Section 232
Application Processing
Delays

- Key Risks not addressed in LN
- Internal Consistency/Accuracy of Information
- Waivers not identified
- 92264a-ORCF is incorrect
- Environmental Items
- Loan Sizing/Appraisal
- Clear/Comprehensive LDL Responses not provided
Delays

• Previous Participation
• Program Eligibility
• Risk Management Programs
• Following *Current* Published Guidance
  – Application Checklists
  – Handbook
  – Email Blasts
  – LeanThinking
Lender Narrative

**Purpose:** To summarize the Lender’s analysis as it relates to each of the exhibits in the application.

- Must be consistent with other exhibits
- Please check the math
- Strengths and risks fully analyzed & risk mitigation provided
Lender Narrative (continued)

- Proofread your Lender Narrative before you submit

- If something is not applicable, explain why (Please don’t make us guess!)

- The better the Lender Narrative, the faster the ORCF review!
Maximum Insurable Loan Calculation
92264a-ORCF

➤ Replaces both Form 92264-HCF & Form 92264a

➤ Provides a standardized Sources & Uses

➤ Double-check latest updates are incorporated!
Lean Processing – Deficiencies

- ORCF UW advises lender of any defects or deficiencies
- Lender has 10 business days (or other brief time period) to correct deficiencies
- Other applications pulled for review while the application is on hold awaiting lender revision take precedence over the hold application
Pro Tips

• **ONE** comprehensive response to deficiency items. Clearly explain how each item is addressed and attach appropriate documentation.

• Piecemeal adds time to our process.
Program Eligibility

- 62+ for ALF requirement
- Board and Care State Requirements
- Citizenship of Principals
- Licensing Issues
Risk Management Programs

• Identify – Tier 1 (Baseline)/Tier 2 (Elevated)
• Administered by – Internal/Third-Party
• Components:
  – Real-time incident reporting & tracking
  – Experience of staff
  – Staff Training programs
  – Continuous Improvement
  – Systems Descriptions/Experience Demonstration
Application Exhibits

- Review all exhibits to assure complete and accurate submission.
- All exhibits on each application checklist are required, as applicable.

Proof Draft Firms

- Current template version
- Confirm entries reflect final submission details
- Section 38 - typically needs 2 participants referenced per HB Ch. 6.1.E.3., an individual & parent entity (not the borrower entity)
Questions that impact eligibility/feasibility of a project

Environmental Concerns
  - Unusual Site Conditions
  - Flood Hazards or Wetlands
  - State Historic Preservation Office (SHPO)/Tribal Consultations

Other questions you have while assembling the application

Include copies of any email guidance from LEANThinking or other HUD staff regarding your project.
Underwriting Highlights

223(f) Refinance
Underwriting Highlights

Valuation Issues & Concerns:

- Aggressive NOI conclusions
- NOI Conclusion not yet Achieved
- Fluctuating NOI History
- Declining NOI trend
- Aggressive Expense Ratio
- Aggressive Cap Rate
Underwritten Net Operating Income

Problems occur when underwritten NOI is optimistic compared to recent performance

- Loan Committee concerns:
  - UW NOI > T12 and recent year-end figures
  - When *annualized* NOI is used to support UW NOI
  - Big delta between NOI for value and NOI for DSCR
  - Turnarounds – Operator must have *proven* track record of successful turnarounds and maintaining operations
Use of Aggressive NOI in Underwriting

Combination of:

- Underlying Reasons for Using NOI higher than currently achieved
- Degree of Aggressiveness
- Loan-to-Value

