

**Lender Narrative –
Operating Loss Loan**
Section 232/223(d)

**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.

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

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

INSTRUCTIONS:

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

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

Parent of the Operator – Not Applicable

This section is not applicable because there is no operator.

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

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

Instead of pasting large portions of text from third-party reports into the narrative, it is preferred

that the lender simply reference the page number and the report. The focus of this document is for lender conclusions, analyses, and summaries.

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

Table of Contents

Executive Summary.....	5
Sensitivity Analysis.....	6
Explanation of Operating Loss.....	6
Lender Loan Committee.....	7
Program Eligibility.....	7
Waivers.....	7
Special Underwriting Considerations.....	8
Risk Factors.....	8
Strengths.....	9
Underwriting Team.....	9
Lender.....	9
Auditor.....	10
Identities-of-Interest.....	10
Title.....	10
Title Search.....	10
Pro-forma Policy.....	11
ALTA/ACSM Land Title Survey.....	11
Income and Expense Analysis.....	13
Income.....	13
Historical Income Analysis.....	13
Twelve Month Trailing Income Analysis.....	13
Underwritten Income.....	15
Expenses.....	16
Historic Expense Analysis.....	16
Net Operating Income.....	16
Borrower.....	16
Organization.....	17
Operator.....	17
Organization.....	17
Operating Lease.....	18
Lease Payment Analysis.....	18
Responsibilities.....	19
HUD Lease Provisions.....	19
Management Agent (if applicable) – <<insert name here>>.....	19
Compliance.....	20
Insurance.....	21
Professional Liability Coverage.....	21
Lawsuits.....	23
Recommendation.....	23
Property Insurance.....	24
Fidelity Bond/Employee Dishonesty Coverage.....	24
Mortgage Loan Determinants.....	25
Overview.....	25

Criterion E: Amount Based on Required Debt Service Coverage.....	25
Criterion J: Operating Loss Limit.....	25
Conclusion.....	26
Sources & Uses – Copied From HUD 92264a-ORCF.....	26
Mortgage Term.....	26
Type of Financing.....	26
Circumstances that May Require Additional Information.....	26
Special Commitment Conditions.....	27
Conclusion.....	27
Addenda.....	27
Signatures.....	27

Executive Summary

FHA number:			
Project name:			
Project location:	<<street address, city, county, and state>>		
Lender's name:			
Lender's UW:		UW trainee:	
Borrower:			
Operator:			
Parent of operator:			
Management agent:			
General contractor:			
License holder:	<input type="checkbox"/> Borrower	<input type="checkbox"/> Operator	<input type="checkbox"/> Management agent

Purpose of loan: Supplemental financing to reimburse mortgagor and its principals for operating losses.
 Essential element of a workout strategy designed to avert a HUD claim.

Type of facility:	<input type="checkbox"/>	Skilled Nursing (SNF):		beds		units
	<input type="checkbox"/>	Assisted Living (AL):		beds		units
	<input type="checkbox"/>	Board & Care (B&C):		beds		units
	<input type="checkbox"/>	Dementia Care:		beds		units
	<input type="checkbox"/>	Independent Living (IL):		beds		units
		Total:		beds		units

Current insured loan(s):

	<u>Proposed 223(d) supplemental loan terms</u>	
Original Section of the Act:	_____	Date facility built: _____
FHA number:	_____	FHA number: _____
Original loan amount:	_____	Proposed loan amount: _____
Current interest rate:	_____	Proposed interest rate: _____
Maturity date:	_____	Proposed maturity date: _____
Original terms (in months):	_____	Proposed term (in months):* _____
Principal & interest (monthly):	_____	Principal & interest (monthly): _____
MIP (monthly):	_____	MIP (monthly): _____
Total P+I+MIP (monthly):	_____	Total P+I+MIP (monthly): _____
Debt service coverage:	_____	
Principal balance:	_____	*Mortgage term is the projected remaining term of the existing insured mortgage. The loan terms must be coterminous.
As of:	_____	
Replacement reserve balance:	_____	
As of:	_____	
		TOTAL INSURED MORTGAGES:

Total debt service coverage: _____

Third-party reports provided:

Operating Loss Audit Conclusion is: Accepted as is. Modified by underwriter.

