Lender Narrative – Substantial Rehabilitation
Section 232 – 2 Stage, Final Firm Submission

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

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

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

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

- **Charts:** The charts contained in this document have been created with versatility in mind; however they will not be able to accommodate all situations. For this reason, you are allowed to alter the charts as the situation demands. Be sure to state how you have altered the charts along with your justification. Include all the information the form calls for. Charts that include blue text indicate names that should be modified by the lender as the situation dictates.

- **Applicability:** If a section is not applicable, state so in that section and provide a reason. Do not delete a section heading that is not applicable. The narrative will be checked to make certain all sections are provided. If a major section is not applicable, add " – Not Applicable" to the heading and provide the reason. For instance:

  Parent of the Operator – Not Applicable
  This section is not applicable because there is no operator.

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

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

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

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

<<Insert Project Photo>>

Table of Contents

Executive Summary

FHA number:			
Project name:			
Project location:	*<<street address, city, county, and state>>*		
Lender's name:			
Lenders UW:		**UW trainee:**	
Borrower:			
Operator:			
Parent of operator:			
Management agent:			
General contractor:			
License holder:	☐ Borrower ☐ Operator ☐ Management agent		

Type of facility:	☐	**Skilled Nursing** *(SNF)***:**		**beds**		**units**
	☐	**Assisted Living** *(AL)***:**		**beds**		**units**
	☐	**Board & Care** *(B&C)***:**		**beds**		**units**
	☐	**Dementia Care:**		**beds**		**units**
	☐	**Independent Living** *(IL)***:**		**beds**		**units**
		Total:		**beds**		**units**

Mortgage Amount: **$**

Loan-to-value: ____%____ Loan to transaction cost: ____%____

Term: ____years____ Interest rate: ____%____

Equity: *(without IOD/WC)* ____$____ Principal & interest: *(without MIP)* ____%____ Expense ratio: ____%____

Equity: *(with IOD/WC)* ____$____ DSCR: *(with MIP)* ____%____ Expenses per bed/unit*: $________

Gross income: ____$____

Effective gross income: ____$____

Expenses & repl. reserves: ____$____ Occupancy rate: %

Net operating income: ____$____ Cap rate: ____%____

Underwritten value: ____$____ Value per bed/unit*: $________

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

Construction contract: $________ ☐ Offsites ☐ Demolition ☐ Lump sum

Architectural contract: $________ ☐ Multiply AIA agreements

Operating deficit: $________

Special escrows, etc.: $ ______________ *<<identify, if applicable>>*

Borrower: *<<Legal Name>>*

Principal(s): *<<Legal Name>>*

Operator: *<<Legal Name>>* ☐ Operating lease

Principal(s): *<<Legal Name>>*

Parent of Operator: *<<Legal Name>>*

Does the operating lease cover multiple properties or tenants (is it a master lease)? ☐ Yes ☐ No

Management Agent: *<<Legal Name>>*

License held by: *<<Legal Name>>*

Resident contracts with: *<<Entity with whom residents contract for services>>*

Third Party Reports provided:

☐ Architecture/Cost Review — Conclusion is: ☐ Accepted as is. ☐ Modified by lender.
☐ Market Study *(if required)* — Conclusion is: ☐ Accepted as is. ☐ Modified by lender.
☐ Appraisal *(if required)* — Conclusion is: ☐ Accepted as is. ☐ Modified by lender.
☐ Other *<<identify>>* — Conclusion is: ☐ Accepted as is. ☐ Modified by lender.

	Year	**FTE's**	**Operating Revenues**	**SWB**
Operations - post construction			$	$

<<<u>Definitions</u>: Operations (post construction)

***Year**: First year of stabilized occupancy after completion of construction. Example: Add the number of months to reach <u>stabilized</u> 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.*

***Operating revenues:** As reported on form HUD-92264-ORCF.*

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

Overview

<<Provide brief Summary/Overview of project.t>>

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:

	Increase	Same	Decrease
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:

Labor Relations

Wage Decision:

Type: ☐ Residential ☐ Building (commercial)

