

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of December 18, 2019

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ADDITIONS TO ORCF LEADERSHIP

Effective November 24, 2019, ORCF has promoted the following individuals to leadership positions:

- Asset Management Deputy Division Director – Rita Dockery
- Production Deputy Division Director – Susan Gosselin
- Operations Manager – Nicole Johnson

Keyword: *ORCF Management Update*

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REAL ESTATE ASSESSMENT CENTER'S (REAC) NATIONAL STANDARDS FOR THE PHYSICAL INSPECTION OF REAL ESTATE (NSPIRE) DEMONSTRATION

In 2017, Secretary Carson directed a “wholesale reexamination” of HUD’s physical inspection processes. Subsequently, HUD began to analyze the way inspections were conducted and to better understand areas in which its standards and processes needed to evolve. As a result of this analysis, HUD’s Real Estate Assessment Center (REAC) began to lay the foundation of

Please refer to Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.

a new inspection model based on National Standards for the Physical Inspection of Real Estate (NSPIRE). For the purpose of identifying potential adjustments to standards, protocols, and processes prior to nationwide implementation, REAC has begun a two-year, voluntary Demonstration. The Demonstration will involve a diverse, representative group of stakeholders, including REAC, other HUD offices, Public Housing Authorities, and Property Owners and Agents.

The NSPIRE Demonstration is now in the implementation phase and REAC is seeking properties to participate in the Demonstration. For residential care facilities, this would include interested owners whose facilities are currently subject to routine recurring REAC inspections.

To learn more about NSPIRE and how to volunteer for the Demonstration, please visit the NSPIRE website ([here](#)).

Keywords: REAC

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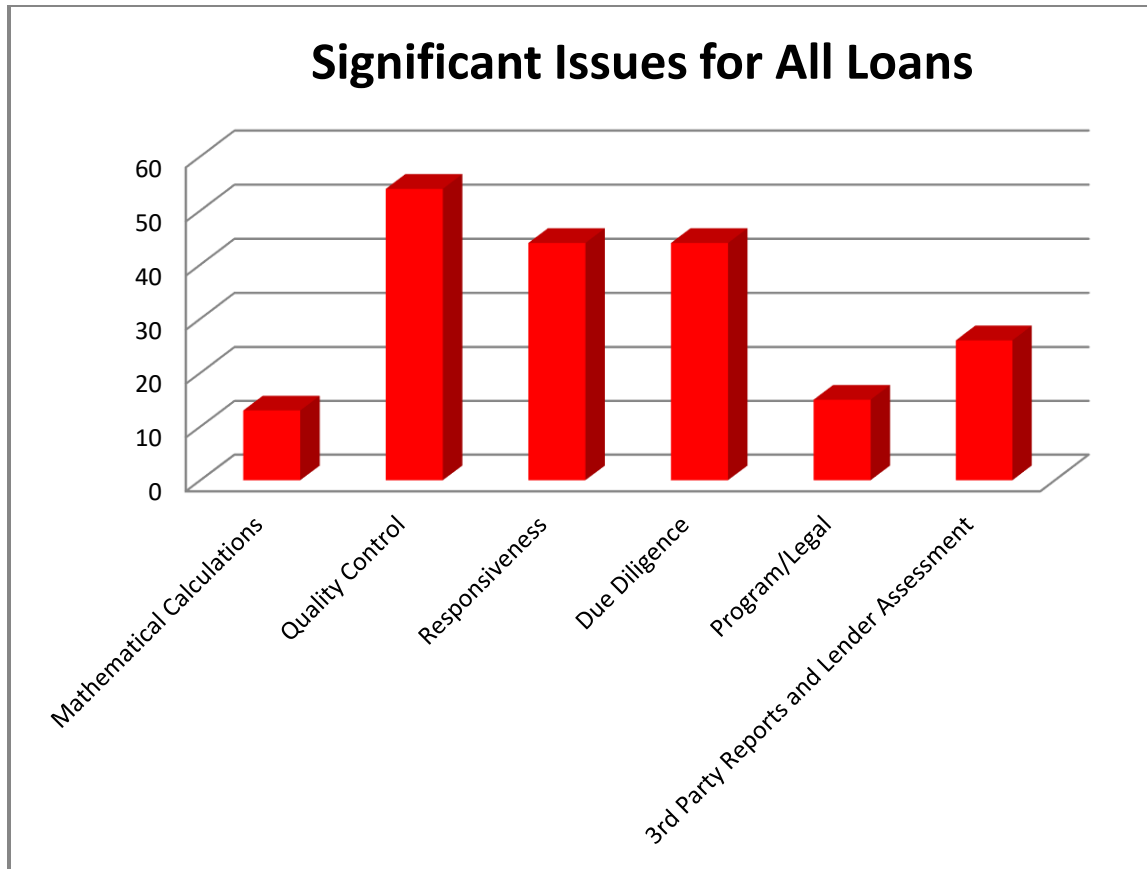
FISCAL YEAR 2019 LENDER PERFORMANCE

ORCF values the expertise of Lean lenders and the extensive effort invested in Section 232 submissions, and ORCF continuously strives to improve its thorough and timely processing of such transactions.

One of the many ways ORCF seeks continuous improvement is by providing feedback to lenders on matters that may have created delays. In that regard and consistent with longstanding practice, ORCF recently emailed each active Lean lender feedback on transactions that went to Loan Committee and/or closed during the past fiscal year.

Lenders have recently inquired about how ORCF's observations about their own submissions compare to observations regarding recent submissions overall. We would note that lender issues creating significant delays were observed in 38% of the transactions that went to Loan Committee and/or closed in FY19. Also, of the categories that ORCF considers, certain topics were more frequently problematic than others, as illustrated below.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.



Quality Control, Due Diligence and Responsiveness were the most frequently recurring concerns. Below is a brief description of these three categories as a reminder, followed by some examples of comments included in lender feedback in the FY19 emails.

Quality Control of Package

Considers the completeness, internal consistency and general accuracy of information within the application or closing package, conforming to Lean processing. Examples of errors include:

- Wrong information on project (e.g. wrong beds/units, other data)
- Multiple typographical errors – (e.g. transposed numbers)
- Obsolete, incorrect, incomplete or missing exhibits/other forms
- Lack of up-to-date financials and other data
- Failure to timely address environmental matters

Due Diligence of Facility's Performance

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Considers issues with the lender's familiarity with and analysis of the full scope of the facility in the lender's underwriting review. This includes failure to provide a needed explanation in the application with supporting documentation. Examples of errors include:

- Failure to address ongoing survey/quality of care issues
- Failure to address negative trends in performance or occupancy
- Failure to address ongoing HUD enforcement/compliance issues
- Failure to address pattern of high claims, pending litigation
- Failure to address other pending action impacting risk assessment

Responsiveness

Considers the completeness and timeliness of response by lender to requests from OHP for correction of deficiencies or additional information to complete underwriting review or closing processing.

Examples of Comments in FY19 Lender Feedback

A few examples of concerns raised in recent lender feedback include:

- The application did not provide adequate discussion on eligible debt.
- There were numerous issues not properly addressed in the application, including AR Financing and G&A Expenses.
- There were delays in several requests for information, specifically relating to waiver requests.
- Environmental issues should have been addressed prior to submission of the application, to ensure compliance with the handbook/regulations.
- The Lender adjusted historical expenses and NOI without adequate justification.

ORCF is happy to discuss any matters raised with a lender, and we also welcome constructive feedback about how ORCF processes can continue to be improved.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

For more information on specific lender volumes for FY 2019, please see the "Queues, Reports, and Statistics" section on the Section 232 Program Website ([here](#)).

Keywords: *Lender Performance*

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FROM THE CLOSING CORNER

Reminder When Submitting a Closing Package to ORCF

As a follow-up to the August 28, 2019 LEAN 232 Email Blasts, ORCF is reminding Lenders that **after the assigned HUD Attorney has received a "complete" draft closing package, a "complete draft closing package" should be uploaded to the portal.** After this has been done, a request for the assignment of an ORCF Closer should be sent to the Closer Mailbox at ORCFCloser@hud.gov. To assist ORCF's workload management, the request should include any known circumstances that influence the closing date. The Lender will be notified by email when an ORCF Closer has been assigned.

Keywords – *Closings, Closing Package, 232 Healthcare Portal*

Update - Lender Attorney Portal Access

The 232 Healthcare Portal now offers a new role that allows for a **Lender Attorney to be assigned to projects within multiple Lenders' portfolios**. This role within the portal technology, will allow a Lender Attorney who works with multiple Lenders to be assigned to a single, multiple, or the entire portfolio of multiple lenders, using a single Username. This role is assigned by the Lender Account Managers and Backup Account Managers of a Lender's portfolio and can be given to any Lender Attorney with Portal access.

Instructions are attached, which show Lender Account Managers and Backup Account Managers how to assign the Special Option User role and it explains how Special Option Users can access their newly assigned projects.

If you should have any questions or require additional information regarding this e-mail, please submit a Help Desk Ticket through the 232 Healthcare Portal and title it "SOU".

Keywords – *Closings, Lender Attorney, 232 Healthcare Portal, Portfolios, Multiple Lenders*

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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DOCUMENT LINKS INCLUDED IN THIS BLAST

1. [National Standards for the Physical Inspection of Real Estate \(NSPIRE\) webpage](#)
2. [ORCF Queues, Reports, and Statistics](#)

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**GUIDANCE ON HCBS STATE RISK MITIGATION FOR
EXISTING PORTFOLIO AND NEW UNDERWRITING**

As a reminder, Handbook 4232.1, Section II, Chapter 5 ([here](#)) details that appraisal analyses submitted with ORCF applications need to include a discussion of external or economic obsolescence.

Chapter 5 specifically identifies Medicaid reimbursement issues as a factor which can impact the economic life of a project. For facilities reliant upon Medicaid waiver revenue, this includes addressing the facility's continuing eligibility with the Home and Community Based Service (HCBS) Rule ([here](#)). Of particular concern is a facility in a setting type presumed to have the qualities of an institution and therefore at risk of losing all Medicaid waiver revenue as follows:

- Settings that are located in a building that is also a publicly or privately-operated facility that provides inpatient institutional treatment;

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- Settings that are in a building located on the grounds of, or immediately adjacent to, a public institution; and
- Any other settings that have the effect of isolating individuals receiving Medicaid HCBS from the broader community of individuals not receiving Medicaid HCBS.

Per CMS guidance, any setting presumed to have institutional qualities will not sustain Medicaid waiver funding unless CMS determines through “heightened scrutiny” that the state has overcome the rebuttable presumption that the setting has institutional qualities. See CMS additional guidance on “heightened scrutiny” dated March 22, 2019 ([here](#)). Therefore, if CMS has not yet initially approved the state’s HCBS transition plan or if the State’s *approved* plan calls for the facility to undergo heightened scrutiny, then assuring continued facility specific eligibility may be problematic and should be discussed in the application.

As an additional reminder, Handbook 4232.1, Section III, Chapter 3.10.5 ([here](#)) requires Operators to notify HUD of threats to licensure or provider payments. Therefore, projects placed under “heightened scrutiny” or otherwise identified by the State as ineligible under HCBS need to work with the Lender and Account Executive to address any steps needed to assure compliance with the HCBS Final Rule.

The HCBS Final Rule ([here](#)), established requirements for home and community based settings in Medicaid programs operated under sections 1915(c), 1915(i) and 1915(k) of the Act, which includes Medicaid Waiver programs used by a number of ALFs, SLFs and B & C projects. The rule provided an initial transition period for compliance, which has since been extended to March 17, 2022. For additional information, see the State Risk Summary Grid in the June 28, 2017 Email Blast ([here](#)).

Keywords: *Valuation, State Risk, Asset Management*

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REMINDER ON CONSOLIDATED CERTIFICATION REVIEW DUE DILIGENCE

Pursuant to the August 29, 2018 Email Blast ([here](#)), Lenders were reminded to review the Consolidated Certifications for all participants as part of underwriting due diligence. Please note that receiving approval of an APPS submission is ***not*** approval of the overall transaction, and when using a paper submission, it must be on the ORCF Consolidated Certification form (HUD-90013-ORCF through HUD-90017-ORCF) available

Please refer to Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.

([here](#)). Applications submitted using the Multifamily Form HUD-2530 will be returned. See *Housing Notice 2016-15* ([here](#)) for further guidance on processing Previous Participation Reviews of Healthcare Programs' Participants.

Key Words: *Consolidated Certification, APPS*

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ORCF GUIDANCE ON TEMPORARY UNDERWRITING HOLDS

Handbook 4232.1, Section II, Chapter 1.4.C provides details for an application received which contains defects or deficiencies. The following guidance is related to applications that are placed on temporary holds:

- A project(s) will be placed on temporary hold status if 60 calendar days have passed since the ORCF review comments were issued and the lender's response did not adequately address the deficiencies to the point that the project is ready to go to Loan Committee – as determined by the ORCF Workload Manager. This also applies to situations where the lender is making material updates or changes to an application. Projects with delays unrelated to an application deficiency or significant update or change are exempt from this 60-day timeframe. HUD will communicate with lenders via email when a project goes on long-term hold.
- Lenders may request an application's placement on temporary hold at any point if they determine the underwritten application is not supported as presented, and that a temporary hold would be prudent based on their ongoing assessment of the transaction.
- A project(s) will be placed in temporary hold status for a maximum of 90 calendar days. If the project(s) is not ready to be underwritten and placed back in the queue for review within 90 days, the project(s) will be rejected by HUD. For projects that are currently in underwriting or on long-term hold, HUD will review the project's situation and communicate with the lender on a case-by-case basis.
- When a project(s) exits temporary hold status, the following applies:

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

- The Phase I Environmental Site Assessment does not need to be updated. If the environmental review is already completed, it does not need to be updated unless there is a change in the application that affects an environmental review item.
- All underwriting documents that need to be updated must be updated prior to ORCF moving the application off temporary hold and placing it back in the queue for review. HUD will require updated project financials. If there are concerning material changes in the updated financials, HUD will expect a new appraisal, and an updated appraisal review will be completed by HUD. Updated documents are to be submitted to the Healthcare Portal.
- The project will go to the top of the Firm Application queue for assignment when ORCF removes the application from temporary hold.

Keywords: *Application Processing*

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FROM THE CLOSING CORNER

Updated Closer Checklists are HERE!

ORCF has updated the Closer's Checklist for Section 223(f) ([here](#)) and Section 223(a)(7) Closer ([here](#)) to include all new forms effective October 3, 2019. Links to new forms are also included in the checklist for convenience.

Keywords: *Closer Checklist Section 223f; Closer Checklist Section 223(a)(7)*

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Final Closing Attorney Checklist is HERE!

The New Construction (NC)/241a/Sub-Rehab Attorney Checklist for Final Closing ([here](#)) has been updated! This Final Closing Checklist includes all new forms effective October 3, 2019. Links to the new forms are also included in the checklist for convenience.

Keywords: *Attorney Final Closing Checklist*

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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Acceptable Evidence of Title for Final Closing

Please note that any of the following are acceptable evidence of title at final closing:

1. A new title policy, or
2. A date down endorsement in compliance with the requirements in Handbook 4232.1, Section II, Chapter 9.11.B, or
3. Other evidence of title allowed and/or required by state law and approved by a HUD Office of General Counsel attorney.

Keywords: *Title Review, Final Closing*

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Reminder – Allow for Three (3) Days to Get Closing Documents Signed!

As noted in the December 19, 2018 Email Blast ([here](#)), a minimum of three days should be anticipated for the closing documents to be signed and returned to the appropriate parties. Please plan accordingly.

Keywords: *Signing Closing Documents*

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Tips to Avoid Closing Delays When Submitting a Waiver Request

- ❖ To avoid delays at closing, **all project waivers should be requested and processed during underwriting review.** If the need for a waiver arises after issuance of a firm commitment, it is the Lender's responsibility to identify the need early on and submit waiver requests with draft closing documents. **Waiver processing must be complete prior to scheduling a closing date.**
- ❖ Any waiver justification based on financial hardship needs to be backed by written quotes.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

- ❖ Instructions for completing Form HUD-2-ORCF – Waiver Request are included in Handbook 4232.1, Section I, Chapter 1.5 ([here](#)) and in the Email Blast dated June 24, 2015 ([here](#)). Form HUD-2-ORCF can be find ([here](#)).

Keywords: *Waiver, Closings*

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Lender's Responsibility PRIOR to Submitting NC/241a/Sub-Rehab Cost Certification Packages

Handbook 4232.1, Section II, Chapter 11.10 sets forth the required forms and documentation for purposes of cost certification. Further clarification was provided in the December 21, 2016 Email Blast. Under the ORCF Section 232 Program, it is the Lender's responsibility to review the NC/241a/Sub-Rehab Cost Certification packages **prior to** submitting the package to HUD. It is the Lender's responsibility to make review comments and affirm that what has been reported by the auditor is applicable. The Lender is also responsible for ensuring that any findings have been addressed and that corrective actions have been taken.

It is crucial the Lender has followed up on any issues commented on by the auditor, including how any recommendation(s) noted by the CPA have been implemented and what evidence will be provided at Final Closing to demonstrate resolution of this issue. For example, a material finding reported by the CPA, should be discussed by the Lender with separate comments attached to the Lender Certification, form HUD-91129. All review comments, modifications, or actions taken should be attached to the Lender Certification, form HUD-91129.

Keywords: *Cost Certification; Lender Certification, Form HUD-91129*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

3. [Home and Community Based Services Final Rule](#)
4. [State Risk Summary Grid](#)
5. [Section 232 Documents Webpage](#)

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

6. [Housing Notice 2016-15](#)
7. [HUD Closer Checklist Section 232/223\(f\)](#)
8. [HUD Closer Checklist Section 232/223\(a\)\(7\)](#)
9. [HUD Attorney Final Closing Checklist Section 232 – New Construction, Substantial Rehab, 241a or Blended Rate](#)
10. [Form HUD-2-ORCF](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of September 27, 2019

September 27, 2019 Contents

[Office of Healthcare Programs Incentives for FHA Mortgage Insurance for Properties Located in Opportunity Zones](#)
[Document Links Included In This Blast](#)

OFFICE OF HEALTHCARE PROGRAMS INCENTIVES FOR FHA MORTGAGE INSURANCE FOR PROPERTIES LOCATED IN OPPORTUNITY ZONES

On September 27, 2019, the Office of Healthcare Programs published Housing Notice 2019-10 ([here](#)) which will offer several incentives to encourage greater development of nursing homes, assisted living facilities, board and care facilities, and hospitals located in Opportunity Zones.

Effective immediately, the Federal Housing Administration (FHA) is giving priority to Section 232 applications it receives for facilities located in qualified Opportunity Zones. Most notably, FHA will provide expedited underwriting for Section 232 applications. FHA is also reducing application/exam fees for all Section 242 and Section 232 transactions for facilities in Opportunity Zones. For more details, please see Housing Notice 2019-10 ([here](#)).

