

# From Default to Recovery: Rethinking HUD's Nursing Facility Oversight

## ISSUE OVERVIEW

When a HUD-insured nursing facility project enters financial default, the path to resolution is long, opaque, and costly. The typical timeline to foreclosure, short sale, or inclusion in a HUD note sale spans 6 to 12 months—or longer. During this time, the loan balance grows unchecked, required reserve payments are suspended, and the underlying asset often deteriorates in value and operational viability.

The risk compounds when troubled projects are poorly performing to begin with. Facilities with low CMS star ratings, poor survey histories, and debt service coverage ratios below 1.0 rarely improve under continued ownership—and often decline further as financial pressure mounts. These delays serve no one: not the borrower, not the lender, and certainly not the federal taxpayer.

## THE CASE FOR REFORM

HUD has the tools to act faster—but current procedures are slow, reactive, and ill-suited to triaging troubled assets. While borrowers linger in technical default, projects languish, and better operators stand on the sidelines waiting for a pathway to step in.

To protect residents, reduce taxpayer exposure, and foster stability in the HUD portfolio, HUD should adopt a streamlined resolution pathway—one that fast-tracks exit for bad actors while making it easier for qualified providers to take over and turn around distressed assets.



This white paper outlines reforms to speed up post-default resolution. For strategies HUD can adopt to identify and intervene before default occurs, see our companion post:

- [Don't Wait for a Default: HUD Needs an Early Intervention Playbook](#)

And for specific reforms to **hold lenders and underwriters accountable for repeated failures**, see:

- [5 Ways HUD Can Rein in Repeat Risk from Lenders](#)

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### PROPOSED SOLUTIONS

#### 1 Triage Early, Act Fast

HUD should implement an early triage protocol for defaults. For projects with both financial distress and operational red flags—such as CMS 1- or 2-star ratings or multiple Immediate Jeopardy survey citations—HUD should fast-track resolution.

- **HUD lenders should be required to notify HUD within 10 business days** of any event of default involving a troubled project.
- Upon notification, HUD should immediately begin disposition planning, including short sale valuation, foreclosure feasibility, or note sale preparation

#### 2 Pre-Position FHA Claims and Asset Review

HUD should permit lenders to initiate FHA mortgage insurance claims concurrently with the borrower's cure period.

- While the statutory claim window remains in place, pre-positioning the paperwork would allow for assignment on the earliest possible day.
- During this window, HUD should also determine whether the asset should be resolved through sale to a known high-quality operator, short sale, or inclusion in the next note sale.

#### 3 Create a "Preferred Operator" Fast-Track

HUD should establish a preferred operator process that allows high-quality providers to step in quickly when troubled facilities enter default.

- Providers with a track record of CMS 4- or 5-star operations, clean compliance histories, and sound financials could be prequalified to assume HUD-insured assets.

- In qualifying cases, HUD could approve assumptions or short sales to these providers under an expedited review process with minimal red tape.

This would shorten timelines, preserve resident care, and increase the likelihood of a successful turnaround.

#### 4 Increase Frequency and Transparency of Note Sales

HUD currently holds note sales irregularly—often every 6 to 12 months. That cadence is too slow for volatile healthcare assets.

- HUD should commit to a **quarterly or four-month note sale schedule**, with public deadlines for loan inclusion.
- Transparency will allow lenders and borrowers to plan exits more predictably—and avoid unnecessary deterioration in the interim.

#### 5 Incentivize Voluntary Exit by Poor Performers

For borrowers with declining assets and no viable turnaround plan, the current HUD process creates incentives to stall rather than exit.

- HUD should condition note sale participation or favorable settlement terms on **voluntary cooperation and documentation** of transition planning.
- HUD might also consider **tiered insurance recoveries** based on borrower cooperation and the preservation of resident care during transition.



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## 6 Establish a Default Consequences Framework for Borrowers and Lenders

HUD should ensure that both borrowers and lenders share responsibility for project outcomes—not just during origination, but over the life of the loan.

- **Place defaulting operators on a five-year probation period** during which they may not return to HUD financing or assume additional HUD-insured projects.
- **Hold HUD-approved lenders and underwriters accountable** for repeated underwriting of failing operators by implementing targeted reforms, including:
  - **A reduced servicing fee** for lenders whose portfolios show high default rates or repeated failures.
  - **A performance-based underwriting scorecard** to track and evaluate lender risk exposure.
  - **Mandatory enhanced underwriting requirements** for lenders submitting deals involving repeat defaulters.
  - **A temporary penalty period** restricting streamlined submissions for lenders with poor performance histories.
  - **Public transparency** through a Lender Performance Scorecard published annually by HUD.

These measures create clear incentives for lenders to act as long-term stewards—not just deal originators.

*Read more in our detailed breakdown of lender accountability tools:*

- **5 Ways HUD Can Rein in Repeat Risk from Lenders**

### WHY IT MATTERS

Time is risk. Each month of delay inflates the HUD insurance claim, erodes the value of the asset, and puts residents and staff at risk. A faster, smarter resolution model—one that welcomes good providers and filters out bad ones—protects the fund, the public, and the people these facilities are meant to serve.