Sensitivity Analysis

<<For example:

Sensitivity Analysis	Debt Service Coverage	
	1.000	1.111
Occupancy: %	90.38%	92.75%
NOI decrease: %	10.9%	1.0%
pud \$	4.27	\$ 0.41
Expense increase: %	3.8%	0.4%
pud \$	4.27	\$ 0.41
Gross Income decrease: %	2.81%	0.27%
pud \$	4.59	\$ 0.44

The sensitivity analysis above demonstrates that the underwriting essentially represents the lowest potential net operating income necessary to support the programmatic debt service coverages. It is, however, worthy of note that the underwritten NOI of \$XX is very conservative when compared to the last XX months annualized, \$XX, which reflects current rents, and the borrower's budgeted NOI of \$XX that is supported by the last XX months of data. Additionally, the underwritten NOI is only slightly higher than the trailing 12-month NOI of \$XX.

Given the nature of this supplemental loan, the underwriter has taken a conservative approach to occupancy, income, and expenses when warranted in an attempt to build in additional safeguard for this transaction given the relatively short time that the facility has been stabilized.>>

Explanation of Operating Loss

Key Information

Cost certification cut-off (month/year): _____
Sustained stabilization reached (month/year): _____
Operating deficit escrow at initial closing: _____
Working capital escrow at initial closing: _____
24-month operating loss for this loan: _____
Operating loss for entire lease-up: _____

<<Provide narrative explanation of loss, how borrower performed during loss, and how the project has stabilized.>>

Lender Loan Committee

Date of loan committee: _____

Loan committee process: _____

Loan committee conditions: _____

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

Program Eligibility

Check all applicable qualifiers to confirm eligibility:

- Existing loan is currently HUD-insured and is not HUD-held.
- Existing loan is 232 New Construction, Substantial Rehabilitation, or Blended Rate
- Two years have elapsed since the date of the final trip report.
- All funds in the original operating deficit escrow have been disbursed.
- All cost certification requirements have been satisfied.
- Final endorsement has occurred.
- Loss period does not exceed two years.
- An allowable loss has been experienced and is evidenced by audited financials.
- Sustaining occupancy has been attained or may be projected in approved workout strategy.
- The mortgagee-of-record for the current HUD-insured loan has assented, in writing, to this supplemental loan.
- The competence and responsibility of the operator and/or management agent has been established to the satisfaction of the lender.
- Current borrower entity owned project during loss period.

For Section 223(d)(2):

- Loss occurred within the first 24 months of the cost cut-off date.
- Submission of this application is within 3 years of the end of the loss period.

For Section 223(d)(3):

- Submission of this application is within 3 years of the end of the loss period.
- Loss occurred within a 24 consecutive month period.
- Loss period is within first 10-years of cost cut-off date.
- Submission of this application is within 10 years of the end of the loss period.
- The project does not receive Section 8 rental assistance payments.

Waivers

<<Identify and discuss any waivers received or requested.>>

Special Underwriting Considerations

Key Questions

	Yes	No
1. Was an underwriter trainee involved in underwriting this transaction?	<input type="checkbox"/>	<input type="checkbox"/>
2. Is a mortgage broker involved in this transaction?	<input type="checkbox"/>	<input type="checkbox"/>
3. Is there a ground lease?	<input type="checkbox"/>	<input type="checkbox"/>
4. Is accounts receivable financing involved with this transaction?	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there any surplus cash notes or other obligations of the mortgagor other than the HUD-insured mortgage?	<input type="checkbox"/>	<input type="checkbox"/>
6. Are there any professional liability insurance issues that require special consideration?	<input type="checkbox"/>	<input type="checkbox"/>
7. Are any tax credits involved in this transaction?	<input type="checkbox"/>	<input type="checkbox"/>
8. Are any secondary funding sources involved in this transaction?	<input type="checkbox"/>	<input type="checkbox"/>
9. Are any real estate tax abatements or exemptions included in the underwriting assumptions?	<input type="checkbox"/>	<input type="checkbox"/>
10. Are there any special escrows or reserves proposed for this transaction?	<input type="checkbox"/>	<input type="checkbox"/>
11. Other than the aforementioned questions, waivers, and program eligibility requirements, are there any other issues that require special or atypical underwriting consideration?	<input type="checkbox"/>	<input type="checkbox"/>

