

Section 232  
Program Overview & Asset  
Management Updates

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# Section 232's Broad Impact

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- \$26.1 billion in mortgage insurance
- Approximately 3,350 projects
- Breakdown of type:
  - ◆ Nursing Home: 68%
  - ◆ Assisted Living Facility: 29%
  - ◆ Other: 3%



# Section 232 Loan Types

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- New Construction
- “Substantial Rehabilitation”
- 223(f) Purchase/Refinance
- 223(a)(7) Refinance (streamlined)
- 241(a) Supplemental Loans-Improvements, Additions
- 223(d) Operating Loss Loan
- 232(i) Fire Safety Equipment Loan Program



UPDATED PROCEDURES FOR ASSURING  
THAT SECTION 232 FACILITIES ARE IN  
PHYSICALLY SOUND CONDITION





- Real Estate Assessment Center (REAC) administers Physical Inspections.
- Same process/software used for Public Housing and Multi-Family projects is used for Section 232's
- Accountability rule in 2012 removed requirement to inspect Section 232 nursing homes (NH's):
  - ◆ Reason: NH's heavily regulated and inspected by CMS/States
  - ◆ HUD continuing to inspect NH's with previous scores of below 60.5
    - ▶ 106 nursing homes continue to be inspected



- REAC scores range from 1-100 (100 being best)
  - ◆ A REAC score below 60 is considered a failed score.
  - ◆ After the inspection, the inspector leaves a “ticket” with the project owner of Exigent Health & Safety items (EH&S) – if applicable:
    - ▶ Borrower certification of EH & S deficiencies required within 72 hours.
    - ▶ Language in “ticket” being revised:
      - Essentially, asking owner to not make physical revisions to property that are not in accordance with local or state code.
        - Instead submit a request for a technical database adjustment to REAC.
      - Send borrower certification to [232REAC@HUD.GOV](mailto:232REAC@HUD.GOV)

- On all below 60's, a 100% survey of the property is required of the owner.
- Notice of Violation (NOV) of Regulatory Agreement issued on all scores below 60.
  - ◆ May involve the Department Enforcement Center (DEC)
  - ◆ Some NOV's to be sent by Office of Healthcare Programs staff.
- Re-inspections of properties with failing scores are entirely new inspections:
  - ◆ Re-inspection likely to cover different areas of the facility – does not solely



# Follow-up on Below 31 Scores

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- OHP has created a Rapid Response Team (RRT) to follow-up on below 31 scores.
- Site visit with RRT, lender, DEC (invited), ownership, and on site staff.
- Detailed analysis of property (including financial and quality of care).
- RRT works with owner on understanding logistics of possible appeals or technical database adjustments requests by owner.
- Plan of action and monitoring of completion of repairs/improvements to address deficiencies.
- When property ready, RRT requests re-inspection.





- OHP is working with REAC staff and FHA leadership on possible revisions to the REAC physical inspection process on Section 232's:
  - ◆ Egress issues and other unique issues faced in healthcare facilities.
  - ◆ REAC inspections on the remaining nursing homes with previous scores of below 60.

# ORCF CHANGE OF PARTICIPANTS



The Section 232 Handbook 423.1, Section III, Asset Management, Chapter 7, Change in Ownership: Transfer of Physical Assets, outlines the procedures that all parties are to follow to ensure that new participants with ownership interests in entities with FHA-insured mortgages are appropriately vetted and obligated to perform the duties and responsibilities required by HUD.

# What is a TPA?

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A **Transfer of Physical Assets (TPA)** involves the sale and conveyance by deed of title to a property that has a mortgage insured or held by HUD and necessitates a substitution of Borrowers.



Historically, we have always referred to all transactions that involve a change of participants as a ***Transfer of Physical Assets*** or a ***TPA***. There are 5 different transaction types that we group into this category, although the terminology really only fits just one transaction type.