Keywords: *Opportunity Zones*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

11. [Housing Notice 2019-10](#)

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
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September 12, 2019 Contents

[Patient Driven Payment Model \(PDPM\)](#)
[Appraisal Reviews](#)
[Reminder on Valuation, State Risk, Rebalancing](#)
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PATIENT DRIVEN PAYMENT MODEL (PDPM)

The Section 223(f) Lender Narrative ([here](#)) requires that lenders carefully identify and analyze risk factors and explain how they are mitigated. A change effective October 1, 2019 to the payment model used by the Centers for Medicare and Medicaid Services (CMS) presents a significant risk in some skilled nursing facilities. Accordingly, consistent with the Lender Narrative requirements, ORCF expects that the Mortgagee's Lender Narrative submission will show cognizance of this risk where it exists, speak to the magnitude of the risk in the specific transaction, and identify sufficient and appropriate mitigants.

Specifically, in July 2018, CMS finalized the Patient Driven Payment Model (PDPM) that will become effective on October 1, 2019. PDPM is the new case-mix classification system for classifying skilled nursing facility patients in a Medicare Part A covered stay into payment groups under the SNF Prospective Payment System. The new reimbursement model will replace the current case-mix classification system, the Resource Utilization Group, Version IV (RUG-IV).

We understand that many providers are already preparing for the upcoming transition to PDPM. ORCF is analyzing the impact of PDPM on its portfolio as skilled nursing facilities account for approximately 75% of the insured portfolio of residential care facilities. Recognizing that the new reimbursement model may result in a negative financial impact on skilled nursing facilities, we want to ensure that the risks are adequately mitigated by the owners/operators of FHA insured facilities. Therefore, we would expect that lenders include a thorough discussion in the lender narrative of

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the impact of PDPM on the financial condition and operations of the skilled nursing facilities coming in for FHA financing. We also would anticipate that the Lender Narratives will include a detailed discussion of the plan that the operator has in place to mitigate any potential negative results from the new reimbursement model. These discussions should be facility- or operator-specific and reflect the lender's own risk analysis, rather than being simply a recitation of or a commentary on the CMS-publicized projections. On projects that have already been submitted, the contract/ORCF underwriter will reach out to lenders to address this issue as necessary.

The introduction of the PDPM is also highly relevant to operators and loan servicers, given its potential impact on net operating income. Owners and operators should anticipate that the lenders, or ORCF directly, may inquire of them regarding any effect the shift to the PDPM is having or is expected to have on their revenue stream, and how they are planning to address the matter. Moreover, even without receiving such a specific inquiry, Owners/operators may wish to proactively contact their lender regarding the PDPM's impact. ORCF would recommend doing so.

Keywords: *Patient Driven Payment Model (PDPM), Lender Narrative*

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APPRAISAL REVIEWS

ORCF has received several inquiries about the status of the appraisal review queue. The backlog in the queue peaked in April but has since been reduced significantly. There are a few things lenders can do to help the appraisal reviews move along quickly, including the following:

- 1) As mentioned in the Email Blast dated 2/28/19 ([here](#)), please clearly address which line items (by name) in the historical income and expense statements have been eliminated from the historic Net Operating Income (e.g. depreciation, facility rent, large capital expenditures). This will make the reconciliation portion of the appraisal review go quicker.
- 2) Be cautious about moving individual line item expenses into the management fee category. The concern is that we don't want legitimate expenses to be erased when we normalize the management fee to a market rate. Not only does there need to be a clear explanation of why the expenses are best categorized as management fees, but the expense comparables must also support the conclusions. The sales comparables used to establish a capitalization rate need to

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get the same treatment as the subject when it comes to management fee conclusions.

3) The ORCF review appraiser will be reconciling the historical periods contained in the appraisal. The most recent income and expense statement supplied with the application is often out of sync with the one available at the time of the appraisal. It will save time if the lender includes not just the updated financial reports but the version that the appraisal used. Another option is to have the appraisers include the financials they used as an exhibit within the addenda of the appraisal.

4) Many lenders are saving processing time by filling out the Decision Circuit for the review appraiser. In order to keep things standardized, ORCF will be entering the four historical periods contained in the appraisal in the main section (shaded blue) of the "Hist Exp" tab. Updated financials will be entered in the "Optional Reporting Periods" columns (shaded yellow). It will save time if the lenders follow the same format.

Keywords: Appraisals, Expense, Historic NOI, Management Fee, Reconciliation, Income & Expense Statements

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REMINDER ON VALUATION, STATE RISK, REBALANCING

As a reminder, Handbook 4232.1, Section II, Chapter 5.3.R.4 ([here](#)) states:

In projecting all sources of income for the subject property, consideration should be given to foreseeable changes in competitive market conditions that will affect current occupancy, payer mix, and rate levels. Examples include changes in: the condition of state finances, state laws offering alternative forms of housing types, reimbursement structures, and competitors in the marketplace.

As highlighted in the 6/28/17 Email Blast, Rebalancing Efforts are noted as an underwriting risk. It is noted that the Money Follows the Person (MFP) Rebalancing Demonstration Grant continues to be funded and make an impact on SNF occupancy (see results of the study funded by HHS ([here](#))). Items on the State Risk Summary Grids provided in our 6/28/2017 and 2/29/2016 Email Blasts are not meant to limit the extent of the Lender's inquiry. As a demonstration program, MFP has spawned a number of innovative State Rebalancing programs, including restructuring of capitation

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rates (see the Medicaid and CHIP Payment and Access Commission (MACPAC) report on Olmstead ([here](#))).

In particular, the State of Connecticut has made detailed data publicly available on its website ([here](#)) regarding the projected impact of its ongoing Rebalancing efforts. This data includes a breakout by Labor Market Area, of the projected 6,000 bed decrease in SNF demand in the State by 2040. The State initially published demand data in 2012 and subsequently closed a number of low-performing facilities. On 9/3/2019, the State also published site- level analyses on the same website, of the impact of legislation ([here](#))– (Substitute bill 7164 January Session 2019), an excerpt of which is as follows:

*For the fiscal year ending June 30, 2020, no facility shall receive a rate that is more than two percent lower than the rate in effect on June 30, 2019, **unless the facility has an occupancy level of less than seventy percent, as reported in the 2018 cost report, or an overall rating on Medicare's Nursing Home Compare Internet web site of one star on June 1, 2019.** Emphasis added*

As ORCF expects Lenders to address State budget and regulatory constraints as appropriate, applications for facilities located in Connecticut need to make particular note of the State's continued efforts to focus on low-performing facilities (both low Star ratings and low occupancy).

Keywords: Valuation, State Risk

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DOCUMENT LINKS INCLUDED IN THIS BLAST

12. [Section 223\(f\) Lender Narrative](#)
13. [Impact of the Money Follows the Person Program Study funded by HHS](#)
14. [Medicaid and CHIP Payment and Access Commission \(MACPAC\) Report](#)
15. [Connecticut Medicaid Long-Term Care Demand Data](#)
16. [Connecticut Substitute Bill 7164 January Session 2019](#)

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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[ORCF Webinar Presentation – October 1, 2019, 3:00 P.M. Eastern, Focusing Primarily on Asset Management Matters Encompassed in Newly Revised Documents](#)

[FROM THE CLOSING CORNER](#)

[Clarification on Submitting “Complete” Closing Packages in the 232 Healthcare Portal](#)

[Clarification to Land Title Survey Requirements](#)

[Document Links Included In This Blast](#)

**ORCF WEBINAR PRESENTATION – OCTOBER 1, 2019,
3:00 P.M. EASTERN, FOCUSING PRIMARILY ON ASSET
MANAGEMENT MATTERS ENCOMPASSED IN NEWLY
REVISED DOCUMENTS**

In a webinar hosted by the American Health Care Association/National Center for Assisted Living (AHCA/NCAL), ORCF will provide a brief overview of the Section 232 program and address asset management matters encompassed in newly revised documents. The webinar will run from 3:00 p.m. to approximately 4:00 p.m. EST on October 1, 2019, and will be open to AHCA/NCAL members and nonmembers. There is no charge for participation. Presentation topics will include:

- Understanding the updated form and procedures for Reserve for Replacement and Residual Receipt withdrawals.
- Understanding the updated form to request access to the 232 Healthcare Portal.
- Understanding the requirements and forms for changes in participants of residential care facilities that currently have FHA-insured financing.
- Understanding the updated form for adding or submitting changes to the Accounts Receivable Financing for your facility.
- Understanding the requirements and updated form for requesting a Loan Modification.

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- Understanding the updated form for certification of completion of Non-Critical Repairs.
- Understanding the requirement and updated form for notification to HUD of threats to permits and approvals for your facility.

Speakers:

- John Hartung, Director, Policy, Risk Analysis and Lender Relations Division, Office of Residential Care Facilities, HUD
- Philip Head, Director, Asset Management Division, Office of Residential Care Facilities, HUD
- Rita Dockery, Supervisory Account Executive, Office of Residential Care Facilities, HUD

Event Date: October 1, 2019 – 3:00 p.m. – 4:00 p.m. (EST)

Registration Link: [Here](#)

Keywords: *Webinar*

FROM THE CLOSING CORNER

Clarification on Submitting “Complete” Closing Packages in the 232 Healthcare Portal

As follow-up to the August 30, 2018, and September 13, 2018, LEAN 232 Email Blasts, ORCF is clarifying the process for use of the 232 Healthcare Portal for closings and submitting “complete” closing packages. For all Firm Commitments that were underwritten in the portal, Lenders are required to use the portal for the closing. After the assigned HUD Attorney has received a complete draft closing package, a complete draft closer package should be submitted to the portal. The current Closer Checklists are here: *Section 232/223(f)*([here](#)) and *232/223(a)(7)*([here](#)). The Lender will be notified when an ORCF Closer has been assigned. *If the draft closer package is incomplete or substantially incorrect, the assigned Closer’s review may be postponed until a complete/acceptable package has been submitted to the portal.*

Please note: A complete package includes:

- Critical repair documentation and the Borrower’s signed/dated critical repair certification;
- Evidence of current Insurance coverage.
- Documents required to satisfy all special conditions.

Please refer to Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.

For Section 223(f) projects, the final draft Cost Certification is due immediately after a closing date is agreed on by ORCF Closer, HUD Attorney and Lender, and must be provided *no less than 5 business days prior to closing*

Keywords: *Closing Package, Closing Package Checklist*

Reminder for Executed Firm Commitments

HUD Handbook 4232.1 and all Firm Commitments require that Lenders and Borrowers execute and return the Firm Commitment within 10 business days. Lenders should continue submitting the fully executed firm commitment to ORCFCloser@hud.gov within 10 business days.

Keyword: *Firm Commitment*

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C arification to Land Title Survey Requirements

The recently updated Survey Instructions and Borrower's Certification (Form HUD-91111-ORCF) calls for surveys to be in compliance with Minimum Standard Detail Requirements for ALTA/ACSM Land Title Survey (**Effective February 23, 2016**). Please note the new effective date which replaced the old effective date of February 23, 2011.

I

When using the new form ([here](#)), ORCF will accept item 20a under the list of required "Table A - Optional Survey Responsibilities and Specifications." Surveys reflecting Table A item 19 will continue to be accepted.

Keywords: *Land Title Survey, ALTA Title Policy*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

17. [AHCA Webinar Registration](#)
18. [Survey Instructions and Borrower's Certification \(Form HUD-91111-ORCF\)](#)

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of August 5, 2019

August 5, 2019 Contents

[Section 232 Healthcare Facility Documents Implementation Date Clarification](#)
[Production Portal Submissions](#)

SECTION 232 HEALTHCARE FACILITY DOCUMENTS
IMPLEMENTATION DATE CLARIFICATION

As announced in the July 5, 2019 Email Blast ([here](#)), the new Section 232 Healthcare documents were published with a 90-day transition period. During this transition time, old documents can still be used and are still available on our PRA documents website ([here](#)). However, on or after October 3, 2019, please see the following details for clarification:

Production: All new Firm Commitment application documents will be required for Firm applications submitted on or after Oct 3. If an applicant chooses to use new Firm Commitment application documents before that date, then the applicant must also use new closing documents, regardless of closing date. Additionally, all new closing documents must be used for any project that receives a Firm Commitment on or after Oct 3.

Asset Management: All Asset Management transactions must use new documents on or after Oct 3.

Keywords: *Section 232 Documents*

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PRODUCTION PORTAL SUBMISSIONS

The following is provided as guidance for Production submissions through the 232 Healthcare portal:

Document Naming

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

- **Decision Circuit:** The Decision Circuit is an optional document and is therefore not identified on Firm Application Checklists. However, we are instituting a document naming convention for it so the files will be consistently named and located going forward. Please name the Decision Circuit files “Others_**Decision Circuit**” and place it in the **Section 1 Underwriting folder**.
- **Other Documents Not Identified on Checklists:** For other documents that are not standard Checklist exhibits, please add a descriptor to the file name so that the files are more easily identified. For example, “Others_**Promissory Note**” or “2-3.E_Other Specify – **Tank Closure**”.
- **N/A Exhibits:** Lenders are not required to submit N/A exhibits, but if choosing to do so, please identify that it is “NA” in the document name so that reviewers don’t spend time opening documents that do not require review. For example, “2-3.B_ **NA** - Phase II Environmental Report”.
- **Multiple Version Documents:** Uploading multiple versions of the same document or adding additional description to “Others” documents is possible provided the document number (and underscore) is the same. Anything to the right of the underscore can be modified and uploaded. For example,
 - 1-2-9002_HUD-9002-ORCF, Lender Narrative
 - 1-2-9002_HUD-9002-ORCF, Lender Narrative – **Common Sections**
 - 1-8.HUD 2_HUD-2-ORCF, Request for Waiver of Housing Directive – **PCNA date**
 - 1-8.HUD 2_HUD-2-ORCF, Request for Waiver of Housing Directive – **PLI**
 - 39_HUD-92337-ORCF - Regulatory Agreement - Master Tenant
 - 39_**Redline** HUD-92337-ORCF - Regulatory Agreement - Master Tenant
 - 44_HUD-92323-ORCF - Operator Security Agreement – **Seattle Hospital**

Please refer to Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.

- 44_HUD-92323-ORCF - Operator Security Agreement – **Caring Arms Management Agent**

The Document Naming Convention is posted on the Underwriting Guidance page at [ORCF Document Naming Convention for Checklist Exhibits](#).

Help Desk

As a reminder, if you encounter issues or problems with the Portal that require assistance from the Help Desk, please submit a detailed request for help to hhcp@hud.gov. If you have spoken with other AEs, Lenders, or WLMs who have also experienced the same issue that you have encountered, the Portal staff ask that you **please complete your own, separate Help Desk request.** Although the issue may have been reported by others and may be in the process of being addressed by the Portal staff, please submit your own individual request. The reason for this is to aid the contractor and other Portal staff with a true gauge of just how widespread a particular problem might be and assist them with establishing priorities.

You can access other Portal resources including trainings and FAQ's at: [How to Access the 232 Healthcare Portal](#).

Keywords: *232 Healthcare Portal*

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of July 26, 2019

July 26, 2019 Contents

[Account Executive Vacancies in the Office of Residential Care Facilities \(ORCF\)](#)

ACCOUNT EXECUTIVE VACANCIES IN THE OFFICE OF RESIDENTIAL CARE FACILITIES (ORCF)

ORCF is pleased to announce that it is hiring seven (7) new Account Executives (AE). These AE's will be working in either the Development or the Asset Management Division of ORCF. These positions were posted in the below four vacancy announcements – with varying locations. Because the application window is short, we are asking you to help us spread the word. These AE positions are part of our ongoing effort to improve our customer service. Your help is greatly appreciated.

Here is a link to the external posting in Jacksonville, Chicago, Detroit, Minneapolis, and Columbus, which closes on 8/7/19 ([here](#)).

Here is a link to the internal posting in Jacksonville, Chicago, Detroit, Minneapolis, and Columbus, which closes on 8/7/19 ([here](#)).

Here is a link to the external posting in Denver, St. Louis, Portland, Fort Worth, and Seattle, which closes on 8/9/19 ([here](#)).

Here is a link to the internal posting in Denver, St. Louis, Portland, Fort Worth, and Seattle, which closes on 8/9/19 ([here](#)).

Keywords: *Account Executive, Vacancy Announcement*

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of July 5, 2019

July 5, 2019 Contents

[Section 232 Healthcare Facility Documents Published
Document Links Included In This Blast](#)

**SECTION 232 HEALTHCARE FACILITY DOCUMENTS
PUBLISHED**

On July 5, 2019, the Department published a notice, "HUD Healthcare Facility Documents: Notice Announcing Final Approved Documents assignment of OMB Control Number" ("Notice") ([FR-7014-N-20](#)), making available a complete set of new/ revised Section 232 documents. The revised Section 232 Healthcare documents can be found ([here](#)). The effective date is June 17, 2019 with an implementation date of October 3, 2019.

HUD will allow a 90-day transition period for the implementation of the updated documents in this collection. The new documents will be required to be used for transactions in which the firm commitment is issued on or after October 3, 2019. Participants may choose to use the new documents beginning on the effective date; however, if participants choose to use the new documents for a transaction (e.g. application submission, change of ownership, etc.), they must use all the new documents in their entirety and may not mix the use of old and new documents. Upon the Implementation Date, the use of only new documents in submitted transactions will be mandatory.

Keywords: *Section 232 Documents*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

19. [HUD Healthcare Facility Documents: Notice Announcing Final Approved Documents assignment of OMB Control Number \(FR-7014-N-20\)](#)
20. [Section 232 Healthcare Documents Webpage](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of June 26, 2019

June 26, 2019 Contents

[Posting of Queues to HUD.GOV](#)

[Decision Circuit Update](#)

[Clarification Regarding Date of Appraisal Waivers](#)

[Application Processing Protocol for Loans Over \\$25 Million](#)

[Transfer of Construction Management Operations](#)

[New Star Rating System](#)

[FROM THE CLOSING CORNER](#)

[Lender Delegated Non-Critical Repair Escrow Clarification:
Document Links Included In This Blast](#)

POSTING OF QUEUES TO HUD.GOV

Effective immediately, when queues are posted to HUD.gov we will be combining the Section 223(f) portfolio and non-portfolio queues into one list as internally ORCF utilizes one combined 223(f) queue when making assignments. While ORCF generally assigns projects out of the queue on a first-in, first-out basis, ORCF continues to process applications with loan amounts of \$25M+ internally, so on occasion projects may be assigned to an underwriter slightly out of order based on the availability of ORCF internal underwriters. Queues will continue to be posted weekly [here](#).

