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.

- <u>Charts</u>: 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.

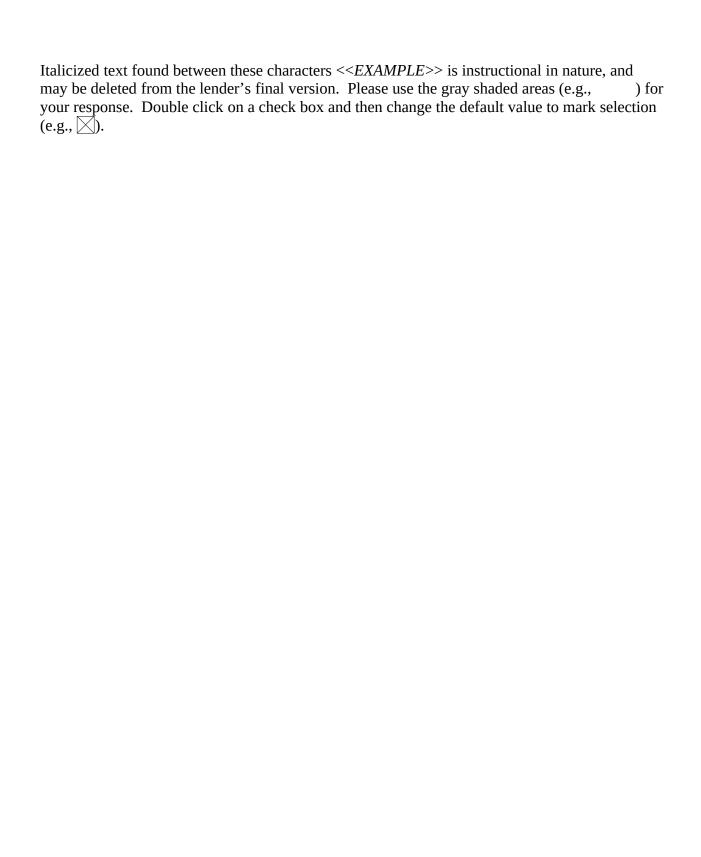


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Accounts Receivable (A/R) Financing

AR	Lender:		
AR	2 Borrower		
Ma	ximum Loan Amount:		
Int	erest Rate:		
Cu	rrent Balance:		
Cu	rrent Maturity Date:		
Ke	y 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?		
2.	Are the guarantors guaranteeing performance on any other AR loans?		
3.	Does the AR loan involve multiple facilities or borrowers?		
	a. Does the AR loan involve any non-HUD-insured properties?		
	b. Is the subject being added to an existing AR line that has already been reviewed/approved by HUD?		
4.	Is there an identity of interest between the AR lender and the AR borrower?		
5.	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)?		
6.	Does the maximum AR loan amount exceed 85% of the Medicaid, Medicare, and other governmental or commercial accounts receivable less than 121 days old?		
7.	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?		
8.	Does the AR lender have less than 3 years of experience providing AR financing?		
9.	Does the AR lender NOT monitor the borrowing base on a regular basis (i.e., daily, weekly, or monthly)?		
	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.)?		
11.	Is the AR loan being syndicated or participated?		
12.	Does the Intercreditor Agreement (ICA) propose additional obligations beyond those allowed as the types of AR Loan Obligations that may be		

		Yes	No
	secured by project collateral?		
13.	Does the ICA propose that future loan extensions or interest rate changes be permitted without further HUD approval?		
14.	. Does the ICA include any cross-default or cross-collateralization provisions?		
15.	Does the ICA identify a flow of funds consistent with the cash flow chart?		
pro the HU	For each "yes" answer above, provide a narrative discussion regarding the topojects being added to an existing HUD-insured AR line, provide specific informate AR line was originated (date), when documents were reviewed/approved by HUD OGC field office performed the review, and provide a listing of projects particles in the project name and FHA number).>>	ıtion on w JD, which	!
fro pro On	If the parties are proposing to use AR Loan proceeds to pay-off or obtain a partiem any Pre-Existing Loan that involves projects that will not be included in the novide specific information as to how such payoff or partial release amount will be ally debt reasonably allocable to the HUD projects proposed for inclusion in this ansidered and only if acceptable releases will be provided.>>	ew AR Lo e determi	an, ned.
Τε	erms and Conditions		
1.	Describe the borrowing base formula (e.g., XX% of the AR borrowers accounts to 120 days):	s receivab	le up
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 navment 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

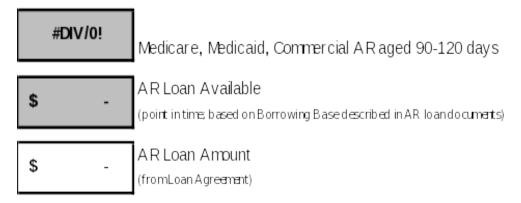
Borrowing Base Analysis

(Double click inside the Excel Table to add information)

Calculations as of: DATE (of AR aging report submitted with application materials)

	0-90 days		91-120 days	121-150 days	151+ days
Medicare	\$ -	\$	-	\$ -	\$ -
Medicaid	-		-	-	-
Other Govt	-		-	-	-
Subtotal	\$ -	\$	-	\$ -	\$ -
Commercial		Г			
Private*					
Total	\$ -	\$	-	\$ -	\$ -

^{*}Inclusion of Private Prayreceivables requires waiver approval



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)

20XX	20XX	20XX	YTD specify months	20XX-20XX Average	UW

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>></name>		< <name>></name>	
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