

**Public reporting burden** for this collection of information is estimated to average 70 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.

**Privacy Act Notice:** The Department of Housing and Urban Development, Federal Housing Administration, is authorized to collect the information requested in this form by virtue of: The National Housing Act, 12 USC 1701 et seq. and the regulations at 24 CFR 5.212 and 24 CFR 200.6; and the Housing and Community Development Act of 1987, 42 USC 3543(a). The information requested is mandatory to receive the mortgage insurance benefits to be derived from the National Housing Act Section 232 Healthcare Facility Insurance Program. No confidentiality is assured.

---

## **INSTRUCTIONS:**

The narrative is a document critical to the Lean Underwriting process. Each section of the narrative and all questions need to be completed and answered. If the lender's underwriter disagrees and modifies any third-party report conclusions, provide sufficient detail to justify. The narrative should identify the strengths and weaknesses of the transactions and demonstrate how the weaknesses are mitigated by the underwriting.

- **Charts:** The charts contained in this document have been created with versatility in mind; however they will not be able to accommodate all situations. For this reason, you are allowed to alter the charts as the situation demands. Be sure to state how you have altered the charts along with your justification. Include all the information the form calls for. Charts that include blue text indicate names that should be modified by the lender as the situation dictates.
- **Applicability:** If a section is not applicable, state so in that section and provide a reason. Do not delete a section heading that is not applicable. The narrative will be checked to make certain all sections are provided. If a major section is not applicable, add “ – Not Applicable” to the heading and provide the reason. For instance:

### **Parent of the Operator – Not Applicable**

This section is not applicable because there is no operator.

The rest of the subsections under the inapplicable section can then be deleted. This instruction page may also be deleted.

- **Format:** In addition to submitting the PDF version of the Lender Narrative to HUD, please also submit an electronic Word version.

Instead of pasting large portions of text from third-party reports into the narrative, it is preferred that the lender simply reference the page number and the report. The focus of this document is for lender conclusions, analyses, and summaries.

Italicized text found between these characters <<EXAMPLE>> is instructional in nature, and may be deleted from the lender's final version. Please use the gray shaded areas (e.g., ) for your response. Double click on a check box and then change the default value to mark selection (e.g., )

<<Insert Project Photo>>

## Table of Contents

Executive Summary.....	7
Transaction Overview.....	9
Purpose of the Transaction.....	10
Sensitivity Analysis.....	10
Program Eligibility.....	10
Lender Loan Committee.....	11
3-Year Rule.....	11
Substantial Rehabilitation.....	12
Commercial Space/Income.....	13
Independent Units.....	14
Licensing/Certificate of Need/Keys Amendment.....	14
Identities-of-Interest.....	15
Risk Factors.....	15
Strengths.....	17
Underwriting Team.....	17
Lender.....	17
Needs Assessor.....	17
Environmental Consultant.....	17
Appraiser.....	17
Property Description.....	18
Site.....	18
Neighborhood.....	18
Zoning.....	18
Utilities.....	18
Improvement Description.....	18
Buildings.....	18
Parking.....	18
Unit Mix & Features.....	19
Services.....	19
Appraisal.....	19
Hypothetical Conditions and Extraordinary Assumptions.....	19
Obsolescence/Depreciation and Remaining Economic Life.....	20
Market Analysis.....	20
Market Analysis Overview.....	21
Primary Market Area (PMA).....	21
Target Population.....	21
Demand.....	22
Competitive Environment (Supply).....	22
Conclusion.....	22
Income Capitalization Approach.....	22
Financial Statements.....	22
Occupancy.....	23
Census Mix.....	23
Rent Schedule - As Is.....	24
Historical Revenue Summary.....	25
Expenses.....	30
Net Operating Income (NOI).....	33
Underwritten Reserve for Replacement.....	35

Capitalization Rate.....	36
Sales Comparison Approach.....	36
Price Per Unit/Bed.....	37
Effective Gross Income Multiplier (EGIM).....	37
Subject Purchases.....	37
Cost Approach.....	37
Development Costs.....	37
Depreciation.....	37
Major Movable Equipment.....	37
Land Value.....	37
Overall Value Reconciliation.....	38
Lender Modifications.....	38
ALTA/ACSM Land Survey.....	38
Title.....	39
Title Search.....	39
Pro Forma Policy.....	39
Environmental.....	40
Phase I Site Assessment.....	40
Lender Comments.....	41
Other Environmental Concerns.....	42
State Historic Preservation Office (SHPO) Clearance.....	43
Flood Plain.....	43
Project Capital Needs Assessment (PCNA).....	44
Lender Modifications.....	46
Fire/Building Codes and HUD Standards.....	46
Handicapped Accessibility.....	46
Seismic Evaluation.....	46
Repairs.....	47
Critical Repairs.....	47
Non-Critical Repairs.....	47
Borrower Proposed Repairs.....	47
Completion and Inspection.....	47
Replacement Reserves.....	47
Borrower.....	48
Organization.....	49
Experience/Qualifications.....	49
Credit History.....	49
Financial Statements.....	50
Conclusion.....	51
Principal of the Borrower – <<enter Principal Name>>.....	51
Organization (not applicable to individuals).....	51
Experience/Qualifications.....	52
Credit History.....	52
Other Business Concerns/232 Applications.....	53
Financial Statements.....	53
Conclusion.....	53
Operator.....	53
Organization.....	54
Experience/Qualifications.....	54
Credit History.....	55
Financial Statements.....	55
Net Income Analysis.....	56
Conclusion.....	56
Parent of the Operator (if applicable).....	57
Organization.....	57
Experience/Qualifications.....	57

Credit History.....	58
Other Business Concerns/232 Applications.....	58
Other Facilities Owned, Operated or Managed.....	59
Financial Statements.....	59
Net Income Analysis.....	60
Conclusion.....	60
Management Agent (if applicable).....	61
Previous HUD Experience.....	61
Management Agent’s Duties and Responsibilities.....	61
Experience/Qualifications.....	62
Credit History.....	62
Other Facilities Owned, Operated or Managed.....	62
Past and Current Performance.....	63
Management Agreement.....	63
Management Certification.....	64
Conclusion.....	64
Operation of the Facility.....	64
Administrator.....	64
Subject’s State Surveys.....	65
Staffing.....	65
Operating Lease.....	66
Lease Payment Analysis.....	66
Responsibilities.....	67
HUD Lease Provisions.....	67
Master Lease.....	68
Accounts Receivable (A/R) Financing.....	68
Terms and Conditions.....	69
Collateral/Security.....	69
Permitted Uses and Payment Priorities.....	69
Financial Analysis.....	70
Historical AR Loan Costs.....	70
Proposed AR Loan Costs.....	70
Recommendation.....	71
Insurance.....	72
Professional Liability Coverage (PLI).....	72
Lawsuits.....	74
Recommendation.....	74
Property Insurance.....	75
Fidelity Bond/Employee Dishonesty Coverage.....	75
Mortgage Determinants.....	75
Overview.....	75
Mortgage Term.....	75
Type of Financing.....	75
Amount Based on Required Loan-to-Value (Criterion D of HUD-92264a-ORCF).....	76
Amount Based on Required Debt Service Coverage (Criterion E of HUD-92264a-ORCF).....	76
Amount Based on the Cost to Refinance (Criterion H of HUD-92264a-ORCF).....	76
Amount Based on Deduction of Grants, Loans, Gifts (Criterion L OF HUD-92264a-ORCF).....	77
Existing Indebtedness.....	77
Legal and Organizational Costs.....	80
Title and Recording Fees.....	80
Other Fees.....	80
HUD Fees.....	80
Financing Fees.....	81
Sources & Uses.....	81
Secondary Sources.....	81
Surviving Debt.....	82

Other Uses.....	82
Circumstances that May Require Additional Information.....	82
Special Commitment Conditions.....	83
Conclusion.....	83
Signatures.....	83

# Executive Summary

**FHA Number:**  
**Project Name:**  
**Project Address:**  
**City / State / Zip:**

**Lender Name:**

**Section of the Act:** 232/223(f)  Refinance  Purchase

**Part of a small, medium, or large portfolio:**  Yes  No If yes, describe:

**Unit Breakdown:**

Room Type	Care Type	Beds	Units
e.g. private	e.g. Assisted Living:		
e.g. semi private	e.g. Skilled Nursing:		
e.g. 3 bed ward	e.g. Board & Care:		
e.g. 4 bed ward	e.g. Dementia Care:		
	e.g. Independent:		
<b>Totals:</b>			

<b>Mortgage Amount:</b> \$ _____	LTV: _____ %	Loan to Transaction Cost: _____ %
<b>Medicare.Gov Star Rating</b> _____ # stars	Term: _____ months	Interest rate: _____ %
Underwritten Value: \$ _____	DSCR with MIP): _____ %	Principal & Interest \$ _____ per month
	Cap rate: _____ %	Value per bed/unit*: \$ _____
Effective gross income: \$ _____		Underwritten occupancy rate: _____ %
Expenses & repl. res.: \$ _____		Expense ratio: _____ %
Net operating income: \$ _____		Expense per bed/unit*: \$ _____

*\*Use per bed for SNF, or facilities with multiple care types (e.g., SNF/AL). Use per unit for ALF only.*

Repair amount: \$ \_\_\_\_\_  Critical  Non-critical  Borrower Proposed Annual deposit(s) for 15 yrs.: \$ \_\_\_\_\_

Replacement reserves: \$ \_\_\_\_\_ Initial deposit: \$ \_\_\_\_\_

Other escrows/reserves: \$ \_\_\_\_\_ <<description of other escrows/reserves>>

**Borrower:** <<Legal Name>>  
**Operator:** <<Legal Name>>  Operating lease  
**Parent of Operator:** <<Legal Name>>  
 Does the operating lease cover multiple properties or tenants (is it a master lease)?  Yes  No  
**Management Agent:** <<Legal Name>>  
**License held by:** <<Legal Name>>  
**Resident contracts with:** <<Entity with whom residents contract for services>>

**Third Party Reports provided:**

<input type="checkbox"/> Appraisal	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by lender.
<input type="checkbox"/> PCNA	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by lender.
<input type="checkbox"/> Phase I Environmental	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by lender.
<input type="checkbox"/> Other <<identify>>	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by lender.

**Portfolios**

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Do any of the principals of the borrower own any other projects insured or held by HUD? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Do any of the principals of the borrower plan to submit an application for mortgage insurance to HUD in the next 18 months? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Have any of the principals of the borrower submitted an application for mortgage insurance to HUD in the past 18 months? .....	<input type="checkbox"/>	<input type="checkbox"/>

If you answer “yes” to any of the above questions, identify the size of the portfolio. Complete the “Other Section 232 Applications” chart. (Consolidated Certification – Parent of the Borrower).

<<For each “yes” answer above, provide a narrative discussion regarding the topic.>>



## Transaction Overview

### Key Questions

	Yes	No
1. Is any of the current project debt HUD-insured or HUD-held? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Is the borrower a non-profit or public entity <u>and</u> are the non-profit mortgage criteria utilized in the underwriting? (If yes, operator must also be a non-profit entity.) .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the underwriting include income from adult day care? <i>(Note: Non-resident adult day care space <u>may not</u> be located on a separate site. The adult day care space will not be considered commercial space; however, the space may not exceed 20% of the gross floor area of the facility and the income may not exceed 20% of gross income. Provide a Certificate of Need or operating license, if applicable.)</i> .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Is there a ground lease? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Is any real estate tax abatement or exemption included in the underwriting assumptions? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Is the property subject to any special assessments? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. Is an operating deficit escrow required for this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>
8. Are there any special escrows or reserves proposed for this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>
9. Is the transaction being processed as a purchase? (If yes, answer questions "a" through "f" below.) .....	<input type="checkbox"/>	<input type="checkbox"/>
a. Will the purchased facility have negative working capital (current assets minus current liabilities) at the date of purchase? .....	<input type="checkbox"/>	<input type="checkbox"/>
b. Are any of the work write-up repairs or replacement reserves included in the purchase agreement? (If yes, these are not allowable and should be deducted from the price.) .....	<input type="checkbox"/>	<input type="checkbox"/>
c. Is a non-identity of interest operator purchasing the facility and including the costs of debt-financed improvements in the purchase price? (If yes, these are not allowable and should be deducted from the price.) .	<input type="checkbox"/>	<input type="checkbox"/>
d. Does the value exceed the purchase price (less seller financing)? .....	<input type="checkbox"/>	<input type="checkbox"/>
e. Is state regulatory approval needed for license transfer? .....	<input type="checkbox"/>	<input type="checkbox"/>
f. If there are critical repairs, is there a plan for the buyer to gain access to the property to complete critical repairs prior to closing? .....	<input type="checkbox"/>	<input type="checkbox"/>
10. Is a REIT involved? .....	<input type="checkbox"/>	<input type="checkbox"/>
11. Are there any waivers proposed for this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>
12. If the MEDICARE.GOV Star Rating applies to this project, is the project's overall rating less than a three? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>
13. Does the facility require more than four residents share a full bathroom (see 24 CFR 232.3)? .....	<input type="checkbox"/>	<input type="checkbox"/>
14. Are any residents required to access a qualifying bathroom by moving through a public corridor or area (see 24 CFR 232.3)? .....	<input type="checkbox"/>	<input type="checkbox"/>
15. Has the property changed ownership within the last 2 years? .....	<input type="checkbox"/>	<input type="checkbox"/>

Yes No

16. Does the underwriting reflect a change in operations that departs from the historical number of potential resident days? .....

<<For each “yes” answer above, provide a narrative discussion regarding the topic. As applicable, discuss the issue and its affect on underwriting. Describe any potential risks and the mitigants. For waivers, identify specific provisions to be waived and justification for the waiver.>>

**Purpose of the Transaction**

<<Provide a brief summary of the unique characteristics of the project and key deal points that HUD’s underwriter and loan committee should be aware of while reading the narrative. Examples of unique issues and key deal points:

- Identity of interest purchase being treated as a refinance
- Borrower proposed repairs are adding units
- Facility is master leased
- Timing issues for closing or pay-off, etc.

This section should not be a lengthy restatement of the rest of the narrative. It is merely to highlight key points. If there are no unique characteristics or key deal points to highlight, you can make a simple statement, such as “The purpose of this transaction is to refinance the existing debt.”>>

**Sensitivity Analysis**

<<Provide a Sensitivity Analysis and identify sensitivities that exist in the proposed census mix. In addition, the analysis shall provide the following: >>

If everything else under consideration remains the same (ceteris paribus), then:

- (a) The average rental rate can drop by \$\_\_\_\_\_ per month and still provide 1.0 debt cover.
- (b) Occupancy rate could decrease by \_\_\_\_\_% and still provide a 1.0 debt cover.
- (c) Operating expenses could increase \_\_\_\_\_% per year and still provide a 1.0 debt cover.
- (d) The NOI could drop by \$\_\_\_\_\_ ( \_\_\_\_\_%) and still provide a 1.0 debt cover.

**Program Eligibility**

**Key Questions**

Yes No

1. Does the facility charge “founder’s fees,” “life care fees,” or other similar charges associated with “buy-in” facilities? .....    
2. Has the facility, borrower, operator, or any of their affiliates’ renamed or

	Yes	No
reformulated companies, or filed for or emerged from bankruptcy within the last 5 years? .....		
3. Is the facility, borrower, operator, or any of their affiliates' renamed or reformulated companies, currently in bankruptcy? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Is less than continuous protective oversight provided at the facility? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there any "minimum assistance" requirements necessary to qualify under the Section 232 mortgage insurance program, that the facility does not plan to offer? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Are there floodways or coastal high hazard areas, other than incidental portions, located onsite*? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<If you answered "yes" to any of the questions above, this facility is not eligible under this program. >>

\*Exception: The floodway and coastal high hazard area prohibitions do not apply if only an incidental portion of the project is in the 100-year floodplain, or for critical actions, the 500-year floodplain, and certain conditions are met in accordance with 24 CFR 55.12(c)(6).

