Lender Narrative
Section 232/223(f) Refinance

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 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, sufficient detail to justify the change must be provided. This narrative is to 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 Address:
City / State / Zip:
County:
Lender Name:

Section of the Act: 232/223(f) ☐ Refinance ☐ Purchase

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

Mortgage Amount:	**$**	LTV:	%	Loan to Transaction Cost:	%
Medicare.Gov Star Rating	# stars	Term:	months	Interest rate:	%
		DSCR with MIP):	%	Principal & Interest	$ per month
Underwritten Value:	$	Cap rate:	%	Value per bed/unit*:	$

UW Effective gross income:	$	UW occupancy rate:	%
UW Expenses & repl. res.:	$	Expense ratio:	%
UW Net operating income:	$	Expense per bed/unit*:	$

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

***UW EGI, Expenses and NOI should be consistent with the HUD-92264A-ORCF, Criterion E.*

Reserve for Replacement:

Critical Repairs:	$		
Non-Critical Repairs:	$	Initial Deposit:	$
Borrower Proposed Repairs:	$	Annual Deposit:	$
Total Repairs:	$		
Other escrows/reserves:	$	*<<description of other escrows/reserves>>*	

Does the lender propose to administer the non-critical repair escrow? ☐ Yes ☐ No

Borrower: *<<Legal Name>>*

Is the borrower a Non-Profit? ☐ Yes ☐ No

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

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>>*

Section 38 of the Regulatory Agreement shall apply to the following individuals and/or entities (list name(s)):

Third Party Reports provided:

☐ Appraisal	Conclusion is:	☐ Accepted as is.	☐ Modified by lender.
☐ PCNA	Conclusion is:	☐ Accepted as is.	☐ Modified by lender.
☐ Phase I Environmental	Conclusion is:	☐ Accepted as is.	☐ Modified by lender.
☐ Other *<<identify>>*	Conclusion is:	☐ Accepted as is.	☐ Modified by lender.

Portfolios

Program Guidance: *Handbook 4232.1, Section II Production, Chapter 17.*

It is the lender's responsibility to read the handbook chapter and provide HUD with full disclosure of all other HUD insured projects of the borrower and operator utilizing Forms HUD-90013-ORCF, Consolidated Certifications - Borrower and HUD-90014-ORCF Consolidated Certifications – Operator.

Key Questions

	Yes	**No**
1. Is the subject project part of a small, medium or large portfolio? (If yes, specify type) ☐ Small (two or more projects, up to $90 Million) ☐ Medium ($90 Million to $250 Million) ☐ Large (> $250 Million)	☐	☐
2. If the subject project is part of a medium or large size portfolio, was a corporate credit review (CCR) completed and approved?	☐	☐
3. Have principals of the borrower disclosed participation in any other HUD-insured projects in completing Form HUD-90013-ORCF, Consolidated Certification – Borrower?	☐	☐

	Yes	No
4. Have principals of the Operator disclosed participation in any other HUD-insured projects in completing Form HUD-90015-ORCF, Consolidated Certification – Operator?	☐	☐
5. Have principals of the borrower submitted any applications for HUD mortgage insurance or a TPA in the *past* 18 months OR do they plan to submit any applications for HUD mortgage insurance or a TPA in the *next* 18 months?	☐	☐
6. Have principals of the operator submitted any applications for HUD mortgage insurance or a TPA in the *past* 18 months OR do they plan to submit any applications for HUD mortgage insurance or a TPA in the *next* 18 months?	☐	☐

<< For Medium and Large Portfolios (>$90 Million) provide name/number of portfolio and date Corporate Credit Review approval was granted by ORCF.

Provide listing of projects, for the borrower and/or operator, that have been insured by HUD in the past 18 months, that are currently in application processing, or projects that the borrower and/or operator plans to submit for mortgage insurance in the next 18 months.>>

Portfolio CCR Summary (Information reviewed & approved during CCR):

1. Principal of Mortgage (entity/individual reviewed during CCR):
2. Principal of Operator (entity/individual reviewed during CCR):
3. Principal of Management Agent (entity /individual reviewed during CCR):
4. Total Number of Facilities/Beds:
5. Aggregate Loan Amount:
6. Total Debt to be Refinanced:
7. Mortgage Reserve Funds (MRF) Amount:
8. Professional Liability Insurance (PLI):
9. Risk Management Program:
10. Average CMS Rating:

Portfolio Matrix: Please fill out the table below and expand if necessary.

													NOI			
	FHA #	Proj Name	Type	Beds	Proposed Loan Amount	Debt Allocated	LTV	DSC	MRF/DSE	Repairs	Value	CMS Star Rating	2014	2015	2016	T-12 2017
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																

Transaction Overview

Key Questions

	Yes	No
1. Is any of the current project debt HUD-insured or HUD-held?	☐	☐
2. Is the borrower a non-profit or public entity <u>and</u> are the non-profit mortgage criteria utilized in the underwriting? (If yes, operator must also be a non-profit entity.)	☐	☐
3. 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.)*	☐	☐
4. Is there a ground lease?	☐	☐
5. Is any real estate tax abatement or exemption included in the underwriting assumptions?	☐	☐
6. Is the property subject to any special assessments?	☐	☐
7. Is an Initial Operating Deficit escrow required for this transaction?	☐	☐
8. Are there any special escrows or reserves proposed for this transaction?	☐	☐
9. Is the transaction being processed as a purchase? (If yes, answer questions "a" through "f" below.)	☐	☐
a. Will the purchased facility have negative working capital (current assets minus current liabilities) at the date of purchase?	☐	☐
b. Are any of the work write-up repairs or replacement reserves included in the purchase agreement? (If yes, these are not allowable and should be deducted from the price.)	☐	☐
c. Is a non-identity of interest operator purchasing the facility and including the costs of debt-financed improvements in the purchase price? (If yes, these are not allowable and should be deducted from the price.)	☐	☐
d. Does the value exceed the purchase price (less seller financing)?	☐	☐
e. Is state regulatory approval needed for license transfer?	☐	☐
f. If there are critical repairs, is there a plan for the buyer to gain access to the property to complete critical repairs prior to closing?	☐	☐
10. Is a REIT involved?	☐	☐
11. Are there any waivers proposed for this transaction?	☐	☐
12. If the MEDICARE.GOV Star Rating applies to this project, is the project's overall rating less than a three? ☐ N/A	☐	☐
13. Does the facility require more than four residents share a full bathroom (see 24 CFR 232.7)?	☐	☐
14. Are any residents required to access a qualifying bathroom by moving	☐	☐

	Yes	No
through a public corridor or area (see 24 CFR 232.7)?		
15. Has the property changed ownership within the last 2 years?	☐	☐
16. Does the underwriting reflect a change in operations that departs from the historical number of potential resident days?	☐	☐
17. Does the project share walls/floors (and/or allocate expenses) with any other project? Is the operator, parent company, affiliates or subsidiaries the subject of an ongoing investigation or judicial or administrative action involving and Federal, State, municipal and/or other regulatory authority, which could have a detrimental impact on the operator's financial condition or may jeopardize the operator's license and or its provider agreements?	☐	☐

<<For each "yes" answer above, provide a narrative discussion regarding the topic. As applicable, discuss the issue and its effect on underwriting. Describe any potential risks and the mitigants. For waivers, identify specific provisions (for example, a handbook reference) to be waived and justification for the waiver.>>

Purpose of the Transaction

<<Provide a brief summary of the unique characteristics of the project and key deal points that HUD's underwriter and loan committee should be aware of while reading the narrative. Examples of unique issues and key deal points:

