

## 17.1

## Background and Overview

This chapter provides an overview of HUD's policy with respect to portfolios - multiple projects with ~~the same ownership and supersedes previous guidance in HUD Housing Notice H 01-03: "Review of Health Care Facility Portfolios and Changes to the Section 232 Programs" issued in 2001, and Mortgage Letter 00-42: "Headquarters Review of Certain Applications for Section 232 Mortgage Insurance" issued in 2000.~~ common ownership.

This policy ~~enhances~~strengthens the ability of ~~the Office of Residential Care Facilities (ORCF)~~ to manage risk in an ever-changing residential healthcare industry, ensure that the General Insurance Fund remains stable, and continue to support owners and operators of residential care facilities around the country.

~~Since 2000, HUD has seen an increase in the number of applications for financing of multiple projects under the same ownership and/or operating structures. This grouping of projects also referred to as portfolios, with common Borrowers and related or non-related operators, effectively concentrate a large amount of credit risk on a single parent entity. The risk profile of portfolios requires that HUD develop comprehensive measures to identify and mitigate the potential adverse impact of this risk.~~

HUD has seen an increase in the number of residential care facilities loan applications with common owners and related or non-related operators. Related entities with many insured loans ultimately create concentrated risk for these common ownership/operating structures. Historically, ORCF has looked at each portfolio tier in the same way, based on a fixed dollar amount. However, based on the experience of doing the corporate credit reviews on these applications and the experience during the loan terms thereafter, ORCF has determined that different circumstances demand different treatment. For example, in certain circumstances a non-operator owner may present less risk than a related owner-operator. **ORCF's approach to risk analysis for portfolios is now based on a combination of: (1) the relative size of the portfolio compared to the overall Section 232 portfolio's unpaid principal balance (UPB), and (2) owner/operator relationship.**

Finally, owners and operators that maintain high concentrations of UPB compared to the UPB of

40 the entire Section 232 portfolio have not had ongoing enterprise-level updates with ORCF if they  
41 are not actively borrowing new funds. This lack of communication with such companies over the  
42 term of their loans can sometimes cause HUD to be caught off guard when market conditions shift  
43 causing bankruptcy filings, receiverships and other asset management crises. In instances where  
44 HUD has required periodic enterprise-level updates as part of the global underwriting, such  
45 information has proven beneficial for all parties.

46  
47 In 2001 with Notice H 01-03, HUD prescribed a corporate credit review for midsize and large  
48 portfolio projects ~~in order~~ to assess the credit risk of the parent corporate or holding entity. HUD  
49 has always required that the lender submit a separate mortgage insurance application for each  
50 facility and that each project must individually meet HUD's underwriting requirements. HUD  
51 has also determined that for portfolios the overall financial, operational, regulatory and legal  
52 condition must also be evaluated to ensure that both the owners and operators have the  
53 experience and the financial strength to successfully operate a portfolio of residential healthcare  
54 facilities.

55  
56 Portfolio ~~corporate credit reviews~~ Corporate Credit Reviews (CCR) and master leases (see  
57 Production, Chapter 13) are the primary tools ORCF uses to identify and mitigate concentration  
58 risk associated with portfolio projects.

#### 59 ~~Ongoing Asset Management of Portfolios Post-Endorsement~~

60 ~~Lenders for portfolio projects should be advised that they now have a continuing obligation to~~  
61 ~~monitor the performance of both individual portfolio projects as well as the financial condition of~~  
62 ~~parent entities that own and/or operate portfolio projects after loan closing and until the loan is~~  
63 ~~repaid. ORCF will continue to develop its oversight and monitoring asset management system~~  
64 ~~for parent entities as a means to monitor project owners and operators, identify potential~~  
65 ~~problems and work with lenders in a preemptive manner with needed risk mitigation efforts.~~

## 68 **17.2**

## **Terms and Concepts**

69  
70 **Portfolio:** Two or more borrower entities or two or more operator entities that are under  
71 common ~~ownership and/or common~~ control, and meet minimum size classifications under 17.4.

72  
73 **Common Control:** ~~Is exhibited~~ Means two or more entities (Borrower, Operator, Management  
74 Agent or Consultant) are owned or controlled, directly or indirectly and solely or in part, by  
75 any the same individual(s), principal(s) or entity(ies) that controls the Borrower and/or operator  
76 regardless of the percentage of ownership interest, so long as the individual(s) or entity(ies)  
77 comprise each Borrower and/or operator., Affiliated residential care facilities and/or healthcare  
78 operating entities will be grouped into a portfolio if they share common control as defined here.  
79 Control of entities is defined at 24 CFR 200.216. Principal is defined in Production, Chapter 6  
80 (Participant Credit and Financial Review). The type of corporate credit review will depend in  
81 part on the size of the combined mortgage amount of the portfolio (see Section 17.4 below).