**Change of Participants (COP)** transactions usually fall into 1 of 5 categories:

1. **Full Change of Participants** (historically called a *Full Transfer of Physical Assets or Full TPA*) involves the sale and conveyance by deed of title to a property that has a mortgage insured or held by HUD, requiring a substitution of Borrowers. This type of transaction may also include a Change of Operator and/or Management Agent in conjunction with the TPA transaction.
2. **Modified Change of Participant** (historically called *Modified TPA* because it requires a modified level of review) involves the transfer of certain interests in entities owning properties. Examples include, but are not limited to, a transfer of partnership interests in excess of 50%; addition or substitution of a managing member in a LLC; transfer of stock of corporate general partner of a partnership.



- 3. *Light Change of Participants*** (historically called a *TPA Light* because it requires a fairly light level of review) include, but are not limited to, transactions with a change of Internal Revenue Services (IRS) Reporting Structure (e.g., a Borrower converts from a limited partnership to a limited liability company, but all principals remain the same and the Tax Identification Number (TIN) is not changing).
- 4. *Change of Operator*** involves the change of the Operator entity with no change to the ownership of the asset. This transaction may also include a Change of the Management Agent in conjunction with the Change of Operator transaction.
- 5. *Change of Management Agent*** involves a change of the Management Agent only; there is no change to the Borrower or Operator entities.



Submission requirements include, but are not limited to, the following:

1. Nature of the transaction
2. Organizational charts that describe the transaction
3. Applicable checklists and appendices
4. The project's current physical and financial condition.
5. Special considerations such as accounts receivable financing and/or master lease requirements
6. Experience of the parties managing the project (i.e., the Borrower and its principals, Operator, and Management Agent, as applicable)



# Why a Request for Approval is Required

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- HUD and the Lender exercise control over changes in the Borrower, Operator, and the Management Agent.
- The Regulatory Agreements require Borrowers and Operators to seek HUD's written approval of transactions involving the transfer of all or a controlling **interest in the Borrower and/or Operator** of the HUD-insured or HUD held property from one entity to another individual, group of individuals, or entity.



# Why a Review is Required

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- The review ensures that HUD rules are enforceable and that the FHA Lender has a first position on collateral or perfected security interest.
- A review of the experience and qualifications are to protect HUDs interest in the facility by ensuring the new participant has expertise to successfully own or manage the facility.



# When a Review is Required, Scenario #1

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The facility is owned by an LLC. The current members are split 99.5% Member and 0.5% Managing Member. They want to eliminate the 0.5% member. They are not bringing in any new principals, just eliminating the 0.5% member.

Does this require a Modified Change of Participation review?

- ◆ Yes. There is a sub substitution of Managing Members, resulting in a **change in control**. If both members were Managing Members of the LLC, a Modified COP review would not be required because there would be no change in control. However; to comply with the Regulatory Agreement, the change must be entered into the APPS system as a Organization Change.



# When a Review is Required, Scenario #2

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The facility is owned by The Future LLC. The sole member of The Future LLC is a Partnership and their General Partner is being replaced.

Does this require a Modified Change of Participation review?

- ◆ Yes. Any transaction that does not fall within any of the other categories but results in a **change of control** of the Borrower, requires a Modified Change of Participation review.



- The best way to determine if there is a change in control is to compare the Current and Proposed Organizational Chart of the entity and its principals. These charts must include:
  - ◆ Clearly show all tiers of the ownership structure
  - ◆ Show All Participants, not just those the Lenders considers to be principals
  - ◆ Show percentages of ownership and role in the entity (e.g., Limited Partner, General Partner, Managing Member, etc.)
  - ◆ Include natural person/people and not just entities.



# Determining when there is a Change in Control, continued

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- The best way to determine if there is a change in control is to compare the Current and Proposed Organizational Chart of the entity and its principals. These charts must include:
  - ◆ Each entity must be shown on a separate organization chart (e.g., Borrower, Operator, Management Agent, Master Tenant, etc.).
  - ◆ This method provides a view of all changes, including **changes in control**. It also may define what additional steps are required in the review.
  - ◆ The key is to provide a clear, succinct chart that someone unfamiliar with the transaction can quickly understand.