### **Lender Loan Committee**

Date held: \_\_\_\_\_

<<Provide a brief narrative summary of loan committee, including information provided and any pertinent requirements/conditions of the loan committee to gain the committee's recommendation.>>

### **3-Year Rule**

Year(s) project was constructed: \_\_\_\_\_

#### Program Guidance – CFR 232.902

Existing projects (with such repairs and improvements as are determined by the Commissioner to be necessary) are eligible for insurance under this subpart. The project must not require substantial rehabilitation and three years must have elapsed from the date of completion of construction or substantial rehabilitation of the project, or from the beginning of occupancy, whichever is later, to the date of application for insurance. In addition, the project must have attained sustaining occupancy (occupancy that produces income sufficient to pay operating expenses, annual debt service, and reserve fund for replacement requirements) as determined by the Commissioner, before endorsement of the project for insurance; alternatively, the mortgagor must provide an operating deficit fund at the time of endorsement for insurance, in an amount,

and under an agreement, approved by the Commissioner.

Select one of the following:

- The entire facility was constructed more than 3 years ago and has not undergone any substantial rehabilitation in the last three years.
- An addition to the facility was constructed less than 3 years ago. However, the addition was not larger than the project in size (gross floor area) and number of beds.

a. Gross Floor Area (GFA):	_____	d. Total beds:	_____
b. Sq. ft. added in last 3 yrs.:	_____	e. Beds added in last 3 yrs.:	_____
c. % of GFA added:	_____ <<b / a>>	f. % of beds added:	_____

<<Provide further explanation, if necessary. If the facility does not meet either of the criteria above, the loan is not eligible under this program.>>

### **Substantial Rehabilitation**

Select all applicable statements:

- The estimated cost of the repairs represents less than 15% of the project's value after completion.

a. Underwritten value:	_____	\$
b. Total estimated cost of repairs:	_____	\$
c. Repairs as % of value:	_____	<<b / a>>

- The repairs do not include the substantial replacement of two or more major building components.

<<Provide further explanation, if necessary. If the facility does not meet either of the criteria above, the loan is not eligible under this program. (Note: Concerning replacement of major building components, total replacement is not required, but the greater part (at least 50%) must be replaced.>>

## Commercial Space/Income

Select one of the following:

- There is no commercial space at the subject.
- There is commercial space at the subject; however, it does not exceed the program limitations of 20% of the total net rentable area of the project and 20% of the effective gross income.

a. Total net rentable area :	_____	d. EGI:	_____
b. Net rentable commercial area:	_____	e. Eff. commercial income:	_____
c. % of commercial area:	<<b / a>>	f. % of commercial income:	<<e / d>>

<<Provide further explanation, if necessary. If the facility does not meet either of the criteria above, the loan is not eligible under this program.>>

### Program Guidance:

The commercial limits are a maximum of 20% of the gross floor area of the project and 20% of the gross project income. Commercial space that is intended to exclusively serve the residents of the facility is not counted toward the 20% space and income limitations. Non-resident adult day care space will not be considered commercial space. However, the adult day care space may not be located on a separate site, the space may not exceed 20% of the gross floor area of the facility, and the income may not exceed 20% of gross income. (Provide a Certificate of Need or operating license, if applicable.)

All non-residential leases, including renewals or extensions of existing leases must comply with the following language:

1. Such leases are subordinate to the lien of this Security Instrument and; the tenant shall, upon receipt after the occurrence of an Event of Default of a written request from Lender, pay all Rents payable under the Lease to Lender; and the tenant shall attorn to Lender and any purchaser at a foreclosure sale, such attornment to be self-executing and effective upon acquisition of title to the Mortgaged Property by any purchaser at a foreclosure sale or by Lender in any manner;
2. The tenant agrees to execute such further evidences of attornment as Lender or any purchaser at a foreclosure sale may from time to time request;
3. The Lease shall not be terminated by foreclosure or any other transfer of the Mortgaged Property; and after a foreclosure sale of the Mortgaged Property or after transfer of the Mortgaged Property to Lender by a deed-in-lieu of foreclosure, Lender or any purchaser at such foreclosure sale may, at Lender's or such purchaser's option, accept or terminate such Lease;

4. Borrower shall not receive or accept rent under any lease (whether residential or non-residential) for more than two months in advance.

### **Independent Units**

Select all applicable statements:

- There are NO unlicensed/independent units at the subject.
- There are unlicensed/independent units at the subject; however, the total does not exceed 25% of the total beds at the facility.
- a. Total beds: \_\_\_\_\_
- b. Unlicensed independent beds: \_\_\_\_\_
- c. Independent beds as % of total:  $\langle \langle b / a \rangle \rangle$  \_\_\_\_\_
- A waiver is requested to exceed 25% of the total beds at the facility.

#### Program Guidance:

It has been longstanding policy that HUD will allow up to 25% of the units in a Section 232 facility to be Independent Living (IL) units. This policy remains unchanged under Lean. However, please note the following:

- The facility must offer services to all residents in the project comparable to those found in a skilled nursing facility, assisted living facility, board and care, or intermediate care facility.
- A license is not required for the IL units; however, all of the other units in the facility must be licensed.
- Waivers to exceed the 25% limit will be considered on a case-by-case basis for good cause. Please note that waivers have not been provided when the number of IL units exceeds 30% of the total project units.

### **Licensing/Certificate of Need/Keys Amendment**

*<<Provide affirmative statement along the lines of: “The facility is licensed by the State of {State}’s Department of Health and Welfare as a {Type of Facility} for {X} beds. The license is issued to {Name of Entity on License}. It is effective {date}, through {date}. The license covers {number of beds}.”>>*

<<Provide affirmative statement along the lines of: “There is no Certificate of Need (CON) requirement in {State} for {Type of Facility}.” – OR – “A Certificate of Need (CON), dated {XXX} was issued by the State of {State} authorizing XX beds...”>>

<<(Applicable to B&C’s.) Provide affirmative statement along the lines of: “The State of {State} has certified its compliance with Section 1616(e) of the Social Security Act (Keys Amendment).”>>

## **Identities-of-Interest**

### **Key Questions**

	<b>Yes</b>	<b>No</b>
1. Have you, as the lender, identified any identities of interest on your certification? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the borrower’s certification indicate any identities of interest? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Do any of the certifications provided by principals of the borrower identify any identities of interest? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the operator’s certification (if applicable) indicate any identities of interest? ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the management agent’s certification (if applicable) indicate any identities of interest? ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
6. Are there any identity of interest issues involving the underwriting lender, mortgage broker, or seller? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the lender know, or have any reason to believe, that any of the assertions in the other Consolidated Certifications submitted herewith, are inaccurate or incomplete? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion regarding the topic. As applicable, describe the risk and how it will be mitigated. For example: The borrower and operator are related parties – John Doe has ownership in both entities. No other identities of interest are disclosed. >>

## **Risk Factors**

### **Key Questions**

	<b>Yes</b>	<b>No</b>
1. Is the proposed mortgage higher than 80% (85% for non-profit facilities) of the lender’s concluded value? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Is the debt service coverage of the loan less than 1.45? .....	<input type="checkbox"/>	<input type="checkbox"/>

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | <b>Yes</b>               | <b>No</b>                |
| 3. Is the project being underwritten at an NOI that is significantly above historical NOI? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Is this a “special use facility” that serves a “niche” type of market (i.e., psychiatric facilities; drug, alcohol, or eating disorder recovery facilities; hospice facilities; or short-term rehabilitation facilities)? ..... | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.

**Example: Debt Service Coverage Lower than XXX:** {If the debt service coverage of the loan is less than 1.45, the lender must provide sufficient justification/mitigation to support the additional risk associated with the loan. The HUD Underwriter will be required to specifically approve this item and may ask for additional input and request a discussion with the lender and/or HUD HQ.}>>

<<Below is a summary of the Lean underwriting benchmarks for loan-to-value (LTV) and debt service coverage ratio (DSCR).

Type of Unit	New/Existing Units	Borrower Type	Max. LTV*	Min. DSCR*
SNF/ILU	Both	For Profit	80%	1.45
SNF/ILU	Both	Non-Profit **	85%	1.45
ALF	New	For Profit	75%	1.45
ALF	New	Non-Profit **	80%	1.45
ALF	Existing	For Profit	80%	1.45
ALF	Existing	Non-Profit **	85%	1.45

\*Maximum loan-to-values and minimum debt service coverage ratios are set by the Section 232 Statute and Regulations. Any submittal above the LTV’s listed or below the DSCR’s listed will require justification/mitigation.

\*\*To qualify for the higher non-profit benchmarks, the owner/operator must demonstrate a successful operating track record, significant project operating and management experience, an a solid financial track record.>>

**Other Risk Factors Identified by Lender**

Additionally, the lender has identified the following risk factors:

<<Provide discussion on other risk factors identified by the lender and how they are mitigated.>>



## **Strengths**

<<Provide discussion of the strengths of the transaction. This is an appropriate place to talk about any capital improvements that have been made in recent years.>>

## **Underwriting Team**

### ***Lender***

Name: \_\_\_\_\_

Underwriter: \_\_\_\_\_

Underwriter trainee: \_\_\_\_\_

Lender #: \_\_\_\_\_

Site inspection date: \_\_\_\_\_

Inspecting underwriter: \_\_\_\_\_

### **Lender's Underwriter**

<<Brief description of qualifications. The inspecting underwriter must be underwriter of record that is assigned to the project. >>

### **Underwriter Trainee** (if applicable)

<<Brief description of qualifications.>>

### **Inspecting Underwriter** (if applicable)

<<Brief description of qualifications. A MAP-approved 232 Underwriter or Lean-approved 232 Underwriter employed by the lender must visit the site AND sign this narrative.>>

### ***Needs Assessor***

<<Brief description of qualifications.>>

### ***Environmental Consultant***

<<Brief description of qualifications.>>

### ***Appraiser***

<<Brief description of qualifications demonstrating that appraiser meets HUD requirements:

- *Must be a Certified General Appraiser under the appraiser certification requirements of the state that the subject property is located, as of the effective date of the appraisal*

(temporary certifications are permissible). Lender verification of an appraiser's current standing can be done at <http://www.asc.gov>

- Must meet all requirements of the Competency Rule of the USPAP. >>

## **Property Description**

### **Site**

<<Brief narrative description about site to include location, topography, size, frontage, access, etc. >>

### **Neighborhood**

<<Brief narrative description about neighborhood area to include major cross streets and access routes; distance to services, hospitals, etc.; adjacent property uses; predominant character or neighborhood; etc.>>

### **Zoning**

Legal Conforming     Legal Non-Conforming     Other

<<Narrative description: identify local jurisdiction; zoning designation; results of Zoning Letter provided in Exhibit 8-5 of application submission; and discuss any variances, conditional uses, non-conformance or other pertinent issues affecting zoning. If the building is not a legal conforming use, discuss the adequacy of the zoning ordinance insurance coverage and/or recommend a condition to mitigate this risk.>>

### **Utilities**

<<Narrative description - Identify utilities in use at site. Discuss any limitations in service and any other issues that would affect the operation of the facility. Also clearly indentify the utilities to be paid by the residents.>>

## **Improvement Description**

### **Buildings**

<<Brief narrative description to include number of buildings; construction types; building size; describe common areas; amenities, etc. >>

### **Parking**

<<Narrative description about the parking including the number of spaces, compliance with

accessibility, adequacy of the parking, and any parking easements. Also, discuss any zoning or marketability issues. >>

## Unit Mix & Features

(Double click inside the Excel Table to add information)

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
Totals:	-	-				

<<Brief narrative description of the units including: bathrooms, appliances, flooring, included furnishings, hook-ups, patios, etc. >>

## Services

<<Narrative description of services provided - Identify which services are included in rent and which services are available for extra charges, as applicable. >>

## Appraisal

Date of valuation: \_\_\_\_\_  
 Date of report: \_\_\_\_\_  
 Appraisal firm: \_\_\_\_\_  
 Appraiser: \_\_\_\_\_  
 License no./State: \_\_\_\_\_

<<All charts call for total dollars, not per resident day amounts, unless otherwise noted. >>

## Hypothetical Conditions and Extraordinary Assumptions

<<Typically, the only Assumptions and/or Limiting Conditions should be the completion of

proposed repairs/construction completion. On rare occasions, there may be other assumptions, such as the execution of a proposed land lease. Under the Lean 232/223f program, it is generally not appropriate to assume stabilized operations if the property is not currently achieving stabilized operations. This is a change from MAP procedure. In cases where there will be added units or a change in operations, the lender is advised to discuss the proposal with HUD before submission. These cases may need to be treated more like sub-rehab in terms of the market study and environmental review requirements. In these cases, the appraiser will be asked to supply both an “as repaired based upon current configuration/operations” value and an “as stabilized” value. In addition, the lender may need to include a Debt Service Reserve (DSR) in addition to any required initial operating deficit escrow. An operating deficit escrow covers the losses sustained in reaching break-even occupancy whereas a DSR is meant to cover the risk of not achieving the proposed incomes used in the loan sizing/valuation. A DSR escrow is not needed when the underwriting reflects the subject’s current operations.>>

### **Hypothetical Conditions**

<<Identify any conditions that are contrary to what exists but are supposed for the purpose of analysis. For example, “The appraisal assumes that the proposed/required repairs are completed. There are no other hypothetical conditions.”>>

### **Extraordinary Assumptions**

<<Identify any assumptions specific to this assignment that if found to be false, could alter the appraiser’s opinions or conclusions.>>

### **Jurisdictional Exceptions**

<<These are rare and should be discussed with HUD before invoking. >>

## **Obsolescence/Depreciation and Remaining Economic Life**

### **Functional Obsolescence**

<<How the physical plant compares to an optimally configured project and how does that impact income potential? (Discuss for example, 3 and/or 4 bed wards, unusual design issues, etc.)>>

### **External Obsolescence**

<<How do the market, economic environment, and location impact the income potential of the project? >>

### **Physical Depreciation**

<<What is the typical life of the facility? What is the effective age of the facility? The remaining economic life is XX years. >>

## Market Analysis

<<The Market analysis may appear under the same cover as the appraisal report. If under separate cover, the Market Study should have the same author as the appraisal, so the valuation is consistent with the market conclusions. The analysis may be presented as a truncated market study if:

- no beds are being added,
- the property is operating at, and is expected to continue to operate at its estimated stabilized occupancy,
- an improved census mix is not forecasted,
- there are no anticipated increases in the competitive supply in the foreseeable future,
- and there are no anticipated decreases in demand in the foreseeable future.>>

Date of Analysis: \_\_\_\_\_

Market Analyst: \_\_\_\_\_

Company: \_\_\_\_\_

### Key Questions

	Yes	No
1. Is the subject located in a declining market in terms of population, target population, real estate values, or employment? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Are there any negative market influences that require special consideration?	<input type="checkbox"/>	<input type="checkbox"/>
3. Is there a projected or current oversupply that could affect the subject? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion regarding the topic, describing the risk and how it is mitigated. Example: **Oversupply:** The projected oversupply is specifically addressed in the Risk Factors section of this narrative. >>

### Market Analysis Overview

<<Provide an overview of the market analysis, including general growth and population information, barriers to entry, unique market influences, etc. Please be brief in this section and refrain from pasting large sections from the appraisal here. >>

### Primary Market Area (PMA)

<<Describe primary market area and method of selection (e.g., distance, zip codes, etc.). When making your conclusions about the size of the PMA, pay close attention to where the existing competitors are drawing their tenants from. >>

### Target Population

<<Describe age, income, and type of resident (AL, IL, dementia, etc.) and acuity of care.>>

## **Demand**

*<<Describe age, income, and type of resident (AL, IL, dementia, etc.) and acuity of care of the target population. Describe target population demographics and demand factors. >>*

## **Competitive Environment (Supply)**

*<<Describe and identify competing facilities; planned facilities; facilities under construction; and other supply factors that compete with the subject facility. Description of supply should include types of facilities; acuity; occupancy. Discuss recent and/or historic absorption of competitive units. Discuss any perceived changes to competitive environment. >>*

## **Conclusion**

*<<Provide conclusion of market analysis: summarize demand, market saturation, continued health of market, negative and positive factors impacting the continued demand for the subject's units/beds. >>*

## **Income Capitalization Approach**

### **Financial Statements**

The appraiser and underwriter have analyzed the following historical financial statements pertaining to the operation of this facility:

*<<If less than three years of financial information is available for the project's operations, provide a narrative justifying why the data is not available. Even in acquisition cases, the current owners have typically been provided income and expense information from the previous owner. >>*

## Occupancy

A summary of the subject's occupancy is provided below.

