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Live in HUD's Fast Lane

Learn what it takes to get deals fast-tracked for Section 232 — aka LEAN — loans

Prudent time management is widely viewed as the key to cost-saving efficiencies in industries of every kind. The commercial mortgage industry is no exception. Brokers with clients in the senior-housing and health-care segment have been closely following the U.S. Department of Housing and Urban Development's (HUD's) highly visible efforts to deliver Federal Housing Administration (FHA)-insured loans for nursing homes and assisted-living properties in a more timely and efficient fashion.

In 2008, FHA and HUD formally announced a major restructuring for HUD Section No. 232 loan funding. The change involved gradually shifting responsibility for processing these loans from HUD field offices to the FHA's Office of Insured Health Care Facilities in Washington, D.C. This was part of the LEAN loan-processing concept, which seeks to create more value with less work, saving everyone time and money.

Streamlined approval

By moving program administration to a centralized location, HUD hoped to create a single unified source for program and policy development, as well as a more consistent and user-friendly platform for borrowers and lenders. Its LEAN processing likely would also enable HUD to deliver insured loans on a timetable more similar to conventional loans.

HUD committed to thinking about solutions in new and untested ways, a decision that soon was severely tested by events. The introduction of HUD's Section 232 LEAN program for health-care loans was swiftly followed by the financial meltdown and economic downturn. As capital from conventional sources dried up, HUD found

itself dealing with a groundswell of demand as it worked to put critical new program elements in place.

From October 2008 to September 2009, HUD was in a transition period, and many loan requests continued to be handled by its regional offices. By the end of 2009, however, HUD had completely shifted over to its new centralized processing system. The number of processed applications and closings were up sharply through this past September.

In the 2009 fiscal year, HUD insured 255 loans through the system. For fiscal 2010, the total was 310 loans. Conceivably, it will be even greater in the year ahead, as demand for HUD's Section 232 loans shows no signs of slowing.

Making LEAN leaner

Primarily because of the industry's favorable response to the product, processing HUD LEAN applications has been taking longer than anyone intended. A major bottleneck developed as HUD struggled to find underwriters to process the large numbers of applications. The agency has continued to tweak the process and to make steady improvements, however.

HUD created the Office of Healthcare Programs (OHP) to oversee and manage all HUD LEAN 232 deals. Creating this department has helped to differentiate the steps of processing and improve the agency's ability to process loans quickly. There are three OHP divisions: policy and risk analysis, production, and asset management and lender relations. All three have been instrumental in changes that are making a difference.

Earlier this year, all HUD applications were being processed in the same queue

in the order received, but it quickly became apparent that a more efficient approach was needed. The production and the policy-and-risk-analysis divisions established a special queue called the "green lane" to process low-risk loans more quickly.

Initially, only HUD 223(a) 7 loans, which refinance existing HUD loans, could cruise in this fast lane. The agency subsequently came up with a new risk-assessment point system it uses to determine which other low-risk applications deserve to be processed in this way, however. The point system considers cash flow, appraised value, loan to value, debt-service-coverage ratio, occupancy and various competitive factors. Positive or negative scores are given for each of these areas, with points awarded accordingly.

To better serve clients, FHA-approved lenders have been zeroing in on what it takes to make certain client applications are ready to travel in the low-risk green-lane queue as swiftly as possible. According to the American Association of Homes and Services for the Aging, there are three main requirements for this queue:

1. **No waiver requests** on the application.
2. **All participants in the request should have completed 2530 Previous Participation** submissions.

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3. The application must have a positive risk-assessment score.

Asset management

In another significant development, HUD officials have begun to focus more thoughtfully on what happens after loans are closed. In the past, asset management appeared to be little more than an afterthought, but the agency has moved rapidly to change this perception. The emphasis now is on establishing new matrixes

to better manage and monitor existing loans already on the books. The intention is to monitor loan assets more closely to identify problems earlier or avoid them altogether.

In connection with this development, the agency has come up with the idea of appointing HUD account executives whose role in the asset-management activity is to function as the lender's advocate and quality-control officer.

HUD officials also have been considering

further options to deal with the current underwriting crunch. The department's ability to respond with innovative solutions is scoring points with lenders and borrowers alike. Improvements in all program phases likely will be high on HUD's to-do list in the months ahead. Brokers should know how their senior-housing and health-care clients can take advantage of HUD's green lane, as well as track the changes that continue to make Section 232 LEAN loans popular and profitable. ●