**HUD’s Lean 232 Program**

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

**Real Estate Assessment Center (REAC)**

**Update and Clarification**

**May 1, 2018**

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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 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](https://www.hud.gov/sites/dfiles/Housing/documents/HUD232PortAEAssigFeb2018.xlsx)) to 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**

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:

* 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.
* 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**

1. [Account Executive Facility Assignments - Contact Listing](http://portal.hud.gov/hudportal/HUD?src=/federal_housing_administration/healthcare_facilities/residential_care/loan_servicing)

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

Have questions about the Lean 232 Program? Please contact [LeanThinking@hud.gov](mailto:LeanThinking@hud.gov).

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

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

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