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## Loan Servicing Guidance Home Page

*Please Note: Handbook 4232.1 REV-1 Effective January 19, 2017*

Welcome to the Loan Servicing Guidance page! The links below identify specific tools used by lenders and HUD for the management of 232 assets.

- Changes in participants (Ownership, Operator, Master Tenant, and/or Management Agent)
  - [Application for Transfer of Physical Assets](#) - **ORIGINAL**
  - [Change of Participant Checklist \(Borrower/Operator/Agent\)](#) - **ORIGINAL**
  - [Application for Transfer of Physical Assets \(and Lender Narrative\)](#) - **OPTIONAL**
  - [Transfer of Physical Assets \(Full and Modified\) Checklist](#) - **OPTIONAL**
  - [Attorney's Certification of Changes](#)
  - [Attorney's Certification on Execution and Recordation](#)
  - [Lender Narrative, Change of Operator/Lessee](#) - **OPTIONAL**
  - [Change of Operator Checklist](#) - **OPTIONAL**
  - [Lender Narrative, Change of Management Agent](#) - **OPTIONAL**
  - [Change of Management Agent Checklist](#) - **OPTIONAL**
  - [Previous Participation Certification](#)

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REQUESTS TO RELEASE OR MODIFY ORIGINAL LOAN  
COLLATERAL OF FHA-INSURED FACILITIES



ORCF strives to work in partnership with the Borrower and Lender to ensure each FHA-insured 232 mortgage 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.





- Occasionally, the collateral securing these mortgages needs to be modified or released, in transactions, for example, that include:
  - ◆ Reduction, addition, or sale of beds
  - ◆ Easements, eminent domain, or sale of land or other security
  - ◆ Remodeling portions of the mortgaged property
  - ◆ Adding to, subtracting from, reconstructing, or demolishing portions of the mortgaged property.

The various forms of the Regulatory Agreements provide language requiring prior HUD approval when the collateral securing a FHA-insured mortgage needs to be modified (see *Section 232 Handbook 4232.1, Section III Asset Management, Chapter 3.4 Request to Release or Modify Original Loan Collateral* for further description of these requirements).





- *“Remodeling” is defined for these purposes as repairs/improvements that constitute*
- *“Substantial Rehabilitation,” as defined in the Section 232 Handbook 4232.1, Section II Production, Chapter 2.6.B*



- A project qualifies as **“Substantial Rehabilitation”** when:
  - ◆ Hard costs exceed 15% of the project’s value after completion of improvements. (Note: No new appraisal is needed. Lender/Applicant may present evidence of reasonable value (i.e., cap rate, current income/assets, original appraisal, etc.).

{OR}

- ◆ Two or more major building components are being substantially replaced. The component must be significant to the building and its use, normally expected to last the useful life of the structure, and not minor or cosmetic.



- ***Substantially replaced** means that at least 50% of the component must be replaced. Examples of major building components are: roof structures, wall or floor structures, foundations, plumbing systems, central heating systems, air conditioning systems, and electrical systems.*



- *Borrowers/Operators, working closely with their Lender/Servicer, are required to obtain written approval from HUD before undertaking any action to release or modify the original loan security or collateral of the FHA-insured 232 mortgage.*

# What are the Risks Without Prior HUD Approval?

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- The FHA-insured loan may be jeopardized by changes in the collateral of projects in our portfolio many reasons, including, but not limited to, the following:
  - ◆ The FHA loan documents, including the survey, are no longer accurate
  - ◆ Mechanic, contractor, and vendor liens may be placed against the project



- ◆ There may be other violations of laws/rules (i.e., environmental, FHEO, federal accessibility laws (UFAS, ADA, FHAA), local rules, state licensing, etc.)
- ◆ In cases where an addition is on new land, the entire project is no longer covered by the title insurance policy, and the FHA lender and HUD's lien priority is at risk
- ◆ The FHA-insured loan is now secured by only a portion of a building so that any enforcement action and/or foreclosure may be problematic