Number: ____________________ No. of buildings: ________________

Modification date: ____________________ No. of stories: ________________

Modification number: ____________________ No. of units: ________________

No. of self-contained units*: ________________

**Self-contained means that the units contain both a kitchen/kitchenette and a bathroom. This criterion, in addition to the number of stories, affects whether the construction type will be “residential” or “building.”*

Lenders Pre-Construction Conference Coordinator Information:

Name: ____

Email: ____

Phone: ____

Mailing address: ____

____

General Overview

<<Provide narrative of rationale for selection of Wage Decision specified. Be specific about configurations of kitchens and bathrooms (e.g., kitchenette includes a sink, microwave, and refrigerator and bathroom includes a commode, sink, and shower, etc.).>>

Commercial Space / Income

Select one of the following:

There will be NO commercial space at the subject.

There will be commercial space at the subject; however, it does not exceed the program limitations
of 20% of the gross floor area of the project and 20% of the gross income.

a. Total Gross Floor Area:	________	d. Total Gross Income:	________
b. Gross Commercial area:	________	e. Gross Commercial Income:	________
c. % of gross floor area:	<<b / a>>	f. % of gross income.:	<< e/d >>

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

Program Guidance:

The commercial limits are a maximum of 20% of the gross floor area of the project and 20% of the gross project income. Commercial space that is intended to exclusively serve the residents of the facility is not counted toward the 20% limit.

Sensitivity Analysis – Update

<<Provide an updated Sensitivity Analysis. At a minimum, the analysis is to answer the following questions:>>

If everything else under consideration remains the same (ceteris paribus), 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 %.
(e) What sensitivities exist in the proposed census mix? <<explain here>>

Lender Loan Committee

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

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

Key Questions

	Yes	No
1. Will there be accounts receivable financing affecting this project's income (borrower, operator, parent of the operator, or management company)?	☐	☐
2. Is the borrower a Real Estate Investment Trust (REIT)?	☐	☐
3. Is the borrower a non-profit or public entity <u>and</u> are the non-profit mortgage	☐	☐

	Yes	No
criteria utilized in the underwriting? *(If yes, the operator must also be a non-profit entity.)*		
4. Was an underwriter trainee involved in underwriting this transaction?	☐	☐
5. Is a mortgage broker involved in this transaction?	☐	☐
6. Does the underwriting include income from adult day care? *(Note: Non-resident adult day care space <u>may not</u> be located on a separate site. The adult day care space will not be considered commercial space; however, the space may not exceed 20% of the gross floor area of the facility and the income may not exceed 20% of gross income. Provide a Certificate of Need or operating license, if applicable.)*	☐	☐
7. Will there be a ground lease?	☐	☐
8. Are there any professional liability insurance issues that require special consideration or HQ review?	☐	☐
9. Are any tax credits involved in this transaction?	☐	☐
10. Are any secondary funding sources involved in this transaction?	☐	☐
11. Are any real estate tax abatements or exemptions included in the underwriting assumptions?	☐	☐
12. Are there any special escrows or reserves proposed for this transaction?	☐	☐
13. Are there any wetlands on the subject property?	☐	☐
14. Is the subject property located in a 100- or 500-year flood hazard?	☐	☐
15. Is the subject site suspected to be of any historical significance?	☐	☐
16. Other than the aforementioned, are there any other environmental issues identified by the Phase I or lender's due diligence?	☐	☐
17. Other than the aforementioned questions, waivers, and program eligibility requirements, are there any other issues that require special or atypical underwriting consideration?	☐	☐
18. Do you, as the underwriter, recommend or request any HUD technical reviews of issues, exhibits, or third-party reports related to this transaction? .	☐	☐

<<For each "yes" answer above, provide a narrative discussion regarding the topic. For example, Item 3, Real Estate Tax Abatement – The borrower will be receiving an abatement of real estate taxes for at least two years after opening the facility. The abatement is to be 70% of the taxes due. We have not assumed the abatement for valuation purposes. The underwriter has, however, excluded 70% of the underwritten taxes from the debt service calculation and from the initial operating deficit calculation.>>