82  
83 **Single Asset Entity:** ~~For each individual project, the mortgaged property (SAE): The Mortgaged~~

84 Property shall be the only asset of the Borrower and the Operator, except as otherwise permitted  
85 by HUD, ~~the Operator~~. (please see Production, Chapter 2.5.B and 2.5.C for SAE requirements).

86  
87 **Affiliates/Affiliated:** Any person or business concern that directly or indirectly controls the  
88 policy decisions of a principal entity or has the power right to do so.

89  
90 **Portfolio Names:** Portfolio names are added to the name of the project for workload tracking in  
91 HUD systems so that the individual projects in the portfolio may be tracked together. Identifying  
92 a portfolio name allows for more efficient processing of Production applications, as portfolio  
93 groups can be readily identified and assigned to the same reviewer. Even if a single application  
94 is submitted at a time, if it meets the definition of a portfolio outlined in the Handbook, a  
95 portfolio name should be referenced in the FHA Number Request. Portfolio names also assist  
96 Asset Management in their overall risk management of the ORCF portfolio by indicating the  
97 relationship of individual projects and more effectively assigning the projects to the same  
98 Account Executive for oversight.

99  
100 **Controlling Entity:** Any entity which directs or has decision making authority of the Borrower,  
101 Operator, Management Agent or Consultant, regardless of percentage of ownership interest.

## 17.3

## Criteria for Portfolio Corporate Credit Review

104  
105 A portfolio ~~corporate credit review~~ CCR is required for all ~~midsize and large portfolios~~ Large  
106 Portfolios (See Section 17.4 below). Portfolio ~~corporate credit review~~ CCR procedures apply to  
107 owners and operators of residential care facilities and their affiliates in the following  
108 circumstances:

- 109 1. An application for mortgage insurance for purchase or refinance of an existing facility,  
110 pursuant to Section 223(f);
- 111 2. An application for mortgage insurance involving new construction or substantial  
112 rehabilitation pursuant to Section 232 NC/SR;
- 113 ~~3. A transfer of physical assets (TPA); or~~
- 114 4.3. A change in ownership and/or a change of control of facility operators Borrower or  
115 Operator. This will generally be a change in the lessee of a facility, a change in the  
116 operating license holder, and/or a change in the entity that contracts directly with  
117 residents. In some circumstances, a management agent may fill one or more of those roles  
118 and could trigger a change of control review if the management agent assumes healthcare  
119 operational responsibility.

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122 Portfolio reviews are not required for applications under Section 223(a)(7).

## 17.4

## Portfolio Size Classifications

126 Portfolios are classified based on the combination of number of facilities and total mortgage  
127 amount reflected in the applications for mortgage insurance submitted within any rolling 18-  
128 month timeframe that begins when the first application is assigned to an ORCF underwriter. In  
129 the case of a TPA or change in control of facility operations, portfolio size classification will be  
130 based on the number of FHA-insured individual mortgages (and their aggregate unpaid principal  
131 balance) and the 18-month window will begin when the ORCF asset manager begins processing.  
132

133 The submission of an application creates an open window for portfolio consideration. The  
134 window remains open for 18 months following the start of processing of the most recent  
135 application. Thus for multiple submissions, the cumulative open window may be longer than 18  
136 months from the first application to the last.  
137

138 This 18-month timeframe may be expanded, at the discretion of ORCF where necessary, to  
139 accomplish the intent of a complete portfolio review and to fully evaluate the risk to the General  
140 Insurance Fund. If the management of an accepted portfolio wishes to increase the number of  
141 projects and/or the total approved mortgage amount after the 18-month window, then ORCF will  
142 conduct an updated corporate credit review. Further, if 18 months or more passes after the  
143 issuance of a portfolio acceptance letter without any individual applications being submitted, and  
144 if management then decides it wants to begin submitting applications, ORCF will conduct an  
145 updated corporate credit review.  
146

147 Portfolios shall be classified as follows:  
148

149 **A. Small Portfolio\*:**

- 151 1. Up to 49 facilities and aggregate mortgage amount less than or equal to \$90,000,000.
- 152 2. A portfolio corporate credit review is not required.
- 153 3. The Certification of Multiple Projects is required.