To the extent possible, the ORCF Appraisal and Environmental Reviews are started while projects are in the queue. Lenders can check the portal to see the status of these reviews.

If you have questions regarding projects in the queue, please contact LeanThinking@hud.gov.

Keywords: *Application Processing*

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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DECISION CIRCUIT UPDATE

The Decision Circuit is an Excel workbook that is used by ORCF to complete appraisal reviews. It only applies to Section 232/223f refinances and is not used in our new construction programs. It has proven useful for ORCF to share the Decision Circuit with lenders as it indicates, through the use of flags, items that the ORCF review appraiser must address. The Decision Circuit is an internal review document and lenders are not required to use it. In an effort to save time, ORCF accepts Decision Circuits filled out by the lender, thereby giving them the opportunity to proactively comment on the flags. It has been two years (May 12, 2017) since we last made changes to this tool. Our intention is to refrain from making changes for another two years. If we find errors in formulas or formatting we will issue patch notes that will instruct how to correct the problems. The new version of the Decision Circuit can be found online ([here](#)). ORCF will phase in the new Decision Circuit over the next 3 months, giving the ORCF reviewer the option to use the old version when it has been filled out by the lender.

Keywords: *Decision Circuit, Appraisal Review, Flags*

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CLARIFICATION REGARDING DATE OF APPRAISAL WAIVERS

Handbook 4232.1 REV-1, Chapter 5.3.B states "The effective date of the opinion of value should be the date that the designated appraiser inspected the subject property." When ORCF approves waivers for this requirement, the waiver is to allow the appraiser to include financial reports in the analysis that are more recent than the site visit. This allows appraisers to consider fresher financial information. The waiver is **NOT** to allow the inspection to be more than 180 days prior to submission. A second waiver would be needed if the inspection date is more than 180 days before application.

Keywords: *Date of Value, Appraisal, Financial Reports, Waivers*

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APPLICATION PROCESSING PROTOCOL FOR LOANS OVER \$25 MILLION

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

ORCF would like to clarify the application processing protocols for loan amounts over \$25 million. These loans are assigned to ORCF Underwriters, not Contract Underwriters. A site visit by the ORCF Appraisal Reviewer is also required. In addition, these loans must be reviewed by the Office of Risk Management prior to being presented to Loan Committee.

Keywords: *Application Processing*

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TRANSFER OF CONSTRUCTION MANAGEMENT OPERATIONS

After nearly 32 years of service, Michael Peeler, ORCF Construction Manager, will be retiring from HUD, on July 10, 2019.

As a result, on July 1, 2019, Rick Price will be assuming all construction management operations. Rick is located in HUD's Portland, Oregon Office, and has extensive previous construction management experience with HUD.

Rick can be reached at Rick.W.Price@hud.gov.

Please direct all construction related requests to Rick, including, but not limited to: PreConstruction Conferences, Monthly Site Inspections and Construction Draws, Change Orders, Permissions to Occupy, Escrow Releases, and Retainage Reductions.

Keywords: *Construction Management*

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SECTION 232 BORROWERS, OPERATORS & SERVICING LENDERS: RECENT STAR RATING CHANGES

Recently, CMS made changes to its Five-Star Rating System. As outlined in the CMS Memo to State Survey Agency Directors ([QSO-19-08-NH](#)), effective April 2019, CMS ended its freeze on Health Inspection Star Ratings that had been in effect since February 2018. The CMS Memo also discusses changes made to the Quality Measure and Staffing Domains of the overall Star Rating. The result is a widespread shift in overall Star Ratings, including almost 500 Section 232 SNFs experiencing an overall drop below three stars.

Although these recent drops in the Star Rating may be the result of circumstances beyond the scope of reporting requirements outlined in the

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Operator's Regulatory Agreement, they may still be an early indication of deteriorating conditions at the facility and therefore, the ORCF Account Executive may reach out to Servicing Lenders and/or project participants.

Also, ORCF would like to remind its project participants, and requests its servicing lender partners to remind their clients, of the reporting requirement in the Healthcare Regulatory Agreement – Operator (Form HUD-92466A-ORCF). The Healthcare Regulatory Agreement - Operator requires reporting to HUD and the Lender Servicer when the Operator receives a report, survey, notice, or other correspondence from a governmental entity that asserts certain risks to the project's Permits and Approvals. Reporting for Licensed Nursing Facilities is only required when a survey has findings higher than a "G" level or any repetitive "G" level or higher findings from prior surveys (a G-level deficiency is where actual harm that is not immediate jeopardy is cited in an isolated incident).

Keywords: CMS

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FROM THE CLOSING CORNER

Lender Delegated Non-Critical Repair Escrow Clarification:

*For **Lender Delegated Non-Critical Repair Escrows**, ORCF looks to the Lender to ensure all administration guidelines are in accordance with **Handbook 4232.1, Section III, Chapter 3.2.4.H.***

Please note: *The "Addendum" seen in several submissions recently is not a HUD approved form and HUD will not accept this form with the Non-Critical Repair Escrow submission.*

Keywords: Lender Delegated Non-Critical Repair Escrows

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DOCUMENT LINKS INCLUDED IN THIS BLAST

21. [Underwriting Queues and Assignments](#)
22. [Decision Circuit](#)
23. [CMS Memo to State Survey Agency Directors](#)

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

June 26, 2019



Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of April 19, 2019

April 19, 2019 Contents

[Section 232 Healthcare Portal Helpdesk Updates](#)
[HUD's Office of Housing Wants Your Suggestions About Opportunity Zones](#)
[Document Links Included In This Blast](#)

SECTION 232 HEALTHCARE PORTAL HELPDESK UPDATES

The HHCP mailbox is the avenue by which all Portal issues, concerns and password resets are processed. It is important that all messages be sent directly to the 232 Healthcare Portal Help Desk e-mail box (hhcp@hud.gov), and not to individual ORCF staff members. Any messages sent to individuals will be replied with the request to please send those messages to the HHCP mailbox directly. Having the ability to respond to all messages from a central location allows for consistent responses, central tracking to ensure all issues are resolved, and the ability for multiple individuals to cover the HHCP mailbox at any given time. This is similar to our Lean Thinking inquiry process, and will be treated in the same way.

ORCF has awarded a new contract for monitoring and maintaining the Section 232 Healthcare Portal. We are currently working on the backlog of Helpdesk requests that resulted from the changeover in contracts and will be responding to all requests as quickly as possible.

Do you have a question regarding the 232 Healthcare Portal?

The Office of Residential Care Facilities has a Frequently Asked Questions web page that is specifically focused on Portal issues. This allows Portal users to both submit questions and review previously submitted questions and their responses regarding the 232 Healthcare Portal ([here](#)).

Do you need Portal Training?

You can search 232 Healthcare Portal training material and can access training information ([here](#)).

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Keywords: 232 Healthcare Portal

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HUD'S OFFICE OF HOUSING WANTS YOUR SUGGESTIONS ABOUT OPPORTUNITY ZONES

We wanted to make sure you saw HUD's newest Request for Information (RFI) published on April 17 in the Federal Register. We are seeking to hear from stakeholders like you about how we can leverage the tools HUD has to maximize the positive impact of Opportunity Zones. Created by the 2017 Tax Cuts and Jobs Act, Opportunity Zones are distressed communities that provide tax benefits to investors who make new investments in the Zones.

You can see the RFI [here](#).

As the Chair of the White House Opportunity and Revitalization Council, HUD Secretary Carson is very interested in all the levers HUD can pull to make Opportunity Zones vibrant economic engines for their residents. Don't be wary of making outside the box suggestions on the information contained in the RFI, including the following questions:

- What tools can HUD provide to make local communities, investors and other stakeholders more aware of the full range of applicable Federal financing programs and incentives available to projects located in urban and economically distressed areas, including Opportunity Zones?
- What types of technical assistance should be offered through HUD?

It is important that you submit your comments and suggestions using one of the response methods contained in the RFI. We are unable to accept responses or reply to emails submitted to this email box.

Keywords: Opportunity Zones

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DOCUMENT LINKS INCLUDED IN THIS BLAST

24. [232 Healthcare Portal](#)
25. [232 Healthcare Portal Training Material](#)

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

26. [FR-6155-N-01 - Review of HUD Policy in Opportunity Zones](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of March 12, 2019

March 12, 2019 Contents

[ORCF Asset Management Workload Manager and Project Assignment Changes](#)

[FROM THE CLOSING CORNER](#)

[Waiver Requests for Insurance Requirements:
Document Links Included In This Blast](#)

**ORCF ASSET MANAGEMENT WORKLOAD MANAGER AND
PROJECT ASSIGNMENT CHANGES**

ORCF has had some recent staff changes that may affect which Account Executives and Workload Managers you are assigned. Thirteen new staff members have joined the Section 232 Asset Management Division, resulting in many new work assignments effective March 11, 2019.

Lenders will be contacted this week regarding these changes and to discuss arrangements for any transitional work. The new assignments are posted on the Section 232 Loan Servicing and Asset Management webpage [here](#). The Account Executive database also identifies the corresponding Workload Managers. In that regard, ORCF Asset Management has detailed Jerry Robitaille and Kristine Petrillo as Workload Managers. Effective immediately, Kristine Petrillo will be acting as the Workload Manager for the team previously led by Catherine Worley. Jeremy Robitaille will be acting as the Workload Manager for a new Asset Management team. With these changes, ORCF will continue to provide and improve upon our service for your asset management needs.

Keywords: *Asset Management*

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FROM THE CLOSING CORNER

Waiver Requests for Insurance Requirements:

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

It is the Lender's responsibility to request any necessary waivers of Handbook 4232.1, Section II, Chapter 14 insurance requirements in a timely manner. As a reminder, not all waivers submitted to ORCF receive approval. It is therefore incumbent upon the Lender to factor in the time needed for the underwriter to review the waiver requests and in cases of denial, to have adequate time to obtain or update insurance policies which meet program requirements. It is strongly recommended that waiver requests be submitted with your application during the time of the application review. Delayed submission of required waivers will likely delay setting a closing date, either as a result of the time needed for review and/or the time needed to obtain the required insurance policies before closing.

Keywords – *Insurance, Waivers*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

27. [Account Executive Facility Assignments - Contact Listing](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of February 27, 2019

February 27, 2019 Contents

[ORCF Management Updates](#)

[232 Healthcare Portal Status](#)

[Reminder Regarding Reserve For Replacement \(R4R\) Submissions](#)

[Post-Shutdown Underwriting Queues](#)

[Document Links Included In This Blast](#)

ORCF MANAGEMENT UPDATES

Patrick Berry, ORCF Production Division Director, retired at the end of December 2018. Please note the following ORCF management updates in both the Production and Asset Management Division:

- Tim Gruenes, in HUD's Minneapolis office, has been reassigned as ORCF Production Division Director.
- Philip Head, in HUD's Seattle office, has been reassigned as Acting ORCF Asset Management Division Director.

Keywords: *Production, Asset Management*

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232 HEALTHCARE PORTAL STATUS

ORCF is in the process of transitioning the governance of the 232 Healthcare Portal. During this transition, the Portal may have reduced functionality. If you have concerns, please submit them to Lean Thinking. Thank you for your patience as we work through this transition.

Keywords: *232 Healthcare Portal*

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

REMINDER REGARDING RESERVE FOR REPLACEMENT (R4R) SUBMISSIONS

Lenders are reminded that R4R guidance can be found in Handbook 4232.1, Section III (Asset Management) Chapter 3.2.2 ([here](#)).

All R4R transactions submitted via the 232 Healthcare Portal or the 232R4Rrequest@hud.gov email box, require the Lender to certify that each submission has been reviewed for **completeness, accuracy, and eligibility**. If you have questions regarding the eligibility of any items, please contact the assigned Account Executive prior to submission. A list of Account Executive assignments can be found ([here](#)).

Keywords: *Reserve for Replacement*

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POST-SHUTDOWN UNDERWRITING QUEUES

ORCF has now updated the Underwriting Queues and Assignments lists posted on hud.gov to reflect both the SharePoint and Portal application queues. If you have any questions regarding the information presented, please submit an email to LeanThinking@hud.gov.

Keywords: *Application Processing*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

28. [Account Executive Facility Assignments - Contact Listing](#)

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February 13, 2019

February 13, 2019

MEMORANDUM FOR: All Section 232 and 242 Approved Lenders

FROM: Roger M. Lukoff, Deputy Assistant Secretary for
Healthcare Programs

SUBJECT: Resumption of FHA Office of Healthcare Programs
Activities

The Department of Housing and Urban Development (HUD) FHA Office of Healthcare Programs (OHP) remains committed to enabling the affordable financing and refinancing of healthcare facilities. Since fully returning to work on January 28, 2019, OHP has been working to address the significant backlog of work submitted during the shutdown period. As we work quickly to bring our pipeline and servicing queues current, we want to inform you of the prioritization of work across our offices.

Production

In Section 242, underwriter reviewers have already reached out post-shutdown to lenders on all pending transactions, and we are proceeding as expeditiously as feasible.

In the Section 232 Program, our first priority is to process loans that have been issued a firm commitment and are in a position to reach endorsement. Of these, our priority will be loans that have critical external deadlines such as rate lock extension fees and purchase sale agreements with substantial penalties. However, we will also work in the coming days to schedule a closing date for loans that are ready to close immediately, even if they do not have critical external deadlines. Closings will be scheduled as soon as staff are available.

We have conducted an inventory of Section 232 applications currently in process. Applications will be processed in the order of the date received, as there is available staff capacity. Applications submitted before the shutdown were date and time stamped when they were received in the Portal. Applications that were submitted during the shutdown through the 232 Healthcare Portal were time and date stamped by the system. Our priority for processing applications will be those that were in process prior to the shutdown. We will begin with applications that are close to the issuance of a Firm Commitment. We will then address applications that were in process but needed additional review to present for a Firm Commitment. As a third priority, we will then turn to applications that were submitted during the shutdown. Lenders may continue to submit new applications for mortgage insurance.

Asset Management

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

February 13, 2019

The first priority is work related to resident/patient health and safety, including release of funds for critical repairs from reserves and construction draws. For other requests such as standard Reserve for Replacement and other escrow withdrawals not processed by the lender, the work items will be processed in the order received. Transfers of Physical Assets and Partial Payment of Claims will be processed in the order received. We expect it will take some time to address all backlogged work and will maintain open communications with you on our progress.

If you have any questions related to a particular transaction in Production, please contact the HUD Underwriting Reviewer assigned to your transaction. For project-specific questions related to Asset Management, please contact the assigned Account Executive.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of December 19, 2018

December 19, 2018 Contents

[Addressing Quality of Care Issues in Application](#)
[Professional Liability Insurance \(PLI\) and Valuation](#)
[Helpful Tips for Contacting ORCF Outside the Portal](#)
[Section 106 Historic Preservation Reviews in the State of Minnesota](#)
[FROM THE CLOSING CORNER](#)
[Clarification on Completion of Critical and Non-Critical Repairs Prior to Closing](#)
[Document Links Included In This Blast](#)

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

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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](#)), 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	To find the assigned Account Executive for
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Please refer to Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.

here	projects under management
HHCP@hud.gov	For technical assistance or issues with the Portal
232R4RRequest@hud.gov , 232TPA@hud.gov OHPTribeNotice@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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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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](#)). 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:

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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- 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](#)

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of December 4, 2018

December 4, 2018 Contents

[Legal Instructions Concerning Applications for Full Insurance Benefits PRA Renewal](#)
[Document Links Included In This Blast](#)

LEGAL INSTRUCTIONS CONCERNING APPLICATIONS FOR FULL INSURANCE BENEFITS PRA RENEWAL

On November 26, 2018, the Department published a 60-day Federal Register Notice (FR-7000-N-02]) for the Paperwork Reduction Act ("PRA") notice and comment renewal process for the Legal Instructions Concerning Applications for Full Insurance Benefits-Assignment of Multifamily Mortgages to the Secretary ("Legal Instructions"), which fall under OMB Approval Number: 2510-0006 and set to expire next year. The Legal Instructions can be accessed from the following link ([here](#)). The Notice can be accessed from the link ([here](#)). Proposed revisions to the Legal Instructions in redline/strikeout format against the current version can be accessed from the following link ([here](#)). Please follow the procedures described in the Federal Register Notice to submit comments to HUD. Comments are due January 25, 2019.

Keywords: *Paperwork Reduction Act*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

29. [Legal Instructions Concerning Applications for Full Insurance Benefits – Assignment of Multifamily Mortgages to the Secretary](#)
30. [60-Day Notice of Proposed Information Collection: Legal Instructions Concerning Applications for Full Insurance Benefits—Assignment of Multifamily Mortgages to the Secretary](#)

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

31. [Proposed Revisions to the Legal Instructions in Redline/Strikeout Format Against the Current Version](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of October 31, 2018

October 31, 2018 Contents

[ORCF Reminders Regarding Previous Participation Reviews](#)
[Updated Environmental Clarification for Section 232 Partial Release and Easement Transactions](#)
[FROM THE CLOSING CORNER](#)
[Closing Documents to be Signed? PLEASE READ!](#)
[REMINDER – Post Closing Procedures for Closing Documents](#)
[REMINDER - Delegated Non-Critical Repair Escrow \(NCRE\) Administration to FHA Lenders/Servicers](#)
[Document Links Included In This Blast](#)

ORCF REMINDERS REGARDING PREVIOUS PARTICIPATION REVIEWS

Lenders are reminded that Previous Participation Requirements can be found in Housing Notice H16-15 ([here](#)).

Paper Option: ORCF has found that lenders utilizing the Paper Previous Participation Review (Consolidated Certification) option often submit incomplete and incorrect previous participation reviews, which dramatically increases processing time. To assist lenders in submitting complete and correct previous participation reviews via the paper option, ORCF has developed a lender tool. This tool can be found ([here](#)). Lenders are encouraged to utilize this tool prior to submitting Paper Previous Participation Reviews.

Frequent errors are noted below:

- Consolidated Certifications are not included for all Controlling Participants.
- A natural person is not identified as a Controlling Participant.
- Organization charts are not attached to the Consolidated Certifications. (Note that it is not acceptable to reference other application exhibits in

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

the Consolidated Certifications. They must be attached to the certification.)

- Organization charts do not include Social Security Numbers/Tax ID Numbers for Controlling Participants
- Organization charts include multiple specified capacities. A separate organization chart is required for each specified capacity.
- Organization charts include related projects that have the same organization structure.
- Business Partner Registration in the BPRS system is not completed or Social Security Numbers/Tax ID numbers in BPRS do not match the organization chart.

Electronic Option: Those lenders utilizing the electronic Active Partners Participation System (APPS) option for submitting Previous Participation Reviews typically submit complete and correct submissions.

A few reminders about submitting APPS Submissions are noted below:

- The lender should only include previous participation exhibits for the specific application being submitted.
- The lender should assure that the organization charts are consistent with the APPS submission.
- The lender should confirm that the signature pages include all of the required signatures for those submissions that are not signed electronically.

