HUD’s Lean 232 Program

Office of Residential Care Facilities (ORCF)

Update as of August 29, 2018



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# ORCF Appraisal Industry Group

Our ORCF appraisers are creating an industry group with the purpose of discussing topics that deal with Residential Care appraisals and reviews. To form this group, we are asking lenders to spread the word to appraisers. Joining is voluntary and will be limited to appraisers only. We will periodically hold conference calls, the frequency of which will be decided on the first call. While the discussions will be led by ORCF, they will be participatory in nature. Interested appraisers can join and suggest agenda topics by sending an email to Wayne Harris, Supervisory Appraiser at wayne.d.harris@hud.gov. Wayne will maintain a members list, create the agendas, and schedule the calls.

***Keywords:*** *Appraisers, Industry Group*

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# Improved Lists of Major Movable Equipment Necessary on Construction Loans

HUD’s Contract Inspectors are required to verify all Major Movable Equipment has been delivered to the site before the Final Inspection. To do this, they must have an “inspectable” List of Major Movable Equipment.  For example, a List that merely states, “Community Dining Room (tables and chairs),” is not sufficient.  The “Community Dining Room,” line item on an acceptable List of Major Movable Equipment would include, for example:

|  |  |  |  |
| --- | --- | --- | --- |
| **Location** | **Item** | **Quantity** | **Cost** |
| Community Dining Room | 36” square tables | 24 | $275.00 each |
|  | Dining chairs | 125 | $75.00 each |

The Lender’s Architectural Reviewer and Cost Analyst’s Statement of Work, dated July 30, 2018, has been revised accordingly ([here](https://www.hud.gov/sites/dfiles/Housing/documents/LenArCsReSOW.docx)).

***Keywords:*** *Major Movable Equipment, New Construction, Substantial Rehabilitation, 241(a), Lender’s Architectural Reviewer and Cost Analyst’s Statement of Work Documents, Firm Application Checklist, Firm Commitments*

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# Reminders Related to Florida’s Emergency Power (Generator) Rules

ORCF would like to thank all servicing lenders, borrowers and other stakeholders of Section 232 projects in Florida for their efforts in providing compliance status updates and working to process R4R requests pursuant to procedures outlined in our April 3, 2018 Email Blast. Please note the following points of emphasis:

* Florida’s Agency for Health Care Administration has a number of resources for borrowers and operators related to the Emergency Power Plan Rules posted online ([here](http://ahca.myflorida.com/MCHQ/Emergency_Activities/EPP.shtml)).
* Stakeholders can use [FloridaHealthFinder.gov](http://www.floridahealthfinder.gov/index.html) to ascertain a facility’s compliance status, including the date a facility’s emergency power plan was approved and the date until which the facility has to fully implement the plan with a permanent, on-site alternate power source, if applicable.
* All pertinent R4R release requests should be sent to the 232R4RRequest@hud.gov mailbox, rather than through the Portal, and should include a copy of the emergency plan submitted to the state to demonstrate full or partial compliance, and must include copies of any supporting documentation used in connection with getting an extension beyond the June 1, 2018 deadline.
* **For Skilled Nursing Facilities only:** The R4R release request must include a plan for replenishment of the R4R account within a six-year period (the approximate amount of time Medicaid is expected to reimburse providers via Florida’s Prospective Payment System). The total amount to be replenished should be supported by documentation reflecting the percentage of Medicaid beds at the facility (e.g. documentation of the percentage of beds licensed or certified for Medicaid or trailing 12-month Census by payer for the facility).
* Previous Email Blasts (most recently the April 3, 2018 Email Blast) indicated ORCF’s willingness to consider requests that would bring the R4R account balance below the standard recommended minimum threshold of $1,000 per unit. However, ORCF does not anticipate granting exceptions to this minimum threshold that would substantially deplete the R4R account balance.

Requests which will take the account below the ORCF-recommended $1000 per unit limit will be considered on a case-by-case basis to ensure the facility’s needs moving forward will not be impacted negatively.  Please review these cases with your assigned Account Executive (AE) and the AE can review it with his/her Workload Manager for approval. In most cases a Replacement Reserve analysis may be necessary to ensure the Replacement Reserve is adequately funded for the foreseeable future.

* ORCF is aware of one situation where a 5-year lease-to-purchase arrangement made sense for a facility’s cash position, allowing it to achieve compliance with the rule even though the final overall cost of the generator was higher than if it were purchased up front.  If lenders are considering this or other sorts of alternate financing arrangements, please be sure to detail the plan and get prior approval from the assigned AE.
* Lenders that service loans on facilities that do not have sufficient funds in their R4R account should contact their Account Executive to discuss other options for funding the costs of coming into compliance with these rules. ORCF would be open to considering Section 241(a) Supplemental Loans or Section 232(i) Fire Safety Equipment Loans if the project is otherwise eligible. Per 24 CFR 200.85, any supplemental loan that might otherwise be approved for the FHA borrower entity would need to be repayable only from surplus cash and cannot be amortizing.