- *Identity of interest purchase being treated as a refinance*
- *Borrower proposed repairs are adding units*
- *Facility is master leased*
- *Timing issues for closing or pay-off, etc.*
- *Shared costs/expenses with other facilities*

This section should not be a lengthy restatement of the rest of the narrative. It is merely to highlight key points. If there are no unique characteristics or key deal points to highlight, you can make a simple statement, such as "The purpose of this transaction is to refinance the existing debt.">>

Sensitivity Analysis

<<Provide a Sensitivity Analysis and identify sensitivities that exist in the proposed census mix. In addition, the analysis shall provide the following: >>

If everything else under consideration remains the same (ceteris paribus), then:

(a) The average rental rate can drop by $_____ per month and still provide 1.0 debt cover.
(b) Occupancy rate could decrease by _____% and still provide a 1.0 debt cover.
(c) Operating expenses could increase _____% per year and still provide a 1.0 debt cover.
(d) The NOI could drop by $_____ (%) and still provide a 1.0 debt cover.
(e) Medicaid Rate could decrease by $_____ (%) and still provide a 1.0 debt cover.
(f) Medicaid Census could decrease by _____% and still provide a 1.0 debt cover.

Program Eligibility

Key Questions

		Yes	No
1.	Does the facility charge “founder’s fees,” “life care fees,” or other similar charges associated with “buy-in” facilities?	☐	☐
2.	Has the facility, borrower, operator, or any of their affiliates’ renamed or reformulated companies, or filed for or emerged from bankruptcy within the last 5 years?	☐	☐
3.	Is the facility, borrower, operator, or any of their affiliates’ renamed or reformulated companies, currently in bankruptcy?	☐	☐
4.	Is less than continuous protective oversight provided at the facility?	☐	☐
5.	Are there any “minimum assistance” requirements necessary to qualify under the Section 232 mortgage insurance program that the facility does not plan to offer?	☐	☐
6.	If an ALF, are there residents who do not meet the statutory definition of frail elderly (at least age 62 and in need of assistance with at least three (3) Activities of Daily Living)? ☐ N/A	☐	☐
7.	Are there floodways or coastal high hazard areas located onsite*?	☐	☐
8.	Is the project a hospital, clinic, diagnostic center, group practice facility, halfway house, or other type of facility that does not meet 232 program intent?	☐	☐
9.	Is the project designated by the Centers for Medicare and Medicaid Services (CMS) as a Special Focus Facility or similar future designation?	☐	☐
10.	Is the project a long-term acute care facility?	☐	☐

<<If you answered “yes” to any of the questions above, this facility is <u>not eligible</u> under this program. >>

*Exception: The floodway and coastal high hazard area prohibitions do not apply if only an incidental portion of the project is in the 100-year floodplain, or for critical actions, the 500-year floodplain, and certain conditions are met in accordance with 24 CFR 55.12(c)(7).

Lender Loan Committee

Date held: _____

<<Provide a brief narrative summary of loan committee, including information provided and any pertinent requirements/conditions of the loan committee to gain the committee’s recommendation.>>

3-Year Rule

***Program Guidance**: 24 CFR 232.902 and Handbook 4232.1, Section II Production, 2.9.A.*

Year(s) project was constructed:

Select one of the following:

☐ The entire facility was constructed <u>more than 3 years ago</u> and has not undergone any substantial rehabilitation in the last three years.

☐ An addition to the facility was constructed <u>less than 3 years ago</u>. However, the addition was not larger than the project in size (gross floor area) and number of beds.

a. Gross Floor Area (GFA):		d. Total beds:	
b. Sq. ft. added in last 3 yrs.:		e. Beds added in last 3 yrs.:	
c. % of GFA added:	*<<b / a>>*	f. % of beds added:	

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

Substantial Rehabilitation

Select all applicable statements:

☐ The estimated cost of the repairs represents less than 15% of the project's value after completion.

a. Underwritten value:	$
b. Total estimated cost of repairs:	$
c. Repairs as % of value:	*<<b / a>>*

☐ The repairs do not include the substantial replacement of two or more major building components.

<<Provide further explanation, if necessary. If the facility does not meet either of the criteria above, the loan is <u>not eligible</u> under this program. (Note: Concerning replacement of major building components, total replacement is not required, but the greater part (at least 50%) must be replaced.>>

Commercial Space/Income

***Program Guidance:** Handbook 4232.1, Section II Production, 2.9.F.*

Select one of the following:

☐ There is <u>no</u> commercial space at the subject.

☐ There is 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 project income.

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

Independent Units

Program Guidance: *Handbook 4232.1, Section II Production, 2.5.F.*

Select all applicable statements:

☐ There are NO unlicensed/independent beds at the subject.

☐ There are unlicensed/independent beds at the subject; however, the total does not exceed 25% of the total beds/units at the facility.

a. Total beds:	
b. Unlicensed independent beds:	
c. Independent beds/units as % of total:	*<<b / a>>*

Licensing/Certificate of Need/Keys Amendment

Number of Beds Licensed:
☐ Lender has verified that the beds or units in operation are in compliance with the State licensing agency.

<<Provide affirmative statement along the lines of: "The facility is licensed by the State of {State}'s Department of Health and Welfare as a {Type of Facility} for {X} beds. The license is issued to {Name of Entity on License}. It is effective {date}, through {date}. The license covers {number of beds}.">>

<<Provide affirmative statement along the lines of: "There is no Certificate of Need (CON) requirement in {State} for {Type of Facility}." – OR – "A Certificate of Need (CON), dated {XXX} was issued by the State of {State} authorizing XX beds…">>

<<(Applicable on projects with new construction or added units/beds.) If a new/updated CON is

required by the local regulatory authorities, it is to be issued to the current license holder. Provide affirmative statement along the lines of: “There is no Certificate of Need (CON) requirement in {State} for {Type of Facility}.” – OR – “A Certificate of Need (CON), dated {XXX} was issued by the State of {State} authorizing the addition of XX beds…”>>

<<(Applicable to B&C’s.) Provide affirmative statement along the lines of: “The State of {State} has certified its compliance with Section 1616(e) of the Social Security Act (Keys Amendment). Discuss documentation provided in the application that shows that the state where the facility is located is in compliance with Section 1616(e) of the Social Security Act (Keys Amendment) AND that the facility itself is regulated by the state pursuant to Section 1616e. Note on this last point that the requirement is not only that the facility be regulated, but that it be regulated specifically pursuant to 1616e. >>

Identities-of-Interest

Program Guidance: *Handbook 4232.1, Section I, Chapter 1.6 and Section II Production, Chapter 2.9.A.2.*

Key Questions

		N/A	**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 (if applicable) indicate any identities of interest?	☐ N/A	☐	☐
5.	Does the management agent’s certification (if applicable) indicate any identities of interest?	☐ N/A	☐	☐
6.	Are there any identity of interest issues involving the underwriting lender, mortgage broker, or seller?		☐	☐
7.	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

	Question	Yes	No
1.	Is the proposed mortgage higher than 80% (85% for non-profit facilities) of the lender’s concluded value?	☐	☐
2.	Is the debt service coverage of the loan less than 1.45?	☐	☐
3.	Is the project being underwritten at an NOI that is significantly above historical NOI?	☐	☐
4.	Is this a “special use facility” that serves a “niche” type of market (i.e., psychiatric facilities; drug, alcohol, or eating disorder recovery facilities; hospice facilities; or short-term rehabilitation facilities)?	☐	☐
5.	Is this an Intermediate Care Facility (ICF), Institution for Mental Diseases (IMD), or any other type of facility that caters to a significant population with mental illness (MI), developmental disabilities (DD) or individuals with intellectual disabilities (IID)?	☐	☐
6.	Is the project in a state with an Olmstead Plan, pending Olmstead cases, Olmstead settlement agreements, or is the project’s state active in initiatives to “right-size” nursing facilities or otherwise working to “rebalance” long-term supports and services toward home and community-based settings?	☐	☐
7.	Does the project rely on Medicaid Waivers or State Plan Options for a significant portion of its resident population, MI/DD residents, or for residents in the assisted living portion of a combined SNF/ALF Facility, subjecting it to HCBS Settings requirements?	☐	☐

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk <u>and</u> how it will be mitigated.

