

Servicer’s Notification to HUD of Risks to Healthcare Project and Action Plan for Remedy
Section 232

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

OMB Approval No. 2502-0605
(exp. 03/31/2018)

Public reporting burden for this collection of information is estimated to average 0.5 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: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Section 232 – Project Risk Notifications

The Office of Residential Care Facilities (ORCF) is responsible for asset and risk management of all Section 232 insured projects. Lenders/Servicers also provide routine reviews of these projects that include analyses of quarterly and annual financial performance and reporting when a project’s performance is at risk to the assigned ORCF Account Executive (AE).

This document provides a format for Lenders/Servicers to use to notify the assigned AE of missed performance benchmarks and/or risk trigger indicators and to document the actions to be taken to mitigate those risks (including documenting actions plans, as required by the Section 232 Handbook 4232.1). This form is also to be used to notify the AE of other specific circumstances that may occur during the life of the FHA-insured mortgage. Finally, this form is used to discuss a Servicer’s intent to assign a note to HUD.

For each “yes” answer in the **Key Questions** sections that follow, provide a narrative discussion regarding the topic where indicated. As applicable, discuss the issue and its effect on the Project. Describe any potential risks, mitigants, barriers, financial resources required, and plans to remedy (and prevent reoccurrence), along with detailed timelines of goals, objectives and responsible parties for each measure. Describe and attach the associated documentation being provided for each item and the action plan(s) recommended by the Operator and/or Servicer for immediate remedy of the risks to the Project.

Action plans should be relevant to the current/active concerns and include, but not be limited to, relevant financial/budgetary reviews (full and detailed), survey history review (including a quality of care analysis), Special Focus Facility details, operational review, physical plant issues, and any other areas of concern. A goal/objective must be established for each area of concern/finding with a timeline (immediate, intermediate, and long-term) to improve the situation. For each concern, the goal should reflect the minimum HUD criteria (as outlined in the HUD 232 Handbook).

If the matter involves a survey citation, describe the conduct cited, the scope and duration of the remedy(ies) imposed, and the timelines for corrective action. Unless otherwise directed by HUD or the Servicer, on a citation matter the next communication from the Operator may be

notification that the citation(s) have been cleared by the issuing regulatory agency. Unless requested by HUD or Lender/Servicer, do not attach surveys or responses.

For additional information, please refer to the *Section 232 Handbook, Section III, Asset Management, Chapter 3, Section 3.10 Special Circumstances Requiring the Notification of the Servicer and/or AE* and *Chapter 4, Sections 4.1 through 4.5 Financial Operations*.

| LOAN INFORMATION | |
|----------------------------|-------------------|
| Servicer Name: | |
| Servicer Contact: | Phone no.: |
| Borrower Name: | |
| Operator Name: | |
| Property Name: | |
| Property Address: | |
| Project FHA Number: | |

Type of notification (check all that apply; then click on hyperlink next to checkbox to immediately jump to that section of the narrative):

Only complete portions of this form that apply to the current risk situation (along with signatures at the end of the document); sections not related to the risk notification topic being reported are not to be filled out.

- | | |
|---|--|
| <input type="checkbox"/> Failure to File Financial Statements | <input type="checkbox"/> Accounts Receivable (AR) Loans |
| <input type="checkbox"/> Financial Risk Metrics of Operator | <input type="checkbox"/> Unauthorized Distributions |
| <input type="checkbox"/> Failure to Make Lease Payment | <input type="checkbox"/> Bankruptcy |
| <input type="checkbox"/> Default of Master Lease | <input type="checkbox"/> Professional Liability Insurance (PLI) |
| <input type="checkbox"/> Special Focus Facility (SFF) | <input type="checkbox"/> Fidelity Bond Coverage |
| <input type="checkbox"/> State Inspections | <input type="checkbox"/> Termination of Insurance |
| <input type="checkbox"/> Legal Judgments | <input type="checkbox"/> Delinquent Mortgage Payments (after 29th day) |
| <input type="checkbox"/> Threat to Abandon Project | <input type="checkbox"/> Servicer Assignment of the Note |
| <input type="checkbox"/> REAC Inspections | <input type="checkbox"/> Other Circumstances |

IMPORTANT – Date lender/servicer notified of risk:

Failure to File Financial Statements

HUD requires the submission of audited annual financial information for the Borrower. Additionally, submission of quarterly/year-to-date and annual financial statements from the Operator is required.

