

OFFICE OF HOSPITAL FACILITIES
2011 LENDER TRAINING

OVERVIEW OF THE
**FHA SECTION 242
PROGRAM**

Jim Bolinger

Director
Office of Hospital
Facilities



OHF MANAGEMENT STAFF

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INSURANCE COMMITMENT “TYPES”

- 242
- 241
- 223(f)
- 223(a)7



Chatham Hospital (CAH)

Siler City, NC

\$29.9 million mortgage

VOLUME



PRE-APPLICATION “SUCCESS”

- The percentage of potential applicants “passing” the Pre-Application Review is declining.

FY	Pre-App Reviews	“Passed”	Percent Passed
2007	11	8	73%
2008	30	21	70%
2009	43	20	47%
2010	47	30	64%



Capital Health System
Trenton, NJ
\$756 million mortgage

PROCESSING TIME

**Pre-
Application
Review**

**10 Business
Days**

**Pre-App
Meeting
Response**

24 Hours

**Application
Review**

**120 Calendar
Days**

COMMITMENT METRICS

FY10 DEALS		MEDIANS			
Level 1 Guidelines	Benchmarks	Hist. Year 1	Hist. Year 2	Hist. Year 3	2 Yrs After Constr.
Operating Margin	≥ 0%	3.1%	2.0%	2.8%	1.7%
DSC	≥ 1.40x	3.38	2.43	2.59	2.23

COMMITMENT METRICS

FY10 DEALS		MEDIANS			
Level 1 Guidelines	Benchmarks	Hist. Year 1	Hist. Year 2	Hist. Year 3	2 Yrs After Constr.
Current Ratio	≥ 1.25	2.14	2.10	2.52	2.85
WC/Total Assets	≥ 5.0%	14.0%	15.6%	20.5%	14.2%
Equity Fin Ratio	≥ 10%	43%	60%	66%	26%

COMMITMENT METRICS

FY10 DEALS		MEDIANS			
Level 2 Guidelines	Benchmarks	Hist. Year 1	Hist. Year 2	Hist. Year 3	2 Yrs After Constr.
LTD / Capital	≤ 70%	45%	54%	48%	64%
Debt Svc / Op Rev	≤ 5.5%	3.0%	3.6%	3.5%	5.4%

COMMITMENT METRICS

FY10 DEALS		MEDIANS			
Level 2 Guidelines	Benchmarks	Hist. Year 1	Hist. Year 2	Hist. Year 3	2 Yrs After Constr.
Days in AR	≤ 55	54	50	47	51
DCoH	≥ 35	62	61	66	84
Avg Pmt Period	≤ 60	55	53	55	50

CHARACTERISTICS OF PROBLEMATIC DEALS



State/Federal Investigations



Under-funded Liabilities



Size of Project



Loan-to-Value



Debt Ineligible



2 Year Construction Rule



Poor Liquidity



Negative Income Trends



Hudson Valley Hospital

Cortlandt Manor, NY
\$71.8 million
241 mortgage

FOCUSED ON RESPONSIVENESS

- Bankers have asked for:
 - ❖ **Predictability**
 - in Timing
 - in Outcome
- OHF is improving:
 - ❖ **Responsiveness**
 - ❖ **Consistency**
 - ❖ **Communication**

PREDICTABILITY! TIMING AND OUTCOME

- **Preliminary Review**
 - ❖ **Robust Preliminary Review Template**
 - ❖ **Focus on speed**
 - ❖ **Quality and Identification of Key Issues**
- **Pre-Application Meeting**
 - ❖ **Restructured and Refocused**
 - ❖ **Insightful Questions and Dialogue**
 - ❖ **24 Hour Response**

PREDICTABILITY!
TIMING AND OUTCOME

- **Application Process**
 - ❖ **CST composition and focus**
 - ❖ **Early involvement of the Office of Risk Management**
 - ❖ **Delay site visit: better focus and analyses**
 - ❖ **Better management of process**

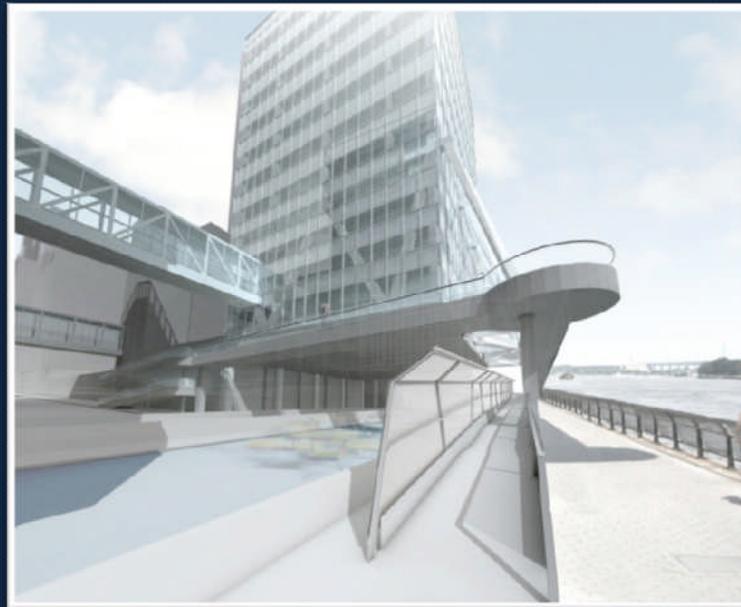
PREDICTABILITY! TIMING AND OUTCOME

- **Application Approval**
 - ❖ **Credit Committee: Composition and Focus**
 - ❖ **Early involvement of Credit Committee**
 - ❖ **Better management of process**

CURRENT INITIATIVES

- **Underwriting**
 - ❖ **Board/ Management**
 - ❖ **Medical Staff**
 - ❖ **Professional Liability Insurance**
 - ❖ **Lender History**
- **Asset Management**
 - ❖ **HUD 92013 Form**
 - ❖ **Loan-to-Value**
 - ❖ **Line Item Transfers**

Hospital for Special Surgery New York, NY



IN THE FINAL ANALYSIS

- **Communication with clients is paramount!**
 - ❖ **E-mail Blasts implemented**
 - ❖ **Clarity in all communications**
- **In the final analysis, underwriting is primarily the application of professional judgment.**

PLEASE LET US KNOW HOW WE CAN BE MORE RESPONSIVE!