Keywords: *Previous Participation*

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UPDATED ENVIRONMENTAL CLARIFICATION FOR SECTION 232 PARTIAL RELEASE AND EASEMENT TRANSACTIONS

The following is clarification on the environmental requirements for partial release of security and/or easement transactions on HUD-insured Section 232 projects.

- **Partial Releases:** Handbook 4232.1, Section III, Chapter 3.4.4.C.7 addresses environmental reviews for, among other topics, subtractions

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

from mortgaged property. A partial release involves such subtraction, and environmental review is required. When ORCF receives a request to release a portion of a HUD-insured property, an environmental review is required. In its role as the releasing office, ORCF will conduct an environmental review. However, 24 CFR Part 51 Subparts B, C and D do not apply and, therefore, a Phase I Environmental Site Assessment (ESA) is not required. Lenders should submit the partial release application to the assigned Account Executive for approval of the transaction. *(Please note that if the re-used portion of land will involve another HUD-related program, the re-used land's program office may also be responsible for conducting an environmental review depending on the program's requirements, which may require a Phase I ESA and compliance with Part 51 Subparts B, C and D.)*

- **Easements:** Occasionally, municipalities, public utilities, or other city officials request owners to grant easements or right-of-way for construction of sewers, power lines, or for other purposes. **Environmental reviews are not required for these types of requests.** Lenders should submit the applicable easement documents to the assigned Account Executive for review. ORCF will review the easement request to determine the impact to the HUD-insured property. Upon completion of the project, ORCF will also require submission of all executed easement documents.

When submitting easement requests for private entities, owners, and other commercial or residential facilities, Lenders are advised to follow the guidance in the **Capital Improvements and Requests to Release or Modify Original Loan Collateral Checklist** as outlined in Section 232 Handbook 4232.1, Section III, Chapter 3.4 Request to Release or Modify Original Loan Collateral. Lenders should submit the capital improvement application and environmental documents to the Account Executive for approval of the transaction. ORCF will review the easement proposal to ensure it will not negatively affect the HUD-insured property. ORCF will also require submission of all executed easement documents once the project is complete.

Keywords: *Environmental, Partial Releases, Easements*

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FROM THE CLOSING CORNER

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Closing Documents to be Signed? PLEASE READ!

As a reminder and clarification, per Handbook 4232.1, Section II, Chapter 9.2.G and 9.4.C and the March 30, 2012 Email Blast, please do not send documents to the OHP Closing Coordinator without prior expressed approval from the OHP Closing Coordinator. The OHP Closing Coordinator and HUD Attorney first need to approve the final draft documents and agree they are ready for ORCF signature. The OHP Closing Coordinator will then send the Lender and Lender Attorney an email with detailed instructions for delivering the documents to the designated signatory. **A minimum of three days should be anticipated for the signed documents to be sent back to the appropriate parties. Documents must not be sent for ORCF signature without prior, expressed approval from the Closing Coordinator.**

Please note that documents will be returned if received prior to expressed approval from Closing Coordinator.

Keywords: Closings, Signing Closing Documents

REMINDER – Post Closing Procedures for Closing Documents

As a reminder, Handbook 4232.1, Section II, Chapter 9.4.F and the February 27, 2015 Email Blast state that after closing, the ORCF Closing Coordinator will provide instructions on where the copies of the documents accepted by the HUD attorney at the closing are to be sent. As these critical documents are essential for the Account Executives to service new loans, the Lender's attorney should complete this process **within 2 weeks of closing.**

Keywords: Closings, Post Closing Procedures

REMINDER - Delegated Non-Critical Repair Escrow (NCRE) Administration to FHA Lenders/Servicers

As a reminder, if Delegated NCRE Administration will be involved in the specific loan transaction, please submit the following in accordance with Handbook 4232.1, Section II, Chapter 2.9.K.3.a.-c.:

- ✓ The Firm Commitment Application, **which the Lender must specify will assume noncritical repair escrow administration on that particular transaction, and;**
- ✓ The Firm Commitment will include a **Special Condition** acknowledging the Lender is approved to administer the NCRE.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Both items must be included in the Firm Commitment Application if Delegated NCRE Administration will be involved in the specific loan transaction. Please contact the ORCF Underwriter if any questions.

Keywords: *Delegated Non-Critical Repair Escrow (NCRE) Administration, Closings*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

32. [Notice H 2016-15, Processing Guide for Previous Participation Reviews of Prospective Multifamily Housing and healthcare Programs' Participants](#)
33. [Lender Review Checklist for Previous Participation Certifications Submitted Via Consolidated Certifications](#)

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HUD's Lean 232 Program
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October 2, 2018 Contents

[Mortgagee Letter 2018-07 - Revised Procedures for the Submission of Form HUD-9807, Insurance Termination Request for Multifamily Mortgage for Prepayment Approval](#)
[Document Links Included In This Blast](#)

MORTGAGEE LETTER 2018-07 - REVISED PROCEDURES FOR THE SUBMISSION OF FORM HUD-9807, INSURANCE TERMINATION REQUEST FOR MULTIFAMILY MORTGAGE FOR PREPAYMENT APPROVAL

The Office of Residential Care Facilities is pleased to announce the revised procedures for the submission of Form HUD-9807, Insurance Termination Request for Multifamily Mortgage (OMB Approval Number 2502-0416) for Prepayment Approval. ML 2018-07 ([here](#)) provides updated guidance on the submission requirements of form HUD-9807, Insurance Termination Request for Multifamily Mortgage, for obtaining prepayment approval. Currently, all form HUD-9807s are submitted to the Office of Finance and Budget's Multifamily Insurance Operations Branch (MFIOB) at MFIOBTerminations@hud.gov. ***To expedite the prepayment review and approval process for FHA-insured multifamily and Section 232 properties,*** HUD is revising its process effective for requests submitted on or after October 1, 2018. The prepayment approval processes for FHA-insured Section 236 mortgages and Section 242 (hospital) mortgages are not impacted by this memorandum.

Keywords: Mortgage Termination, 9807

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DOCUMENT LINKS INCLUDED IN THIS BLAST

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

34. [Mortgagee Letter 2018-07 - Revised Procedures for the Submission of Form HUD-9807, Insurance Termination Request for Multifamily Mortgage for Prepayment Approval](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of September 13, 2018

September 13, 2018 Contents

[232 Healthcare Portal – Production](#)
[Document Links Included In This Blast](#)

232 HEALTHCARE PORTAL – PRODUCTION

ORCF is excited to announce the roll out of the 232 Healthcare Portal for Production and the submission of Application and Closing documents!

Trainings:

ORCF will offer webinar trainings to introduce lenders to the use of the Portal for Production Application and Closing Submissions at the following dates and times:

- Thursday, September 20, 2018 1:30PM EDT - 4:30PM EDT
Registration link ([here](#)).
(If pop up appears for credentials, please click "OK")
- Thursday, October 11, 2018 1:30PM EDT - 4:30PM EDT
Registration link ([here](#)).
(If pop up appears for credentials, please click "OK")
- Thursday, November 1, 2018 1:30PM EDT - 4:30PM EDT
Registration link ([here](#)).
(If pop up appears for credentials, please click "OK")

Please use the registration link for your selected date to register for the training. (Note: participation is limited to 250 registrants for each session.) Training documents will be posted on www.hud.gov ahead of the trainings.

Portal Registration:

Lenders will need to register their Users for the Portal. (Note: this registration is different from the Training Registrations above.) Please

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

September 13, 2018

complete the spreadsheet ([here](#)) with the information of the Users who will be accessing the Production Module of the Portal and email it back to Marsha.A.Gallion@hud.gov with a cc: to April.J.Edmunds@hud.gov.

Please indicate on the spreadsheet the staff you would like to designate as your Lender Account Manager (LAM) and Backup Account Manager (BAM). Those roles will allow for broader administrative functions and access. NOTE: Lender Counsel should also be registered as Users for the Portal if the Lender intends for Counsel to submit Closing documents directly through the Portal.

System Requirements:

Please note that Google Chrome is not supported by the Portal.

Application Queue:

Applications will be processed in the order they are submitted. We will not move applications from SharePoint to the Portal; applications in SharePoint will continue to be processed using the data posted on SharePoint as in the past. We will continue to accept non-Portal application submissions for now but will require use of the Portal for FHA Number Requests and Application Submissions as of December 1, 2018.

FHA Number Requests:

Portal Application submissions must start with an FHA Number Request.

- If you have already received an FHA Number, but have not yet submitted an application and wish to do so through the Portal, you must submit another FHA Number Request through the Portal first. We will assign you the same FHA Number, that step is just needed to start the process of opening your ability to start uploading application files and ultimately submit the application request. **Please send an email to the 232FHARRequests@hud.gov email box to let us know if you are requesting to change the application to a Portal submission.**
- If you have not yet requested an FHA Number, but plan to submit your application using the Portal, please use the FHA Number Request process through the Portal, rather than requesting it through the e-mail box. (This process will be covered during the training.)

Keywords: 232 Healthcare Portal

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DOCUMENT LINKS INCLUDED IN THIS BLAST

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

- 35. [232 Portal Training - Thursday, September 20, 2018](#)
- 36. [232 Portal Training - Thursday, October 11, 2018](#)
- 37. [232 Portal Training - Thursday, November 1, 2018](#)
- 38. [Production Module of the Portal Spreadsheet](#)

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HUD's Lean 232 Program
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August 29, 2018 Contents

[Consolidated Certification Review Due Diligence](#)
[ORCF Appraisal Industry Group](#)
[Improved Lists of Major Movable Equipment Necessary on Construction Loans](#)
[Reminders Related to Florida's Emergency Power \(Generator\) Rules](#)
[Document Links Included In This Blast](#)

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

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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](#)).

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](#)).
- Stakeholders can use FloridaHealthFinder.gov 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 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/Service provider 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](#).)
- 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](#)? 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](#)
2. [Florida's Agency for Health Care Administration](#)
3. FloridaHealthFinder.gov
4. [Account Executive Facility Assignments - Contact Listing](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of August 24, 2018

August 24, 2018 Contents

[ORCF Account Executive and Senior Account Executive Position Vacancies in the Asset Management Division, August 20 – September 6, 2018](#)
[Document Links Included In This Blast](#)

ORCF ACCOUNT EXECUTIVE AND SENIOR ACCOUNT EXECUTIVE POSITION VACANCIES IN THE ASSET MANAGEMENT DIVISION, AUGUST 20 – SEPTEMBER 6, 2018

ORCF is pleased to announce that it is hiring two (2) new Account Executives and (1) new Senior Account Executive in the Asset Management Division. The vacancy announcements were posted on various dates beginning on August 20 and will run through September 6. Because the application window is short, we are asking you to help us spread the word.

We anticipate filling three (3) positions. Each position is posted as available in a location negotiable after selection. These Account Executive positions are part of our ongoing effort to improve asset management customer service. Your help is greatly appreciated.

The vacancy announcements are available as follows;

[Account Executive - GS13 – Internal Posting](#)

[Account Executive - GS13 – Public Posting](#)

[Senior Account Executive - GS14 – Internal Posting](#)

[Senior Account Executive - GS14 – Public Posting](#)

Keywords: *Account Executive, Vacancy Announcement*

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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DOCUMENT LINKS INCLUDED IN THIS BLAST

- 39. [USA Jobs Vacancy Announcement 18-HUD-1005](#)
- 40. [USA Jobs Vacancy Announcement 18-HUD-1006P](#)
- 41. [USA Jobs Vacancy Announcement 18-HUD-885](#)
- 42. [USA Jobs Vacancy Announcement 18-HUD-886P](#)

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HUD's Lean 232 Program
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August 20, 2018 Contents

[ORCF Management Analyst Position Vacancies in the Policy, Risk Analysis and Lender Relations Division, August 16 – August 29, 2018](#)
[Document Links Included In This Blast](#)

ORCF MANAGEMENT ANALYST POSITION VACANCIES IN THE POLICY, RISK ANALYSIS AND LENDER RELATIONS DIVISION, AUGUST 16 – AUGUST 29, 2018

ORCF is pleased to announce that it is hiring two (2) new management analysts in the Policy, Risk Analysis and Lender Relations Division. The vacancy announcement was posted on August 16 and will run through August 29. Because the application window is short, we are asking you, our partners, to help us spread the word to ensure we have a good field of candidates to select from.

There are two (2) positions that we anticipate to fill: one (1) in Washington, DC, and the other one (1) in a location negotiable after selection. These management analyst positions are a part of our ongoing effort to improve policy, risk analysis and lender relations. Your help is greatly appreciated.

The vacancy announcement is available ([here](#)).

Keywords: *Management Analyst, Vacancy Announcement*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

43. [USA Jobs Vacancy Announcement 18-HUD-888-P](#)
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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of July 31, 2018

July 31, 2018 Contents

[ORCF Underwriter Position Vacancy July 31 – August 13, 2018](#)
[Current Radon Standards for New Construction](#)
[Document Links Included In This Blast](#)

ORCF UNDERWRITER POSITION VACANCY JULY 31 – AUGUST 13, 2018

ORCF is pleased to announce that it is hiring new underwriters! The vacancy announcement was posted on July 31st and will run through August 13th. Because the application window is short, we are asking you our partners to help us spread the word, to ensure we have a good field of candidates to select from.

There are three positions that we anticipate will be filled in any of the following locations: Chicago, Columbus, Denver, Detroit, Los Angeles, Minneapolis, New York City, or Washington, DC. These underwriter positions are part of our effort to improve application turn-around times. Your help is greatly appreciated.

The vacancy announcement is available ([here](#)).

Keywords: *Underwriter, Vacancy Announcement*

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CURRENT RADON STANDARDS FOR NEW CONSTRUCTION

As noted in Handbook 4232.1, Section II, Chapter 7.1, "(T)he standards and guidance documents referenced in this chapter may be updated, amended or superseded from time to time. Wherever standards or guidance are cited in this chapter, ORCF requires reliance on the most recent edition or

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

superseding document.” Consistent with that statement, the radon standards for new construction have been updated to the following:

- ANSI CC-1000 2018 is the current new construction standard for large buildings. Section 232 new construction projects must meet the minimum requirements of this standard, regardless of the radon zone where the project is located.
- ANSI CCAH 2013 is the current new construction standard for single family buildings (1-family, 2-family, townhouses). This standard may be appropriate for a small number of Section 232 projects. An example would be a large main building (which must comply with CC-1000) with several duplex residences (which must comply with CCAH) around the main building.

Keywords: Radon, ANSI, Construction, Environmental

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DOCUMENT LINKS INCLUDED IN THIS BLAST

44. [USA Jobs Vacancy Announcement 18-HUD-792-P](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of July 13, 2018

July 13, 2018 Contents

[New Mailing Address for Firm Applications](#)

NEW MAILING ADDRESS FOR FIRM APPLICATIONS

The Minneapolis, MN field office, to which all Section 232 applications are submitted, will be moving locations effective July 19, 2018. All Section 232 firm applications that will be received on or after July 19, 2018 should be mailed to the new address below:

Mike Luke
U.S. Department of Housing & Urban Development
Office of Residential Care Facilities
212 Third Avenue, South
Suite No. 150
Minneapolis, MN 55401

Keywords: *Application Submission*

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of June 29, 2018

June 29, 2018 Contents

[Section 232 Documents Re-Opened for Public Review and Comment
Document Links Included In This Blast](#)

**SECTION 232 DOCUMENTS RE-OPENED FOR PUBLIC
REVIEW AND COMMENT**

On June 29, 2018, HUD published a Federal Register Notice, FR-7001-N-32 ([here](#)), advising the public it had re-opened the comment period for an additional 15 calendar days. There have been no changes made to the posted documents since the April 10, 2018 notice; however, HUD has been made aware that not all submissions were able to be transmitted, and thus is requesting that all commenters please resubmit their comments to the address provided in this notice. When resubmitting comments, submitters are asked to clearly identify any changes they make from the version they initially submitted by the May 10, 2018 closing date.

Please also note that the current document collection is still in effect, and should be used for all transactions, until further notice.

Keywords: *Section 232 Documents*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

45. [Proposed Information Collection: Comprehensive Listing of Transactional Documents for Mortgagors, Mortgagees and Contractors
Federal Housing Administration \(FHA\) Healthcare Facility Documents;
Re-Opening of Comment Period \(FR-7001-N-32\)](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of June 27, 2018

June 27, 2018 Contents

[Updated Firm Application Checklists](#)
[Environmental and Timing Considerations](#)
[Refinances via 223\(a\)\(7\) of Poorly Performing Loans](#)
[Previous Participation Exhibits](#)
[Multiple Project Exhibits](#)
[Document Links Included In This Blast](#)

UPDATED FIRM APPLICATION CHECKLISTS

The Firm Application Checklists for all loan types have been updated and are available on the Section 232 Underwriting Guidance website ([here](#)). The new checklist versions align exhibits to be consistent across all loan types. The updated checklists are also in the format for document submission when ORCF starts accepting application submissions through the Healthcare Portal. Lenders should start using the new versions for any applications not yet submitted. As a reminder, lenders should always use the most current version of documents available when preparing application packages.

Keywords: *Checklist, Portal*

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ENVIRONMENTAL AND TIMING CONSIDERATIONS

For applications where an existing or proposed HUD-Insured project involves work that exceeds the level of routine maintenance (including construction, demolition, building modifications, site clearing, tree removal, or ground disturbance), HUD must complete an Environmental Review before the work can commence. Depending on the nature of the proposed activities, specific review requirements may apply pertaining to floodplain management, protection of wetlands, historic preservation, endangered species, and other environmental factors. Proposals should consider early submission of

environmental factors where early consultation is necessary in order to avoid processing delays.

Note that some State Historic Preservation Offices (SHPOs) and some regional offices of the US Fish and Wildlife may only respond to consultation requests from HUD. Since these consultations can sometimes take months to complete, it is important to get the process started early in these instances. ORCF's Handbook 4232.1, REV-1, Section II, Chapter 1.4.D.2 describes such instances. Examples include:

- Where proposed ground disturbance or vegetation / tree removal has the potential to impact endangered species, and a consultation with the US Fish Wildlife service may be necessary, early contact with HUD is recommended.
- Whenever a project involves work that exceeds the level of routine maintenance, consultation with the State Historic Preservation Officer (SHPO) is required regardless of the age and location of the property, unless the applicable SHPO has a formalized agreement with HUD that excludes certain types of activities from consultation.
- When a project involves Tribal Consultation, early contact with ORCF is recommended.

Lenders are encouraged to contact ORCF at LeanThinking@hud.gov, during the assembly of their applications, to avoid processing delays due to required consultation periods (sometimes 30 days or longer). Lenders are also encouraged to contact LeanThinking@hud.gov with any other questions that impact application processing. For projects which already have HUD Mortgage Insurance, and that are also proposing work beyond routine maintenance, early environmental contact with ORCF may also apply, so contact the ORCF Account Executive for your specific project.