<u>Identities-of-Interest</u>

Key Questions

	Yes	No
1. Have you, as the lender, identified any identities of interest on your certification?	☐	☐
2. Does the borrower's certification indicate any identities of interest?	☐	☐
3. Do any of the certifications provided by principals of the borrower identify any identities of interest?	☐	☐
4. Does the operator's certification indicate any identities of interest (if applicable)? ☐ N/A	☐	☐
5. Does the management agent's certification indicate any identities of interest (if applicable)? ☐ N/A	☐	☐
6. Does the general contractor's certification indicate any identities of interest?	☐	☐
7. Does the HUD Addendum to the AIA B108 of the Design Architect identify any identities of interest?	☐	☐
8. 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?	☐	☐

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

Risk Factors

Key Questions

	Yes	No
1. If the project is proposing new construction of assisted living units, is the proposed mortgage higher than 75% of the underwriter's concluded value?	☐	☐
2. Is the debt service coverage of the loan less than 1.45?	☐	☐

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

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

Program Guidance: *(issued in Lender Email Blast on February 6, 2009)*

Given the difficult economic and fiscal environment nationally, the Department is requesting that

HUD approved Mortgagees exercise caution in underwriting loans under the LEAN Section 232 programs for new construction and refinance transactions for assisted living facilities. For all Assisted Living Project LEAN mortgage insurance applications under Section 223(f), Section 232 new construction and substantial rehabilitation, and Section 241(a), HUD will require justification/mitigation if the underwritten debt service coverage ratio (“DSCR”) is less than 1.45. Moreover, as was previously discussed with various lenders in June of 2008, for all LEAN mortgage insurance applications involving new construction of Assisted Living units, HUD will require justification/mitigation if the underwritten loan to value is greater than 75%.

The Department would consider, for example, a mitigating factor to be the inclusion of less expensive independent living units in the project or the presence of facility residents that are being provided with state or federal rental assistance subsidies. The Department’s review of mitigating factors will focus on any project specific attributes that result in limiting project market risk or in reducing project financial risk. The Department will be reasonable and flexible in determining where justifiable circumstances or mitigating factors exist.

<u>Additional guidance on the use of project capitalization rates</u>: The Department would like to provide general guidance regarding the usage of capitalization rates for Assisted Living projects. HUD believes that the capitalization rate should be a true reflection of conditions in the marketplace and the specific risks associated with a project. The Department is particularly concerned with the use (in some cases) of an approximate “risk free” capitalization rate for Assisted Living projects. The Department is not mandating a minimum capitalization rate. However, HUD may require justification/mitigation on Assisted Living projects if the capitalization rate used by the appraiser appears not to fully account for specific project and market related risks. This capitalization rate issue should be fully discussed in the Lender Narrative of the LEAN Application.

The Department believes that, in most but not all economic environments, the following debt service constant formula (Debt Service Constant + HUD MIP) multiplied by 1.25 would reflect reasonable guidance for the “minimum” capitalization rate for a proposed project. HUD would expect that the market realities of each project would dictate the capitalization rate to be used, which may be higher than the minimum formula. HUD does not wish to impose requirements for determining the capitalization rate and will defer to the USPAP appraisal standards to provide the definitive guidance on this issue. <u>The Department’s guidance on capitalization rates is not mandatory</u> and the Department understands that this guidance may not be as helpful as a guide when market and economic conditions are either highly optimistic or overly conservative and/or when the interest rate environment reflects unusually low or high project interest rates.

Example for calculating Cap Rate: 7% fixed interest rate plus the MIP of 50 basis points. {.0746+.50bp MIP=.0796*1.25=.0995 or 9.95%}. In this example, the minimum capitalization rate “guidance” is 9.95.

The revised guidance relative to the debt service coverage ratio, loan-to-value, and capitalization rates for assisted living projects <u>*shall apply to any future application for mortgage insurance where an FHA Project Number is issued after February 6, 2009.*</u> Alternatively, if the FHA number has not been issued but a project appraisal is under way, HUD will accept the lower

DSCR of 1.3 for refinancing and 1.35 for new construction if an appraisal engagement letter was executed prior to February 6, 2009, and if appraisals using the lower DSCRs are finalized and provided to HUD prior to April 6, 2009. On projects that do not meet this revised guidance (where the FHA Project Number was issued on or prior to February 6, 2009), the lender should provide a notification in the Check Transmittal Letter and Lender Narrative of the mortgage insurance application that provides for the discussion of the appraisal lender modifications.