OFFICE OF HOSPITAL FACILITIES
2011 LENDER TRAINING

SECTION 242
**PRE-APPLICATION
PROCESS**

**Paul
Giandrone**

Underwriting Division
Director, OHF/OHP



KEY TAKEAWAYS

- A basic understanding of the Pre-Application Process
 - ❖ **Preliminary Review and Pre-Application Meeting**
- A better understanding of what HUD is looking for, how to prepare a more informative and complete submission

OHF 2011 LENDER TRAINING

THE PRE-APPLICATION PROCESS

THE PRE-APPLICATION PROCESS - DEFINITION AND PURPOSE

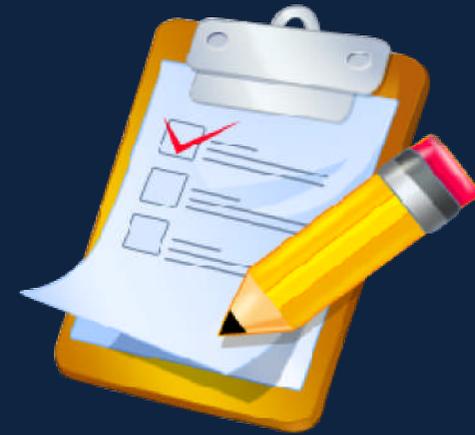


Rio Grande Hospital (CAH)
Del Norte, CO
\$11.9 million insured mortgages

- **What is the Preliminary Review?**
- **What is the purpose of the review?**
- **How does it benefit Lenders and HUD?**

THE PRE-APPLICATION PROCESS – SUMMARY

- **Preliminary Review Process**
 - ❖ **Step 1: Self Assessment**
 - ❖ **Step 2: Initial contact with HUD**
 - ❖ **Step 3: Preliminary Review preparation and submission**
 - ❖ **Step 4: OHF review and decision**
- **Pre-Application Meeting - Overview**



STEP 1: SELF ASSESSMENT

- The Preliminary Review Template lists key requirements
- Key self assessment questions
 - ❖ Consider uses and terms of FHA loans
 - ❖ Lender must have a first lien position
 - ❖ 20% construction requirement
 - ❖ 90% Loan-to-Value maximum
 - ❖ Patient day requirement
 - ❖ Past 3 years average operating margin >0
 - ❖ Past 3 years average debt service coverage ratio >1.25

STEP 1: SELF ASSESSMENT

- **Uses of FHA loan**
 - ❖ **Construction financing, modernization, equipment, refinancing, remodeling, expansion**
- **Coverage, Cost, and Conditions**
 - ❖ **FHA insures 99% of the loan amount**
 - ❖ **25-year term**
 - ❖ **One-time fees total 0.8 percent of the loan amount**
 - ❖ **Fixed annual premium is 0.5 percent of the remaining mortgage balance**

STEP 1: SELF ASSESSMENT

- The HUD-insured lender must have a first lien position.
- For refinancing, at least 20% of mortgage amount must be used for construction and equipment
- Loan-to-Value Requirement
 - ❖ **Maximum LTV = 90%**
 - ❖ **LTV calculation =**
$$\frac{\text{(TOTAL MORTGAGE AMOUNT)}}{\text{(TOTAL ESTIMATED REPLACEMENT COST + NET PPE)}}$$

STEP 1: SELF ASSESSMENT

- **Patient Day Requirement**
 - ❖ **Section 242 Statutory requirement: 50% acute care patient day rule**
 - ❖ **Non-acute patient days include skilled nursing, rehabilitation, psychiatric, and other services**
 - ❖ **HUD allows adjustment of patient days based on revenues**
- **2-year rule on refinancing**

STEP 1: SELF ASSESSMENT

- **Average operating margin for last 3 yrs > 0**
- **Operating Margin =**
 - OPERATING INCOME FROM LAST FULL FY
 - + OPERATING INCOME FROM TWO FULL FYs AGO
 - + OPERATING INCOME FROM THREE FULL FYs AGO
 - TOTAL OPERATING REVENUES FROM LAST FULL FY
 - + TOTAL OPERATING REVENUES FROM TWO FULL FYs AGO
 - + TOTAL OPERATING REVENUES FROM THREE FULL FYs AGO
- **HUD removes non-operating revenues from the calculation**

STEP 1: SELF ASSESSMENT

- **Average DSC for last 3 years > 1.25**
- **Debt Service Coverage Ratio (DSC) =**
$$\frac{\text{NET INCOME} + \text{DEPRECIATION EXPENSE} + \text{INTEREST EXPENSE}}{\text{CURRENT PORTION OF LONG-TERM DEBT (PRIOR YEAR)} + \text{INTEREST EXPENSE}}$$
- **For hospitals recently designated as Critical Access, calculate ratios as though they have been a CAH for all three years**

STEP 2: INITIAL CONTACT WITH HUD

- Describe hospital and project
- Ask questions
- Provide additional information
- Contact Info:

❖ **Paul Giaudrone**
Underwriting Director
Office of Hospital Facilities
(202) 402-5684
paul.a.giaudrone@hud.gov

STEP 3: PRELIMINARY REVIEW PREPARATION AND SUBMISSION

- A complete submission includes the information described within the Preliminary Review Template
 - ❖ Answers to questions
 - ❖ 8 Attachments (2013, audits, org structure, worksheets, etc.)
 - ❖ Applicant Data Request
- Deliver electronically and in binders to OHF

STEP 3: PRELIMINARY REVIEW PREPARATION AND SUBMISSION

- **New Templates released June 30, 2011**
- **Separate Templates for Section 242 and 241**
- **Future guidance on 223(f) and 223a7 expected**
- **Why did we revise the Template?**



Chatham Hospital (CAH)
Siler City, NC
\$29.9 million mortgage

STEP 3: PRELIMINARY REVIEW PREPARATION AND SUBMISSION

- **Most questions in the Preliminary Review Template are self-explanatory**
- **Not so clear?**
 - ❖ **Organizational Structure**
 - ❖ **Minimum Financial Criteria (including other financial considerations)**
 - ❖ **Refinancing Component**
 - ❖ **State and Federal investigations**
 - ❖ **Other – 92013, Market Need**

STEP 3: PRELIMINARY REVIEW PREPARATION AND SUBMISSION

- “Clearly Describe the Ownership Structure of the Hospital”
- What are we asking for?
 - ❖ Org structure showing affiliates, subsidiaries, etc
 - ❖ Broadly, a description of assets or organizations to be included in the mortgage
- Why are we asking for it?
 - ❖ Understand the “economic entity”
 - ❖ Identify and discuss “asset exclusions”
 - ❖ Correctly calculate Loan-to-Value

STEP 3: PRELIMINARY REVIEW PREPARATION AND SUBMISSION

- “Minimum Financial Criteria”
- What are we asking for?
 - ❖ Calculations of the Operating Margin and Debt Service Coverage Ratios
 - ❖ Audited financial statements and interim financials
- Why are we asking for it?
 - ❖ Evaluate hospital against Regulatory requirements
 - ❖ Identify potential financial risks, including balance sheet weaknesses
 - ❖ Tax revenues

STEP 3: PRELIMINARY REVIEW PREPARATION AND SUBMISSION

- **Refinancing Component**
- **What are we asking for?**
 - ❖ **Details on debt to be refinanced (term, sources and uses, etc)**
 - ❖ **Official Statements of past debt issues, where available**
- **Why are we asking for it?**
 - ❖ **Evaluate hospital against Regulatory requirements**
 - ❖ **Identify other issues that require discussion**

