



Section 232 Lease-Up Monitoring

Presented by:
Jeremy Robitaille
Office of Residential Care Facilities
Office of Asset Management

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Overview



- ORCF Lease-Up Monitoring Team & Projects
- ORCF's expectation of the Servicing Lenders
- IOD Worksheets & Escrow Draw requests
- Ongoing project monitoring
- Achieving Sustaining Occupancy

ORCF Lease-Up Monitoring Team:

Who We Are

- Asset Management Specialized Team that oversees Section 232 New Construction, Substantial Rehab, and certain Section 241(a) Supplemental Loans
- Team is currently monitoring over 90 NC/SR/241a projects in various stages of construction and lease-up
- Team members:
 - ▶ Carl Anderson
 - ▶ Jeremy Robitaille
 - ▶ Miranda Joyce-Schoenecker



ORCF Lease-Up Monitoring Team: Projects

- All Section 232 New Construction & Substantial Rehabilitation projects
- Some Section 241a Supplemental Loans:
 - ✓ Current Section 232 projects whose current operations (NOI) **CANNOT** cover **BOTH** the existing 232 loan and the proposed 241(a) loan with a DSCR of 1.0 or higher, will be assigned to Lease-Up Monitoring Team
 - ✓ Others will be assigned to the current Account Executive



ORCF's Expectations of Servicing Lenders

- Servicing Lenders are expected to manage the process
- They coordinate introductory meetings, when applicable
- Reconvene the players for inaugural Pre-Operations Meeting at 70% construction completion
- Coordinate ongoing monitoring calls with project participants and ORCF, as appropriate, until the project has achieved stabilized occupancy



ORCF's Expectations of Servicing Lenders

(continued)

- Monitor actual lease-up progress compared to the underwritten projected progress
- Review Initial Operating Deficit (IOD) draw requests for completeness, accuracy, and eligibility and provide their recommendation to ORCF
- Work with the Owner and Operator to identify and complete plans of action to remedy unfavorable variations between projected and actual progress in leasing up



Initial Operating Deficit/Lease-Up Tracking Worksheet

- Initial Operating Deficit Escrow Calculation Template (Form HUD-91128-ORCF)
- Analysis required during underwriting on all applications where new units are added or occupancy performance assumptions are not currently being achieved
- Required whether or not an IOD escrow is proposed
- Handbook 4232.1, Section II, Production, Appendix 2.1 provides instructions on the completion of IOD Worksheet

Initial Operating Deficit/Lease-Up Tracking Worksheet (continued)

Initial Operating Deficit / Lease-up Tracking Worksheet U.S. Department of Housing and Urban Development OMB Approval N
Section 232 Office of Residential Care Facilities (exp)

Public reporting burden for this collection of information is estimated to average 1.5 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being coll obtain the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. This agency collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number.

Warning: Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of the U.S. Department of Housing and Urban Development is: criminal penalties, civil liability, and administrative sanctions.

Project Name: Date Prepared: Lender Name:

Income & Occupancy Assumptions

Unit Type	UW Eff. Gross Inc. per year	Total # Beds	UW Occupancy	# Occupied Units	EGI per Occp'd Unit	Number of Preleases	Net Monthly Absorption
Assisted Living				0.00	\$0.00		
Memory Care				0.00	\$0.00		
Skilled Nursing or Sub-Acute				0.00	\$0.00		
Independent Living				0.00	\$0.00		
Other Income					\$0.00		
Totals	\$0	0	0.00%	0.00	\$0.00	0.00	0.00

Expense Assumptions

Category	Total UW Exp. per year	Total UW Exp. per Month	Per Res Day	POU per year	% of EGI UW
e.g. General & Administrative		\$0	\$0.00	\$0	0.00%
e.g. Payroll Taxes and Benefits		\$0	\$0.00	\$0	0.00%
e.g. Resident Care		\$0	\$0.00	\$0	0.00%

Expense Floor		
Percentage	Yearly Floor	Monthly Floor
100.00%	\$0	\$0
80.00%	\$0	\$0
30.00%	\$0	\$0

Initial Operating Deficit/Lease-Up Tracking Worksheet (continued)

0 Prepared: 1/0/1900

Occupancy Assumptions

Unit Type	Total # Beds	UW Occupancy	Number of Preleases	Avg. Monthly Absorption
Assisted Living	0	0.00%	0.00	0.00
Memory Care	0	0.00%	0.00	0.00
Skilled Nursing or Sub-Acute	0	0.00%	0.00	0.00
Independent Living	0	0.00%	0.00	0.00
Totals	0	0.00%	0.00	0.00