(Double click inside the Excel Tables to add information)

Historical Occupancy	Year ending	Year ending	Year ending	YTD
	xx/xx/xx	xx/xx/xx	xx/xx/xx	annlzd or T-12 (specify dates)
Potential Resident Days OR units (specify)	0	0	0	0
Actual Resident Days OR Occ. Units (specify)	0	0	0	0
Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Market Occupancy	# of Units	Occupancy
Competitor 1 - (Name)	0	0%
Competitor 2 - (Name)	0	0%
Competitor 3 - (Name)	0	0%
Competitor 4 - (Name)	0	0%
Competitor 5 - (Name) - <i>add rows as needed</i>	0	0%
Subject	0	0%
Market Total/Average	0	0%
Appraiser's Conclusion for Subject		0%
Underwriter's Conclusion for Subject		0%

<<Indicate if the market percentages quoted represent a single day survey or a one-year average. The number of competitors will depend on the size of the market. Please expand or reduce the chart above as needed. Provide brief narrative discussion of conclusion. The narrative should address any decline in or below-average occupancy.>>

## Census Mix

<< The following two tables are not required for projects with one type of payor, such as an ALF with 100% private pay. Those may be described in the narrative. You may modify the following table as necessary to accommodate your project mix and the number of comps. The percentages should be based on people not dollars.>>

### Census Mix – Subject History

(% of beds)

(Double click inside the Excel Tables to add information)

Source	Year ending xx/xx/xx	Year ending xx/xx/xx	Year ending xx/xx/xx	YTD or T-12 (specify dates)	Appraisal	UW
Private-pay	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Medicare	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Welfare (Medicaid)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. V.A.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. HMO (Insurance)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

### Market Census Mix

Local Market Census Mix	Private-pay	Medicare	Medicaid	e.g. V.A.	e.g. HMO (Insurance)	e.g. Other	Total
Comp 1 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 2 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 3 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 4 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 5 - (Name) <i>add rows as needed</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subject - Actual	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Market Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

<<Indicate if the percentages quoted represent a single day survey, or are a year over average. Provide a brief narrative discussion of conclusion. For continuum of care facilities (e.g., a combination of skilled and assisted living), it may be appropriate to provide the above analysis for each care type. Address any significant shifts in census mix from one payor source to another. >>

### Rent Schedule - As Is

The rent schedule is currently as follows:

<<Insert a summary chart of the rent schedule here that shows rents, number of units, and room/service types.>>

<<Discuss the subject Rent Schedule. For skilled nursing and other facilities, a daily rate may



be more appropriate than a monthly conclusion. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type.>>

### Historical Revenue Summary

<<Please adapt the chart to show the income sources specific to your facility. Bad debt can either included in the table below or dealt with as an expense. >>

**History by Revenue Source**  
(Double click inside the Excel Tables to add information)

Period	Actual											
	Year Ending XX/XX/XX				Year Ending XX/XX/XX				Year Ending XX/XX/XX			
	Source Total	% of EGI	# Days OR Units	Per Day OR Unit	Source Total	% of EGI	# Days OR Units	Per Day OR Unit	Source Total	% of EGI	# Days OR Units	Per Day OR Unit
Income Source												
e.g. Independent Living		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Assisted Living		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Private Pay		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Ins./Mngd Care Nursing		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Medicaid Nursing		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Medicare Nursing		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. VA		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Therapy		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
Residential Revenue Achieved	\$0	#DIV/0!	0	#DIV/0!	\$0	#DIV/0!	0	#DIV/0!	\$0	#DIV/0!	0	#DIV/0!
Other Income		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
Effective Gross Income	\$0	#DIV/0!	0	#DIV/0!	\$0	#DIV/0!	0	#DIV/0!	\$0	#DIV/0!	0	#DIV/0!

Period	Actual				Forecast							
	YTD Annualized or T-12 (specify dates)				Appraisal (Market)				Lender (for DSCR)			
	Source Total	% of EGI	# Days OR Units	Per Day OR Unit	Source Total	% of EGI	# Days OR Units	Per Day OR Unit	Source Total	% of EGI	# Days OR Units	Per Day OR Unit
Income Source												
e.g. Independent Living		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Assisted Living		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Private Pay		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Ins./Mngd Care Nursing		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Medicaid Nursing		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Medicare Nursing		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. VA		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
e.g. Therapy		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
Actual Residential Revenue	\$0	#DIV/0!	0	#DIV/0!	\$0	#DIV/0!	0	#DIV/0!	\$0	#DIV/0!	0	#DIV/0!
Other Income		#DIV/0!	0	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
Effective Gross Income	\$0	#DIV/0!	0	#DIV/0!	\$0	#DIV/0!	0	#DIV/0!	\$0	#DIV/0!	0	#DIV/0!

<<In the chart above, the most recent reporting period may be presented as the annualization of the first months of the year (Annualized YTD), or presented as the 12 trailing months (T-12) of income that overlaps into the prior reporting period. Please indicate which you are showing and the months covered by the T-12 or YTD.

Above you are asked to report the number of resident days or occupied units. Nursing homes should be reported by resident day, the total of which should be equal to the **number of operating beds x 365 x occupancy percentage**. Assisted living may be reported by occupied unit, the total of which should equal the **number of operating units x 12 x occupancy percentage**. Do not enter potential gross incomes here, but rather effective gross income, wherein vacancy has already been accounted for.>>

<<Discuss any departures from historical reimbursements, mix, and trends here.>>

<<**Instructions:** Each type of care should have its own subsection below discussing the payor source identified in the rent schedule, as demonstrated below. You may delete the sections (Skilled Nursing, Assisted Living, and Independent Living) that do not apply to your subject. >>

### SKILLED NURSING

#### Private Pay

In addition to an analysis of the subject’s rent roll, the appraiser and underwriter analyzed the private pay rates at X comparable facilities. A summary of their analysis is provided below.

#### Private Pay Rates Comparability Analysis

(Double click inside the Excel Tables to add information)

Skilled Nursing - Private Pay	Unadjusted		Adjusted		Unadjusted		Adjusted	
Unit/Care Type	e.g. Private Room		e.g. Semi-Private		e.g. Ward		e.g. Sub-Acute	
Rent Comp 1 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name) - <i>add lines as needed</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subject (Current Achieving)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -		\$ -		\$ -		\$ -	
Underwriter Conclusion	\$ -		\$ -		\$ -		\$ -	

<<Provide narrative discussion of private pay rate conclusion. Discuss how the rate conclusion compares to the achieved rents shown on the rent roll. Expand or shorten the table above as needed to accommodate the types of rooms or the number of comparables used. Additional analysis can be provided at the Lender’s option to support its conclusions, as appropriate. Identify any modification from the appraiser’s concluded rent and provide justification. >>

#### Medicare

Daily rate – Underwriting: \$ \_\_\_\_\_

Appraisal: \$ \_\_\_\_\_

Subject's historical average \_\_\_\_\_  
RUG Rate: \$ \_\_\_\_\_

Time period of \_\_\_\_\_  
quoted average: \_\_\_\_\_

<<Identify any anticipated changes to the reimbursement rate. Provide narrative discussion of conclusion. For example: "The appraiser provided a detailed Resource Utilization Group (RUG) rate analysis of the facility's operation over the last 12-month operating period. The analysis concluded a weighted average Medicare rate of \$XX PRD. The RUG Rates used to determine the average rate are based on the <<DATE>> rates. The underwriter concurs with the appraiser's conclusion.">>

**Medicaid**

Daily Rate – Underwriting: \$ \_\_\_\_\_  
Published Rate: \$ \_\_\_\_\_

Appraisal: \$ \_\_\_\_\_  
Date of Rate \_\_\_\_\_

<<Provide narrative discussion of the state's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of current or prospective rate. If rate is based on resident care requirements, provide an analysis of the last 12-months of rates for this payor source, as appropriate. Identify and discuss any other sources or copayments that are required, e.g., Supplemental Security Income (SSI). Identify any anticipated changes to the reimbursement rate, such as when rates are tied to depreciating capital components .>>

**Veteran's Administration (VA)**

Daily Rate – Underwriting: \$ \_\_\_\_\_

Appraisal: \$ \_\_\_\_\_

<<If applicable, provide narrative discussion of how the rate is determined. Discuss review of evidence (e.g., rate letter) or historical precedent for the underwritten rate. >>

**HMO or Other Private Insurance**

Daily Rate – Underwriting: \$ \_\_\_\_\_

Appraisal: \$ \_\_\_\_\_

<<If applicable, provide narrative discussion of how the rate is determined. Discuss review of evidence (e.g., rate letter) or historical precedent for the underwritten rate. >>

**Other**

<<If applicable, provide narrative discussion of other types of payor sources. Describe source and how the rate is determined. Discuss review of evidence (e.g., rate letter) or historical precedent for the underwritten rate. >>

**ASSISTED LIVING**

**Private Pay**

In addition to an analysis of the subject's rent rolls, the appraiser and underwriter analyzed the assisted living rents at \_\_\_\_\_ comparable facilities. A summary of their analysis is provided below.

### Rent Comparability Analysis

(Double click inside the Excel Tables to add information)

Assisted Living - Private Pay	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted
	e.g. Studio		e.g. One Bedroom		e.g. Two Bedroom		e.g. Semi-Private	
Unit/Care Type	e.g. Studio		e.g. One Bedroom		e.g. Two Bedroom		e.g. Semi-Private	
Rent Comp 1 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name) - <i>add lines as needed</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subject (Current Achieving)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -		\$ -		\$ -		\$ -	
Underwriter Conclusion	\$ -		\$ -		\$ -		\$ -	

<<Provide narrative discussion of the private pay conclusion. Include a discussion on achieved rents shown on the rent roll versus asking rates. >>

### Medicaid

<<If applicable, provide narrative discussion of state's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of current or prospective rate. If rate is based on resident care requirements, provide an analysis of the last 12-months of rates for this payor source, as appropriate. Identify and discuss any other sources or copayments that are required (e.g., SSI). >>

### Independent Units

In addition to an analysis of the subjects rent rolls, the appraiser and underwriter analyzed the independent living rents at comparable facilities. A summary of their analysis is provided below.

### Rent Comparability Analysis

(Double click inside the Excel Tables to add information)

Independent Living	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted
	e.g. Studio		e.g. One Bedroom		e.g. Two Bedroom	
Unit/Care Type	e.g. Studio		e.g. One Bedroom		e.g. Two Bedroom	
Rent Comp 1 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name) - <i>add lines as needed</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subject (Current Achieving)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -		\$ -		\$ -	
Underwriter Conclusion	\$ -		\$ -		\$ -	

<<Provide narrative discussion of conclusion. Include a discussion on achieved rents shown on the rent roll versus asking rates. >>

### Other Income Breakdown

<<Input effective income conclusions, not gross income.>>

(Double click inside the Excel Tables to add information)

Underwriter's Breakdown of "Other" Income			
Line	Description	Annual Amount	Per Occupied Day/Unit
A			
B			
C			
D			
E			
F			
Total		0	

<<Provide narrative discussion and support for each other income category as appropriate. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the lender's option to support their conclusion, as appropriate.

**Example: Additional Personal Care Fees:** The project bases additional care fees on levels of care needed as determined by the initial assessment and subsequent assessments as needed. The appraiser concludes to a net amount of \$X annually. The underwriter has analyzed the history to determine the average monthly charge of \$X, net of vacancie. Insert historical or comparable data as appropriate.

**Example: Second Occupant Income:** The appraiser has included a net annual projection of X second occupants at \$X per month. Over the last 12 months, the facility has averaged X second occupants per month. Competitive facilities in the market place report second occupant charges ranging between \$X and \$X with a range of X to X second occupants. Based on the history and the market, the underwriter concurs with the appraiser's conclusion for a net annual income of \$X.

**Example: Miscellaneous Income:** In addition to room rents, additional care, and second occupant income, the project receives miscellaneous income from X (list miscellaneous). The appraiser has included a net annual projection of \$X. Historically, typical miscellaneous income is between x and x percent of effective income. The appraiser's conclusion is x. The underwriter has concluded to a net \$X per annum (calculation shown). >>

### Expenses

The appraiser concludes to total expenses of \$            including reserve for replacement of \$           . The underwriter concludes to total expenses of \$            including reserve for replacement of \$           . An analysis of subject's history is provided below. The appraiser also compared the subject's expense conclusions to            comparable projects located in           .

<<Explain how the appraiser's expenses used for valuing the facility differ from the expenses used by the lender for the Debt Service Coverage analysis. Typically, these may differ in the categories of reserves, management fee, and taxes. The appraiser's numbers will represent market expenses and the lender's expenses for DSC analysis will represent what will actually be paid. >

**Historic Comparison**

<<The data in the following table must be in totals, not per resident day or per occupied unit. Cells with grey shading will calculate automatically. You are given some latitude in defining the expense categories. The expense categories in black text are required items. You have the option of presenting the current year's expense data in an annualized amount or in the form of trailing 12 months (T-12) of expense. The lender must include the most current historical income and expense data available to them, and not the dated information from the appraisal.>>

### Expense Analysis –Subject

(use totals not per patient day/occupied bed)

(Double click inside the Excel Table to add information)

Expense Categories	Year Ending 12/31/09	Year Ending 12/31/10	Year Ending 12/31/2011	T-12 or YTD (specify dates)	Appraisal (Market)	Lender's (Market)	Lender's DSC
e.g. General & Administrative							
e.g. Payroll Taxes and Benefits							
e.g. Resident Care							
e.g. Food Services							
e.g. Activities							
e.g. Housekeeping & Laundry							
e.g. Maintenance							
e.g. Utilities							
e.g. Marketing and Promotion							
e.g. Insurance (property & liability)							
e.g. Bad Debt							
<b>Sub-total</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Real Estate (Property) Taxes							
Management Fees							
Replacement Reserves							
<b>Total Expenses</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Expense Percentage</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Normalization Calculations</b>							
Deduct Actual Taxes	\$0	\$0	\$0	\$0			
Add Market Rate Taxes	\$0	\$0	\$0	\$0			
Deduct Actual Management Fee	\$0	\$0	\$0	\$0			
Add Market Management Fee @ enter %	#VALUE!	#VALUE!	#VALUE!	#VALUE!			
Deduct Actual Reserves for Replacement	\$0	\$0	\$0	\$0			
Add Market Reserves by Appraiser	\$0	\$0	\$0	\$0			
Normalized Expenses	#VALUE!	#VALUE!	#VALUE!	#VALUE!			
Normalized Expense Percentage	#VALUE!	#VALUE!	#VALUE!	#VALUE!			
Normalized Expense per Res Day OR Occ. Unit	#VALUE!	#VALUE!	#VALUE!	#VALUE!			
<b>Key Data</b>							
	Year Ending 12/31/09	Year Ending 12/31/10	Year Ending 12/31/2011	T-12 or YTD (specify dates)	Appraisal (Market)	Lender's (Market)	Lender's DSC
Effective Gross Income							
Net Operating Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Normalized Net Operating Income	#VALUE!	#VALUE!	#VALUE!	#VALUE!			
Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Potential # Res Days (beds x365) OR Units Annually (units x 12)							
Actual # Res Days (SNF) OR Occ. Units (ALF or IL)							

<<Provide narrative discussion of historical information. Include three full years of data plus

any partial years as available. For skilled nursing and other facilities, resident days are more appropriate than units available per year. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type.