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155  
156 *\*The portfolio corporate credit review is not required for small portfolios; however, the  
157 projects in the small portfolio will be required to enter into a master lease covering each  
158 ownership and operating entity for all projects included in the portfolio.  
159*

160  
161 **B. Midsize Portfolio:**

162 Portfolio size classification is based on threshold dollar amounts as compared to the FHA Fund's  
163 total UPB of the Section 232 portfolio of active loans.  
164

- 165 1. Up to 49 facilities and total mortgage amount greater than \$90,000,000 and less than  
166 or equal to \$250,000,000.
- 167 2. Portfolio corporate credit review and the Certification of Multiple Projects is  
168 required.  
169

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171 **C. Large Portfolio:**

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1. ~~50 or more facilities and/or an aggregate mortgage amount greater than \$250,000,000 and less than 5% of the current unpaid principal balance of the entire portfolio of active Section 232 loans.~~
  2. ~~Portfolio corporate credit review and the Certification of Multiple Projects is required.~~

180 **Portfolio Classifications**

181

	<u>Definitions<sup>1 2</sup></u>	<u>Corporate Credit Review</u>
<del># of Facilities / Total Mortgage Small Portfolios</del>	<del>Up to 49</del> <u>Up to 1% of UPB for common control Borrower only</u>  <u>Up to 0.6% UPB for common control Operator only or Identity-of-Interest Borrower/Operator.</u>	<del>50+</del> <u>Not Required</u>
	<del>\$0 &lt; x ≤ \$90M</del>	<del>SMALL</del>
	<del>\$90M &lt; x ≤ \$250M</del>	<del>MIDSIZE</del>
<del>\$250M &lt; x &lt; 5% of UPB Large Portfolios</del>	<u>1%-5% of UPB for common control Borrower only</u>  <u>0.6%-5% of UPB for common control Operator only or Identity-of-Interest Borrower/Operator.</u>	<u>LARGE</u> <u>Required</u>

182  
183 **ORCF will not approve portfolios with an aggregate mortgage amount in excess of 5% of the current unpaid principal balance (UPB) of the entire portfolio of active Section 232 loans. The current UPB amount may be obtained upon request from the Director of the ORCF.**

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187 Portfolio CCR and the Certification of Multiple Projects (see 17.5) are required for all Large Portfolios. CCR and the Certification of Multiple Projects will not be required for Small Portfolios; however, the projects in the Small Portfolio will be required to enter into a master lease covering

<sup>1</sup> UPB utilized for purposes of threshold will be set annually, in conjunction with HUD's FY.

<sup>2</sup> The changes to portfolio classification does not replace other risk mitigation requirements such as a Debt Service Reserve, Mortgage Reserve Fund, or other risk mitigation.

190 each Project in the portfolio.

191  
192 CCR Kickoff: Before undergoing full due diligence of a CCR, the lender must schedule a call with  
193 the Director of ORCF, or designee, to discuss the proposed portfolio. This call should identify key  
194 issues impacting the required due diligence for the CCR and the timing of the review. Further, the  
195 lender and ORCF may elect to have an in-person meeting to discuss the portfolio. It is highly  
196 encouraged to have regular calls with ORCF, during both the CCR and underwriting.  
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## 17.5

## Certification of Multiple Projects

199  
200 The lender will obtain a Certification of Multiple Projects, such as is found as part of both the  
201 form Consolidated Certification—Borrower, and form Consolidated Certification—Principal of  
202 the Borrower. The Certification of Multiple Projects must include all HUD projects that the  
203 borrower and/or principal(s) participates or proposes to participate in an application for Section  
204 232 mortgage insurance, ~~a TPA, or change in ownership or control~~ a CHOP of facility  
205 operations-an existing FHA-insured Large Portfolio. The purpose of this Certification is to  
206 ensure that HUD is fully aware of all residential care ~~and/or healthcare projects/facilities -~~ that  
207 may be submitted as part of a portfolio application and ~~or of~~ any other FHA-insured residential  
208 care facilities with common principals to the current application. It is essential that HUD have  
209 this information to ensure that applications are processed properly and for accurate classification  
210 in the asset management system.

211  
212 The Certification of Multiple Projects shall provide the following information:

- 213  
214 1. The number, location, and estimated mortgage amount of all facilities that are or will  
215 be included in applications for FHA mortgage insurance ~~that will be submitted within~~  
216 ~~the 18-month open window as specified in Section 17.4;~~
- 217  
218 2. Each certifying borrower's, principal's, ~~or~~ and affiliate's roles in the proposed  
219 project(s);
- 220  
221 3. All current FHA-insured ~~or~~ and HUD-held loans (include name and FHA number) for  
222 which the certifier is a ~~Borrower~~ borrower, operator, or other principal as defined in  
223 Production 6.1, except that certifications submitted with ~~an a~~ 223(a)(7) application)  
224 do not need to be included; and
- 225  
226 4. Provide on the signature page of the Certification of Multiple Projects that the  
227 information on the certificate is accurate and include the following: "HUD will  
228 prosecute Anyone who knowingly submits a false claims and statements. Convictions  
229 may result in claim or makes a false statement is subject to criminal and/or civil  
230 penalties, including confinement for up to 30 years, fines, and civil and administrative  
231 penalties (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802; 24  
232 CFR 200.62).”—."
- 233

