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November 20, 2023

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CMS Red Hand Consumer Alert Icon

ORCF has received inquiries from lenders regarding underwriting of projects with the Centers for Medicare and Medicaid Services (CMS) Red Hand Consumer Alert Icon.  Successful applications have included a 3-month quality of care debt service reserve escrow, a one-time risk management assessment that has been complete prior to application submission, an analysis of the impact of the consumer alert icon on the marketability and occupancy of the project, and have addressed the items in the [December 19, 2018 Email Blast](https://www.hud.gov/sites/dfiles/Housing/documents/Email_Blast_2017-Present.pdf).

Criteria for the one-time on-site risk management assessment is described below.

The consultant must have demonstrated successful experience in risk management for healthcare facilities to conduct a one-time, on-site risk management assessment.  The one-time on-site risk management assessment must include the following:

* 1. Review of both operational and clinical processes.
  2. Review of the environment for liability risk exposures.
  3. Identification of operational and clinical opportunities.
  4. Making recommendations for improvement of operational and clinical processes.
  5. Developing a strategy to implement the recommendations.

***Keywords:*** *Underwriting*

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Confirming Debt Service Coverage Ratio Before Underwriting Review Begins

As a reminder, the expected minimum underwritten Debt Service Coverage Ratio (DSCR) is 1.45, as set forth in Handbook 4232.1, Production Chapter 3.2. Moreover, when arriving at the underwritten revenue and expenses used to calculate Net Operating Income (NOI) used for the DSCR, the lender must consider the historic and trailing twelve-month (T12) performance. (See Handbook 4232.1, Production, Chapter 2.9.N.)

Although the NOI arrived at by the lender during underwriting will not necessarily be equal to the T12 NOI, ORCF generally uses that figure as a benchmark to discern when a project is ready for underwriting review (See [May 9, 2022 Email Blast](https://www.hud.gov/sites/dfiles/Housing/documents/MayEmailBlast05092022.docx)). This was necessary given the wide pandemic-related fluctuations in income and expenses. As facilities have been recovering from the pandemic and their NOI is trending upward, however, this screening benchmark appears to be unnecessarily delaying the underwriting review of numerous projects in which the underwritten NOI would appropriately be higher than the T12 NOI.

Accordingly, ORCF is adjusting the benchmark used to initiate underwriting review.  In addition to the previously established benchmark of 1.45 DSCR on the T12, ORCF is generally willing to consider a T12 adjusted for a new published Medicaid Rate offset by some increase in expenses **and** an annualized T6 for purposes of initiating the review.  Specifically, lenders may provide a sensitivity comparing the following two calculations:

1. T6 actual NOI annualized (no adjustments for rate increases may be applied);

***and***

1. T12 NOI adjusted to reflect a documented increase in Medicaid rate, if applicable, offset by some increase in expenses. The offset can be achieved by applying a reasonable, stabilized historical operating margin to the increased revenue. Any documented rate increases must be in effect as of the date of the T12.

When utilizing the above adjustments, in the Decision Circuit lenders should provide a column with the T12 without adjustments, a T12 adjusted for a new published Medicaid Rate (in a yellow column), as applicable, and the annualized T6 (in a yellow column).

***Keywords:*** *Underwriting*

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