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| **Lender Narrative –**  **Accounts Receivable (AR) Financing (New or Modified)**  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 1.5 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number.

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

**INSTRUCTIONS**:

The narrative is a document critical to the Approval of New or Modified Accounts Receivable (AR) Financing review process. Each section of the narrative and all questions need to be completed and answered. If the lender disagrees and modifies any third-party report conclusions, provide sufficient detail to justify. The narrative should identify the strengths and weaknesses of the transaction and demonstrate how the weaknesses are mitigated.

* **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., ).

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# Accounts Receivable (A/R) Financing

|  |  |
| --- | --- |
| AR Lender: |  |
| AR Borrower |  |
| Maximum Loan Amount: |  |
| Interest Rate: |  |
| Current Balance: |  |
| Current Maturity Date: |  |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the proposed AR loan (the “AR Loan”) require any guarantees from the borrower, operator, parent of the operator, master tenant (as applicable), or any of those entities’ principals? |  |  |  |
| 1. Are the guarantors guaranteeing performance on any other AR loans? |  |  |  |
| 1. Does the AR loan involve multiple facilities or borrowers? |  |  |  |
| * 1. Does the AR loan involve any non-HUD-insured properties? |  |  |  |
| * 1. Is the subject being added to an existing AR line that has already been reviewed/approved by HUD? |  |  |  |
| 1. Is there an identity of interest between the AR lender and the AR borrower? |  |  |  |
| 1. Is there a conflict of interest between the AR lender and the borrower or its principals (as defined in Handbook 4232.1, Section II Production, Chapter 15.4 Accounts Receivable Financing Important Safeguards and Conditions or its successors)? |  |  |  |
| 1. Does the maximum AR loan amount exceed 85% of the Medicaid, Medicare, and other governmental or commercial accounts receivable less than 121 days old? |  |  |  |
| 1. Of the total Medicaid, Medicare and other governmental or commercial accounts receivable less than 121 days old, are more than 30% over 90 days old?  N/A |  |  |  |
| 1. Does the AR lender have less than 3 years of experience providing AR financing? |  |  |  |
| 1. Does the AR lender NOT monitor the borrowing base on a regular basis (i.e., daily, weekly, or monthly)? |  |  |  |
| 1. Are the borrower or operator out of compliance with any business agreements or loan covenants (i.e., in default on those agreements, not current on financial submissions, etc.)? |  |  |  |
| 1. Is the AR loan being syndicated or participated? |  |  |  |
| 1. Does the Intercreditor Agreement (ICA) propose additional obligations beyond those allowed as the types of AR Loan Obligations that may be secured by project collateral? |  |  |  |
| 1. Does the ICA propose that future loan extensions or interest rate changes be permitted without further HUD approval? |  |  |  |
| 1. Does the ICA include any cross-default or cross-collateralization provisions? |  |  |  |
| 1. Does the ICA identify a flow of funds consistent with the cash flow chart? |  |  |  |

*<<For each “yes” answer above, provide a narrative discussion regarding the topic. For projects being added to an existing HUD-insured AR line, provide specific information on when the AR line was originated (date), when documents were reviewed/approved by HUD, which HUD OGC field office performed the review, and provide a listing of projects participating in the line (project name and FHA number).>>*

*<<If the parties are proposing to use AR Loan proceeds to pay-off or obtain a partial release from any Pre-Existing Loan that involves projects that will not be included in the new AR Loan, provide specific information as to how such payoff or partial release amount will be determined. Only debt reasonably allocable to the HUD projects proposed for inclusion in this line will be considered and only if acceptable releases will be provided.>>*

## 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. Describe how deposit accounts are controlled (e.g., number of controlled accounts, hard or springing lockbox, daily sweeps, etc.). Attach cash flow chart.*>>

## 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. If the parties are proposing to use AR loan proceeds in any manner or order other than as required by the most current HUD form of ICA, provide a description of the proposed uses in order of priority.>>*

### Financial Analysis

**Borrowing Base Analysis**

(Double click inside the Excel Table to add information)



## Historical AR Loan Costs

*<<If there is an existing AR loan that is not yet approved by HUD, provide a financial analysis that explains how the cost of the AR loan has been factored into the NOI calculation. Complete the Historical AR Loan Costs table.>>*

**Historical AR Loan Costs**

(Double click inside the Excel Table to add information)



## Proposed AR Loan Costs

*<<If the AR borrower is obtaining AR financing for the first time, provide a financial analysis that demonstrates that the AR borrower has sufficient financial capacity to pay all projected operating expenses, AR financing costs and loan payments, and all rent or debt service payments. The analysis must assume the maximum AR loan amount to stress test the AR financing based on the lesser of the operator’s 12-month trailing operating statements or the underwritten NOI. Calculate the impact on the borrower’s debt coverage after payment of the AR loan expenses and payments.>>*

Assuming the $      maximum AR loan limit, an annual interest rate of      %, and that the entire amount is outstanding for the year, the maximum annual interest expense would be $     . In addition to the interest, the other associated fees are the       fees *<<list types of fees>>*, that total $      per year for the same assumed balance. An analysis of the operator’s 12 month trailing financial statement (Month 20XX – Month 20XX) is below:

|  |  |
| --- | --- |
| **12-Month Trailing Operating History** | |
| Operating revenue | $ |
| Less: Operating expenses |  |
| Net operating income (NOI) | $ |
|  |  |
| Annual P&I + MIP | $ |
| AR fee: Interest |  |
| AR fee: Other |  |
| Total annual mortgage & AR debt service | $ |
|  |  |
| DSCR including AR |  |

The underwriting assumed an NOI of $     . The 12-month trailing NOI is $     . The annual debt service including the MIP amount is $      per year. Adding the AR fees equates to a total mortgage and AR debt service expense of $      per year. This equates to       prospective debt service coverage.

*<<If multiple HUD-insured facilities have access to the AR loan, repeat the analysis above with the consolidated revenues and expenses for all those facilities.>>*

## Recommendation

*<<Provide narrative conclusion and recommendation for approval of the AR loan.>>*

# Circumstances that May Require Additional Information

In addition to the information required in this narrative, 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.

# 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. Lender further acknowledges that any material changes to this transaction subsequent to the submission date may void this transaction in its entirety. 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>>* |  |