Address any significant fluctuations/anomalies in the historical data. Comment on any expenses that were reimbursable, such as a provider tax, and how they were incorporated into the historical table.

Address adjustments made to historical data for one-time expenditures, capital expenditures, etc.>>

**Comparable Expense Data**

<<Unlike the previous table, the information for the expense comparables should be entered on a per resident day basis (# beds x 365 x occupancy rate) or per occupied unit basis (# units x 12 x occupancy rate). A minimum of three expense comps are required. More columns or tables can be added if needed.>>

**Expense Analysis –Comparables**

(Double click inside the Excel Tables to add information)

Expense Comparables - As Is	Hope Healthcare Anywhere, XX	Hope Healthcare Anywhere, XX	Hope Healthcare Anywhere, XX	Hope Healthcare Anywhere, XX	Hope Healthcare Anywhere, XX	Appraiser's Conclusion
	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	
Expense Categories						
e.g. General & Administrative						
e.g. Payroll Taxes and Benefits						
e.g. Resident Care						
e.g. Food Services						
e.g. Activities						
e.g. Housekeeping & Laundry						
e.g. Maintenance						
e.g. Utilities						
e.g. Marketing and Promotion						
e.g. Insurance (property & liability)						
e.g. Bad Debt						
<b>Sub-total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate (Property) Taxes						
Management Fees						
Replacement Reserves						
<b>Total Expenses</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Expense Percentage</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Effective Gross Income						
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Occupancy						
Number of Res Days OR Occ. Units						
Date of Expense Information	e.g. Jul-12					
Adjustment amount applied for date	0.0%	0.0%	0.0%	0.0%	0.0%	

<<Provide narrative discussion of comparable information. The appraiser should trend the



expense comparables to the effective date of the appraisal. An explanation of the adjustments should be included here. Explain any other adjustments made to the comparables such as for normalization of reserves, management fee, taxes, etc., required to put the comparables on the same footing as the subject. For skilled nursing and other facilities, resident days are more appropriate than occupied units. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type.>>

## **Net Operating Income (NOI)**

<<Provide narrative discussion as necessary. Summarize and compare the NOI of the appraiser and the lender's NOI that incorporates all potential changes to incomes and expenses. Typically, the lender would explain here that the appraiser's "market" NOI was used for valuation and loan sizing based on value. The lender's NOI, which may vary from the appraiser's due to the Office of Residential Care Facilities (ORCF) requirements (e.g., specific reserve requirements, tax abatements that the appraiser was not allowed to recognize, or unusual management fees) will be used for loan sizing based on Debt Service Coverage.>>

<<Reproduce or paste the pro forma that follows. If the lender disagrees with the appraiser's value conclusion, present a separate pro forma for both the lender's conclusions and the appraiser's conclusions. A separate pro forma is not required to show the underwriter's conclusions for debt coverage (i.e., when expenses for management fee, reserves, or taxes will differ from the appraiser's market conclusion).

At a minimum, the pro forma supplied needs to:

- Summarize the income by source. The income detail needs to be sufficient to show a line item for each source that a specific rate was concluded. Include the payor type (i.e., Medicare, Medicaid, private pay, etc.) and the care type (i.e., AL, MC, IL, SNF), and the room type (i.e., private, ward, one-bedroom, studio, etc.). A count of each type should also be shown.
- Show occupancy assumptions and the assumed number of resident days OR occupied units.
- Show the conclusions for the major expense categories.
- Show the NOI, EGI, expense per bed OR unit, and the overall expense percentage. It is not necessary to show the Potential Gross Income.

If the appraiser's pro forma does not include sufficient detail, the following table may be used or adapted to produce a pro forma acceptable to ORCF. The input fields are shaded. Non shaded fields are automatic calculations. Double click the table to open for editing.>>

### Pro Forma - Appraiser's Conclusions

Enter X to convert to "Per Occupied Unit" (ALF/Indep. only). Otherwise figures shown are "Per Resident Day"  
 Enter Number of Beds ▶  (Account for second occupants in Other Income.)

Income Source (separate line for each concluded rate)	Rate Per Resident Day	what % of total units are this type?	Occupancy % for this type*	# of Resident Days/year	Source Total Annually	% of EGI
<<payor source/care type/room type >>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type >>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type >>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type >>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type >>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type >>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type >>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type >>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<b>Residential Income Total</b>		<b>0.0%</b>	<b>0.0%</b>	<b>0</b>	<b>\$0</b>	<b>#DIV/0!</b>

Other Income Sources	Other Inc. @ Forecasted Occupancy	% of EGI	Per Resident Day
e.g. Therapy	\$0	#DIV/0!	#DIV/0!
e.g. Level of Care Fees	\$0	#DIV/0!	#DIV/0!
e.g. Second Occupant Fees	\$0	#DIV/0!	#DIV/0!
e.g. Misc/Assessment Fees	\$0	#DIV/0!	#DIV/0!
<b>Other Income Total</b>	<b>\$0</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>
<b>Effective Gross Income</b>		<b>\$0</b>	

Expense Categories	Dollars Annually	% of EGI	Per Resident Day
e.g. General & Administrative	\$0	#DIV/0!	#DIV/0!
e.g. Payroll Taxes and Benefits	\$0	#DIV/0!	#DIV/0!
e.g. Resident Care	\$0	#DIV/0!	#DIV/0!
e.g. Food Services	\$0	#DIV/0!	#DIV/0!
e.g. Activities	\$0	#DIV/0!	#DIV/0!
e.g. Housekeeping & Laundry	\$0	#DIV/0!	#DIV/0!
e.g. Maintenance	\$0	#DIV/0!	#DIV/0!
e.g. Utilities	\$0	#DIV/0!	#DIV/0!
e.g. Marketing and Promotion	\$0	#DIV/0!	#DIV/0!
e.g. Insurance (property & liability)	\$0	#DIV/0!	#DIV/0!
e.g. Collection Loss/Bad Debt	\$0	#DIV/0!	#DIV/0!
<b>Sub-total</b>	<b>\$0</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>
Real Estate (Property) Taxes	\$0	#DIV/0!	#DIV/0!
Management Fees	\$0	#DIV/0!	#DIV/0!
Replacement Reserves	\$0	#DIV/0!	#DIV/0!
<b>Total Expenses</b>	<b>\$0</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>
<b>Net Operating Income</b>		<b>\$0</b>	

### Underwritten Reserve for Replacement

Reserve for Replacement	Annually	Per Unit
Realty	\$	\$
Major Movable Equipment	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>

<< Provide narrative discussion as necessary.>>

## Capitalization Rate

<<The selection of the capitalization rate should be primarily based on recent sales rather than from investment models. Ideally, these rates would come from the Building Sales Comparables. However, these are often chosen by location before sale date. Recent cap rate data should be included every time, even if an additional set of cap rate comps or a survey needs to be introduced. In the table below, please add columns or duplicate the table as needed to accommodate additional comps.>>

(Double click inside the Excel Tables to add information)

Capitalization Rate Summary	Hope Health care Anywhere, XX	Hope Health care Anywhere, XX	Hope Health care Anywhere, XX	Hope Health care Anywhere, XX	Hope Health care Anywhere, XX	Comp. Average	Appraiser Conclusion	Underwriter Conclusion
	Comp 1	Comp 1	Comp 3	Comp 4	Comp 5			
Capitalization Rate								
Identify Source of Income Data								
Uses Retro or Prospective NOI								
Date of Sale								
Year Built								

<<Provide narrative discussion as necessary. If the subject was sold within the past 3 years, include the cap rate analysis here. An equivalent analysis of the information provided above is required. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. Additional analysis can be provided at the lender's option to support its conclusion, as appropriate.>>

## Sales Comparison Approach

<<If large adjustments are required in the sales comparison approach, extra attention and explanation are required to support the determination of the adjustments. Generally, those sales that require the smallest adjustment are the most desirable.>>

### Summary of Comparable Sales Data

(Double click inside the Excel Tables to add information)

Summary of Comparable Sales Data		Comp arable 1	Comp arable 2	Comp arable 3	Comp arable 4	Comp arable 5	Average	Appraisal	UW
		Hope Health care Anywhere, XX							
Price Per (specify Unit OR Bed)	Unadjusted						#DIV/0!		
	Adjusted						#DIV/0!		
	Net Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	#DIV/0!		
	EGIM	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		
	Expense Ratio						#DIV/0!		
	Year Built								
	Date of Sale								

## Price Per Unit/Bed

<<Provide narrative discussion and summary of the appraisal conclusions. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate

*analysis for each care type. Include a general discussion of adjustments made to the sales and the comparables that best represent the subject facility. Additional analysis can be provided at the lender's option to support its conclusion, as appropriate.>>*

### **Effective Gross Income Multiplier (EGIM)**

*<<Provide narrative discussion. An equivalent analysis of the information provided above is required. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate analysis for each care type. Additional analysis can be provided at the lender's option to support its conclusion, as appropriate. >>*

### **Subject Purchases**

*<<Provide analysis of subject's purchase price for all sales that have occurred within the last 3 years. (The analysis should provide: date of purchase; purchase price; whether the purchase was an arms-length transaction; and the financing term. In addition, the analysis should also state whether the sale was a market price. If not, explain.)>>*

### **Cost Approach**

#### **Development Costs**

*<<Provide narrative discussion. If this approach was not expanded by the appraiser, indicate so here. Instead of deleting the remainder of the subsection, provide any lender insights in each category.>>*

#### **Depreciation**

*<<Provide narrative discussion of depreciation assumptions and conclusion.>>*

#### **Major Movable Equipment**

*<<Provide narrative discussion of assumptions and conclusion. Address discrepancies between appraiser and cost analyst. Additionally, address ownership of the major movable equipment (e.g., borrower or operator).>>*

#### **Land Value**

*<<Provide narrative discussion of assumptions and conclusion. A land valuation is no longer required if the cost approach is not utilized.>>*

#### **Overall Value Reconciliation**

*<<Provide narrative discussion of how the value approaches were reconciled to reach the final conclusions. The statement may be simple. For example: "As demonstrated in the Appraisal*

Overview section above, the underwritten value conclusion is based on the income approach to value.” If the value conclusion is based on weighting multiple approaches provide an explanation of the rationale.>>

(Double click inside the Excel Tables to add information)

Market Value Summary		
Approach	Appraisal	Underwriter
Income Capitalization		
Sales Comparison		
Cost Approach (if utilized)		
<b>Conclusion:</b>		

### Lender Modifications

<<State if the lender concurs or not with the appraiser’s value conclusion. When there is a disagreement, summarize the valuation modifications made by the lender underwriter. Insert a pro forma to highlight the differences in conclusions as needed. View the appraisal as a tool to do your underwriting and loan sizing correctly. Lenders should not use a value they disagree with and are allowed to use a lower value/NOI for loan sizing purposes. If lenders feel they are prohibited from doing this, they should cite the FIREA rule at issue in the narrative.>>

### ALTA/ACSM Land Survey

Date: \_\_\_\_\_  
 Firm: \_\_\_\_\_

#### Key Questions

	Yes	No
1. Are there any differences between the legal description on the survey and legal description included in pro forma title policy? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Are there any revisions or modifications required to the survey prior to closing? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the survey indicate any boundary encroachments? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the survey evidence any buildings encroaching on utility or other easements or rights-of-way? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there any unusual circumstances or items that require special attention or conditions? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated and the affect on value or the marketability of the project. Example: **Encroachments:** The survey indicates an encroachment of the adjoining property fence on the easterly portion of the property.... An encroachment endorsement will be received at closing. There is no impact on the value or marketability of the project. >>

# Title

## Title Search

Date of Search: \_\_\_\_\_

Firm: \_\_\_\_\_

File Number: \_\_\_\_\_

### Key Questions

	Yes	No
1. Is the title currently vested in an entity or individual other than the proposed borrower? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does report indicate that delinquent real estate taxes are owed? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the report indicate any outstanding special assessments? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the report identify any outstanding debt that is not disclosed on the borrower's listing of outstanding obligations? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there or will there be any Use and Maintenance Agreements associated with this facility? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. >>

## Pro Forma Policy

Date/Time: \_\_\_\_\_

Firm: \_\_\_\_\_

Policy Number: \_\_\_\_\_

### Key Questions

	Yes	No
1. Is the title vested in an entity or individual other than the proposed borrower? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Are there any covenants, encumbrances, liens, restrictions, or other exceptions indicated on Schedule B-1? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Are there any use or affordability restrictions remaining in effect on the property? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Are there any easements or rights-of-way listed that are not indicated on the survey? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there any endorsements included aside from the standard HUD requirement? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Are there any subordination agreements, encroachments or similar issues that require HUD's approval? .....	<input type="checkbox"/>	<input type="checkbox"/>

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 7. Are there any other matters requiring special consideration, agreements, or conditions that require HUD's attention? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Are there any easements, rights-of-way, encroachments, etc., identified on Schedules B-1 and B-2 that, in the lenders opinion, affect value or the marketability of the project? ..... | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each "yes" answer above, provide a narrative discussion regarding the topic. Example: **Additional Endorsements:** As described in the Risk Factors section of the narrative, the XXXX does not conform to the past or current zoning requirements. The lender recommends...>>

## **Environmental**

### **Phase I Site Assessment**

Date of Inspection: \_\_\_\_\_

Firm: \_\_\_\_\_

Consultant: \_\_\_\_\_

#### **Key Questions**

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 1. Does the report recommend a Phase II assessment, other reports, or additional testing? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the report indicate the presence or suspected presence of any asbestos containing materials (ACMs)? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Does the report indicate evidence of any soil staining or distressed vegetation, unusual odors, pools of liquid, leaking containers or equipment, hazardous materials, or other unidentified substances? .....                                  | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Does the report indicate evidence of any chemical misuse or unlawful dumping at the site? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Does the report indicate the presence or suspected presence of any underground storage tanks or aboveground storage tanks on the site? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Does the report's review of all major governmental databases for listings of potentially hazardous sites within the ASTM required search distances from the property identify any potential contamination concerns for the property? .....      | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Do the Phase I or II reports recommend any required repairs? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Does the vapor encroachment screen amendment to the Phase I identify a "vapor encroachment condition" (VEC)? ( <i>The vapor encroachment screen must be performed using Tier 1 "non-invasive" screening pursuant to ASTM E 2600-10.</i> ) ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Was the Phase I conducted more than 180 days before the firm commitment application was submitted? (This report must not be more than 180 days old)   | <input type="checkbox"/> | <input type="checkbox"/> |

at the time of submission. ORCF is not able to waive this requirement.) .....