- Failure to obtain HUD approval prior to changes to collateral is a violation of the Regulatory Agreement and subject to punitive action:
  - ◆ Enforcement Action against Owner and Operator (ORCF or DEC), i.e. civil money penalties
  - ◆ Flags in APPS against all parties
  - ◆ Other: Default/Note Sale/Foreclosure



- If you have questions regarding a proposed change in collateral transaction, you should:
  - ◆ Contact the ORCF Account Executive (AE) assigned to manage your account
  - ◆ Visit the Asset Management Loan Servicing Guidance website for the most current versions of application submission documents (your AE can provide a direct link to the website)
  - ◆ Be sure to take note of the early submission requirements for some transactions

# Application Documents: Current State

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## Loan Servicing Guidance Home Page

*Please Note: Handbook 4232.1 REV-1 Effective January 19, 2017*

Welcome to the Loan Servicing Guidance page! The links below identify specific tools used by lenders and HUD for the management of 232 assets.

- [New Document Implementation Matrix](#)
- [Account Executive Facility Assignments - Contact Listing \(Nov,09, 2017\)](#)
- [Accounts Receivable Financing](#)
  - [Accounts Receivable Financing Certification](#)
  - [Accounts Receivable Checklist](#)
  - [Accounts Receivable Financing](#)
  - [AR Narrative Template](#)
  - [Intercreditor Agreement \(for AR Financed Projects\)](#)
- [Capital Improvements](#)
  - [Lender Narrative, Capital Improvements - OPTIONAL](#)
  - [Capital Improvements Application Checklist](#)

### REAC Inspection Links

- [\(REAC\) New Training Videos](#) (Topics include: Technical Review, Scoring, and Inspection Review)
- [Physical Inspection Process](#)
- [Technical Reviews and Database Adjustments](#)
- [Guidelines to Technical Reviews and Database Adjustments](#)
- [Physical Inspection Training Materials](#)
- [Top Deficiencies Reported](#)

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- Although applicants are required to submit the information requested on the *Capital Improvements Checklist* found on the Loan Servicing website, we currently cannot mandate the use of the OPTIONAL Lender Narrative. However, we “strongly encourage” the use of these documents as this will shorten the review process.



The posted Capital Improvements Application Checklist was designed with the future state documents in mind; it requires applicants to identify the type of transaction submitted to improve clarity for the AE reviewer and help reduce processing time.

*Transaction Type: Please check all that apply.*

<b>Change in Beds</b>	<b>Change in Land</b>	<b>Change in Collateral</b>
<input type="checkbox"/> Reduction of beds	<input type="checkbox"/> Easements	<input type="checkbox"/> Remodeling*
<input type="checkbox"/> Addition of beds	<input type="checkbox"/> Eminent domain	<input type="checkbox"/> Adding to property
<input type="checkbox"/> Sale of beds	<input type="checkbox"/> Sale of land or other security	<input type="checkbox"/> Reconstructing
		<input type="checkbox"/> Demolishing portions

*\*See first page of Checklist for "remodeling" definition.*



**Lender Narrative –  
Requests to Release or  
Modify Original Loan  
Collateral  
Section 232**

**U.S. Department of Housing  
and Urban Development**  
Office of Residential  
Care Facilities

OMB Approval No. 2502-0605  
(exp. 06/30/2017)

**Public reporting** burden for this collection of information is estimated to average 3.0 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation that must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number.

**Warning:** Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of the U.S. Department of Housing and Urban Development is subject to criminal penalties, civil liability, and administrative sanctions

**Privacy Act Notice:** The Department of Housing and Urban Development, Federal Housing Administration, is authorized to collect the information requested in this form by virtue of: The National Housing Act, 12 USC 1701 et seq. and the regulations at 24 CFR 5.212 and 24 CFR 200.6; and the Housing and Community Development Act of 1987, 42 USC 3543(a). The information requested is mandatory to receive the mortgage insurance benefits to be derived from the National Housing Act Section 232 Healthcare Facility Insurance Program. No confidentiality is assured.





