

Moving Forward Coalition

Federal Policy Recommendations

Build Back Better?

HUD's Nursing Home Opportunity

The Issue:

Nursing homes are people's homes. Yet many lack the features that promote privacy, dignity, community, and, in many cases, safety. They also don't serve the increasingly complex, acute, and behavioral care needs of residents. Smaller nursing homes with private rooms and bathrooms and accessible communal and outdoor spaces promote both quality of life and care.



NASEM Recommendation 1E:

Nursing home owners, with the support of federal and state governmental agencies, should construct and reconfigure (renovate) nursing homes to provide smaller, more home-like environments and/or smaller units within larger nursing homes that promote infection control and person-centered care and activities.

The Federal Policy Landscape:

In 2021 alone, the Department of Housing and Urban Development's (HUD) Section 232 Program insured nearly \$5 billion in loans for nursing home projects, yet its focus remains primarily on reducing the financial risk of the loans. With rare exceptions – such as a new green incentive – it does not support larger federal policy goals to improve infrastructure or quality.

Coalition Action:

Members of the Coalition met with HUD's Office of Residential Care Facilities (ORCF) to learn more about the program. At ORCF's suggestion, the team connected with the Healthcare Mortgagee Advisory Council (HMAC), an association of lenders. With the help of HMAC, the team developed a list of recommendations for the 232 Program to better incentivize nursing home modernization.

Proposed Solution:

Here are three changes HUD could make that do not require Congressional action nor additional inter-agency action.

1. Reduce Mortgage Insurance Premiums (MIPs). MIPs are fees paid by borrowers to lower the risk of their loan. They are a significant expense for borrowers and reducing them creates a meaningful financial incentive. HUD could reduce the MIP from its current level for nursing homes committed to meeting certain quality-oriented benchmarks.

Precedent: A recently introduced Green MIP Reduction program does the same for projects that meet energy and water use standards. The program lowers the MIP for nursing homes from 65 basis points annually to 25 basis points.

2. **Reduce Debt Service Requirements.** The required debt service coverage ratio is a key metric used to assess the ability to repay a loan and measures the cash flow to pay current debt obligations. This ratio currently ranges between 1.10 and 1.45. This means that for every \$1.00 in debt, the nursing home needs to generate somewhere between \$1.10 to \$1.45 in revenue. For new construction and major rehabilitation projects the ratio is set at the top end of that range: 1.45. Lowering it allows borrowers to borrow more – boosting the scale and impact of projects.

Equity: Nursing homes serving economically disadvantaged residents largely rely on Medicaid. Medicaid has lower reimbursement rates than other payers – limiting access to cash. These nursing homes are typically bigger and more institutional with worse quality and safety. Lowering debt service requirements for these homes could expand access to important renovations nursing home residents need.

3. **Waive the Sub-Rehabilitation Definition.** To transform the nation's older nursing home physical plants, we're going to need more than new construction. In addition to substantial rehabilitation and new construction, HUD insures loans for the purchase and refinance of nursing homes. This sub-program (232/223(f)) provides better terms but restricts operators to smaller renovation projects. In order to encourage operators purchasing or refinancing nursing homes to explore opportunities to build household models and take on other associated improvements, HUD could waive those restrictions on the scale of renovation.

Precedent: HUD has precedent for this sort of waiver under its mortgage insurance program for affordable housing with supportive services (Section 202) – where mortgagors may conduct repairs up to \$40,000 per housing unit under loans designed for purchase and refinancing.

In its 2022 report, [The National Imperative to Improve Nursing Home Quality](#), the National Academies of Sciences, Engineering & Medicine made a set of bold recommendations for federal policies to improve nursing home quality. Picking up where they left off, members of the Moving Forward Coalition prioritized three of these recommendations and worked together to develop the consensus and specificity to make them actionable for federal policymakers.

This one-page brief presents Moving Forward-backed steps HUD can take to enable modernization of nursing home physical plants. We hope you will share it with your representatives, policymakers, and community leaders to spur dialogue about actionable opportunities to improve nursing home quality for all residents, care partners, and staff members.

Together, we can move from action plans to action.