STEP 3: PRELIMINARY REVIEW PREPARATION AND SUBMISSION

- **State and Federal Investigations**
- **What are we asking for?**
 - ❖ An indication whether or not the hospital is in “substantial compliance” with federal and state regulations
- **Why are we asking for it?**
 - ❖ Evaluate hospital against Regulatory requirements
 - ❖ Identify potential financial future risks

STEP 4: OHF REVIEW AND DECISION

- **Upon receipt, review is assigned to a Reviewer**
- **Reviewer checks submission for completeness, comprehensiveness**
- **Reviewer poses questions to Lender**
- **Lender responds**
- **Review completes analysis, discusses and presents findings to Directors**
- **Decision made, Preliminary Review Letter sent**

STEP 4: OHF REVIEW AND DECISION

- **Goals**
 - ❖ **Processing time < 10 business days**
 - ❖ **Minimize calendar day processing time**
 - ❖ **Minimize follow-up questions**
 - ❖ **Identification of eligibility/credit issues to be discussed at the Pre-Application Meeting**
- **How the Lender can help:**
 - ❖ **Provide complete submission to HUD**
 - ❖ **Anticipate and discuss potential credit/eligibility issues with Underwriting Director**

OHF 2011 LENDER TRAINING

THE PRE-APPLICATION MEETING

THE PRE-APPLICATION MEETING – DEFINITION AND PURPOSE



Baton Rouge General Hospital
Baton Rouge, LA
\$198 million insured mortgage

- **What is the Pre-Application Meeting?**
- **What is the purpose of the meeting?**
- **How does it benefit Lenders and HUD?**

PRE-APPLICATION MEETING

- **Goals**
 - ❖ **Educate the Lender/Hospital**
 - ❖ **Listen to the Hospital present its story and project**
 - ❖ **Discuss (in detail) the credit and eligibility issues identified in the Preliminary Review Letter**
- **How the Lender/Hospital can help:**
 - ❖ **Come prepared to discuss key credit/eligibility concerns**
 - ❖ **Provide OHF with presentation materials 3 business days prior to the meeting**
 - ❖ **Bring the whole family**

OFFICE OF HOSPITAL FACILITIES
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**Emilio
Pucillo, R.A.**

Director, OAE

**Teresa Bilyk,
R.A.**

Deputy Director, OAE

OFFICE OF
ARCHITECTURE AND
ENGINEERING

**HUD-92013
APPLICATION FORM**



OAE'S REVIEW OF THE 92013

Lines C1, C2, C3:

C. Estimated Replacement Costs

1. Total Construction Cost Per Contract(s).....

C. Estimated Replacement Costs	
1. Total Construction Cost Per Contract(s)	\$

OAE'S REVIEW OF THE 92013

2. Fees

Architect's Fee-Design.....

Architect's Fee-Supervisory...

Construction Management Fee for Part A

Other Fees.....

2. Fees		
Architect's Fee—Design	\$	
Architect's Fee—Supervisory		
Construction Mgmt. Fee		
Other Fees		
Total Fees	\$	

OAE'S REVIEW OF THE 92013

Line C3. Other.....

Site Demolition Costs....

Other (Identify)

3. Other		
Site Demolition Costs	\$	
Other (Identify)		
Total Other		\$

INCLUDING REASONABLE COSTS

- **Be sure to include all reasonable costs including architect's reimbursables, additional services fees for the architect, the Owner Representative Fee and his/her reimbursable costs, Owner's Contingency, permit fees, site and soil investigation costs, Owner testing fees, other consultant fees, etc.**

OAE COPIES AND BACKUP INFO

- **OAE must have copies of all HUD 92013-HOSP forms that are created for the project so that we can make our recommendation for approval to the OHP Account Executive**
- **Backup submitted in the application must support the various line items C1, C2, C3 and C6. If there is insufficient space on the form attach a breakdown of the line item to explain the cost.**

OAE'S REVIEW OF THE 92013

- OAE also reviews Line C6. Carrying Charges and Financing : to verify if there are an adequate number of months included in the mortgage to cover the construction period reflected in the construction contract (s).

6. Carrying Charges and Financing			
Int.	mos.	@	%
on \$			\$

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2011 LENDER TRAINING

MORE ABOUT THE
HUD-92013
APPLICATION FORM

J.B. Nathan

Senior Financial
Analyst, OHF



92013 – CHECKLIST ITEMS

- All dollar amounts are whole dollars
- Total columns are correct
 - ❖ **Not truncated or rounded**
- 60 day limit on MIP, taxes, & interest
- Exam fee has two components
- Permanent Financing Fee
 - ❖ **Financing Fee**
 - ❖ **Limitation 1.5% or 3.5%**

92013 – CHECKLIST ITEMS

- **Initial Service Charge**
 - ❖ **Placement Fee**
 - ❖ **Limited to 2%**
- **AMPO – 2%**
- **Legal & Organizational**
 - ❖ **Hospital's cost (not Lender's cost)**
- **Consultant**
 - ❖ **Includes Forecast and Cost Certification**

NEW 92013 FORM – DRAFT

- **Section A**
 - ❖ **Added place for date prepared**
 - ❖ **Added underline space for section of the act – 242/241**
 - ❖ **Language clarification that Mortgagor goes in top line and Mortgagee in 2nd line**

NEW 92013 FORM (CONT.)

- **Section B**
 - ❖ **Changed building type from elevator to multistory**
 - ❖ **Added box for project type**
 - ❖ **Added box for non-profit/for-profit or governmental status**
 - ❖ **Added box for bond related transaction**

NEW 92013 FORM (CONT.)

- **Section C**
 - ❖ **Renumbered**
 - ❖ **Added subtotals for hard and soft costs.**
 - ❖ **New term- “Total Estimated Project Cost”**
 - ❖ **Eliminated line for Site Demolition**
 - ❖ **Renamed financing fee and placement fee to match regulation**

NEW 92013 FORM (CONT.)

- **Section C**
 - ❖ **Moved AMPO to Legal, Org, Consultant, AMPO, & Special Assessment**
 - ❖ **Added line Special Tax Assessment**
 - ❖ **Added line for acquiring PP&E**
- **Section D**
 - ❖ **Reorganized**
 - ❖ **New line for Grants**

NEW 92013 FORM (CONT.)

