

# COOPER VALUATION GROUP

## HUD Lean Seminar – Chicago September 2011

We attended the Lender Underwriter Training offered by the HUD Office of Healthcare Programs (“OHP”; Section 232 Program) from September 13-15, 2011 in Chicago. The HUD Lean program offers mortgage insurance for assisted and skilled nursing facilities. The seminar attendees include HUD staff, HUD lenders, appraisers & market analysts, capital needs assessors, lawyers, etc. The following are highlights from the seminar:

- HUD Lean program is “**net positive**” – meaning that the fees paid to HUD are currently outpacing claims to the FHA insurance fund. Application volume is increasing and so is closing volume. Efforts are being made to reduce the queue by the summer of 2012.
- Some of the **Lender Narrative Excel tables** have been changed.
- If existing debt is at least 2 years old at time of processing, it is eligible. If less than 2 years, lender must determine that there was no “**cash out**” to mortgagor.
- The OHP prefers some **NOI history** at/near underwritten levels.
- New construction and substantial rehabilitation deals should reflect **more risk** in reaching stabilization (higher cap rates, longer absorption time, etc). HUD Lean unveiled a new Initial Operating Deficit spreadsheet for such deals. Strong developers/participants and significant equity are typically required.
- HUD considers large, **special care facilities** caring for mentally ill or developmentally disabled to be a significant risk to the fund. Some states are in the process of downsizing large facilities into smaller group homes (4 to 12 beds). Board & Care homes are also viewed as risky.
- **Physical obsolescence** concerns include old facilities, 3-4 bed wards, communal bathrooms vs. in-unit bathrooms, institutional feel. The OHP did say that these are less of an issue with weak or no competition in some markets.
- For **A(7) refinance** deals, not all will qualify for extended loan length due to age of building, market position, etc.
- HUD will soon issue an **OHP Guidebook** for the Lean program.
- **Real estate tax abatements** are ignored if not transferable to a new owner and/or less than 5 years remain on the abatement period.
- **Market studies** must reflect experience of comparables and need to emphasize micro-economic conditions of the local markets (employment changes, population trends, etc).



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 Phone 630-734-3215 [www.CooperValuationGroup.com](http://www.CooperValuationGroup.com)

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