OVERVIEW OF THE FHA SECTION 242 PROGRAM

Jim Bolinger
Director
Office of Hospital Facilities
OHF MANAGEMENT STAFF

- **Jim Bolinger, Program Director**
  - Director, Office of Hospital Facilities
  - 202-402-5575, James.E.Bolinger@hud.gov

- **Barry Flynn**
  - Asset Management, Division Director
  - 202-402-2328, Barry.J.Flynn@hud.gov

- **Paul Giaudrone**
  - Underwriting, Division Director
  - 202-402-5684, Paul.A.Giaudrone@hud.gov
INSURANCE COMMITMENT “TYPES”

- 242
- 241
- 223(f)
- 223(a)7
Chatham Hospital (CAH)
Siler City, NC
$29.9 million mortgage
**PRE-APPLICATION “SUCCESS”**

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

<table>
<thead>
<tr>
<th>FY</th>
<th>Pre-App Reviews</th>
<th>“Passed”</th>
<th>Percent Passed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>11</td>
<td>8</td>
<td>73%</td>
</tr>
<tr>
<td>2008</td>
<td>30</td>
<td>21</td>
<td>70%</td>
</tr>
<tr>
<td>2009</td>
<td>43</td>
<td>20</td>
<td>47%</td>
</tr>
<tr>
<td>2010</td>
<td>47</td>
<td>30</td>
<td>64%</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>FY10 Deals</th>
<th>Medians</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1 Guidelines</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>≥ 0%</td>
</tr>
<tr>
<td>DSC</td>
<td>≥ 1.40x</td>
</tr>
<tr>
<td>FY10 DEALS</td>
<td>MEDIANs</td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Level 1 Guidelines</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>≥ 1.25</td>
</tr>
<tr>
<td>WC/Total Assets</td>
<td>≥ 5.0%</td>
</tr>
<tr>
<td>Equity Fin Ratio</td>
<td>≥ 10%</td>
</tr>
</tbody>
</table>
# COMMITMENT METRICS

<table>
<thead>
<tr>
<th>FY10 DEALS</th>
<th>LEVEL 2 GUIDELINES</th>
<th>BENCHMARKS</th>
<th>HIST. YEAR 1</th>
<th>HIST. YEAR 2</th>
<th>HIST. YEAR 3</th>
<th>2 YRS AFTER CONSTR.</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTD / Capital</td>
<td>≤ 70%</td>
<td>45%</td>
<td>54%</td>
<td>48%</td>
<td>64%</td>
<td></td>
</tr>
<tr>
<td>Debt Svc / Op Rev</td>
<td>≤ 5.5%</td>
<td>3.0%</td>
<td>3.6%</td>
<td>3.5%</td>
<td>5.4%</td>
<td></td>
</tr>
</tbody>
</table>
## Commitment Metrics

<table>
<thead>
<tr>
<th>FY10 Deals</th>
<th>FY10 Median</th>
<th>FY10 Historical</th>
<th>FY10 Historical</th>
<th>FY10 Historical</th>
<th>FY10 Historical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2 Guidelines</td>
<td>Benchmarks</td>
<td>Hist. Year 1</td>
<td>Hist. Year 2</td>
<td>Hist. Year 3</td>
<td>2 Yrs After Constr.</td>
</tr>
<tr>
<td>Days in AR</td>
<td>≤ 55</td>
<td>54</td>
<td>50</td>
<td>47</td>
<td>51</td>
</tr>
<tr>
<td>DCoH</td>
<td>≥ 35</td>
<td>62</td>
<td>61</td>
<td>66</td>
<td>84</td>
</tr>
<tr>
<td>Avg Pmt Period</td>
<td>≤ 60</td>
<td>55</td>
<td>53</td>
<td>55</td>
<td>50</td>
</tr>
</tbody>
</table>
CHARACTERISTICS OF PROBLEMATIC DEALS

- State/Federal Investigations
- Size of Project
- Debt Ineligible
- Poor Liquidity
- Under-funded Liabilities
- Loan-to-Value
- 2 Year Construction Rule
- 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
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!
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
THE PRE-APPLICATION PROCESS
THE PRE-APPLICATION PROCESS - DEFINITION AND PURPOSE