Risk to HUD

Appropriate Mitigation

- Reduce Mortgage
- Debt Service Reserve - to be held for 12 consecutive months at underwritten NOI
  - Reserve amount equal to 6-12 months of debt service
- Accept As-Is
- Do Not Approve
- Defer to Let Season and Prove Out
<table>
<thead>
<tr>
<th>Key Data</th>
<th>Year Ending 12/31/11</th>
<th>Year Ending 12/31/12</th>
<th>Year Ending 12/31/2013</th>
<th>T-12 thru Feb 2014</th>
<th>Appraisal (Market)</th>
<th>Lender's DSC analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Gross Income</td>
<td>$5,272,383</td>
<td>$5,601,459</td>
<td>$6,055,217</td>
<td>$6,313,247</td>
<td>$6,723,652</td>
<td>$6,657,770</td>
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<tr>
<td>Net Operating Income</td>
<td>$2,088,173</td>
<td>$2,270,679</td>
<td>$2,149,143</td>
<td>$2,206,319</td>
<td>$2,461,843</td>
<td>$2,336,770</td>
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<tr>
<td>Normalized Net Operating Income</td>
<td>$1,735,634</td>
<td>$1,903,314</td>
<td>$1,786,683</td>
<td>$1,815,298</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Occupancy</td>
<td>73.50%</td>
<td>76.00%</td>
<td>75.20%</td>
<td>73.30%</td>
<td>80.80%</td>
<td>80.00%</td>
</tr>
<tr>
<td>Potential # Res Days</td>
<td>75,190</td>
<td>75,190</td>
<td>75,190</td>
<td>75,190</td>
<td>75,190</td>
<td>75,190</td>
</tr>
<tr>
<td>Actual # Res Days</td>
<td>55,298</td>
<td>57,159</td>
<td>56,575</td>
<td>55,115</td>
<td>60,753</td>
<td>60,152</td>
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<tr>
<td>Key Data</td>
<td>Year Ending 12/31/2011</td>
<td>Year Ending 12/31/2012</td>
<td>Year Ending 12/31/2013</td>
<td>T-12 (Apr '13 - Mar'14)</td>
<td>Appraisal (Market)</td>
<td>DSC analysis</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>-------------------------</td>
<td>--------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>$703,813</td>
<td>$921,912</td>
<td>$828,799</td>
<td>$890,885</td>
<td>$541,429</td>
<td>$518,879</td>
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<tr>
<td>Normalized Net Operating Income</td>
<td>$543,980</td>
<td>$733,338</td>
<td>$642,298</td>
<td>$702,847</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expense Percentage</td>
<td>78.5%</td>
<td>72.5%</td>
<td>75.2%</td>
<td>74.0%</td>
<td>83.0%</td>
<td>83.7%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>100.6%</td>
<td>101.5%</td>
<td>100.9%</td>
<td>102.2%</td>
<td>95.0%</td>
<td>95.0%</td>
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<tr>
<td>Potential # Res Days</td>
<td>14,965</td>
<td>14,965</td>
<td>14,965</td>
<td>14,965</td>
<td>14,965</td>
<td>14,965</td>
</tr>
<tr>
<td>Actual # Res Days</td>
<td>15,062</td>
<td>15,183</td>
<td>15,104</td>
<td>15,292</td>
<td>14,217</td>
<td>14,217</td>
</tr>
</tbody>
</table>
Contractor Process
Contractor Process

- Contract UW and Contract Closer are your main point of contact
- GTMs should be copied on all correspondence
- GTMs do not get into details on UW side until review of the LC package, unless Contractor or Lender raises questions/concerns
Previous Participation Reviews
Previous Participation Review

- **Purpose:** HUD wants to check the Previous Participation of the Individuals and Entities in control of our projects.
Previous Participation Reviews

- Recent Regulation Change 24 CFR part 200, subpart H (24 CFR 200.210-222)
- Housing Notice H 16-15 is the Processing Guide
- Industry Training Archived on ORCF’s Website

ORCF Training Presentations

Previous Participation Industry and Staff Training – November 7, 2016

- Webcast Presentation Material
- Archive of Previous Participation Training Webcast
Processing Guide
Housing Notice 16-15

• **One Stop Shop** for Previous Participation Review Guidance

• **30 Day Comment Period** before HUD can make substantive changes to the guide

• **New Process:** Supersedes and clarifies past practice and guidance

• **Goal:** Focus on the people and entities with operational and/or financial control

• **Flags:** Updated and standardized
Identifying Controlling Participants

• **Key Question:** Who has Operational and/or Financial Control?
  – We want submissions for those individuals / entities that exercise control.
  – We don’t want all the other noise that distracts us from reviewing the important individuals and entities.