If you answer “yes” to question 4, the narrative discussion should include an analysis of the following: 1. The long-term viability of funding sources for this client group; 2. The facility’s ability to maintain stabilized occupancy over the long term, and/or the ability to fill the beds occupied by residents with the special use diagnosis, should the funding source cease; this analysis should include a demonstration that a market exists for increasing reliance on a more “traditional” SNF resident; 3. The extent of the successful experience of the operator in dealing with the contemplated population; 4. How the principals of this facility address the higher risk associated with the targeted population (e.g. higher Professional Liability Insurance, etc.); 5. The facility’s capacity to continue servicing the debt in the event that market/provider payment changes dictate that alternative/modified uses of the subject portion of the facility be pursued; and 6. Risk Mitigation.

If you answer “yes” to question 6, the narrative discussion should include a discussion of any of the state’s efforts above that might have an impact on the subject facility and what efforts the owner and/or operator will take to respond to these impacts. Be sure to reference the state’s strategy for moving the following populations: the elderly from skilled nursing facilities, *individuals with intellectual or developmental disabilities (ID/DD) from ICFs, the physically disabled, non-elderly from skilled nursing facilities or the mentally ill from psychiatric facilities or other facilities, as appropriate.*

If you answer “yes” to question 7, the narrative discussion should include a discussion of the facility’s compliance with the HCBS Settings requirements. The discussion might include the State’s progress in implementing the HCBS Settings Rule, references to the Statewide Transition Plan, CMS responses to or approval of the Plan, State Regulatory language, or State Medicaid Agency input. If it appears that the facility will not, or will not be able, to comply with the Rule, the Lender should provide a Sensitivity Analysis showing the project’s ability to operate without these residents.

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. This is an appropriate place to talk about any capital improvements that have been made in recent years.>>

Underwriting Team

Lender

Name: ______________________________

Underwriter: ______________________________

Underwriter trainee: ______________________________

Lender #: ______________________________

Site inspection date: ______________________________

Inspecting underwriter: ______________________________

Lender’s Underwriter

<<Brief description of qualifications. >>

Underwriter Trainee (if applicable)

<<Brief description of qualifications.>>

Inspecting Underwriter (if applicable)

<<Brief description of qualifications.>>

Program Guidance: *Handbook 4232.1, Section II Production, 2.5N*

Needs Assessor

<<Brief description of qualifications.>>

Environmental Consultant

<<Brief description of qualifications.>>

Appraiser

<<Brief description of qualifications demonstrating that appraiser meets HUD requirements:

- *Must be a Certified General Appraiser under the appraiser certification requirements of the state that the subject property is located, as of the effective date of the appraisal (temporary certifications are permissible). Lender verification of an appraiser's current standing can be done at http://www.asc.gov*

- *Must meet all requirements of the Competency Rule of the USPAP. >>*

Property Description

Location/Proximity to Hospitals and Services

<<Brief narrative description about nearby hospitals and services. >>

Site

<<Brief narrative description about site to include location, topography, size, frontage, access, etc. >>

Neighborhood

<<Brief narrative description about neighborhood area to include major cross streets and access routes; distance to services, hospitals, etc.; adjacent property uses; predominant character or neighborhood; etc.>>

Zoning

☐ Legal Conforming ☐ Legal Non-Conforming ☐ Other

<<Narrative description: identify local jurisdiction; zoning designation; results of Zoning Letter provided in Exhibit 8-5 of application submission; and discuss any variances, conditional uses, non-conformance or other pertinent issues affecting zoning. If the building is not a legal conforming use, discuss the adequacy of the zoning ordinance insurance coverage and/or recommend a condition to mitigate this risk.>>

Utilities

<<Narrative description - Identify utilities in use at site. Discuss any limitations in service and any other issues that would affect the operation of the facility. Also clearly identify the utilities to be paid by the residents.>>

Improvement Description

Buildings

<<<u>Brief</u> narrative description to include number of buildings; construction types; building size; describe common areas; amenities, etc. >>

Parking

<<Narrative description about the parking including the number of spaces, compliance with accessibility, adequacy of the parking, and any parking easements. Also, discuss any zoning or marketability issues. >>

Unit Mix & Features

(Double click inside the Excel Table to add information)

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

<<<u>Brief</u> narrative description of the units including: bathrooms, appliances, flooring, included

furnishings, hook-ups, patios, etc. >>

Services

<<Narrative description of services provided - Identify which services are included in rent and which services are available for extra charges, as applicable. >>

Appraisal

Date of valuation: ______________________________

Date of report: ______________________________

Appraisal firm: ______________________________

Appraiser: ______________________________

License no./State: ______________________________

<<All charts call for total dollars, not per resident day amounts, unless otherwise noted. >>

Hypothetical Conditions and Extraordinary Assumptions

<<Typically, the only Assumptions and/or Limiting Conditions should be the completion of proposed repairs/construction completion. On rare occasions, there may be other assumptions, such as the execution of a proposed land lease. Under the Section 232/223f program, it is generally not appropriate to assume stabilized operations if the property is not currently achieving stabilized operations. This is a change from MAP procedure. In cases where there will be added units or a change in operations, the lender is advised to discuss the proposal with HUD before submission. These cases may need to be treated more like sub-rehab in terms of the market study and environmental review requirements. In these cases, the appraiser will be asked to supply both an "as repaired based upon current configuration/operations" value and an "as stabilized" value. In addition, the lender may need to include a Debt Service Reserve (DSR) in addition to any required initial operating deficit escrow. An operating deficit escrow covers the losses sustained in reaching break-even occupancy whereas a DSR is meant to cover the risk of not achieving the proposed incomes used in the loan sizing/valuation. A DSR escrow is not needed when the underwriting reflects the subject's current operations.>>

Hypothetical Conditions

<<Identify any conditions that are contrary to what exists but are supposed for the purpose of analysis. For example, "The appraisal assumes that the proposed/required repairs are completed. There are no other hypothetical conditions.">>

Extraordinary Assumptions

<<Identify any assumptions specific to this assignment that if found to be false, could alter the appraiser's opinions or conclusions.>>

Jurisdictional Exceptions

<<These are rare and should be discussed with HUD before invoking. >>

Obsolescence/Depreciation and Remaining Economic Life

Functional Obsolescence

<<How the physical plant compares to an optimally configured project and how does that impact income potential? (Discuss for example, 3 and/or 4 bed wards, unusual design issues, etc.)>>

External Obsolescence

<<How do the market, economic environment, and location impact the income potential of the project? >>

Physical Depreciation

<<What is the typical life of the facility? What is the effective age of the facility? The remaining economic life is XX years. >>

Market Analysis

<<The Market analysis may appear under the same cover as the appraisal report. If under separate cover, the Market Study should have the same author as the appraisal, so the valuation is consistent with the market conclusions. The analysis may be presented as a truncated market study if:

- *no beds are being added,*
- *the property is operating at, and is expected to continue to operate at its estimated stabilized occupancy,*
- *an improved census mix is not forecasted,*
- *there are no anticipated increases in the competitive supply in the foreseeable future,*
- *and there are no anticipated decreases in demand in the foreseeable future.>>*

Date of Analysis: ______________________________________

Market Analyst: ______________________________________

Company: ______________________________________

Key Questions

	Yes	**No**
1. Is the subject located in a declining market in terms of population, target population, real estate values, or employment?	☐	☐
2. Are there any negative market influences that require special consideration?	☐	☐
3. Is there a projected or current oversupply that could affect the subject?	☐	☐

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

the risk and how it is mitigated. Example: ***__Oversupply__:*** *The projected oversupply is specifically addressed in the Risk Factors section of this narrative. >>*

Market Analysis Overview

<<Provide an overview of the market analysis, including general growth and population information, barriers to entry, unique market influences, etc. Please be brief in this section and refrain from pasting large sections from the appraisal here. >>

Primary Market Area (PMA)

<<Describe primary market area and method of selection (e.g., distance, zip codes, etc.). When making your conclusions about the size of the PMA, pay close attention to where the existing competitors are drawing their tenants from. >>

Target Population

<<Describe age, income, and type of resident (AL, IL, dementia, etc.) and acuity of care.>>

Demand

<<Describe age, income, and type of resident (AL, IL, dementia, etc.) and acuity of care of the target population. Describe target population demographics and demand factors. >>

Competitive Environment (Supply)

<<Describe and identify: competing facilities; planned facilities; facilities under construction; and other supply factors that compete with the subject facility. Description of supply should include types of facilities; acuity; and occupancy. Discuss recent and/or historic absorption of competitive units. Discuss any perceived changes to competitive environment. >>

Conclusion

<<Provide conclusion of market analysis: summarize demand, market saturation, continued health of market, negative and positive factors impacting the continued demand for the subject's units/beds. >>

Income Capitalization Approach

Financial Statements

The appraiser and underwriter have analyzed the following historical financial statements pertaining to the operation of this facility:

<<If less than three years of financial information is available for the project's operations, provide a narrative justifying why the data is not available. Even in acquisition cases, the current owners have typically been provided income and expense information from the previous owner. >>

Market Occupancy & Census Mix

(Double click inside the Excel Tables to add information.)

Care Type	Comparable Name	Occupancy	Survey Time Period	Private Pay	Medicare	Medicaid	Veterans Admin	HMO (Insurance)	Other	Total
Select	Subject (Currently Achieving)		Select							0.0%
Select			Select							0.0%
Select			Select							0.0%
Select			Select							0.0%
Select			Select							0.0%
Select			Select							0.0%
Select			Select							0.0%
Select			Select							0.0%
Averages		#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
Appraisal (Market)		#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
Lender's (DSC)		#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	

<<The number of competitors will depend on the size of the market. Please expand or reduce the chart above as needed. Discuss the reliability of the market averages.>>

Subject Occupancy History

A summary of the subject's occupancy is provided below.

(Double click inside the Excel tables to add information. You may delete rows for care types that do not apply.)

CARE TYPE	Historical Occupancy	Year ending xx/xx/xx	Year ending xx/xx/xx	Year ending xx/xx/xx	T-12 specify dates	Appraisal (Market)	Lender (for DSCR)
Skilled Nursing	Potential Days						
	Actual Days						
	Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Assisted Living /Board & Care	Potential Days						
	Actual Days						
	Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Memory Care	Potential Days						
	Actual Days						
	Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Independent Living	Potential Days						
	Actual Days						
	Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other	Potential Days						
	Actual Days						

<<Provide a brief narrative discussion the occupancy of conclusions. Address any significant shifts in occupancy. >>

Subject **Census Mix History**

<<The percentages should be based on people not dollars.>>

(Double click inside the Excel Tables to add information)

Source	Year ending xx/xx/xx	Year ending xx/xx/xx	Year ending xx/xx/xx	T-12 specify dates	Appraisal	Lender
Private-pay	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Medicaid	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Medicare	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. V.A.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. HMO (Insurance)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

<<Provide a brief narrative discussion of the census mix conclusions. Address any significant shifts in census mix from one Payor source to another. >>

Rent Schedule - As Is

The rent schedule is currently as follows:

<<Insert a summary chart of the rent schedule here that shows rents, number of units, and room/service types.>>

<<Discuss the subject Rent Schedule. For skilled nursing and other facilities, a daily rate may be more appropriate than a monthly conclusion. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type.>>

Historical Revenue Summary

<<Please adapt the chart to show the income sources specific to your facility. Bad debt can either included in the table below or dealt with as an expense. >>

History by Revenue Source
(Double click inside the Excel Tables to add information)

Period	Year Ending xx/xx/xx			Year Ending xx/xx/xx			Year Ending xx/xx/xx		
Income Source	Total $	# of Days	Per Day	Total $	# of Days	Per Day	Total $	# of Days	Per Day
SN-Private-pay			#DIV/0!			#DIV/0!			#DIV/0!
SN-Medicaid			#DIV/0!			#DIV/0!			#DIV/0!
SN-Medicare (Part A)			#DIV/0!			#DIV/0!			#DIV/0!
SN-HMO/Ins/Medicare (Part C)			#DIV/0!			#DIV/0!			#DIV/0!
SN-Veterans Admin (VA)			#DIV/0!			#DIV/0!			#DIV/0!
SN-Other Payors			#DIV/0!			#DIV/0!			#DIV/0!
AL/B&C-Private-pay			#DIV/0!			#DIV/0!			#DIV/0!
AL/B&C-Medicaid			#DIV/0!			#DIV/0!			#DIV/0!
MC-Private-pay			#DIV/0!			#DIV/0!			#DIV/0!
MC-Medicaid			#DIV/0!			#DIV/0!			#DIV/0!
MC-Other Payors			#DIV/0!			#DIV/0!			#DIV/0!
IL-Private-pay			#DIV/0!			#DIV/0!			#DIV/0!
IL-Other Payors			#DIV/0!			#DIV/0!			#DIV/0!
Residential Revenue Achieved	$0	0	#DIV/0!	$0	0	#DIV/0!	$0	0	#DIV/0!
Medicare Part B									
e.g. Therapy									
e.g. Level of Care Fees									
e.g. Second Occupant Fees									
e.g. Commercial Space									
e.g. Day Care									
Effective Gross Income	$0	0	#DIV/0!	$0	0	#DIV/0!	$0	0	#DIV/0!

Period	Year Ending xx/xx/xx			Appraisal (Market)			Lender (for DSCR)		
Income Source	Total $	# of Days	Per Day	Total $	# of Days	Per Day	Total $	# of Days	Per Day
SN-Private-pay			#DIV/0!			#DIV/0!			#DIV/0!
SN-Medicaid			#DIV/0!			#DIV/0!			#DIV/0!
SN-Medicare (Part A)			#DIV/0!			#DIV/0!			#DIV/0!
SN-HMO/Ins/Medicare (Part C)			#DIV/0!			#DIV/0!			#DIV/0!
SN-Veterans Admin (VA)			#DIV/0!			#DIV/0!			#DIV/0!
SN-Other Payors			#DIV/0!			#DIV/0!			#DIV/0!
AL/B&C-Private-pay			#DIV/0!			#DIV/0!			#DIV/0!
AL/B&C-Medicaid			#DIV/0!			#DIV/0!			#DIV/0!
MC-Private-pay			#DIV/0!			#DIV/0!			#DIV/0!
MC-Medicaid			#DIV/0!			#DIV/0!			#DIV/0!
MC-Other Payors			#DIV/0!			#DIV/0!			#DIV/0!
IL-Private-pay			#DIV/0!			#DIV/0!			#DIV/0!
IL-Other Payors			#DIV/0!			#DIV/0!			#DIV/0!
Residential Revenue Achieved	$0	0	#DIV/0!	$0	0	#DIV/0!	$0	0	#DIV/0!
Medicare Part B									
e.g. Therapy									
e.g. Level of Care Fees									
e.g. Second Occupant Fees									
e.g. Commercial Space									
e.g. Day Care									
Effective Gross Income	$0	0	#DIV/0!	$0	0	#DIV/0!	$0	0	#DIV/0!