Rounded Operating Deficit Total: \$0

Period	Occupied Units	Occupied Percent	Income per Period	Exp. & Mort. per Period	Income/Loss per Period
Month 1	0.00	#DIV/0!	\$0	\$0	\$0
Month 2	0.00	#DIV/0!	\$0	\$0	\$0
Month 3	0.00	#DIV/0!	\$0	\$0	\$0
Month 4	0.00	#DIV/0!	\$0	\$0	\$0
Month 5	0.00	#DIV/0!	\$0	\$0	\$0
Month 6	0.00	#DIV/0!	\$0	\$0	\$0
Month 7	0.00	#DIV/0!	\$0	\$0	\$0
Month 8	0.00	#DIV/0!	\$0	\$0	\$0
Month 9	0.00	#DIV/0!	\$0	\$0	\$0
Month 10	0.00	#DIV/0!	\$0	\$0	\$0
Month 11	0.00	#DIV/0!	\$0	\$0	\$0

Initial Operating Deficit/Lease-Up Tracking Worksheet (continued)

0	Period One				Period Two		
Instructions: Use this tab to make draw request from IOD escrow. Only modify shaded blue cells. This worksheet is required to be updated on a cash basis only.	Month 1 Forecast	Month 1 Actual	Month 2 Forecast	Month 2 Actual	Month 3 Forecast	Month 3 Actual	Mo Fo
Assisted Living	0.00		0.00		0.00		
Memory Care	0.00		0.00		0.00		
Skilled Nursing or Sub-Acute	0.00		0.00		0.00		
Independent Living	0.00		0.00		0.00		
Total Occupied Units	0.00	0.00	0.00	0.00	0.00	0.00	
Total Resident Days	0	0	0	0	0	0	
EGI	0		0		0		
e.g. General & Administrative	0		0		0		
e.g. Payroll Taxes and Benefits	0		0		0		
e.g. Resident Care	0		0		0		
e.g. Food Services	0		0		0		
e.g. Activities	0		0		0		
e.g. Housekeeping & Laundry	0		0		0		
e.g. Maintenance	0		0		0		
e.g. Utilities	0		0		0		
e.g. Bad Debt	0		0		0		
	0		0		0		
Ground Rent	0	0	0	0	0		

Initial Operating Deficit/Lease-Up Tracking Worksheet

(continued)

- Completed on a cash basis, rather than accrual basis
- IOD submissions begin upon first month of resident occupancy
- IOD tracking worksheet should be submitted by the end of the month for the previous month (e.g., May 2018 IODs are coming due by the end of June 2018)

Initial Operating Deficit Escrows

- IOD Escrow Accounts are restricted accounts that are primarily designed to assist the project in achieving sustained occupancy
- Disbursements may be authorized by ORCF monthly—commencing with the Certificate of Occupancy (COO)—to meet cash deficits.
- Part of the project's necessary start-up capital to be used for reasonable operating expenses, which do not include:
 - Depreciation
 - Officers' salaries
 - Identity-of-interest management fees



IOD Draw Requests

- IOD Draw Requests are submitted via the Servicer, who reviews for completeness, accuracy and eligibility
 - Servicer forwards to ORCF Account Executive with their recommendation



IOD Draw Requests

(continued)

- IOD draw request should be supported by documentation:
 - A letter from the Owner itemizing the draw request purpose, how the project is performing compared to the IOD calculation; whether any of the IOD is requested for expenses other than those used in the IOD calculation, dollar amount, and wiring instructions.
 - A completed and executed Form HUD-92464-ORCF
 - A copy of the most current IOD Calculator Worksheet.
 - A copy of operating escrow agreement.



Ongoing Monitoring of Lease-Up Projects

- Projects continuing existing operations during construction:
 - For Section 232 (some Sub Rehab) and Section 241a loans
 - A management conference call between AE and Borrower held before Initial Endorsement
 - AE's role is minimal until project reaches 70% completion, at which time AE commences ORCF's Pre-Operations Asset Management Functions



Ongoing Monitoring of Lease-Up Projects

(continued)

- Issue of concern on projects continuing existing operations during construction include:
 - Current occupancy, anticipated changes, and possibility of construction having an impact
 - Resident relocation plans
 - Staff/resident injury risk during construction
 - Operational challenges anticipated during construction and plan for mitigation
 - Discuss the potential for quality of care issues and other risks that may be heightened when running a facility while under construction

Ongoing Monitoring of Lease-up Projects

(continued)

- Projects having no operations during construction:
 - AE's role is minimal until project reaches 70% completion, at which time AE commences ORCF's Pre-Operations Asset Management Functions
 - Beginning with the management conference call and continuing monthly (or as needed), Servicer facilitates Project Monitoring Team Meetings where actual progress is compared with projected progress, corrective steps identified, persons responsible, target completion dates and benchmarks for progress
 - AE approves releases of IOD funds
 - Funds should be used judiciously
 - AE tracks project performance and the availability of remaining funds

Achieving Sustaining Occupancy

- Sustaining occupancy is achieved when a project in lease-up demonstrates over a six (6) consecutive-month period:
 - An average Debt Service Coverage Ratio (from operations) equal to or greater than 1.45 (including funding of all required escrows);
 - Timely and full mortgage payments on a Finally Endorsed loan; and
 - No regulatory issues related to license or quality of care (e.g., no outstanding CMS Notice of Imposition, not a SFF, no issues threatening license or impact ability to provide care for residents)

All escrows established at closing (other than long-term escrows) are released.



Thank You!

