

**Lender Narrative**  
Section 232/232(i) - Fire Safety  
Equipment Installation,  
*without* Existing HUD-Insured  
Mortgage

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

OMB Approval No. 9999-9999  
(exp. mm/dd/yyyy)

**Public reporting** burden for this collection of information is estimated to average 15 hour(s). This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation which 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.

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**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>>

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## Executive Summary

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

**Lender Name:**

**Section of the Act:** 232(i)

**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>Fire safety loan amount:</b> \$		LTV: _____ %	Loan to Transaction Cost: _____ %
		Term: _____ months	Interest rate: _____ %
<b>Medicare.Gov Star Rating</b> _____ # stars		DSCR with MIP): _____ %	Principal & Interest \$ _____ per month
Underwritten Value: _____ \$		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  
 Replacement reserves: \_\_\_\_\_ \$ Initial deposit: \$ \_\_\_\_\_ Annual deposit(s) for 15 yrs.: \$ \_\_\_\_\_  
 Other escrows/reserves: \$ \_\_\_\_\_ <<description of other escrows/reserves>>

*Note: Repairs that are not for the installation of fire safety equipment may not be included in the security*

instrument.

**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:**

PCNA Conclusion is:  Accepted as is.  Modified by lender.  
 Other <<identify here>> Conclusion is:  Accepted as is.  Modified by lender.

## **Transaction Overview**

<<Provide a brief summary of the unique characteristics of the fire safety equipment installation project and 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 include:

- Facility is master leased
- Timing issues for closing or pay-off

*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 finance the installation of fire safety equipment.”>>*

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Is any of the current project debt HUD-insured or HUD-held? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the underwriting include income from adult day care? (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.) .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Is there a ground lease? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Are any real estate tax abatements or exemptions included in the underwriting assumptions? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Is the property subject to any special assessments? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Is an operating deficit required for this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 7. Are there any special escrows or reserves proposed for this transaction? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Are there any waivers proposed for this transaction? (Identify any waivers required for the proposed financing, the specific provisions to be waived, and justification for the waiver. With the exception of regulatory waivers, the lender must provide a form HUD-2-ORCF, for each waiver with the application.) ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. 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"/> | <input type="checkbox"/> |
| 10. Does the facility require more than four residents to share a full bathroom (see 24 CFR 232.3)? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. 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"/> |

<<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.>>

### 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? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has the facility, borrower, operator, or any of their affiliates' renamed or reformulated companies, or filed for or emerged from bankruptcy within the last 5 years? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 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                           | <input type="checkbox"/> | <input type="checkbox"/> |



- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| plan to offer? .....   |                          |                          |
| 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. >>

### **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.>>

### **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: <u>&lt;&lt;b / a&gt;&gt;</u>	f. % of commercial income: <u>&lt;&lt;e / d&gt;&gt;</u>

<<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:     <<b / a>>
- 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).”>>

<<Affirmative statement along the lines of: “The improvements are certified to be in compliance with Medicare and Medicaid Programs: Fire Safety Requirements for Long-Term Care Facilities, Fire Safety Equipment and Automatic Sprinkler Systems.>>

### **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"/>

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 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**

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 1. Is the debt service coverage of the loan less than 1.45? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is the project being underwritten at an NOI that is significantly above historical NOI (factoring in normal increases in government payables)? ..... | <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.}>>*

### **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.*>>

## **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. >>

## Occupancy

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

### Historical Occupancy Analysis

(Double click inside the Excel Table to add information)

Historical Occupancy	Year ending 12/31/08	Year ending 12/31/09	Year ending 12/31/10	T-12 or YTD* (specify dates)
Potential Resident Days Operating Units	0	0	0	0
Actual Resident Days or Occupied Units	0	0	0	0
Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

\* Use year-to-date figures or trailing 12 month income in this column. Indicate which you have shown.

## Revenue

### Census Mix

An analysis of the subject's historical census mix is provided below.

<< The following table is not required for projects with one type of payor, such as an ALF with 100% private pay. Those may be described in narrative. You may modify the following table as necessary to accommodate your project mix.>>

#### **Census Mix – Subject History**

(Double click inside the Excel Table to add information)

Source	Year ending 12/31/08	Year ending 12/31/09	Year ending 12/31/10	T-12 or YTD* (specify mos.)	Lender
e.g. Private pay					
e.g. Medicare					
e.g. Welfare (Medicaid)					
e.g. V.A.					
e.g. HMO (Insurance)					
e.g. Other					
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%

\* Use year to date figures or trailing 12 month income in this column. Indicate which you have shown.

