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Corporate Credit Reviews and Mortgage Reserve Fund Requirements

HUD would like to remind lenders that [Mortgagee Letter 2024-03](https://www.hud.gov/sites/dfiles/Housing/documents/2024-03hsgml.pdf), includes the requirement for a Mortgage Reserve Fund (MRF) on large portfolios.  ORCF allows a limited number of applications for projects that are part of a portfolio to be submitted and processed while a Corporate Credit Review (CCR) is being completed.  HUD will add a special condition for a MRF if a CCR is pending.  ORCF would also like to remind lenders that a “portfolio” is defined as all related projects, not just those above a CCR threshold, and thus all applications in a portfolio with a CCR will be required to include a MRF.  Existing closed projects are exempt from the MRF as loan terms cannot be modified on previously closed loans.

LARGE PORTFOLIO SIZE CLASSIFICATIONS FOR FISCAL YEAR 2025

Effective 10/1/2024, and in accordance with Mortgagee Letter 2024-03, the Large Portfolio size classifications are as follows:

|  |  |  |
| --- | --- | --- |
| **Large Portfolio Size Classification** | **% of UPB** | **Fiscal Year 2025 Amount** |
| Operator | 0.6% | $ 205,000,000 |
| Owner Only | 1.0% | $ 342,000,000 |
| Requires ORM Review | 2.0% | $ 684,000,000 |
| Program Maximum | 5.0% | $ 1,708,000,000 |

***Keywords:*** *Portfolios*

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New Workload Manager in ORCF Production

Holly (Beal) Drake has been selected to be a Workload Manager in Production.  We have moved underwriters to Holly’s team to balance the workload between the Production Workload Managers.  Please refer to the [Underwriter Contact Sheet](https://www.hud.gov/sites/dfiles/Housing/documents/ORCF_Underwriter_Contact_Info.xlsx) posted on ORCF’s Production website to see the composition of ORCF’s Production teams and contact information for underwriters and Workload Managers.

***Keywords:*** *Workload Manager*

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Settlement Agreement in Massachusetts Impacts Some Section 232 Skilled Nursing Facility Applications

As some of you may be aware, a recent legal settlement in the State of Massachusetts related to the Olmstead decision has the potential to significantly impact the underwriting of nursing homes.  As part of this [Settlement Agreement](https://www.centerforpublicrep.org/wp-content/uploads/Doc-152-1-Settlement-Agreement.pdf), the State has committed to transition at least 2,400 adults with disabilities from nursing homes to community settings, over the next eight years.  Thus, this shift does not simply involve attrition but rather proactive steps to relocate existing SNF residents.  This will involve very extensive efforts on the state’s part that include Community Transition Liaison Program weekly meetings at each SNF to provide “in-reach,” informed choice, and transition planning assistance; meeting with nursing home residents (even those who do not express a desire to move); provision of additional Waiver slots; provision of additional rental subsidies; and provision of home modifications to support transitions, etc.

The 2,400 figure represents over 7% of the existing SNF residents in the State, and a significantly higher percentage of Medicaid-assisted SNF residents.  Moreover, while the Settlement Agreement does address special efforts to transition residents having behavioral disabilities, the transition effort is not limited to such individuals.

In addressing the Lender Narrative Risk Factors Section Key Question 6, you will need to evaluate the potential impact of the State’s transition efforts on the facility and propose appropriate mitigants.  Given the State’s commitment to transition 7% of current SNF residents within eight years, we would expect a SNF applicant to demonstrate the ability to sustain a loss of residents due to this initiative over that eight-year period. Moreover, given that a high proportion of the transitioning residents may be non-traditional SNF residents, some special use facilities would be expected to demonstrate a capacity to sustain an even greater loss of occupancy resulting from this state initiative.  In evaluating this risk, you will want to consider the following matters, among others:

* The percentage of residents who are long-term residents.
* The long-term position of the project in the market, including obsolescence and reputation.
* The occupancy census sensitivity and Medicaid census sensitivity.
* The percentage of residents who are aged under 62.

The application should contain mitigants (e.g., low LTV, DSCR significantly exceeding program minimums) as needed to ensure that the facility can sustain the potential impact of this Massachusetts state initiative.

Pointing to nursing home residents’ clinical eligibility for nursing facility services is an insufficient response, since such eligibility does not establish ineligibility for transitions to a community setting.  In fact, a condition for eligibility for a Home and Community Based Services (HCBS) Waivers under MassHealth programs is that the individual would meet the state’s eligibility requirements for services in an institutional setting.

This anticipated analysis is not a new requirement but is an application of existing requirements to the actions being taken by the State of Massachusetts.  The analysis is part of the normal underwriting due diligence encompassed within the Lender Narrative (particularly the Key Questions contained therein) and Handbook 4232.1, Section II, Chapter 2.5.3 and Chapter 5.3.R.4.

Further information about the Massachusetts settlement is available at [Marsters, et al v. Healey, et al – Center for Public Representation](https://www.centerforpublicrep.org/court_case/marsters-et-al-v-healey-et-al/).