- 234 5. Provide on the signature page of the Certification the following: ~~“This Certification~~  
235 ~~has been made, presented and delivered for the purpose of influencing an official action~~  
236 ~~of the FHA, and of the Commissioner, and may be relied upon by the Commissioner~~  
237 ~~as a true and accurate statement of the facts contained therein.”~~  
238

239 For ~~midsize and large portfolios~~Large Portfolios, submit the Consolidated Certification ~~of~~  
240 ~~Multiple Projects~~ in the portfolio corporate credit review package. For ~~small portfolios~~Small  
241 Portfolios, submit the Consolidated Certification ~~of Multiple Projects~~ with each individual  
242 mortgage insurance application.  
243

244 All applications for financing, refinancing, ~~TPA~~, or change in facility ~~operators~~owner and/or  
245 Operators of two or more Section 232 projects, or one project where the proposed principals  
246 already participate in other properties with mortgage insurance under Section 232, must include  
247 the certifications in their submission.  
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## 17.6

### Portfolio Corporate Credit Review Description

250 To assist ORCF in reviewing ~~midsize and large portfolio~~Large Portfolio qualifications, the  
251 lender must submit the information required for a portfolio corporate credit review. Lenders  
252 shall consult with the Director of ORCF, or designee, regarding the financial, legal and  
253 organizational structure of a proposed portfolio submission at the beginning of the process of  
254 defining the scope of the portfolio corporate credit review. This communication with ORCF is  
255 necessary to ensure that the corporate credit review addresses the relevant information and risk  
256 factors. ORCF will determine the subject of the portfolio corporate credit review as the entity  
257 (both ownership and operational) that may potentially create a material risk to the projects and to  
258 the General Insurance Fund. ~~ORCF will review all materials submitted in the portfolio corporate~~  
259 ~~credit review and determine whether the portfolio is an acceptable risk to the General Insurance~~  
260 ~~Fund based on operation and ownership experience, financial strength, quality indicators, and~~  
261 ~~any pending legal issues including the jurisdictional regulatory environments. The Office of~~  
262 ~~Risk Management (ORM) and the Office of General Counsel (OGC) are also participants in this~~  
263 ~~review process.~~  
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266 The HUD offices required to review the risk related to CCR requests are based upon the  
267 percentage of HUD’s total UPB of the Section 232 portfolio of active loans, as follows:  
268

- 269 1. All Large Portfolio reviews are to be conducted by ORCF program staff. HUD’s Office  
270 of General Counsel (OGC) will conduct an advisory review of the CCR to identify  
271 potential legal concerns;
- 272 2. Reviews exceeding 2% of UPB but not more than 5% of UPB are to also be reviewed by  
273 HUD’s Office of Risk Management (ORM) for their advisory opinion; and
- 274 3. The Deputy Assistant Secretary of OHP, or his/her designee, will provide the final  
275 decision regarding acceptance of the proposed portfolio, based on an assessment of all  
276 analyses described above.

277  
278 ORCF will require a mortgage reserve fund for all ~~midsize and large portfolios~~ Large Portfolios  
279 and may impose additional requirements and/or limitations on the portfolio as well as other risk  
280 mitigants. These additional requirements may include, for example, ~~reserves for capital~~  
281 improvements, a higher mortgage reserve fund, lower loan to value requirements, professional  
282 liability insurance reserve funds, third party risk management programs for facility operations  
283 and quality of care, and limitations on cash distributions until certain sustained cash flow  
284 multiples are met.

285  
286 **The lender may ~~not submit individual applications as part of a midsize or large portfolio~~ up**  
287 **to ORCF for processing until the appropriate Large Portfolio threshold prior to issuance of**  
288 **a portfolio acceptance letter, signed by the Office of Healthcare Programs (OHP) Deputy**  
289 **Assistant Secretary, ~~has been issued.~~ Such applications must include a mortgage reserve**  
290 **fund and any other risk mitigants which the lender can reasonably be expected to be**  
291 **required during the portfolio corporate credit review process.**

292  
293 ~~The~~ An initial baseline portfolio ~~corporate credit review materials~~ CCR must contain the  
294 information identified in ~~Section 17.7~~ the checklist and be presented following the list in Section  
295 17.8 below. ~~There are scenarios where the list of submission materials may be modified based on~~  
296 ~~the nature of the transaction. Refer to Section 17.9 for a description of some common modified~~  
297 ~~scenarios.~~ The complete package must be submitted electronically. If ~~separate~~ hard copies are  
298 also delivered to HUD, all materials must be labeled and tabbed according to the outline.