- **New Section E**
 - ❖ **Information on leased property**
 - ❖ **Old Section E & F re-lettered.**

OFFICE OF HOSPITAL FACILITIES
2011 LENDER TRAINING

HUD's
**DETERMINATION
OF NEED**

Jim Bolinger

Director, Office of
Hospital Facilities



HUD'S DETERMINATION OF NEED

- If CoN state, required before application.
- HUD must also determine need
- Criteria
 - ❖ Specified in regulation
 - ❖ Most are inherently imprecise

HUD'S DETERMINATION OF NEED

- **The Need Model:**
 - ❖ **Standard, industry-wide planning methodology**
 - ❖ **Does not provide a specific, quantitative “answer”**
 - ❖ **Used as framework to assure consistency in application of relevant criteria and analysis**

HUD'S DETERMINATION OF NEED

- **Mathematical computations are not the key to conclusions**
- **Subjective information considered**
 - ❖ **Whether identified by Applicant or OHF**
- **Conclusions on Market Need based on:**
 - ❖ **Objective factors**
 - ❖ **Subjective factors**
 - ❖ **Professional judgment**

OFFICE OF HOSPITAL FACILITIES
2011 LENDER TRAINING

DETERMINING NEED:
**THE APPLICANT
DATA REQUEST**

**Christopher
Augsburger**

Senior Financial
Analyst, OHF



APPLICANT DATA REQUEST

- **Directions for Page 1:**
 - ❖ **Must provide the requested information.**
 - ❖ **Submit the data according to specific data parameters as indicated.**
 - ❖ **Accuracy is essential.**
 - ❖ **Enter information only in the designated areas.**
 - ❖ **Attach additional explanation or information to this form if necessary.**

APPLICANT DATA REQUEST

- **Directions for Page 1 (cont'd):**
 - ❖ **Provide a brief description of the project.**
 - ❖ **The project description should coincide with the project classification in the next section.**
 - ❖ **Answer “Yes” to only one of the classification choices.**

PROJECT CLASSIFICATION

- A. Existing hospital undergoing a major modernization project with no change in bed count. (Includes Modernization of Outpatient Services).**
- B. Existing hospital undergoing a major modernization project with a reduction in bed count. (Includes Modernization of Outpatient Services).**
- C. Existing hospital increasing bed count.**
- D. New hospital.**
- E. Other (describe).**

SERVICE AREA DEFINITION

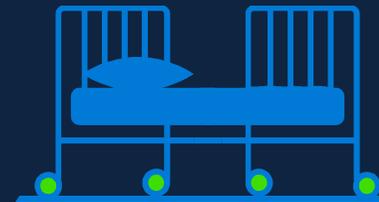
- Use most current year data available.
- Use number of discharges and patient days by zip code of patient origin. (Estimate for new hospitals).
- Service area 67-88% of acute discharges.
- Should be geographically contiguous.
- Exhibit a notable market share presence.
- Arrange descending order of total discharges.
- Any discharges/days not in the service area are "Out of Service Area Discharges."
- Omit NORMAL NEWBORN Discharges.

HOSPITAL BED CLASSIFICATION

- **Licensed** - Number of beds recognized on the State issued operating certificate.
- **Operational** - Number of Beds available for use requiring little or no resources to activate. (subset of licensed beds)
- **Staffed** - Average number of beds over the year that can actually be used by patient day. (subset of licensed and/operational beds)

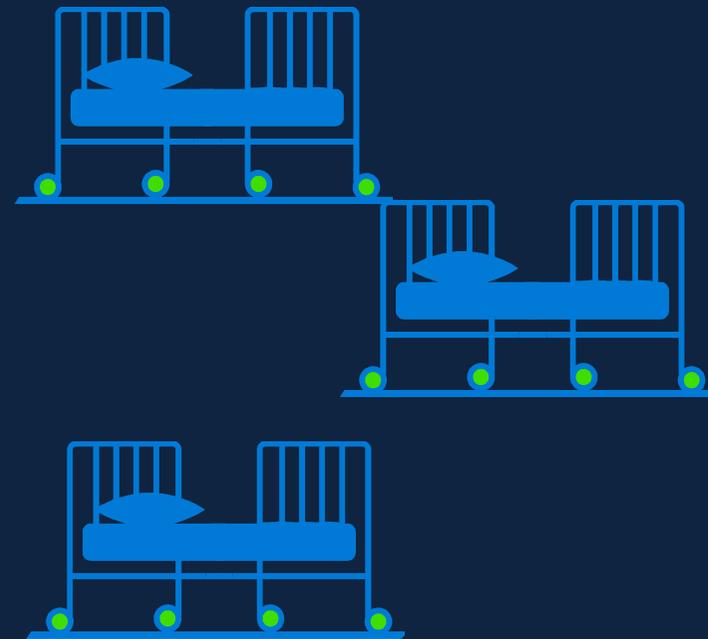
HOSPITAL BED CLASSIFICATION

- **General Service** - medical/surgical, pediatrics, obstetrics, psychiatry, physical rehabilitation, substance abuse detoxification & substance abuse rehabilitation.
- **Intensive Care Unit (ICU)**
- **Coronary Care Unit**
- **Burn Intensive Care Unit**
- **Surgical Intensive Care Unit**
- **Neonatal ICU**
- **Premature ICU**



HOSPITAL BED CLASSIFICATION

- **Pediatric ICU**
- **Detoxification ICU**
- **Psychiatric ICU**
- **Trauma ICU**
- **Other Special Care**
- **Skilled Nursing Facility**
- **Observation**
- **Other Long Term Care**
- **Hospice**



COMPETITOR HOSPITALS

- **Hospital competitors within the service area:**
 - ❖ **List the name, zip code, and county of all service area competitor acute care hospitals.**
- **Hospital competitors outside the service area:**
 - ❖ **List the name, zip code, and county of all competitor acute care hospitals located outside the service area. (i.e., other hospitals located within counties touched by the service area but not within the service area zip codes.)**

OUTPATIENT & EMERGENCY SERVICES

- Use the most recent year of available data.
- Provide outpatient utilization statistics for the current year and for the period that represents 2 full years after the completion of the project.
- New hospitals leave current year column blank.
- Data Elements are:
 - ❖ **Number of Outpatient Clinic Visits**
 - ❖ **Number of Ambulatory Surgery Visits**
 - ❖ **Number of Emergency Room Visits**

OUTPATIENT & EMERGENCY SERVICES

- Does the hospital provide full service emergency room services? **YES or NO**
- Does the hospital have a certified trauma center? **YES or NO**

HOSPITAL CLASSIFICATION

- Is the applicant classified as a Sole Community Hospital? **YES or NO**
- Is the applicant classified as a Rural provider? **YES or NO**
- Is the applicant classified as a Rural Referral Center? **YES or NO**

TEACHING HOSPITAL STATUS

- Does the applicant have Intern/Resident Teaching Programs? **YES or NO**

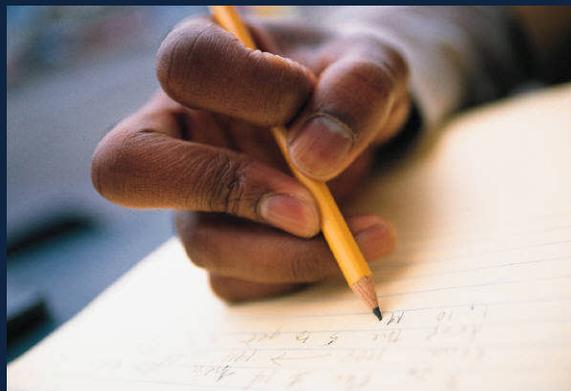


COMMON MISTAKES

- **Omitting patient days in Section 2**
- **Including non-acute, swing bed, and long-term care discharges and patient days in the service area totals in Section 2**
- **Not recognizing the parameters for the defining the service area in Section 2**
- **Not recognizing all acute care hospital competitors in the local market in Section 4**

OTHER TIPS

- **Each section has a place for “Notes.” Use “Notes” to identify sources and to elaborate on special issues or circumstances.**



OFFICE OF HOSPITAL FACILITIES
2011 LENDER TRAINING

SECTION 242
**APPLICATION
PROCESS**

**Paul
Giaudrone**

Underwriting Division
Director, OHF



THE APPLICATION PROCESS – KEY TAKEAWAYS



Rio Grande Hospital (CAH)
Del Norte, CO
\$11.9 million insured mortgages

- A basic understanding of the steps in the Application Process
 - ❖ **Application submission through Commitment**
- An understanding of what has changed recently

RECAP....

