



**e-PULSE!**<sup>TM</sup> *Extra!*

*HUD 232 Lean Financing - Continuing to Support  
Senior Housing and Healthcare in 2009!*

*An on-demand email publication discussing  
capital availability for a wide variety of senior housing projects  
- by Cambridge Realty Capital Companies.*

Volume 1, Number 2

We are often asked, especially in the current economic environment, "What is the best source of debt capital as it relates to my senior housing and healthcare project, especially my skilled nursing home facility?"

That answer is simple. There is solely one lender that has never left the market or changed their terms and conditions, and they're still pursuing debt financing on skilled nursing home facilities, as well as licensed assisted living facilities.

If you're scratching your head, still not certain who might this be, we want to end the suspense and let you know who this lender is: FHA/HUD via the HUD Lean program. Yes, for your single facility refinance, and today more than ever for your **Multi-Facility Portfolio**. Great interest rate? Non-recourse? 35 year term and amortization? Yes to all! Finding this hard to believe? Read on!

Cambridge's HUD affiliate, Cambridge Realty Capital Ltd. of Illinois, has been financing licensed nursing homes and assisted living facilities since 1988, and has funded \$1.7 billion dollars in HUD 232 loans via approximately 214 transactions including a recent 10-facility, \$90.6 million portfolio refinance ([click here for more details](#)).

Today, HUD loans move faster and with more certainty than ever before, utilizing the new HUD Lean program. You're probably wondering, "What types of terms and conditions does my HUD Lean loan have?" and "We have some questions/comments; maybe Cambridge can help with the answers." Please call and ask for any of Cambridge's loan officers at 312-357-1601 or contact any of them [directly](#).

**Senior Housing / Healthcare Lending HUD 232 Lean  
Loan**

## Program for Refinance and Acquisition

<b>LOAN AMOUNT:</b>	\$2,500,000 to No Maximum	
<b>PROPERTY TYPES:</b>	<i>Senior Housing / Long Term Care</i>	<i>Behavioral Modification / Other</i>
	<ul style="list-style-type: none"><li>· Nursing Homes - Skilled and Intermediate Care</li><li>· Assisted Living Facilities</li><li>· Board and Care Facilities</li><li>· Personal Care Homes</li></ul>	<ul style="list-style-type: none"><li>· Behavioral Modification Centers</li><li>· Psychiatric Hospitals</li><li>· Juvenile Behavioral Facilities</li><li>· Rehab Centers</li></ul>
<b>TIMEFRAME:</b>	60 – 90 days from engagement to close	
<b>GEOGRAPHIC PREFERENCE:</b>	Nationwide	
<b>CURRENT RATES:</b>	Based on current market. Please call!	
<b>TERM AND AMORTIZATION:</b>	35 years	
<b>TYPES OF LOANS:</b>	<ul style="list-style-type: none"><li>· Refinance without Rehabilitation</li><li>· Refinance with Rehabilitation</li><li>· Acquisition with Rehabilitation</li></ul>	<ul style="list-style-type: none"><li>· Refinance existing FHA 232 Loan</li><li>· Refinance with Expansion</li></ul>
<b>HIGHLIGHTS:</b>	<ul style="list-style-type: none"><li>· 85% loan-to-value for straight refinance without rehabilitation. (90% for not-for-profit). 80% LTV or less fast track review.</li><li>· Conventional valuation approach using similar appraisal techniques as other lenders</li><li>· 1.18 minimum Debt Service Coverage (1.4 DSC or greater fast track review)</li><li>· Accounts Receivable Financing Permitted.</li><li>· Up to 100% loan-to-cost for refinancing/rehabilitation.</li><li>· Fully assumable.</li><li>· No personal liability.</li></ul>	
<b>FOR FURTHER DETAILS CONTACT:</b>	Financing Information Group CAMBRIDGE REALTY CAPITAL COMPANIES Telephone 312-357-1601 - Fax 312-357-1611 E-Mail: <a href="mailto:info@cambridgecap.com">info@cambridgecap.com</a>	

### *HUD 232 Lean Financing Frequently Asked Questions*

The following questions were developed by Cambridge Realty Capital Companies to help interested parties better understand the new underwriting and loan processing program and explain the new HUD Lean program. We've shortened the list for this

publication; the entire Cambridge HUD 232 Lean FAQ is posted on our website ([click here](#)).

