

**Public reporting** burden for this collection of information is estimated to average 70 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation that must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number.

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

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

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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

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

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

<b>Mortgage Amount:</b>	\$	Loan-to-value:	_____ %	Loan to transaction cost:	_____ %
		Term:	_____ years	Interest rate:	_____ %
Principal & interest: (without MIP)	\$ _____	DSCR (with MIP):	_____ %	Market value per bed/unit*:	\$ _____
Underwritten market value:	\$ _____	Cap rate:	_____ %	Mortgage amount per bed/unit*:	\$ _____

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

### Mortgage Criteria:

<b>Criterion A:</b> Requested loan amount:	\$ _____
<b>Criterion C:</b> Amount based on replacement cost:	\$ _____
<b>Criterion D:</b> Amount based on loan-to-value:	\$ _____
<b>Criterion E:</b> Amount based on debt service coverage:	\$ _____
<b>Criterion F:</b> Amount based on estimated cost of rehabilitation plus:	\$ _____
<b>Criterion L:</b> Amount based on deduction	\$ _____

### Sensitivity Analysis:

A 1.0 debt service coverage is still realized if:

- (a) Average rental drops \$ \_\_\_\_\_ per month.
- (b) Occupancy rate decreases \_\_\_\_\_ %.
- (c) Operating expenses increase \_\_\_\_\_ % per year.
- (d) Annual net operating income (NOI) decreases \$ \_\_\_\_\_ or \_\_\_\_\_ %.

of grant(s), loan(s), LIHTCs, and gift(s)   
for mortgageable items:

**As rehabilitated:**

Gross income: \$	<input type="text"/>	UW occupancy rate: %	<input type="text"/>
Effective gross income: \$	<input type="text"/>	Expense ratio: %	<input type="text"/>
Expenses & repl. res.: \$	<input type="text"/>	Expense per bed/unit*: \$	<input type="text"/>
Net operating income: \$	<input type="text"/>		

**Total project cost: \$**                      **Total project cost per bed/unit\*: \$**

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

Operating deficit: \$	<input type="text"/>	Absorption rate (# beds per month):	<input type="text"/>
Number of months to cover shortfall:	<input type="text"/>	Break-even occupancy: %	<input type="text"/>
Borrower's working capital: \$	<input type="text"/>	Minor movables: \$	<input type="text"/>
Special escrows (describe below): \$	<input type="text"/>		

<<describe special escrows here>>

<b>Major movable equipment budget:</b>	<input type="text"/>	<b>Major movable amount per bed:</b>	<input type="text"/>
--	----------------------	--------------------------------------	----------------------

<b>Construction contract:</b>	\$	<b>Offsites</b>	\$	<b>Demolition</b>	\$
<b>Total construction costs:</b> <i>As reported on HUD-2328, Line 53 plus Offsites and Demolition Costs</i>	\$				
<b>Construction contingency:</b>	\$				
<b>Relocation escrow:</b>	\$	<b>Construction period:</b>		# of months:	
<b>Architectural contract:</b>	\$	<input type="checkbox"/> <b>Multiple AIA Agreements</b>			

	Year	FTE's	Operating Revenues	SWB
Operations – Base year			\$	\$
Operations – Post construction			\$	\$

<<**Definitions:**>>

**Base year:** Year before construction.

**Year:** First year of stabilized occupancy after completion of construction. Example: Add the number of months to reach stabilized occupancy (as reported on the IOD spreadsheet "Output-Summary Exhibit" tab) to the completion date. For a completion date of June 1, 2013 and 12 months to reach stabilized occupancy, enter 2014.

**FTE's:** As reported on the "Staffing Schedule"- Exhibit in the Operations Section of the application checklist.

**SWB (Salaries, Wages, Benefits):** As reported on the "Staffing Schedule"- Exhibit in the Operations Section of the application checklist.>>

### **Summary of Amendment to Firm Commitment**

Based on the updated processing of the loan application, the following is a summary of amendments to the firm commitment:

	<u>Increase</u>	<u>Same</u>	<u>Decrease</u>
Mortgage amount:	\$	\$	\$
Underwritten value:	\$	\$	\$
Loan-to-value:	\$	\$	\$
Debt service coverage:	\$	\$	\$
Net operating income:	\$	\$	\$
Total for all improvements:	\$	\$	\$
Total development costs:	\$	\$	\$
Land value:	\$	\$	\$
Operating deficit:	\$	\$	\$

<<Please provide an explanation of all changes below.>>

- Mortgage amount increase/decrease:
- Underwritten value:
- Loan-to-value:
- Debt service coverage:
- Net operating income:
- Total for all improvements:
- Total development costs:
- Land value:
- Initial operating deficit:
- Other noteworthy modifications to firm commitment:





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% limit.