<<In the charts above, the most recent reporting period must be presented as the 12 trailing months (T-12) of income that overlaps into the prior reporting period.

Above you are asked to report the number of resident days, not occupied units. Although Assisted Living is typically reported on an occupied unit basis, we ask that you convert that number to resident days. Do not enter potential gross incomes here, but rather effective gross income, wherein vacancy has already been accounted for.>>

<<Discuss any departures from historical reimbursements, mix, and trends here.>>

<<Provide narrative discussion and support for each other income category as appropriate. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the lender's option to support their conclusion, as appropriate.

Example: ***Additional Personal Care Fees:*** *The project bases additional care fees on levels of care needed as determined by the initial assessment and subsequent assessments as needed. The appraiser concludes to a net amount of $X annually. The underwriter has analyzed the history to determine the average monthly charge of $X, net of vacancies. Insert historical or comparable data as appropriate.*

Example: ***Second Occupant Income:*** *The appraiser has included a net annual projection of X second occupants at $X per month. Over the last 12 months, the facility has averaged X second occupants per month. Competitive facilities in the market place report second occupant charges ranging between $X and $X with a range of X to X second occupants. Based on the history and the market, the underwriter concurs with the appraiser's conclusion for a net annual income of $X.*

Example: ***Other Income:*** *In addition to room rents, additional care, and second occupant income, the project receives miscellaneous income from X (list miscellaneous). The appraiser has included a net annual projection of $X. Historically, typical miscellaneous income is between X and X percent of effective income. The appraiser's conclusion is x. The underwriter has concluded to a net $X per annum (calculation shown). >>*

*<<****Instructions:*** *Each type of care should have its own subsection below discussing the Payor source identified in the rent schedule, as demonstrated below. You may delete the sections (Skilled Nursing, Assisted Living, and Independent Living) that do not apply to your subject. >>*

SKILLED NURSING

Private Pay

In addition to an analysis of the subject's rent roll, the appraiser and underwriter analyzed the private pay rates at X comparable facilities. A summary of their analysis is provided below.

Private Pay Rates Comparability Analysis

(Double click inside the Excel Tables to add information)

Skilled Nursing - Private Pay	Unadjusted Rate	Optional Notes	Unadjusted Rate	Optional Notes	Unadjusted Rate	Optional Notes	Unadjusted Rate	Optional Notes
Unit Type	Select		Select		Select		Select	
Subject (Current Achieving)	$0		$0		$0		$0	
Rent Comp 1 - Name	$0	e.g. superior	$0		$0		$0	
Rent Comp 2 - Name	$0	e.g. care extra	$0		$0		$0	
Rent Comp 3 - Name	$0	e.g. most similar	$0		$0		$0	
Rent Comp 4 - Name	$0		$0		$0		$0	
Rent Comp 5 - Name	$0		$0		$0		$0	
Rent Comp 6 - Name	$0		$0		$0		$0	
Rent Comp 7 - Name	$0		$0		$0		$0	
Rent Comp 8 - Name	$0		$0		$0		$0	
Rent Comp 9 - Name	$0		$0		$0		$0	
Rent Comp 10 - Name	$0		$0		$0		$0	
Market Average	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!	
Appraisal Conclusion	$0		$0		$0		$0	

<<Provide narrative discussion of private pay rate conclusion. Discuss how the rate conclusion compares to the achieved rents shown on the rent roll. Expand or shorten the table above as needed to accommodate the types of rooms or the number of comparables used. Additional analysis can be provided at the Lender's option to support its conclusions, as appropriate. Identify any modification from the appraiser's concluded rent and provide justification. >>

Medicare

Daily rate – Underwriting: $ ____________ Appraisal: $ ____________

Subject's historical average RUG Rate: $ ____________ Time period of quoted average: ____________

<<Identify any anticipated changes to the reimbursement rate. Provide narrative discussion of conclusion. For example: "The appraiser provided a detailed Resource Utilization Group (RUG) rate analysis of the facility's operation over the last 12-month operating period. The analysis concluded a weighted average Medicare rate of $XX PRD. The RUG Rates used to determine the average rate are based on the <<DATE>> rates. The underwriter concurs with the appraiser's conclusion.">>

Medicaid

Daily Rate – Underwriting: $ ____________ Appraisal: $ ____________

Published Rate: $ ____________ Date of Rate ____________

<<Provide narrative discussion of the state's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of current or prospective rate. If rate is based on resident care requirements, provide an analysis of the last 12-months of rates for this Payor source, as appropriate. Identify and discuss any other sources or copayments that are required, e.g., Supplemental Security Income (SSI). Identify any anticipated changes to the reimbursement rate, such as when rates are tied to depreciating capital components .>>

Veteran's Administration (VA)

Daily Rate – Underwriting: $ ______________ Appraisal: $ ________________

<<If applicable, provide narrative discussion of how the rate is determined. Discuss review of evidence (e.g., rate letter) or historical precedent for the underwritten rate. >>

HMO or Other Private Insurance

Daily Rate – Underwriting: $ ______________ Appraisal: $ ________________

<<If applicable, provide narrative discussion of how the rate is determined. Discuss review of evidence (e.g., rate letter) or historical precedent for the underwritten rate. >>

Other

<<If applicable, provide narrative discussion of other types of Payor sources. Describe source and how the rate is determined. Discuss review of evidence (e.g., rate letter) or historical precedent for the underwritten rate. >>

ASSISTED LIVING & MEMORY CARE

Private Pay

In addition to an analysis of the subject's rent rolls, the appraiser and underwriter analyzed the assisted living rents at comparable facilities. A summary of their analysis is provided below.

Rent Comparability Analysis

(Double click inside the Excel Tables to add information. Delete or add rows as needed. This table can be used for either Assisted Living or Memory care, or duplicated to separate the two.)

Select	Unadjusted Rate	Adjusted	Unadjusted Rate	Adjusted	Unadjusted Rate	Adjusted	Unadjusted Rate	Adjusted
Unit Type	Select		Select		Select		Select	
Subject (Current Achieving)	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 1 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 2 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 3 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 4 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 5 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 6 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 7 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 8 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 9 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 10 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Market Average	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Appraisal Conclusion	$0		$0		$0		$0	

<<Provide narrative discussion of the private pay conclusion. Include a discussion on achieved rents shown on the rent roll versus asking rates. >>

Medicaid

<<If applicable, provide narrative discussion of state's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of current or prospective rate. If rate is based on resident care requirements, provide an analysis of the last 12-months of rates for this Payor source, as appropriate. Identify and discuss any other sources or copayments that are required (e.g., SSI). >>

Independent Units

In addition to an analysis of the subjects rent rolls, the appraiser and underwriter analyzed the independent living rents at comparable facilities. A summary of their analysis is provided below.