Please note that the previous guidance on loan-to-value and debt service coverage on Section 232/223(f) transactions for skilled nursing and independent living facilities have not been revised.

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 *<u>AND</u>* *sign this narrative.>>*

<u>Program Guidance</u>:

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.

Architectural Reviewer

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

Cost Analyst

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

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.>>

<u>Project Description</u>

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.>>

Architectural Review

Date of report: ______________________

Review firm: ______________________

Reviewer: ______________________

Key Questions

	Yes	No
1. Are any drawings or specifications to be "deferred submissions"?	☐	☐
2. Does the architectural reviewer recommend any commitment conditions? …	☐	☐
3. Are the plans and specification incomplete?	☐	☐
4. Is there an identity-of-interest between the design architect and any other project participant (i.e., borrower, principal of borrower, operator, and general contractor)?	☐	☐
5. Are there architectural review comments that have not been incorporated into the plans and specifications?	☐	☐

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

Architectual 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.>>

Plans and Specifications

<<Provide narrative discussing issues relating to plans and specifications. Confirm if they are completed and submitted with the application; or if not, what minor issues remain to be completed in the deferred submittal prior to closing, etc.>>

Building Codes and HUD Standards

<<Provide narrative indicating the architectural drawings and specifications were found to comply with local building code standards and minimum property standards.>>

Accessibility

<u>Fair Housing Accessibility Guidelines (FHAG) and Uniform Federal Accessibility Standards (UFAS)</u>

<<Provide affirmative statement that the architectural reviewer confirmed that the plans are in conformance with FHAG and UFAS requirements.>>

Owner-Architect Agreement

<<Discuss architectural reviewer’s conclusions regarding compliance with HUD requirements. Indicate if the design architect is or is not providing supervision services. Provide affirmative statement that the architectural reviewer confirmed the agreement is a complete and correct B108 including Amendment to AIA Document B108 Standard Form Agreement between Owner and Architect for Housing Services. All design and inspection services must be accounted for in one or more AIA Document B108 Agreements.>>

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.>>

Survey

<<Discuss architectural reviewer's comments regarding the survey and if it is found in conformance to HUD standards. The document is found to meet HUD's requirements.>>

Soils Report

<<Discuss soils report related to HUD requirements. Discuss architectural reviewer's findings regarding the report and that structural design is in compliance with findings of the report. Indicate lender's agreement with the conclusions.>>

Conclusion

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

<u>Cost Review</u>

Date of report: ____

Review firm: ____

Cost analyst: ____

Key Questions

	Yes	No
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?	☐	☐
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?	☐	☐
3. Will any one subcontractor, material supplier, or equipment lessor be awarded more than 50% of the construction contract?	☐	☐
4. Will three or fewer subcontractors, material suppliers, or equipment lessors be awarded more than 75% of the construction contract in aggregate?	☐	☐
5. Does or will the contractor have any identities of interest with any subcontractors, material suppliers, or equipment lessors?	☐	☐

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

Cost Overview

<<Provide a statement similar to the following: "The cost reviewer performed a cost review of the proposed facility pursuant to Section 232 Lean standards. The deliverables included in the application package include a narrative concerning the cost analysis, the appropriate HUD

forms, and cost data. Overall, the cost analyst found the contractor's and borrower's cost estimates to be reasonable.">>

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				
Total construction contract				

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.>>*

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		
TOTAL		$ -

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: $ ____________________

<<If these figures appear reasonable, provide affirmative statement confirming that the cost analyst found the list acceptable and the budget is reasonable. The underwriter concurs with the analyst's conclusions or provide justification for any differences. 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.>>

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.>>

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. >>

Appraisal

<<If a revised appraisal is provided, substitute the Appraisal section required for the Initial Submission narrative here.>>

Date of valuation: ____

Date of report: ____

Appraisal firm: ____

Appraiser: ____

License no./State: ____

Summary of the appraisal and underwriting conclusions:

Market Value Summary		
Approach	Appraisal	Underwriter
Income Comparison Cost		
Conclusion:		