## **SECTION 1: CAMBRIDGE & HUD LEAN**

### **How will Cambridge be impacted by the new HUD Lean process?**

Cambridge expects the Lean process to have only a positive impact. Several examples include:

1. Ability to close deals in a shorter period of time. We can move from application to closing in 40 days, compared with the previous four to six month timetable.
2. Electronic submission of applications. This will significantly reduce the time in which it previously took our HUD team to assemble paper applications, allowing additional time to be spent on new Lean applications.

### **2. Did Cambridge have any rule or input in drafting the changes in Lean?**

The OIHCF requested Cambridge's team to make recommendations for improving Lean processing. Several recommendations that Cambridge's team made were:

1. Revise asset management procedures in order to expedite replacement reserve withdrawals.
2. Decrease frequency of financial statement reporting requirements.
3. Find an alternative for or eliminate REAC inspections. If REAC inspections cannot be eliminated, Cambridge recommended replacing the system with a third-party monitor of state reporting such as Life Safety reports.

### **3. Will Cambridge be effective with the new Lean process?**

Cambridge will be very effective under the Lean process. With the introduction of the "Super Certifications" and clearly defined underwriting requirements, Cambridge's HUD team will be able to focus on processing and funding even more deals.

### **4. Has Cambridge closed any deals under the Lean process?**

Yes, the refinancing of the Beaver Dam Nursing & Rehab Center in Beaver Dam, KY is Cambridge's first closed Lean deal and we are currently processing numerous Lean transactions.

## **SECTION 2: Lean BASICS**

### **1. What is HUD Lean? How was it developed?**

Lean is the new processing system for all HUD 232/223(f) loans. The Lean system was developed when FHA Commissioner Brian Montgomery made the decision to insert the highly touted "Lean" management concept pioneered by Toyota Motor Corp. into the HUD system of processing and approving loan

applications. The “Lean” management process is driven by a few simple rules: all work should be highly specified as to content, sequences, timing and outcome, and every customer-supplier connection must be direct. Also, there needs to be an unambiguous “yes or no” way to send requests and receive responses. The pathway for every product and service must be simple and direct, and any improvements must be made in accordance with the scientific method under the guidance of a teacher at the lowest possible level in the organization. Lean is aimed to eliminate historical inefficiencies in the processing and approval of HUD applications.

**2. Can I get cash-out under Lean?**

The same rules still apply under Lean as they did for MAP: cash-out is not immediately available to borrower. However, borrowers can receive additional funds to make capital improvements to the facility being financed by HUD. Cash-out can be obtained in conjunction with a bridge loan after 24 months of seasoning.

**3. What is OIHCF?**

The Office of Insured Health Care Facilities (OIHCF) was created to oversee every HUD-insured healthcare facility financing that is funded. The OIHCF is comprised of individuals that are healthcare industry professionals hailing from several discipline backgrounds, i.e. valuation, architectural, mortgage credit, etc.

**4. What property types work for HUD Lean?**

HUD Lean primarily finances licensed senior housing and long-term care facilities. Licensed skilled nursing, assisted living, and board and care facilities are eligible for HUD Lean 232/223(f) financing. Facilities containing unlicensed independent units are eligible, as long as the number of these types of units is less than 25% of the total units in the facility.

**SECTION 3: UNDERWRITING & DUE DILIGENCE**

**1. Have the terms of the program changed under the Lean program?**

HUD's loan terms will not change under the Lean program. Maximum loan-to-value will remain at 85% for for-profit mortgagors and 90% for nonprofit mortgagors.

**2. Will appraisers utilize actual management fee expense or standard market management fee, which is typically 5.0% of revenues?**

According to the Appraisal Statement of Work, “A management fee must be included in the expenses for determining overall market value. It should be supported by expense comparables with arm’s length management agreements.” Upward or downward adjustments can be made to the management fee by the lender if it is justified and supported by market data.

**3. How is underwriting going to be changed?**

The two major changes to HUD underwriting are:

1. Elimination of proprietary earnings adjustment. Lenders and appraisers will

no

longer deduct proprietary earnings from a facility's NOI.

2. Inclusion of Risk Analysis. The Lean underwriting will be more focused on the

operator. If the Risk Factors are identified, the lender must provide sufficient

justification / mitigation to support the additional risk associated with the loan.

These risk factors are:

- a. If the loan exceeds 80% of the underwritten value.
- b. If the debt service coverage of the loan is less than (a) 1.45 for skilled nursing; (b) 1.30 for assisted living; or, (c) 1.25 for independent or board and care facilities.

