

**Addendum to Underwriting
Narrative – Project Capital
Needs Assessment (PCNA)**
Section 232/223(a)(7)

**U.S. Department of Housing
and Urban Development**
Office of Residential
Care Facilities

OMB Approval No. 9999-9999
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Public reporting burden for this collection of information is estimated to average 1.5 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation that must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number.

Warning: Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of the U.S. Department of Housing and Urban Development is subject to criminal penalties, civil liability, and administrative sanctions.

NOTE: This addendum is applicable for Section 223(a)(7) when a term extension is requested or when it has been more than 10 years since the last PCNA inspection.

Project Capital Needs Assessment (PCNA)

Date of Inspection: _____
 Firm: _____
 Needs Assessor: _____
 Units Inspected: _____ units (_____ % of units)

The scope of the inspection consisted of a visual evaluation of the project site, building exteriors, roof, interior common areas, all mechanical rooms, and a sampling of resident units (as indicated above). The report was prepared in accordance with HUD’s requirements, as provided in applicable guides or handbooks, for a Limited Scope PCNA.

A summary of the PCNA and underwriting conclusions

PCNA Repair Summary		
	PCNA	Underwriter
Critical Repairs		
Non-Critical Repairs		
Borrower Proposed Repairs:		
Total Repairs:		

Key PCNA Questions

	Ye s	N o
1. Will the non-critical and/or borrower-proposed repairs be escrowed at closing?	<input type="checkbox"/>	<input type="checkbox"/>
a. Will the escrowed repairs take more than 12 months to complete?	<input type="checkbox"/>	<input type="checkbox"/>
b. Is the repair escrow to be less than 120% of the repair estimate?	<input type="checkbox"/>	<input type="checkbox"/>
2. Will replacement reserve funds be used to fund any of the required or proposed repairs?	<input type="checkbox"/>	<input type="checkbox"/>
3. Do any of the repairs require drawings and/or specifications?	<input type="checkbox"/>	<input type="checkbox"/>
4. Do any of the repairs require relocation of the tenants?	<input type="checkbox"/>	<input type="checkbox"/>
5. Will any of the repairs create vacancy issues requiring an operating deficit?	<input type="checkbox"/>	<input type="checkbox"/>
6. Will any of the repairs require permits or locality approvals?	<input type="checkbox"/>	<input type="checkbox"/>
7. Will any of the repairs require a review by the State licensing authority?	<input type="checkbox"/>	<input type="checkbox"/>
8. Were any specialty reports (e.g., seismic, wood destroying organisms, etc.) required?	<input type="checkbox"/>	<input type="checkbox"/>

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. If not applicable, indicate “NA” in the No column.

Example:

Repair Escrow: *The non-critical and borrower proposed repairs will be escrowed at closing, for further detail see the Repair section below.>>*

Lender Modifications

<<Provide a brief summary of modifications made by underwriter. If none, state none.

Example: *“The PCNA’s analysis of reserve requirements for major movable equipment included replacement of the facility’s bus/van. The underwriter has deleted this item as it is not eligible for reimbursement from the replacement reserve account.”>>*

Fire / Building Codes and HUD Standards

<<Provide narrative description regarding needs assessor’s finding, application exhibits (8-5 and 8-6)>>

Handicapped Accessibility

<< Provide a brief summary of modifications made by underwriter. If none, state none.

Example: *“Per the needs assessor, the facility is in substantial compliance with the Fair*

Housing Accessibility Guidelines. The needs assessor calls for installation of enunciator/strobe light smoke detectors in one unit in each building under Section 504...>>

Seismic Evaluation

<< Provide narrative discussion. Example: “The facility is located within seismic zone 2B, an area of limited potential for earthquake ground shaking. No additional evaluation is required regarding seismic activity.”>>

Repairs

Critical Repairs

<<Provide a brief summary of the required critical repairs. If none, state none. See example for Non-Critical Repairs below.>>

Non-Critical Repairs

<<Provide a brief summary of the required critical repairs. If none, state none. Example: The needs assessor identified the following non-critical repair items totaling \$XXXX:

- 1. Remove and replace...Estimated cost: \$XXXX.*
- 2. Provide a fire alarm annunciator, including strobe lighting, for... Estimated cost: \$XXXX.>>*

Borrower Proposed Repairs

<<Provide a brief summary of the borrower proposed repairs. If none, state none. See example for Non-Critical Repairs above.>>

Completion and Inspection of Repairs

The repair list attached to Exhibit C of the Draft Firm Commitment clearly describes the location of the repairs and what is required. The description is sufficiently detailed so that an experienced person can perform the work and that an experienced inspector can inspect with minimal additional direction or consultation.

Replacement Reserves

Replacement Reserve Summary		
	Amount	Per Unit
Initial Deposit	\$	\$
Annual Deposit Years: 1-15	\$	\$

<<Annual deposits ordinarily should not change from year to year. If the Needs Assessor has proposed a replacement reserve schedule with a change in the annual deposit, identify the change here and justify it. The project must be able to handle the proposed change at that time.>>

General Review

The replacement reserve analysis includes a combined analysis of both capital items and major movable equipment. The underwriter has reviewed the replacement reserve schedule and provided a summary analysis below. The full 15-year replacement reserve schedule, including the major movable analysis, is provided as Exhibit B to the Draft Firm Commitment submitted with this narrative.

In the analysis below, the underwriter spreads the anticipated replacements by year based on the needs assessor's replacement reserve analysis and assumes an interest of % and an inflation rate of %.

Year		0	1	2	3	4	5
Interest Earned	2.0%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Deposit		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Initial Deposit	\$ -						
Total Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Claims		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Claims		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Year		6	7	8	9	10	
Interest Earned		\$ -	\$ -	\$ -	\$ -	\$ -	
Annual Deposit		\$ -	\$ -	\$ -	\$ -	\$ -	
Initial Deposit							
Total Deposits		\$ -	\$ -	\$ -	\$ -	\$ -	
Claims		\$ -	\$ -	\$ -	\$ -	\$ -	
Cumulative Claims		\$ -	\$ -	\$ -	\$ -	\$ -	
Balance		\$ -	\$ -	\$ -	\$ -	\$ -	
Year		11	12	13	14	15	
Interest Earned		\$ -	\$ -	\$ -	\$ -	\$ -	
Annual Deposit		\$ -	\$ -	\$ -	\$ -	\$ -	
Initial Deposit							
Total Deposits		\$ -	\$ -	\$ -	\$ -	\$ -	
Claims		\$ -	\$ -	\$ -	\$ -	\$ -	
Cumulative Claims		\$ -	\$ -	\$ -	\$ -	\$ -	
Balance		\$ -	\$ -	\$ -	\$ -	\$ -	

As you can see, the year-end balance for each year through year 15 is positive, indicating that the initial and annual deposit are sufficient based on these assumptions. The HUD program requires the lender to re-analyze the capital needs in year 10.