**Program Eligibility**

<<Indicate if any changes have occurred that would affect the eligibility of the project.>>

**Waivers**

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

**Special Underwriting Considerations**

<<Indicate if any changes have occurred that affect the underwriting of the project.>>

**Identities-of-Interest**

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Does the general contractor’s certification indicate any identities of interest?.....	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the HUD Addendum to the AIA Agreement of the Design Architect identify any identities of interest? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the lender know or have any reason to believe that any of the assertions in the other Consolidated Certifications submitted herewith, are inaccurate or incomplete? .....	<input type="checkbox"/>	<input type="checkbox"/>

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

# Risk Factors

## Key Questions

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | <b>Yes</b>               | <b>No</b>                |
| 1. If the project is proposing new construction of assisted living units, is the proposed mortgage higher than 75% of the underwriter’s concluded value? . | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is the debt service coverage of the loan less than 1.45? .....  | <input type="checkbox"/> | <input type="checkbox"/> |

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

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

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

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

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

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

Blended rate projects may use a blended loan-to-value that takes into account the number of beds of each type (refinance and new construction). The refinance loan-to-value requirement is to be used for those beds that are existing and the new construction loan-to-value requirement is to be used for those beds that are new.

For example, assuming a project has 77 existing beds and 39 new construction beds, the blended loan-to-value should be calculated as follows:

$$77 \text{ beds multiplied by } 0.8 \text{ (80\% applicable to existing)} = 61.6$$

$$39 \text{ beds multiplied by } 0.75 \text{ (75\% applicable to new construction)} = 29.25$$

**Total = 90.85**

90.85 divided by 116 (total # of beds) = blended LTV of 78.3%

**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 number: \_\_\_\_\_

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

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

Broker: \_\_\_\_\_

**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.

### **Market Analyst**

<<If unchanged from initial submission, state so. Otherwise provide revised discussion.>>

### **Appraiser**

<<If unchanged from initial submission, state so. Otherwise provide revised discussion.>>

### **Third Party Reviewers**

<b>Role</b>	<b>Name</b>	<b>Firm</b>	<b>Phone</b>	<b>E-mail</b>
Architectural reviewer				
Cost analyst				

#### **Key Questions – Architectural Reviewer**

- |  | <b>Yes</b>               | <b>No</b>                |
|--|--------------------------|--------------------------|
| 1. Does the architectural reviewer have experience with construction within the healthcare field? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is the architectural reviewer knowledgeable and experienced with local building standards and construction methods for the type of project proposed, including the Federal Fair Housing Accessibility Guidelines and the Uniform Federal Accessibility Standards? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Is the architectural reviewer a registered architect or engineer? .....   | <input type="checkbox"/> | <input type="checkbox"/> |

#### **Key Questions – Cost Analyst**

- |   | <b>Yes</b>               | <b>No</b>                |
|---|--------------------------|--------------------------|
| 1. Does the cost analyst have experience in the healthcare field? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is the cost analyst knowledgeable and experienced with local building standards and construction costs for the type of project proposed? ..... | <input type="checkbox"/> | <input type="checkbox"/> |

<<Any “no” answers above should be thoroughly explained and justified.>>

### **Project Description**

#### **Site**

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion.>>

## **Neighborhood**

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion.>>

## **Zoning**

Legal Conforming     Legal Non-Conforming     Other

<<Provide narrative description: identify local jurisdiction; zoning designation; results of Zoning Letter provided in application submission; and discuss any variances, conditional uses, non-conformance or other pertinent issues affecting zoning.>>

## **Utilities**

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion.>>

## **Improvement Description**

### **Buildings**

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion.>>

### **Landscaping**

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion.>>

### **Parking**

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion.>>

### **Unit Mix and Features**

<<Complete table or provide equivalent detail>>

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

**Living Unit Description:**

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

**Services**

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion.>>

**Scope of Rehabilitation**

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion.>>

**Architectural Review**

Date of report: \_\_\_\_\_

Review firm: \_\_\_\_\_

Reviewer: \_\_\_\_\_

**Key Questions**

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 1. Are any drawings or specifications to be “deferred submissions”? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the architectural reviewer recommend any commitment conditions? ...  | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are the plans and specification incomplete? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Is there an identity-of-interest between the design architect and any other project participant (i.e., borrower, principal of borrower, operator, and | <input type="checkbox"/> | <input type="checkbox"/> |

	<b>Yes</b>	<b>No</b>
general contractor)? .....		
5. Are there architectural review comments that have <u>not</u> been incorporated into the plans and specifications? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Are there any architectural drawings and specifications that do not comply with local building code standards, minimum property standards, or any other HUD requirements? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. After reviewing the plans, did the architectural reviewer confirm that the plans are not in conformance with FHAG and UFAS requirements? .....	<input type="checkbox"/>	<input type="checkbox"/>
8. Is the design architect providing supervision services? .....	<input type="checkbox"/>	<input type="checkbox"/>
9. After reviewing the AIA agreement, did the architectural reviewer find the agreement was not complete? .....	<input type="checkbox"/>	<input type="checkbox"/>
10. After reviewing the Geotechnical Engineering Evaluation Report, did the architectural reviewer find the report unacceptable, showing an insufficient number of borings provided? .....	<input type="checkbox"/>	<input type="checkbox"/>
11. After reviewing the soils report, did the architectural reviewer find the structural design not in compliance with the findings of the report? .....	<input type="checkbox"/>	<input type="checkbox"/>
12. After reviewing the survey, did the architectural reviewer find the survey not in compliance with HUD requirements? .....	<input type="checkbox"/>	<input type="checkbox"/>

