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CHAPTER 17. RETIREMENT SERVICE CENTERS (ReSC) - SPECIAL PROCEDURES

- 17-1. PURPOSE. ReSCs bridge the gap between totally independent, non-congregate housing for the elderly and nursing homes providing health care. Major differences between ReSCs and basic 221(d) insured or coinsured elderly housing projects are:
- A. ReSCs involve modified market and rental analysis techniques.
  - B. ReSCs require special reserve funds.
  - C. ReSCs can provide a broader range of amenities and services.
  - D. Prospective mortgagors must prove experience and ability to manage retirement housing.
- 17-2. ELIGIBLE PROJECTS. ReSCs are developed for the frail elderly market 70 years and older who no longer can or want to prepare their own meals and are willing to pay more than 30 percent of income for shelter, amenities, and services. Coinsurance proposals to serve this market must be processed under Section 221(d)(4) only, using these procedures and the valuation instructions in paragraph 9-13.

Allowable services and amenities:

- A. Congregate dining facilities
- B. Up to three mandatory meals a day
- C. Weekly linen and housekeeping services
- D. Arts and crafts spaces, lounges, recreation and meeting rooms, to a greater extent than in noncongregate elderly housing
- E. A small number of infirmity beds, subject to prior approval of HUD Headquarters
- F. Access to a nursing home, hospital or other medical facility (A charge to ensure access is prohibited.)

Prohibited features:

- A. Single Room Occupancy proposals (i.e., without private bath and minimum kitchen or dormitory sleeping accommodations - see paragraph 17-6 C)
- B. Medical services
- C. Founder's fees or initial admission fees (beyond normal security deposits associated with standard rental projects)

- 17-3. ELIGIBLE MORTGAGORS. All mortgagors eligible under the Section 221(d)(4) coinsurance program, including nonprofits, may develop ReSCs. Nonprofits must meet all financial and underwriting requirements of the ReSC procedures without exception.
- 17-4. SPECIAL APPLICATION PROCEDURES FOR ReSCs
- A. The mortgagor must:
- 1) Have a preapplication conference with the lender
  - 2) Provide information that shows expertise in housing for the elderly (See paragraph 17-5.)
  - 3) Demonstrate familiarity with the market by providing:
    - a) List of comparable projects
    - b) Market study
    - c) Marketing plan
  - 4) Complete and submit the Form HUD-92013E to the lender, covering the costs, expenses and income attributable to nonshelter amenities and services so the lender can ensure the marketability of these items.
- B. The lender's market analyst should:
- 1) Attend all ReSC preapplication conferences
  - 2) Review all ReSC applications
- 17-5. MANAGEMENT ABILITY. Applicants must demonstrate that at least one member of the mortgagor group:
- A. Is familiar with this kind of housing
  - B. Can effectively promote prompt rent-up
  - C. Is familiar with the special needs and expectations of the target occupancy group
  - D. Is generally able to handle long rent-up periods and the complex services and expenses of retirement housing
- 17-6. DESIGN/COST REQUIREMENTS. ReSCs must be designed only for elderly tenants. Other requirements for ReSCs are:
- A. Minimum Property Standards. (See paragraph 3-1 F.)
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(Design/cost requirements - con't.)

- (17-6) B. Bathrooms in 5-10 percent of the project units must generally be designed for handicapped accessibility. The mortgagor should determine the exact number based on a needs assessment for the area, if any.
- C. Each unit must contain kitchen and bathroom facilities. Kitchens in projects that propose congregate dining facilities must contain at least:
- 1) Small sink
  - 2) Refrigerator
  - 3) Two-burner stove (No oven is required, and built-in cooking surfaces may be disconnectable for certain tenants.)
- D. Furniture and equipment included in replacement cost
- 1) For congregate dining facilities and common areas:
    - a) Refrigerators and freezers
    - b) Ranges and ovens
    - c) Steam tables and food warmers
    - d) Sinks and dishwashing equipment
    - e) Counters and work tables
    - f) Dining room table and chairs
    - g) Furniture in common areas
  - 2) In the application for conditional commitment (or firm commitment, if conditional is bypassed), the mortgagor must itemize the equipment and furniture included in replacement cost.
  - 3) Equipment and furniture in replacement cost must be included in the HUD mortgage security even if paid for by the mortgagor and covered by a chattel mortgage made to the lender. No leasing or lease purchase agreements are permitted for these items.

17-7. REQUIRED RESERVES. ReSCs must have:

- Operating deficit escrow of 200 percent of the lender's estimate of expected operating deficit during initial rent-up; or
  - 6-month debt service reserve; or
  - Both, depending on paragraph A, below.
- A. Determining required reserves. Calculate the project's 6-month debt service requirement and operating deficit needed to reach sustaining occupancy. If:
- 1) Two times the operating deficit equals or exceeds the 6-month debt service reserve, require an operating deficit escrow of 200 percent.
  - 2) Two times the operating deficit is less than 6 months' debt service, require only the 6-month debt service reserve.
  - 3) The operating deficit equals or exceeds 6 months debt service, require both an operating deficit escrow and a debt service reserve.
- B. Escrow disbursements and holding periods
- 1) Operating deficit escrow. Must:
    - a) Cover the period between construction completion and the time the lender estimates sustaining occupancy will be reached.
    - b) Be provided at initial endorsement by:
      - Agreement of Sponsors to Furnish Additional Funds and Bond Guaranteeing Sponsor's Performance (Forms FHA-2476 and 2477); or
      - Escrow Agreement - Additional Contribution by Sponsors (Form FHA-2476a).
    - c) Be held until sustaining occupancy has been reached and maintained for 90 days.
  - 2) Debt service reserve. Must:
    - a) Be established at initial endorsement
    - b) Be funded with cash or a letter of credit at final endorsement, except between initial and final endorsement when the lender may accept a personal note (See paragraph C, below).
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(Debt service reserve - con't.)

- (17-7) 3) When both an operating deficit escrow and debt service reserve are required, disburse first from the escrow and then from the reserve to fund operating expenses, debt service payments, initial marketing and rent up costs, etc.

C. Satisfying debt service reserve requirement through a personal note

- 1) At lender's option between initial and final endorsement only.
- 2) Treated the same as cash and deducted from any insurance claim payment due the lender in the event of default.
  - a) Lender must agree in the Mortgagee's Certificate (Appendix 37) that any personal note will be treated as a cash item if there is a default during this period and the lender files a claim for insurance benefits. Insurance benefits will be reduced by the amount of the note.
  - b) The following must be added to the Mortgagee's Certificate to show the lender's acceptance of the surcharge provision:

In establishing the debt service, we have accepted a personal note from the mortgagor for \$ \_\_\_\_\_ which we will hold until final endorsement. The note will then be converted to cash or a letter of credit. We agree that HUD will treat the note as a cash item and reduce the insurance benefits by the amount of the note if there is a mortgage default and we make a claim for insurance benefits before the note is converted.

D. Required special conditions for all ReSC firm commitments:

If the lender accepts a personal note from the mortgagor for \$ \_\_\_\_\_ for the debt service reserve for the time between initial endorsement and final endorsements the lender must agree in the Mortgagee's Certificate that the note will be treated as a cash item and insurance benefits will be reduced by the amount of the note if a default occurs during this period and the lender files a claim for insurance benefits.