***Keywords:*** *Florida Emergency* Generator Rules

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# Consolidated Certification Review Due Diligence

Lenders are reminded that as part of underwriting due diligence, lenders are required to review the Consolidated Certifications for all participants (not form HUD-2530) and to discuss any derogatory information in the Lender Narrative.  This review and discussion should include any pending lawsuits, judgments or investigations.  The Lender Narrative must discuss why any such instance is not a material risk to the transaction or provide an explanation of how the risk is mitigated.  An additional best practice is to perform Internet searches on participants, in case there is more recent information available.

***Keywords:*** *Consolidated Certification*

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# Details for Major Organizational Change Submissions in APPS

ORCF is working to improve turn-times related to previous participation requests. In order to streamline this process and expedite those reviews so that transactions can be completed in a consistent and timely manner, we need the below information to be submitted at the time of your review.

Per Housing Notice 16-15, if a transaction is being processed in conjunction with an APPS or paper previous participation submission (e.g. with a major organizational change that would trigger a change in participant or transfer of physical assets, based on Section 232 Handbook guidance), the submitter is not to send the APPS or paper submission until the transaction package is also submitted to HUD.  ORCF will not a process previous participation submission without having the transactional submission as well.  The previous participation review and approval is only one piece of the overall transactional submission and needs to be processed as part of that same review.  Please note that receiving approval of an APPS submission is *not* approval of the overall transaction, and if you are doing a paper submission it must be on the ORCF Consolidated Certification form, and not using the Multifamily form HUD-2530.  Applications submitting the form HUD-2530 will be returned.

For the previous participation submission for major organizational changes, once you have submitted the online APPS information, or the paper version, additional information is necessary to complete the review.  Since the APPS submissions may have been completed directly by the participant, the Lender/Servicer will need to provide a detailed email, with additional information, and a recommendation for approval per participant guidance noted throughout the Section 232 Handbook.  The Lender/Servicer email must be provided to 232PreviousParticipation@hud.gov, providing the information necessary to complete the review.  In order to ensure timely processing, submissions will not be assigned for review until the detailed email is received.

Detailed information to be included in the Lender/Servicer email, so that ORCF is able to evaluate and process the request, is outlined below.

* FHA Number
* Submission ID Number,
* Assigned Account Executive (find your Account Executive on the Account Executive Facility Assignments - Contact Listing on the Section 232 Program Website [here](https://www.hud.gov/federal_housing_administration/healthcare_facilities/residential_care/loan_servicing).
* Identify if the project is currently in Asset Management or Production/Underwriting
* Identify if there are other transactions in process related to the submission (refinance, change of participant, etc.)
* Provide date the transaction submission package related to this org change was submitted to HUD
* Is the submission for a portfolio?  List all projects the submission impacts for the org change
* Describe the purpose of the organizational change, including who is being added, who is being removed and why
* Per requirements of Notice 16-15 Section B, attach an org chart, identifying the proposed changes
* Does this package require HUD approval?  Does this trigger a change in participant, based on the [Section 232 Handbook 4232.1](https://www.hud.gov/program_offices/administration/hudclips/handbooks/hsgh/42321)?  If not, please explain why?
* Include Lender/Servicer recommendation for approval

***Keywords:*** *Previous Participation*

# Document Links Included In This Blast

1. [Lender’s Architectural Reviewer and Cost Analyst’s Statement of Work](https://www.hud.gov/sites/dfiles/Housing/documents/LenArCsReSOW.docx)
2. [Florida’s Agency for Health Care Administration](http://ahca.myflorida.com/MCHQ/Emergency_Activities/EPP.shtml)
3. [FloridaHealthFinder.gov](http://www.floridahealthfinder.gov/index.html)
4. [Account Executive Facility Assignments - Contact Listing](https://www.hud.gov/federal_housing_administration/healthcare_facilities/residential_care/loan_servicing)

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Past Lean 232 Updates are [available online](http://portal.hud.gov/hudportal/HUD?src=/federal_housing_administration/healthcare_facilities/residential_care/mail_blast_index).

Have questions about the Lean 232 Program? Please contact LeanThinking@hud.gov.

For more information on the Lean 232 Program, check out: <http://www.hud.gov/healthcare>.

Have your loan servicing colleagues joined our email list? The Email Blasts contain information relevant to them as well. You might suggest they [Join here](http://portal.hud.gov/hudportal/HUD?src=/subscribe/signup&listname=Lean%20232%20Updates&list=LEAN-232-UPDATES-L).

We hope that you will want to continue receiving information from HUD. We safeguard our lists and do not rent, sell, or permit the use of our lists by others, at any time, for any reason. If you wish to be taken off this mail list, please [go here](http://portal.hud.gov/hudportal/HUD?src=/subscribe/signup&listname=Lean%20232%20Updates&list=LEAN-232-UPDATES-L).