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

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

\[
\frac{(\text{Total Mortgage Amount})}{(\text{Total Estimated Replacement Cost} + \text{Net PPE})}
\]
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) =
  \[ \text{Net Income} + \text{Depreciation Expense} + \text{Interest Expense} + \text{Current Portion of Long-Term Debt (Prior Year)} + \text{Interest Expense} \]

- 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
THE PRE-APPLICATION MEETING
THE PRE-APPLICATION MEETING –
DEFINITION AND PURPOSE

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

Baton Rouge General Hospital
Baton Rouge, LA
$198 million insured mortgage
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
*NOTE: OHF has submitted a new information collection package to OMB for approval of its forms. The form(s) included in this presentation are pending OMB approval. We are requesting your feedback to the information presented in this presentation. We will respond to comments during the Q&A session.
OAE’s Review of the 92013

Lines C1, C2, C3:

C. Estimated Replacement Costs

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

<table>
<thead>
<tr>
<th>C. Estimated Replacement Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Construction Cost Per Contract(s)</td>
</tr>
</tbody>
</table>
OAE’S REVIEW OF THE 92013

2. Fees

Architect’s Fee—Design
Architect’s Fee—Supervisory
Construction Management Fee for Part A
Other Fees

<table>
<thead>
<tr>
<th>2. Fees</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Architect’s Fee—Design</td>
<td>$</td>
</tr>
<tr>
<td>Architect’s Fee—Supervisory</td>
<td></td>
</tr>
<tr>
<td>Construction Mgmt. Fee</td>
<td></td>
</tr>
<tr>
<td>Other Fees</td>
<td></td>
</tr>
<tr>
<td>Total Fees</td>
<td>$</td>
</tr>
</tbody>
</table>
OAE’s Review of the 92013

Line C3. Other........
Site Demolition Costs....
Other (Identify)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Demolition Costs</td>
<td>$</td>
</tr>
<tr>
<td>Other (Identify)</td>
<td>$</td>
</tr>
<tr>
<td>Total Other</td>
<td>$</td>
</tr>
</tbody>
</table>
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).

<table>
<thead>
<tr>
<th>6. Carrying Charges and Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Int.</td>
</tr>
<tr>
<td>on $</td>
</tr>
</tbody>
</table>
MORE ABOUT THE HUD-92013 APPLICATION FORM
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 Section E

- Information on leased property
- Old Section E & F re-lettered.
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 OHH

• Conclusions on Market Need based on:
  ❖ Objective factors
  ❖ Subjective factors
  ❖ Professional judgment
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.
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
• Each section has a place for “Notes.” Use “Notes” to identify sources and to elaborate on special issues or circumstances.
Paul Giaudrone
Underwriting Division Director, OHF

SECTION 242 APPLICATION PROCESS
**The Application Process – Key Takeaways**

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

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

Office of Architecture and Engineering’s

Review During the Application Process

Emilio Pucillo, R.A.
Director, OAE

Teresa Bilyk, R.A.
Deputy Director, OAE
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)
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 a 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.
KEY ELEMENTS

- Approval of Consultants
- Examination Level Study
- Areas of Expected Focus
- Content of Study
- Accountant’s Report
- Demand Assumptions
- Financial Assumptions
- 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
APPROVAL OF CONSULTANTS
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• CPA Firm
• Independence
• Experience with Hospital Forecasts
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
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
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

Mortgaged Entity

ABC Hospital
Sample For-Profit
Balance Sheet
As of ____________

Cash & Investments

Mortgaged Entity

Other Activities

Consolidated Health System

xxx
xxx
xxx
CONTENT OF STUDY (CONT.)

• Operating income
  ◆ Depreciation/interest expense
• Non-operating income includes
  ◆ Investments
  ◆ Unrestricted contributions
• **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
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…”
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
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**
SENSITIVITIES
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• 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
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
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
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
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”
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.cf m
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.
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.
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.
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.
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).
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
8. Follow the Rules of the Road

- HUD’s expectation is “Full Disclosure”
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
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