Lender Modifications

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

Hypothetical Conditions and Extraordinary Assumptions

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

Income Capitalization Approach

Overview

Income Approach Summary		
	Appraisal	Underwriter
Gross income: Occupancy rate:		
Effective gross income: Expenses (incl. repl. res.):		
Net operating income: Capitalization rate:		
Indicated market value:		

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

Sales Comparison Approach

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

Cost Approach

Overview

Cost Approach Summary		
	Appraisal	Underwriter
Total for all improvements: Carrying charges and financing: Legal, organization, cost cert: Marketing allowance: Major movable equipment: Entrepreneurial profit: Land value:		
Indicated market value:		

Total for All Improvements

<<Provide narrative discussion.>>

Carrying Charges and Financing

<<Provide narrative discussion.>>

Legal, Organization, and Cost Certification

<<Provide narrative discussion.>>

Marketing Allowance

<<Provide narrative discussion.>>

Major Movable Equipment

<<Provide narrative discussion of assumptions and conclusion. Address discrepancies between appraiser and needs assessor. Identify the total value of the major movables, as if new. This value will be deducted from the market value used on the Property Insurance Schedule and shown as a separate line on the schedule. Additionally, address ownership of the major movable equipment (e.g., borrower or operator).>>

Land Value

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

Economic Life

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

Initial Operating Deficit

<<Provide a detailed narrative discussion of assumptions and conclusion. Include a discussion of the borrower/operator/management's operating deficit; the appraiser's; and, the lender's analysis.>>

Reconciliation

<<Provide narrative discussion of how the value approaches were reconciled to reach the final conclusions. The statement may be simple. For example, "As demonstrated in the Appraisal Overview section above, the underwritten value conclusion is based on the income approach to value." If the value conclusion is based on weighting multiple approaches provide an explanation of the rationale.>>

ALTA/ACSM Land Title Survey

Date: ____

Firm: ____

Key Questions

	Yes	No
1. Are there any differences between the legal description on the survey and legal description included in the pro forma title policy?	☐	☐
2. Are there any revisions or modification required to the survey prior to closing?	☐	☐
3. Does the survey indicate any boundary encroachments?	☐	☐
4. Does the survey evidence any buildings encroaching on utility or other easements or rights-of-way?	☐	☐
5. Do any buildings encroach on either the 100- or 500-year flood plains?	☐	☐
6. Do any buildings or improvements encroach on wetland areas or their buffer zones?	☐	☐
7. Are there any unusual circumstances or items that require special attention or conditions?	☐	☐

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

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?	☐	☐
2. Are there any covenants, , encumbrances, liens, restrictions, or other exceptions indicated on Schedule B-1?	☐	☐
3. Are there any use or affordability restrictions remaining in effect on the property?	☐	☐

	Yes	No
4. Are there any easements or rights-of-way listed that are not indicated on the survey?	☐	☐
5. Are there any endorsements included aside from the standard HUD-required endorsements?	☐	☐
6. Are there any subordination agreements, encroachments or similar issues that require HUD's approval?	☐	☐
7. Are there any other matters requiring special consideration, agreements, or conditions that require HUD's attention?	☐	☐
8. Are there any easements, rights-of-way, encroachments, etc., identified on Schedules B-1 and B-2 that, in the lenders opinion, affect value or the marketability of the project?	☐	☐

*<<For each "yes" answer above, provide a narrative discussion regarding the topic. For example, "**<u>Additional Endorsements</u>**: 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…>>*

<u>Environmental</u>

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

<u>**Borrower –** <<borrower's name here>></u>

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

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

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

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

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

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

<<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

	Yes	**No**
1. According to the application exhibits, is or has the general contractor been delinquent on any federal debt?	☐	☐
2. According to the application exhibits, is or has the general contractor been a defendant in any suit or legal action?	☐	☐
3. According to the application exhibits, has the general contractor ever filed for bankruptcy or made compromised settlements with creditors?	☐	☐
4. According to the application exhibits, are there judgments recorded against the general contractor?	☐	☐
5. According to the application exhibits, are there any unsatisfied tax liens?	☐	☐
6. Is the general contractor a joint-venture?	☐	☐
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.)*	☐	☐

<<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?	☐	☐
2. Does the underwriter have any concerns related to their review of the credit report?	☐	☐
3. Is the credit report dated more than 60 days before the application date?	☐	☐

<<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 numberically, 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.