### Historical Revenue Summary

The following chart compares the historic revenue sources to the conclusions.

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



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

Period	Year Ending 12/31/08			Year Ending 12/31/09			Year Ending 12/31/10		
	\$	# Days or Units	PRD or PCU	\$	# Days or Units	PRD or PCU	\$	# Days or Units	PRD or PCU
e.g. Independent Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Assisted Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Private Pay Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Ins./Mngd Care Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Medicaid Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Medicare Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. VA Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Therapy & Ancillary Income			#DIV/0!			#DIV/0!			#DIV/0!
Total Room Revenue	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!
Ancillary Services and Other Income		0	#DIV/0!		0	#DIV/0!		0	#DIV/0!
Effective Gross Income	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!

Period	YTD Annualized* (specify months)			Lender		
	\$	# Days or Units	PRD or PCU	\$	# Days or Units	PRD or PCU
e.g. Independent Living Room & Board			#DIV/0!			#DIV/0!
e.g. Assisted Living Room & Board			#DIV/0!			#DIV/0!
e.g. Private Pay Nursing Room & Board			#DIV/0!			#DIV/0!
e.g. Ins./Mngd Care Nursing Room & Board			#DIV/0!			#DIV/0!
e.g. Medicaid Nursing Room & Board			#DIV/0!			#DIV/0!
e.g. Medicare Nursing Room & Board			#DIV/0!			#DIV/0!
e.g. VA Room & Board			#DIV/0!			#DIV/0!
e.g. Therapy & Ancillary Income			#DIV/0!			#DIV/0!
Total Room Revenue	\$0	0	#DIV/0!	\$0	0	#DIV/0!
Ancillary Services and Other Income		0	#DIV/0!		0	#DIV/0!
Effective Gross Income	\$0	0	#DIV/0!	\$0	0	#DIV/0!

\* Use year to date annualized figures or trailing 12 month income in this column. Indicate which you have shown.

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

<<Each type of care should have its own subsection below and discuss each payor source identified in the rent schedule, as demonstrated below. You may delete the sections (i.e., skilled nursing, assisted living, and independent living) that do not apply to your subject.>>

**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 trailing 12 months is proffered because it captures any expenses that only occur once a year, whereas the annualized figure may not.>>

(Double click inside the Excel Table to add information)

Expense Analysis – Subject (use totals not per patient day/occupied bed)					
Expense Categories	2008	2009	2010	YTD or T-12 (specify dates)*	Lender
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!
<b>Normalization Adjustments</b>					
Deduct Actual Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -
Add Market Management Fee @ 50%	\$ -	\$ -	\$ -	\$ -	\$ -
Deduct Actual Reserves for Replacement	\$ -	\$ -	\$ -	\$ -	\$ -
Add Market Reserves by Appraiser	\$ -	\$ -	\$ -	\$ -	\$ -
Deduct Actual Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Add Market Rate Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Normalized Expenses</b>	\$0	\$0	\$0	\$0	\$0
<b>Normalized Expense Percentage</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Normalized Expense per Patient Day or Occ. Unit</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Key Data</b>					
Effective Gross Income (from previous table)					
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -
Normalized Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -
Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Potential Patient Days or Units	-	-	-	-	-
Actual # Patient days (SNF) or Occ. Unit (ALF)	-	-	-	-	-
Additional detail about expenses included above (if applicable)					
e.g. Ancillaries Included in Resident Care					
e.g. Provider Tax					

\* Use year to date (YTD) annualized figures or trailing 12 month (T-12) figures in this column. Indicate the time period

<<Provide narrative discussion of historical information. An equivalent analysis of the information provided above is required. For skilled nursing and other facilities, resident days may be more appropriate than units or beds. 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. Also, address adjustments made to historical data for one-time expenditures, capital expenditures, etc. Additional analysis can be provided at the lender's option, as appropriate.>>

# ALTA/ACSM Land Survey

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

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

**Key Questions**

	<b>Yes</b>	<b>No</b>
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**

	<b>Yes</b>	<b>No</b>
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**

	<b>Yes</b>	<b>No</b>
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"/>
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**