- **Hospital/Lender submitted a successful Preliminary Review package**
- **Account Executive and Client Service Team assigned**
- **HUD's legal and architectural/engineering reps assigned**
- **Hospital/Lender Team attended a successful Pre-Application Meeting**
- **OHF invites the Lender to submit an application**
- **FHA number assigned**

APPLICATION DEVELOPMENT

- **FHA Project Number assigned**
- **Consultant prepares study of market need and financial feasibility**
- **Lender/Hospital team prepares application**
- **Account Executive answers questions, and issues are dealt with as appropriate**
- **Hospital sends application to HUD per application submission instructions**

STEPS IN THE APPLICATION PROCESS

- **Following application submission**
 - ❖ **Completeness review**
 - ❖ **2530 completion and approval**
 - ❖ **Initial underwriting questions posed and answered**
 - ❖ **Covenant review and discussions**
 - ❖ **Environmental review and site visit**
 - ❖ **Independent review and site visit**
 - ❖ **Client Service Team site visit**
 - ❖ **Architectural and engineering review and visit**
 - ❖ **Credit committee report development**
 - ❖ **Credit committee and risk management review**
 - ❖ **Commitment**

STEPS IN THE APPLICATION PROCESS

- **Completeness review and 2530 approval**
 - ❖ **AE checks contents against applicant's guide**
 - ❖ **Are 2530s complete?**
 - ❖ **Results communicated to Lender**
- **What has changed?**
 - ❖ **Efforts to finish completeness check faster**
 - ❖ **Does not (necessarily) hold up other steps in process**
 - ❖ **2530 review and approval**

STEPS IN THE APPLICATION PROCESS

- Initial underwriting questions posed and answered
- What has changed?
 - ❖ **Emphasis on posing questions early**
 - ❖ **Obtaining answers prior to the site visit**
 - ❖ **Allowing for more review and analysis**

STEPS IN THE APPLICATION PROCESS

- **Covenant reviews and discussions**
 - ❖ **Hospital Board must review and agree to OHF's Standard Approval Covenants**
- **What has changed?**
 - ❖ **Earlier discussions of potential "asset exclusions"**
 - ❖ **Development of a standard process for entertaining Covenant changes**
 - ❖ **Discussion of the "business side" of the Covenants at the Client Service Team Site Visit**

STEPS IN THE APPLICATION PROCESS

- Environmental review and site visit
- What has changed?
 - ❖ **Active involvement from CST**
 - ❖ **Efforts to address environmental concerns prior to Commitment**
 - ❖ **OAE will eventually be responsible for environmental reviews**
- Architectural and engineering review and site visit

STEPS IN THE APPLICATION PROCESS

- Independent review and site visit
- What has changed?
 - ❖ **Site visit will likely occur prior to Client Service Team site visit.**
- Client Service Team site visit
- What has changed?
 - ❖ **Site visit scheduled late in the process**
 - ❖ **Allows for a more productive site visit**

STEPS IN THE APPLICATION PROCESS

- Credit committee report development
- What has changed?
 - ❖ Early development of the credit report
 - ❖ Early input from.....
- Credit committee and risk management review
- What has changed?
 - ❖ Early input allows a more streamlined process
 - ❖ Ideally, no surprises

STEPS IN THE APPLICATION PROCESS

- **Commitment**
- **What has changed?**
 - ❖ **Contact with Lenders/Hospitals on two matters:**
 - ❖ **Clear communication of Special Condition, within the Approval Covenants**
 - ❖ **Coordination with the Hospital on press releases**

OHF APPLICATION PROCESSING GOALS

- **Less than 120 day turnaround from application receipt through Commitment**
- **Smooth processing, no surprises**
- **Avoiding 11th hour negotiations/discussions**
- **Positive, regular communication**
- **Predictable timing and outcome is key**

HOW LENDERS AND HOSPITALS CAN HELP

- **Address issues, when possible and appropriate, prior to application submission**
- **Discuss and identify target dates for key processing milestones**
- **Your point of contact is the AE**
- **Proactively keep AEs apprised of important developments**
- **Submit a complete application**
- **Quickly and comprehensively address AE's questions and concerns**
- **Remember our mission**

OFFICE OF HOSPITAL FACILITIES
2011 LENDER TRAINING

**Emilio
Pucillo, R.A.**

Director, OAE

**Teresa Bilyk,
R.A.**

Deputy Director, OAE

OFFICE OF
ARCHITECTURE AND
ENGINEERING'S
**REVIEW DURING
THE APPLICATION
PROCESS**



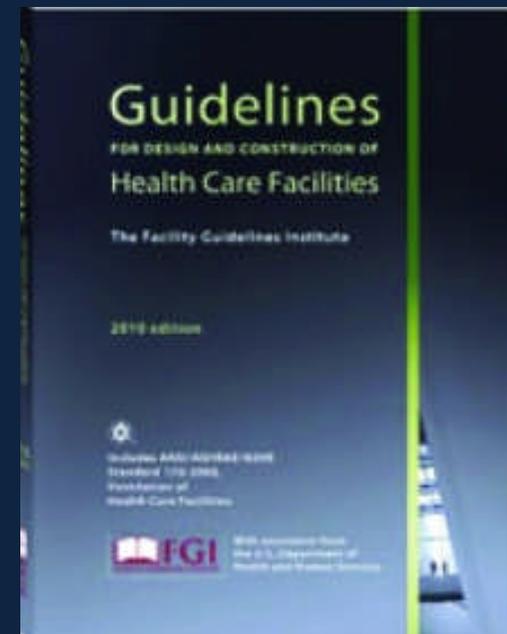
ARCHITECTURE/ENGINEERING ISSUES DURING REVIEW

- **OAE encourages early involvement in FHA-242 projects**
- **OAE will eventually be responsible for the HUD-4128 review of FHA-242 projects**
- **OAE makes its recommendations of approval, i.e. Initial preliminary review, recommendation to go to commitment, recommendation to go to initial endorsement to the Account Executive**