Other Business Concerns

Key Questions

	N/A	Yes	No
1. Does the general contractor identify any other business concerns?		☐	☐
a. Do any of the other business concerns have pending judgments, legal actions/suits, or bankruptcy claims? *(If so, a credit report must be obtained on the business concern.)*	☐	☐	☐
b. If so, was a credit report obtained on the business concern?	☐	☐	☐
2. Do the credit reports on the 10% sampling of the other business concerns		☐	☐

	Yes	No
indicate any material derogatory information?.................................... ☐ N/A		

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

Credit Reports for Other Business Concerns:
<<Provide narrative discussion on other business concerns. For example, "XXX identified XX other business concerns. The underwriter reviewed Dunn and Bradstreet credit reports for XX other business concerns identified by XXXX. {discuss each report}. No reports indicated derogatory information that would prohibit XXXXX from participation in this loan transaction.>>

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

Financial Statements

The application includes the following General Contractor financial statements:

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

Key Questions

	Yes	No
1. Are less than 3-years of historical financial data available for the general contractor?	☐	☐
2. Are the financial statements missing any required information or schedules?	☐	☐
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?	☐	☐
4. Do the Aging of Accounts Payable schedules show significant payables in excess of 60 days?	☐	☐
5. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?	☐	☐
6. Does the general contractor have less than the required 5% adjusted working capital?	☐	☐

<<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.*

	Financial Statement As of XXXXXXXX	Working Capital Analysis
Current Assets		
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	-
Total Current Assets	$ 10,640,000	$ 10,150,000
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
Total Current Liabilities	$ 7,911,000	$ 7,911,000

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:

Job	*Contract Amount*	*% Complete*	*Contract Balance*	*Used for Work In Progress*
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*
	$ 58,001,834		*$ 10,416,912*	*$ 8,447,572*
			5% of Work in Progress =	***422,379***

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)*
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)*
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>>*

Key Questions

	Yes	No
1. Does the lease contain any non-disturbance provisions?	☐	☐
2. Does the lease require the borrower to escrow any funds other than those associated with this loan?	☐	☐

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

Lease Payment Analysis

The lease payments must be sufficient to (1) enable the borrower to meet debt service and impound requirements and (2) enable the operator to properly maintain the project and cover operating expenses. The minimum annual lease payment must be at least 1.05 times the sum of the annual principal, interest, mortgage insurance premium, reserve for replacement deposit, property insurance and property taxes.

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

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

The lease payment as currently proposed in the lease would amount to $XX ($XX per year + $XXX for debt service and impounds). The lease payment should be increased to $XX per year ($XXX per month) plus the total debt service and impound amounts required by the HUD-insured loan. The underwriter has included a special condition to the firm commitment requiring the lease payment be revised to meet or exceed this minimum. The recommended annual lease payment also provides the operator with an acceptable profit margin.

Responsibilities

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

HUD Lease Provisions

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

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

Accounts Receivable (A/R) Financing

AR lender: ______________________________

AR borrower: ______________________________

Maximum loan amount: ______________________________

Current balance: ______________________________

Current maturity date: ______________________________

<<<u>A/R facility list</u>: Provide a list of all facilities that are involved with A/R loan, including facility name, location (city/state), and whether or not they are HUD-insured.>>

Key Questions

	Yes	No
1. Does the AR loan require any guarantees from the borrower, operator, or parent of the operator, or any of those entities' principals?	☐	☐
2. Are the guarantors guaranteeing performance on any other AR loans?	☐	☐
3. Does the AR loan involve multiple facilities or borrowers?	☐	☐

