

## Section III Asset Management

### Chapter 1 **Asset Management Overview**

---

#### **1.1**

#### **Introduction - Overview and Objectives**

Since assuming responsibility for administering the Section 232 residential care facility portfolio from the Office of Multifamily Housing in December 2008, the Office of Healthcare Programs (OHP), and specifically the Office of Residential Care Facilities (ORCF), has instituted changes to improve the servicing and mitigate the risk of Section 232 insured loans. As part of these changes, ORCF strengthened the regulatory agreements and requirements for deposit and control agreements (DACAs) and accounts receivable (AR) financing, and increased scrutiny of Operators' operating processes and financial statements. ORCF has also established requirements for master leases and debt service reserves.

The primary responsibilities of the Asset Management and Lender Relations Division of ORCF are to service insured mortgages, monitor risk and minimize claims. Each Account Executive (AE) works in partnership with the Borrower and Lender to ensure each FHA-insured loan is financially and operationally strong, that each property provides a safe, quality place of residence, and that the loan remains viable for the term of the mortgage.

Monitoring of Section 232 assets includes reviewing state inspection surveys, analyzing Borrower FASS submissions and Operator financial submissions, reviewing Physical Assessment Subsystem (PASS) physical inspections and monitoring Centers for Medicare and Medicaid Service (CMS) ratings.

ORCF implemented enhanced monitoring oversight and aggressive risk mitigation to further ensure sustainable HUD properties for the life of the mortgage.

All AEs in Asset Management report to a Workload Manager (AKA Branch Chief). Each Workload Manager (WLM) holds weekly huddles with their staff to help resolve issues in processing requests or support each team in their efforts to provide good customer service. All WLMs meet bi-weekly with the Director of Asset Management who oversees the entire Asset Management Program. A complete listing of the AEs, their WLMs and all contact information is available at the Section 232 Program website.

---

## 1.2

## Account Executive and Lender Alignment

To the extent possible, AEs are aligned with specific Lenders. Lenders with significant portfolios of Section 232 loans have a team assigned to their portfolio, with one person designated as the Lender Lead. This centralized concept ensures consistent servicing for the Lender and Borrower, regardless of geographic location for either the property or the AE. The allocation of a Lender's portfolio is reviewed annually to ensure that Asset Management continues to provide successful customer service and effective risk management.

---

## 1.3

## Team Structure

ORCF's Asset Management and Lender Relations Division is organized with WLMs leading teams of AEs. The Turnaround Team, or the Risk Mitigation Branch, concentrates on loans that are HUD-held, or in serious financial and/or operational condition. Moreover, several other WLMs lead teams of AEs that service all other performing loans.

---

## 1.4

## Asset Management Branch and Risk Mitigation Branch

The AEs use multiple tools in the management of the Section 232 portfolio, two of which are highlighted below:

- A. **Annual Macro-Analysis Report.** This report is compiled from CMS-provided Operator financial data, CMS Star Rating Report and Special Focus Facility Report for Skilled Nursing Facilities; ORCF internally-provided Borrower financial data (audited financial statements that are required to be electronically submitted by the Borrowers) and physical condition data from the Integrated Real Estate Management System (iREMS). It rates each Section 232 project within ORCF's portfolio and provides a baseline to determine if additional oversight is necessary.
- B. A continuous review of each property in the AE's portfolio based on project activity within a particular month to proactively analyze and respond to issues. This involves ongoing review of several critical sources of information which include:
  - 1. Mortgage Default and Delinquency Report (MDDR). Payment delinquency and default information on HUD-Insured loans is provided by the Lender to ORCF.
  - 2. CMS Star Rating Report. This report is drawn from the CMS "Nursing Home Compare" website, which indicates its ratings on a 1 through 5-star rating for Medicare-certified nursing homes nationwide.

3. State Surveys. This report, provided by the State for each nursing home, details the property's annual operational and financial status.
4. Real Estate Assessment Center (REAC) Inspection results.
5. Reserve for Replacement (R4R) Requests. If a request is made to suspend or reduce a monthly payment, or to use funds from the account to fund a mortgage payment or operating expenses, the AE will look at the monthly cash flow to determine if additional actions are necessary.
6. Stop Order from State Agency based on an annual state inspection by the licensing agency.
7. Borrower's annual audited financials filed with ORCF.
8. Quarterly financial reports from Operators.
9. Specific compliance issues for a property identified by ORCF and the Departmental Enforcement Center (DEC).
10. Asset Management Group and individual Team Calls where policies are reviewed and live meeting training is provided on new or revised processes or current ORCF initiatives.

Communication between the Lender and the AE is critical to ensuring the ongoing viability of the project. Under certain circumstances, special servicing is warranted to the complexities of the situation. In these cases, loans are transferred to the Risk Mitigation Branch for a closer level of attention. Whenever a transfer of a loan occurs, the Lender will be invited to a conference call to discuss the re-assignment of the loan to the Risk Mitigation Branch along with contact information regarding the new AE on that team. Please refer to Asset Management, Chapter 5 for more information on the Risk Mitigation Branch.