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. >>

Program Guidance – Above-ground storage tanks (ASTs):

HUD is required to qualitatively evaluate the risks associated with proximity to hazardous facilities. ORCF will consider the potential danger presented by liquid fuel and gas ASTs, even in cases of refinance where the tanks are pre-existing, and may at times require mitigation.

- Existing projects with no additions and with no increase in residential density: When ASTs exist on site—containing liquid fuel (over 100 gallons in size) or containing pressurized gas (stationary tanks of any size)—**a conformance letter from the governing Fire Department/District will be required.** The letter must specifically address the safety of the storage tanks. In cases where safety letters cannot be obtained for on-site ASTs and where off-site tanks are visible from the site, a calculation of the Acceptable Separation Distance (ASD) must be included in the application. A useful tool for calculating ASDs can be found at <http://www.hud.gov/offices/cpd/environment/asdcalculator.cfm>.
- Projects where new units or beds are being added: When existing or proposed ASTs are located on-site or when offsite tanks are visible from the property, a calculation of the Acceptable Separation Distance must be included in the application.

**General Overview**

The Phase I Environmental Site Assessment (ESA) was performed in conformance with the scope and limitations of ASTM Practice E 1527-05 <<Because ASTM may amend these requirements, please reference the most current version. >> The investigation specifically included a reconnaissance of the subject site and the immediate surrounding area, a review of regulatory agency information, a survey of local geological and topographical maps, a review of aerial photographic studies, survey of water sources, a review of historical information, and a limited visual inspection for suspect asbestos containing materials (ACMs).

**Lender Comments**

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

**Other Environmental Concerns**



**Key Questions**

	<b>Ye s</b>	<b>No</b>
1. Is the subject located within a designated coastal barrier resource area? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Are there any known historic preservation issues related to the subject? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the subject located within 5 miles of a civil airport or within 15 miles of a military airfield? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Is the project located within 1,000 feet of major highways or busy roads? ....	<input type="checkbox"/>	<input type="checkbox"/>
5. Is the project located within 3,000 feet of a railroad? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Are there existing or proposed stationary tanks containing explosive or fire-prone materials of 100 gallons or larger on the site or nearby the site that are visible from satellite images or site reconnaissance? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. Are there any wetlands on the subject site? .....	<input type="checkbox"/>	<input type="checkbox"/>
• If so, will the project impact or disturb wetland areas or their buffer zones? .....	<input type="checkbox"/>	<input type="checkbox"/>
..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
8. Are any repairs or modifications to the project likely to affect any listed or proposed endangered or threatened species or critical habitats? .....	<input type="checkbox"/>	<input type="checkbox"/>
9. Is the subject located on a sole source aquifer? .....	<input type="checkbox"/>	<input type="checkbox"/>
10. Are there any known landfills within ½-mile of the site? .....	<input type="checkbox"/>	<input type="checkbox"/>
11. Are any buildings located in the fall zone of any high voltage power transmission or other towers? .....	<input type="checkbox"/>	<input type="checkbox"/>
12. Do any of the required or proposed repairs change the footprint of the building(s)? .....	<input type="checkbox"/>	<input type="checkbox"/>
13. Does the project include a structure that was built before 1978? .....	<input type="checkbox"/>	<input type="checkbox"/>
• If so, was a comprehensive asbestos survey performed by a qualified asbestos inspector pursuant to the “baseline survey” requirements of ASTM E 2356-10 provided (required for all buildings constructed before 1978)?	<input type="checkbox"/>	<input type="checkbox"/>
N/A	<input type="checkbox"/>	<input type="checkbox"/>
14. Other than the aforementioned, are there any other environmental issues identified by the Phase I or II reports or lender’s due diligence? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>> For example: **Railroad:** A railway exists approximately 2,400 feet to the south of the project site. As this is an existing structure, a noise analysis or study is not required. This noise source has no discernable impact on the marketability of the facility as it operates at nearly 95% occupancy with comparable rents to the rest of the market.

**Existing Structures on Site:** A vacant one-story house and two storage sheds currently occupy the site. The current owner of the land will be relocating these structures prior to initial closing, at no cost to the Borrower. Therefore, no off-site or demolition costs are anticipated.

Because of the existing structures, we have addressed potential asbestos and lead-based paint concerns. A qualified assessor evaluated the house and outbuildings for asbestos containing materials. A comprehensive asbestos survey was performed pursuant to the “baseline survey” requirements of ASTM E 2356-10 and no asbestos containing materials were identified. A visual inspection by the environmental assessor also indicated that there is no evidence of peeling paint and no suspect lead-based paint containing surfaces were identified.>>

**State Historic Preservation Office (SHPO) Clearance**

<<Provide narrative description indicating whether or not SHPO has been contacted, information sent to SHPO, and any response received in Section 8-12 of application materials. For example: “Since we are not making changes to the exterior of the building, there is no impact on any historical property.”>>

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Are there any known historic preservation issues related to the subject? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the project involve repairs in excess of routine maintenance, construction, or ground disturbance? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. If the answer to questions 1 or 2 above is “yes,” has the SHPO been contacted? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Have any other archeological or cultural resource centers been consulted? ..	<input type="checkbox"/>	<input type="checkbox"/>

<<As applicable, for each “yes” answer above, provide a narrative discussion on the topic. For example: “We have received a letter from the XXXX State Historic Society, dated XXXX. It was determined that the site is of no historical or suspected cultural significance. No additional investigation was recommended by the State.” Please note if a response has not been received. If the SHPO concluded that the project will have an adverse effect, please explain how this will be mitigated .>> >>

**Flood Plain**

NFIP Map Panel #: \_\_\_\_\_ Date: \_\_\_\_\_  
 Flood Zone: \_\_\_\_\_

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Does the community participate in the National Flood Insurance Program (NFIP)? (A project located in a FEMA-identified special flood hazard area, where the community has been suspended for or does not participate in the NFIP, is <u>not</u> eligible for mortgage insurance.) .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the Standard Flood Hazard Determination Form indicate that the subject is located within the 100- or 500-year floodplain? .....	<input type="checkbox"/>	<input type="checkbox"/>

3. Is flood insurance required for this property? .....  **Yes**  **No**

<< If project is in a 100 or 500 year floodplain, provide a narrative discussion evaluating exhibits required on checklist Exhibit 8-11 with detailed information about how the property will be altered and improvement designed. Include the elevation of the property, the elevation of the floodplain, and the location of the life support systems.>>

## **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 the Project Capital Needs Assessment Statement of Work.

Following is a summary of the PCNA and underwriting conclusions.

<b>PCNA Repair Summary</b>		
	<b>PCNA</b>	<b>Lender</b>
Critical Repairs		
Non-Critical Repairs		
Borrower Proposed Repairs:		
<b>Total Repairs:</b>		

### **Key Questions**

- |   | <b>Yes</b>               | <b>No</b>                |
|---|--------------------------|--------------------------|
| 1. Will the non-critical and/or borrower proposed repairs be escrowed at closing? ..... <input type="checkbox"/> N/A          | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Will the escrowed repairs take more than 12 months to complete? ..... <input type="checkbox"/> N/A                         | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Is the repair escrow to be less than 120% of the repair estimate .. <input type="checkbox"/> N/A                           | <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"/> N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Do any of the repairs require drawings and/or specifications? ..... <input type="checkbox"/> N/A                           | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Do any of the repairs require relocation of the tenants? ..... <input type="checkbox"/> N/A                                | <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"/> |

	Yes	No
escrow? ..... <input type="checkbox"/> N/A		
6. Will any of the repairs require permits or locality approvals? ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
7. Will any of the repairs require a review by the state licensing authority? ..... <input type="checkbox"/> N/A	<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"/>
9. Has the lender suggested a lower dollar amount or fewer repairs than the Needs Assessor's repair conclusions and are they justified? ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
10. Is further description and detail of the repairs needed in terms of inspectability (location and what the need is)? ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
11. Are there any non-compliance issues with regard to the Fair Housing Accessibility Guidelines (FHAG) and Part 504 of the Rehabilitation Act of 1973? .....	<input type="checkbox"/>	<input type="checkbox"/>
12. Does the proposed underwriting require any increases to the annual replacement reserve deposit over the next 15 years? .....	<input type="checkbox"/>	<input type="checkbox"/>
13. Will the facility require repairs to be in compliance with the Department of Health & Human Services, Centers for Medicare & Medicaid Services final rule, entitled "Medicare and Medicaid Programs; Fire Safety Requirements for Long Term Care Facilities, Automatic Sprinkler Systems?" .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Examples:

- **Repair Escrow:** The non-critical and borrower proposed repairs will be escrowed at closing, for further detail see the Repair section below.
- Example: **FHAG Compliance:** The PCNA recommends repairs to address non-compliance issues. For further detail see the Handicapped Accessibility section below.
- Example: **Escalation of Annual Replacement Reserve Deposit:** The annual deposit to the replacement reserve is increased by \$XXX per unit per year in Year 6 on the underwriter's analysis of the replacement reserves. This increase can be met by...
- Example: **Automatic Fire Sprinkler Systems Compliance:** This nursing home is not currently in compliance with the 1999 edition of the National Fire Protection Association's (NFPA) "Standard for the Installation of Sprinkler Systems" (NFPA 13). Non-Critical Repairs are proposed to bring the facility into compliance prior to the August 13, 2013, deadline. >>

### **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... >>

### Program Guidance:

The following is an excerpt from the Project Capital Needs Assessment (PCNA) Statement of Work Lean Section 232/223(f) and 232/223(a)(7); IV. Specific Requirements, B. Inspections, 3. Compliance with other HUD requirements.

**Handicapped Accessibility Requirements:** The Fair Housing Accessibility Guidelines are applicable for projects with first occupancy after March 13, 1991, and for which building permits were issued or reissued after June 15, 1990, on a building by building basis. Section 504 / Uniform Federal Accessibility Standards (UFAS) is applicable for all housing receiving Federal financial assistance (note: Medicaid and Medicare are not considered Federal financial assistance when determining accessibility compliance), plus all existing HUD Section 232 New Construction, and existing HUD Section 232 Substantial Rehabilitation (but only those elements that underwent alteration), built after 1973. Project marketability and functional obsolescence must always be a consideration, no matter if compliance with the above accessibility standards is required or not.

## **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 \$X:

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

## 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

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 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	\$	\$

<<The above table should identify all changes in the annual deposit from year to year.>>

## General Overview

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 X% and an inflation rate of X%.

**Reserve for Replacement Fund Schedule**  
(Double click inside the Excel Table to add information)

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

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.

**Borrower**

Name: \_\_\_\_\_  
 State of Organization: \_\_\_\_\_  
 Date Formed: \_\_\_\_\_  
 Termination Date: \_\_\_\_\_  
 FYE Date: \_\_\_\_\_

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Does the borrower currently own any assets other than the subject property or participate in any other businesses? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. According to the application exhibits, is or has the borrower been delinquent on any federal debt? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. According to the application exhibits, is or has the borrower been a defendant in any suit or legal action? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. According to the application exhibits, has the borrower ever filed for bankruptcy or made compromised settlements with creditors? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. According to the application exhibits, are there judgments recorded against the borrower? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. According to the application exhibits, are there any unsatisfied tax liens? ....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>>

**Organization**

<<Provide organization chart and narrative, as applicable. At a minimum, all principals of the borrower should be identified.>>

**Experience/Qualifications**

<<Provide narrative description of borrower experience and qualifications. For example: “The borrower entity is a single-asset entity that was established in {date} to develop and own the subject project. It has owned the facility since its inception...”>>

**Credit History**

Report Date: \_\_\_\_\_ <<within 60 days of submission>>  
Reporting Firm: \_\_\_\_\_  
Score: \_\_\_\_\_

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score.>>



**Key Questions**

- |  | <b>Yes</b>               | <b>No</b>                |
|--|--------------------------|--------------------------|
| 1. Does the credit report identify any material derogatory information not previously discussed? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the underwriter have any concerns related to their review of the credit report? .....          | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>>

**Financial Statements**

The application includes the following borrower financial statements:

Year-to-date:	<<dates for start and end of period>>
Fiscal year ending:	<<date – end of period>>
Fiscal year ending:	<<date – end of period>>
Fiscal year ending:	<<date – end of period>>

**Key Questions**

- |  | <b>Yes</b>               | <b>No</b>                |
|--|--------------------------|--------------------------|
| 1. Are less than 3-years of historical financial data available for the borrower? .  | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are the financial statements missing any required information or schedules?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Do the financial statements provided include financial data from assets or liabilities not related to owning and operating this facility? .....                           | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Do any of the financial statements indicate a loss prior to depreciation and amortization? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of effective gross income) over 90 days?                          | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Do the Aging of Accounts Receivable schedules show any material accounts receivables (amounts in excess of 2% of gross income) over 120 days? .....                       | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Are there any issues or discrepancies related to tenant deposit accounts (e.g., not fully funded)? (Generally not applicable for SNF.) ..... <input type="checkbox"/> N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed? .....                              | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example: **Tenant Security Deposits:** The tenant security deposits do not appear to be fully funded. At closing, however, the borrower will not be the operator and the tenant deposit obligation will fall to the new operator. Therefore, the underwriter has included a commitment condition requiring the new operator to set up project accounts by closing and to provide an acceptable, certified Balance Sheet showing that the tenant security deposits are fully funded.>>

**General Overview**

<<Provide Narrative and analysis of financial statements as appropriate. In addition to the Key Questions above, working capital should be discussed along with the general financial stability and position of the entity. >>

**Conclusion**

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example: “The borrower entity has demonstrated an acceptable financial and credit history. The borrower has the experience to continue to successfully own this facility. The underwriter recommends this borrower for approval as an acceptable participant in this transaction.”>>

**Principal of the Borrower – <<enter Principal Name>>**

<<Provide this section for each principal of the borrower.>>

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. According to the application exhibits, is or has the principal of the borrower been delinquent on any federal debt? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. According to the application exhibits, is or has the principal of the borrower been a defendant in any suit or legal action? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. According to the application exhibits, has the principal of the borrower ever filed for bankruptcy or made compromised settlements with creditors? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. According to the application exhibits, are there judgments recorded against the principal of the borrower? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. According to the application exhibits, are there any unsatisfied tax liens against the principal of the borrower? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Are any of the principals of the borrower, principals of any other HUD-insured projects or principals of a project(s) applying for HUD insurance within the next 18 months? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. >>

**Organization (not applicable to individuals)**

<<If the principal is an entity, provide the following information:>>

State of Organization: \_\_\_\_\_

Date Formed: \_\_\_\_\_

Termination Date: \_\_\_\_\_

<<Provide organization chart and narrative, as applicable.>>

**Experience/Qualifications**

<<Provide narrative description of principal’s experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate that the borrower has sufficient expertise to successfully own the facility. >>

**Credit History**

Report Date: \_\_\_\_\_ <<within 60 days of submission>>

Reporting Firm: \_\_\_\_\_

Score: \_\_\_\_\_

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>

Program Guidance:

Dunn & Bradstreet (D&B) or other acceptable commercial credit report for business entities and RCMR “residential” for individuals are required. If not using D&B, an acceptable commercial credit report must include the following:

1. Public filings that includes suits, liens, judgments, bankruptcies, and federal debt.
2. UCC filings
3. Credit payment history
4. Industry standards showing how the facility compares in the areas of financial stress and payment trends
5. A credit payment delinquency risk score over a 12-month period.

Credit reports can be no more than 60 days old at the time of the firm application submission.