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

Risk Factors

Key Questions

	Yes	No
1. Is the borrower entity behind on its mortgage payments?	<input type="checkbox"/>	<input type="checkbox"/>
2. Has the borrower, the operator, or any of their affiliate’s renamed or reformulated companies, filed for or emerged from bankruptcy within the last five (5) years?	<input type="checkbox"/>	<input type="checkbox"/>

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

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.>>

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.>>

Program Guidance:

On projects involving the addition of beds/units, the Lender’s Approved Underwriter of record on the project must inspect not only the subject site, but also the market competitors and/or comparables from the appraisal/market study. HUD is not requiring inspection of all comparables listed in the appraisal/market study; it is up to the Underwriter to determine which comparables will give them enough information to become familiar with the market.

Auditor

CPA: _____

Firm: _____

Identities-of-Interest

Key Questions

	Yes	No
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. Are there any identity-of-interest issues involving the underwriting lender, the existing lender or note holders, or the mortgage broker?	<input type="checkbox"/>	<input type="checkbox"/>
4. 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.>>

Title

Title Search

Date of search: _____

Firm: _____

File number: _____

Key Questions

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

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

Pro-forma Policy

Date/time: _____

Firm: _____

Policy number: _____

Key Questions

	Yes	No
1. Is the title vested in an entity or individual other than the proposed borrower?	<input type="checkbox"/>	<input type="checkbox"/>
2. Are there any covenants, encumbrances, liens, restrictions, or other exceptions indicated on Schedule B-1?	<input type="checkbox"/>	<input type="checkbox"/>
3. Are there any use or affordability restrictions remaining in effect on the property?	<input type="checkbox"/>	<input type="checkbox"/>
4. Are there any easements or rights-of-way listed that are not indicated on the survey?	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there any endorsements included aside from the standard HUD-required endorsements?	<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. Does the legal description on the pro forma policy differ from the legal description on the survey or Firm Commitment Exhibit A?	<input type="checkbox"/>	<input type="checkbox"/>

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

ALTA/ACSM Land Title Survey

Key Questions

	Yes	No
1. Does the pro forma title policy include a survey exception?	<input type="checkbox"/>	<input type="checkbox"/>
2. Have there been any material changes in the legal description of the property since the date of the last survey accepted by HUD (e.g., due to a partial release, the addition of property or both)?	<input type="checkbox"/>	<input type="checkbox"/>
3. Have any new easements affecting the property been granted or accepted since the date of the last survey accepted by HUD (other than blanket easements)?	<input type="checkbox"/>	<input type="checkbox"/>

- | | Yes | No |
|--|--------------------------|--------------------------|
| 4. Have any additional improvements (including driveways and parking areas) been constructed on the property since the date of the existing survey? If HUD approval was not obtained, please address below. | <input type="checkbox"/> | <input type="checkbox"/> |

<<If you answer “yes” to any of the above questions, a current “as built” survey conforming to the HUD-91111-ORCF Survey Instructions and Owner’s Certification is required. Attach HUD-9001b-ORCF, Addendum to Underwriting Narrative –ALTA/ASCM Land Title Survey.

If you answer “no” to all of the above questions, copies of the most recent signed and certified “as built” survey accepted by HUD must be provided (need not be an original). No further review is needed. If copies are not available, a current “as built” survey conforming to the HUD-91111-ORCF Survey Instructions and Borrower’s Certification is required. Attach HUD-9001b-ORCF, Addendum to Underwriting Narrative –ALTA/ASCM Land Title Survey.>>

Income and Expense Analysis

Income

Historical Income Analysis

<<For example:

Historic Occupancy & Effective Revenue (per occupied unit day)