Borrowers are required to submit their annual financial statements within ninety (90) days of their fiscal year end into the Financial Assessment Subsystem (FASS). Operator are required to submit, on a quarterly and year-to-date basis (or more frequently if specified by HUD), financial statements no later than sixty (60) days after the period covered by the reports, except for reports relating to the final quarter of each year, which shall be submitted no later than ninety (90) days after end of the fiscal year.

The project must notify their Servicer within two (2) business days of receiving a Notification of Failure to File Financials by the required deadline in FASS. This notification is sent automatically to the email the project registered in the system when a deadline for submission of annual financial information is missed. Once notified, the Servicer must work with the project to ensure submission is forthcoming and address any delays. The Servicer must notify the AE if there are extenuating circumstances that are preventing the immediate submission, and provide the AE with the action plan to submit the required information expeditiously.

Key Questions

| | Yes | No |
|--|--------------------------|--------------------------|
| 1. Has the Borrower received a <i>Notification of Failure to File Financials</i> from the HUD Financial Assessment Subsystem (FASS) for failure to submit annual audited financials? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If yes, has the Servicer worked with the Borrower to address any delays and ensure submission is forthcoming?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the Servicer notified the AE of extenuating circumstances that are preventing immediate submission and provided the AE with an action plan for immediate submission?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has the Operator failed to submit required annual or quarterly financials? ... | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If yes, has the Servicer worked with the Operator to address any delays and ensure submission is forthcoming? | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the Servicer notified the AE of extenuating circumstances that are preventing immediate submission and provided the AE with an action plan for immediate submission?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document, including timelines.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Financial Risk Metrics of Operator

Key indicators of the Operator financial statements will be used to monitor performance and to measure against future routine reviews. Typically, the annual and quarterly reviews are all that are necessary for monitoring the financial operations of a project. However, HUD does reserve the right to require monthly financial reports (of the Operator, the Borrower, or both) to be submitted (to HUD, the Servicer, or both) if financial indicators suggest this level of monitoring is needed or if noncompliance with HUD business agreements (by the Borrower, Operator, or Management Agent) is suspected.

Key Questions

| | Yes | No |
|--|--------------------------|--------------------------|
| 1. Does the quarterly analysis of Operator financials indicate a debt service coverage ratio (DSCR)* that has dropped below 1.00 for two or more consecutive quarters? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If yes, has an action plan been established by the Operator?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. If yes, has the Borrower been notified of the low DSCR?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has the Operator received written notice of a payment reduction and/or delay from the State (i.e., Medicaid, Medicare, etc.)? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. With the Servicer’s guidance as necessary and appropriate, has the Operator established an action plan for adjusting to this reduction and/or delay, and ensuring that the project can maintain its cash flow and financial obligations?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the Servicer determined that the change in payments from the State will place a financial burden on the project?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Has the project requested a reduction or suspension of Reserve for Replacement (R4R) deposits due to their inability to fund the deposit? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If yes, have the Servicer and AE discussed the financial situation (i.e., cash flow problems, any other concerns, etc.) with regard to this request from the Project?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Have the Servicer and AE, together with the Project, established an action plan for increasing the financial strength of the Project? ..N/A | <input type="checkbox"/> | <input type="checkbox"/> |

*Debt service coverage ratio = (Operating Revenues minus Operating Expenses) divided by (Mortgage Principal + Interest + MIP).

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document, including timelines, budgetary/financial impacts, and remedies in place to return project to within HUD required levels (e.g., 1.00 DSCR), as applicable.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Failure to Make Lease Payment

The Servicer and AE must be immediately notified by the Borrower of a failure to make a lease payment. The Servicer and AE will then work with the Borrower and Operator to understand the financial or business circumstances that have resulted in the non-payment and try to facilitate an action plan that will remedy the non-payment issue.

