



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

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OFFICE OF HOUSING

MEMORANDUM FOR: Russell Varnado, President, National Council of HUD
Locals 222
Roger E. Miller

FROM: Roger E. Miller, Director, Office of Insured Health Care
Facilities, HI

THROUGH: John Anderson, Chief, Labor Relations Branch, ARHLL

SUBJECT: Reorganization - Office of Insured Health Care Facilities

In accordance with Article 5, Section 5.04 of the HUD/AFGE Agreement, this memorandum serves as notification to the Union regarding the proposed reorganization in the Office of Housing, Office of Insured Healthcare Facilities. The reorganization will reorganize the Office of Insured Health Care Facilities (OIHCF) with an Office of Healthcare Programs (OHP) under a Deputy Assistant Secretary for Healthcare Programs. This reorganization is necessary to facilitate:

1. The assumption of functions formerly performed under an inter-agency agreement with the Department of Health and Human Services (HHS) in support of the Section 242 Hospital Mortgage Insurance Program,
2. The July 1, 2008, transfer of authority and responsibility for the Section 232 Residential Care Facilities Program from the Office of Multifamily Housing to OIHCF,
3. An effective Departmental response to the credit crisis faced by healthcare facilities that can no longer access affordable capital to construct, modernize, or refinance,
4. Implementation of improvement in customer service, and risk management, and
5. The mission of the Department to support communities and neighborhoods by stimulating their economies and growth of jobs.

These actions would establish a structure to manage more effectively the Department's programs of mortgage insurance for healthcare facilities: Section 242 for hospitals and Section 232 for skilled nursing, intermediate care, assisted living, and board and care facilities. The following documents are attached: Overview, Organizational Charts, From To Staff Listing, and Article 5, Section 5.04 (3) information.

Please submit any bargaining proposals to the Labor Relations Branch within ten (10) calendar days after receipt of this memorandum.

Overview: Reorganization of the Office of Insured Health Care Facilities

Overview

Both the Section 242 and 232 programs were formerly managed by the Office of Multifamily Housing. In 1992, a separate office, reporting directly to the Office of the Assistant Secretary for Housing-Federal Housing Commissioner, was established to manage the Section 242 Hospital Mortgage Insurance program.¹ This change was made in recognition of the fact that healthcare facility financing is a highly specialized field that the multifamily staff, spread across 51 field offices, was ill-equipped to master. However, responsibility for the Section 232 program remained in the Office of Multifamily Housing and the field offices until 2008.

Section 242 Hospital Program. Currently, there are 90 active loans in the insured portfolio with total remaining principal balances of \$7.4 billion. In the past five years, an average of 9 new insurance commitments, ranging from \$647 million to \$1.1 billion, were issued per year. Interest in the program has increased steadily. As of April 2009, there were 20 projects in the pipeline with mortgage insurance requests totaling \$1.6 billion. As of January 2010, there are 28 projects in the pipeline, with mortgage insurance requests totaling \$3.5 billion.

Until 2007, the Department of Health and Human Services (HHS) provided the majority of the workforce necessary to administer this program under a series of inter-agency agreements. However, in 2007 HHS announced that it no longer considered Section 242 to fit within its mission and in August 2007 HHS terminated the relationship. Prior to termination, HHS had been providing all of the architectural/engineering services and much of the underwriting and asset management effort for the program, for a total of 30 FTE. HUD was able to hire most of the architects and engineers from HHS and has continued to fill architect and financial analyst vacancies as the Department's priorities permit, to make up for the lost resources. As of March 31, 2009, 25 of the 30 HHS employees were replaced by new HUD employees.

Section 232 Residential Care Facilities Program. There are over 2,220 loans in the insured portfolio with total remaining principal balance of over \$13.6 billion. In the past several years, over 200 new insurance commitments have been issued per year. Approximately sixty-five percent of the Section 232 insured mortgages are for skilled nursing facilities. In response to findings of the Government Accountability Office,² HUD's Office of Inspector General,³ and representatives of the nursing home and mortgage lending communities, former FHA Commissioner Brian Montgomery concluded that the Section 232 program would be better administered by an office that had extensive and successful experience in the financing of healthcare facilities. OIHCF had such experience: in fact, many of its employees have hands-on experience in managing healthcare facilities. On July 1, 2008, the Commissioner signed a re-delegation of authority and approved an action plan to transfer responsibility for the Section 232 program to OIHCF. In accordance with that plan, two employees were reassigned from Multifamily Housing to OIHCF and a number of

¹Originally called the Hospital Mortgage Insurance Staff, renamed in 1997 the Office of Insured Health Care Facilities.
Report GAO-06-515.
Report '00,' K-10007.

employees from the Multifamily Hubs and Program Centers in the field were detailed to OIHCF. Recruitment of permanent Section 232 staff members in OIHCF (Headquarters and field) began in September 2008. As of January 2010, OIHCF has filled a total of 57 positions from within the Office of Housing and from the private sector, other Federal agencies, and other areas of HUD.

LEAN Process Re-engineering. OIHCF is moving to realize the potential of the Toyota “LEAN Office” process philosophy and techniques in Sections 232 and 242 underwriting and asset management. The key features of LEAN are: focus on the customer, empowerment of the employee, and continuous improvement. The LEAN Development process has reduced average time from application to closing by approximately 75%, while better underwriting procedures result in more thorough risk analysis. Customer focus is being emphasized with appointment of Account Executives for greater efficiency and better service.