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Does the credit report identify any material derogatory information not previously discussed? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the underwriter have any concerns related to their review of the credit report? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>>

## Other Business Concerns/232 Applications

### Key Questions

	Yes	No
1. Does the Principal identify any other business concerns? .....	<input type="checkbox"/>	<input type="checkbox"/>
a. Do any of the other business concerns have pending judgments; legal actions or suits; or, bankruptcy claims? ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment 2 of their certification? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example: **Other Business Concerns:** XXXXX identified XX other business concerns in addition to the borrower and the newly formed operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for XX Other Business Concerns identified by XXXX. {discuss each report}. No reports indicated derogatory information that would prohibit XXXXX participation in this loan transaction.

Example: **Other Section 232 Applications:** XXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted XXX and closed in XXX. As this is only XXXXX’s Xth HUD-insured healthcare loan, no additional reviews are required>>

## Financial Statements

<<If borrower has sufficient financial strength, no review of a principal’s financials is required. If a review of the principal’s financials is required to support approval of the loan, provide an analysis similar to the one provided for the borrower, above. >>

## Conclusion

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “XXXXX has demonstrated an acceptable credit history and sufficient experience owning and operating this and other facilities. The underwriter recommends this principal as an acceptable participant in this transaction.”>>

## Operator

Name: \_\_\_\_\_

State of Organization: \_\_\_\_\_

Date Formed: \_\_\_\_\_

Termination Date: \_\_\_\_\_

FYE Date: \_\_\_\_\_

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Does the operator currently own/operate any assets other than the property or participate in any other businesses? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the operator contract out nursing services other than temporary staffing through an agency and/or contracting for ancillary services (e.g., therapies, pharmaceuticals)? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. According to the application exhibits, is or has the operator been delinquent on any federal debt? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. According to the application exhibits, is or has the operator been a defendant in any suit or legal action? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. According to the application exhibits, has the operator ever filed for bankruptcy or made compromised settlements with creditors? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. According to the application exhibits, are there judgments recorded against the operator? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. According to the application exhibits, are there any unsatisfied tax liens? ....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. >>

**Organization**

<<Provide organization chart and narrative, as applicable. >>

**Experience/Qualifications**

<<Provide narrative description of operator’s experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions, if any. This section should clearly demonstrate that the operator has the expertise to successfully operate the facility.>>

## Credit History

Report Date: \_\_\_\_\_ <<within 60 days of submission>>

Reporting Firm: \_\_\_\_\_

Score: \_\_\_\_\_

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score.>>

### Key Questions

	Yes	No
1. Does the credit report identify any material derogatory information not previously discussed? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the underwriter have any concerns related to their review of the credit report? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>>

## Financial Statements

The application includes the following operator financial statements:

Year-to-date: \_\_\_\_\_ <<dates for start and end of period>>  
Fiscal year ending: \_\_\_\_\_ <<date – end of period>>  
Fiscal year ending: \_\_\_\_\_ <<date – end of period>>  
Fiscal year ending: \_\_\_\_\_ <<date – end of period>>

### Key Questions

	Yes	No
1. Are less than 3-years of historical financial data available for the operator? .	<input type="checkbox"/>	<input type="checkbox"/>
2. Are the financial statements missing any required information or schedules?	<input type="checkbox"/>	<input type="checkbox"/>
3. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of effective gross income) over 90 days?	<input type="checkbox"/>	<input type="checkbox"/>
4. Do the Aging of Accounts Receivable schedules show any material accounts receivables (amounts in excess of 2% of gross income) over 120 days? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there any issues or discrepancies related to tenant deposit accounts (e.g., not fully funded)? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. Do the financial statements indicate a loss prior to depreciation? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<If you answer “yes” to any of the above questions, please identify each risk factor and how it is mitigated below. The Accounts Payable and Accounts Receivable analysis provides information regarding an entity’s collection and payment practices, policies, and potential risks to the new project. Discuss your analysis of these issues and how the lender determined they are an acceptable risk.

**Example: No Financial Statements:** The operator is a newly formed entity and does not have a financial history to report. At this time, the operation of this facility is the new entity’s sole purpose, so there is no need to review financial data from other facilities or sources.

**Example: Tenant Security Deposits:** The tenant security deposits do not appear to be fully funded. At closing, however, the borrower will not be the operator and the tenant deposit obligation will fall to the new operator; therefore, the underwriter has included a commitment condition requiring the new operator to set up project accounts by closing and to provide an acceptable, certified Balance Sheet showing that the tenant security deposits are fully funded.>>

**General Overview**

<<Provide narrative and analysis of financial statements as appropriate. In addition to the Key Questions above, working capital should be discussed along with the general financial stability and strength of the entity. >>

**Net Income Analysis**

**Net Income\***  
In total \$

20XX	20XX	20XX	YTD (Indicate time frame)
\$	\$	\$	

\*before depreciation, amortization, and any other non-cash expense

<<Provide an explanation of any Net Losses or declining Net Incomes for the year-to-date and last 3 fiscal years, as applicable.>>

**Conclusion**

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example: “The operator entity has demonstrated an acceptable financial and credit history as demonstrated in our analysis of their financial statements and credit history as discussed above. The operator has the experience to continue to successfully operate this facility. The underwriter recommends this operator for approval as an acceptable participant in this transaction.”>>

## **Parent of the Operator (if applicable)**

<<Provide this section for each parent organization of the operator. This section is not applicable to individuals who are principals unless you are depending on the person or persons for approval of the operator (e.g., newly formed entity). In that instance (individuals), follow the principal of the borrower template and modify it appropriately for an operator. >>

Name: \_\_\_\_\_  
 State of organization: \_\_\_\_\_  
 Date formed: \_\_\_\_\_  
 Termination date: \_\_\_\_\_

### **Key Questions**

	<b>Yes</b>	<b>No</b>
1. Is the parent of the operator rated by S&P or another rating agency? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. According to the application exhibits, is or has the parent of the operator been delinquent on any federal debt? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. According to the application exhibits, is or has the parent of the operator been a defendant in any suit or legal action? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. According to the application exhibits, has the parent of the operator ever filed for bankruptcy or made compromised settlements with creditors? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. According to the application exhibits, are there judgments recorded against the parent of the operator? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. According to the application exhibits, are there any unsatisfied tax liens? ....	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the parent of the operator have other HUD properties which are master leased separately from the subject project? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example: **S&P Rating:** The entity is rated X by S&P. The rating agency indicates the outlook for the company is X.>>

### **Organization**

<<Provide organization chart and narrative, as applicable.>>

### **Experience/Qualifications**

<<Provide narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate the expertise to successfully operate the facility. >>



## Credit History

Report date: \_\_\_\_\_ <<within 60 days of submission>>

Reporting firm: \_\_\_\_\_

Score: \_\_\_\_\_

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>

### Key Questions

	Yes	No
1. Does the credit report identify any material derogatory information not previously discussed? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the underwriter have any concerns related to their review of the credit report? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>>

## Other Business Concerns/232 Applications

### Key Questions

	Yes	No
3. Does the Principal identify any other business concerns? .....	<input type="checkbox"/>	<input type="checkbox"/>
a. Do any of the other business concerns have pending judgments; legal actions or suits; or, bankruptcy claims? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>
b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>
4. Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment 2 of their certification? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example: **Other Business Concerns:** XXXXX identified XX other business concerns in addition to the borrower and the newly formed operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for XX Other Business Concerns identified by XXXX. {discuss each report}. No reports indicated derogatory information that would prohibit XXXXX participation in this loan transaction.

Example: **Other Section 232 Applications:** XXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted XXX and closed in XXX. As this is only XXXXX’s Xth HUD-insured healthcare loan, no additional reviews are required.>>

## Other Facilities Owned, Operated or Managed

### Key Questions

	<b>Yes</b>	<b>No</b>
1. Does the parent of the operator own, operate, or manage any other facilities? .....	<input type="checkbox"/>	<input type="checkbox"/>
a. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>
b. Do any of the other facilities have any open professional liability insurance claims? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>
c. Do any of the other facilities have any open state findings related to instances of actual harm and/or immediate jeopardy (G or higher)? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example: **Other Facilities:** XXXXX identified XX other facilities it owns, operates, or manages in addition to the subject facility.>>

#### Program Guidance:

For other projects/facilities owned, operated, or managed, the lender must submit copies of inspection reports for the facilities that have open level “G” or higher citations/deficiencies. The lender must address any issues/risks associated with the reports and show how they would be mitigated. If no open/unresolved level G or higher deficiencies, this should be stated. Note: If any facility has recent (within last 2 years) resolved “G” or higher citations/deficiencies, the lender must address this in the narrative; however, a copy of the report is not required.

## Financial Statements

The application includes the following parent of the operator financial statements:

Year-to-date:	<u>                    &lt;&lt;dates for start and end of period&gt;&gt;                    </u>
Fiscal year ending:	<u>                    &lt;&lt;date – end of period&gt;&gt;                    </u>
Fiscal year ending:	<u>                    &lt;&lt;date – end of period&gt;&gt;                    </u>
Fiscal year ending:	<u>                    &lt;&lt;date – end of period&gt;&gt;                    </u>

### Key Questions

	<b>Yes</b>	<b>No</b>
1. Are less than 3-years of historical financial data available for the parent of the operator? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Are the financial statements missing any required information or schedules?	<input type="checkbox"/>	<input type="checkbox"/>
3. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of effective gross income) over 90 days?	<input type="checkbox"/>	<input type="checkbox"/>

Yes No

4. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed? .....

<<If you answer “yes” to any of the above questions, please identify each risk factor and how it is mitigated below. The Accounts Payable and Accounts Receivable analysis provides information regarding an entities collection and payment practices, policies, and potential risks to the new project. Discuss your analysis of these issues and how the lender determined they are an acceptable risk. >>

**General Overview**

<<Provide Narrative and analysis of financial statements as appropriate. In addition to the Key Questions above, working capital should be discussed along with the general financial stability and strength of the entity.>>

**Net Income Analysis**

**Net Income\***

In total \$

20XX	20XX	20XX	YTD (Indicate time frame)
\$	\$	\$	

\*before depreciation, amortization, and any other non-cash expense

<<Provide an explanation of any Net Losses or declining Net Incomes for the year to date and last three fiscal years, as applicable.>>

**Conclusion**

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example: “The parent of the operator entity has demonstrated an acceptable financial and credit history as demonstrated in our analysis of their financial statements and credit history as discussed above. The parent of the operator has the experience to continue to successfully operate this facility. The underwriter recommends this parent of the operator for approval as an acceptable participant in this transaction.”>>

## **Management Agent (if applicable)**

Name: \_\_\_\_\_

Relation to borrower:                     <<Owner Managed/IOI Entity/Independent/Other>>                    

Principals/officers: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### **Key Questions**

	<b>Yes</b>	<b>No</b>
1. Does the management agent have experience managing other HUD-insured properties? .....	<input type="checkbox"/>	<input type="checkbox"/>
a. Has the agent received any “unsatisfactory” management reviews from HUD? .....	<input type="checkbox"/>	<input type="checkbox"/>
b. Have any managed, owned, or operated properties received REAC scores lower than 60? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the management agent have less than 3-years of experience managing similar properties? .....	<input type="checkbox"/>	<input type="checkbox"/>

*<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.*

### **Previous HUD Experience**

Project Name	Project City	Project State	Type of Facility

### **Management Agent’s Duties and Responsibilities**

*<<Briefly describe the management agent’s duties and responsibilities (i.e., will the management agent control the operating accounts; contract for services; recruit, select or train employees; take responsibility for the management of the functional operation of the facility or the execution of the day-to-day policies of the facility; etc.). Also describe the nature of the management agent’s compensation and how it was calculated.>>*

**Experience/Qualifications**

<<Provide a narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate the expertise to successfully manage the facility and meet the obligations of the management agreement.>>

**Credit History**

Report Date: \_\_\_\_\_ <<within 60 days of submission>>  
 Reporting Firm: \_\_\_\_\_  
 Score: \_\_\_\_\_

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>

**Key Questions**

	Yes	No
1. Does the credit report identify any material derogatory information not previously discussed? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the underwriter have any concerns related to their review of the credit report? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>>

**Other Facilities Owned, Operated or Managed**

**Key Questions**

	Yes	No
1. Does the management agent own, operate, or manage any other facilities? ..	<input type="checkbox"/>	<input type="checkbox"/>
a. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>
b. Do any of the other facilities have any open professional liability insurance claims? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>
c. Do any of the other facilities have any open state findings related to instances of actual harm and/or immediate jeopardy (G or higher)? .....	<input type="checkbox"/> N/A	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example: **Other Facilities:** XXXXX identified XX other facilities it owns, operates, or manages in addition to the subject facility.>>

Program Guidance:

For other projects/facilities owned, operated, or managed, the lender must submit copies of inspection reports for the facilities that have open level “G” or higher citations/deficiencies. The lender must address any issues/risks associated with the reports and show how they would be mitigated. If no open/unresolved level G or higher deficiencies, this should be stated. Note: If any facility has recent (within last 2 years) resolved “G” or higher citations/deficiencies, the lender must address this in the narrative; however, a copy of the report is not required.

**Past and Current Performance**

<b>Indicator</b>	<b>Findings</b>
Billing	<<acceptable>>
Controlling operating expenses	
Vacancy rates	
Resident turnover	
Rent collection and accounts receivable	
Physical security	
Physical condition and maintenance	
Resident relations	

<<Provide narrative support for review and finding. For example: “Based on interviews with the principals of the borrower and management agent, as well as a review of the management policies and procedures, the underwriter has concluded that the management agent has demonstrated acceptable past and current performance with regard to all of the above indicators.”>>

**Management Agreement**

Date of agreement: \_\_\_\_\_

Agreement expires: \_\_\_\_\_

Management fee: \_\_\_\_\_

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Does the agreement sufficiently describe the services the agent is responsible for performing and for which the agent will be paid management fees? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the agreement provide that the management fees will be computed and paid according to HUD requirements? .....	<input type="checkbox"/>	<input type="checkbox"/>

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 3. Does the agreement provide that HUD may require the owner to terminate the agreement without penalty and without cause upon written request by HUD and contain a provision that gives no more than a 30-day notice of termination? .....                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Does the agreement provide that HUD's rights and requirements will prevail in the event the management agreement conflicts with them? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Does the agreement provide that the management agent will turn over to the owner all of the project's cash trust accounts, investments, and records immediately, but in no event more than 30 days after the date the management agreement is terminated? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. The agreement does <u>not</u> exempt the agent from gross negligence and or willful misconduct? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Is the Form HUD-9839-ORCF consistent with the Management Agreement?   | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each "no" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. >>

### **Management Certification**

<<Provide narrative review. For example: "The form HUD-9839-ORCF, Project Owner's/ Management Agent's Certification, provided in the application package indicates a management fee of XX percent of the residential, commercial and miscellaneous income collected, which is in line with industry standards for projects of this size. The term of the agreement is for XX-years. The stated fee and term match those stated in the management agreement. The fee calculations on page 4 are coordinated with the underwriting conclusions.">>

### **Conclusion**

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example: "The management agent has demonstrated an acceptable credit history and has the experience to continue to successfully manage this facility. The underwriter recommends this management agent for approval as an acceptable participant in this transaction.">>

## **Operation of the Facility**

### **Administrator**

Name: \_\_\_\_\_  
 Employed by: \_\_\_\_\_ <<Name of entity who employs/pays administrator>>  
 Facility Start Date: \_\_\_\_\_ <<Date started at this facility as Administrator>>

<<Narrative description of experience and qualifications - For example, "{Administrator} has been a licensed administrator since XXXX. Her current Residential Care Administrator's

license No. XXXXXXXX expires XXXXXX. It was issued by XXXXXXXX in the State of XXXX. Her experience includes... Since arriving at the facility, XXXX has helped to increase the revenues and profitability of the project, as evidenced by the increasing effective gross income and net operating income (NOI). XXXXX is well qualified and has demonstrated her ability to act as Administrator for the subject facility.”>>

**Subject’s State Surveys**

The application includes the following state surveys issued on the following dates over the last three (3) years of operations: (State when the survey was conducted and when the project was found in compliance.)