In the event of a non-payment related to a Borrower/Operator dispute or other non-financial reason, the Servicer must contact the AE to discuss the severity of the situation and whether it should be transferred to the Risk Mitigation Branch.

Key Questions

| | Yes | No |
|--|--------------------------|--------------------------|
| 1. Has the Operator failed to make a lease payment? <i>(In an identity-of-interest transaction, the Operator is required to notify the Servicer and AE of failure to make a lease payment. In an arms-length transaction, the Borrower must also notify the Servicer and AE immediately.)</i> | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If yes, is the Servicer monitoring the situation to ensure timely payments are made in the future and until a stable payment history has been established? | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Is the Operator’s DSCR below 1.10? If yes, has an action plan been established by the Operator, including a detailed budget to achieve a minimum of a 1.10 DSCR? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is the non-payment event related to a Borrower/Operator dispute or other non-financial reason? | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Default of Master Lease

The Servicer and AE must be immediately notified by the Borrower of a failure to make a lease payment. The Servicer and AE will then work with the Borrower and Operator to understand the financial or business circumstances that have resulted in the non-payment and try to facilitate an action plan that will remedy the non-payment issue.

Key Questions

| | Yes | No |
|--|--------------------------|--------------------------|
| 1. Has there been a default of the Master Lease? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Servicer evaluated other properties within the Master Lease to determine cash flows and the ability to cover the failing project(s)?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Is the aggregate DSCR of the properties within the Master Lease below 1.20?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| • If yes, has an action plan been established by the Master Tenant that includes a detailed budget to achieve a minimum DSCR of 1.20?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Does any property within the Master Lease have a DSCR below 1.0?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| • If yes, has an action plan been established by the Operator for each specific property that includes a detailed budget to achieve an improved cash flow.N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Has the Servicer collaborated with the AE and/or Turnaround Team?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Special Focus Facility (SFF) and/or State Inspections

Notifications to HUD and the Lender/Servicer are required to be submitted within two (2) business days after the date of receipt of notice of a Special Facility Focus (SFF) designation from a state or federal regulatory agency, unless a longer time period is approved by HUD. Failure by the Project to notify HUD and the Servicer of a SFF designation will be deemed a violation of federal regulation 24 CFR 232.1015 and may lead to the involvement of the HUD Departmental Enforcement Center (DEC).

Additionally, HUD requires reporting when the Operator receives a notice (e.g., Notice of Imposition from CMS), report, survey, or other correspondence (regardless of form) from any governmental entity that includes any statement, finding or assertion that:

1. Operator (or any principal, officer, director or employee of Operator), any Management Agent, the Project, or any portion of the Project is or may be in violation of or default under any of the Permits and Approvals or any governmental requirements applicable to the operation of the Project;

2. Any of the Permits and Approvals are to be terminated, limited in any way, or not renewed;
3. Any civil money penalty (other than a de minimus amount) is being imposed with respect to the Project; or
4. Operator (or any principal, officer, director or employee of Operator), any Management Agent, the Project, or any portion of the Project is subject to any governmental investigation or inquiry involving fraud.

Reporting is only required with relation to Licensed Nursing Facility surveys when a survey has any findings higher than a “G” level or any repetitive “G” level or higher findings from prior surveys (pursuant to CMS State Operations Manual, Chapter 7, as may hereafter be edited or updated, or any successor guidance). Repetitive is defined as “unresolved from the two most recent consecutive surveys or a repeat violation having the same citation number.” Failure to notify the AE and the Servicer of such inspection reports, Plans of Correction, approval reports or other qualifying communications, will be a violation of federal regulation 24 CFR 232.1015, as well as the operator regulatory agreement, and may lead to the involvement of the HUD Departmental Enforcement Center (DEC).