299  
300 The information in this package must be compiled by the borrower or the lender; however, the  
301 lender or borrower may engage a public accountant or other consulting firm with appropriate  
302 expertise to assist with the compilation of the information. The lender must notify HUD of what  
303 entity or entities prepared or substantially assisted in the preparation of the ~~corporate credit~~  
304 ~~review~~ CCR and any relationship that ~~exit~~ exists between the lender and the other parties  
305 preparing the documentation or involved in the transaction. ORCF may provide templates for  
306 inputting the portfolio ~~corporate credit review~~ CCR contents as listed in ~~Section 17.7 below~~ the  
307 checklist.

308  
309 The professional liability insurance (PLI) review and the accounts receivable (ARA/R) financing  
310 review (if applicable) will occur in conjunction with the portfolio ~~corporate credit review~~ CCR.

311  
312 ~~Any owner or operator~~ The principal (s) must have a minimum of ten years relevant industry  
313 experience owning and/or operating residential care facilities to qualify for consideration of  
314 accumulating an aggregate HUD-insured mortgage portfolio meeting the definition of a Large  
315 Portfolio (defined in Section 17.4).

316  
317 A Borrower or Operator of a healthcare facility, ~~or their principal or affiliate or renamed or~~  
318 ~~reformulated company that has filed for, is in, or has emerged from~~ bankruptcy within five years  
319 ~~period preceding the date that such lender submits information to HUD as part of the mortgage~~  
320 ~~insurance process~~ is, may not eligible to participate in ~~any manner in~~ a facility ~~which seeks to have~~  
321 ~~its~~ seeking mortgage ~~loan insured~~ insurance through the Section 232 program ~~if the Borrower,~~  
322 Operator, principal, or affiliate is currently in bankruptcy or has filed for or emerged from

323 bankruptcy within 5 years of a lender’s application for insurance, CHOP, or similar process.

324  
325 A project in bankruptcy that is acquired by a non-identity-of-interest owner in good  
326 standing may be eligible for mortgage insurance, subject to HUD review. HUD will  
327 review updated financial information (post-bankruptcy) and the new ~~senior~~ management  
328 team.  
329  
330

## 17.7

## Portfolio Corporate Credit Review Contents

### ~~A. Description of the Company (Reviewed Entity):~~

- ~~1. Narrative description of operations and products;~~
- ~~2. The management policies (including a detailed statement with the mission, vision, and financial policies);~~
- ~~3. The legal structure of the company (including an organizational chart);~~
- ~~4. An explanation of the management structure (including a management organization chart);~~

344 A. Corporate Credit Review Checklists: Checklists for the CCR are provided on the Section 232  
345 Program website. It is necessary to differentiate checklists between owners, owner/operators,  
346 and operators. Therefore, it may be necessary to complete multiple CCRs checklists based  
347 upon the structure of a portfolio.

349 B. Portfolio Executive Summary: The Lender is required to provide a detailed summary of the  
350 proposed portfolio. ORCF has a sample Lender Narrative template available, if desired. This  
351 will ensure a seamless transition to the underwriting of individual applications.

353 C. Previous Participation Assessment: Evaluation of deal participants is an important part of  
354 ORCF’s credit process. Portfolios will be required to complete this assessment as part of the  
355 CCR process.

357 D. In the absence of consolidated corporate financial statements for the entity or entities with  
358 Common Control of the Portfolio, the following information on principals is required in  
359 addition to the items in the CCR checklists:

1. Personal Financial and Credit Statement (HUD-92417-ORCF) for the last three years.
2. Personal Credit Report from a credit agency.
3. Detailed Schedule of Real Estate Owned, including:
  - a. Percent ownership in the borrower and/or operator entity
  - b. Indicate whether or not the individual is a managing member or controlling participant of the borrower and/or owner entity.

367 c. For any senior living asset, include the type of facility, number of units/beds,  
368 trailing twelve months (TTM) revenue, TTM expense and TTM occupancy,  
369 current debt service and TTM debt service coverage ratio, star rating, and  
370 operator.

371 4. Identify all interests in HUD-insured assets.

372  
373 E. Documentation of Source of Liquidity: While it is understood that successful facility  
374 operations are essential to maintaining cash flow to make mortgage payments, the CCR  
375 must contain financial statements from the individual or entity that can provide liquidity  
376 to cover any potential interruption in operations.