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

<<Examples: Item 1 – Fire sprinkler system engineering will be completed by...  
 Item 3 – The completed plans and specifications will be submitted prior to closing. The architectural reviewer’s inspector has identified minor revisions to the plans and specifications which will be completed and submitted to HUD prior to closing. A list of the minor revisions includes... The contractor has provided confirmation acknowledging the required revisions and confirms that they do not constitute anything that will cause a change in the costs as reflected on the HUD-2328 submitted with this application package. We (the lender) recommend a Special Condition to the Firm Commitment requiring that completed acceptable plans and specifications will be submitted prior to closing.

Item 4 - There is an identity-of-interest between the design architect and the mortgagor. The design architect is a principal of the mortgagor entity. Therefore, to meet HUD requirements, a separate AIA B108 is submitted with this package for an unrelated architect to provide the supervision services. Provide narrative describing the supervising architect’s name, experience, etc. >>

### **Architectural Overview**

<<Provide narrative describing the architectural reviewer’s report and conclusions and if the lender’s underwriter concurs with the conclusions. Identify any modifications to the report conclusions and provide justification. Confirm if the review complies with the LEAN statement of work. Identify deliverables included in the application package. Include a narrative

concerning key elements of the reviews, the appropriate HUD forms, and their correspondence with the design architect.>>

**Program Guidance:**

Construction specification template (CSI Master Format 2010) addressed in Mortgagee Letter 2010-41, must be used for all firm applications submitted after April 25, 2011.

**Soils Report**

<<A Geotechnical Investigation Report by ABC Engineering, Inc. is provided in the application; however, only five boring samples were taken, which does not meet the minimum HUD standard of 1 boring per 2,500 square feet required by HUD Handbook XXXX. (Identify the specific HUD requirement(s) that are to be waived.) ABC's conclusion was that five borings were more than sufficient based on the consistency of the samples and they have provided a letter to that affect. Based on this letter and the design architect's certification that the foundations have been designed to conform to the geotechnical report, (lender's architectural reviewer) and (lender name) find this acceptable and recommend that HUD accept the soils report and design architect's certification in lieu of requiring additional samples that will in all likelihood lead to the same conclusion. >>

**Construction Progress Schedule**

<<Provide narrative discussion of the construction period as projected by the general contractor and project architect. Indicate if architectural reviewer agrees. Typically, an updated construction progress schedule that accurately reflects the month and date of construction start and completion will be needed prior to closing.>>

**Conclusion**

<<Indicate if the review architect has appropriately addressed all architectural aspects of the development and the firm commitment application.>>

**Cost Review**

Date of report: \_\_\_\_\_  
Review firm: \_\_\_\_\_  
Cost analyst: \_\_\_\_\_



**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Are there any variances in excess of 10% between the general contractor’s form HUD-2328 line items and the cost analyst’s form HUD-92326? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Is the total reflected on the cost analyst’s form HUD-92326 more than 10% higher or lower than the total cost breakdown on form HUD-2328? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Will any one subcontractor, material supplier, or equipment lessor be awarded more than 50% of the construction contract? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Will three or fewer subcontractors, material suppliers, or equipment lessors be awarded more than 75% of the construction contract in aggregate? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Does or will the contractor have any identities of interest with any subcontractors, material suppliers, or equipment lessors? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Did the cost analyst find any evidence of front-loading in the contractor’s cost estimate? .....	<input type="checkbox"/>	<input type="checkbox"/>

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

**Cost Overview**

<<Confirm the cost reviewer performed the cost review pursuant to Section 232 standards. The deliverables in the application package include a narrative concerning the cost analysis, the appropriate HUD forms, and cost data. For example, “The cost analyst performed a comparison analysis and compared them to the contractor’s final schedules of values (form HUD-2328). The cost analyst ultimately concludes to the contractor’s schedule of values. The underwriter concurs.”>>

**Construction Costs (Form HUD-2328)**

<<Discuss the cost analyst’s review of the final forms HUD-2328 supplied by the contractor and owner after completing an independent cost analysis. Confirm the analyst found no front-loading in the final costs reflected in the HUD-2328 submitted. Indicate the analyst completed the HUD 9236 in accordance with HUD guidelines and those forms are included in the appropriate section of the application package.