4. **FHA now will accept fair market value appraisals vs. FHA-specific appraisals. This should reduce costs to borrower? Can I use my old appraisal under Lean?**

1. Expenses will not change for Lean appraisals. The same appraisal standards that

applied under MAP apply under Lean.

2. Also, a previous appraisal may be used if it is a Lean-approved appraiser and the

date of valuation may not be more than 180 days prior to the date Lender makes

application to HUD/FHA.

**SECTION 4: PROCESSING**

1. **How is the Lean process different from the existing MAP process?**

The most significant improvements:

- a. Shorter timeline to close. Cambridge can process and fund a HUD Lean loan in 60-90 days.
- b. Improvements in underwriting. HUD Lean underwriters are specifically focused on and have experience with senior housing and health care facilities.
- c. Simplified appraisal process. Fair market value appraisals will now be acceptable.
- d. Elimination of proprietary earnings adjustment.
  - i. Elimination of proprietary earnings adjustment will make HUD lending more user-friendly.
  - ii. HUD previously required proprietary earnings adjustment of 15% - 25% for skilled nursing and 10 - 15% for assisted living. This adjustment was deducted from the NOI and could impact valuation.

2. **How are the offices set up for processing? Can I submit a loan directly to**

## **HUD?**

1. Presently, all Lean applications are being submitted electronically to the OIHCFC in Washington, D.C., and to the underwriter in HUD HUB in Seattle, Washington by the Lean Team.
2. Applications must be submitted to HUD using a HUD-approved mortgagee such as Cambridge; borrowers cannot submit loans directly to HUD.
3. **Potential closing dates will be identified upon receipt of the FHA firm commitment for mortgage insurance. Does this mean we will know the actual closing date at time of commitment?**
  1. The legal review will begin at the time an application is submitted to HUD, greatly expediting the closing process.
  2. This allows for closing dates to be identified and set at the time a firm commitment is issued.
4. **What is the process for a loan to be approved? How many committees must sign off?**

Each Lean application must be signed off at three levels: by the Lean team, by the OIHCFC, and by Legal. The approval process is as follows:

  1. Lender submits application to the OIHCFC via internet portal and two hard copies. Simultaneously, the legal review begins.
  2. The application is reviewed by a Lean Team, including Valuation; Environmental; Mortgage Credit; and Architectural and Engineering.
  3. Members of the Lean team approve and sign off on the application.
  4. OIHCFC approves and signs off on the application and issues a firm commitment.
  5. The legal review is finalized.

## **Summary:**

Cambridge works with large and small owner operators and other financial institutions as well as single facility owners. Today, more than ever, HUD is a wonderful option for any type of skilled nursing home or assisted living financing. The transaction management team at Cambridge is available to respond to any call or inquiry. Please call us at 312-357-1601 or contact anyone at Cambridge directly via our [website](#).

## **Financing Information Group**

CAMBRIDGE REALTY CAPITAL  
COMPANIES

125 South Wacker Drive – Suite 1800  
Chicago, Illinois 60606  
Telephone 312-357-1601

Fax 312-357-1611

Email: [info@cambridgecap.com](mailto:info@cambridgecap.com)

<http://www.cambridgecap.com>

**Western Regional Office:**

CATALYST/CAMBRIDGE HEALTHCARE  
FINANCE

6310 San Vicente Blvd. - Suite 360

Los Angeles, CA 90048

(818)610-0750 x103

(818)692-0750 Cell

(818)610-0755 Fax

[hbarber@crgcorp.com](mailto:hbarber@crgcorp.com)

---

**DISCLAIMER:** This Cambridge financing or investment profile is designed to provide information regarding available real estate capital structures. The information provided herein is for preliminary review purposes only, and is subject to errors, omissions, and changes, all without notice, or to be held accountable for any changes of this information. In particular, neither Cambridge Realty Capital Companies, nor Cambridge Realty Capital, LLC, nor Cambridge Investment and Finance, LLC, nor Cambridge Realty Capital Ltd. of Illinois or any other affiliate makes any warranty or representation whether or not the information presented will be applicable for the readers' specific situation and the accuracy or completeness of the information provided. "Cambridge Realty Capital Companies®", "e-Pulse!®" and its logos are registered trademarks of Cambridge Realty Capital, LLC.

---

Cambridge Realty Capital Companies  
125 South Wacker Drive, Suite 1800, Chicago, IL 60606  
t: 312-357-1601 | f: 312-357-1611  
e: [info@cambridgecap.com](mailto:info@cambridgecap.com) | w: <http://www.cambridgecap.com/>