377  
378 ~~5. The strength of management (as measured by their biographies and industry~~  
379 ~~experience);~~

380  
381 ~~6. A list of officers and directors or trustees of the company including names, Social~~  
382 ~~Security Numbers or Employer Identification Numbers, addresses and titles of~~  
383 ~~positions;~~

384  
385 ~~7. Current resumes on the company and principals and operating officers of the~~  
386 ~~company;~~

387  
388 ~~8. Credit reports on the company and its operating officers (as provided by outside~~  
389 ~~research firms);~~

390  
391 ~~9. Discussion of outstanding Federal or State litigation involving criminal actions,~~  
392 ~~alleged fraud or abuse, any administrative or court complaints alleging fair lending or~~  
393 ~~fair housing discrimination, and/or other actions that may have an adverse financial or~~  
394 ~~regulatory effect on the facility(ies) and~~

395  
396 ~~10. If available, a report, including rating, prepared by a rating agency (such as Standard~~  
397 ~~& Poor's or Fitch);~~

398  
399 ~~11. Notify HUD if the owner of the proposed facilities to be financed have in the past two~~  
400 ~~years been in negotiations to sell the portfolio entity or are contemplating a sale of the~~  
401 ~~facilities or the company within the next three years.~~

402  
403 ~~**B. List of All Facilities Owned by the Borrower and Operated by the Operator (including**~~  
404 ~~**those facilities that are not part of the portfolio):**~~

405  
406 ~~1. Legal names of the real estate and operating entities;~~

407  
408 ~~2. Location of each facility by city and state;~~

409  
410 ~~3. Number of beds and/or units;~~

411  
412 ~~4. Current debt attributed to each facility and the basis for allocation;~~

- 413  
414 5. ~~Trailing 12 months revenue for each facility;~~  
415  
416 6. ~~Trailing 12 months Earnings Before Interest, Taxes, Depreciation, Amortization and~~  
417 ~~Rent (EBITDAR) for each facility;~~  
418  
419 7. ~~Trailing 12 months occupancy/census data and payor mix for each facility; and~~  
420  
421 8. ~~Identification of the facilities to be included in the FHA financing.~~  
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423 **C. ~~Financial Summary:~~**  
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- 425 1. ~~Provide the most recent three years of audited consolidated financial statements~~  
426 ~~including income statements, balance sheets, and cash flow statements for the parent~~  
427 ~~entity (ownership and/or operating entity) that is under review. If audited financial~~  
428 ~~statements are not available, the lender may substitute owner certified financial~~  
429 ~~statements. The financial statements and any summaries must include all associated~~  
430 ~~facilities, corporate overhead and other revenues and expenses as well as all notes to~~  
431 ~~the financial statements;~~  
432  
433 2. ~~Interim financial statements (through the reporting date) including trailing 12 months;~~  
434  
435 3. ~~Operating and financial forecasts and plans, including corporate strategy and~~  
436 ~~acquisition/disposition/new development strategy (as prepared by management);~~  
437  
438 4. ~~Financial analysis and cash flow proformas that provide EBITDAR margins,~~  
439 ~~leverage ratios and cash flows, and base case and worse case running scenarios on~~  
440 ~~future cash flows (as prepared by management and compared to industry benchmarks~~  
441 ~~of performance);~~  
442  
443 5. ~~Projected cash flow analysis after the FHA refinancing including the anticipated debt~~  
444 ~~service payment for the FHA mortgage. The mortgage payment should include the~~  
445 ~~projected interest rate including the mortgage insurance premium and the correct term~~  
446 ~~of the loan. The cash flow projections should have sensitivity analysis showing~~  
447 ~~effects of reduced occupancy, lower government receivables, and higher than~~  
448 ~~anticipated expenses.~~  
449  
450 6. ~~Corporate debt structure including terms, rates, conditions and payment dates of all~~  
451 ~~long and short term debts and current debt obligations and standby credit instruments~~  
452 ~~and violations of loan covenants that occurred in the past two years;~~  
453  
454 7. ~~List of derivatives obligations including termination dates, maximum risk exposure,~~  
455 ~~and interim payment requirements for swaps, credit derivatives and other derivative~~  
456 ~~obligations. Include current market values and prepayment penalties if any; and~~  
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458 8. ~~Capital/equity structure of the firm.~~

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**~~D. Operations:~~**

- ~~1. Summary of three years of consolidated census data including beds/units available, beds/units occupied, and payor and quality mix;~~
- ~~2. Summary of three years of average daily rate reimbursement by payor type;~~
- ~~3. Description, breakdown and amount of ancillary revenue;~~
- ~~4. Management fee as a percent of revenue (if applicable); and~~
- ~~5. Provide information on therapy services provided by a non related third party, if applicable.~~