• The first determination is made by the FHA Lender
Identifying Controlling Participants

- Controlling Participants include:
  - Specified Capacities (entity)

<table>
<thead>
<tr>
<th>Specified Capacities</th>
<th>Multifamily Housing</th>
<th>Office of Residential Care Facilities</th>
<th>Office of Hospital Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower or Owner</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Management Agent</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Operator</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>General Contractor</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Construction Manager</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Master Tenant/Landlord</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

- Individuals and entities that control the Specified Capacities
- At least one natural person for each project
Organization Charts

• Visual representation of the ownership structure of an organization

• Separate chart submitted for each Specified Capacity

• **Key Point:** Clear enough for someone unfamiliar with the project and entities involved to understand ownership and control structure.
Organization Charts

• Show all tiers of ownership structure including members or owners of the entities listed.
• Show all participants, not just controlling participants
• Show percentages of ownership and role in the entity (add up to 100%).
• At least one natural person
Organizational Charts

• Not everyone listed on the Org Chart must file a Previous Participation submission.

• The org chart is how we check that the identified Controlling Participants make sense.
Acceptable Organization Chart Example
Who Must File?

Specified Capacity: Virginia Avenue, LLC

Controlling Participants: Person A

Excluded Parties

<table>
<thead>
<tr>
<th>Person/Entity</th>
<th>Reason for Exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. James Place, LLC</td>
<td>Wholly-owned entities</td>
</tr>
<tr>
<td>Pacific Avenue, LLC</td>
<td>No authority over day-to-day operations</td>
</tr>
<tr>
<td>North Carolina Avenue, LLC</td>
<td>Shell entity &amp; No control</td>
</tr>
<tr>
<td>Vermont Avenue LP, Vermont Avenue Partner LLC,</td>
<td>No authority over day-to-day operations</td>
</tr>
<tr>
<td>Atlantic Avenue REIT, Inc.</td>
<td>No authority over day-to-day operations</td>
</tr>
<tr>
<td>Atlantic Avenue REIT GP, Inc.</td>
<td>No authority over day-to-day operations</td>
</tr>
</tbody>
</table>
Unacceptable Organization Chart Examples
Pawnee Park Care Center

Pawnee Park, LLC
Pawnee Real Estate, LLC
Tom Haverford
JJ, LLC

Pawnee Real Estate, LLC
The Leslie Knope 2016 Trust
The Ron Swanson 2016 Trust
The April Ludgate Revocable Trust
Leslie Knope

The Leslie Knope 2016 Trust
Donna Meagle
Jerry Gergich
Ann Perkins

The Ron Swanson 2016 Trust
Donna Meagle
Jerry Gergich
Ann Perkins

The April Ludgate Revocable Trust
April Ludgate
ORCF Options:
Active Partners Performance System (APPS) or Consolidated Certification Previous Participation Section

<table>
<thead>
<tr>
<th>Filing Method</th>
<th>Multifamily Housing &amp; Grant Administration Projects</th>
<th>Office of Residential Care Facilities</th>
<th>Office of Hospital Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Partners Performance System (APPS) Submission</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>OR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form HUD-2530 (paper)</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Consolidated Certification Previous Participation Section (paper)</td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
Active Partners Performance System (APPS) Submission

- **Encouraged filing method**
- Several upgrades to improve applicant submission process such as e-signatures
- Only need to include Controlling Participants in APPS
- Upload the Organization Chart with the Signature Pages into the APPS system
ORCF Paper Option

• Previous Participation Certification incorporated into Consolidated Certifications
• Attach organization chart to consolidated certification
• Register in the Business Partner Registration System (BPRS)
• Organization chart MUST include TINs or SSNs for Controlling Participants
• Form 2530 no longer used for 232 projects.
ORCF Paper Option

Part VII. Previous Participation

☐ Principal HAS completed an electronic Previous Participation certification via the Active Partners Performance System (APPS), and is proceeding to Section VIII.

☐ Principal has NOT completed an electronic submission, and must complete this Section VII certification.