		Yes	No
a.	Does the AR loan involve any non-HUD-insured properties? ..... ☐ N/A	☐	☐
b.	Does the AR loan involve facilities located in multiple states or HUD field office jurisdictions? .... ☐ N/A	☐	☐
4.	Is there an identity of interest between the AR lender and the AR borrower?	☐	☐
5.	Is there any conflict of interest between the AR lender and the borrower or its principals?	☐	☐
6.	Does the maximum AR loan amount exceed 85% of the Medicaid, Medicare, and other governmental accounts receivable less than 121 days old? *(HUD may approve waiver from 120 days to 150 days if justified. HQ must approve waiver over 150 days for special or unique circumstances.)*...	☐	☐
7.	Of the total Medicaid, Medicare and other governmental accounts receivable less than 121 days old, are more than 30% over 90 days old?	☐	☐
8.	Does the AR lender have less than 3 years of experience providing AR financing?	☐	☐
9.	Does the AR lender lack the financial controls and capability to monitor the operator's performance?	☐	☐
10.	Is the borrower or operator out of compliance with any business agreements with HUD (i.e., in default on those agreements, not current on financial submissions, etc.)?	☐	☐

<<For each "yes" answer above, provide a narrative discussion describing the risk and how it is mitigated. Provide details for Question 5 and 6 in the following Accounts Receivable Aging table.>>

Accounts Receivable Aging

(Double click inside the Excel Table to add information)

	0-90 days	91-120 days	121-150 days	151+ days	% 91+ days
Medicare					
Medicaid					
Other Govt					
Subtotal	$ -	$ -	$ -	$ -	
Non-Govt*					
Total	$ -	$ -	$ -	$ -	

*Non Govt. is considered when determining HUD's maximum A/R loan amount.

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

Terms and Conditions

1. *Describe the borrowing base formula (e.g., XX% of the AR borrowers accounts receivable up to 120 days):*

2. *Describe term and renewal options:*

3. *Describe the rate applied to the used and unused portion of the AR loan:*

4. *Other fees (i.e., financing fees, late payment fees, etc.):*

Mechanisms for operator receipts, disbursements and control of operator funds:
<<Describe the flow of all funds, into and out of accounts (i.e., point of origination to final destination). Describe how deposit accounts are controlled (e.g., number of controlled accounts, hard or springing lockbox, daily sweeps, etc.). Attach cash flow chart.>>

Program Guidance:

The borrower shall maintain and pay for a controlled or blocked account mutually satisfactory to borrower and lender for borrower's cash collections. There shall be no material change in borrower's business or financial condition. There shall be no material default in any of borrower's obligations under any contract or compliance with applicable laws. Lender shall receive an opinion from borrower's or operator's counsel satisfactory to lender.

Collateral/Security

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

Permitted Uses and Payment Priorities

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

Program Guidance:

Attachment C of Notice 08-09, Rider to Intercreditor, Paragraph 3 states in part the following:(i) to pay current debt service obligations to AR lender; (ii) to pay lessee's costs of operations including, but not limited to, rent and all other payment obligations due under its Lease with Landlord, payroll and payroll taxes, ordinary maintenance and repairs and management fees

(“**Current Operating Costs**”) and (iii) after the payment of Current Operating Costs, subject to applicable restrictions in the AR Lender Loan Documents and Lessee Regulatory Agreement, AR Advances may be distributed to Lessee’s shareholders, partners, members or owners, as the case may be.

Costs

<< Provide a description of the cost of A/R loan. List all fees associated with the A/R financing and indicate whether they are one-time charges or ongoing. Indicate if there any fees associated with unused portion of the loan. Also, provide an analysis demonstrating that the Operator can support the additional financial expenses of the A/R loan. (Note: A/R loan costs are to be included in the underwritten operating expenses for determining debt service coverage.) Identify the total A/R loan costs used in underwriting and the line item on the 92264 that includes this cost.>>

Historical A/R Loan Costs
(total $)

2006	2007	2008	YTD	2006 - 2008 Average	UW

Recommendation

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

Insurance

Professional Liability Coverage

Program Guidance:

The PLI insurance policy must be in the name of the entity that will conduct 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:	______________________	
Planned coverage:	Per occurrence:	______________
	Aggregate:	______________
	Deductible:	______________
<u>OR</u>	Self insurance retention:	______________
Policy Basis:	☐ Per occurrence	☐ Claims made
Policy Premium:	______________________	

Key Questions

	Yes	No
1. Will the insurance policy cover multiple properties? *(If yes, complete questions a through e below.)*	☐	☐
a. Is less than 6 years of loss history available?	☐	☐
b. Does the loss history indicate any professional liability claims over $35,000?	☐	☐
c. Does the loss history or potential claims certification indicate any uncovered claims?	☐	☐
d. Does the loss history or potential claims certification indicate any claims that would exceed the per occurrence or aggregate coverage limits?	☐	☐
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?	☐	☐
2. Is the policy funded on a “cash front” basis?	☐	☐

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

<u>Multiple properties</u>: 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}

<u>Less than 6-year loss history</u>: 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}.