For a description of "routine maintenance", please see: Notice CPD 16-02: Guidance for Categorizing an Activity as Maintenance for Compliance with HUD Environmental Regulations, 24 CFR Parts 50 and 58 ([here](#)).

Keywords: *Environmental Review, Application Processing, Routine Maintenance, Demolition, Construction, Ground Disturbance*

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REFINANCES VIA 223(A)(7) OF POORLY PERFORMING LOANS

An (a)(7) refinance is sometimes a useful tool for improving a property's performance; it can reduce debt service while also making some funds available for repairs and limited improvements. However, when this tool is used on a poorly performing property (certainly one with a debt service coverage ratio below 1.10), the tool needs to be part of a larger plan for performance improvement. That business plan should demonstrate a thorough consideration of the market and set forth specific steps being initiated to increase revenue, improve resident care and control expenses. The Lender Narrative should detail that plan. Without an upfront plan and the lender's initial analysis of how that plan will bring sufficient performance improvement, ORCF is not well positioned to evaluate the risk of the proposed (a)(7). In such cases, the lender will experience substantial delays as ORCF asks the lender for further data and analysis.

Keywords:223(a)(7)

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PREVIOUS PARTICIPATION EXHIBITS

Recently ORCF has been seeing applications with placeholder pages for Previous Participation exhibits noting the item is in process and will be submitted at a later date. Please note that not having these exhibits ready to submit results in an incomplete application that is not ready for review and creates delays in processing. As a reminder, please ensure that all relevant application exhibits are included at application submission. Incomplete submissions may be placed on hold or be held for assignment to an underwriter until the application is complete and ready to review.

Keywords:*Previous Participation, Application Processing*

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MULTIPLE PROJECT EXHIBITS

ORCF has also been seeing applications with large files covering information for multiple projects. For example, we have seen all of the APPS submissions for the principals on multiple projects being submitted in a single large file. ORCF needs discrete information for each application. In addition, such combined files are not efficient for reviewers to work with and

result in processing delays. Dication of these files in multiple applications also uses up limited file storage space, which may result in delays uploading new application submissions.

Keywords: *Application Processing*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

46. [Section 232 Underwriting Guidance website](#)
47. [Notice CPD 16-02: Guidance for Categorizing an Activity as Maintenance for Compliance with HUD Environmental Regulations, 24 CFR Parts 50 and 58](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of June 18, 2018

June 18, 2018 Contents

[ORCF Appraiser Position Vacancy June 13-27, 2018](#)

ORCF APPRAISER POSITION VACANCY JUNE 13-27, 2018

ORCF is pleased to announce that it is hiring a new review appraiser! The vacancy announcement was posted on June 13th and will run through June 27th. Because the application window is short, we are asking you our partners to help us spread the word, to insure we have a good field of candidates to select from. The selection will be made from one of two locations, Columbus, Ohio, or Fort Worth, Texas. ORCF recently welcomed two new appraisers onboard and this third appraiser position is part of our effort to improve application turn-around times and prepare for planned retirements. Your help is greatly appreciated. Again there are two site options, but only one position.

Here are the two vacancy announcement links:

To view your announcement, please click the following link:
<https://www.usajobs.gov/GetJob/ViewDetails/502177500>

To view your announcement, please click the following link:
<https://www.usajobs.gov/GetJob/ViewDetails/502177300>

Keywords: *Appraisers, Vacancy Announcement*

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of May 2, 2018

May 2, 2018 Contents

[Correction to April 3, 2018 Email Blast Article on Florida's Emergency Generator Rules](#)
[Document Links Included In This Blast](#)

CORRECTION TO APRIL 3, 2018 EMAIL BLAST ARTICLE ON FLORIDA'S EMERGENCY GENERATOR RULES

The ORCF published an Email Blast article on April 3, 2018 noting that Florida's Emergency Generator Rules (also referred to as Emergency Power Plan Rules) had a compliance deadline of July 1, 2018. **ORCF has learned that the compliance deadline is June 1, 2018.** We apologize for the error. Please find the final rule text ratified by the Florida Legislature for assisted living facilities ([here](#)) and skilled nursing facilities ([here](#)).

Providers may file for an extension of the compliance date out to January 1, 2019 under certain circumstances and with approved documentation. You may find samples developed by Florida's Agency for Health Care Administration for requesting an extension ([here](#)).

Keywords: *Florida Emergency Generator Rules*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

- 48. [Emergency Environmental Control for Assisted Living Facilities](#)
- 49. [Emergency Environmental Control for Nursing Homes](#)
- 50. [Emergency Power Plan Rules Resources](#)

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Real Estate Assessment Center (REAC)
Update and Clarification
May 1, 2018

May 1, 2018 Contents

[Asset Management Updates and Reminders on Real Estate Assessment Center \(REAC\) Inspections](#)
[Clarification of Process for REAC Inspections of Section 232 Projects](#)
[REAC Inspections and Skilled Nursing Facilities \(SNFs\)](#)
[Database Adjustment/Pre-Database Adjustments/Technical Review](#)
[REAC Information on HUD.gov](#)
[Document Links Included In This Blast](#)

This Email Blast is most relevant to servicers of Section 232 projects since it provides updates and clarification on REAC inspections of Section 232 projects. The Office of Residential Care Facilities (ORCF) will be following up with a session to address questions about this guidance. Details will be provided in a forthcoming Email Blast.

ASSET MANAGEMENT UPDATES AND REMINDERS ON REAL ESTATE ASSESSMENT CENTER (REAC) INSPECTIONS

Clarification of Process for REAC Inspections of Section 232 Projects

ORCF is clarifying its internal process for addressing Section 232 projects with a single, non-consecutive score of 31-59 on a REAC physical inspection report to ensure consistency with the process followed by Multifamily Housing (as outlined in Notice 2011-24 and Notice 2015-02).

Currently, when a Section 232 project receives a single, non-consecutive score of 31-59, after the owner completes their 100% survey and provides the Project Owner Certification to HUD, ORCF staff immediately requests

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

another inspection with REAC staff. This inspection has been performed by REAC staff.

Effective with the issuance of this Email Blast, ORCF staff will no longer request a subsequent inspection from REAC staff (provided HUD has received a Project Owner Certification that is acceptable to HUD). On such projects, the next REAC inspection will be performed one year from the date that HUD releases the prior REAC inspection report and the next REAC inspection will be ordered by the lender using the normal REAC inspection protocol.

Please note that ORCF staff will continue to request a subsequent inspection from REAC in the following situations:

- The project received a score of less than 31, or
- The project received two or more consecutive scores of less than 60, or
- The project received a single, non-consecutive score of 31-59, and the owner failed to provide the required Project Owner Certification in a manner that is acceptable to HUD, or
- Any subsequent inspection required on a Nursing Home/SNF due to a previous less than 60 score.

REAC Inspections and Skilled Nursing Facilities (SNFs)

On September 7, 2012 (effective October 9, 2012), HUD issued the Final Rule: **Federal Housing Administration (FHA): Section 232 Healthcare Facility Insurance Program-Strengthening Accountability and Regulatory Revisions Update**. The rule amended 24 CFR Section 200.85, *Physical Condition Standards and Physical Inspection Requirements*, to allow HUD greater flexibility in the physical inspections of skilled nursing facilities (SNF), assisted living facilities, board and care facilities and intermediate care facilities.

In implementing this rule, the Office of Healthcare Programs (OHP) chose only to exempt all SNFs in the HUD portfolio where the last REAC inspection score was 60 or above – considered a passing score. The remaining SNFs were required to have subsequent inspections and would not be considered exempt until they received a passing score.

We have had several properties scheduled by lenders for a REAC inspection that should have been exempt - based on the above criteria. Lenders should check the Account Executive Facility Assignments - Contact Listing ([here](#)) to

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

verify if a property has been exempted from REAC Inspections prior to scheduling. In addition, if the property is a SNF **and** the last REAC inspection was a score of 60 or greater, they are not subject to additional REAC Inspections. Please note, projects containing more than one type of facility are coded as the predominant (based on number of beds) facility type. If you notice an error on this report or have any questions, please contact the assigned Account Executive (AE). In any event, lenders will not have to order any second inspection on a SNF/Nursing Home.

Exigent Health and Safety (EH&S) Tickets

Many Section 232 facilities have residents with Alzheimer's, dementia or other memory issues, and require restricted windows and doors to provide for resident safety. In a REAC Inspection, these blocked doors and windows are marked as blocked egress, which results in EH&S findings. The inspector leaves a ticket and informs the property that they must address the blocked egress finding. If windows or doors are physically altered because of this REAC deficiency, it may be a resident safety issue as well as a conflict with licensing requirements.

To address our concern that some properties may physically alter the facility to address this REAC deficiency, REAC has updated the tickets left at the property to include the following language:

FOR NURSING HOME/HEALTHCARE PROPERTIES ONLY: If local or state code requires that windows either not open or open only a prescribed number of inches (e.g., 6 inches) to prevent residents with Alzheimer's, dementia, or other conditions from injury or leaving the premises, the nursing home property is not required to mitigate the deficiency "blocked egress/inoperable" window(s) when recorded on this form as an observed EH&S deficiency. If local or state code allows for this restriction and the property has not filed a pre-database adjustment with the REAC, please submit an appeal immediately (within 45 days of the inspection report's release date) and indicate it should also be processed as a pre-database adjustment.

The borrower certification related to corrected EH&S deficiencies should note the specifics of any egress deficiency that meets the above language. If you have any questions or concerns on this issue, please contact your assigned AE.

Database Adjustment/Pre-Database Adjustments/Technical Review

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

One of the most common database adjustments needed is the blocked egress issue noted above. We strongly encourage you to submit a database/pre-database adjustment for these findings to prevent the same issue from recurring.

Below are the differences between the types of adjustments and key points to remember when submitting a request for an adjustment:

- **Database Adjustment:** Requesting REAC to reevaluate the report as there are circumstances out of the ordinary, such as:
 - Local Conditions and Exceptions – allowed by local codes or license
 - Ownership issues (sidewalk or retaining wall not part of the mortgaged property)
 - Adverse Conditions Beyond Owner's Control – natural disaster

If the property is undergoing rehabilitation, you should seek a REAC inspection deferment. While "Modernization Work in Progress" is a justifiable reason for a database adjustment, it is a more efficient use of the process to wait for the rehabilitation work to be completed prior to the inspection.

A REAC database adjustment request:

- Must be submitted to REAC within **45 days** of the release of the report.
- Must include supporting 3rd party documentation; such as, local codes, letters from Fire Marshals, license requirements, legal descriptions, etc.

We recommend notifying your assigned AE when the database adjustment request has been sent. AEs only need an electronic copy.

- **Pre-database Adjustment** – A previously approved database adjustment that is stored in the REAC database. This will delete the deficiency from future inspection reports. When submitting your original database adjustment, request that it also be treated as a pre-database adjustment.
- **Technical Review** – Objectively verifiable and material error.

Technical Reviews must be submitted to REAC within **30 days** of the release of the report. Examples:

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

- Building Data Errors -The inspection includes the wrong building or a building that is not owned by the property.
- Unit Count Errors -The total number of units considered in scoring is incorrect as reported at the time of the inspection.
- Non-Existent Deficiency Errors -The inspection cites a deficiency that did not exist at the time of the inspection.

REAC Information on HUD.gov

Please refer to the web sites listed below for additional REAC guidance:

Preparing for a REAC Inspection	http://portal.hud.gov/hudportal/documents/huddoc?id=Prep4REACInspecR2Oct2016.pdf
Top 20 Deficiencies	https://apps.hud.gov/offices/reac/products/pass/top20.pdf
YouTube Videos: Topics include: Technical Review, Scoring, and Inspection Review	https://www.hud.gov/program_offices/public_indian_housing/reac/training/learningtools#1
Technical Reviews and Database Adjustment Guidelines	https://apps.hud.gov/offices/reac/products/pass/PDFs/guidelines-adj.pdf
Certification of Exigent Health and Safety (EH&S) Issues *	https://www.hud.gov/sites/documents/93332_orcf.doc
Certification of Physical Condition Compliance*	https://www.hud.gov/sites/documents/93333_orcf.doc

*Please note: These are two different forms and certify to different areas of completion.

- EH&S Certification is for the items noted in the ticket that the inspector leaves at the property. These repairs must be remedied within 72 hours.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

- Certification of Physical Condition is the certification that is completed when a property receives a **REAC score of 59 and below**. This certification is completed and returned to the Account Executive when the property maintenance staff has conducted a 100% review of the property and all items have been addressed. This includes any items noted on the REAC Inspection and any items discovered during the 100% inspection conducted by staff. Once the AE receives this certification; they will order a follow up inspection.

Keywords: REAC, Inspections

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DOCUMENT LINKS INCLUDED IN THIS BLAST

51. [Account Executive Facility Assignments - Contact Listing](#)

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HUD's Lean 232 Program **Office of Residential Care Facilities (ORCF)** **Update as of April 25, 2018**

April 25, 2018 Contents

[Email Blast Articles For Lenders' Loan Servicers](#)

[Lender Point of Contact \(POC\) For Chief Underwriters and Servicing Mortgagee Contacts](#)

[Updated Financial Tables](#)

["De Minimus" Initial Draws In Construction Transactions](#)

[FROM THE CLOSING CORNER](#)

[Non-Critical Repair Escrow \(NCRE\) Request – Revised Procedures – Portal Submissions Beginning May 1, 2018](#)

[Document Links Included In This Blast](#)

EMAIL BLAST ARTICLES FOR LENDERS' LOAN SERVICERS

Have your loan servicing colleagues joined ORCF's Email Blast list? As this Blast well illustrates, the Email Blasts contain information relevant to them as well. You may wish to forward this Blast to them and suggest that they subscribe ([here](#)).

Keywords: *Email Blast, Servicers*

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LENDER POINT OF CONTACT (POC) FOR CHIEF UNDERWRITERS AND SERVICING MORTGAGEE CONTACTS

ORCF requires all Section 232 Lenders to designate a qualified individual as "Chief Underwriter" and "Deputy Chief Underwriter." See Handbook 4232.1, Section I, Chapter 2.3.C ([here](#)). Lenders can verify the POC information HUD has for their Chief Underwriter on the Mortgagee Certification MAP Approved Lenders List ([here](#)). If that information as to Lean participation is not current, then the lender should send an email to Terry Clark at: Terry.W.Clark@hud.gov with complete POC information for that individual, including the individual's name, title, company name, email address and company phone number.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Additionally, ORCF is requesting that all approved Section 232 Lenders provide point of contact information for their Director of Loan Servicing (or similarly titled position), the individual who would be ORCF's senior primary contact. The contact information should include the individual's name, title, company name, email address and company phone number. Please forward your Servicing Mortgagee point of contact information to LeanThinking@hud.gov.

Keywords: *Lender Point of Contact; Chief Underwriter; Servicing Mortgagee Contact Information*

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UPDATED FINANCIAL TABLES

We have previously emphasized ORCF's need for updated financial tables during the underwriting process and for presentation at Loan Committee. As a reminder, ORCF may request updated financial tables that are dated no more than 3 months prior to the date of Loan Committee. When submitting updated financial tables, it is the lender's responsibility to analyze the data and provide an explanation of any changes in financial performance with the updated financial statements.

Keywords: *Financial tables*

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"DE MINIMUS" INITIAL DRAWS IN CONSTRUCTION TRANSACTIONS

Appendix 10.2 of Handbook 4232.1, Section II, sets forth instructions for the lender's approval of advances of loan proceeds in construction transactions. Chapter 10.2.A.1 states generally that 232 loan proceeds are to be advanced *after* escrow, grant and other loan proceeds. However, Chapter 10.2.A.5 contains a limited exception, stating:

HUD recognizes that, in order to deliver documents to the investor for satisfactory receipt and delivery of the initial GNMA Construction Loan Certificate, a de minimis first draw of the loan proceeds may need to be approved for disbursement at initial closing. The disbursements must be supported by justification and found acceptable to ORCF.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

ORCF has seen these initial draws generally between \$25,000 and \$40,000; ORCF has generally found such amounts justified and has approved those draws. However, lenders obviously do take some risk when, as is the practice, they commit to such draws prior to HUD approval. Lenders should be especially cautious when this initial draw would be a larger amount, exceeding the amount of the application fee. In such rare instances, the lender would be well advised to check with ORCF in advance.

Keywords: *De Minimus, Initial Draws*

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FROM THE CLOSING CORNER

Non-Critical Repair Escrow (NCRE) Request – Revised Procedures – Portal Submissions Beginning May 1, 2018

The December 21, 2017, LEAN 232 update announced that, eventually, all Non-Critical Repair Escrow (NCRE) requests would be processed through the ORCF Portal. As a follow-up to that update, ***beginning May 1, 2018***, ORCF will be using only the portal to process all NCRE requests. The 232NCRrequest@hud.gov mailbox will be discontinued after May 1, 2018, and the portal will be used for all NCRE requests. NCRE submissions on all loans should be submitted through the ORCF Portal starting May 1st. Please refer to the January 12, 2017 LEAN 232 update and Mortgagee Letter 2107-04 for more information about the portal.

Keywords: *Non-Critical Repair Escrow*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

52. [Mortgagee Certification MAP Approved Lenders List](#)

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HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of April 10, 2018

April 10, 2018 Contents

[Section 232 Documents Available For Public Review and Comment](#)
[Document Links Included In This Blast](#)

SECTION 232 DOCUMENTS AVAILABLE FOR PUBLIC REVIEW AND COMMENT

On April 10, 2018 a Federal Register Notice ([FR-7001-N-09](#)) was published to open a 30-day comment period on the revised collection of Section 232 documents. The entire collection subject to this notice, in both clean and redline format, is available for review at: www.hud.gov/232comments. Please read, consider, and submit your comments, if any. In order to be considered, all comments **must** be submitted **as instructed in the Federal Register**. The comment period ends May 10, 2018.

Please also note that the current document collection is still in effect, and should be used for all transactions, until further notice.

Keywords: *Section 232 Documents*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

53. [30-Day Notice of Proposed Information Collection: Comprehensive Listing of Transactional Documents for Mortgagors, Mortgagees and Contractors Federal Housing Administration \(FHA\) Healthcare Facility Documents: Proposed Revisions and Updates of Information Collection \(FR-7001-N-09\)](#)
54. [Section 232 Documents for Comment](#)

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of April 3, 2018

April 3, 2018 Contents

[Revised Guidance for Processing Reserve for Replacement \(R4R\) Requests
Related to Florida's Emergency Generator Rules
Document Links Included In This Blast](#)

**REVISED GUIDANCE FOR PROCESSING RESERVE FOR
REPLACEMENT (R4R) REQUESTS RELATED TO FLORIDA'S
EMERGENCY GENERATOR RULES**

The Florida state legislature has passed emergency generator rules for assisted living facilities ([here](#)) and skilled nursing facilities ([here](#)). Governor Rick Scott signed them into law on March 26, 2018. We understand that the compliance deadline is July 1, 2018, but providers may file for an extension out to January 1, 2019, under certain circumstances and with approved documentation. Further, we understand that the approved state budget includes funding to help defer the costs to comply with the rules imposed on skilled nursing facilities (no such funding has been proposed for assisted living facilities).

