Policy, Risk Analysis and Lender Relations Division

John Hartung
Waivers

• Reduction of waiver requests since publication of Handbook 4232.1 and recent REV-1.

• Waiver requests should be submitted:
  – Using Request for Waiver of Housing Directive (form HUD-2-ORCF),
  – At the time of the application, and
  – NOT at closing or a few days before closing.

• Property insurance requirements (Production, Chapter 14) waivers should include some kind of risk analysis to demonstrate the lender has:
  – Engaged their insurance agent(s),
  – Clearly stated the risk and possible financial impact to HUD, and
  – Determined the waiver would be in HUD’s best interest.
LEAN THINKING and PROGRAM Q & A: Section 232 Pre-Submission Resources

• Q & A Bank and how it is maintained

• How Lean Thinking works

• How your question gets reviewed

• How to use Lean Thinking effectively
Lender Performance

• ORCF collects data points both during underwriting and Closing.

• Categories include:
  – Mathematical Calculations to Support Underwriting
  – Quality Control of Package
  – Responsiveness
  – Due Diligence of Facility’s Performance
  – Programmatic and Legal Issues
  – Third Party Technical Reports/Lender Assessment of Physical Asset
LENDER PERFORMANCE METRICS
Uptick in Significant Underwriting Issues

• Implemented FY 2012

• Measures Six Metrics (2016)
  • Mathematical Calculations (10 apps)
  • Quality Control (23 apps)
  • Lender Responsiveness (19 apps)
  • Due Diligence (14 apps)
  • Program/Legal Requirements (13 apps)
  • Third Party Reports (17 apps)

• Errors
  • 27% Error Rate in 2012
  • 11% Error Rate in 2014
  • 18% Error Rate in 2016
State Risk Monitoring

• ORCF Production uses internal tool to analyze potential state regulatory and funding risks
• Tool prompts further action when facility characteristics & state funding and regulatory environment point to potential heightened risks
• When state risk factors are triggered, ORCF UW determines if issues are addressed or reaches out to Lender for response
• Lender conducts due diligence and responds
  – ORCF accepts responses and/or mitigants, OR
  – Engages Lender to mitigate
Areas of Risk

- **Funding:**
  - *State Budgetary Constraints:* Very high Medicaid Census or Sensitivity to moderate reductions in Medicaid, especially in states with pending or rate reductions
  - *Medicaid Reimbursement Delays:* States with pattern of history of payment delays

- **Eligibility & Compliance:**
  - *HCBS Settings Final Rule (Medicaid Waivers, HCBS State Plan Option):* SNF/ALFs with significant Medicaid for non-SNF portion or very high non-SNF Medicaid Census

- **Threats to Occupancy:**
  - *Rebalancing toward Home- and Community-Based Settings (i.e. Money Follows the Person, etc.):*
    - Projects with high MI/DD population
    - SNFs with high non-elderly, physically disabled population or SNFs in states rebalancing toward HCBS
  - *Implementation of the Olmstead Decision:* Projects with high MI/DD population in states with settlement agreements or pending cases
Questions to Consider

- **Funding:**
  - *State Budgetary Constraints*: demonstrate owner/operator plan for working through changes or demonstrate financial capacity to withstand future reductions
  - *Medicaid Reimbursement Delays*: require Accounts Receivable Financing or demonstrate history of timely payments and/or capacity for handling payment delays

- **Eligibility & Compliance:**
  - *HCBS Settings Final Rule (Medicaid Waivers, HCBS State Plan Option)*: demonstrate likelihood of compliance or ability to operate with Medicaid (non-SNF)

- **Threats to Occupancy:**
  - *Rebalancing toward Home- and Community-Based Settings (i.e. Money Follows the Person, etc.)*: demonstrate stability of state’s Medicaid funding for MI/DD and/or facility’s ability to serve other resident types or payors
  - *Implementation of the Olmstead Decision*: demonstrate facility’s ability to serve other types of residents
What’s Next

• Updated State Risk Summary Grid
  – Provide Lenders with specific Risk Mitigation to Consider

• State Risk Checklist Item (Firm Applications)
  – Encourage Mitigation of State Risk in initial firm submissions

• State Risk Criteria as potential revisions to Lender Narratives (PRA process)