
HUD's LEAN 232 Program
Office of Healthcare Programs (OHP)
Update as of November 2, 2010

***NEW QUEUE APPLICATION PROCESSING STRATEGIES AND
PROJECTED PROCESSING TIMES FOR SECTION 232/223 (F)
APPLICATIONS***

SUMMARY

The Office of Healthcare Programs (OHP) conducted a Lean Processing Training/Kaizen event September 14-16, 2010, in Seattle, WA. Based on input from that event, OHP has decided to implement revised queue application procedures to expedite processing and to address significant increases in a number of types of applications.

Further, OHP completed an in-depth review of the Section 232 projects that currently reside in the underwriting queue, as well as the estimated number of new applications that OHP expects to receive over the next 12-18 month period. The objective of this review was to project the approximate wait times for Section 232 mortgage insurance applications from the time they are received by OHP until the applications are assigned to Lean underwriters for processing.

QUEUE PROCESSING CHANGES - Given the significant increase in demand for the Section 232 Program, OHP will revise the queue system into five separate queues, as follows:

1. **223f Regular Queue** – containing all Section 232/223f projects that do not meet the Green Lane criteria (see section titled **SECTION 232/223F – ELIGIBILITY OF GREEN LANE PROCESSING** in this memo) and are not a part of a Large or Midsize Portfolio (as defined by HUD Notice H 01-03);
2. **223f Green Lane Queue** – containing all Section 232/223f projects that meet the Green Lane criteria (see section titled **SECTION 232/223F – ELIGIBILITY OF GREEN LANE PROCESSING** in this memo) and are not a part of a Large or Midsize Portfolio;
3. **223f Portfolio Queue** – containing projects that are a part of a Large or Midsize Portfolio, previously approved under HUD Notice H 01-03;

4. **Other Program Queue** – containing all Section 232 New Construction, Section 232 Substantial Rehabilitation, Section 232/241a and Section 232 Blended Rate applications;
5. **Section 223a7 Queue** – containing all Section 232/223a7 applications.

Each of the five separate queues will have a team of underwriters dedicated to processing applications of the specified type. Therefore, these queues will run concurrently.

PROJECTED PROCESSING TIMES FOR 223(F) APPLICATIONS - OHP

performed an analysis of historical and expected processing times, from submission to closing, for Section 232/223f applications. This analysis was designed to provide an estimate of queue wait times given the current queue volume, underwriting resources, and new Section 232 mortgage insurance applications expected to enter the queue over the next 12-18 months. This information has been summarized below in the chart, Range of Estimated Processing Times-Submission to Closing, for the period September 2010 to October 2011.

Please Note: These numbers are only estimates based upon the most current information on project submissions, processing times and staff resources.

Based on data as of October 1, 2010:

[CHART IS SHOWN IN ATTACHED PDF FILE](#)

After studying the above trends and volumes for Section 232 mortgage insurance applications, OHP has decided to make adjustments to its current underwriting systems and processes to more effectively and efficiently process applications, given limited underwriting resources and continued high demand for the 232 programs. OHP has carefully analyzed its processing systems and reviewed, with the Office of General Counsel (OGC), OHP staff and Lenders, the complexity and time delays currently being encountered during processing and closing of Section 232 transactions. OHP's objective is to refine underwriting and closing processes to effectively process applications from all applicant groups in a fair and efficient manner.

As a result of this analysis and review, OHP will implement the following modifications to the Section 232 underwriting processes.

PORTFOLIO PROCESSING

1. OHP will create a separate 223f Portfolio Queue for large/midsize portfolio applications. To improve efficiency in both processing and closing, each portfolio in the Portfolio Queue will be processed in batches of approximately 15-20 projects each. The applications to be included in each batch will be coordinated between the lender and OHP. Please contact Tom McMillan (Thomas.McMillan@HUD.GOV) to coordinate the assembly of batches for applications for any large/midsize portfolios that either have been submitted or will

enter the queue in the future. In addition, each batch will be processed only when all applications included in that batch are deemed fully complete. The language in this Email Blast supersedes the language under "Portfolios and Placeholders" in the August 19, 2010 Email Blast with the exception of the following language which still applies: "no individual portfolio application, for midsize and large portfolios, will be allowed to be submitted and to enter the queue prior to the actual date of the portfolio approval letter to the lender".