Section 232 project borrowers are encouraged to contact their servicing lender to develop a plan for achieving compliance with these rules.

The following guidance amends that given in the October 13, 2017, Email Blast concerning the eligibility of generators and related components as reserve for replacement items. It applies specifically to R4R requests for a Section 232-insured facility in Florida coming into compliance with the emergency generator rules:

- All R4R release requests for generators, storage tanks and other related components pursuant to complying with these requirements are to be sent to 232R4RRequest@hud.gov, rather than the Portal (emails should include in the Subject Line: "Florida Generator

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Requirement"). This applies to lenders following the established delegated approval process.

- All pertinent R4R release requests should include a copy of the emergency plan submitted to the state to demonstrate full or partial compliance, and must include copies of any documents supporting an extension request beyond the July 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.
- If the request will bring the balance of the R4R account below the \$1,000 per unit recommended minimum threshold, a waiver may be considered.
- The existence or non-existence of a generator on the PCNA will not be a reason on its own to deny a request.
- Pursuant to 3.2.2 H.3 of the handbook, advances may be considered for this type of work.
- Pursuant to 3.2.2.H.4 of the handbook, requests shall be made no more than one year after the expenditure occurred; complying with the Florida requirement will not be a rationale for waiving this requirement.
- Section 3.2.2.H.5 of the handbook has guidance on delegated approval (by lenders). Generators/tanks/component improvements (as long as they meet the requirements of this section) may be processed using the delegated approval process; in these cases, the details of the approved transaction are to be sent to the 232R4RRequest@hud.gov mailbox rather than through the Portal, per above.

The Environmental Guidance provided in the November 13, 2017 Email Blast is applicable to the above requests.

Keywords: *Florida Emergency Generator Rules*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

- 55. [Emergency Environmental Control for Assisted Living Facilities](#)
- 56. [Emergency Environmental Control for Nursing Homes](#)

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

April 3, 2018



Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program **Office of Residential Care Facilities (ORCF)** **Update as of February 28, 2018**

February 28, 2018 Contents

[Keys Amendment Letters Posted Online](#)
[Clarification of "Management Agent" Role](#)
[Exclusion of the Cost Approach](#)
[Flood Insurance Reminders](#)
[Initial Operating Deficit Worksheet Preparation For Section 241 Applications](#)
[Reconciling NOI History with Certified Financials](#)
[Document Links Included In This Blast](#)

KEYS AMENDMENT LETTERS POSTED ONLINE

In response to industry requests, and with permission from the Social Security Administration (SSA), ORCF is now posting all **new** (2018 & forward) annual Keys Amendment certifications on the ORCF website ([here](#)). Each "X" on the chart not only indicates that a state has submitted their certification letter for calendar year 2018, but it is also a hyperlink to the certification itself. As a reminder (and as discussed in our [October 25, 2017 Email Blast](#)), the state letter is not the only requirement for Board and Care eligibility; each project must be specifically regulated by the state, pursuant to Section 1616e of the Social Security Act, and meet all other ORCF requirements.

Keywords: *Board and Care; Keys Amendment; Section 1616e*

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CLARIFICATION OF "MANAGEMENT AGENT" ROLE

ORCF has recently received inquiries regarding the role that will lead to a party's designation as a facility's "management agent." Per Handbook 4232.1, Section II, Chapter 8.3, a Management Agent is an entity that "directs the day-to-day functions of a healthcare project as a contracted agent for either the Operator or the Borrower." The most fundamental *function* of a residential care facility is, of course, resident care. Thus, while

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

a Management Agent's role will include a wide range of activities, those activities necessarily include resident care. This specifically includes the selection and supervision of the administrator and the staff providing care and services to the residents. Management agents thus include entities who have overall responsibility for resident care and for the operations that support that care, but who do not meet the definition of operator in Chapter 8.2 and are therefore not required to sign the Operator Regulatory Agreement.

The Management Agent role is distinguished from the role of the various parties with whom an operator may contract to optimally operate the facility (e.g., administrative services provider, back-office services provider, therapy provider, etc.) Those parties would not (as a Management Agent does) go through a certification/approval process at the ORCF or lender level. Any costs incurred for such services, however, must not exceed amounts normally paid for such services in the geographic area (pursuant to 24 CFR 232.1007 and to the borrower's and operator's regulatory agreements). HUD may require that fees paid to a service provider be disclosed and substantiated as reasonable and necessary.

Keywords: *Management Agent*

EXCLUSION OF THE COST APPROACH

ORCF is noticing a trend to inappropriately exclude the Cost Approach in appraisals. The Lender may not request that the appraiser omit the approach. When the costs to construct and stabilize a potential new facility, including land, are well below the estimated market value for the subject property, there is a possibility that a competitor may be added to the market. Lenders are reminded that Handbook 4232.1, Section II, Chapter 5.3.R.2:

ORCF will expect to see a fully developed cost approach in cases where there is little depreciation or in cases where the undepreciated replacement cost new would be expected to be lower than the conclusions of the Sales Comparison or Income Capitalization Approaches. For that reason, base costs of new facilities will need to be carefully discussed in the narrative justification for excluding the approach.

Since "base costs" need to be carefully discussed in the narrative, most of the Cost Approach will already need to be completed and will prove insightful to the discussion.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Keywords: *Cost Approach, Undepreciated Replacement Cost, Competition*

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FLOOD INSURANCE REMINDERS

Lenders are reminded that Handbook 4232.1, Section II, Production, 14.7.H addresses flood insurance requirements. It is the lender's responsibility to review the Standard Flood Hazard Determination Form as well as current and preliminary FEMA Maps prior to submission of an application. Chapter 14.7.H requires that every mortgage insurance application must include a Standard Flood Hazard Determination Form (FEMA Form 086-0-32 or most recent version), prepared by a qualified third-party flood zone determination firm. In addition, because the status of a flood zone may change over time, the Lender must obtain from its flood zone determination firm "life-of loan" monitoring and coverage.

For projects that require flood insurance, you are reminded that the following requirements apply:

1. HUD considers flood insurance to be a market expense that other lenders would also require, therefore, flood insurance costs should be included in the appraisal's net operating income estimate as an expense. This expense should also be included in the lender's underwritten net operating income used to calculate debt service coverage.
2. The lender narrative and draft firm commitment should include a special condition requiring flood insurance as well as the following required flood insurance coverage amounts:
 - a. The amount of the replacement cost of improvements located in the Special Flood Hazard Area (SFHA). This number should be found in the PCNA for refinance projects and in the third-party cost report for construction projects.
 - b. The amount of Business Income coverage as described in Handbook 4232.1, Section II, 14.7.H
 - c. The maximum deductible amount, which cannot exceed 5% of the replacement cost of the mortgaged property.

Keywords: *Flood Insurance*

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

INITIAL OPERATING DEFICIT WORKSHEET PREPARATION FOR SECTION 241 APPLICATIONS

As a reminder, Handbook 4232.1, Section II, Appendix 2.1, Calculating the Initial Operating Deficit Escrow, provides instructions on how to complete the Initial Operating Deficit (IOD) workbook. Section 241 applications often do require an IOD when beds/units are being added, or payor mixes are changing. As a reminder:

- Existing operations should be considered in the 'number of preleases' column;
- Changes to expense floor percentages must be justified;
- The Details and Draw Requests tab of the workbook automatically defaults to income commencing in month 3. Manipulation of the monthly forecast columns is permitted, where appropriate, to reflect income being achieved in months 1 and 2;
- The combined debt service of both loans (existing and proposed) must be reflected in the principal/interest and MIP line items of the Details and Draw Requests tab;
- The actual proposed IOD amount must be included on the Details and Draw Requests tab; and
- In the situation where an IOD is not proposed, the IOD workbook is still required to be completed, to prove that the existing operations cover operations and debt service of both loans.

Keywords: *Section 241, IOD*

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RECONCILING NOI HISTORY WITH CERTIFIED FINANCIALS

An important part of the ORCF appraisal review is checking to see if the financial history summarized in the appraisal is reported accurately. This is done by comparing the historical net operating income (NOI) to the detailed income and expense statements, which are certified by the owner to be correct (exhibits 3-x-B or 5-x-B or 9-x-B). For the two to "balance", expense "add-backs" are sometimes needed. Examples of add-backs are interest

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income, interest expense, depreciation, amortization, property rent, lawsuits, fund raising activities, and major capital improvements. Currently the review appraiser's reconciliation table is found in the Decision Circuit, but we hope to have a place for it in a future version of the 223(f) Lender Narrative Template. The lender will be asked for clarifications when the review appraiser is unable to reconcile the reported history with the certified financials. It is inappropriate to "normalize" any historical expense to market levels or include adjustments for corporate structure. Such "normalizations" will be reflected in the appraisal's forecasts. The lender can speed the balancing process by describing the add-backs using the specific name or accounting code used in the certified financials.

Keywords: *Lender Narrative, Certified Income & Expense, Financial History, Reconciliation, Balancing, Appraisal*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

57. [ORCF State Compliance with Keys Amendment Website](#)

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[Section 232 Documents – Current Date Extended, New Drafts](#)

[FORTHCOMING](#)

[ORCF Using Digital Signatures to Sign Firm Commitments](#)

[Non-Critical Repair Escrow \(NCRE\) Request Clarification](#)

[Environmental Review for Section 232 Asset Management Transactions](#)

[Risk Notification](#)

[Document Links Included In This Blast](#)

**SECTION 232 DOCUMENTS – CURRENT DATE EXTENDED,
NEW DRAFTS FORTHCOMING**

ORCF will soon be publishing the revised Section 232 documents for a second round of public comments. This 30-day comment period will be announced in the Federal Register, so please be on the lookout for the announcement. We encourage you to read, consider, and submit your comments.

Please also note that the current document collection has received OMB approval to extend its expiration date until March 31, 2018 (or until the collection is renewed, whichever occurs first). Even though the printed expiration date is June 30, 2017, they are remain in effect through the March 2018.

Additionally, please be aware that the draft documents published in the Federal Register, and posted on our website for public comment in May 2017, are not OMB-approved documents, and are **not** available for use in application submissions.

Keywords: *Section 232 Documents*

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Please refer to Handbook 4232.1 and Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance."

ORCF USING DIGITAL SIGNATURES TO SIGN FIRM COMMITMENTS

The Office of Residential Care Facilities (ORCF) is now using digital signatures to sign Firm Commitments. Lenders will no longer receive a hard copy Firm Commitment. All other parts of the process will remain the same.

Keywords: *Firm Commitments*

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NON-CRITICAL REPAIR ESCROW (NCRE) REQUEST CLARIFICATION

Non-Critical Repair Escrow (NCRE) releases on all loans closed **on or after** July 20, 2015 will be conducted by ORCF's closing team, as a post-closing item handled by the assigned ORCF Closer. NCRE submissions on these loans should be submitted via email to: 232NCRrequest@hud.gov. If you submit these through the ORCF Portal, the requests will be returned as disapproved and you will be asked to resubmit to the 232NCRrequest@hud.gov mailbox. For loans closed **before** July 20, 2015, please submit NCRE releases through the ORCF Portal; these requests will be handled by the Asset Management assigned Account Executive. Eventually, all NCRE requests will be processed through the Portal but ORCF requests that the described process be followed until further notice.

Keywords: *Non-Critical Repair Escrow*

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ENVIRONMENTAL REVIEW FOR SECTION 232 ASSET MANAGEMENT TRANSACTIONS

The Healthcare Regulatory Agreements for Borrower, Operator and Master Tenant require written approval from HUD prior to remodeling, adding to, subtracting from, reconstructing, or demolishing a portion of the mortgaged project. As previously stated in the Capital Improvements Application Checklist ([here](#)), "**remodeling**" is defined as repairs/improvements that constitute "**Substantial Rehabilitation**" (Please see Handbook 4232.1, Section II, Chapter 2.6.B). When HUD's approval is required for these activities, an environmental review pursuant to 24 CFR Part 50 is first necessary (Please see Handbook 4232.1, Section III, Chapter 3.4 on Request to Release or Modify Original Loan Collateral). This is consistent with language per 24 CFR Part 50.3(i)(4), which states a new Phase I ESA in

Please refer to Handbook 4232.1 and Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance."

accordance with ASTM E 1527-13 (or the most recent edition) is required if the activity being approved involves:

1. Significant ground disturbance (digging) or construction not contemplated in the original application.
2. A change in land use not contemplated by the original risk-based mitigation conducted on the site (i.e., from commercial to residential).
3. Site expansion or addition.
4. Any other activities that may result in contaminant exposure pathways or activities not contemplated in the original application.

Environmental reviews are not required when requesting a release from the Reserve for Replacements or Residual Receipts, unless the request is for funds to cover the expense of “remodeling” as described above.

Please note: this guidance applies to all ORCF projects, not just ones in Florida discussed in the November 17, 2017 Email Blast on emergency generator installations.

Keywords: *Environmental Reviews*

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RISK NOTIFICATION

Handbook 4232.1, Section III, Chapter 3.10 ([here](#)), addresses situations in which the lender must promptly notify ORCF of the owner/operator’s plan to address risks identified in HUD-insured healthcare facilities. Such notifications are to address the risks by identifying mitigants and assessing any obstacles to implementing them. This includes consideration of projected timelines, identification of appropriate responsible persons, and consideration of required financial resources.

Several lenders are not proactively notifying the ORCF AE prior to requests for updates. Per Chapter 3.10, lenders are expected to take a proactive role in monitoring and reporting risk factors such as declining financial indicators, and owner/operator non-compliance with reporting requirements (Operating financials, Owner’s financials, Audited financials, adverse CMS ratings, Survey Issues, Delinquency/Default reports REAC responses, etc.).

Please refer to Handbook 4232.1 and Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.”

Lenders should keep the following in mind when preparing their risk notification to ORCF.

1. Identify risk indicators promptly, and get ahead of your ORCF AE in communicating the problems.
2. An optional form, Servicer's Notification to HUD of Risks to Healthcare Project and Action Plan for Remedy, is available [\(here\)](#).
3. Although using this form is optional for lenders, they may find it a convenient tool for clearly and concisely conveying the relevant information, including improvement plans.
4. For lenders who choose to use the form, please do not combine or delete sections, or otherwise alter the document's format; maintaining the format facilitates efficient review by ORCF staff. You need only complete those sections of the form that are relevant to the notification you are providing. Check only those relevant boxes on the first page of the form and use the hyperlink provided to skip to those sections to be completed.

Also, lenders should keep in mind that the lender-ORCF communication is ongoing. Thus, if the lender's ongoing monitoring indicates that timelines and goals are not being met, the lender should follow up with the owner/operator for updated plans, and then promptly update your ORCF Account Executive.

Keywords: *Risk Notification*

DOCUMENT LINKS INCLUDED IN THIS BLAST

58. [Capital Improvements Application Checklist](#)
59. [Servicer's Notification to HUD of Risks to Healthcare Project and Action Plan for Remedy](#)

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Please refer to Handbook 4232.1 and Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance."

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
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November 13, 2017 Contents

[Environmental Guidance In Response to Florida's Emergency Generator Requirements](#)
[Document Links Included In This Blast](#)

ENVIRONMENTAL GUIDANCE IN RESPONSE TO FLORIDA'S EMERGENCY GENERATOR REQUIREMENTS

The Office of Residential Care Facilities (ORCF) is providing the following guidance pertaining to Florida's Emergency Generator Rules (assisted living facilities ([here](#)) and skilled nursing facilities ([here](#))). Although an Administrative Law Judge's order ([here](#)) has stated that the Emergency Generator Rules are invalid, the State of Florida's Agency for Health Care Administration and Department of Elder Affairs have filed a Notice of Administrative Appeal ([here](#)).

Given the current circumstances at the Florida state level, ORCF is providing the following reminders regarding issues that may arise at facilities installing generators.

Consistent with ORCF's Regulatory Agreements and the Section 232 Handbook (4232.1), installing aboveground storage tanks, generators and/or related components will generally not constitute "remodeling" or other modifications to the collateral securing a currently FHA-insured mortgage, and will therefore not trigger an environmental review. However, ORCF offers the following to help borrowers and lenders ensure compliance with HUD Environmental Requirements related to installing storage tanks:

Please refer to Handbook 4232.1, and Email Blasts following that Handbook's publication date, to better assure consideration of the most recent guidance.

- **Aboveground Storage Tanks (ASTs)**: Projects adding ASTs must follow the Section 232 Handbook, Production Chapter 7.5.G.4 requirements. Specifically, projects adding ASTs must:
 - Obtain documentation confirming that the AST conforms to all applicable state and local permit requirements;
 - Obtain and submit to HUD a permit, conformance letter or other form of assurance from a local authority that specifically addresses the safety of the AST:
 - **Projects with a permit, conformance letter or other assurance** may be asked to submit documentation of Acceptable Separation Distance (ASD) calculations between the tank and any buildings and outdoor areas of congregation;
 - **Projects unable to obtain a permit, conformance letter or other assurance** must submit documentation of Acceptable Separation Distance (ASD) calculations between the tank and any buildings and outdoor areas of congregation, and may need to complete remediation or mitigation acceptable to HUD.
- **Underground Storage Tanks (USTs)**: The Office of Residential Care Facilities will perform an environmental review in accordance with 24 CFR Part 50 on projects contemplating the installation of an Underground Storage Tank (UST).

Lenders should immediately determine if any projects they service in Florida intend to install Underground Storage Tanks to comply with the emergency rule. If so, they should contact their Account Executives to discuss the specific situation and to immediately begin the process for coordinating an Environmental Review (e.g. State Historic Preservation Office Letter and Phase I Report).

The circumstances in Florida regarding emergency generators are also very relevant in ORCF Production activities. In that regard, and consistent with Section Handbook, Production, Chapter 7.2 B.1, Lenders with a submitted Florida ORCF application must evaluate their submission to assure compliance with any applicable Florida emergency generator requirements and must provide ORCF evidence of this compliance. Lenders currently

Please refer to Handbook 4232.1, and Email Blasts following that Handbook's publication date, to better assure consideration of the most recent guidance.

preparing applications must, before submission, confirm such compliance and include evidence of compliance in their application. Facilities not in compliance with Florida's law relating to emergency generators must include in the firm application – as critical repairs – any repairs needed to assure compliance.