Provide a breakdown of the costs from the form HUD-2328, Contractor’s and/or Borrower’s Cost Breakdown, included in the application package. The form totals \$XXX and is summarized as follows (complete the following table or provide equivalent detail):>>

Description	Cost	% of Contract	Per Sq ft of GBA	Per bed
Structures				
Accessory structures				
Land improvements				
General requirements				
Builder's overhead				
Builder's profit				
Other fees				
Bond premium				
<b>Total construction contract</b>				

**Construction Contract Type:**

**Cost Plus**

**Lump Sum**

### General Requirements

<<The contractor's estimate of general requirements totals \$XXX. The cost analyst has determined that the proposed cost of the general requirements and the sub-items included in it are reasonable. The underwriter concurs.>>

#### Program Guidance:

The cost for "General Requirements" will include the costs for those items incurred in the construction of the project and directly pertaining to a specific project. It will not include general overhead expense of operating the contractor's home office. Items of cost to be considered in determining General Requirements allowance include, but are not limited to, items such as:

- Supervision
- Field engineering to provide grades and lines for locating buildings, streets, and walks on the site.
- Field office, phones, office supplies and equipment, and clerical help
- Temporary sheds and toilets
- Temporary heat, water, light, and power for construction
- Cleaning and rubbish removal
- Watchmen's wages
- Medical and first aid facilities
- Temporary protection and fences

## Other Fees – General Contractor

### Program Guidance:

On Form HUD-2328, “Other Fees” is reserved for fees and allowances not normally included in General Requirements. Such fees might be:

- Special engineering fees such as test borings not provided for by the project architect.
- Special taxes based on cost of the buildings (i.e., school taxes, utility taxes or assessments, excise taxes, tap fees, etc.).
- Contractor’s cost certification (a cost certification is required when a “Cost Plus” construction contract is used)
- Building permits

The form HUD-2328 includes other fees to be paid the general contractor totaling \$ . The other fees to be paid by the general contractor include the following:

### Schedule of Other Fees included in Construction Contract

(Double click inside the Excel Table to add information)

Line	Description	Amount
A	Survey	
B	Cost Certification	
C	Municipal Inspections	
D	Special Engineering Tests/Fees	
E	Special Taxes	
F	Permits	
G		
H		
I		
J		
TOTAL		\$ -

<<Narrative discussion – **Example #1:** The cost analyst has reviewed the schedule of other fees and determined the items and the total cost to be reasonable. The underwriter concurs.

**Example #2:** The construction contract includes \$XX in other fees. The other fees include building permits, electric service hook-up charges, and cost certification. It is assumed that the general requirements budget includes appropriate amounts for items such as surveys, municipal inspections and the like during the course of construction. The cost analyst is aware of this likelihood and has adjusted his general requirements budget accordingly.

The underwriter is confident there are adequate budgets built in to the underwriting to cover anticipated other fees. >>

**Bond Premium/Assurance of Completion**

<<Provide narrative discussion of either construction bond (bonding company, contractor’s bond capacity, etc.) or the Assurance of Completion escrow (15% or 25% of contract, cash or letter of credit, etc. Also, address whether the surety is listed on the Treasury Circular and is authorized to issue bonds in the state for the required amount.>>

**Unusual Site Improvements**

<<Describe unusual site improvements and applicable costs, if any.>>

**Architect’s Fees**

<<Provide narrative describing architect fees (design/supervision ). For example: “The Owner-Architect Agreement (AIA document B108 with HUD Addendum) sets a total design fee of \$XXX and a construction supervision fee of \$XXX, for a total contract amount of \$XXX. The design fee currently represents XX% of the total architectural fee and XX% of the total cost of total structures, land improvements, and general requirements. The construction supervision fee is XX% and XX% of the same, respectively.”

Confirm there is not an identity of interest between the borrower and the architect or if there is, discuss the separate supervising architect and his/her B108. Confirm if the cost analyst and underwriter find the architectural fees to be reasonable in total and for the cost of design/supervision.>>

**Other Fees - Borrower**

**Schedule of Other Fees to be paid by Borrower**  
(Double click inside the Excel Table to add information)

Line	Description	Amount
A	Survey - Land and Final "As Built"	
B	Building Permits	
C	Soils Report	
D	Traffic Study	
E	Impact Fees	
F	Hook-up Fees	
G		
H		
I		
J		
<b>TOTAL</b>		<b>\$ -</b>

The cost analyst has reviewed the schedule of other fees to be paid by the borrower and determined the items and the total cost to be reasonable. The underwriter concurs.

### **Off-Site and Demolition**

<<Describe any off-site work to be accomplished and who will be performing the work. If the general contractor is responsible, describe the cost attributed to it and the cost reviewer's conclusions about the work and the cost. If the city will be performing the work, describe any cost or hookup fee related.

Describe any demolition that may apply; discuss costs and any other requirements or issues.>>

### **Major Movable Equipment**

The borrower has provided a major movable list and budget totaling: \$ \_\_\_\_\_

The amount per unit is: \$ \_\_\_\_\_

#### **Key Questions**

	<b>Yes</b>	<b>No</b>
1. The cost analyst found the list acceptable and the budget is reasonable. ....	<input type="checkbox"/>	<input type="checkbox"/>
2. The underwriter concurs with the analyst's conclusion or has provided justification for any differences. ....	<input type="checkbox"/>	<input type="checkbox"/>
3. The underwriter notes that a copy of the major movable list is included as an Exhibit to the Draft Firm Commitment submitted with this package. ....	<input type="checkbox"/>	<input type="checkbox"/>

<<For each "no" answer above, provide a narrative explanation and justification regarding the topic.>>

### **Contingency Reserve**

#### Program Guidance:

The contingency reserve amount is based on available data for the type and condition of structure. Calculate as percentage of the sum of structures, land improvements, and general requirements. Percentage ranges from 1% to 10%, depending on the condition of the project, extent of rehabilitation, and experience and financial capacity of the borrower and contractor.