GUIDELINES WE USE

- **Projects must conform to minimum requirements. At the present time we use:**

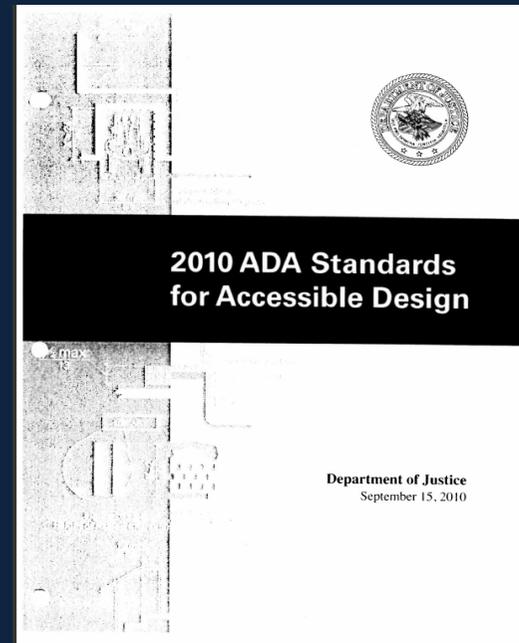
2010 “GUIDELINES FOR THE DESIGN & CONSTRUCTION OF HEALTH CARE FACILITIES” PUBLISHED BY THE FACILITY GUIDELINES INSTITUTE, ASHE



GUIDELINES WE USE

- **Projects must conform to minimum requirements. At the present time we use:**

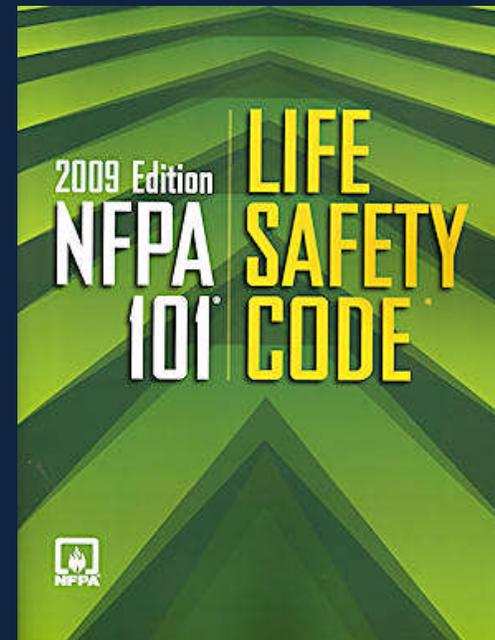
**2010 ADA STANDARDS FOR
ACCESSIBLE DESIGN
PUBLISHED BY THE U.S.
DEPARTMENT OF JUSTICE**



GUIDELINES WE USE

- **Projects must conform to minimum requirements. At the present time we use:**

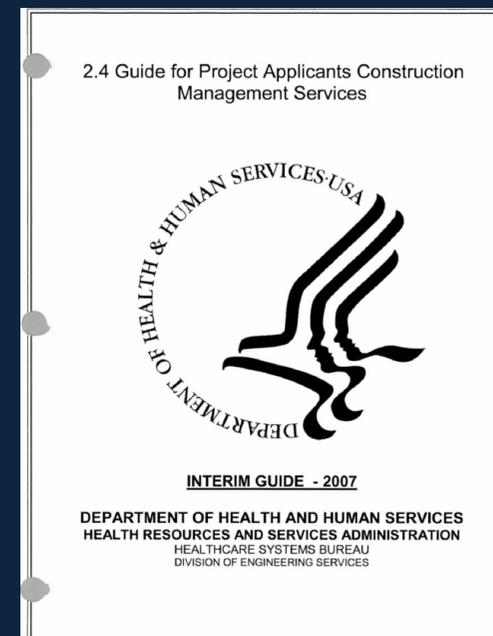
**NFPA 101-LIFE SAFETY CODE-
2009 EDITION-PUBLISHED BY
THE NATIONAL FIRE
PROTECTION ASSOCIATION**



GUIDELINES WE USE

- **Projects must conform to minimum requirements. At the present time we use:**

2.4 GUIDE FOR PROJECT APPLICANTS CONSTRUCTION MANAGEMENT SERVICES



CONTRACTS ISSUES

- Depending upon the construction contract methodology the FHA-242 program has its own form of contracts for:
- Construction Management Services where the CM is a construction contractor (Parts A&B)
- A lump sum contract (HUD Form 92442)
- A design-build contract, (AIA A191 for design and HUD form 92442 for construction)

ENVIRONMENTAL REVIEWS

- **Every construction project needs a Phase I environmental assessment and we request that the Owner's environmental consultant fill out a draft of the HUD-4128 form at the time the application is submitted**



ENVIRONMENTAL ISSUES

- **The HUD 92013 must reflect any remediation that is required for the FHA-242 project. This includes time and funding.**
- **The Phase I and HUD-4128 must be completed for all parcels to be included in the mortgage.**

EARLY START CONSIDERATIONS

- Does your client want to commence construction prior to initial endorsement?

Site preparation

Pre-commitment work

Early Start

- There are methodologies to start early providing the Owner is willing to proceed at their own risk.

LIQUIDATED DAMAGES AND RETAINAGE

- **Liquidated damages at \$.09/\$1,000 of construction cost must be included in all FHA-242 construction contracts**
- **Retainage is with-held at 10% to 50% of construction completion**

MINIMUM WAGE REQUIREMENTS



- **Minimum Federal Wage Rates are required in all FHA-242 construction contracts. The Owner and the Contractor must maintain certified payrolls thru the final closing of the project.**

BONDS AND GMP

- **HUD Performance and Payment Bonds in the amount of 100% of the construction must be utilized on all FHA-242 construction contracts and submitted for approval and concurrence by OAE.**
- **In order for OAE to recommend the project proceed to commitment we need a fixed construction price based upon a fixed scope of work.**

SUPPLEMENTARY CONDITIONS

- **HUD Supplementary Conditions of the Contract for Construction, HUD-2554 , must be included in all FHA-242 construction contracts (This form covers all labor, equal opportunity, health and safety requirements.)**

HAVING CONTRACTS IN PLACE

- **OAE prefers seeing draft contracts before they are executed but executed contracts are necessary for OAE to recommend the project proceed to commitment.**



OTHER REQUIREMENTS

- **OAE must have a current certified survey, legal description and legal opinion stating that these are the parcels included in the mortgage prior to recommending the project proceed to initial endorsement.**



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2011 LENDER TRAINING

J.B. Nathan

Senior Financial
Analyst, OHF

Bill Williams

Senior Financial
Analyst, OHF

KEY ELEMENTS OF THE
**FINANCIAL
FEASIBILITY
STUDY**



KEY ELEMENTS



Approval of Consultants



Accountant's Report



Examination Level Study



Demand Assumptions



Areas of Expected Focus



Financial Assumptions



Content of Study



Sensitivity Analyses

GENERAL OBSERVATIONS

- HUD does not accept the forecast at face value, but used as a starting point for an independent analysis.
- CST will review and create their report and form their own opinion
- Independent consultant will review and submit his opinion

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APPROVAL OF CONSULTANTS

APPROVAL OF CONSULTANTS

- **CPA Firm**
- **Independence**
- **Experience with Hospital Forecasts**



OHF 2011 LENDER TRAINING

EXAMINATION LEVEL OF STUDY

AUTHENTICATION LEVEL- EXAMINATION

- Exam level - 95%
- Compilation level with Special Procedures
- Self- prepared
- Same Material
- Same Sections
 - ❖ in some cases where need has already been established the paragraph on need may be omitted