**3 Years of Survey Inspections**

Date of survey/inspection	Date state issued letter approving POC

**Key Questions**

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 1. Do the state surveys identify any instances of actual harm and/or immediate jeopardy (during last 3 year period)? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are there currently any open findings? .....  | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example: **General Review and Findings:** Provide narrative description of review. For example: “The {date} state survey inspection letter indicates that there were X deficiencies. The deficiencies...”>>

**Staffing**

<<Provide narrative description of review. For example: “The appraiser and underwriter have reviewed the current and proposed staffing to be charged to the facility and found it to be acceptable and within reason...”>>



## Operating Lease

Date of Agreement: \_\_\_\_\_  
 Current Lease Term Expires: \_\_\_\_\_  
 Description of Renewals: \_\_\_\_\_  
 Current Lease Payment: \_\_\_\_\_  
 Major Movable Equipment  
     Current Ownership: \_\_\_\_\_ <<Borrower/Operator>>  
     Post Closing Ownership: \_\_\_\_\_ <<Borrower/Operator>>

### Key Questions

	Yes	No
1. Will the facility be subleased (master lease)? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. At closing, will the lease have a term that expires within 5 years with no lease renewal options (see guidance below)? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the lease contain any non-disturbance provisions? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the lease require the borrower to escrow any funds other than those associated with this loan? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there proposed changes to the current operating lease? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Has the lender recommended any special conditions concerning the lease? ..	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the current lease payment need to be increased to provide sufficient debt coverage for the mortgage payment, MIP, other insurance premiums, taxes, reserves, or impounds? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>>

#### Program Guidance:

ORCF has recently reviewed several applications that were submitted for review with operator agreements due to expire within 5 years or less. The underwriting criteria used by both ORCF and the lender are based on the current operator. Lenders need to provide HUD with information in their application regarding any changes to the operator that will occur within the next 5 years. This plan of action is needed to ensure that the quality and experience of any potential new operator will be comparable or better than the current operator. For assisted living facilities (ALFs), it is important to re-emphasize that operators need to be experienced and have a proven track record with the operation, marketing, and lease up of ALF facilities. The 5- year lease expiration issue does not apply to lessees that have lease renewal options.

### Lease Payment Analysis

The lease payments must be sufficient to (1) enable the borrower to meet debt service and impound requirements; and (2) enable the operator to properly maintain the project and cover

operating expenses. The minimum annual lease payment must be at least 1.05 times the sum of the annual principal, interest, mortgage insurance premium, reserve for replacement deposit, property insurance, and property taxes.

The underwriter has prepared an analysis demonstrating the minimum annual lease payment.

a.	Annual principal and interest	\$
b.	Annual mortgage insurance premium	
c.	Annual replacement reserves	
d.	Annual property insurance	
e.	Annual real estate taxes	
f.	Total debt service and impounds	\$
<b>h</b>	<b>Minimum annual lease payment</b>	<b>\$</b>

<<Compare the minimum annual lease payment to the current lease payment. If the lease payment needs to increase, add the following language: “The lease payment must be increased to \$XX per year (\$XX per month). The underwriter has included a special condition to the firm commitment requiring the lease payment be revised to meet or exceed this minimum.” If the lease payment does not need to increase, add the following language: “The current lease payment is sufficient. The recommended annual lease payment also provides the operator with an acceptable profit margin.”>>

### **Responsibilities**

<<Provide a description of the responsibilities of the Lessor and Lessee under the terms of the lease with regard to the following: payment of real estate taxes, maintenance of building, capital improvements, replacement of equipment, property insurance, etc.>>

### **HUD Lease Provisions**

Prior to closing, the lease needs to be modified to include the appropriate HUD requirements as outlined in the HUD Operating Lease Addendum, including, but not limited to:

1. Contain a restriction against assignment or subletting without HUD prior approval.
2. Requires prior written approval by HUD for any modification in bed authority.
3. Requires the lessee to submit financial statements to HUD within 90 days of the close of the facility’s fiscal year.
4. Designates the lessee as having the responsibility to seek and maintain all necessary licenses and provider agreements including Medicaid and Medicare.
5. Requires the lessee to submit a copy of the licenses and provider agreement to HUD.
6. Requires the /lessee ensure that the facility meets state licensure requirements and

standards.

## Master Lease

### Key Questions

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 1. Are three or more projects (or two projects with an aggregate total mortgage loan amount greater than \$15 million) being submitted to HUD that are under common control or have the same ownership? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Will the projects be submitted within an 18-month window? ..... <input type="checkbox"/> N/A   | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Is the parent of the operator the same for all of these projects? ..... <input type="checkbox"/> N/A   | <input type="checkbox"/> | <input type="checkbox"/> |

If you answered “yes” to all three questions, a master lease is required. This is true regardless of whether a mortgagor chooses to use different lenders for the loans in its portfolio.

<<Provide a narrative describing the terms of the master lease, lease payments, all parties involved, renewal provisions, etc. The HUD Lease Addendum must be attached to the Subleases. Refer to definitions of Common Control and Same Ownership previously provided in this lender narrative.>>

## Accounts Receivable (A/R) Financing

AR Lender: \_\_\_\_\_  
AR Borrower \_\_\_\_\_  
Maximum Loan Amount: \_\_\_\_\_  
Current Balance: \_\_\_\_\_  
Current Maturity Date: \_\_\_\_\_

### Key Questions

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 1. Does the AR loan require any guarantees from the borrower, operator, parent of the operator, or any of those entities’ principals? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are the guarantors guaranteeing performance on any other AR loans? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Does the AR loan involve multiple facilities or borrowers ? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Does the AR loan involve any non-HUD-insured properties? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Does the AR loan involve facilities located in multiple states or HUD field office jurisdictions? .....                                  | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Is there an identity of interest between the AR lender and the AR borrower?  | <input type="checkbox"/> | <input type="checkbox"/> |

	Yes	No
5. Is there a conflict of interest between the AR lender and the borrower or its principals (as defined in Notice H 08-09 or its successors)? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the maximum AR loan amount exceed 85% of the Medicaid, Medicare, and other governmental accounts receivable less than 121 days old? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. Of the total Medicaid, Medicare and other governmental accounts receivable less than 121 days old, are more than 30% over 90 days old? ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
8. Does the AR lender have less than 3 years of experience providing AR financing? .....	<input type="checkbox"/>	<input type="checkbox"/>
9. Does the AR lender lack the financial controls and capability to monitor the operator's performance? .....	<input type="checkbox"/>	<input type="checkbox"/>
10. Are the borrower or operator out of compliance with any business agreements with HUD (i.e., in default on those agreements, not current on financial submissions, etc.)? .....	<input type="checkbox"/>	<input type="checkbox"/>
11. Is the AR loan being syndicated or participated? .....	<input type="checkbox"/>	<input type="checkbox"/>
12. Is the lockbox associated with the DAISA Government Receivables account a "springing" lockbox? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each "yes" answer above, provide a narrative discussion regarding the topic.>>

### **Terms and Conditions**

1. Describe the borrowing base formula (e.g., XX% of the AR borrowers accounts receivable up to 120 days):
2. Describe term and renewal options:
3. Describe the rate applied to the used and unused portion of the AR loan:
4. Other fees (i.e., financing fees, late payment fees, etc.):

### **Mechanisms for Operator receipts, disbursements and control of operator funds:**

<<Describe the flow of all funds, into and out of accounts. Describe how deposit accounts are controlled (e.g., number of controlled accounts, hard or springing lockbox, daily sweeps, etc.). Attach cash flow chart.>>

### **Collateral/Security**

<Provide narrative description of the AR lender's collateral/security. Explain any unsecured AR financing.>>

**Permitted Uses and Payment Priorities**

<<Provide descriptions of the permitted uses of the AR loan funds in order of priority. For example: (1) debt service incurred in connection with the AR loan; (2) operating costs; and (3) distributions to the operator’s shareholders. See Attachment C of Notice H 08-09, Rider to Intercreditor, Paragraph 3 or any other successor guidance.>>

**Financial Analysis**

**Maximum AR Loan Calculation**

(Double click inside the Excel Table to add information)

	0-90 days	91-120 days	121-150 days	151+ days
Medicare				
Medicaid				
Other Govt				
Subtotal	\$ -	\$ -	\$ -	\$ -
Commercial				
Private*				
Total	\$ -	\$ -	\$ -	\$ -

\*Private is not considered when determining HUD’s maximum AR loan amount.

#DIV/0!	of Medicare, Medicaid, Commercial AR less than 121 days old is over 90 days old.
\$ -	HUD Maximum AR Loan Amt = 85% of Medicare, Medicaid, and Commercial AR 120 or less days old.
	AR Lender Maximum Loan Amount

**Historical AR Loan Costs**

<<If there is an existing AR loan that is not yet approved by HUD, provide a financial analysis that explains how the cost of the AR loan has been factored into the NOI calculation. Complete the Historical AR Loan Costs table.>>

**Historical AR Loan Costs**

(Double click inside the Excel Table to add information)

20XX	20XX	20XX	YTD specify months	20XX-20XX Average	UW

**Proposed AR Loan Costs**

<<If the AR borrower is obtaining AR financing for the first time, provide a financial analysis that demonstrates that the AR borrower has sufficient financial capacity to pay all projected operating expenses, AR financing costs and loan payments, and all rent or debt service payments. The analysis must assume the maximum AR loan amount to stress test the AR financing based on the lesser of the operator’s 12-month trailing operating statements or the underwritten NOI. Calculate the impact on the borrower’s debt coverage after payment of the AR loan expenses and payments.>>

Assuming the \$ \_\_\_\_\_ maximum AR loan limit, an annual interest rate of \_\_\_\_\_ %, and that the entire amount is outstanding for the year, the maximum annual interest expense would be \$ \_\_\_\_\_. In addition to the interest, the other associated fees are the \_\_\_\_\_ fees <<list types of fees>>, that total \$ \_\_\_\_\_ per year for the same assumed balance. An analysis of the operator’s 12 month trailing financial statement (Month 20XX – Month 20XX) is below:

<b>12-Month Trailing Operating History</b>	
Operating revenue	\$ _____
Less: Operating expenses	_____
Net operating income (NOI)	\$ _____
Annual P&I + MIP	\$ _____
AR fee: Interest	_____
AR fee: Other	_____
Total annual mortgage & AR debt service	\$ _____
DSCR including AR	

The underwriting assumed an NOI of \$ \_\_\_\_\_. The 12-month trailing NOI is \$ \_\_\_\_\_. The annual debt service including the MIP amount is \$ \_\_\_\_\_ per year. Adding the AR fees equates to a total mortgage and AR debt service expense of \$ \_\_\_\_\_ per year. This equates to prospective debt service coverage.

<<If multiple HUD-insured facilities have access to the AR loan, repeat the analysis above with the consolidated revenues and expenses for all those facilities.>>

**Recommendation**

<<The lender recommends approval of the AR loan.>>

# Insurance

## Professional Liability Coverage (PLI)

Program Guidance:

The PLI insurance policy must be in the name of the entity that is conducting the day-to-day operations of the subject facility. The PLI policy can be issued to the parent operator as long as each operating entity that is conducting the day-to-day operations of the facility is listed on the policy.

Name of insured: ..... \_\_\_\_\_

Insurance company: ..... \_\_\_\_\_

Rating: ..... Rater: \_\_\_\_\_

Insurance company is licensed in the United States: .....  Yes  No

Statute of limitations: ..... \_\_\_\_\_

Current coverage: ..... Per occurrence: \_\_\_\_\_  
 Aggregate: \_\_\_\_\_  
 Deductible: \_\_\_\_\_

Policy Basis: .....  Per occurrence  Claims made

Current Expiration: ..... \_\_\_\_\_

Retroactive Date: ..... \_\_\_\_\_

Policy Premium: ..... \_\_\_\_\_

### Key Questions

	Yes	No
1. Does the insurance policy cover multiple properties? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Is less than 6 years of lost history available? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the loss history indicate any patterns or significant claims? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the loss history or potential claims certification indicate any uncovered claims? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the loss history or potential claims certification indicate any claims that would exceed the per occurrence or aggregate coverage limits at the facility? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Has the facility been covered by a "claims made" policy at any time during the statute of limitations for the State in which the facility is located? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. Is the policy funded on a "cash front" basis? .....	<input type="checkbox"/>	<input type="checkbox"/>
8. Is an actuarial study applicable (more than 50 facilities)? (If yes, discuss study results.) .....	<input type="checkbox"/>	<input type="checkbox"/>

	Yes	No
9. Are there any professional liability insurance issues that require special consideration or HQ review per HUD Notice 2004-15? .....	<input type="checkbox"/>	<input type="checkbox"/>
10. For all facilities identified on the insured's Schedule of Facilities Owned, Operated or Managed, are there any surveys/reports that have open G-level or higher citations outstanding? (As appropriate, provide a complete analysis of the surveys.) .....	<input type="checkbox"/>	<input type="checkbox"/>
11. Are any entities that provide resident care (as discussed in the Provider Agreements and Resident Care Agreements/Rental Agreements) not covered by the PLI policy? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.

*Example: 1. **Multiple properties:** The underwriter notes that the professional liability policy is a 'blanket' policy covering XXX facilities, including the subject...{address potential impact of other facilities on the subject's coverage}*

*Example: 2. **Less than 6-year loss history:** The claims history reports were examined for the period XX through XX. The underwriter determined that there were no professional liability XX claims during that period... {address claims and sufficiency of coverage, etc. based on history}.*

*Example: **Claims made coverage:** The project's previous professional liability insurance coverage was a "claims made" form policy with XXXX, which expired XXXX, when the current policy was put in place. In XXXX the borrower purchased a "nose coverage" policy which is the coverage needed when going from a "claims made" form of insurance to a "per occurrence" form of insurance. The premium for this "nose" coverage liability was a one-time charge and was paid in XXX. Because of that additional insurance coverage, the insurance expense for XXXX was substantially higher than the current expense. The current "per occurrence basis" insurance policy covers the entire statute of limitations. The project's professional liability insurance is in compliance with HUD's requirements. >>*

Program Guidance:

State licensing surveys of all individual facilities of the operator for the last 3 years, are to be transmitted as part of the application submission. These surveys will be used to determine the quality of care provided by the operator. The operator or its parent must also submit a 6-year loss history of all professional liability claims filed against it for all facilities controlled by the operator or its parent. This loss history should be provided in annual summary form and should:

1. Provide a current inventory of all paid or settled claims.
2. Break out the expected cost of claims in a year-by-year summary. In separate line items,



list the amount of the actual and/or anticipated awards, claims expenses, and any funds reserved for estimated claims.