The contingency reserve can only be used to cover unanticipated costs, such as discovering more extensive dry rot than was expected. The contingency reserve is not available for items such as an increase in cost of carpet.

<<The architectural and cost reviewer concluded that a contingency reserve of XX% is sufficient based on the site visit, the type of construction of the existing buildings, and the

*developer’s knowledge of the existing buildings. The underwriter agrees (explain modification).>>*

## **Conclusion**

*<<Provide lender’s conclusions and wrap up of the cost review. Reiterate if any of the cost analyst’s conclusions were modified and justified in the lender’s underwriting.>>*

## **Replacement Reserves**

*<<If unchanged from initial submission, state so. If a revised replacement reserve analysis is provided, insert the replacement reserve section required for the initial submission narrative here.>>*

## **Appraisal**

*<<If a revised appraisal is provided, substitute the appraisal section required for the initial submission narrative for this appraisal section.>>*

## **Lender Modifications**

*<<Identify or state unchanged from initial submission.>>*

## **Hypothetical Conditions and Extraordinary Assumptions**

*<<Identify or state unchanged from initial submission.>>*

## **Income Capitalization Approach**

*<<Discuss any modifications to the previous underwriting.>>*

## **Sales Comparison Approach**

*<<Discuss any modifications to the previous underwriting.>>*

## **Cost Approach**

*<<Discuss any modifications to the previous underwriting.>>*

## **Initial Operating Deficit-Updated**

*<<Below is the “output screen” of The Office of Residential Care Facilities’ (ORCF) required IOD model. Double click to open. There are 3 tabs, the first of which is the “Input” screen.*

*This is the only area you will be able to make entries (cells shaded in light blue). Once finish with the entries, return to the “Output – Summary Exhibit” tab and click your mouse outside the excel chart to close. All three tabs are to be included as exhibit 1-3A.1. The electronic version of exhibit 1-3A.1, should be submitted as a functioning Excel (or equivalent) workbook. Enter narrative explanations below as needed below. >>*

0

Prepared:

**Occupancy Assumptions**

Unit Type	Total # Beds	UW Occupancy	Number of Releases
e.g. Assisted Living	0	0.00%	0.00
e.g. Memory Care	0	0.00%	0.00
e.g. Skilled Nursing or Sub-Acute	0	0.00%	0.00
e.g. Independent Living	0	0.00%	0.00
<b>Totals</b>	0	#DIV/0!	0.00

Rounded Operating Deficit Total

Period	Occupied Units	Occupied Percent	Income per Period	Exp. & Mort per Period
Month 1	0.00	#DIV/0!	\$0	#DIV/0!
Month 2	0.00	#DIV/0!	\$0	#DIV/0!
Month 3	0.00	#DIV/0!	\$0	#DIV/0!
Month 4	0.00	#DIV/0!	\$0	#DIV/0!
Month 5	0.00	#DIV/0!	\$0	#DIV/0!
Month 6	0.00	#DIV/0!	\$0	#DIV/0!
Month 7	0.00	#DIV/0!	\$0	#DIV/0!
Month 8	0.00	#DIV/0!	\$0	#DIV/0!
Month 9	0.00	#DIV/0!	\$0	#DIV/0!
Month 10	0.00	#DIV/0!	\$0	#DIV/0!
Month 11	0.00	#DIV/0!	\$0	#DIV/0!
Month 12	0.00	#DIV/0!	\$0	#DIV/0!
Month 13	0.00	#DIV/0!	\$0	#DIV/0!
Month 14	0.00	#DIV/0!	\$0	#DIV/0!
Month 15	0.00	#DIV/0!	\$0	#DIV/0!
Month 16	0.00	#DIV/0!	\$0	#DIV/0!
Month 17	0.00	#DIV/0!	\$0	#DIV/0!
Month 18	0.00	#DIV/0!	\$0	#DIV/0!
Month 19	0.00	#DIV/0!	\$0	#DIV/0!
Month 20	0.00	#DIV/0!	\$0	#DIV/0!
Month 21	0.00	#DIV/0!	\$0	#DIV/0!
Month 22	0.00	#DIV/0!	\$0	#DIV/0!
Month 23	0.00	#DIV/0!	\$0	#DIV/0!
Month 24	0.00	#DIV/0!	\$0	#DIV/0!
Month 25	0.00	#DIV/0!	\$0	#DIV/0!
Month 26	0.00	#DIV/0!	\$0	#DIV/0!
Month 27	0.00	#DIV/0!	\$0	#DIV/0!
Month 28	0.00	#DIV/0!	\$0	#DIV/0!
Month 29	0.00	#DIV/0!	\$0	#DIV/0!
Month 30	0.00	#DIV/0!	\$0	#DIV/0!
Month 31	0.00	#DIV/0!	\$0	#DIV/0!
Month 32	0.00	#DIV/0!	\$0	#DIV/0!
Month 33	0.00	#DIV/0!	\$0	#DIV/0!
Month 34	0.00	#DIV/0!	\$0	#DIV/0!