- Unfortunately, until the revised *Requests to Release or Modify Original Loan Collateral Lender Narrative* documents have completed the Paper Reduction Act (PRA) review process, we are likely to continue to have some confusion when processing these transactions.



- Please be sure to pay close attention to these requirements as failure to do so may result in significant application processing delays...

- Adding to, subtracting from, reconstructing, or demolishing portions of the mortgaged property. *See important Early Submission Requirements below for these transactions.*

## EARLY SUBMISSION REQUIREMENTS:

A consultation with federally-recognized tribes may be required for activities that include ground disturbance (digging), installation of an underground tank, installation of utility lines, construction, etc. Tribal consultation must be initiated by HUD and the activity must not begin before HUD completes its environmental review. **If tribal consultation is required, the ORCF Account Executive should be notified as early as possible or upon submission of your request for this transaction so that a Tribal Consultation can be initiated by HUD.** The documentation required for this early submission, outlined in Exhibit 23 of this checklist, should be sent to the following email address: [OHPTribeNotice@hud.gov](mailto:OHPTribeNotice@hud.gov).

## ENVIRONMENTAL REQUIREMENTS

**Program Guidance:** Handbook 4232.1, Section II Production, Chapter 7 Environmental Review

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**Important Note:** Every Change in Collateral application must satisfy the environmental review requirement.

Handbook 4232.10, Section III, Chapter 3.4.4 states that an environmental review as required by 24 CFR Part 50 will be conducted in accordance with Production Handbook Chapter 7 Environmental Review on any proposal for remodeling, adding to, subtracting from, reconstruction, or demolishing a portion of the mortgaged project. Please note, the CPD memorandum on *Guidance for Categorizing an Activity as Maintenance for Compliance with HUD Environmental Regulations, 24 CFR Parts 50 and 58 (CPD-16-02)* only applies to determinations of whether an environmental review is required on refinance loans in Production/underwriting. This policy memo supersedes the memo dated March 28, 2006, on this subject.

Phase 1 Environmental Site Assessment and 4128 reviews are required if the proposed transaction includes:

- a) Significant ground disturbance (digging) or construction not contemplated in the original application.
- b) A change in land use from commercial to residential.
- c) Site expansion or addition.
- d) Any activities that may result in containment exposure pathways or activities not contemplated in the original application.

It is the lender's responsibility to review the Phase 1, if required, and all other environmental documentation to ensure that all environmental requirements are met. Many federal agencies require contact directly from HUD. This list includes, but is not limited to, State Coastal Zone Management councils, U.S. Fish and Wildlife Service, and local/regional Native American tribes. In this instance, please contact [LeanThinking@hud.gov](mailto:LeanThinking@hud.gov) in advance of the application submission.

To summarize

- ◆ Every Change in Collateral application must satisfy the environmental review requirement. An environmental review will be conducted on any proposal for remodeling, adding to, subtracting from, reconstructing, or demolishing a portion of the mortgaged project.
- ◆ The CPD memorandum on Guidance for Categorizing an Activity as Maintenance for Compliance with HUD Environmental Regulations only applies when making a determination regarding environmental review for refinance transactions in Production.





- It is the lender's responsibility to review the Phase I, if required, and all other environmental documentation to ensure that all environmental requirements are met. Many federal agencies require contact directly from HUD. This list includes, but is not limited to, State Coastal Zone Management councils, U.S. Fish and Wildlife Service, and local/regional Native American tribes. In this instance, please direct your Lenders/Service providers to contact [LeanThinking@hud.gov](mailto:LeanThinking@hud.gov) in advance of the application submission.