Key Questions

| | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has the Project received notice of a Special Focus Facility (SFF) designation from a state or federal regulatory agency? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Servicer coordinated with the AE, Operator, Borrower, and Management agent, as applicable, to establish an action plan for being removed from the SFF list?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has the Project received a Notice of Imposition resulting from findings higher than a “G” level deficiency or any repetitive “G” level deficiency from a previous survey from a state or federal regulatory agency? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Servicer coordinated with the AE, Operator, Borrower, and Management Agent, as applicable, to establish an action plan for bringing the facility back into substantial compliance?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the project experienced any of the following over the last 3 years: G-level or higher severity deficiency, decline in Medicare.gov Star Rating (Overall, Health Inspection, Staffing or Quality)?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Has the Operator created an action plan for improvement that includes, but is not limited to the impact to the facility of CMS Impositions taking effect; the financial impact to the facility, including the debt service coverage ratio (DSCR) before and after Impositions take effect; the anticipated impact to the facility’s Star Rating plan for improving each star rating area to a minimum of 3 stars; and financial or other proposed improvements?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Has the Project’s CMS rating dropped by 2 star levels in a year? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Operator created an action plan for improvement?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

4. Is the Project’s current experience one or more of the following: the CMS rating declined to an overall 1-star rating [AND/OR] the project received a 1-star rating in the CMS “Health” category [AND/OR] the project received a Special Focus Facility (SFF) designation?
- a. Has the Operator created an action plan for improvement?N/A

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Legal Judgments

The Borrower and Operator must each notify their Servicer within two (2) business days of receiving a legal judgment, penalty, or fine against the Project in excess of \$50,000. The ability to cover a judgment/penalty/fine will vary based on the size of the project, the available cash, etc. The Servicer will work with the Project to discuss reasons for the judgment and impacts on the financial status of the Project, notifying the AE of outcomes. The Operator must provide the Servicer with an action plan (seeking the Servicer’s guidance, as necessary and appropriate), and must work with Servicer to analyze the impact of the judgment, providing information to the AE of the status, until financial stability is regained.

Key Questions

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has the Project received a legal judgment, penalty, or fine in excess of \$50,000? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Operator provided the Servicer with an action plan to address the situation and to analyze the impact of the judgment? <i>(Until financial stability is regained, the Servicer must regularly provide the AE with status updates.)</i>N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Threat to Abandon Project

The Borrower must notify their Servicer within two (2) business days of any threat to abandon the project when initiated by the Borrower or Operator. This is separate from an inspection/survey decertification.

Key Questions

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has the Borrower or Operator notified the Servicer of a threat to abandon the Project? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If the threat to abandon the project is from the Operator, has the Borrower been notified?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the Servicer notified the AE and worked directly with the Project to attempt to mediate a resolution?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

REAC Inspections

The borrower must notify their Servicer within two (2) business days of receiving a REAC score of 30 or below or a second REAC inspection score of below 60. A score of 30 and below creates an automatic REAC referral to the Departmental Enforcement Center (DEC).

Key Questions

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has the facility received a REAC inspection score of <u>30 or below</u> ? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Servicer assisted the project in determining if an appeal of the inspection score is appropriate and provided assistance in preparing the appeal to REAC?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the Servicer reviewed the inspection report to ensure repetitive findings are being addressed and physical plant items are taken care of immediately?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has the facility received two consecutive REAC inspection scores of <u>60 or below</u> ? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Servicer assisted the project in determining if an appeal of the inspection score is appropriate and provided assistance in preparing the appeal to REAC?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the Servicer reviewed the inspection report to ensure repetitive findings are being address and physical plant items are taken care of immediately?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Accounts Receivable (AR) Loans

When a Project proposes to add or amend an Accounts Receivable (AR) loan, it must be reviewed with the same scrutiny that such a loan would be reviewed during the initial underwriting process. The Project must submit the required documentation to the Servicer, who will review the information for completeness and submit the request to HUD for the AE to process.

A change in the AR loan status initiated due to extenuating circumstances that have adversely impacted the Project (rather than straightforward changes in business) should be evaluated by the Servicer and brought to AE's attention for particular scrutiny. If the AR loan change is a straightforward change in the loan, there would be less of a concern than the need for a new loan due to a change in provider payments or other financial burdens.

The Project must notify their Servicer within two (2) business days of any notification of default on its Account Receivable (AR) loan. Default on an AR loan may be an indicator of potential default on the mortgage. Therefore, once notified, the Servicer must evaluate why the AR Loan has defaulted, reviewing cash flows and the ability to cover the failing loan, and work with the Project to create an action plan for moving the loan out of a default status.