<<Provide certification affirming that borrower is not aware of any property condition(s) that would necessitate a Phase I or Phase II Environmental review.>>

## **Project Capital Needs Assessment (PCNA)**

<<Provide certification affirming that borrower is not aware of any project condition(s) that would necessitate a Project Capital Needs Assessment (PCNA).>>

**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.

### **Repairs**

<<Please note that repairs that are not for the installation of fire safety equipment may not be included in the security instrument.>>

### **Critical Repairs**

<<Provide a brief summary of the required critical repairs. If none, state none. See example for non-critical repairs below. Critical repairs must be completed prior to endorsement of the security instrument.>>

### **Non-Critical Repairs**

<<Provide a brief summary of the required critical repairs. If none, state none. For example:

*The needs assessor identified the following non-critical repair items totaling \$XXXX:*

- 1. Remove and replace XXX. Estimated cost: \$XXXX.*
- 2. Remove and replace XXX. Estimated cost: \$XXXX.>>*

<<provide brief summary here>>

### **Borrower Proposed Repairs**

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

### **Completion and Inspection of Repairs**

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

All critical repairs must be completed prior to endorsement of the security instrument.

## 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	<input type="checkbox"/>	<input type="checkbox"/>



Yes No

report? .....

<<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

- 1. Are less than 3-years of historical financial data available for the borrower? .
2. Are the financial statements missing any required information or schedules?
3. Do the financial statements provided include financial data from assets or liabilities not related to owning and operating this facility?
4. Do any of the financial statements indicate a loss prior to depreciation and amortization?
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?
6. Do the Aging of Accounts Receivable schedules show any material accounts receivables (amounts in excess of 2% of gross income) over 120 days?
7. Are there any issues or discrepancies related to tenant deposit accounts (e.g., not fully funded)? (Generally not applicable for SNF.)
8. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?

<<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

	Yes	No
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 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"/>
2. According to the application exhibits, is or has the operator been delinquent on any federal debt? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. 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"/>
4. According to the application exhibits, has 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 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"/>

<<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.>>

**Other Business Concerns**

**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/suits, or bankruptcy claims? (If so, a credit report must be obtained on the business concern.)..... | <input type="checkbox"/> | <input type="checkbox"/> |
| N/A   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. If so, was a credit report obtained on the business concern? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| N/A   | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?.....  | <input type="checkbox"/> | <input type="checkbox"/> |
| N/A   | <input type="checkbox"/> | <input type="checkbox"/> |

<<As applicable, a “yes” answer requires a narrative discussion on the topic describing the risk and how it will be mitigated.>>

**Credit Reports for Other Business Concerns:**

<<Provide narrative discussion on other business concerns. For example, “XXX identified XX other business concerns. 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 from participation in this loan transaction.>>

Name of Entity	Report Type (Commercial, etc.)	Report Date	Comments (i.e., any derogatory information, etc.)

**Other Section 232 Projects**

**Key Questions**

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 1. Does the principal identify any other Section 232 program (i.e., 223(f), 241(a), 223(a)(7), 232(i), or 223(d)) applications on their consolidated certification? .....      | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the principal identify any other existing Section 232 program (i.e., 223(f), 241(a), 223(a)(7), 232(i), or 223(d)) projects on their consolidated 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

	Yes	No
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.

## Conclusion

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “XXX has demonstrated an acceptable credit history and sufficient experience owning and operating other facilities. The underwriter recommends this principal 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                       |
|--|--------------------------|--------------------------|
| 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.>>

### Other Facilities Owned, Operated or Managed

Key Questions

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 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"/> | <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"/> | <input type="checkbox"/> |

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | <b>Yes</b>               | <b>No</b>                |
| 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"/> <input type="checkbox"/> | <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 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:	<<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 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"/> |
| 4. 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"/> |

<<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) – <<insert name here>>**

<<Provide this section if (1) the facility is not leased, and/or (2) the management agent contracts in its own name with the residents, and/or (3) the management agent is the sole entity named on the license for the facility.>>

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

Relation to borrower: <<owner managed/IOI entity/independent/other>> \_\_\_\_\_

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

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Key Questions**

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| 1. According to the application exhibits, is or has the management agent been delinquent on any federal debt? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. According to the application exhibits, is or has the management agent been a                                     | <input type="checkbox"/> | <input type="checkbox"/> |