***Keywords:*** *State Risk, State Risk Summary Grid*

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NSPIRE Technical Review Guidance and Step-By-Step Instructions on How To Submit Appeals and Close Out Deficiencies

HUD has received feedback that Property Owner/Agent (Borrowers/Operators) have been experiencing issues when submitting appeals in the NSPIRE IT system. To address this, HUD has made [Technical Review Guidance](https://links-2.govdelivery.com/CL0/https:%2F%2Fwww.hud.gov%2Fsites%2Fdfiles%2FPIH%2Fdocuments%2FAppeals%2520Guidance%2520for%2520POAs%2520and%2520PHAs_Draft_update_30JUL24.pdf%3Futm_medium=email%26utm_source=govdelivery/1/010101916c051bd6-eec2599d-6a76-4fc8-a5a4-dddef1dbde50-000000/EZg8dt3HnOi4YPfi_9Qpwlfuapwsgryetgn4Dd5WHyQ=366) available that provides a summary of the basis for technical review along with instructions for how to submit an appeal.

As a reminder, if a Property Owner/Agent (Borrower/Operator) believes that a property's inspection results and score should be reviewed due to verifiable reasons, they may request a technical review. They should submit the request electronically through the NSPIRE system within 45 calendar days following the date by which HUD provides the inspection report.

A request for a technical review must be accompanied by evidence supporting the claim. HUD recommends seeking a technical review only if the correction will result in a significant improvement in the overall score of the property, such as an increase to 60 or above or a change in the inspection frequency.

Additionally, there is updated guidance to Closing out the deficiencies on the [NSPIRE Toolkit website](https://www.hud.gov/program_offices/public_indian_housing/reac/nspire/toolkit).

Please email HUD at [NSPIRE@hud.gov](mailto:NSPIRE@hud.gov), or call the Technical Assistance Center (TAC) at 1-888-245-4860, with any questions.

***Keywords:*** *Asset Management, NSPIRE, Physical Inspections (REAC)*

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Updated Lender Guidance for 10-Year Project Capital Needs Assesment Submissions

In its ongoing asset management role, the lender concerns itself with many facets of a project including its physical condition.  One tool that the lender must obtain, analyze and utilize in that respect is the Physical Condition and Needs Assessment (PCNA).  As 232 Lenders are aware, the PCNA is to ensure the long-term viability of the project, in part by ensuring the proper deposit to the Reserve for Replacement for Capital Items and Major Moveable Equipment.

Every ten years, the lender must obtain and submit to ORCF a PCNA, including the lender’s analysis. To assist lenders in doing this, Asset Management anticipates posting in November on our Section 232 website [here](https://www.hud.gov/federal_housing_administration/healthcare_facilities/residential_care/loan_servicing) a 10-Year PCNA checklist with items to consider when submitting the PCNA and analysis.

A thorough lender’s PCNA analysis will address in detail the following:

* + Adequacy of 10-year Reserve Schedule
  + Proposed change to R4R amount
  + ADA compliance
  + Status of Critical Repair/Non-Critical Repairs, including
    - Confirmation documentation as to repairs completed, and
    - A plan, including timeline, for the uncompleted repairs

In the event the lender includes a HUD 9250 requesting to decrease the R4R deposit, the request must include a detailed analysis and justification.

***Keywords:*** *PCNA*

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| Past Lean 232 Updates are [available online](https://lnks.gd/l/eyJhbGciOiJIUzI1NiJ9.eyJidWxsZXRpbl9saW5rX2lkIjoxMDEsInVyaSI6ImJwMjpjbGljayIsImJ1bGxldGluX2lkIjoiMjAyMTAxMDQuMzI3OTIyMzEiLCJ1cmwiOiJodHRwczovL3d3dy5odWQuZ292L2ZlZGVyYWxfaG91c2luZ19hZG1pbmlzdHJhdGlvbi9oZWFsdGhjYXJlX2ZhY2lsaXRpZXMvcmVzaWRlbnRpYWxfY2FyZS9tYWlsX2JsYXN0X2luZGV4P3V0bV9tZWRpdW09ZW1haWwmdXRtX3NvdXJjZT1nb3ZkZWxpdmVyeSJ9.wD_kyOelsVj0O18oGZ6vB1qZQYtIH2lojk5kd633DYc/s/1356292409/br/92636915983-l).  Have questions about the Lean 232 Program? Please contact [LeanThinking@hud.gov](mailto:LeanThinking@hud.gov).  For more information on the Lean 232 Program, check out: [http://www.hud.gov/healthcare](https://lnks.gd/l/eyJhbGciOiJIUzI1NiJ9.eyJidWxsZXRpbl9saW5rX2lkIjoxMDIsInVyaSI6ImJwMjpjbGljayIsImJ1bGxldGluX2lkIjoiMjAyMTAxMDQuMzI3OTIyMzEiLCJ1cmwiOiJodHRwOi8vd3d3Lmh1ZC5nb3YvaGVhbHRoY2FyZT91dG1fbWVkaXVtPWVtYWlsJnV0bV9zb3VyY2U9Z292ZGVsaXZlcnkifQ.1u0SLtDtXsU62834yVCK0A042fLMrX4ZfmVsijRPzQI/s/1356292409/br/92636915983-l).    Stay Connected with the Office of Housing and the Federal Housing Administration: |
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