## **Market Analysis**

<<If unchanged from initial submission, state so. If a revised market study is provided, insert the market analysis section required for the initial submission narrative here.>>

## **ALTA/ACSM Land Title Survey**

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

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

<<If unchanged from initial submission, please state so. Otherwise, provide revised narrative discussion.>>

## **Pro-forma Policy**

Date/time: \_\_\_\_\_

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

Policy number: \_\_\_\_\_

<<If unchanged from initial submission, please state so. Otherwise, provide revised narrative discussion.>>

## **Environmental**

<<Discuss any modifications/updates to the previous underwriting.>>

## **Borrower – <<borrower's name here>>**

<<Discuss any modifications/updates to the previous underwriting.>>

## **Principals of the Borrower - <<principal(s) name(s) here>>**

<<Discuss any modifications/updates to the previous underwriting.>>

**Operator – <<operator's name here>>**

<<Discuss any modifications/updates to the previous underwriting.>>

**Parent of the Operator – <<parent's name here>>**

<<Discuss any modifications/updates to the previous underwriting.>>

**Management Agent – <<management agent's name here>>**

<<Discuss any modifications/updates to the previous underwriting.>>

**General Contractor**

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

State of organization: \_\_\_\_\_

License number/state: \_\_\_\_\_

Surety: \_\_\_\_\_

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. According to the application exhibits, is or has the general contractor been delinquent on any federal debt? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. According to the application exhibits, is or has the general contractor been a defendant in any suit or legal action? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. According to the application exhibits, has the general contractor 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 general contractor? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. According to the application exhibits, are there any unsatisfied tax liens? ....	<input type="checkbox"/>	<input type="checkbox"/>
6. Is the general contractor a joint-venture? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. If the general contractor is a subsidiary of another entity, are they relying upon the parent to demonstrate financial capacity? (If yes, provide financial analysis of parent.) .....	<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.>>

## Experience/Qualifications

<<Provide narrative description of general contractor's experience and qualifications. Discussion should highlight the contractor's experience constructing similar type and size projects. It should discuss the architectural and cost reviewer's analysis of the contractor's experience, bonding capacity, financial capacity, etc.>>

## 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.>>

### 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.



- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| 3. Is there a pattern of significant downward income prior to depreciation over the years as demonstrated in the general contractor's Income & Expense statements? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Do the Aging of Accounts Payable schedules show any materials accounts payables (amount in excess of 5% effective gross income) over 90 days? ....                    | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Do the Aging of Accounts Payable schedules show any materials accounts payables (amount in excess of 2% effective gross income) over 120 days? ..                     | <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. Does the general contractor have less than the required 5% adjusted working capital? .....  | <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. For example: Item 6 – Contractor has less than 5% working capital. Contractor may hypothecate fixed assets. The contractor has a sale pending on another building that they have constructed. Lender will provide evidence prior to closing that funds are available to meet the 5% working capital.>>

**General Review**

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

**Working Capital Analysis**

<<Provide narrative and analysis of contractor's working capital. Analysis should discuss appropriate adjustments to current assets and liabilities; how you account for work-in-progress; lines-of-credit; verifications of deposit; etc.

**Example:** XXXX current balance sheet is summarized below.

	<i>Financial Statement As of XXXXXXXX</i>	<i>Working Capital Analysis</i>
<i>Current Assets</i>		
Cash Accounts	\$ 1,200,000	\$ 1,200,000
Retainage Receivable	3,600,000	3,600,000
Accounts Receivable	4,900,000	4,700,000
Accounts Receivable - Employees	110,000	-
Accounts Receivable - RELATED	5,000	-
Accounts Receivable - RELATED	25,000	-
Cost & Profit in Excess of Bill	650,000	650,000
Prepaid Insurance	150,000	-
<b>Total Current Assets</b>	<b>\$ 10,640,000</b>	<b>\$ 10,150,000</b>

*Current Liabilities*

Retainage Payable	\$ 2,680,000	\$ 2,680,000
Accounts Payable	4,720,000	4,720,000
Profit Sharing Payable	-	-
Current Portion of Notes Payable	66,000	66,000
Accrued Payables	445,000	445,000
<b>Total Current Liabilities</b>	<b>\$ 7,911,000</b>	<b>\$ 7,911,000</b>

The underwriter has made the following modification for the working capital analysis:

*Example:*

- Only used accounts receivable less than 90 days old
- Did not use accounts receivable from related parties.
- Did not include prepaid expenses.