	2006	2007	2008	2009*	Budget	U/W
Resident Days						
Private AL	16,870	22,029	27,763	28,383	28,470	27,835
Other AL	2,981	3,042	1,011	-	-	-
Second Occupants	-	-	3,614	2,926	-	3,285
Total Resident Days:	19,851	25,071	32,388	31,310	28,470	31,120
Total Unit Days:	19,851	25,071	28,774	28,383	28,470	27,835
Occupancy	66.3%	83.8%	95.9%	94.8%	95.1%	93.0%
Revenue						
Private AL Rent	\$ 103.55	\$ 124.29	\$ 116.22	\$ 130.36	\$ 126.47	\$ 125.25
Private AL Rent Adjustment	-	-	0.07	-	-	-
Private AL Services	12.45	-	17.18	23.46	20.00	21.80
AL Promotions	(5.40)	-	(1.13)	(0.36)	(0.42)	-
AL Tray Service	0.12	-	0.01	0.04	0.01	0.03
AL Double Occupancy	3.01	-	2.28	1.89	2.11	2.08
AL Supply Revenue	(0.00)	-	0.02	-	0.63	-
AL Meal Revenue	1.54	-	1.43	1.05	1.52	1.00
AL Gift Shop	-	-	0.64	0.69	-	0.70
AL Beauty Shop	0.24	-	0.13	0.09	0.17	0.11
AL Guest Rent	0.04	-	0.66	1.84	0.80	0.43
AL Other	0.46	1.61	0.51	0.14	0.69	0.15
AL Other	0.03	-	0.07	-	-	0.18
Total Revenue:	\$ 116.04	\$ 125.90	\$ 138.10	\$ 159.20	\$ 151.99	\$ 151.73

* Jan 1 – Feb 28, 2009, annualized

Twelve Month Trailing Income Analysis

12-month Trailing Occupancy

	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Resident Days							
Private AL	2,217	2,130	2,180	2,250	2,303	2,446	2,405
Other AL	165	150	131	120	124	-	-
Second Occupants	394	392	372	338	310	292	277
Total Resident Days:	2,776	2,672	2,683	2,708	2,737	2,738	2,682
Total Unit Days:	2,382	2,280	2,311	2,370	2,427	2,446	2,405
Occupancy (units)	93.7%	92.7%	90.9%	96.3%	95.5%	96.2%	97.8%

	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Total
Resident Days						
Private AL	2,494	2,375	2,399	2,434	2,154	27,787
Other AL	-	-	-	-	-	690
Second Occupants	310	274	279	274	199	3,711
Total Resident Days:	2,804	2,649	2,678	2,708	2,353	32,188
Total Unit Days:	2,494	2,375	2,399	2,434	2,154	28,477
Occupancy (units)	98.1%	96.5%	94.4%	95.8%	93.8%	95.1%

12-month Trailing Effective Income
(per occupied unit day)

	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Revenue							
Private AL Rent	\$ 112.69	\$ 116.07	\$ 114.09	\$ 117.27	\$ 113.64	\$ 112.27	\$ 117.01
Private AL Rent Adjustment	-	(0.00)	-	0.49	(0.89)	-	-
Private AL Services	9.42	22.48	18.73	16.31	19.29	17.99	17.07
AL Promotions	(0.06)	(3.08)	(1.41)	(1.61)	(2.51)	(1.34)	(1.36)
AL Tray Service	0.01	(0.08)	0.02	0.03	0.03	0.06	0.03
AL Double Occupancy	2.67	2.64	3.72	(2.26)	2.06	2.22	2.61
AL Supply Revenue	-	-	-	0.11	-	-	-
AL Meal Revenue	2.03	1.24	1.07	2.08	1.24	2.01	1.56
AL Gift Shop	0.89	(0.38)	1.33	0.47	0.57	0.74	0.60
AL Beauty Shop	0.08	0.35	0.18	0.17	0.08	0.08	0.17
AL Guest Rent	-	-	3.27	0.31	2.74	0.11	0.36
AL Other	0.54	1.66	0.23	2.83	0.11	0.18	0.10
AL Other	(0.11)	0.50	0.19	-	-	-	0.15
Total Revenue:	\$ 128.16	\$ 141.41	\$ 141.43	\$ 136.17	\$ 136.36	\$ 134.31	\$ 138.29