OHF 2011 LENDER TRAINING

AREAS OF EXPECTED FOCUS

AREAS OF EXPECTED FOCUS

- New or expanded services
- Negative trend line
- Variance from trend line
- Competition in hospital service area
- New hospital
 - ❖ Physician recruitment
 - ❖ Cash flows
 - ❖ Competition
 - ❖ Adequacy of resources



AREAS OF EXPECTED FOCUS

- **Healthcare reform**
 - ❖ **Medicare Payment Reductions**
 - ❖ **Medicare DSH Reductions**
 - ❖ **HAC reductions**
 - ❖ **RAC activity**
 - ❖ **Compliance program**
 - ❖ **Medicare Productivity Bonus**
 - ❖ **Medicare Value Based Purchasing**
- **State budget reductions/changes**



OHF 2011 LENDER TRAINING

CONTENT OF STUDY

CONTENT OF STUDY

1. Accountant's Report
2. Financial Statements
3. General Information
4. Significant Demand Assumptions
5. Demonstration of Market Need
6. Significant Financial Assumptions
7. Other Appropriate Information
8. FAST Tables and Other Exhibits



CONTENT OF STUDY

Schedule 2

Mortgaged Entity

ABC Hospital
Sample For-Profit
Balance Sheet

As of _____

	<u>Mortgaged Entity</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Cash & Investments	xxx	xxx	xxx

CONTENT OF STUDY (CONT.)

- Operating income
 - ❖ Depreciation/interest expense
- Non-operating income includes
 - ❖ Investments
 - ❖ Unrestricted contributions



CONTENT OF STUDY (CONT.)



- **Financial section**
 - ❖ **Clear description**
 - ❖ **Listing of expenses and source for payment**
 - ❖ **Letters of credit for negative arbitrage**
 - ❖ **Non asset bonds and other issuance obligations**

CONTENT OF STUDY (CONT.)

- **Financial section**
 - ❖ **Additional interest or penalties for delay in final endorsement**
 - ❖ **Additional deposits/costs for bonds or wrap, credit enhancements, etc.**
 - ❖ **Potential Penalties, other pass through costs**

OHF 2011 LENDER TRAINING

ACCOUNTANT'S REPORT

ACCOUNTANT'S REPORT

- Only part that belongs to Accountant
- Key language
 - ❖ Starts with, “We have examined...”
 - ❖ “...conducted in accordance with attestation standards established by” AICPA...
 - ❖ Conclusion
 - “In our opinion, the ... provide a reasonable basis for management’s forecast including management’s assertion that the hospital is needed...”

OHF 2011 LENDER TRAINING

DEMAND ASSUMPTIONS

DEMAND ASSUMPTIONS

- Service area definition – in General
- Basics
 - ❖ Historic discharges
 - ❖ Use rate
 - ❖ Population grow
 - ❖ PLUS EFFECTS OF NEW SERVICES
 - ❖ PLUS EFFECT OF MARKET SHARE CHANGES
 - ❖ Result in forecast



OHF 2011 LENDER TRAINING

FINANCIAL & ACCOUNTING ASSUMPTIONS

FINANCIAL & ACCOUNTING ASSUMPTIONS

- Description of how hospital is paid
- Projected changes in reimbursement
- Inpatient Revenues by Payor
- Out Patient Revenues by Payor
- Expense assumptions
 - ❖ Salaries & wages
 - ❖ Physician salaries
 - ❖ Transfers
- But.....



FINANCIAL & ACCOUNTING ASSUMPTIONS

- **Real Key**
 - ❖ **Ties to demographics**
 - ❖ **Ties to population growth**
 - ❖ **Ties to the change in market share**
 - ❖ **Ties to New Service lines**
 - ❖ **Savings from “efficiencies” need to be justified**
- **THE PATH FROM HISTORICAL TO FORECAST SHOULD BE CLEAR.**



FINANCIAL & ACCOUNTING ASSUMPTIONS

- **Balance Sheet**

- ❖ **Self insured**

- Malpractice liability & reserves

- ❖ **Pension liability & reserves**

- ❖ **Net assets change – Net Income**

- ❖ **Transfers to affiliates**

- ❖ **Future asset acquisition outside of project**



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SENSITIVITIES

SENSITIVITIES

- Redesigned
 - ❖ “Appropriate Sensitivities”
 - ❖ See Applicant’s Guide
 - ❖ Additional HUD sensitivities after review



REVIEW

- **Qualifications and experience of consultant is most important**
- **Communications and documentation are most important processes**
- **Current industry environment necessitates much greater emphasis on quality and accuracy**



Hospital for
Special Surgery
New York, NY

TAKEAWAYS FOR LENDERS

- **Dynamics of hospital industry changing (flat admissions, reductions in reimbursement, mergers/acquisitions, ACOs, etc)**
- **Greater emphasis and risk related to regulatory compliance (CMS, IRS, and DOJ/FTC)**
- **Predictability beyond current year is increasingly difficult**
- **Qualifications/Experience of consultant is most important**

OFFICE OF HOSPITAL FACILITIES
2011 LENDER TRAINING

THE
OFFICE OF RISK
MANAGEMENT

Nathan Dean

Healthcare Credit
Risk Officer, ORM



ORM OFFICE HISTORY

- Organization of ORM
- DAS ORM
- Risk Focus Areas
 - ❖ Enterprise Risk
 - ❖ Operational Risk
 - ❖ Credit Risk
- Healthcare Credit Risk Committee
- Healthcare Credit Risk Officer

<slide omitted>

HEALTHCARE RISK COMMITTEE

- **Committee Meets Once per Month**
- **Hospital and Sec. 232 Portfolio Risk**
 - ❖ **Update Portfolio Risks and Claims Trends**
 - ❖ **Discuss Emerging Program Risk Issues**
 - ❖ **Discuss Policy and Credit Risk Underwriting Issues**
 - ❖ **Update Pipeline**

HEALTHCARE PROJECT REVIEW FUNCTIONS

- **Healthcare Reviewer will analyze Projects Approved by OHP**
 - ❖ **Analyze Project Risk Issues**
 - ❖ **Monitor Underwriting Consistency**
 - ❖ **Review Project Valuation Methodology and Appraisals**
 - ❖ **Review Asset Management Issues and Project Workouts**

FHA RISK MANAGEMENT

- **Healthcare Risk Management Objectives are to Review, Manage & Reduce Healthcare Program Risk**
 - ❖ **Promote Healthy Policies for Underwriting and Asset Management**
 - ❖ **Reduce FHA's Financial Risk Project Quality Mix**
 - ❖ **Improve the Performance of the FHA Insurance Fund**

OFFICE OF HOSPITAL FACILITIES
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DEMYSTIFYING THE
**PREVIOUS
PARTICIPATION
CLEARANCE PROCESS**

(HUD 2530)

**Denise
Murphy**

Principal
Murphy Consulting LLC



KEY TAKEAWAYS

- **Understand the why's and how's of Business Partners Registration and electronic HUD 2530 submissions**
- **Realize common mistakes and misperceptions that cause headaches for you and for HUD**
- **Review benchmarks for HUD 2530 processing and approval**
- **Learn where to find Resources for help.**

HUD PREVIOUS PARTICIPATION CERTIFICATION – THE HUD 2530

Tab 6:

“Attach a listing of the names of the principals that must be submitted.”