Keywords: Generator, Environmental

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DOCUMENT LINKS INCLUDED IN THIS BLAST

60. [58AER17-1 Procedures Regarding Emergency Environmental Control for Assisted Living Facilities](#)
61. [59AER17-1 Nursing Home Emergency Power Plan](#)
62. [Florida Administrative Law Judge Order](#)
63. [Notice of Administrative Appeal](#)

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Please refer to Handbook 4232.1, and Email Blasts following that Handbook's publication date, to better assure consideration of the most recent guidance.

HUD's Lean 232 Program
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October 25, 2017 Contents

[Reminder Regarding Section 1616e Requirements for Board and Care Homes Calculating Fidelity Bond Coverage](#)
[Reminder on Valuation of Medicaid Waivers](#)
[Change in Legal Review Process – No Upfront \(Part 1\) Legal Reviews for Applications with Master Leases or Accounts Receivable \(AR\) Financing](#)
[PAY.GOV – Payment of Section 232 Program Fees](#)
[FROM THE CLOSING CORNER](#)
[Important Reminder for Closing Documents Routed for ORCF Signature](#)
[Reminder for New Construction Final Closings](#)
[Document Links Included In This Blast](#)

REMINDER REGARDING SECTION 1616E REQUIREMENTS FOR BOARD AND CARE HOMES

The Section 232 Handbook, Section II, Production, Chapter 2.2.D sets forth the programmatic requirements for insuring Board and Care Homes pursuant to Section 232. Those requirements largely originate in the 232 statute itself. Key among those are the statutory requirements that the state where the facility is located is in compliance with Section 1616e of the Social Security Act (known as the "Keys Amendment"), AND that the facility itself is regulated by the state pursuant to Section 1616e. Note on this last point that the requirement is not only that the facility be regulated, but that it be regulated specifically pursuant to 1616e.

States report compliance with 1616e annually to the Social Security Administration, and, per the statute, the lender must verify that such certification of compliance has been provided. The certification itself, however, does not necessarily address the other matter, namely, whether the particular facility type at issue is in fact within the state's 1616e regulatory scope. If the state's certification does not make that clear, the lender must do sufficient investigation to present evidence establishing that this statutory requirement is fulfilled. The lender must resolve this issue

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

clearly before submitting the application, or the application will be at risk of rejection for statutory non-compliance.

Keywords: *Board and Care, Section 1616e*

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CALCULATING FIDELITY BOND COVERAGE

The fidelity bond coverage requirement in Handbook 4232.1, Section II, Chapter 8.8.N, requires at least two months of “actual gross potential income.” ORCF recognizes this quoted term is more commonly used for multi-family facilities and may cause confusion when calculating fidelity bond coverage for residential care facilities, given how rates per resident can vary with payor source and care level. Given these circumstances, the lender may use effective gross income as the closest available approximation of “actual gross potential income.”

Keywords: *Fidelity Bond Insurance*

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REMINDER ON VALUATION OF MEDICAID WAIVERS

As a reminder, Handbook 4232.1, Section II, Chapter 5.3.R.4 [here](#) states, *In projecting all sources of income for the subject property, consideration should be given to foreseeable changes in competitive market conditions that will affect current occupancy, payer mix, and rate levels. Examples include changes in: the condition of state finances, state laws offering alternative forms of housing types, reimbursement structures, and competitors in the marketplace.*

States are increasingly relying on Medicaid Waivers to provide services in a variety of non-institutional settings, (such as ALFs, the NY Assisted Living Program and the Illinois Supportive Living Program). When a project is heavily reliant on this income source, it is important to ensure that this funding source remains stable. Thus, for example, an operator's reliance on a Medicaid Waiver that expired and is being extended only briefly--pending CMS's decision on a longer-term waiver request--is problematic. In such an instance, the long-term availability of the funding source is unclear.

Additional information on the status of State Medicaid Waivers can be found on Medicaid's website [here](#).

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Keywords: *Valuation, State Risk*

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CHANGE IN LEGAL REVIEW PROCESS – NO UPFRONT (PART 1) LEGAL REVIEWS FOR APPLICATIONS WITH MASTER LEASES OR ACCOUNTS RECEIVABLE (AR) FINANCING

ORCF is no longer requiring upfront (Part 1) Legal reviews for applications with Master Leases or AR Financing, except for applications requiring a Corporate Credit Review. Master Leases and AR Financing should be using standardized forms and following published guidance, therefore upfront review is not necessary. Reviews of these items will be conducted as part of the Closing process, and any deviations from the standard forms or published guidance could cause delays to the Closing. An OGC Closing Attorney assignment will be made when the project will be presented to Loan Committee. The related contact information and instruction will be provided in the Firm Commitment email.

Note that the ORCF Underwriter MAY request an OGC review in situations where help is needed drafting uncommon special conditions, when there is a waiver that hasn't been previously approved or when there is a legal issue that could impact a Loan Committee decision.

Keywords: *Legal Review, Master Lease, AR Financing*

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PAY.GOV – PAYMENT OF SECTION 232 PROGRAM FEES

It has come to the attention of ORCF that Mortgagees may not be submitting Program Fees and Charges on the correct Pay.gov form. The correct form can be accessed ([here](#)).

Mortgagee Letter 2014-20 published on September 18, 2014 ([here](#)) mandated Pay.gov for the payment of Section 232 Program Fees and Charges.

Keywords: *Pay.gov*

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FROM THE CLOSING CORNER

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

Important Reminder for Closing Documents Routed for ORCF

Signature

When sending closing documents in for HUD signature, please ensure that the mailing label/instructions for the Note clearly identifies the assigned HUD OGC Attorney. Include return prepaid shipping labels/packages, along with explicit return instructions for the Note to go to the HUD OGC Closing Attorney. **It is of utmost importance that the HUD signer sends the Note directly to the HUD OGC Attorney.** Your attention to this matter is appreciated.

Keywords: *Closing documents*

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Reminder for New Construction Final Closings

In order to complete the Final Closing Title Survey Review **all parties will need to adhere to the Title and Survey Requirements for Final Closings as outlined in Handbook 4232.1, Section II:**

- Chapter 9, 9.11.B for Title Evidence at Final Endorsement – **New Title Policy required.**
- Chapter 9, Section 9.11.I – Survey - **A current Survey and Surveyor's Certification is required within 120 days of Final Closing.**

If you have any questions, please contact your assigned ORCF Closing Coordinator.

Keywords: *New Construction Final Closing*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

64. [Handbook 4232.1, Section II, Chapter 5.3.R.4](#)
65. [Medicaid State Waivers List Website](#)
66. [Pay.gov - Healthcare Program Fees Form](#)
67. [Mortgagee Letter 2014-20 - Section 232 Program – Implementation of Pay.gov for Program Fees](#)



Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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[Processing Reserve for Replacement \(R4R\) Requests Related to Florida's Emergency Generator Rules](#)

PROCESSING RESERVE FOR REPLACEMENT (R4R)
REQUESTS RELATED TO FLORIDA'S EMERGENCY
GENERATOR RULES

In response to the emergency generator rules imposed by the Governor of Florida on assisted living facilities ([here](#)) and skilled nursing facilities ([here](#)), the Office of Residential Care Facilities (ORCF) has conducted outreach with servicing lenders to ascertain the compliance status for its entire Florida portfolio. The September 28, 2017 Email Blast affirmed that generators and related components are an eligible reserve for replacement item.

Project borrowers are encouraged to contact their servicing lender to develop a plan for achieving compliance with these rules, ensuring all HUD requirements are met in the installation of a generator.

Servicing lenders should work with their ORCF Account Executive to communicate plans for making these improvements, including obtaining a cost estimate and a timeline for the proposed work, and determining how the borrower/operator plans to fund the improvements. If outside sources of funding are being contemplated, lenders should communicate this to their Account Executive as early in the process as possible.

The September 28, 2017 Email Blast affirmed that generators and related components are an eligible reserve for replacement item. The following guidance applies specifically to R4R requests for a Section 232-insured facility in Florida coming into compliance with these rules:

- All R4R release requests for generators, storage tanks and other related components pursuant to complying with this requirement are

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

to be sent to 232R4RRequest@hud.gov, rather than the Portal. This applies to lenders following the established delegated approval process

- A plan should be established for replenishment of the R4R account over time, if necessary
- If the request will bring the balance of the R4R account below the \$1,000 per unit recommended minimum threshold, a waiver may be considered
- The existence or non-existence of a generator on the PCNA will not be a reason on its own to deny a request
- Pursuant to 3.2.2 H.3 of the handbook, advances may be considered for this type of work
- Pursuant to 3.2.2.H.4 of the handbook, requests shall be made no more than one year after the expenditure occurred; complying with the Florida requirement will not be a rationale for waiving this requirement
- Section 3.2.2.H.5 of the handbook has guidance on delegated approval (by lenders). Generators/tanks/component improvements (as long as they meet the requirements of this section) may be processed using the delegated approval process; in these cases, the details of the approved transaction are to be sent to the 232R4RRequest@hud.gov mailbox rather than through the Portal, per above.
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September 28, 2017

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
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September 28, 2017 Contents

[Installing Emergency Generators in Existing Section 232 Projects](#)
[Document Links Included In This Blast](#)

INSTALLING EMERGENCY GENERATORS IN EXISTING SECTION 232 PROJECTS

In the wake of Hurricanes Harvey and Irma, the Office of Residential Care Facilities (ORCF) is informing all borrowers and operators of projects with Section 232 Insurance, that generators and related components (e.g. pads on which they sit, fuel storage tanks, and delivery lines) are an eligible reserve for replacement item.

ORCF anticipates that Section 232 projects in impacted areas may wish to install generators, if they do not already have one. This may be in response to new requirements, such as in Florida, where the Governor has imposed an emergency rule ([here](#)) that requires all assisted living facilities and skilled nursing facilities to have generators with enough fuel to sustain operations and comfortable temperatures for at least 96 hours after a power outage.

Lenders are encouraged to immediately discuss this issue with owners of the Section 232 insured projects they service that were impacted by power outages, or that will be impacted by this new requirement. Such discussions should include whether the project currently meets the new requirements, and if not, what the owner's plan is to address and fund this requirement.

If improvements to the property are needed to comply with this Florida requirement, or to more effectively prepare for future emergencies, and there are adequate reserve for replacement (R4R) funds in escrow, HUD will not object to the use of R4R funds in this manner. For situations where the cost of these improvements would bring the reserve for replacement account below the minimum recommended threshold of \$1,000 per unit, servicing lenders should contact their Account Executive. ORCF staff will also be

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

September 28, 2017

proactively reaching out to servicing lenders to discuss any issues they encounter in their follow-up on this issue.

Keywords: *Generator, Disaster Recovery*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

68. [Florida Emergency Action to Force ALF/Nursing Homes to Have Generators](#)



Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

August 30, 2017

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[Lender Deficiency Responses](#)

[Identifying Controlling Participants in Previous Participation Reviews](#)

[ORCF Presentation on Webinar – September 21, 2017, 2:00 p.m. Eastern,
Focusing Primarily on Owner/Operator Compliance Issues](#)

[FROM THE CLOSING CORNER](#)

[Reminders:](#)

[Incomplete Closing Packages](#)

[Response to Review Comments](#)

[232 HUD Fee Payments](#)

[Portfolio Closings and Closer Assignments](#)

[Updated Closer Checklist for Section 223\(f\) and 223\(a\)\(7\)](#)

[Document Links Included In This Blast](#)

LENDER DEFICIENCY RESPONSES

In response to feedback received at the ORCF Lender Dialogue Sessions in June, HUD underwriters will now include in their Lender Deficiency List email a status update on the internal HUD review.

As a reminder, the lender response to the Lender Deficiency list must include a full written response to each of the listed items, any applicable supporting documentation AND an addendum to the Lender Narrative, signed by the Lender UW, incorporating responses to all deficiency items. As noted in HUD Handbook 4232.1, Section II Production, Chapter 1.4, the Lender Narrative provides a summary of the Lender's analysis as it relates to each exhibit in the application. It is imperative that the final version of the Lender Narrative be a complete reflection of the transaction being presented to the Loan Committee.

Keywords: *Application Processing, Lender Deficiency*

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

IDENTIFYING CONTROLLING PARTICIPANTS IN PREVIOUS PARTICIPATION REVIEWS

Housing Notice 2016-15 “*Processing Guide for Previous Participation Reviews of Prospective MFH and Healthcare Programs’ Participants*” requires lenders to identify controlling participants when a triggering event, such as a Change in Operator or a TPA occurs. An organizational chart must be submitted for each applicable Specified Capacity (Borrower, Operator, Management Agent) when a triggering event occurs; controlling participants can be identified on the organizational chart or on a separate list, but must be identified with each triggering event. This lender-identification process will aid in ensuring that HUD receives an appropriate Consolidated Certification form (HUD 90013-ORCF through HUD 90018-ORCF) for each controlling participant associated with a triggering event. Failure to identify controlling participants could result in a delay in the review of the asset management transaction.

Keywords: *Previous Participation Reviews*

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ORCF PRESENTATION ON WEBINAR – SEPTEMBER 21, 2017, 2:00 P.M. EASTERN, FOCUSING PRIMARILY ON OWNER/OPERATOR COMPLIANCE ISSUES

ORCF will make a presentation on a webinar on September 21, 2017. The webinar will run from 2:00 p.m. to approximately 3:00 p.m. Eastern. The webinar is hosted by the American Health Care Association/National Center for Assisted Living and will be open to AHCA/NCAL members and nonmembers. There is no charge for participation. In addition to providing a brief Section 232 program overview, presentation topics will include:

- Updated procedures for assuring that Section 232 facilities are in physically sound condition
- Requirements for changes in participants of residential care facilities that currently have FHA-insured financing
- Requirements for changes in collateral of an FHA-insured facility, including capital improvements (and environmental issues associated with those improvements), changes in the number of beds, granting of easements, sale of land or other security

Please refer to Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.

August 30, 2017

- Requirements in connection with taking distributions from the facility's accounts
- Updated financial reporting and record keeping requirements, including updates on using the Healthcare Portal
- The need for, and how to obtain HUD approval for secondary loans on a facility

Speakers:

- John Hartung, Director, Policy and Risk Analysis Division, Office of Residential Care Facilities, HUD
- Tim Gruenes, Director, Asset Management and Lender Relations Division, Office of Residential Care Facilities, HUD
- Phillip Head, Program Analyst, Office of Residential Care Facilities, HUD
- Rita Dockery, Supervisory Account Executive, Office of Residential Care Facilities, HUD

Event Date: September 21, 2017 – 2:00 p.m. – 3:00 p.m. (EST)

Registration Link: [Here](#)

Keywords: *Webinar*

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FROM THE CLOSING CORNER

Reminders:

Incomplete Closing Packages

The Closing Team is re-emphasizing ORCF's Policy regarding incomplete closing packages; incomplete closing packages will go back to the closing queue. Complete packages address all items on the Closer Checklist. Please see the updated 223(f) Closer Checklist ([here](#)) and 223(a)(7) Closer Checklist ([here](#)).

Response to Review Comments

In order to expedite closings, responses to ORCF deficiency comments will be reviewed when all items have been addressed. ORCF Closers will not

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

August 30, 2017

review deficiency comments until a complete response (one response with all items addressed - no "piece-meal" or separate emails) is received.

232 HUD Fee Payments

Please ensure HUD fee payments for 232 loans are submitted to the Office of Healthcare Program:

- Form Name: **Healthcare Program Fees**
- Application Name: **Office of Healthcare Program Fees**

Please do not submit HUD fee payments to the Office of Multifamily Programs.

Portfolio Closings and Closer Assignments

When requesting a Closer Assignment where there are multiple projects to close at the same time, please include in your request, the number of the project in the portfolio (i.e. number three of 25 deals in the portfolio) as well as the name of the portfolio and/or the name and FHA numbers of projects involved. This information will assist ORCF in workload management and will help in the assignment of a "Lead Closer" for the Portfolio.

Updated Closer Checklist for Section 223(f) and 223(a)(7)

The Closer Checklists have been updated. Please use the checklists: 223(f) Closer Checklist ([here](#)) and 223(a)(7) Closer Checklist ([here](#)) beginning September 1, 2017.

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DOCUMENT LINKS INCLUDED IN THIS BLAST

69. [Updated Section 223\(f\) Closer Checklist](#)
70. [Updated Section 223\(a\)\(7\) Closer Checklist](#)

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

June 28, 2017

HUD's Lean 232 Program
Office of Residential Care Facilities (ORCF)
Update as of June 28, 2017

June 28, 2017 Contents

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[Updated Lender's Preconstruction Conference Agenda, and Lender's Preconstruction Conference Duties](#)
[Updated Lender's Architectural Reviewer and Cost Analyst's Statement of Work; Project Capital Needs Assessment \(PCNA\) Statement of Work – Section 232/223\(f\); and Project Capital Needs Assessment \(PCNA\) Statement of Work – Limited Scope - Section 232/223\(a\)7;](#)
[Clarification on Inspection Fees For 223\(f\) Applications Using the Optional Process for Delegated Administration of the Non-Critical Repair Escrow Section 232 and REAC Physical Inspection Compliance](#)
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[Hard Copy Submission of ORCF Closer Packages to HUD Closing Attorney Document Links Included In This Blast](#)

HANDBOOK 4232.1 REV-1 SCRIVENER AND MINOR ERROR CORRECTIONS

Since the January 12, 2017 publication of Handbook 4232.1 REV-1, Scrivener and other minor errors have been identified and corrected. These corrections are reflected in the handbook posted on the Handbook 4232.1 webpage. For a list of Scrivener and other minor error corrections, please refer to Transmittal June 26, 2017 on the handbook website ([here](#)).

Keywords: *Section 232 Handbook, Scrivener Errors*

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

232 LENDER TRAINING PRESENTATION SLIDES AVAILABLE ONLINE

On June 7, 2017, ORCF held a Lender Training Session in Seattle, WA. The focus of the training was to provide guidance for newer Lender Underwriters about 232 application submissions, reviews and closings. Presentation slides from the training may be found on the Section 232 Program Website ([here](#)).

Keywords: Training, Presentations

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UPDATED STATE RISK SUMMARY GRID AND FURTHER CLARIFICATION ON RISK MITIGATION STEPS

In the February 29, 2016 Email Blast ([here](#)), ORCF provided the industry with an Updated State Risk Summary Grid to provide suggestions on how to address and mitigate funding and regulatory risks.

Based on lessons learned since the initial publication, ORCF has updated state risk summary grid which can be found below and ([here](#)).

Please note that the Risk Mitigation to Consider section is not intended to be all-inclusive. Lenders may propose alternative risk mitigation with supporting rationale for why it would address the potential risk to the same or greater extent as the Risk Mitigation included in this grid.