3. List total actual or estimated claims costs for compensatory damages, medical expenses, punitive damages, and legal expenses incurred processing the claim.
4. Identify potential or expected professional liability claims in excess of \$35,000 that have been or may be filed for all periods within the statute of limitations for the state where the claim occurred.
5. Include a brief discussion or chart that provides the timeframe for the statutes of limitations for filing claims of negligence, injuries, wrongful death, and/or improper care based on the law in the states where the parent operator's facilities are located.
6. Include a certification from the parent operator (or operator, if no parent) as to the accuracy of this documentation. The certification must be signed and dated by a senior officer of the parent operator (or operator, if no parent), and include the following statement:

*“HUD will prosecute false claims and statements. Convictions may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)”*

## **Lawsuits**

*<<As applicable, discuss each lawsuit and describe the potential risk related to the party's participation in the proposed project. Discuss how that risk is mitigated. If the suit is closed, does it contribute to a pattern? Does it materially affect the party's ability to participate in the project? If not closed, describe the circumstances, identify the potential award amount, provide evidence and analysis showing that the suits are covered by insurance (general or professional liability—identify which one), and if the insurance is not sufficient, do they demonstrate adequate funds to cover the potential excess? Describe any other information that mitigates the risk.>>*

## **Recommendation**

*<<Provide narrative recommendation regarding acceptability of professional liability insurance. For example: “The borrower's professional liability insurance was analyzed in accordance HUD H04-15. The property has XX current potential (threatened) insurance claims at this time as reflected on the certification provided by the borrower. It is {lender's} opinion that the information provided above and in the application sufficiently demonstrates that the existing professional liability coverage meets HUD's requirements and that the risk from professional liability issues is sufficiently addressed. No modifications to the current coverage are recommended.”>>*

## **Property Insurance**

<<Provide narrative discussion of review. For example: “Hazard and Liability insurance will be provided by XX. The underwriter has confirmed estimates of the cost and coverage for underwriting and will re-verify this information prior to closing. The insurance coverage will comply with HUD requirements prior to closing.”>>

## **Fidelity Bond/Employee Dishonesty Coverage**

<<Provide narrative discussion of review. For example: “The current insurance policy reflects fidelity (crime) insurance with the limit of \$XX and \$XX deductible. The HUD requirement for at least two months **potential** gross income receipts would total \$XX. The current level of coverage is sufficient for this project.” If not sufficient, recommend commitment condition.>>

## **Mortgage Determinants**

### **Overview**

The mortgage criteria shown on the form HUD-92264a-ORCF are summarized as follows:

Requested amount:	\$
Amount based on loan-to-value:	\$
Amount based on debt service coverage:	\$
Amount based on cost to refinance:	\$
Amount based on deduction of loans, grants, gifts for mortgageable items:	\$

The proposed mortgage is \$                      and is constrained by                      .

### **Mortgage Term**

The underwriter concluded that the estimated remaining economic life of the project is                      years based on the analysis of the appraiser. The estimate has been multiplied by 75% to arrive at the maximum mortgage term of                      years. <<Note: Term not to exceed 35 years.>>

### **Type of Financing**

The type of financing available to the borrower upon issuance of the commitment will likely be in the form of                      .

## **Amount Based on Required Loan-to-Value**

(Criterion D of HUD-92264a-ORCF)

The \$ fair market value limit was calculated in accordance with HUD guidelines. Based on % of the underwriter's value of \$ . No deductions for ground leases, grants or loans, excess unusual site improvements, cost containment, or special assessments are applicable to this project. <<Note: If the loan-to-value exceeds 80% (85% for non-profit), justification/mitigation of the additional risk to HUD must be addressed in the Risk Factors section of this narrative.>>

## **Amount Based on Required Debt Service Coverage**

(Criterion E of HUD-92264a-ORCF)

The \$ debt service limit was calculated using HUD's guidelines. This is based on % of the underwriter's net operating income for debt service purposes of \$ , interest rate of % and a -year term. The proposed mortgage is constrained by ; therefore, the underwritten debt service coverage is , which is % of the estimated net operating income for debt service and MIP payments.

**Note: If the debt service coverage rate is less than 1.45, justification/mitigation of the additional risk to HUD must be addressed in the Risk Factors section of this narrative.**

## **Amount Based on the Cost to Refinance**

(Criterion H of HUD-92264a-ORCF)

The costs to refinance associated with the project totals \$ on the form HUD-92264a-ORCF that is used to calculate the mortgage amount for this criterion. This total includes the following:

Existing indebtedness	\$
Repayment of investor debt	
Estimate of repair cost (critical & non-critical)	
Initial deposit to the reserve for replacement	
Prepayment penalty	
Appraisal (including update)	
Phase I ESA/HUD 4128	
PCNA	
Financing/placement fee	
Lender legal	
Borrower legal	
Title & recording	
HUD inspection fee	
First year MIP	
HUD exam fee	

Other fees (<<describe>> )	
Other fees (<<describe>> )	
Other fees (<<describe>> )	
Other fees (<<describe>> )	
<b>TOTAL HUD-ELIGIBLE COSTS</b>	<b>\$</b>

**Amount Based on Deduction of Grants, Loans, Gifts**  
*(Criterion L OF HUD-92264a-ORCF)*

The Criterion 11 limit was calculated in accordance with HUD guidelines as follows:

a. Transaction Cost from Criterion 7 or 10	\$
b. (1) Grants/loans/gifts	
(2) Tax credits	
(3) Value of leased fee	
(4) Excess unusual land improvement cost	
(5) Unpaid balance of special assessment	
(6) Sum of lines (1) through (5)	\$
c. Line a minus line b (6)	\$

The secondary sources are discussed in detail below in the Sources & Uses section of the narrative.

**Existing Indebtedness**

<<For a **purchase**, this section should be titled “Purchase Price” and the information below should be replaced by an appropriate narrative section describing the pertinent terms of the purchase transaction, generally including: purchase price, itemization of costs to be paid by seller, date of agreement and addendums, expiration date, date by which sale must occur, etc.>>

<<Provide detailed breakdown of all existing debt(s) being included in requested mortgage amount below. Include similar detail on HUD-92264a-ORCF.>>

**Schedule of Debt to Refinance**

<u>Lender</u>	<u>Pay-off Amount</u>
	\$
	\$
	\$
<b>Total:</b>	\$

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Are there any debts on the borrower’s balance sheet or recorded against the property, other than the primary mortgage, that will survive closing? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Are any of the debts to be paid off less than 2 years old? (Refer to Program Guidance below.) .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the borrower have any identities of interest with any of the existing lenders or noteholders? (Refer to Program Guidance below.) .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Do any of the debts to be paid off have prepayment penalties or other significant cost associated with them? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Is any of the existing debt cross-collateralized with other assets (pooled debt or master leased) or financed with a line of credit? (If yes, explain how you allocated the debt between the facilities cross-collateralized.) .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Are delinquent real estate taxes included as an eligible transaction cost? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. >>

<<If Swap Fees are not applicable to subject transaction this section may be deleted>>

**Swap Fees:**

If Swap Fees are eligible and will be included in the HUD-insured mortgage, please answer the following questions:

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. If the original financing is tax exempt, is there a legal opinion from qualified counsel that states the swap meets the definition of a “Qualified Hedge” or is substantially in conformance with that definition? (Check N/A if financing is taxable.) ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
2. For interest rate swap contracts related to taxable financing, was the swap integrated with the original financing and entered into as an interest rate hedge within 15 days of the original financing? (Check N/A if financing is tax exempt.) ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the loan-to-value <u>with the swap termination costs included</u> at or below 80% .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Is the swap termination cost proposed no more than 10% of the insured mortgage proceeds? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Was the interest rate swap contract put into place prior to January 1, 2009? ..	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the Fairness Certification acceptably address the requirements outlined in Mortgagee Letter 2012-08? .....	<input type="checkbox"/>	<input type="checkbox"/>

Program Guidance – Eligible Debt on a Refinance:

A. **Definition of Eligible Debt.** Project debt that meets any of the below definitions may be included as a mortgageable item in calculating the Maximum Insurable Mortgage.

1. Outstanding mortgage(s). Outstanding mortgage(s) on the property that are at least two years old at the time that HUD begins processing the loan are considered eligible debt. If the mortgage was generated less than two years before the date HUD begins processing the application, the lender must determine that there was no cash out to the mortgagor of the proposed HUD-insured loan or its principals in order for the debt to be considered eligible debt. Debt incurred as a result of an identity-of-interest purchase or as a result of buying out a partner is not considered eligible debt and must meet the two-year debt seasoning requirement. An identity-of-interest purchase is defined as one where there is an identity of interest, however slight, between the seller and purchaser that survives the sale transaction. An owner operator that continues to operate the facility after the sale constitutes an identity of interest.
2. Other recorded indebtedness. Other recorded indebtedness such as mechanic's liens and tax liens, provided they did not result from personal obligations of the mortgagor.
3. Unrecorded debt. Unrecorded debt directly connected with the project that is supported by documentation from the mortgagor. If the indebtedness is not recorded, the mortgagor must provide the lender with documentation that substantially verifies that the obligation is directly connected to the project. Examples include:
  - a. Indebtedness incurred in making needed improvements and betterments to the property.
  - b. Indebtedness incurred or advances made to cover operating deficits.
4. Other eligible costs associated with paying off the eligible debt. Examples of other eligible costs associated with paying off the eligible debt are:
  - a. Reasonable delinquent and accrued interest.
  - b. Reasonable prepayment penalties on the mortgage.
  - c. Recording, release, and re-conveyance fees.
  - d. Documentation or processing fees.

*Note: Program penalties arising from the defeasance of tax-exempt and taxable bonds cannot be recognized.*

B. Swap Fees: Swap Fees may be included as an eligible mortgageable item when reviewed and approved by HUD in accordance with Mortgagee Letter 2012-08.

C. ORCF does not recognize indebtedness:

1. Recently placed against the project to increase the mortgage or circumvent program intent.
2. On operating debts of the operating entity.
3. Created by wrap mortgages:
  - a. Unless the mortgagor and Lender give a detailed explanation of the purpose of the wrap and a documented accounting of disbursement of the loan proceeds.
  - b. Loan proceeds used for capital improvements or project operations qualify for inclusion as eligible debt.

**General Overview**

<<Narrative review of debt and pay-off information. For example, “Per the statement from XXX dated XXXX, the current existing indebtedness is \$XXXX. The pay-off balance will be reconfirmed prior to closing and only eligible pay-off charges will be included in the cost certification.”>>

**Legal and Organizational Costs**

The borrower’s legal and organization costs are estimated to total \$ ( \$ for legal, \$ for organizational expenses). The underwriter concluded that the budgeted amounts are reasonable.

**Title and Recording Fees**

Title and recording fees are estimated to cost \$ . The underwriter concluded that the budgeted amount is reasonable.

**Other Fees**

A total of \$ in third-party report fees has been included in the mortgage calculation and the fees include .

**HUD Fees**

<<This section pertains to the transaction cost calculation and may not match the actual fees in the source and use.>>

The HUD fees total \$ and are comprised of MIP totaling 1.00% of the mortgage amount (\$ ); the HUD application fee totaling 0.3% of the mortgage amount (\$ ); and, the HUD inspection fee (\$ ). <<i.e., 1% of the cost of repairs; minimum threshold for the inspection fee is \$30 per unit or bed, whichever applies.>>

## Financing Fees

<<This section pertains to the transaction cost calculation and may not match the actual fees in the sources and uses chart. >>

The financing fees payable to the lender total \$ . The total is made up of a fee of 1.00% of the mortgage amount (\$ ); plus fixed lender fees totaling \$ . In total, the fees payable to the lender represent % of the mortgage amount.

A broker <<select one>>  is /  is not involved in this transaction. The broker fee is \$ and will be paid by , using <<select one>>  mortgaged /  non-mortgaged funds.

## Sources & Uses

<<Provide a Statement of Sources and Uses of actual estimated cost at closing. Include all eligible and ineligible transaction costs.>>

## Secondary Sources

<<List and discuss all secondary sources, including terms and conditions of each. Secondary sources include surplus cash notes, grants/loans, tax credits, etc. >>

### Program Guidance:

#### **Government Sources**

1. Secondary financing, grants and tax credits from a federal, state, or local government agency or instrumentality, may be used to cover up to 100% of the applicable Section of the Act equity requirement.
2. Secondary financing, grants, and tax credits from a federal, state or local government agency or instrumentality, may also be used to finance non-mortgageable costs. Such funds covering non-mortgageable costs, when added to the HUD mortgage and required equity contribution, may exceed 100% of the project's Fair Market Value (FMV) or Replacement Cost.
3. Subordinated liens against the property that result from secondary loans from a federal, state or local governmental agency or instrumentality to cover non-mortgageable costs and/or equity, in combination with HUD's primary lien, may exceed 100% of the property's FMV or Replacement Cost.
4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary loans, grants and tax credits, must be certified by the source provider to be required to complete the



project and that the related costs are reasonable. Documentation to this effect must be included with the application submission.

### **Private Sources**

1. Secondary financing in the form of a promissory note is permitted to cover a portion of the equity requirement under Section 223(f). The aggregate amount of the HUD-insured first loan and the private second loan cannot exceed 92.5% of FMV. Therefore, the amount of a private loan may range from 7.5% of FMV (the difference between 85% and 92.5% of FMV) to a larger percentage if a mortgage criterion is lower than 85% of FMV controls. This rule also applies to Sections of the Act that are pursuant to Section 223(f) (i.e., Section 232 pursuant to Section 223(f)). However, this allowance should not be used to circumvent our existing policies that do not permit equity take-out on Section 232 refinance transactions or on purchase transactions, a way to finance costs that otherwise would not be permitted. For example, seller takebacks on property acquisition costs that are not supportable by market data, should not be approved.
2. When private secondary financing is combined with federal, state or local government agency secondary financing, like in #1 above, the aggregate amount of the HUD-insured first loan and the private second loan cannot exceed 92.5% of FMV. However the governmental loan, in aggregate with the HUD first and private second, may exceed the property's FMV. The addition of the governmental loan may result in total liens that exceed the property's FMV.
3. Private secondary financing may be used to cover non-mortgageable costs in combination with equity or solely for one purpose or the other. Whatever option is decided upon, as stated under #1 above, the aggregate of the HUD first and private second cannot exceed 92.5% of FMV.
4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary financing from private sources, must be certified to be reasonable and required to complete the project by the provider of sources in documentation included with the application submission.

### **Surviving Debt**

*<<List and discuss all existing long-term debt that will survive closing. >>*

### **Other Uses**

*<<Discuss any Uses not previously discussed in this narrative. >>*

### **Circumstances that May Require Additional Information**

In addition to the information required in this narrative, depending upon the facility for which mortgage insurance is to be provided, the mortgagor, operator, management agent and such other parties involved in the operation of the facility, current economic conditions, or other factors or conditions as identified by HUD, HUD may require additional information from the lender to accurately determine the strengths and weaknesses of the transaction. If additional information is required, the questions will be included in an appendix that accompanies the narrative.

## **Special Commitment Conditions**

<<List any recommended special conditions. If none, state "None.">>

- 1.
- 2.

## **Conclusion**

<<Provide narrative conclusion and recommendation.>>

## **Signatures**

Lender hereby certifies that the statements and representations of fact contained in this instrument and all documents submitted and executed by lender in connection with this transaction are, to the best of lender's knowledge, true, accurate, and complete. This instrument has been made, presented, and delivered for the purpose of influencing an official action of HUD in insuring the loan and may be relied upon by HUD as a true statement of the facts contained therein.

Lender: \_\_\_\_\_

HUD Mortgagee/Lender No.: \_\_\_\_\_

This report was prepared by: \_\_\_\_\_ Date \_\_\_\_\_ This report was reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

<<Name>>

<<Title>>

<<Phone>>

<<Email>>

<<Name>>

<<Title>>

<<Phone>>

<<Email>>

This report was reviewed and the Date  
site inspected by:

---

<<*Name*>>

<<*Title*>>

<<*Phone*>>

<<*Email*>>