The Principal certifies that:

☐ It has NO Previous Participation in Office of Residential Care Facilities (ORCF) or Multifamily Housing programs of HUD, USDA FmHA, State, or Local Housing Finance Agencies.

☐ It DOES have Previous Participation as a Principal in ORCF or Multifamily Housing programs of HUD, USDA FmHA, State, or Local Housing Finance Agencies as listed on Attachments 1 and 2 (included with this certification).

Principal further certifies that:

1. Principal’s organizational chart, in such detail as approved by HUD, including participation role, ownership percentage, and SSN/TIN, is attached hereto (“Organizational Chart”). This Organizational Chart lists all Principals of Principal, as defined in 24 CFR 200.215 or otherwise required by HUD, and such listed Principals are referred to as “Principal’s Members” for purposes of this certification.
Attachment 1 to Principal of the Borrower’s Consolidated Certifications:
Schedule of Previous Participation in HUD Insured & Other Government Agency Projects/Facilities

<table>
<thead>
<tr>
<th>Project/Facility (name, location)</th>
<th>Roles in Project/Facility</th>
<th>Loan Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of Facility City, State</td>
<td>Role in Project/Facility (describe):</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dates Participated in Project/Facility from to</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Healthcare Facility YES ☐ NO ☐</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gov’t Agency Financing other than HUD (indicate):</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loan Status during participation:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current ☐ Default Assignment ☐ Foreclosed ☐</td>
<td></td>
</tr>
</tbody>
</table>

☐ HUD FHA Number: 

☐ Gov’t Agency Financing other than HUD (indicate): 

Loan Status during participation: 

☐ Current 

☐ Default Assignment 

☐ Foreclosed
Waiver Requests
Form HUD 2-ORCF
## Completion of Waiver Requests

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Waiver Requested by (name, entity):</td>
<td></td>
</tr>
<tr>
<td>2. Project Name and FHA Project Number:</td>
<td></td>
</tr>
<tr>
<td>3. Relief Sought (including directive name/number, section, paragraph, etc.):</td>
<td></td>
</tr>
<tr>
<td>4. Justification</td>
<td></td>
</tr>
<tr>
<td>5. Did a check of SharePoint indicate prior approval of a similar waiver?</td>
<td></td>
</tr>
<tr>
<td>- Yes (Section #6 below is not required)</td>
<td></td>
</tr>
<tr>
<td>- No (Section #6 is required)</td>
<td></td>
</tr>
<tr>
<td>6. Counsel Determination: The waiver proposal</td>
<td></td>
</tr>
<tr>
<td>- does not conflict</td>
<td></td>
</tr>
<tr>
<td>- conflicts with statutory or regulatory provisions (comments or statutory/regulatory provision):</td>
<td></td>
</tr>
<tr>
<td>Counsel Name and Signature:</td>
<td>Date:</td>
</tr>
<tr>
<td>7.</td>
<td></td>
</tr>
<tr>
<td>- Granted</td>
<td>Authorized ORCF Signatory</td>
</tr>
<tr>
<td>- Not Granted</td>
<td></td>
</tr>
<tr>
<td>8. Comments (optional):</td>
<td></td>
</tr>
<tr>
<td>9. OHP Waiver Control Number (completed when signed HUD-2-ORCF is uploaded to SharePoint):</td>
<td></td>
</tr>
</tbody>
</table>
Completion of Waiver Requests

• Provide in Word Format
• Section 1: Lender’s Name and Company
• Section 2: Project Name and FHA Number
• Section 3: Specific Directive you are requesting to waive.
• Section 4: Justification: Provide thorough justification and attach additional information as needed.
Completion of Waiver Requests

• Section 3: Relief Sought
  – Needs to be a specific reference (typically a handbook reference.
  – **Acceptable Example:** Handbook 4232.1, Section II Production, Chapter X.XX.
  – **Unacceptable Example:** Waive the requirement to do x, y and z.
Completion of Waiver Requests

• **Acceptable Justification:**
  – Explanation as to why HUD should waive this particular provision on this particular transaction.
  – Mitigating factors for any risks associated with the waiver

• **Unacceptable Justification:**
  – “We did it on our last project.”
  – “HUD said we could.”