

Asset Management Tools

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Regulatory Agreement and Covenants

- 1. Non-Interference By Parent**
- 2. Maintenance of Integrity of Collateral and Project**
- 3. Reporting Requirements**
- 4. Affiliate Transactions**
- 5. Corporate Distribution of Assets**
- 6. New Corporations, Subsidiaries, and Affiliations, Mergers**
- 7. Financial Reports**
- 8. Business Plan/Consultant's Report**
- 9. Additional Indebtedness and Leasing**

Mortgage Reserve Fund

- **Hospital must fund a Mortgage Reserve Fund, held in trust for HUD**
- **Must execute a MRF Agreement and Trust Agreement, which contain the most current standard provisions giving HUD control and direct access to the monies under specified conditions.**

MRF Purposes

- 1. Provide for the cost of engaging various consultants as required by the Regulatory Agreement,**
- 2. Help hospitals through temporary financial crises and provide funds to prevent defaults, and**
- 3. Provide additional security to HUD. The funding schedule requires that one year of debt service be funded within the first five years of the mortgage and two years of debt service must be funded within the first ten years of the mortgage.**

Mortgage Reserve Fund

- 1. Monies deposited in the MRF account should be invested in interest bearing securities insured by an agency of the United States Government, or in obligations of the U. S. government, or in obligations for which the principal and interest are guaranteed by the U.S. Government, or instruments of the U.S. Government agencies such as the Federal Home Loan Bank or the Federal Farm Credit Bank, and/or mutual funds that invest solely in the US Treasury obligations or short term securities that are fully insured or guaranteed by the US Government or its agencies.**

Mortgage Reserve Fund

- 2. The weighted average maturity of all securities held directly by the trustee or by a bond or money market fund must be ten years or less, except for investments that were previously in the Depreciation Reserve Fund (DRF). When former DRF investments are sold or mature, the proceeds must be reinvested in such a manner that the investments in the MRF, excluding former DRF investments, have a weighted average maturity of ten years or less.**

Mortgage Reserve Fund

- 3. All investments will be carried at market value. If the market value is less than the required amount at fiscal year end per audit, a client will have 60 days to bring the fund current by first not receiving investment income or, if needed, by making a supplemental contribution. If the market value is more than the required amount at fiscal year end per audit, the MRF is fully funded at two years of debt service coverage, and the financial threshold tests are met, a hospital may receive the excess amount.**

Mortgage Reserve Fund

- 4. Requests for releases or loans shall be presented to the Program Management Group (PMG) by the hospital's Account Executive with appropriate recommendation. After evaluation by the PMG, the Account Executive will forward the request for approval and signature to the Director, Office of Insured Health Care Facilities.**

Priority Watch List

- Hospitals that present danger of default within the next 12 months.
- Financial criteria requiring immediate assessment of the hospital to determine inclusion on the PWL:
 - ❖ **DSC < 1.10**
 - ❖ **OM < 0 for more than 2 consecutive years**
 - ❖ **OM < - 4% in any single year**
 - ❖ **CR < 1.00 and DCOH < 5**
 - ❖ **A/P > 150**
 - ❖ **A/R > 90**
 - ❖ **DRF < 1.5 Yrs Debt Service and hospital failing to make required deposits**

Priority Watch List

- **Failure to make a mortgage payment by the 15th day of the month in which the payment is due.**
- **Serious violations of the Regulatory Agreement that jeopardize the mortgage collateral or the hospital's future ability to service the HUD insured mortgage.**

ASSET MANAGER

Hospital Mortgage Servicer

- **Roles of the Servicer:**

- ❖ **To represent the Mortgagee in carrying out the terms of the FHA Loan Documents. To act as a liaison between the Mortgagor (Hospital), Mortgagee and HUD.**

- **Servicer Requirements:**

- ❖ **Servicer must be a HUD-approved Mortgagee and should have knowledge of the particulars of the deal and the hospital industry**

Hospital Mortgage Servicer

RESPONSIBILITIES DURING CONSTRUCTION PHASE

1. Standard Construction Responsibilities:

- Attend monthly requisition meeting at Hospital with architect, construction manager and Division of Engineering Services inspector to review work completed by the Construction Manager, as needed.
- Review Construction Manager's requisition (form FHA-2448) and attachments. Required attachments include form AIA-G702 and AIA-G703 for CM and each subcontractor, lien waivers for CM and each subcontractor, and invoices for all general condition items claimed by Construction Manager

Hospital Mortgage Servicer

**** Important Note: Unlike HUD's housing and nursing home programs, monthly construction requisitions are NOT based on the percentage of construction completion, but rather are based on the actual cost of work completed during the month. Further, unlike housing and nursing home programs, the subcontractor's invoices must be included in each monthly requisition package.**

Hospital Mortgage Servicer

- **Prepare Application for Insurance of Advance of Mortgage Proceeds, form HUD-92403**
- **Form HUD-92403 goes through a 3-step approval process:**
 - 1. DES reviews construction and change orders;**
 - 2. DFL reviews fixed and moveable equipment, other fees, AMPO and contingency; and,**
 - 3. HUD Regional Office reviews capitalized interest and other “soft” costs.**
- **When approved advance is received back from HUD, the Servicer obtains evidence that title is clear and arranges funding with Mortgage**
- **Be sure Capitalized Interest is funded in time to meet bond or mortgage obligations.**

Hospital Mortgage Servicer

2. Items During the Construction Phase that require Additional Attention:

- **Change Orders:** which are a change to the construction contract that usually require additional funding. Determine that change is acceptable to Hospital, Architect and DES. Determine that there is a source of payment for the change order.
- **Budget Line Item Changes:** asking HUD to permit use of funds for something other than originally planned – moving funds from one line to another within the project budget. A line item change must be approved by the PMG. Also, be sure to check the TEFRA notice before moving forward. The TEFRA Notice is the public notice issued on tax-exempt deals that discloses how the tax-exempt funds will be used. You can only use funds for those things disclosed in the TEFRA Notice.