	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	12-month Trailing
Revenue						
Private AL Rent	\$ 123.62	\$ 128.38	\$ 123.60	\$ 125.41	\$ 135.96	\$ 119.90
Private AL Rent Adjustment	-	-	(0.47)	-	-	(0.07)
Private AL Services	18.60	20.60	23.09	22.64	24.39	19.17
AL Promotions	0.95	(0.35)	(0.35)	(0.34)	(0.39)	(0.98)
AL Tray Service	0.05	0.01	0.01	0.02	0.07	0.02
AL Double Occupancy	4.42	1.92	1.96	2.02	1.75	2.15
AL Supply Revenue	0.03	-	-	-	-	0.01
AL Meal Revenue	0.48	0.81	2.30	1.28	0.79	1.41
AL Gift Shop	0.60	0.57	0.89	0.71	0.66	0.64
AL Beauty Shop	0.08	0.17	0.08	0.08	0.09	0.13
AL Guest Rent	0.40	0.72	0.13	1.48	2.25	0.97
AL Other	0.13	0.21	0.18	0.14	0.13	0.53
AL Other	-	-	1.34	-	-	0.17
Total Revenue:	\$ 149.35	\$ 153.03	\$ 152.77	\$ 153.44	\$ 165.71	\$ 144.05

Summary 12-month Trailing Analysis
(per occupied unit day)

	12-month Trailing	Budget	U/W
Resident Days			
Private AL	27,787	28,470	27,835
Other AL	690	-	-
Second Occupants	3,711	-	3,285
Total Resident Days:	32,188	28,470	31,120
Total Unit Days:	28,477	28,470	27,835
Occupancy (units)	95.1%	95.1%	93.0%

	12-month Trailing	Budget	U/W
Revenue			
Private AL Rent	\$ 119.90	126.47	125.25
Private AL Rent Adjustment	(0.07)	-	-
Private AL Services	19.17	20.00	21.80
AL Promotions	(0.98)	(0.42)	-
AL Tray Service	0.02	0.01	0.03
AL Double Occupancy	2.15	2.11	2.08
AL Supply Revenue	0.01	0.63	-
AL Meal Revenue	1.41	1.52	1.00
AL Gift Shop	0.64	-	0.70
AL Beauty Shop	0.13	0.17	0.11
AL Guest Rent	0.97	0.80	0.43
AL Other	0.53	0.69	0.15
AL Other	0.17	-	0.18
Total Revenue:	\$ 144.05	\$ 151.99	\$ 151.73

Underwritten Income

Occupancy

<<Provide narrative to explain underwriting.>>

Underwritten Rents

<<Provide narrative to explain underwriting.>>

Underwritten Other Income

<<Provide narrative to explain underwriting.>>

Total Income Conclusion

<<Provide narrative to explain underwriting.>>

Expenses

Historic Expense Analysis

<<For example:

Per Occupied Unit Day	2006	2007	2008	2009*	Budget	U/W
Revenue	\$ 116.04	\$ 125.90	\$ 138.10	\$ 159.20	\$ 151.99	\$ 151.73
Expenses						
AL Nursing Management	In AL Dir. Nur	In AL Dir. Nur	\$2.95	\$3.96	\$3.83	\$4.03
AL Direct Care Nursing	17.12	45.76	14.46	13.09	12.10	13.50
Activities	2.22	In AL Dir. Nur	1.90	2.05	2.17	2.17
Social Services	-	-	-	-	-	-
Dietary	24.93	In AL Dir. Nur	23.54	23.36	20.51	23.48
Laundry	-	-	-	-	-	-
Housekeeping	3.19	In AL Dir. Nur	3.28	3.73	3.66	4.10
Maintenance	5.25	5.45	5.34	5.30	5.09	5.91
Heating Fuel	1.79	1.73	2.03	1.87	2.18	2.18
Water & Sewer	2.20	2.42	2.26	2.11	2.21	2.26
Electricity	9.93	8.61	9.36	4.57	9.80	9.80
Garbage	0.33	0.29	0.31	0.31	0.31	0.32
Administration	22.64	23.73	23.68	28.65	21.44	25.87
Management Fees	5.85	6.25	6.90	7.86	7.60	7.59
Property & Liability Insurance	2.55	2.81	2.68	2.55	2.47	2.54
Real Estate Taxes	2.63	4.15	3.58	3.65	3.62	3.70
Marketing	6.38	6.68	1.22	0.87	1.54	1.58
Cable Television	1.48	in Maint	1.05	1.15	1.03	1.11
Replacement Reserves	3.55	2.81	2.45	2.48	2.48	2.53
Total Expenses:	\$ 112.03	\$ 110.70	\$ 107.00	\$ 107.57	\$ 102.05	\$ 112.68
Expense Ratio:	96.5%	87.9%	77.5%	67.6%	67.1%	74.3%