Rent Comparability Analysis

(Double click inside the Excel Tables to add information)

Independent Living - Private Pay	Unadjusted Rate	Adjusted	Unadjusted Rate	Adjusted	Unadjusted Rate	Adjusted	Unadjusted Rate	Adjusted
Unit Type	Select		Select		Select		Select	
Subject (Current Achieving)	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 1 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 2 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 3 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 4 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 5 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 6 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 7 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 8 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 9 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Rent Comp 10 - Name	$0	$0	$0	$0	$0	$0	$0	$0
Market Average	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Appraisal Conclusion	$0		$0		$0		$0	

<<Provide narrative discussion of conclusion. Include a discussion on achieved rents shown on the rent roll versus asking rates. >>

Expenses

The appraiser concludes to total expenses of $ including reserve for replacement of $. The underwriter concludes to total expenses of $ including reserve for replacement of $. An analysis of subject’s history is provided below. The appraiser also compared the subject’s expense conclusions to comparable projects located in .

<<Explain how the appraiser’s expenses used for valuing the facility differ from the expenses used by the lender for the Debt Service Coverage analysis. Typically, these may differ in the categories of reserves, management fee, and taxes. The appraiser’s numbers will represent market expenses and the lender’s expenses for DSC analysis will represent what will actually be paid. >

Historic Comparison

<<The data in the following table must be in totals, not per resident day or per occupied unit. Cells with grey shading will calculate automatically. You are given some latitude in defining the expense categories. The expense categories in black text are required items. Data is to be presented in the form of trailing 12 months (T-12) of expense. The lender must include the most current historical income and expense data available to them, and not the dated information from the appraisal.>>

Expense Analysis –Subject

(Use totals not per patient day/occupied bed)
(Double click inside the Excel Table to add information)

Expense Categories	Year Ending xx/xx/xx	Year Ending xx/xx/xx	Year Ending xx/xx/xx	T-12 Ending xx/xx/xx	Appraisal (Market)	Lender's DSC
e.g. General & Administrative						
e.g. Payroll Taxes and Benefits						
e.g. Resident Care						
e.g. Food Services						
e.g. Activities						
e.g. Housekeeping & Laundry						
e.g. Maintenance						
e.g. Utilities						
e.g. Insurance (property & liability)						
e.g. Marketing and Promotion						
e.g. Ground Rent						
e.g. Bad Debt						
Other (add lines as needed)						
Sub-total	$0	$0	$0	$0	$0	$0
Real Estate (Property) Taxes						
Management Fees						
Replacement Reserves						
Total Expenses	$0	$0	$0	$0	$0	$0
Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Normalization Calculations						
Deduct Actual Taxes	$0	$0	$0	$0		
Add Market Rate Taxes	$0	$0	$0	$0		
Deduct Actual Management Fee	$0	$0	$0	$0		
Add Market Management Fee @ **0.0%**	$0	$0	$0	$0		
Deduct Actual Reserves for Replacement	$0	$0	$0	$0		
Add Market Reserves by Appraiser	$0	$0	$0	$0		
Normalized Expenses	$0	$0	$0	$0	$0	$0
Normalized Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Actual # Res. Days from Occupancy table						
Normalized Expense per Res Day	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Effective Gross Income						
Net Operating Income	$0	$0	$0	$0	$0	$0
Normalized Net Operating Income	$0	$0	$0	$0	$0	$0

Historical Income Reconciliation

Compare the historical Net Operating Income from the appraisal to the historical bottom line income on the income and expense statements and address adjustments made to historical data for one-time expenditures, capital expenditures, etc. in the following chart.

Period	Year Ending xx/xx/xx	Year Ending xx/xx/xx	Year Ending xx/xx/xx	T-12 ending xx/xx/xx
Bottom Line Income from Inc. & Exp. Rep	$0	$0	$0	$0
NOI History Reported in Appraisal	$0	$0	$0	$0
Difference	$0	$0	$0	$0
Apply adjustments below to account for difference				
e.g. Remove Real Estate Rent	$0	$0	$0	$0
e.g. remove Depreciation Expense	$0	$0	$0	$0
e.g. Remove Amortization Expense	$0	$0	$0	$0
e.g. Remove Fund Raising Expense	$0	$0	$0	$0
e.g. Remove Fund Raising Revenue	$0	$0	$0	$0
e.g. Remove Off-site Revenue	$0	$0	$0	$0
e.g. Remove Mortgage Expense	$0	$0	$0	$0
	$0	$0	$0	$0
	$0	$0	$0	$0
Balance	$0	$0	$0	$0

Note: Balancing to the dollar is not necessary.

<<Provide narrative discussion of historical information. Include three full years of data plus any partial years as available. For skilled nursing and other facilities, resident days are more appropriate than units available per year. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type.

Address any significant fluctuations/anomalies in the historical data. Comment on any expenses that were reimbursable, such as a provider tax, and how they were incorporated into the historical table.

Address adjustments made to historical data for one-time expenditures, capital expenditures, etc.>>

Comparable Expense Data

<<Unlike the previous table, the information for the expense comparables should be entered on a per resident day basis (# beds x 365 x occupancy rate) or per occupied unit basis (# units x 12 x occupancy rate). A minimum of three expense comps are required. More columns or tables can be added if needed.>>

Expense Analysis –Comparables

(Double click inside the Excel Tables to add information)

Expense Comparables - As Is	Name, City, State	Name, City, State	Name, City, State	Name, City, State	Name, City, State	Appraiser's Conclusion
Expense Categories	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	
e.g. General & Administrative						
e.g. Payroll Taxes and Benefits						
e.g. Resident Care						
e.g. Food Services						
e.g. Activities						
e.g. Housekeeping & Laundry						
e.g. Maintenance						
e.g. Utilities						
e.g. Marketing and Promotion						
e.g. Insurance (property & liability)						
e.g. Bad Debt						
Other - Add rows as needed						
Sub-total	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate (Property) Taxes						
Management Fees						
Replacement Reserves						
Total Expenses	$ -	$ -	$ -	$ -	$ -	$ -
Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Effective Gross Income						
Net Operating Income	$ -	$ -	$ -	$ -	$ -	$ -
Occupancy						
Number of Resident Days						
Date of Expense Information	e.g. Jul-12					

<<Provide narrative discussion of comparable information. The appraiser should trend the expense comparables to the effective date of the appraisal. An explanation of the adjustments should be included here. Explain any other adjustments made to the comparables such as for normalization of reserves, management fee, taxes, etc., required to put the comparables on the same footing as the subject. For skilled nursing and other facilities, resident days are more appropriate than occupied units. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type.>>

Net Operating Income (NOI)

<<Provide narrative discussion as necessary. Summarize and compare the NOI of the appraiser and the lender's NOI that incorporates all potential changes to incomes and expenses. Typically, the lender would explain here that the appraiser's "market" NOI was used for valuation and loan sizing based on value. The lender's NOI, which may vary from the appraiser's due to the Office of Residential Care Facilities (ORCF) requirements (e.g., specific reserve requirements, tax abatements that the appraiser was not allowed to recognize, or unusual management fees) will be used for loan sizing based on Debt Service Coverage.>>

Capitalization Rate

<<The selection of the capitalization rate should be primarily based on recent sales rather than from investment models. Ideally, these rates would come from the Building Sales Comparables. However, these are often chosen by location before sale date. Recent cap rate data should be included every time, even if an additional set of cap rate comps or a survey needs to be introduced. In the table below, please add columns or duplicate the table as needed to accommodate additional comps.>>