# Why Conduct Environmental Review?

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- Required by law
- Helps avoid litigation that could stop project
- Secures the value of public investment
- Results in higher quality projects
- Avoids or mitigates environmental impacts that harm our beneficiaries, our projects, and the surrounding environment
- Documents HUD's analysis and decisions





- The following issues will be considered by ORCF when processing requests for major capital additions or reductions of the mortgage security:
  - ◆ Financial and physical condition of the project.
  - ◆ Open ORCF and state compliance issues.
  - ◆ Project's Physical Condition and Needs Assessment (PCNA). If the latest PCNA is more than 10 years old, ORCF will require a new PCNA.
  - ◆ The value of the remaining project after approval of the transaction. Will it be unaffected by the major capital addition or reduction or will the value still be sufficient to cover the remaining balance of the insured mortgage.

- ◆ Are beds to be sold, put on hold, transferred to another property, or returned to the state?
- ◆ ORCF will engage the services of HUD OGC and, if needed, the OHP Architecture & Engineering, and/or Appraisal teams to review all legal and technical issues.
- ◆ In processing release of collateral requests where funds are being received for the sale or transfer of beds, ORCF will expect to receive market value for the released collateral and the funds will be directly applied to the mortgage balance. Any deviation from this must be expressly approved by ORCF.
- ◆ Other relevant issues, information, or documents as
- ◆ determined by ORCF.



# Submission Checklist

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Go through checklist thoroughly to determine the required documents to be submitted.

**Capital Improvements and Requests to  
Release or Modify Original Loan  
Collateral Checklist  
Section 232**

**U.S. Department of Housing  
and Urban Development  
Office of Residential Care Facilities**

**Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

**Project Name:**  
**Project Number:**  
**Applicant Name:**

The Regulatory Agreement provides language requiring prior HUD approval when the collateral securing a FHA-insured mortgage needs to be modified (see *Section 232 Handbook 4232.1, Section III Asset Management, Chapter 3.4 Request to Release or Modify Original Loan Collateral* for further description of these requirements). This form should be used if the subject transaction is for revision to the security or collateral, which includes the following:

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# LIMITATIONS ON DISTRIBUTIONS



# Owner and Operator Distributions/Draws

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- Owners and operators generally use their own judgment as to when to take distributions.
- But HUD, as mortgage insurer, has an interest in assuring the facility remains viable. Otherwise, value of collateral--as an ongoing concern--plummets.
- Thus, HUD imposes *some* boundaries on ability to pull assets out of the project.



# Limitations on *Operator* Draws

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- Operator signs Operator Regulatory Agreement
- Requires (per CFR) that operators stop withdrawing funds if...
- ...the project can't meet its near-term expenses, i.e., if “working capital” is negative
- Determined via quarterly financial statements
- Doesn't apply to projects with pre-2013 Operator Regulatory Agreement.



# Limitations on *Borrower* Distributions

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- Borrower & Operator usually distinct entities
- Most Section 232 borrowers can take distributions only to extent of “Surplus Cash,” calculated *annually* or *semi-annually*.
- Surplus Cash is defined in regulatory agreement, and is a measurement of liquidity.
- The most recent annual or semi-annual SC calculation governs distributions.



# Limitation on *Borrower* Distributions: “New” Approach

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- For-profit borrowers under new regulatory agreement can take distributions throughout year
- Surplus cash is still calculated—semi-annually
- If SC calculation negative, owner must redeposit drawn funds--only to point that SC would reach zero.
- Owner can then resume taking distributions
- Still no distributions if in violation/default



- Historically, a nonprofit borrower's Surplus
- Cash went into a Residual Receipts account
- Most nonprofit projects still so governed
- Under "new" borrower regulatory agreement, nonprofit borrowers who meet "for profit" underwriting criteria have some access.
- NP access is still more limited than for-profits
  - ◆ Minimum RR account balance must be kept



# Special Case: When the Borrower is the same Legal Entity as the Operator

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- When one Entity is both the Borrower and Operator, that Entity will enter into both the Borrower and Operator Regulatory Agreements.
- Distributions in such cases will be constrained by both the Borrower Regulatory Agreement Surplus Cash provisions and the Operator Regulatory Agreement Healthcare Facility Working Capital provisions.