* Jan 1 – Feb 28, 2009, annualized

<<Provide narrative to explain underwriting.>>

Net Operating Income

<<Provide narrative discussion.>>

Borrower

Name: _____

State of organization: _____

Date formed: _____

Termination date: _____

Fiscal year-end date: _____

Key Questions

- | | Yes | No |
|--|--------------------------|--------------------------|
| 1. Does the borrower currently own any assets other than the 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. Have any principals of the borrower changed or are any such changes proposed that have not been approved by HUD? If yes, attach HUD-9001e-ORCF, Addendum to Underwriting Narrative – Principal of the Borrower. . | <input type="checkbox"/> | <input type="checkbox"/> |

<<If you answer “yes” to any of the questions above, please identify each risk factor and how it is mitigated.>>

Organization

<<Provide an organization chart and narrative. At a minimum, all borrower principals must be identified.>>

Operator

Name: _____
State of organization: _____
Date formed: _____
Termination date: _____

Key Questions

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has there been a change in the operator that has not been approved by HUD, or is such a change proposed? If yes, attach HUD-9001f-ORCF Addendum to Underwriting Narrative – Operator. | <input type="checkbox"/> | <input type="checkbox"/> |

Organization

<<Provide an organization chart and narrative. At a minimum, all borrower principals must be identified.>>

Operating Lease

Date of agreement: _____
 Current lease term expires: _____
 Description of renewals: _____
 Current lease payment: _____
 Major movable equipment:
 Current ownership: <<borrower/operator>>
 Post-closing ownership: <<borrower/operator>>

Key Questions

- | | Yes | No |
|--|--------------------------|--------------------------|
| 1. Has a change in the operating lease occurred that has not been approved by HUD, or is such a change proposed? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the lease contain any non-disturbance provisions? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Does the lease require the borrower to escrow any funds other than those associated with this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Is state approval of the lease payment required? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Does the lease expire in less than five years with no renewal option? | <input type="checkbox"/> | <input type="checkbox"/> |

<<If you answer “yes” to any of the above questions, please identify specifics of the circumstance. Describe how the underwriter justified or identified mitigation of all associated risks.>>

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.

(Double click inside the Excel Table to add information)

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	\$	-
g.	Minimum Annual Lease Payment	\$	-

<<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 borrower and operator under the terms of the lease with regard to the following: payment of real estate taxes, maintenance of building, capital improvements, replacement of equipment, property insurance, etc.>>

HUD Lease Provisions

<<Confirm that the operating lease will include the HUD-91116-ORCF Addendum to Operating Lease. >>

Management Agent (if applicable) – <<insert name here>>

Name: _____

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

Key Questions

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has there been a change in the management agent or management agreement that has not been approved by HUD, or is such a change proposed? If yes, attach HUD-9001g-ORCF, Addendum to Underwriting Narrative – Management Agent. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the management 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"/> |
| 3. Does the management 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"/> |

<<If you answer “no” to questions 2 or 3, the Management Agreement must be amended to provide all HUD termination provisions. Confirm that a special condition has been recommended to include them in the Management Agreement.>>

Compliance

Key Questions

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. <u>State inspection</u> : Are there currently any open findings of “G” or higher resulting from state survey inspections? (If yes, include the state survey inspection in the firm application and explain below.) | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. <u>Medicare star rating</u> : Is the project currently rated 1 or 2 stars? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. <u>REAC inspection</u> : Are there currently outstanding repairs resulting from the last REAC inspection? (In the space below, summarize the most recent REAC Inspection Summary Report, HUD-93332-ORCF Certification of Exigent Health & Safety (EH&S) Issues, and HUD-93333-ORCF Borrower’s Certification of Physical Condition Compliance.) | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. <u>Active Partners Performance Systems (APPS)</u> : Are there currently any open flags in APPS pertaining to the owners or the facility? (Please explain below. Note: The borrower may need to authorize the assigned ORCF Account Executive to release this information to the proposed 223(d) lender.) | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. <u>Discrepancies on the facility license</u> : Does the operator entity name match the entity name listed on the license? (If no, please explain below.) | <input type="checkbox"/> | <input type="checkbox"/> |