	Yes	No
defendant in any suit or legal action? .....		
3. According to the application exhibits, has the management agent 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 management agent? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. 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 has been or will be mitigated.>>

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

<<Briefly describe/list 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 narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions, if any. Include a discussion/explanation of any current REAC scores less than 60. This section should clearly demonstrate the expertise to successfully manage the facility and meet the obligations of the management agreement. This section should clearly demonstrate that the management agent has the expertise to successfully lease up a new facility and operate a facility.>>

### **Credit History**

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

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

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"/>
3. Is the credit report dated more than 60 days before the application date? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated below. Provide an explanation of the credit score in terms of low, medium, or high risk, etc. Also, if the score is evaluated numerically, explain the value the credit agency places on the score.>>

## Other Facilities Owned, Operated or Managed

### Key Questions

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

<<As applicable, for each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it has been or will be mitigated.

### 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. This includes negative inspection results for ALF and B&C facilities. 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

Indicator	Findings
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

	Yes	No
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"/>
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?  **Yes**  **No**

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

## **HUD Documents**

### **Form HUD-9839-ORCF**

<<Provide narrative review. For example, “The form HUD-9839-ORCF, Management Certification provided in the application package indicates a management fee of XX% 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 XXXXX. It was issued by XXXXXX 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...”>>

### Other Facilities Operated or Managed

<<This section is only applicable for **skilled nursing facilities.**>>

**Key Questions**

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 1. Do any state surveys identify any instances of actual harm and/or immediate jeopardy? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are there currently any open findings at any of the facilities? .....                       | <input type="checkbox"/> | <input type="checkbox"/> |

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

### **General Review and Findings**

<<Provide a narrative description of review. For example, “The most recent state survey inspections are provided for XX skilled nursing facilities that are owned, operated, or managed by XXXX. The underwriter has reviewed the findings and found...”>>

### **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 ownership: <<borrower/operator>> \_\_\_\_\_

### Key Questions

	Yes	No
1. Will the facility be leased? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Will the facility be subleased (master lease)? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. At closing, will the lease have a term that will expire within 5 years with no lease renewal options? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the lease contain any non-disturbance provisions? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the lease require the borrower to escrow any funds other than those associated with this loan? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Has the lender recommended any special conditions concerning the lease? ..	<input type="checkbox"/>	<input type="checkbox"/>
7. Is the lease payment adequate to provide sufficient debt coverage after the costs of the mortgage? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each “yes” answer above, provide a narrative discussion regarding the topic. For example: **Item 10 – Leased Facility** The facility will be leased to XXX. The lease and the operator are discussed in the appropriate sections of this narrative. There are no known special provisions or considerations involved with this lease that require special consideration in the underwriting.>>

### Program Guidance:

ORCF has recently reviewed several applications that were submitted for review with Operator Agreements that will expire within five years or less. The underwriting criteria used by both ORCF and the lender is 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 five years. This plan of action is necessary 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 (ALF), it is important to reemphasize that operators need to be experienced and have a proven track record with the operation, marketing, and lease up of ALF facilities. The five-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.”>>

Program Guidance:

- Clarification of minimum lease payments. The annual lease payment must be calculated using a minimum of a 1.05 coverage ratio (e.g., the sum of the annual principal, annual interest, annual mortgage insurance premium, annual reserve for replacement deposit, annual property insurance, and annual property taxes times a multiplier of 1.05). This minimum coverage level required for executed leases is different than the test measurement used in the 223(f) Lender’s Narrative, which remains unchanged; it will continue at the 1.17 coverage level.
- Subordination, non-disturbance and attornment agreement (SNDA). If there is an identity of interest between the borrower and the operator, a SNDA is not permitted.

**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.>>

# **Insurance**

## ***Professional Liability Coverage***

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.

