**HUD’s Lean 232 Program**

**Office of Residential Care Facilities (ORCF)**

**Update as of December 19, 2018**



*December 19, 2018 Contents*

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**Addressing Quality of Care Issues in Application**

Quality of care issues are of paramount importance during underwriting review, as the Lender Narrative template makes clear. In that regard, when data suggests quality of care concerns, ORCF expects the lender to provide detailed explanation about those matters in the Lender Narrative. Examples are situations when:

1. There is a 1 Star CMS rating for overall or health inspections,
2. There have been “G” or Higher survey tags in the past year, or
3. There have been other care related issues.

When these quality of care issues are present, the lender should address these issues by providing details, including the following information:

* What specific steps has the operator taken to improve the overall quality of care.  This should address the specific survey tags, and also quality of care in general.
* Evidence that these steps have led to improved care and survey results.
* Facility names and addresses for their other facilities, Star Ratings, an explanation of survey history at those projects and information on any Denials of Payment or Civil Money Penalties at these facilities to provide evidence that the operator is capable of providing strong quality of care.

It is not sufficient to simply add a one-time risk assessment or a third-party risk management program special condition without including the above information.

***Keywords:*** *Quality of Care*

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**Professional Liability Insurance (PLI) and Valuation**

In developing a market value for loan sizing, Handbook 4232.1, Section II, Chapter 5.3.D states that the appraisal should “mimic the processes of the market and estimate the most probable sales price of the going-concern.” The Advisory Note in Chapter 5.3.R also states that “Revenue and expenses should always be estimated based on market expectations as a stand-alone facility of that particular asset type and class”. When estimating the expense of Professional Liability Insurance, please do not simply select an average market expense for an average user. The rate going forward to any owner is dependent on the actual history of claims, as well as the care/star rating. Therefore, the going-concern of a low rated property with a history of high claim rates would have a higher conclusion for market PLI expense than a highly rated property with a low rate of claims. ORCF implements this guidance to portfolios on a property by property basis, rather than applying the same PLI expense per bed across the entire portfolio.

***Keywords:*** *Professional Liability Insurance, Expense, Market Value*

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**Helpful Tips for Contacting ORCF Outside the Portal**

While most ORCF transactions can and should now be completed using the 232 Healthcare Portal ([here](https://www.hud.gov/federal_housing_administration/healthcare_facilities/residential_care/232_healthcare_portal)), we recognize that there are some times when additional assistance is needed. Please see the chart below for additional resources:

|  |  |
| --- | --- |
| Account Executive Facility Assignments Contact Listing [here](https://www.hud.gov/federal_housing_administration/healthcare_facilities/residential_care/loan_servicing) | To find the assigned Account Executive for projects under management |
| HHCP@hud.gov | For technical assistance or issues with the Portal |
| 232R4RRequest@hud.gov, 232TPA@hud.govOHPTribeNotice@hud.gov | For servicing Lenders temporarily without Portal access who need to submit specific loan servicing transactions to Asset Management (R4R, TPA or Asset Management Tribal Notice only) |
| LeanThinking@hud.gov | For comments or questions on the website and for program questions when no AE, UW or closer assigned. |
| **Helpful emails outside of ORCF:** |  |
| Apps-F24@hud.gov | For technical assistance with APPS: |
| REAC\_TAC@hud.gov | Technical Support for FASS and PASS |
| Revised9807Terminations@hud.gov | For final mortgage insurance termination processing only (after all conditions noted in the prepayment approval have been met). |

***Keywords:*** *232 Healthcare Portal, Asset Management, LeanThinking*

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**Section 106 Historic Preservation Reviews in the State of Minnesota**

To streamline Section 106 Historic Preservation Reviews, HUD now has a Programmatic Agreement with the Minnesota (MN) State Historic Preservation Office (SHPO).  Lenders and Phase I consultants working on projects located in Minnesota should review the Programmatic Agreement and accompanying instructions which can be found ([here](https://www.hud.gov/sites/dfiles/Housing/documents/MN_SHPO_PrgAgrt.pdf)).  Please note that the MN SHPO does NOT accept submissions for Section 106 Reviews from lenders or Phase I consultants.  The HUD Office is responsible for requesting the Section 106 review from the SHPO in instances where a review is required.

***Keywords:*** *Section 106*

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**FROM THE CLOSING CORNER**

**Clarification on Completion of Critical and Non-Critical Repairs Prior to Closing**

A required exhibit in the draft closing package is the signed/dated Owner’s Certification - Completion of Critical Repairs with photos and invoices.  Lenders should carefully review the critical repair list from the PCNA and discuss Exhibit C – Critical, Non-Critical & Borrower Elective Repairs List, as applicable, of the firm commitment with the borrower in advance of submission of a draft closing package to ensure that the borrower understands the critical repair requirements.

Lenders may submit a request to move critical repairs to the non-critical repair category for ORCF consideration if:

* Weather prohibits the repair from being completed prior to closing.
* The PCNA analyst incorrectly identified a non-critical repair as a critical repair and documentation from the PCNA analyst correcting the error is provided.

The amendment request should be submitted to the assigned ORCF Closer; ORCF Underwriter approval will be required.

ORCF will **not** consider requests to move critical repairs to the non-critical repair category in the following situations:

* Borrower didn’t get started on the repair quickly enough or the repair was more complicated than the borrower thought it would be.
* Borrower hasn’t decided how they want to complete the repair.

Please contact the assigned ORCF Closer if questions.

***Keywords:*** *Critical Repairs, Non-Critical Repairs*

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**Document Links Included In This Blast**

1. [Programmatic Agreement Between Minnesota SHPO and HUD](https://www.hud.gov/sites/dfiles/Housing/documents/MN_SHPO_PrgAgrt.pdf)

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