- Owners/operators self-motivated to monitor
- Occasionally, this doesn't happen
  - ◆ Managerial/staff issues or supplier relationships
- CFR (232.1007) insists. It states in part:
  - ◆ *“Goods and services...shall be reasonable and necessary for the operation and maintenance of the project, and the costs...shall not exceed amounts normally paid...”*
- Regulatory Agreements track this language
- Have procedures in place to guard this

FINANCIAL REPORTING REQUIREMENTS ON SECTION  
232S AND THE SECTION 232 HEALTHCARE PORTAL



# What are HUD's Financial Reporting Requirements on Section 232s?

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- Mortgagor/Borrower annual audited financials, and
- Operator quarterly certified financials:
  - ◆ If operating lease, from lessee
  - ◆ If no operating lease, from mortgagor/borrower



# Why HUD Requires Financial Statements

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- It is important for HUD to understand which facilities are at the highest risk for claims
- From quarterly data we hope to identify early indicators of trouble; the sooner problems are identified the more likely they can be corrected
- Financial statements help to identify program compliance issues that could put HUD's insurance interest at risk



- Audit prepared by an independent CPA for the single asset entity owning the facility
- Statements are filed by the CPA annually using the financial Assessment SubSystem (FASSUB):  
[https://hudapps.hud.gov/HUD\\_Systems](https://hudapps.hud.gov/HUD_Systems)
- While annual financial statements provide useful information on financial performance, CPA's are also able to determine other internal operational or compliance concerns that could potentially jeopardize HUD's insurance interests



# Operator Financial Statements (Quarterly)

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- Actual financial performance of the facility.
- Quarterly data:
  - ◆ Helps to identify early indicators of trouble; the sooner problems are identified the more likely they can be corrected.
- Operators submit quarterly operating statements to their servicing lender
- The servicing lender compiles the financial information in a standardized template and uploads the data via HUD's Section 232 Healthcare Portal.



- 3 Components:
  - ◆ Operator Financials
  - ◆ Electronic submission of Asset Management Transactions and Notifications
  - ◆ Electronic submission of Production Transactions (new loans and refinances)
    - ▶ Under development





- The Portal has been collecting quarterly operator financial statements for nearly a year and a half.
- The financial submission requirements continue to evolve and improve. Considerable focus is currently on ensuring lender and operators are reporting timely and consistently each quarter.
- Improvements are in the works to ensure better data quality, and that operators are reporting in financially consistent terms.
- Data from these quarterly reports has already helped HUD and the lenders to focus on higher risk facilities, with the overall objective of getting ahead of potential defaults or insurance claims.



- Electronic submission and tracking of Asset Management Transactions and Notifications.
  - ◆ Change in participants, AR financing (new and changes), escrow releases, notification of problems at a project, etc.
  - ◆ Servicing Lender submits through portal
  - ◆ Submissions began earlier in Calendar Year 2017
  - ◆ Currently optional on lenders part.
  - ◆ Soon to be mandatory
  - ◆ Electronic tracking of submissions allows HUD to better manage submissions and provide you with better service.



- More information and training aids on the Portal are available at:  
[https://portal.hud.gov/hudportal/HUD?src=/federal housing administration/healthcare facilities/residential care/232 healthcare portal](https://portal.hud.gov/hudportal/HUD?src=/federal_housing_administration/healthcare_facilities/residential_care/232_healthcare_portal)

# REQUESTS TO ADD SECONDARY FINANCING





- Regulatory Agreement language requires prior HUD approval prior to encumbrance of the project.
  - ◆ HUD approval is required to add debt tied to the project
- Proposal must be submitted by the servicing lender to HUD.
- Format of debt instrument must follow HUD form notes:
  - ◆ Surplus cash note: HUD 92223: For Profit
  - ◆ Residual Receipts note: HUD 91710: Non-Profit