Commercial insurance:  Yes  No

Self insurance:  Yes  No

If self insurance, describe: \_\_\_\_\_

Is there a fronting policy?  Yes  No

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: \_\_\_\_\_

OR Self insurance  
retention: \_\_\_\_\_

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

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

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

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

Summary of Six-Year Loss History for Operator or its Parent of Operator				
Year	Total claims paid under this policy (dollars)	Total claims paid under this policy (no. of claims)	Total bed count covered under the policy	Dollars paid in claims per bed
1				
2				
3				
4				
5				
6				
<b>Total/average</b>				

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Will the insurance policy cover multiple properties? <i>(If yes, complete questions a through e below.)</i> .....	<input type="checkbox"/>	<input type="checkbox"/>
a. Is less than 6 years of loss history available? .....	<input type="checkbox"/>	<input type="checkbox"/>
b. Does the loss history indicate any professional liability claims over \$35,000? .....	<input type="checkbox"/>	<input type="checkbox"/>
c. Does the loss history or potential claims certification indicate any uncovered claims? .....	<input type="checkbox"/>	<input type="checkbox"/>
d. Does the loss history or potential claims certification indicate any claims that would exceed the per occurrence or aggregate coverage limits? .....	<input type="checkbox"/>	<input type="checkbox"/>
e. Have the facilities been covered by a “claims made” policy at any time during the statute of limitations for the states where the facilities are located? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Is the policy funded on a “cash front” basis? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Is an actuarial study applicable (self-insurance)? <i>(If yes, discuss results below.)</i> .....	<input type="checkbox"/>	<input type="checkbox"/>
4. 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? <i>(As appropriate, provide a complete analysis of the surveys.)</i> .....	<input type="checkbox"/>	<input type="checkbox"/>
5. 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"/>
6. Are there any PLI issues that require special consideration? .....	<input type="checkbox"/>	<input type="checkbox"/>

If you answer “yes” to any of the above questions, please address here. Examples:

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}

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}.

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.>>

## **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 mortgagor’s professional liability insurance was analyzed in accordance HUD requirements. 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.”>>

### 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:

- A. Provide a current inventory of all paid or settled claims.
- B. 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.
- C. List total actual or estimated claims costs for compensatory damages, medical expenses, punitive damages, and legal expenses incurred processing the claim.
- D. 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.
- E. 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.
- F. 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)”*

### **Property Insurance**

<<Provide narrative discussion of review. For example, “Hazard and Liability insurance has been and/or will be provided by XX. The underwriter has confirmed estimates of the cost and coverage for underwriting and that it complies with HUD requirements.”>>

### **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 gross income receipts would total \$XX. The current level of coverage is sufficient for this project.” If not sufficient, recommend commitment condition.>>

## **Mortgage Loan Determinants**

### **Overview**

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

Requested amount:	\$
Debt service coverage:	\$
Transactions costs:	\$
Deduction of loan(s), grant(s), and gift(s) for mortgageable items:	\$

### **Mortgage Term**

The underwriter concluded to a mortgage term of \_\_\_\_\_ years.

### **Type of Financing**

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

### **Debt Service Limit**

The \$ \_\_\_\_\_ debt service limit was calculated using HUD’s guidelines. This is based on \_\_\_\_\_ % of the underwriter’s net operating income 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.>>

### **Legal and Organizational Costs**

The borrower’s legal and organization costs are estimated to total \$ \_\_\_\_\_ (\$ \_\_\_\_\_ for legal and \$ \_\_\_\_\_ 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 sources and uses.>> The HUD fees total \$ and are comprised of MIP totaling 1.0% of the mortgage amount (\$ ); the HUD application fee totaling 0.3% of the mortgage amount (\$ ); and the HUD inspection fee (\$ ). The HUD inspection fee is \$5 per \$1,000 of the fire safety mortgage amount.

## Financing Fees

<<This section pertains to the transaction cost calculation and may not match the actual fees in the source and use.>> The financing fees payable to the lender total \$ . The total is made up of a fee of 1.50% of the mortgage amount (\$ ; plus fixed lender fees totaling \$ . The total cannot exceed a fee of 3.5% of the mortgage amount (\$ ).

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

## Deduction of Grants, Loans, and Gifts

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

- |   |       |    |
|---|-------|----|
| a. Transaction estimated cost of rehabilitation | _____ | \$ |
| b. Grants/loans/gifts                           | _____ |    |
| c. Line a minus line b                          | _____ | \$ |

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

Program Guidance:

The grants, loans, gifts, and tax credits to be deducted are those credits for mortgageable cost only. Sources for non-mortgageable cost are not included in the calculations and are also not reflected in any of the other criterion on Form HUD-92264a-ORCF. The sources and uses statement provided by the borrower should outline all mortgageable and non-mortgageable costs and the source(s) to fund each.

## **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. >>*

### ***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. >>*

## **Special Commitment Conditions**

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

- 1.
- 2.

## **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.

## 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>>