This grid is not meant to limit the extent of the Lender's inquiry; ORCF expects Lenders to address State budget and regulatory constraints, as appropriate.

Please refer to Handbook 4232.1, and Email Blasts following that Handbook's publication date, to better assure consideration of the most recent guidance.

Updated State Risk Summary Grid
(Print Version [here](#))

State Risk Category	Facility Characteristics	Risk Mitigation to Consider
Medicaid Waivers (1915(c)) & Medicaid State Plan Option (1915(i)) – Final Home and Community-Based Services (HCBS) Settings Rule - high Medicaid Census & combos including SNF beds	<ul style="list-style-type: none"> • Non-SNFs with very high Medicaid Census (e.g., $\geq 80\%$) • Combined SNF/ALFs that rely on Medicaid for non-SNF residents whose DSCR falls below 1.0 with a minimal decline in Medicaid Census or Rate <p>(NOTE: CMS will require combined SNF/ALF settings to undergo “heightened scrutiny”)</p>	<p>Indicate whether facility is at risk of being unable to comply with the HCBS Settings Rule.</p> <ul style="list-style-type: none"> • Refer to the Statewide Transition Plan (here), CMS responses to or approval of the Plan, State requirements (either enacted or proposed) and/or State Medicaid Agency Input (including documentation of a setting survey or evidence of “heightened scrutiny” having been conducted) indicating the likelihood of compliance. • If unable to determine from the above, discuss the facility’s compliance with HCBS Settings requirements (here). <p>If facility appears unable to comply, or will be out of compliance for a time, consider including one or more of the following in the underwriting to mitigate this risk:</p> <ul style="list-style-type: none"> • Subject facility’s ability to operate without Medicaid Waiver residents, including a demonstrated market and capacity for serving a different resident mix, more private pay residents, etc.; • Long-term operating and Debt Service Escrow in an amount that adequately mitigates risk of being out of compliance for a time, a demonstrated market for private pay and a demonstrated capacity to eventually come into compliance; and/or • Project’s ability to convert to a viable alternative residential care facility type, that a market exists and Certificate of Need process would allow for such a conversion, and the operator has financial capacity to withstand such a transition if it is anticipated that coming into compliance will not be possible.
Medicaid Reimbursement Delays	SNFs that will not have AR Financing, but that are in a state with a history of reimbursement delays	<p>Consider including one or more of the following in the underwriting to mitigate this risk:</p> <ul style="list-style-type: none"> • Evidence of a recent history (e.g. last six months) of timely payments (e.g. payments made in 60 days); • Accounts Receivable Financing will be required for the project as a condition for firm commitment;

Please refer to Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.

		<ul style="list-style-type: none"> • Long-Term Debt Service Escrow in an amount that adequately mitigates risk of future payment delays; or • Project's ability to handle delayed payments without AR Financing, as evidenced by available sources of liquidity compared with the project's material accounts receivable aged over 120 days.
State Budgetary Risk (SNFs susceptible to possible future cuts)	<p>Projects with SNF beds whose DSCR falls below 1.0 with:</p> <ul style="list-style-type: none"> • a minimal decline in Medicaid Census or Rate (e.g. $\leq 5\%$), • a moderate decline (e.g. $\leq 10\%$) in Medicaid Census or Rate and very high reliance on Medicaid (e.g. $\geq 80\%$) 	<p>Consider and discuss the project state's anticipated commitment to funding skilled nursing care through Medicaid, as evidenced by: recent rate increases, anticipated budget increases, etc. If long-term funding is uncertain, Lender should consider including one or more of the following in the underwriting to mitigate this risk:</p> <ul style="list-style-type: none"> • Project's ability to reduce its reliance on Medicaid (increasing capacity for short term rehab & Medicare patients, marketing to private pay residents, etc.); • Long-Term Debt Service Escrow in an amount that adequately mitigates against the risk of future rate decreases; and/or • Reduced Mortgage Amount.
State Budgetary Risk (SNFs susceptible to forthcoming cuts)	<p>Projects with SNF beds in states with proposed cuts to Medicaid provider rates whose DSCR falls below 1.0 with:</p> <ul style="list-style-type: none"> • a moderate decline in Medicaid Census or Rate (e.g. $\leq 10\%$), or • high reliance on Medicaid (e.g. $\geq 70\%$) 	<p>Consider and discuss the project's ability to withstand funding cuts, as evidenced by: outline of previous instances where the project, or project participants at a different facility, successfully implemented a strategy to respond to rate decreases, or a significant decline in occupancy; or documentation verifying prospective new sources of revenue, etc. If the project's ability to withstand these cuts is uncertain, Lender should consider including one or more of the following in the underwriting to mitigate this risk:</p> <ul style="list-style-type: none"> • Project's ability to reduce its reliance on Medicaid (increasing capacity for short term rehab & Medicare patients, marketing to private pay residents, etc.); • Long-Term Debt Service Escrow in an amount that adequately mitigates against the risk of pending and future rate decreases; and/or • Reduced Mortgage Amount.
Rebalancing Initiatives - Money Follows the Person (individuals with mental illness)	<p>Projects with a current or historical concentration of MI/DD residents* (e.g., $\geq 25\%$)</p>	<p>Some states intend to focus their rebalancing efforts toward moving significant numbers of mentally ill individuals to home and community-based settings.</p> <p>If Lender cannot provide evidence that the subject facility does not serve a significant MI/DD resident population, Lender should</p>

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

		<p>consider including one or more of the following in the underwriting to mitigate this risk:</p> <ul style="list-style-type: none"> • Project state's Medicaid funding for residents with mental illness is stable; • Project's ability to reduce its reliance on Medicaid (by diversifying its Census mix or demonstrating the ability to serve other types of residents), that a market exists for this alternative resident type and that the operator has the financial capacity to withstand the transition; • Long-term operating and/or Debt Service Escrow in an amount that adequately addresses the risk of losing significant Census; • Reduced Mortgage Amount; and/or • Project's ability to maintain healthy Debt Service Coverage with fewer beds.
Rebalancing Initiatives - Money Follows the Person (individuals with mental illness in ICFs)	Projects with ICF beds	<p>Several states intend to focus their rebalancing efforts toward moving significant numbers of mentally ill individuals out of Intermediate Care Facilities for intellectually or developmentally disabled (ID/DD) populations.</p> <p>Consider and discuss the project state's commitment to funding ICFs, including confirmation that ICFs of comparable size (by # of beds) are considered a viable option. Consider and discuss the project's ability to sustain an Olmstead challenge, possibly resulting in a significant decrease in Census.</p> <p>If either of the above is uncertain, Lender should consider including one or more of the following in the underwriting to mitigate this risk:</p> <ul style="list-style-type: none"> • Project's ability to convert to a viable alternative residential care facility type, that a market exists and Certificate of Need process would allow for such a conversion, and the operator has financial capacity to withstand such a transition; • Long-term operating and/or Debt Service Escrow in an amount that adequately addresses the risk of losing significant Census; and/or • Reduced Mortgage Amount or significant reduction in Loan Term.
Rebalancing Initiatives - Money Follows the Person (Non-Elderly, Physically Disabled)	Projects with SNF beds whose DSCR falls below 1.0 with a moderate decline in Medicaid Census or Rate (e.g. <=20%)	<p>Several states intend to focus their rebalancing efforts toward moving significant numbers of non-elderly, physically disabled individuals out of Skilled Nursing Facilities (SNFs).</p> <p>If Lender cannot provide evidence that the subject facility does not serve a significant population of non-elderly with physical</p>

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		<p>disabilities, then Lender should consider including one or more of the following in the underwriting to mitigate this risk:</p> <ul style="list-style-type: none"> • Project's ability to reduce its reliance on Medicaid (by diversifying its Census mix or demonstrating the ability to serve a larger population of frail elderly in need of skilled care), that a market exists for this shift in residents and that the operator has the financial capacity to withstand the transition; • Long-Term Debt Service Escrow in an amount that adequately mitigates the risk of declines in Census; • Reduced Mortgage Amount; and/or • Project's ability to maintain healthy Debt Service Coverage with fewer beds.
Rebalancing Initiatives - Money Follows the Person (Elderly)	Projects with SNF beds whose DSCR falls below 1.0 with a moderate decline in Medicaid Census or Rate (e.g. $\leq 15\%$)	<p>Several states intend to focus their rebalancing efforts toward moving significant numbers of elderly individuals out of Skilled Nursing Facilities (SNFs).</p> <p>Lender should consider including one or more of the following in the underwriting to mitigate this risk:</p> <ol style="list-style-type: none"> 1. Project's ability to reduce its reliance on Medicaid (by diversifying its Census mix, increasing capacity for short term rehab & Medicare patients, marketing to private pay residents, etc.), that a market exists for this shift in residents and that the operator has the financial capacity to withstand the transition; 2. Long-Term Debt Service Escrow in an amount that adequately mitigates the risk of declines in Census; 3. Reduced Mortgage Amount; and/or 4. Project's ability to maintain healthy Debt Service Coverage with fewer beds.
Olmstead Cases & Settlement Agreements (SNFs)	Projects with SNF beds in States with Olmstead Settlement Agreements or pending litigation, specifically serving a disabled population (e.g., DC, IL) or serving a concentrated population of residents with MI/DD* (e.g., $\geq 25\%$) (e.g., LA, ME, NH, TX)	<p>Several states have Olmstead Settlement agreements or pending Olmstead litigation which could potentially impact residents of nursing facilities with physical disabilities, mental illness (MI) or developmental disabilities (DD).</p> <p>If Lender cannot provide evidence that community-based care is not appropriate for the residents served, Lender should consider including one or more of the following in the underwriting to mitigate this risk:</p> <ol style="list-style-type: none"> 1. Sufficient evidence that the project demonstrates the ability to reduce its reliance on Medicaid (by diversifying its Census mix or demonstrating the ability to serve a larger population of frail elderly in need of skilled care), that a market exists

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		<p>for this shift in residents and that the operator has the financial capacity to withstand the transition;</p> <ol style="list-style-type: none"> 2. Long-term operating and/or Debt Service Escrow in an amount that adequately mitigates the risk of declines in Census; 3. Reduced Mortgage Amount; and/or 4. Demonstrated ability to maintain healthy Debt Service Coverage with fewer beds.
Olmstead Cases & Settlement Agreements (individuals with mental illness)	Projects with a concentrated population of residents with MI/DD (e.g., $\geq 25\%$) in States with Olmstead Settlement Agreements or pending litigation (e.g., FL, IL, IN, KY, NY, NC, VA)	<p>Several states have Olmstead Settlement agreements or pending Olmstead litigation which could potentially impact residents with mental illness (MI) or developmental disabilities (DD).</p> <p>If Lender cannot provide evidence that community-based care is not appropriate for the residents served, Lender should consider including one or more of the following in the underwriting to mitigate this risk:</p> <ol style="list-style-type: none"> 1. Sufficient evidence that the project demonstrates the ability to reduce its reliance on Medicaid (by diversifying its Census mix or demonstrating the ability to serve a larger population of frail elderly in need of skilled care), that a market exists for this shift in residents and that the operator has the financial capacity to withstand the transition; 2. Sufficient evidence that the project demonstrates the ability to convert to a viable alternative residential care facility type, that a market exists and Certificate of Need process would allow for such a conversion, and the operator has financial capacity to withstand such a transition; 3. Long-term operating and/or Debt Service Escrow in an amount that adequately mitigates the risk of declines in Census; 4. Reduced Mortgage Amount; or 5. Demonstrated ability to maintain healthy Debt Service Coverage with fewer beds.

*NOTE: For SNFs, the number of MI/DD residents can be derived using data from CMS Form 672 related to the Mental Status of residents. Specifically, the number of residents with an intellectual and/or developmental disability and those residents with a documented psychiatric diagnosis as their *primary* diagnosis would be considered MI/DD residents.

Keywords: *State Risk, State Risk Summary Grid*

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

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Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

UPDATED LENDER'S PRECONSTRUCTION CONFERENCE AGENDA, AND LENDER'S PRECONSTRUCTION CONFERENCE DUTIES

The Lender's PreConstruction Conference Agenda ([here](#)), and Lender's PreConstruction Conference Duties ([here](#)), have been revised and are both dated May 16, 2017.

All references to Early Commencement of Construction have been removed to be consistent with the revisions in Handbook 4232.1 REV-1. In addition, improvements and notes were added throughout the documents.

Remember, the Lender's PreConstruction Conference Coordinator works with ORCF's Construction Manager, Michael Peeler, to schedule and conduct the Conference. The Conference is scheduled only after a date for Initial Closing has been set, or an Early Start has been approved, and shall be no earlier than one week prior to Closing and/or the start of construction.

All Conferences conducted after July 1, 2017, should use these two revised documents.

Keywords: *PreConstruction Conference, ORCF's Construction Manager*

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UPDATED LENDER'S ARCHITECTURAL REVIEWER AND COST ANALYST'S STATEMENT OF WORK; PROJECT CAPITAL NEEDS ASSESSMENT (PCNA) STATEMENT OF WORK – SECTION 232/223(F); AND PROJECT CAPITAL NEEDS ASSESSMENT (PCNA) STATEMENT OF WORK – LIMITED SCOPE - SECTION 232/223(A)7;

The Lender's Architectural Reviewer and Cost Analyst's Statement of Work – New Construction, Substantial Rehabilitation, and 241(a) ([here](#)); Project Capital Needs Assessment (PCNA) Statement of Work – Section 232/223(f) ([here](#)); and Project Capital Needs Assessment (PCNA) Statement of Work – Limited Scope - Section 232/223(a)7 ([here](#)), have been revised and are all dated May 16, 2017.

References to compliance with Radon requirements found in HUD Handbook 4232.1 Rev.1, Section II – Production, Chapter 7 – Environmental Review, 7.8 Radon, have been added.

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

All Firm Commitment Applications submitted to HUD after July 1, 2017, should use these revised statements of work.

Any questions regarding Radon should be directed to Terry Bessette, ORCF Senior Appraiser, at Terry.L.Bessette@hud.gov.

Keywords: *Radon, Statement of Work, PCNA*

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CLARIFICATION ON INSPECTION FEES FOR 223(F) APPLICATIONS USING THE OPTIONAL PROCESS FOR DELEGATED ADMINISTRATION OF THE NON-CRITICAL REPAIR ESCROW

Handbook 4232.1 REV-1, Section II, Chapter 2.9.G.3 ([here](#)) states that if the Lender elects and is approved to follow the optional process for delegated non-critical repair escrow administration, HUD will not charge an inspection fee. **As a clarification to the October 30, 2015 Email Blast, approved lenders will not need to pay the inspection fee and receive a refund from HUD.** Please follow the guidance in Section II, Chapter 2.9.K.3.

Please review Chapter 3 of the Asset Management portion of Handbook 4232.1 REV-1, Non-Critical Repair Escrow – Chapter 3.2.4.G, for further details. The logistics of requesting Lender approval are posted on HUD.GOV: Request for Optional Lender Delegated Review and Approval Process ([here](#)).

Keywords: *Inspection Fees, Non-Critical Repair Escrow Administration*

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SECTION 232 AND REAC PHYSICAL INSPECTION COMPLIANCE

The Office of Residential Care Facilities (ORCF) recently changed its process for addressing Real Estate Assessment Center (REAC) physical inspections. REAC physical inspections, combined with inspections performed by State and local regulatory entities where applicable, are an integral component of HUD's monitoring of the physical plant on Section 232's. ORCF will continue

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

to work in partnership with the servicing FHA Lender to address follow-up on REAC physical inspections.

ORCF now uses a centralized process for tracking follow-up on all non-passing REAC physical inspections (below 60) and has implemented a “Rapid Response Team” (RRT) to follow up with inspection scores below 31.

Inspections with a below 31 score: For these properties, ORCF’s RRT will coordinate the follow-up related to this physical inspection. As soon as possible after the report is released, a site visit by an ORCF RRT member will be scheduled; this visit will include owner representatives (including on-site staff) and the servicing FHA lender will also be notified (we strongly recommend participation by the FHA servicing lender). The site visit and follow-up by the RRT will address the owner’s plan to mitigate all deficiencies in the REAC physical inspection report, as well as other financial, operational, compliance, and quality of care issues at the property.

Inspections with a score of 31 to 59: For these properties, the HUD assigned Account Executive will follow-up with the borrower, working in cooperation with the servicing FHA lender.

On all inspections with a score that is below 60, a Notice of Violation (NOV) of the Regulatory Agreement will be issued by either HUD’s Departmental Enforcement Center (DEC) or by ORCF staff. The NOV will detail required owner follow-up (including the timeline for such) as well as remedies that HUD may choose to employ in the event of continued owner non-compliance.

On all inspections with a score below 60, once the deficiencies in the REAC physical inspection report have been addressed, HUD will work with REAC to have the property re-inspected.

Please see the below links for further information related to REAC physical inspections, and if you have questions about how this relates to a particular FHA Insured Section 232 property, please contact the property’s Account Executive.

Resources for REAC Inspections:

- Information for the borrower to have before the inspection: [Preparing for REAC Inspection](#)

Please refer to Email Blasts and Directives following the Handbook’s publication date of June 26, 2017, to better assure consideration of the most recent guidance.

- Information if the property needs to request a database adjustment after the inspection: [Technical Review and Database Adjustments \(TRDBA\)](#)

Keywords: *Real Estate Assessment Center (REAC), Departmental Enforcement Center (DEC), Physical Inspections*

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FROM THE CLOSING CORNER

Hard Copy Submission of ORCF Closer Packages to HUD Closing Attorney

In the February 22, 2017 Email Blast, ORCF stated ORCF Closer Packages can be submitted to the Closer electronically. ***However***, hard copy draft submissions should continue to be provided to the HUD Closing Attorney for legal review.

Keywords: *Legal Review, ORCF Closer Packages*

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DOCUMENT LINKS INCLUDED IN THIS BLAST

71. [Handbook 4232.1 REV-1 Webpage](#)
72. [Updated State Risk Grid](#)
73. [June 2017 Seattle, WA Lender Training](#)
74. [Lender's PreConstruction Conference Agenda](#)
75. [Lender PreConstruction Conference Duties](#)
76. [Lender's Architectural Reviewer and Cost Analyst's Statement of Work - New Construction, Substantial Rehabilitation, and 241\(a\)](#)
77. [Project Capital Needs Assessment \(PCNA\) Statement of Work – 223\(f\)](#)
78. [Project Capital Needs Assessment \(PCNA\) Statement of Work – 223\(a\)7](#)
79. [Preparing for REAC Inspection](#)
80. [Technical Review and Database Adjustments \(TRDBA\)](#)

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Past Lean 232 Updates are [available online](#).

Please refer to Email Blasts and Directives following the Handbook's publication date of June 26, 2017, to better assure consideration of the most recent guidance.

June 28, 2017

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](#).

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](#).

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