**~~E. Professional Liability Insurance and Risk Management:~~**

- ~~1. Evidence of PLI coverage and supporting documentation in compliance with Production, Appendix 14.1;~~
- ~~2. Six year loss history and calculation of dollar amount of claims per bed per year for all properties, including the non HUD properties that will not be included in the portfolio;~~
- ~~3. Narrative of company's risk management and loss prevention policies;~~
- ~~4. Summary of State licensing surveys [inspection reports] for the past three years that address:
  - ~~a. Quality of care issues;~~
  - ~~b. Average citations for each facility showing both G and above and as compared to the state average in each state.~~
  - ~~c. Citations of any previous uncorrected findings (rare); and~~
  - ~~d. Civil money penalties imposed on the site.~~~~
- ~~5. Parent or captive actuarial statements if available;~~
- ~~6. Audited financial statements of the captive (last three years), if applicable;~~
- ~~7. Provide information on all ongoing or anticipated Qui Tam suits and/or State/Federal investigations on Medicare fraud or serious quality of care issues and any other material legal litigation;~~
- ~~8. CMS Star Ratings and CMS provider numbers for each skilled nursing facility; and~~

505 9. ~~A list of any facilities on the CMS Special Focus Facilities list under the PLI.~~

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508 **F. ~~Accounts Receivable Financing (if applicable):~~**

509  
510 1. ~~Evidence that any existing or proposed AR financing is in compliance with HUD~~  
511 ~~requirements, including separate AR lines for FHA and non-FHA insured facilities;~~

512  
513 2. ~~Name of AR lender; and~~

514  
515 ~~Terms and limits of the loan.~~

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517 **G. ~~Other Lines of Business~~**

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519 ~~The lender will review and analyze the financial condition of all other properties, business~~  
520 ~~entities (for example, company owned rehabilitation services), and lines of business under~~  
521 ~~common control by the parent entity but are not being financed with FHA mortgage~~  
522 ~~insurance. The review will include details of the financial relationships between the business~~  
523 ~~entities and the proposed FHA portfolio projects, as well as an analysis of net cash flows, debt~~  
524 ~~service coverage, and credit worthiness of the entity and its owner. The review is to determine~~  
525 ~~event risk of the non-FHA pool of assets and its potential adverse impact on the FHA pool of~~  
526 ~~assets.~~

527  
528 ~~If a public accountant, consulting firm, and/or lender identifies issues that may create financial~~  
529 ~~or operational risk and could materially impact the FHA insured assets, then the lender or his~~  
530 ~~designee will perform a more in-depth analysis. The portfolio corporate credit review~~  
531 ~~submission will provide this information to HUD along with the lender's analysis of all~~  
532 ~~relevant information and recommendations.~~

533  
534 **H. ~~Certification of No Investigation, Judicial or Administrative Action~~**

535  
536 ~~The Borrower and Operator must certify to HUD that the subject of the corporate credit review,~~  
537 ~~a parent, affiliate, or subsidiary thereof, and/or the operator is not the subject of an ongoing~~  
538 ~~investigation or judicial or administrative action involving any Federal, State, municipal and/or~~  
539 ~~other regulatory authority, which may have a detrimental impact on the financial condition or~~  
540 ~~jeopardizes any facility's license and/or the provider agreements. Further, the lender will be~~  
541 ~~required to certify at the time of closing that from the date of the portfolio acceptance letter~~  
542 ~~through the date of final closing there have been no material adverse change in the financial or~~  
543 ~~operational position of the portfolio subject owner and/or operator. OGC will evaluate any~~  
544 ~~active investigations or litigation to determine whether or not they pose a serious risk to the~~  
545 ~~portfolio such that processing should be discontinued or placed on hold.~~

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For those portfolios requiring a portfolio ~~corporate credit review~~Corporate Credit Review, the submission package must contain the following items in addition to the information required in Section 17.7 above. Please ensure that all ~~hardcopy~~ materials are labeled, tabbed, and ~~following~~follow this format. Submit this package to the Director of ORCF.

1. The relevant Consolidated Certifications ~~of Multiple Projects as described in Section 17.5.~~
2. Portfolio corporate credit review and all supporting documentation as described in Section 17.7.
- ~~3. Previous Participation Certification. Please reference Housing Notice H 2016-15 (or successors thereto) for additional information on the Previous Participation requirements.~~
- ~~4.3.~~ Explanation of any intent to reallocate base rent (Owner may reallocate base rent allocated to each real property covered by a master lease so long as the total aggregate amount of base rent for all the leased premises is not increased).
- ~~5.4.~~ Master lease submission for facilities in a portfolio transaction (if available). The current master lease provisions are described in Production, Chapter 13.
- ~~6.5.~~ Information demonstrating compliance with liability and property insurance requirements. PLI must be in compliance with Production, Appendix 14.1 (the PLI review occurs with the portfolio corporate credit review).
- ~~7.6.~~ Information demonstrating that ARA/R financing complies with HUD requirements. (The ARA/R financing review occurs with the portfolio corporate credit review.)
- ~~8.7.~~ Certification that all proposed projects shall meet the Single Asset Borrower Entity standard. This and all certifications addressed to HUD must include the language from 24 CFR 200.62.
- ~~9.8.~~ Financial Statement Certification. This and all certifications addressed to HUD must include the language from 24 CFR 200.62.
9. Certification of No Investigation, Judicial or Administrative Action:

