Lean Thinking** (continued)

- The Participant's Experience & Capacity with this Population (5+ years)
 - How long have they owned/operated this facility?
 - Star ratings/survey history
 - G tags, particularly any related to special use population
 - Experience as a whole team
 - Preferably at subject facility and beyond (similar settings/population)
 - Reliance on care provider partners/subcontracts?
 - Track record of successful financial performance
 - Experience with the applicable state/local regulatory/funding agencies.



Getting ORCF's initial take on your Special Use Facility: **Lean Thinking** (continued)



- Risk of Census Loss Related to Special Use
 - Olmstead
 - HCBS (not limited to, but particularly relevant to, Special Use Facilities)
 - State's rebalancing efforts
 - Other emerging state statutory/regulatory changes
 - Ability to backfill such losses while maintaining operations & debt service
-
- Funding Issues Related to Special Use
 - What funding source limitations and/or /rate adjustments apply here?
 - What impact if special use census was lost and backfilled?
 - If ALF w/ Medicaid waivers, any risk of HCBS compliance issues?

Portfolios and CCRs

Large Portfolio Size Classification	% of UPB	Preliminary FY2026 Amount (likely to increase when final data published)
Operator	0.6%	\$233,000,000
Owner Only	1.0%	\$372,000,000
Requires ORM Review	2.0%	\$743,000,000
Program Maximum	5.0%	\$1,859,000,000

CCR Best Practices:

- Request realistic total within the next 3 years, not pie-in-the-sky projection.
- Summarize the ask on page 1.
- Identify wonky portfolio attributes and mitigation
- Ensure that CCR subject’s existing HUD-insured facilities are in good standing with ORCF Asset Management
- Master Analysis in Spreadsheet Form (vs. pdf)
- Customary REO Schedule Data Points – Residential Care Facility Oriented

In person meeting are required with Frank Cassidy prior to CCR approval:

- Meetings expected to be an hour or less.
- Prepare presentation with clinical and financial metrics but the meeting is more of a discussion.
- Leadership will discuss history of organization, operating model, and growth plans.
- Address any potential “red flags” such as SFF Candidates in Principals’ portfolio.
- Similar to 242 Pre-app meetings but less formal.
- Meetings can be difficult to schedule so plan ahead.

Helpful Hints from HUD



Consolidated Certifications:

- Please review the Consolidated Certifications to confirm they are completed correctly.
- In particular, please review the instructions regarding litigation.
- It is not sufficient to note that litigation is typical to the industry.

Please provide a summary and the lender's analysis of any litigation in the Lender's Narrative.

- The lender's analysis should include an explanation of any potential loss associated with the litigation
 - how it will be covered
 - how the lender got comfortable with the risk associated with the litigation.

Helpful Hints from HUD



Organization Charts

- Incorrect or unclear organizational chart can really slow down the Previous Participation Review.
- It is critical that the organization charts included in the certifications represent the final versions, all specified capacities and principals are clearly documented, and all EIN/SSI information is included.
- Organization Charts should disclose down to the people involved at the bottom of the structure.
- Please see Housing Notice H16-15 for instructions on what the organization charts should include.

ORCF and HMAC Initiatives/Updates

Recent Changes: Sub Rehab thresholds

- Removes the 2-major systems entirely and the repair threshold increased from 15% to 25% of value after completion of repairs.
- This change allows more deals that wish to complete or have recently completed significant repairs to potentially be eligible for HUD

PCNA SOW

HMAC is exploring possible revisions to PCNA statement of work to make a tighter definition of repairs. We are looking to redefine the way we label these to find a way to meet the intention of the regs but alleviate the burden on the borrowers.

More Potential Changes on the Horizon:

- Environmental Mortgagee Letter – Positive updates to current environmental guidance.
- Removal of bathroom requirements for AL/B&C
- Removal of 3-Year Rule restriction

There are many layers of approvals for these items, but the fact they are in process is very positive!



Shocking Inspection stories