<u>Claims made coverage</u>: 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.>>

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.">>

Property Insurance

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

Builder's Risk

<< If contractor is paying, show in contractor's other fees. If borrower is paying, show in borrower's other fees. Must meet the requirements of 92447.>>

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:

	Initial	Final
Fair market value:	$	$
Replacement cost:	$	$
Debt service:	$	$
Requested amount:	$	$

The proposed mortgage is $ and is constrained by .

Mortgage Term

The underwriter concluded to a mortgage term of years.

Type of Financing

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

Fair Market Value Limit

The $ fair market value limit was calculated in accordance with HUD guidelines. This is based on % of the underwriter's value of $. No deductions for ground leases, grants or loans, excess unusual site improvements, cost containment, or special assessments are applicable to this project.

Replacement Cost Limit

The $ fair market value limit was calculated in accordance with HUD guidelines. This is based on % of the underwriter's value of $. No deductions for ground leases, grants or loans, excess unusual site improvements, cost containment, or special assessments are applicable to this project.

Debt Service Limit

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

Criterion L: Deduction of Grants, Loans, and Gifts

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

a.	Total estimated replacement cost of project as depreciated	$
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.

Sources & Uses

<<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. Demonstrate compliance with HUD limits on private sources. Remember that Criterion L is applicable to mortgage sizing.>>

Program Guidance:

Government Sources:

1. Secondary financing, grants and tax credits from a federal, state, or local government agency or instrumentality, may be used to cover up to 100% of the applicable Section of the Act

equity requirement.

2. Secondary financing, grants, and tax credits from a federal, state or local government agency or instrumentality, may also be used to finance non-mortgageable costs. Such funds covering non-mortgageable cost, when added to the HUD mortgage and required equity contribution, may exceed 100% of the project's fair market value (FMV) or replacement cost.

3. Subordinated liens against the property that result from secondary loans from a federal, state, or local governmental agency or instrumentality to cover non-mortgageable costs and/or equity, in combination with HUD's primary lien, may exceed 100% of the property's FMV or replacement cost.

4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary loans, grants and tax credits must be certified by the source provider to be required to complete the project and that the related costs are reasonable. Documentation to this effect must be included with the application submission.

Private Sources:

1. Secondary financing in the form of a promissory note is permitted to cover a portion of the equity requirement under Section 223(f). The aggregate amount of the HUD-insured first loan and the private second loan cannot exceed 92.5% of FMV. Therefore, the amount of a private loan may range from 7.5% of FMV (the difference between 85% and 92.5% of FMV) to a larger percentage if a mortgage criterion is lower than 85% of FMV controls. This rule also applies to Sections of the Act that are pursuant to Section 223(f), i.e., Section 232 pursuant to Section 223(f). However, this allowance should not be used to circumvent our existing policies that do not permit equity take-out on Section 232 refinance transactions or on purchase transactions, a way to finance costs that otherwise would not be permitted. For example, seller takebacks on property acquisition costs that are not supportable by market data should not be approved.

2. When private secondary financing is combined with federal, state, or local government agency secondary financing, like in #1 above, the aggregate amount of the HUD-insured first loan and the private second loan cannot exceed 92.5% of FMV. However, the governmental loan, in aggregate with the HUD first and private second, may exceed the property's FMV. The addition of the governmental loan may result in total liens that exceed the property's FMV.

3. Private secondary financing may be used to cover nonmortgageable costs in combination with equity or solely for one purpose or the other. Whatever option is decided upon, as stated under #1 above, the aggregate of the HUD first and private second cannot exceed 92.5% of FMV.

4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary financing from private sources must be certified to be reasonable and required to complete the project by the provider of sources in documentation included with the application submission.

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.

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 site inspected by:	Date
<<Name>> *<<Title>>* *<<Phone>>* *<<Email>>*	