The Servicer must collaborate with AE (and Risk Mitigation Branch, if assigned) as necessary until the remedies are put in place and the action plan has been fully implemented. The project must be monitored closely to ensure financial and operational viability.

Key Questions

| | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has the project requested the addition of AR financing, initiated due to extenuating circumstances that have adversely impacted the project rather than straightforward changes in business? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If yes, has the situation been evaluated by the Servicer and brought to the AE's attention for scrutiny?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has the project experienced a default of its AR financing loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If yes, has the Operator created an action plan to ensure financial and operational viability?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the Servicer collaborated with the AE (and Turnaround Team, if assigned) regarding remedies and to ensure the action plan has been fully implemented?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each "yes" answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Unauthorized Distributions

The Borrower must notify their Servicer within two (2) business days of receiving a Notification of Unauthorized Distributions by the HUD Financial Assessment System (FASS). The notification is sent automatically to the email address registered in the system by the project and a copy is forwarded to the AE.

The Borrower and, where applicable, the Operator, must provide the Servicer with an action plan (seeking the Servicer’s guidance, as necessary and appropriate), and must work with Servicer to ensure the cure period will be met to resolve the violation, and to further review the circumstances leading to the violation. The unauthorized distribution may be a sign of financial distress that needs to be closely monitored, and an action plan may need to be put in place to do so.

There are times when REAC/FASS findings trigger contact from the DEC directly to the Project. Although the AE is also copied on such the notification and must notify the Servicer, the Borrower is responsible for notifying the Servicer within two (2) business days of receipt of a REAC/FASS notification from the DEC.

Key Questions

| | Yes | No |
|--|--------------------------|--------------------------|
| 1. Has the Borrower made or taken distributions of project funds without evidence of positive surplus cash? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. To the extent surplus cash is negative, has the Borrower repaid any distributions taken during such calculation period within 30 calendar days (unless a longer time period is approved by HUD)?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Bankruptcy

The Borrower and Operator must notify their Servicer within two (2) business days of any bankruptcy petition related to any of the project participants who may file for bankruptcy (i.e., Borrower, Operator, or Management Agent). The Servicer must review the bankruptcy status circumstances and within two (2) business days of being notified by the project, must provide the AE with the specifics of those circumstances, including, but not limited to: bankruptcy type, contact information of the participants and their respective legal counsels, the reason for petition, and whether the petition is voluntary or involuntary.

The project must notify their Servicer of any imminent bankruptcy proceedings and in turn, the Servicer must notify the AE of the imminent bankruptcy within two (2) business days of such knowledge.

Key Questions

| | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has the Project notified the Servicer of any bankruptcy petition related to any of the Project participants who may file for bankruptcy (i.e., Borrower, Operator, or Management Agent) of imminent bankruptcy proceedings? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Servicer reviewed the bankruptcy status and circumstances and provided the AE with the specifics of those circumstances (including, but not limited to: bankruptcy type, contact information of the participants and their respective legal counsels, the reason for petition, and whether the petition is voluntary or involuntary)?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Professional Liability Insurance (PLI), Fidelity Bond Coverage, or Termination of Insurance

On an annual basis, the Servicer must verify that each Project has the required Professional Liability Insurance (PLI) and Fidelity Bond/Employee Dishonesty coverage, as approved during the Project’s underwriting. If the coverage is less than required, then the Servicer must work directly with the Project to resolve the coverage deficiency. If the coverage deficiency is not readily resolved, the Servicer must notify the AE.

Additionally, a project cannot be uninsured in the Section 232 Program. The Project must notify their Servicer and AE within two (2) business days of its receiving notification of any potential or actual termination of insurance.