<<Please discuss any open findings or issues and their resolutions. Also, provide brief narrative discussion as applicable for questions above.>>

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				
Total/average				

Key Questions

	Yes	No
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 insurance coverage will continue to comply with HUD requirements.”>>

Fidelity Bond/Employee Dishonesty Coverage

<<Provide narrative discussion of review. For example, “The subject has inadequate fidelity (crime/dishonesty) insurance. HUD requires coverage equal to at least two (2) months gross potential income or \$XX. Coverage that meets or exceeds the HUD minimum requirements must

be in place prior to closing. The lender and HUD (451 7th Street, S.W., Washington, DC 20410) must be named as additional loss payees.” 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:	\$
Amount based on debt service coverage:	\$
Amount based on 100% of the operating loss:	\$

The proposed mortgage is \$ and is constrained by .

Criterion E: Amount Based on Required Debt Service Coverage

The debt service limit was calculated using HUD’s guidelines. This is based on 90% of the net operating income available for the insured loans, an interest rate of %, MIP of 0.80%, and an assumed remaining term of months (the insured loans must be coterminous).

Program Guidance:

When completing Criterion E on the form HUD-92264a-ORCF, enter the underwritten net operating income less all outstanding indebtedness related to the property, annual ground rent, and any annual special assessments. Enter 1.11 for the debt service coverage.

Criterion J: Operating Loss Limit

The operating loss amount is \$ based on the independent audit for the period to . This is the period immediately following the cost certification cut-off period. The loss was determined in accordance with HUD requirements as certified by the CPA. The underwriter has reviewed the audit and finds no reason to modify its conclusion.

Program Guidance:

Certain project-related costs are disallowed in calculating the operating loss for an OLL. An operating loss is defined as the amount by which the sum of the taxes, interest on the mortgage debt, mortgage insurance premiums, hazard insurance premiums, and operating expenses exceed project income. The following disbursements may not be included: payment to mortgage principal, depreciation, payments to the reserve for replacement account, payments to the sinking fund, mortgagee fees, officer salaries, bad debts (rents/revenue that is deemed uncollectible) and charges incurred in connection with the application for the OLL.

Conclusion

The proposed supplemental mortgage is constrained by the operating loss. The underwritten debt service coverage for HUD-insured mortgages is _____, which is _____ % of the estimated net operating income for debt service and MIP payments. The debt coverage of the insured loans is _____ against the trailing 12-months; _____ against the trailing _____ -months; and _____ against the borrower’s budget.

Sources & Uses – Copied From HUD 92264a-ORCF

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

Mortgage Term

The underwriter concluded to a mortgage term of _____ months, which is coterminous with the current first mortgage.

Type of Financing

The type of financing available to the mortgagor upon issuance of the commitment will likely be in the form of GNMA-backed securities.

Circumstances that May Require Additional Information

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

Special Commitment Conditions

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

- 1.
- 2.

Conclusion

<<Provide narrative conclusion and recommendation.>>

Addenda

Check all those that apply and include as addenda to this report.

- | | | |
|--------------------------|---|--|
| <input type="checkbox"/> | Principal of the Borrower, HUD-9001e-ORCF | <i>Ownership change; principal not previously approved by HUD.</i> |
| <input type="checkbox"/> | Operator, HUD-9001f-ORCF | <i>Operator change not previously approved by HUD</i> |
| <input type="checkbox"/> | Management Agent, HUD-9001g-ORCF | <i>Management Agent change, not previously approved by HUD.</i> |
| <input type="checkbox"/> | Accounts Receivable Financing, HUD-9001i-ORCF | <i>Project's Accounts Receivables are financed.</i> |
| <input type="checkbox"/> | Survey, HUD-9001b-ORCF | <i>Refer to ALTA/ACSM Land Title Survey section.</i> |

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*>>