The Borrower and Operator must certify to HUD that the subject of the corporate credit review, a parent, affiliate, any subsidiary thereof, and the operator are not the subject of an ongoing investigation or judicial or administrative action involving any Federal, State, municipal or other regulatory authority, that may have a detrimental impact on the financial condition or jeopardizes any facility's license and/or the provider agreements. Further, the Borrower and Operator must certify to HUD that the subject of the corporate credit review, a parent, affiliate, any subsidiary thereof, and the operator are not the subject of a class action lawsuit (or similar action, such as class action arbitration or mass tort case) (certified or potential). Further, the lender will be required to certify at the time of closing that from the date of the portfolio acceptance letter through the date of final closing there have been no material adverse change in the financial or operational position of the controlling entity or principal(s). OGC will evaluate any investigations or litigation to determine whether they pose a serious risk to the portfolio such that processing should be discontinued or placed on hold. This and all certifications addressed to HUD must include the language from 24 CFR 200.62.

594 The submission must clearly identify all proposed portfolio projects, including project name,  
595 location, FHA number and mortgage amount to be requested, if known. ORCF understands that  
596 such a list may be preliminary and subject to change. Also, for ORCF planning purposes, the  
597 lender should provide a preliminary schedule and timing of individual application submissions.  
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## **17.9**

## **Modified Corporate Credit Review Contents**

### **A. Requests for Additional Capacity After an Initial Baseline Corporate Credit Review**

#### **1. Less Than or Equal to \$50M Total Additional**

Provided that an existing HUD-insured Large Portfolio of loans is in good standing, additional individual applications not to exceed \$50M in the aggregate per 18-month period following the last loan closing may be submitted to the queue for underwriting consideration with notice to HUD that they will be added to an existing Large Portfolio.

#### **2. Greater Than \$50M Total Within Eighteen Months**

The lender must submit updates to the original CCR application for the interim period since the previous CCR including: parent financials, description of significant events or changes to business (e.g., acquisitions, dispositions, regulatory or legal actions, changes in executive management, etc.) and an updated schedule of all facilities owned and/or operated.

ORCF will analyze the operator financial statements submitted through the portal and quality of care indicators for each existing HUD-insured facility, Asset Management history, including any late mortgage payments, regulatory agreement violations, DEC referrals, troubled status, etc. and Annual Update Call meeting minutes (see Section 17.10).

### **B. Single Large Loan**

A CCR is not required for a single large loan, however the Director of ORCF, or designee, will review the application package submitted by the lender, and a site visit is required by the ORCF Credit Risk Officer, Production Director, Production Deputy Director and/or Production Workload Manager.

### **C. CHOP**

Follow checklist for submission of items related only to the individual(s) and/or entities in the organizational structure that are changing.

### **D. Other Scenarios**

Submission materials may vary depending on the nature of the transaction and will be determined by ORCF. Contact the Director of ORCF, or designee, for guidance.

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## **17.10**

## **Asset Management of Portfolios**

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Ongoing monitoring of Large Portfolios is critical to the success of the General Insurance Fund. Portfolios meeting the above requirements (currently in the Section 232 portfolio and future portfolios) will be subject to the following:

A. Annual Update Call<sup>3</sup>. The call will include the FHA Servicing Lender, certain members of ORCF Leadership and Asset Management and should be attended by the key management team members from the entity, as determined by ORCF. The agenda for the call will, at a minimum, cover the items included on the Corporate Credit Review checklist posted on the Section 232 website. The annual nature of these calls will allow ORCF to maintain current information on the portfolio and will avoid the need for updated CCRs based on an 18-month passage of time between applications.

The Annual Update Calls are also required for all portfolios that received a portfolio acceptance letter prior to the effective date of this Handbook.

A.B. Participant Change Risk Mitigation. CHOPs that result in a change in one or more Portfolio operators (or in the case of an owner-operated Facility, the owner) will require a more in-depth underwriting review of the proposed participants. The Lender Narrative templates (Form HUD-92266A-ORCF and Form HUD-92266-ORCF) are available on the Section 232 website. Consistent with the Lender Narrative, the lender's ORCF-approved underwriter will be required to complete an analysis of the proposed participants and ensure that they are an appropriate replacement for the existing operator.

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<sup>3</sup> Annual update call to be completed within 60 days of anniversary date of CCR approval letter or other date approved by HUD.