(Double click inside the Excel Tables to add information)

Capitalization Rate Summary	City	State	Cap Rate	Type of NOI	Private Pay %	Medi-care %	Medi-caid %	Date of Sale	Year Built	Occ. %	Source of Income Data
(Comp Name)				Select							Select
(Comp Name)				Select							Select
(Comp Name)				Select							Select
(Comp Name)				Select							Select
(Comp Name)				Select							Select
(Comp Name)				Select							Select
(Comp Name)				Select							Select
(Comp Name)				Select							Select
(Comp Name)				Select							Select
(Comp Name)				Select							Select
Comparable Total/Average			**#DIV/0!**								
Compare to Appraiser's Conclusion for Subject				Prospective							

<<Provide narrative discussion as necessary. If the subject was sold within the past 3 years, include the cap rate analysis here. An equivalent analysis of the information provided above is required. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. Additional analysis can be provided at the lender's option to support its conclusion, as appropriate.>>

Sales Comparison Approach

<<If large adjustments are required in the sales comparison approach, extra attention and explanation are required to support the determination of the adjustments. Generally, those sales that require the smallest adjustment are the most desirable.>>

Summary of Comparable Sales Data

(Double click inside the Excel Tables to add information)

Summary of Comparable Sales	City	State	Sales Price	# of Units/Beds	Price Unadjusted	Price Adjusted	Year Built	Date of Sale
Sales Comp 1 - Name					#DIV/0!			
Sales Comp 2 - Name					#DIV/0!			
Sales Comp 3 - Name					#DIV/0!			
Sales Comp 4 - Name					#DIV/0!			
Sales Comp 5 - Name					#DIV/0!			
Sales Comp 6 - Name					#DIV/0!			
Sales Comp 7 - Name					#DIV/0!			
Sales Comp 8 - Name					#DIV/0!			
Sales Comp 9 - Name					#DIV/0!			
Sales Comp 10 - Name					#DIV/0!			
Comparable Total/Average					#DIV/0!	#DIV/0!		

Price per Unit/Bed

<<Provide narrative discussion and summary of the appraisal conclusions. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate analysis for each care type. Include a general discussion of adjustments made to the sales and the comparables that best represent the subject facility. Additional analysis can be provided at the lender's option to support its conclusion, as appropriate.>>

Effective Gross Income Multiplier (EGIM)

<<Provide narrative discussion. An equivalent analysis of the information provided above is required. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate analysis for each care type. Additional analysis can be provided at the lender's option to support its conclusion, as appropriate. >>

Subject Purchases

<<Provide analysis of subject's purchase price for all sales that have occurred within the last 3 years. (The analysis should provide: date of purchase; purchase price; whether the purchase was an arms-length transaction; and the financing term. In addition, the analysis should also state whether the sale was a market price. If not, explain.)>>

Cost Approach

Development Costs

<<Provide narrative discussion. If this approach was not expanded by the appraiser, indicate so here. Instead of deleting the remainder of the subsection, provide any lender insights in each category.>>

Depreciation

<<Provide narrative discussion of depreciation assumptions and conclusion.>>

Major Movable Equipment

<<Provide narrative discussion of assumptions and conclusion. Address discrepancies between appraiser and cost analyst. Additionally, address ownership of the major movable equipment (e.g., borrower or operator). >>

Land Value

<<Provide narrative discussion of assumptions and conclusion. A land valuation is no longer required if the cost approach is not utilized.>>

Overall Value 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.>>

(Double click inside the Excel Tables to add information)

Market Value Summary		
Approach	Appraisal	Underwriter
Income Capitalization		
Sales Comparison		
Cost Approach (if utilized)		
Conclusion:		

Lender Modifications

<<State if the lender concurs (or not) with the appraiser's value conclusion. When there is a disagreement, summarize the valuation modifications made by the lender underwriter. Insert a pro forma to highlight the differences in conclusions as needed. View the appraisal as a tool to do your underwriting and loan sizing correctly. Lenders should not use a value they disagree with and are allowed to use a lower value/NOI for loan sizing purposes. If lenders feel they are prohibited from doing this, they should cite the FIREA rule at issue in the narrative.>>

<u>ALTA/ACSM Land Survey</u>

Date: ____

Firm: ____

Key Questions

	Yes	No
1. Are there any differences between the legal description on the survey and legal description included in pro forma title policy, third party appraisal, Phase I and Exhibit A of the Firm Commitment?	☐	☐
2. Are there any revisions or modifications 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. 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 effect on value or the marketability of the project.

*Example: **Encroachments**: 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. >>*

Title

Title Search

Date of Search: ____________________________________

Firm: ____________________________________

File Number: ____________________________________

Key Questions

	Yes	**No**
1. Is the title currently vested in an entity or individual other than the proposed borrower?	☐	☐
2. Does the report indicate that delinquent real estate taxes are owed?	☐	☐
3. Does the report indicate any outstanding special assessments?	☐	☐
4. Does the report identify any outstanding debt that is not disclosed on the borrower’s listing of outstanding obligations?	☐	☐
5. Are there or will there be any Use and Maintenance Agreements associated with this facility?	☐	☐

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk <u>and</u> how it will be mitigated. >>

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?	☐	☐
a. If so, are any covenants, liens or restrictions related to environmental factors?	☐	☐
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 requirement?	☐	☐
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 or that involve environmental factors?	☐	☐

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

Environmental

Program Guidance: *Handbook 4232.1, Section II, Production, Chapter 7.*
It is the lender's responsibility to review the Phase I and all other environmental review documentation to ensure that all environmental requirements are met.

Assistance Prior to Application Submission: *Many Federal agencies require contact directly from HUD. This list includes, but is not limited to, State Coastal Zone Management councils, U.S. Fish and Wildlife service, and local/regional Native American tribes. In this instance, please contact LEANThinking@hud.gov in advance of the application submission.*

Phase I Site Assessment

Date of Inspection: ______________________________

Firm: ______________________________

Consultant: ______________________________

	Yes	No
1. Was the Phase I Environmental Site Assessment (ESA) performed in conformance with the scope and limitations of ASTM Practice E 1527-13 (or the most current version)?	☐	☐
2. Was the Phase I consultant provided with an accurate description of all repairs, site work, construction and/or demolition to be completed?	☐	☐
3. Does the Phase I investigation include all of the following? A reconnaissance of the subject site and the immediate surrounding area, a review of regulatory agency information, a survey of local geological and topographical maps, a review of aerial photographic studies, a survey of water sources, and a review of historical information.	☐	☐

<< *Explain any "no" answer above.* >>

Key Questions

	Yes	No
1. Does the Phase I ESA recommend a Phase II assessment, other reports, or additional testing?	☐	☐
2. Does the Phase I or Phase II assessment indicate that remediation is required or ongoing?	☐	☐
3. Does the Phase I ESA indicate that a monitoring well or testing well (operating or non-operating) is located on the site?	☐	☐
4. Does the report indicate evidence of any soil staining or distressed vegetation, unusual odors, pools of liquid, leaking containers or equipment, hazardous materials, or other unidentified substances?	☐	☐
5. Does the report indicate evidence of any chemical misuse or unlawful dumping at the site?	☐	☐
6. Does the report indicate the presence or suspected presence of any underground storage tanks or aboveground storage tanks on the site?	☐	☐
7. Does the report's review of all major governmental databases for listings of potentially hazardous sites within the ASTM required search distances from the property identify any potential contamination concerns for the property?	☐	☐
8. Do the Phase I or II reports recommend any required repairs?	☐	☐
9. Does the Vapor Encroachment Screen identify a "vapor encroachment condition" (VEC)? *(The vapor encroachment screen must be performed using Tier 1 "non-invasive" screening pursuant to ASTM E 2600-10 or most recent edition.)*	☐	☐
10. Is the Phase I site inspection date more than 180 days before the date the firm commitment application was submitted? A Phase I that was conducted more than 180 days before the application's submission, but not more than one-year before the submission, must be updated pursuant to ASTM E 1527-13 or the most recent edition. (A Phase I ESA that was originally conducted more than one year prior to the application's submission date, even if updated within 180 days of submission, is not acceptable. <u>ORCF is not able to waive this requirement</u>.)	☐	☐
11. Does the land area in the Phase I differ from the land area in the survey and	☐	☐

Yes **No**

Exhibit A to the Firm Commitment?