Supplement 6:

“Previous Participation Certificates are to be filed electronically through the Active Partners Performance System”

BUSINESS PARTNER REGISTRATION

Why?

- Requirement began March 2009 – all principals must be registered with HUD
- BPR info feeds into APPS and creates a record that can be accessed in iREMS
- Much confusion on how this works - on Industry side and HUD side
- Industry required to Edit Participant Detail in APPS as on-going requirement.



BUSINESS PARTNER REGISTRATION

How & Where?

- Via Internet (not HUD System log-in)
- All principals - organizations, individuals
- Name, TIN or SSN, address, phone, email
- https://hudapps.hud.gov/apps/part_reg/apps040.cfm



BUSINESS PARTNER REGISTRATION

What is “evidence”?

- Initial BPR data entry Page (before hitting “save”)
- “Participant already processed” printed out from BPR page
- “Edit Participant Detail” page from APPS
- Organization Tier Report from APPS
- Any APPS Submission Package.



BUSINESS PARTNER REGISTRATION

BPR Mistakes

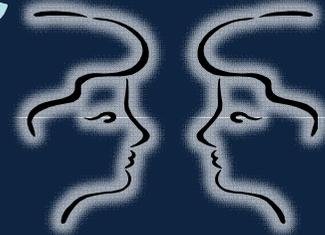
- Can NOT be corrected by the Help Desk
- Addresses & Names CAN be corrected by an established HUD Secure System Coordinator IF they have Coordinator access to the TIN/ SSN
- Must go thru HUD Headquarters to correct:
 - ❖ TIN or SSN errors
 - ❖ Legal Structure
 - ❖ Type of Ownership.



PAPER VS. ELECTRONIC

Why? (HUD's perspective)

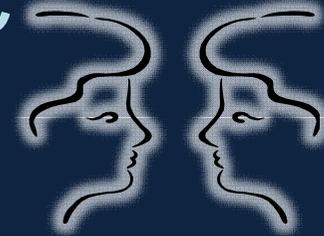
- Reduces HUD's review burden from hours to minutes
- Insures BPR's complete and principals linked to organization
- Insures participant has APPS access
- Significantly increases security of SSN's and TIN's.



PAPER VS. ELECTRONIC

Why? (Applicant benefits)

- Allows applicant to see Flags and know Critical Findings prior to submission
- Significantly increases security of SSN's and TIN's
- Access to REAC and MOR scores
- Positioned for future access needs (FASSUB & PASS).



BENCHMARKS FOR 2530 APPROVAL

- 2530 Review = past history of carrying out your financial, legal and administrative obligations in other HUD multifamily housing
- Critical Findings to be reviewed include:
 - ❖ Failing REAC inspections
 - ❖ Below Average or Unsatisfactory MOR's
 - ❖ Loan Defaults
 - ❖ HUD Flags
 - ❖ False responses to Certification Statements.



APPS 2530 APPROVAL PROCESSING

1. Submission received electronically by HUD
2. HUD receives original signatures from applicant and “opens” the submission for review
3. OA reviews Org Structure, roles and reason
4. OA Schedules Critical Findings Report
5. Reviewer makes recommendation to Supervisor
6. Supervisor approves or refers to PPSD Review.



2530 REPORTING

Who needs to be cleared

- Those who control and direct the operations of the organization
- Board and management who are authorized to sign and bind the organization
- Chair, Vice Chair, Secretary, CEO, CFO
Financial Chair (per Bill Grego).

BEFORE YOU BEGIN IN APPS

Plan Ahead: 4 to 6 weeks

1. Gather Info and details
 - ❖ **BPR info, 2530 info and dates!**
2. Get a Coordinator ID
3. Gain Access to report for all principals
4. THEN, begin in APPS.





COMMON CAUSES OF APPS HEADACHES



- **Incorrectly registering a BPR**
- **Not allowing enough time to complete the full process**
- **Waiting greater than 10 days for a Key Code letter**
- **Worrying too much about a wrong address**
- **Calling the wrong Help Desk for support.**

IMPORTANT APPS “NOT”s



- × A Baseline is NOT a 2530 submission
- × “*Edit Certification*” from APPS is NOT a 2530 submission
- × Inspection scores do NOT automatically update on the participants list
- × Previous Participation experience does NOT carry over from iREMS
- × Do NOT share WASS ID’s and log-ins!

DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

10. Read the Map

❖ *The paper HUD 2530 is your best travel guide*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

9. Plan Your Route

- ❖ *A good Org Chart can make a world of difference*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®



8. Follow the Rules of the Road

❖ *HUD's expectation is
"Full Disclosure"*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

7. Expect Delays

- ❖ *Heavy traffic, potholes and speed bumps are normal on any road*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

6. Watch for Traffic Cops

- ❖ *Keep HUD happy with correct organization roles and reporting*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

5. You are the Chauffeur

- ❖ *Know your place, Principals certify, Coordinators report*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

4. Preventive Maintenance is Key

- ❖ *resolve HUD Flags before you submit*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

3. Arrive in Style

❖ *submit signature packages promptly*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

2. Utilize Rest Stops

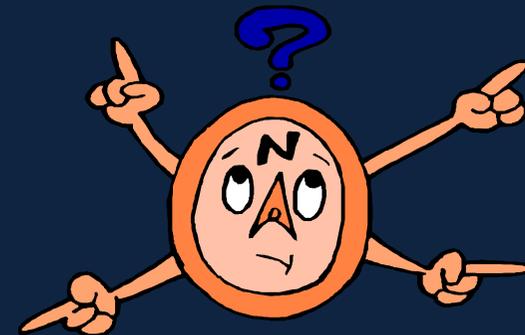
- ❖ *take a break routinely to update REAC and MOR Scores*



DENISE'S TOP 10 APPS TIPS NAVIGATING THE ROAD TO SUCCESS®

1. If you are Lost, Ask for Directions

- ❖ *Phone a Friend*
- ❖ *Ask the Experts*
- ❖ *Google "HUD 2530 Help"*



HUD 2530 HELP

- APPS Quick tips at www.hud.gov
- William Grego, Sr. Healthcare Account Executive (202) 402-3327, william.j.grego@hud.gov
 - ❖ **OHP 2530 Subject Matter contact**
- REAC Technical Assistance Center 1-888-245-4860
 - ❖ **Missing Activation Key Letters, lock-outs and password resets**



HUD 2530 HELP

- Multifamily Help Desk
1-800-767-7588
 - ❖ **APPS, FASSUB and other systems**
- Denise Murphy – www.hud2530help.com
(410) 821-6953