2. Certification of "complete" applications for medium and large portfolio applications.

For portfolios with master lease, accounts receivable (AR) financing and/or any special conditions specified in the portfolio approval letter, HUD needs assurance that the FHA Lender, Owner, Operator, Master Tenant, and AR Lender (all signatories to the pertinent documents) will sign a form of master lease or AR financing documents, or additional important legal issues or documents identified by HUD, or specified in the portfolio approval letter, that have been reviewed and found acceptable to OHP and OGC. Once all private parties have finalized the documents, and those documents have been reviewed and accepted by OHP and OGC (contact Tom McMillan - Thomas.McMillan@HUD.GOV – if you have questions about the logistics of the review by HUD), the lender may submit the executed master lease, AR financing, and/or other important legal documents identified by HUD, or attach copies of the unexecuted documents with a certification, signed by all signatories to the pertinent document, that the attached documents will be executed at closing without changes, except for stipulating the final lease payment amount. The certification will require that all parties to the master lease, the AR financing and/or other important legal documents, such as the Deposit Account Instructions Service Agreement and Deposit Account Control Agreement, have given final approval to these documents. The certification can only be given on documents that have been reviewed and accepted by OHP and OGC, and must be received by OHP in order to issue a Firm Commitment. **Future projects will not be allowed to enter the queue until they have complied with this paragraph.** This certification requirement is designed to avoid lengthy delays in processing that further aggravate and lengthen the queue, and serve to delay processing and closing of fully completed applications. For any projects currently in the queue that do not have master lease, AR financing documents and/or other important legal issues or documents identified by HUD or specified in the portfolio approval letter that have been accepted (or are currently under review) by OHP and OGC, the lender will be notified of this requirement and have 30 days after receipt of the notification to submit the documents for OHP and OGC review. If documents are not submitted within the 30 day period, the portfolio's Firm Applications will not be assigned to an OHP Underwriter until the documents have been submitted for OHP and OGC review. Should OHP determine that the legal documents or the projects have unresolved issues after processing has begun, processing of that

portfolio batch and of the entire portfolio will be suspended until those issues have been resolved.

3. Portfolio Batch Processing. Once portfolio batches have been established as described in paragraph 1 above, portfolio projects will be processed in batches in the order they have been submitted in the queue, subject to a rotation process, described below, for portfolios submitted within a short time of each other.

OHP will identify every portfolio in the portfolio queue that was submitted within a 45-day period of the earliest portfolio submission in the queue at that time.

For example, assume there are three (3) portfolios submitted identified as portfolios A, B, and C; that the first portfolio has 40 applications; and that the remaining two (2) portfolios each have 20 applications. 4 batches of 20 applications each will be created out of this to be numbered 1-4. These applications will be processed in the following order:

- Portfolio A - 20 applications out of 40 submitted (Batch 1)

- Portfolio B – 20 applications (Batch 2)

- Portfolio C - 20 applications (Batch 3)

- Portfolio A - Remaining 20 applications (Batch 4)

A second batch from the same portfolio will not be processed until each portfolio submitted within the chosen 45-day time period has had one batch completely processed.

Once all the applications selected within the 45-day time period have been processed, OHP will go back into the queue and select all of the portfolios which were submitted within the next 45-day time period and repeat the above ordering process.

A medium or large portfolio batch that is in the queue on the date that this Email Blast is issued, will be considered to be ready for processing when the last application from that batch has been submitted to OHP and all applications are fully complete. All future submittals of a medium or large portfolio batch must be a complete submittal – we will not allow the batch to enter the queue until all Firm Applications in the batch are submitted and are fully complete.

REVISION TO OUR ELECTRONIC SUBMISSION POLICY

The below language replaces the language in the November 20, 2009 and January 15, 2010 Email Blasts related to our requirements for the electronic submission of the Firm Application package.