Key Questions

| | Yes | No |
|---|--------------------------|--------------------------|
| 1. Has the Servicer determined that the PLI coverage for the Project is inadequate? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Is the Servicer working directly with the Project to resolve the coverage deficiency?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. If the coverage deficiency cannot readily be resolved, has the Servicer notified the AE?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has the Servicer determined that the Fidelity Bond/Employee Dishonesty coverage for the Project is inadequate? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Is the Servicer working directly with the Project to resolve the coverage | <input type="checkbox"/> | <input type="checkbox"/> |

| | Yes | No |
|---|--------------------------|--------------------------|
| deficiency?N/A <input type="checkbox"/> | | |
| b. If the coverage deficiency cannot readily be resolved, has the Servicer notified the AE?N/A <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Has the Servicer been notified of any termination in of insurance or potential termination of insurance? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Operator provided the Servicer with an action plan to resolve the insurance termination?N/A <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Delinquent Mortgage Payments

Delinquent mortgage payments are not only a violation of legal obligations by the Borrower, but are also a sign of financial distress for a project and are to be closely monitored by the Servicer. The Borrower is required to notify the Servicer and the AE if the mortgage payment is delinquent as of the 16th of the month. The Multifamily Delinquency and Default Reporting (MDDR) System will notify the AE of a delinquency after the 16th of the month.

Upon notification of a delinquency, the Servicer must work with the Borrower (and Operator, if applicable) to ascertain the financial, operational and/or other circumstances leading to the non-payment, including, but not limited to evaluating the ability of the Borrower to pay the mortgage, any anticipation of payments to be made, the financial strength of the Borrower (and Operator), recent state survey results, extenuating circumstances and other concerns potentially leading to the delinquency.

Once a non-payment has aged between 45 to 60 days and no evidence of payment is anticipated, the Servicer must again notify the AE and provide additional information regarding cash flow problems or other circumstances within the Project that have led to the delinquency. At this stage, the project will be transferred to the ORCF Risk Mitigation Branch to escalate HUD involvement with the Borrower (and Operator) in an effort to avoid default of the loan.

For systemic late fees and delinquencies, but not beyond 30 days, the Servicer may use discretion in involving the AE, but must notify HUD if this occurs more than six (6) out of twelve (12) months.

Key Questions

| | Yes | No |
|--|--------------------------|--------------------------|
| 1. Is the mortgage payment at the project delinquent as of the 29 th of the month? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the Servicer ascertained and evaluated the circumstances leading to the non-payment of the mortgage?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the Servicer received an action plan to remedy the delinquency?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Has the mortgage payment at the project been delinquent 6 out of 12 months?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is the mortgage payment 45 to 60 days delinquent? | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Is payment anticipated?N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| b. As the Servicer ascertained and evaluated the circumstances leading to the non-payment of the mortgage?N/A | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic here as per instructions provided on the first page of this document.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Servicer Assignment of the Note

Please note, completion of this form does not impact the Servicer’s responsibilities for entry in the Multifamily Delinquency and Default Reporting (MDDR) System, nor does it impact assignment/claim requirements in 24 CFR Sections 207 and 232.

Key Questions

| | Yes | No |
|--|--------------------------|--------------------------|
| 1. Does the Servicer wish to assign the FHA Insured Note to HUD? | <input type="checkbox"/> | <input type="checkbox"/> |

<<For each “yes” answer above, provide a narrative discussion regarding the topic, including the cause of the project’s problems, the workout strategies employed to date, the results of such workout attempts, a description of how the project’s timelines comply with 24 CFR Section 207.258, and the reason(s) that the Servicer believes an assignment of the note is necessary at this time.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Other Circumstances

This section may be used to notify the AE of any other circumstances not captured elsewhere in this document that have negatively impacted the project. Discuss the issue in detail and its effect on the Project. Describe any potential risks, mitigants, and plans to remedy.

<<Describe and attach the associated documentation being provided for each item and the action plan(s) recommended by the Operator and/or Servicer for immediate remedy of the risks to the Project.>>

[Return to First Page](#) [OR] [Skip to Signature Page](#)

Circumstances that May Require Additional Information

In addition to the information required in this narrative, HUD may require additional information from the Lender/Servicer to accurately determine the strengths and weaknesses of the project. If additional information is required, the questions will be included in an appendix that accompanies the narrative.

Signatures

Lender/Servicer 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 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>>