Hospital Mortgage Servicer

- **Monitoring Capitalized Interest:**
- **Look for savings, get approval for use far enough in advance to fit in with contractor's schedule. Again, be sure use is in accordance with TEFRA notice.**
- **Look for shortfalls and be sure Hospital knows they will have to make payments in excess of what's available in the mortgage.**

Hospital Mortgage Servicer

3. Final Endorsement:

The conversion of the construction loan to a permanent loan.
Final advance of mortgage funds.

Does NOT correspond to commencement of amortization.

- Cost Certification by Mortgagor (form HUD-92330) and Construction Manager (form HUD-92330-A), with independent auditor's report

Hospital Mortgage Servicer

- **Contractor's Documents – the servicer shouldn't allow the final payment to the contractor unless ALL of his required documents for final endorsement are in-hand.**
- **DES, DFL and HUD all have individual lists of required documents for final endorsement. (Lists are attached)**

Hospital Mortgage Servicer

RESPONSIBILITIES DURING PERMANENT LOAN SERVICING

- 1. Collect monthly principal and interest due under the mortgage**
- 2. Collect escrows for Mortgage Insurance Premiums (MIP), Hazard Insurance, and municipal charges (water/sewer/real estate taxes)**
- 3. Make Annual MIP Payments**
- 4. Monitor Hazard Insurance**

Hospital Mortgage Servicer

RESPONSIBILITIES DURING PERMANENT LOAN SERVICING (cont'd)

5. Obtain periodic title reports to be sure there are no liens or new encumbrances
6. Monitor UCC filings – this will ensure the Mortgagee's lien remains intact and will also disclose when the Hospital is leasing or borrowing – be sure they are within their rights under the Regulatory Agreement when they do so.
7. Monitor Letters of Credit (if any).
8. The servicer is not a party to the MRF Agreement, but since it's HUD's first line of defense in the event of a default...monitor the MRF and report shortfalls to the Account Executive.
9. Collect annual, audited financial statements (not filed directly by auditor through REAC system like they are for nursing homes).
10. Perform annual physical inspections (the Hospital program does not use HUD's Physical Assessment on-line system. That is not set up to take hospital information. The physical inspection is submitted in hard-copy to the AE).

Hospital Mortgage Servicer

PREVENTING A DEFAULT AND INSURANCE CLAIM

1. What to Watch For

- ❖ **Look for signs of problems early on:**
 - Are payments being made later each month?
 - Are there mechanic liens on the title reports?
 - Are there staff changes?
 - Have they stopped investing in PP&E?

Hospital Mortgage Servicer

PREVENTING A DEFAULT AND INSURANCE CLAIM (cont'd)

2. Steps to Take:

- ❖ **Review periodic financial statements, compare to budget**
- ❖ **TALK with the Hospital REGULARLY**
- ❖ **TALK with your Account Executive REGULARLY**

Hospital Mortgage Servicer

PREVENTING A DEFAULT AND INSURANCE CLAIM (cont'd)

3. When it looks like a default is imminent:

- ❖ **Look at the “Other Assets” Can they monetize something to stave-off a claim?**
- ❖ **Property outside the mortgage? AR?**
- ❖ **Can the Board solve the problem? Philanthropy?**
- ❖ **Will MRF releases hold-off a claim until things get better?**
- ❖ **As a LAST RESORT, consider the 223(a)(7) Program**

Hospital Mortgage Servicer

PREVENTING A DEFAULT AND INSURANCE CLAIM (cont'd)

4. Servicer's Responsibilities for Late Payments, Defaults, Claims

- ❖ **Report late payments through MDDR System AND call Account Executive**
- ❖ **File notice of default, intent to assign on timely basis.**
- ❖ **Take necessary actions on mortgagee side (bond notices, etc.)**

****OIHCF knows how to prevent claims. As a Servicer, you MUST work with OIHCF when a loan is taking a turn for the worse.****

Section 223(a)(7)

- Provides mortgage insurance to refinance existing FHA-insured mortgages in the current portfolio. The objective of the program is to improve economic viability by reducing the mortgage interest rate.

Section 241

- Provides mortgage insurance for supplemental loans to finance improvements or additions for FHA-insured properties to keep properties competitive and extend economic life

Council of Experts

- **To advise the Director and to assist in the management of troubled hospitals.**
- **Current membership of three consisting of:**
 - 1. CPA with extensive experience in the healthcare sector, including experience as partner in a national CPA firm as well as private healthcare consulting.**
 - 2. Physician with extensive experience in the health care sector, including experience as CEO large hospitals system as well as private healthcare consulting.**
 - 3. Healthcare executive with extensive experience as senior manager of large hospitals and hospital system.**

QUESTIONS?

**Please write them down for the
upcoming Q&A Session!**