The underwriter's analysis of Work in Progress is as follows:

<b>Job</b>	<b>Contract Amount</b>	<b>% Complete</b>	<b>Contract Balance</b>	<b>Used for Work In Progress</b>
Project A	\$ 309,875	87.0%	\$ 40,284	\$ 40,284
Project B	25,790,007	92.6%	1,908,461	-
Project C	11,050,619	99.6%	44,202	-
Project D	1,673,600	66.5%	560,656	560,656
Project E	5,935,000	77.0%	1,365,050	1,365,050
:	8,807,800	61.0%	3,435,042	3,435,042
:	196,200	42.2%	113,404	113,404
:	244,429	39.2%	148,613	148,613
:	833,806	98.0%	16,676	-
:	100,164	16.8%	83,336	83,336
:	2,063,500	4.6%	1,968,579	1,968,579
:	74,434	36.5%	47,266	47,266
:	922,400	25.7%	685,343	685,343
	<b>\$ 58,001,834</b>		<b>\$ 10,416,912</b>	<b>\$ 8,447,572</b>
		<b>5% of Work in Progress</b>	<b>=</b>	<b>422,379</b>

The underwriter calculated the working capital necessary for the work in progress as 5% of the contract balances for all work that was less than 90% complete. The working capital for the planned sister facility in XXXXX is 5% of the contract amount of \$6,356,426. The working capital for the subject is 5% of the contract amount of \$6,502,743.

Based on the above adjustments and analysis, the underwriter concludes to the following working capital analysis:

Current Assets		10,150,000
Current Liabilities		(7,911,000)
<hr/>		
Working Capital	\$	2,239,000
Working Capital for Other Work in Progress		(422,379)
Working Capital for planned SISTER Facility		(317,821)
Working Capital for Subject		(325,137)
<hr/>		
Excess Working Capital	\$	1,173,663

The contractor clearly demonstrates sufficient working capital for the current work in progress and the planned sister facility and the subject facility. In addition to the above working capital, the contractor also has a \$XXXXM revolving line of credit that currently has no balance. The line of credit is available to supplement the above working capital, if necessary, during construction. >>

### Conclusion

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “The general contractor has demonstrated an acceptable financial and credit history. The general contractor has the experience to continue to complete the construction. The underwriter recommends this general contractor for approval as an acceptable participant in this transaction.” >>

## Operation of the Facility

### Operating Lease

Date of agreement: \_\_\_\_\_  
 Current lease term expires: \_\_\_\_\_  
 Description of renewals: \_\_\_\_\_  
 Current lease payment: \_\_\_\_\_  
 Major movable equipment ownership: <<borrower/operator>> \_\_\_\_\_

<<If unchanged from initial submission, state so. Otherwise, provide revised discussion. Also, address any changes to master lease, as applicable.>>

## Final Lease Payment Analysis – Stabilized, as Rehabilitated

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 should be increased to \$XX per year (\$XXX 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.>>

## **Master Lease**

<<Provide a narrative description of the terms of the master lease, lease payments, all parties involved, renewal provisions, etc. The HUD Lease Addendum must be attached to the subleases. Refer to definitions of common control and same ownership previously provided in the initial submission lender narrative. >>

## **Accounts Receivable (A/R) Financing**

AR lender: \_\_\_\_\_

AR borrower: \_\_\_\_\_

Maximum loan amount: \_\_\_\_\_

Current balance: \_\_\_\_\_

Current maturity date: \_\_\_\_\_

<<If unchanged from initial submission, state so. If any changes are anticipated, insert the accounts receivable financing section required for the initial submission narrative here.>>

## **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 <i>(dollars)</i>	Total claims paid under this policy <i>(no. of claims)</i>	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.”>>

### **Builder's Risk**

<<If contractor is paying, show in contractor's other fees. If borrower is paying, show in borrower's other fees.>>

### **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:	\$
Amount based on replacement cost:	\$
Amount based on loan-to-value:	\$
Amount based on debt service coverage:	\$
Amount based on cost of rehabilitation plus:	\$
Amount based on deduction of loans, grant(s), loan(s), LIHTCs, 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 \_\_\_\_\_.

**Criterion C: Amount Based on Replacement Cost**

The amount based on replacement cost limit is \$ \_\_\_\_\_. This is based on 90% of the replacement cost of the improvements of \$ \_\_\_\_\_.

**Criterion D: Amount Based on Loan-to-Value**

The \$ \_\_\_\_\_ value of improvement limit was calculated in accordance with HUD guidelines. This is based on \_\_\_\_\_ % of the underwriter’s value of improvements \$ \_\_\_\_\_ (as-proposed value minus as-is value).

Program Guidance:

Blended rate projects may use a blended loan-to-value that takes into account the number of beds of each type (refinance and new construction). The refinance loan-to-value requirement is to be used for those beds that are existing and the new construction loan-to-value requirement is to be used for those beds that are new.

For example, assuming a project has 77 existing beds and 39 new construction beds, the blended loan-to-value should be calculated as follows:

$$77 \text{ beds multiplied by } 0.8 \text{ (80\% applicable to existing)} = 61.6$$

$$39 \text{ beds multiplied by } 0.75 \text{ (75\% applicable to new construction)} = 29.25$$

**Total = 90.85**

90.85 divided by 116 (total # of beds) = blended LTV of 78.3%

**Criterion E: Amount Based on Debt Service Coverage**

The \$            debt service limit was calculated using HUD’s guidelines.