Justification

The current organization dates from before HHS withdrew its support from the Section 242 hospital program last year and before the Commissioner re-delegated responsibility for the Section 232 residential care facilities program to OIHCF in July 2008. The complexity and size of the healthcare mortgage insurance programs requires a different organizational structure for delivering services to the public and controlling insurance risks. The proposed Office of Healthcare Programs (OHP), headed by a Deputy Assistant Secretary for Healthcare Programs, would provide such a structure.

Office of Architecture and Engineering. The reorganization would create a new 18-member office under OHP to perform the architect/engineer functions formerly performed by HHS for Section 242 and to also bring architectural/engineering expertise to support Section 232 as needed. The uniqueness of the disciplines involved and position management principles indicate that a separate office should be established for these architects and engineers. The Office would be managed by a Director and a Deputy Director.

Office of Hospital Facilities. For the Section 242 program, the staffing level of 33 currently required for the client service and financial analysis work previously performed by both HUD and HHS results in a need to provide appropriate supervisory spans of control. The reorganization creates one new office under OHP with two divisions.

- The Customer Service Division will carry out the underwriting and processing of mortgage insurance applications, and monitoring of Section 242 portfolio hospitals. Two branches would provide appropriate supervisory control and concentration of expertise in specific regions and states. One branch, located in New York City, will be responsible for underwriting and asset management for hospital clients in New York State and New Jersey (half of the Section 242 loans, or 57 percent of HUD’s hospital mortgage insurance exposure, is currently located in these two states). The other branch, located in Washington and having some staff members out-stationed in the Midwest, Southwest, and West, would serve hospitals in the remaining states.

- The Program Support Division will provide technical and administrative support for the Office by maintaining expertise in the area of troubled mortgagees and disposition of properties, providing advice and assistance to the Customer Service Division, processing requests for insurance drawdowns during construction, managing contracts, producing final loan documents and changes thereto, managing/maintaining the information systems for the program, serving as the Office interface with FHA accounting offices, and providing general administrative support.

Office of Residential Care Facilities. On July 1, 2008, the Commissioner re-delegated authority for administering the Section 232 program to OIHC. With a staffing requirement estimated at 92, the office is comprised of three divisions.

- The Production Division will be responsible for underwriting and processing mortgage insurance applications, from pre-application to final endorsement.
- The Asset Management and Lender Relations Division will implement and carry out a program for monitoring the nursing, assisted living, and other facilities that have Section 232 insured loans, and also for monitoring the performance of the various lenders using the program. In monitoring facilities, the Risk Mitigation Branch will make maximum use of surveillance tools that are already available, such as state inspection reports and Medicare/Medicaid Cost Reports. When a facility shows signs of weakening operationally and/or financially, branch staff and consultants will intervene with the operator and owner to identify the reasons for poor performance and to help to effect a financial turnaround. The Loan Management Branches will process a variety of transactions that require HUD approval under the loan documents, including releases of Reserve for Replacement funds, transfers of project assets, replacing an operator or management agent, etc. In the two Loan Management Branches, account executives will focus on monitoring and improving lender performance and capability. They will also be cross-trained to assist the Production Division during times of high production workload.
- The Policy and Risk Analysis Division will be responsible for all directives and program guidance; for structuring complex transactions such as portfolio deals; for reviewing unusual cases or issues that the other Divisions refer to it; and for ensuring that program policies and practices are designed to minimize insurance risks.

Staffing Estimates. The total staffing requirement for both programs was estimated at 152 staff members. Of these, 104 jobs are filled and 48 are vacant as of January 2010. The table below shows staffing required, on board, and needed in the future:

Program	Staff Required	Staff On Board	Staff Deficit
Office of the Deputy Assistant Secretary	9	7	2
Office of Hospital Programs	33	27	6
Office of Residential Care Programs	92	57	35
Office of Architecture and Engineering	18	13	5
Total	152	104	48

Summary

Consolidation of HUD's mortgage insurance programs for healthcare facilities is long overdue. It brings together the skills and resources needed for HUD to improve its delivery of affordable financing for modern healthcare facilities as the population ages. In so doing, the consolidation contributes to HUD's important role in supporting and preserving communities across the country. The healthcare mortgage insurance programs stimulate local economies and provide jobs. For example, 14,879 jobs will be generated during construction for the 10 hospitals that received insurance commitments during FY09. Following construction, those hospitals will continue as economic engines in their communities through employment at the hospital and the purchase of goods and services.

Additionally, Section 232 and Section 242 insurance can provide viable alternatives to many more projects experiencing difficulty in obtaining financing in today's credit markets.

With consolidation, HUD will be demonstrating that it continues to improve on its delivery of services through process redesign and use of information technology. Efficiencies are being created in the Section 232 program with a significant reduction in staffing requirements. Management of insurance risks in the 232 program also is improving through standardized "LEAN Office" processes. All of these actions are sending a signal not only to commercial lenders but to the general public that HUD is responsive to their needs.

Attachment 1
Office of Insured Healthcare Facilities
Existing Organization Chart

OFFICE OF INSURED HEALTHCARE

FACILITIES

DIRECTOR

ROGER MILLER

708-0599, RM. 9224

ASSISTANT SECRETARY

DAVID H. STEVENS

GENERAL DEPUTY ASSISTANT SECRETARY

JOSEPH SMITH

ASSOCIATE GENERAL DEPUTY ASSISTANT SECRETARY

RONALD SPRAKER

708-3600, RM. 9100

Attachment 1
Office of Healthcare Programs
Proposed Organization Chart
 April 9, 2009