To enter OHP's Firm Application processing queue, we require submission of all of the following:

- a. [Completed Certification for Submission of Electronic Firm Application](#)
(including referenced attachments) - this Certification is attached to this email and is posted to HUD.GOV

- b. Completed Check Transmittal Letter Template

- c. Check for the FHA application fee, and
- d. Storage medium containing the electronic version of the Firm Application

SECTION 232/223F – ELIGIBILITY OF GREEN LANE PROCESSING

Individual and small portfolio Section 232/223f's will continue to be eligible for processing in the 223f Green Lane Queue. The criteria for eligibility for green lane processing is as follows: passing the risk assessment; no regulatory waivers requested; no outstanding or unresolved underwriting issues; and for those projects with Firm Applications submitted after August 16, 2010, forms HUD-92530 submitted using APPS. Green lane processing will not be permitted for projects in the Portfolio Queue due to the complexity of underwriting and closing those transactions. However, HUD will still require completion of the Risk Assessment Worksheet on all Section 223f applications which are part of any size portfolio. HUD will continue to use this worksheet for lender/appraiser quality control and as an internal workload management tool. OHP expects that lenders will conservatively underwrite projects in order to expedite the OHP underwriting process.

DETAILED ANALYSIS OF QUEUE AND CLOSING WAIT TIMES FOR SECTION 232/223F APPLICATIONS

The 223f analysis, referred to in the Summary section above, focused on the historical queue in two main categories: (1) the 223f Regular Queue applications; and (2) the 223f Green Lane Queue and 223f Portfolio Queue applications. Applications for New Construction/Substantial Rehabilitation and Section 223a7 refinancing were excluded from the above-referenced analysis. The forecasted number of applications for the large/midsize portfolios is primarily based on the current group of accepted medium and large portfolios and on projections from lenders as to when these portfolio applications are expected to be submitted. A modest projection of estimated new applications in this category has also been included. For the Small Portfolios/Individual Applications, the projections are based on historical volume (approximately 70 applications per quarter). As of October 1, 2010, there were 85 projects in the 223f Regular Queue category. Given the projected future applications and the number of estimated underwriters, the 223f Regular Queue is expected to consistently range from 80 to 93 applications, and the wait times are projected to be about 8 to 9 months in the queue (from application submission to assignment to an underwriter) over the next twelve-month period.

Similarly, for the 223f Green Lane Queue and 223f Portfolio Queue categories, there were 170 applications in the queue on October 1, 2010, and, given future volume and processing times, OHP expects these queues to increase by about 10 projects per quarter and wait times to be about 9 to 10 months in the queue (from application submission to assignment to an underwriter) over the next twelve-month period.

OHP also reviewed queue wait times, which recently were approximately 7 months. However, for the previous two quarters, the queue wait time had been around 4 to 5 months and, therefore, queue times have been trending up. In OHP's new queue analysis, we project the queue to level off at about 9 to 10 months because we are expecting that the realignment of current staff will permit us to process approximately 2.5 applications per underwriter per month for both the 223f Green Lane and Portfolio Queues and 1.5 applications per underwriter per month for the 223f Regular Queue. OHP will continually monitor actual queue processing times along with updated application submission projections and adjust the queue wait times, as necessary.

This analysis also focused on recent trends in the time frame needed to close a project transaction, once a firm commitment has been issued. The closings that have occurred to date in the most current quarter took an average of 98.7 days to close. This is up sharply from the average 60 days to close in the previous 2 quarters, and this increase can be attributed, in part, to the recent increase in portfolio transactions, many of which require additional documents, such as master leases and AR financing. OHP conducted a training session with regional OGC representatives during the week of September 13, 2010, to address closing issues, especially related to master leases and AR financing, including processes for earlier approval of these documents. Therefore, by implementing new review processes related to these closing issues, we expect the time frames needed to close transactions to decrease in the future.

Need to Reference Previous LEAN 232 Updates?

Previous E-Newsletters (Email Updates) can be found at:

http://portal.hud.gov/portal/page/portal/HUD/federal_housing_administration/healthcare_facilities/section_232/lean_processing_page/underwriting_guidance_home_page/previous_e_newsletters

LEAN Thinking Mailbox – LeanThinking@hud.gov

Have questions about the LEAN 232 Program? Please send them to LeanThinking@hud.gov

Interested in getting updates on the LEAN 232 Program?

Join our email list by sending your contact information to:

Kristine.Martin@hud.gov

For more information on the LEAN 232 Program, check out:

http://portal.hud.gov/portal/page/portal/HUD/federal_housing_administration/healthcare_facilities/section_232

Or check out:

www.hud.gov/healthcare