The underwriter’s NOI for the project after improvement is \$            <<indicate if this amount differs from the appraiser’s NOI for the project after improvement>>. Annual debt service payments on outstanding indebtedness related to the property is \$            . There is no annual ground rent or annual special assessments on the property. Therefore, the NOI available for the supplemental loan is \$            . There is an interest rate of            % and an assumed remaining term of            months. <<the insured loans must be coterminous>>

(Double click inside the Excel Table to add information)

<i>Calculation of Net Operating Income Available for Supplemental Loan</i>	
Net Operating Income (NOI) of Project After Improvement:	\$ -
Percentage of NOI Available for Total Debt Service:	90.000%
NOI Available for Total Debt Service:	\$ -
Less: Annual Debt Service Payments Required on All Outstanding Indebtedness Relating to Property:	-
Less: Annual Ground Rent:	-
Less: Annual Special Assessment(s):	-
<b>Incremental NOI Criterion E:</b>	<b>\$ -</b>

**Criterion F: Cost of Rehabilitation Plus**

The estimated cost of rehabilitation limit is \$            . This amount is based on            % of the total estimated rehabilitation cost of \$            plus the offsite costs of \$            plus the lesser of 90.0% of as-is value of \$            or the allowable existing debt \$            .

Program Guidance:

- **Property held in fee:** 100% of the estimated cost of rehabilitation less grant/loan funds attributable to replacement costs items.
- **Property subject to existing mortgage:** Lender’s estimated cost of rehabilitation, plus the lesser of:
  - (1) Secured indebtedness, or
  - (2) 90% (95% for non-profit borrowers) of the sum of lender’s estimate of the fair market (as-is) value of the property before rehabilitation less:
    1. The value of the leased fee, if leasehold, and
    2. The amount of non-prepayable special assessments.

- **Property to be acquired:** 90% (95% for non-profit borrowers) of the sum of lender's estimated cost of rehabilitation plus the lesser of:
  - (3) 90% (95% for non-profit borrowers) of the actual purchase price of the property,
  - (4) 90% (95% for non-profit borrowers) of the sum of lender's estimate of the fair market (as-is) value of the property before rehabilitation less:
    - (a) The value of the leased fee, if leasehold and
    - (b) The amount of nonprepayable special assessments.

**Criterion L: Deduction of Grants, Loans, LIHTCs, and Gifts**

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

a.	Amount based on estimated cost of rehabilitation	\$ _____
b.	(1) Grants/loans/gifts	_____
	(2) Tax credits	_____
	(3) Value of leased fee	_____
	(4) Excess unusual land improvement cost	_____
	(5) Unpaid balance of special assessment	_____
	(6) Sum of lines (1) through (5)	\$ _____
c.	Line a minus line b (6)	\$ _____

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

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.

**Existing Indebtedness**

<<Provide updated payoff amounts for the debt to refinance. Discuss any modifications to the previous underwriting.>>



**Schedule of Debt to Refinance**

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

**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.>>

**Secondary Sources**

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

**Other Uses**

<<Discuss any uses not previously discussed in this narrative.>>

**Working Capital**

A working capital escrow totaling 2% of the mortgage amount, or \$            will be escrowed at closing.

**Minor Movables**

An escrow totaling \$            will be escrowed at closing to fund the acquisition of minor movables, such as flatware, linens, dishes, etc. This amounts to \$            per bed and was based on the developer’s budget.

## Cash Requirements

<b>Initial operating deficit:</b>			
	<b>Absorption rate/no. units per month:</b>		
	<b>No. months to cover shortfalls:</b>		
	<b>Breakeven Occupancy %:</b>		
<b>Working capital:</b>	\$		
<b>Cash investment:</b>	\$		
<b>Debt service reserve escrow:</b>	\$		
	<b>No. months of principal &amp; interest payments:</b>		
<b>Offsite escrow:</b>	\$		
<b>Minor movable equipment escrow:</b>	\$		
<b>Demolition:</b>	\$		
<b>Other:</b>	\$		
<b>TOTAL:</b>	\$	<b>% of total construction amount:</b>	<b>%*</b>
<i>*Total cash requirements divided by HUD replacement cost.</i>			
<b>Cash requirement will be met by:</b>	<<pre-pays, letter of credit, sponsor, etc. Example: "Borrower's cash and letters of credit.">>		
Based on a review of the principals <<identify principal(s)>> their net worth is estimated at \$ ; their liquidity meets/exceeds \$ .			

## Circumstances that May Require Additional Information

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

## Special Commitment Conditions

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

- 1.
- 2.

## Conclusion

<<Provide narrative conclusion and recommendation.>>

## Signatures

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

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

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

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

<<Name>>

<<Title>>

<<Phone>>

<<Email>>

<<Name>>

<<Title>>

<<Phone>>

<<Email>>

This report was reviewed and the Date  
site inspected by: \_\_\_\_\_

<<Name>>

<<Title>>

<<Phone>>

<<Email>>