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

Radon

Program Guidance: *Handbook 4232.1, Section II, Production, Chapter 7.8.*

Date of Testing: ______________________________

Firm: ______________________________

Radon Professional: ______________________________

Certification/License Information: ______________________________

EPA Radon Zone: ______________________________

Key Questions

	Yes	**No**
1. Was the radon report conducted by a qualified Radon Professional?	☐	☐
2. Was testing performed no earlier than 1 year prior to application submission?	☐	☐
3. Were occupants informed of the testing in the manner described in ANSI-AARST MALB-2014 (or more recent edition)?	☐	☐
4. Is mitigation required due to radon levels at or above 4.0 picocuries per liter (4.0 pCi/L)? (If no, move on).	☐	☐
a. Is a mitigation plan in compliance with ANSI-AARST RMS-LB 2014, Radon Mitigation Standards for Schools and Large Buildings included in the repairs?	☐	☐
b. Was an Operations and Maintenance Plan included in the application?	☐	☐

<<Provide narrative discussion of radon risk applicable to the subject project. If a radon report was not required per HUD Handbook 4232.1, Chapter 7.8, please explain why the radon report was not required.>>

Lender Comments

<<Provide a brief summary of comments made by underwriter. If none, state none.>>

Other Environmental Concerns

Key Questions

	Yes	No
1. Is the subject located within a designated coastal barrier resource area? (If no, provide evidence.)	☐	☐
2. Noise:		
a. Is the subject located within 5 miles of a civil airport or within 15 miles of a military airfield?	☐	☐
b. Is the project located within 1,000 feet of major highways or busy roads?	☐	☐
c. Is the project located within 3,000 feet of a railroad?	☐	☐
d. Is the subject's marketability impacted by noise?	☐	☐
3. Are there existing or proposed stationary tanks containing explosive or fire-prone materials on the site or nearby the site that are visible from satellite images or site reconnaissance?	☐	☐
a. Was a safety letter from the state or local fire department NOT provided for each tank? ☐ N/A	☐	☐
4. Are there any wetlands on or adjacent to the subject site?	☐	☐
a. If so, will the project impact or disturb wetland areas or their buffer zones?	☐	☐
5. Are any repairs or modifications to the project likely to affect any listed or proposed endangered or threatened species or critical habitats?	☐	☐
6. Is the subject located on a sole source aquifer?	☐	☐
7. Are there any known landfills within ½-mile of the site?	☐	☐
8. Is the project subject to an Activity and Use Limitation, Engineering Control, and/or Institutional Control related to an environmental concern? (If so, provide the information to the Phase I environmental consultant.)	☐	☐
9. Does the project utilize a private water supply? (If so provide evidence that the water quality meets local, state or Federal standards; for example, evidence that the water meets the EPA Primary Drinking Water Standards.)	☐	☐
10. Does the project involve a private sewage treatment system?	☐	☐
11. Are any on-site structures located within the easement of an overhead high voltage transmission line?	☐	☐
12. Are any buildings located in the fall zone of a support structure for high voltage transmission lines or any other towers?	☐	☐
13. Is any structure located within 10 feet of an easement for a high pressure gas or liquid petroleum transportation pipeline?	☐	☐
14. Is a residential structure located within 300 feet of an operating or abandoned oil or gas well? (If so, refer to Handbook 4232.1, Section II, Production, 7.5.K.3.)	☐	☐
15. Do any of the repairs change the footprint of the building(s)?	☐	☐

	Yes	No
16. Does the project site include a structure that was built before 1978? (If no, move on)	☐	☐
a. Was a comprehensive asbestos survey performed by a qualified asbestos inspector pursuant to the “baseline survey” requirements of ASTM E 2356-10 (or most recent edition) NOT provided? (Required for all buildings constructed before 1978. If provided, check “No.”)	☐	☐
b. Did the asbestos survey identify any friable and/or damaged asbestos?	☐	☐
c. Does the project involve asbestos removal? (Asbestos removal may involve additional risk, and may have a direct impact on residents and workers and ongoing facility operations. An operating deficit, for example, may need to be required if removal is to occur after endorsement.)	☐	☐
17. Does the proposal include demolition of a structure that was built before 1978? (If no, move on)	☐	☐
a. Was a comprehensive asbestos survey performed by a qualified inspector pursuant to the “pre-construction survey” requirements of ASTM E 2356-10 (or most recent edition) NOT provided?	☐	☐
18. Other than the aforementioned, are there any other environmental issues identified by the Phase I or II reports or lender’s due diligence?	☐	☐
19. Was a floodplain map with the subject site clearly marked on it NOT provided?	☐	☐
20. Was a preliminary or pending flood map of the project’s location available on the FEMA website? If so, provide a copy of this map with the subject site marked on it.	☐	☐
21. Was a wetland map with the subject site clearly marked on it NOT provided?	☐	☐

<<For each “yes” answer above, provide a narrative discussion on the topic. Describe any risk _and_ *how it will be mitigated. For example: “A preliminary flood map is available on the FEMA website (Preliminary Flood Map #XXXXXXXXX) which identifies the project’s flood zone as Zone X (shaded), a 500-year flood zone. Documentation for the completion of an abbreviated 8-step decision making process is provided at Exhibit 2-4. The project has prepared and participates in an early warning system. An emergency evacuation and relocation plan has been implemented. Evacuation routes out of the 500-year floodplain have been identified; and the estimated flood level has been marked at 3 feet above ground level at the southerly and northerly elevations of the building. An example of the floodplain notice that will be signed by the resident or their agents is provided.”>>*

Site Work, Ground Disturbance or Digging

Program Guidance: *Handbook 4232.1, Section II Production, 7.5.*

If the project includes any ground disturbance, contact LeanThinking@hud.gov in advance of application submission so that ORCF may initiate agency to agency contact. Include a project description including type of project, purpose of the project, the proposed activities/site work, and the current condition of the site (what is on the site now) as well as a location map, aerial view map, site layout map and a topographic map in your request to Lean Thinking.

Examples of ground disturbance include, but are not limited to, tree removal, burying a tank, new parking, increases in building footprint, adding a new fence, etc. If there is uncertainty regarding what may constitute ground disturbance, contact LeanThinking@hud.gov in advance of application submission.

Key Questions

	Yes	No
1. Will there be any site work, construction, ground disturbance or digging? (If no, move on)	☐	☐
2. Was a request for Tribal Consultation submitted to LeanThinking@hud.gov in advance of application submittal?	☐	☐
3. Was a site plan provided showing where site work, ground disturbance and/or digging will occur?	☐	☐
4. Was documentation provided showing that a Section 7 Endangered Species review was completed?	☐	☐
5. Was evidence that the project is in compliance with the State's Coastal Zone Management Program provided if located in a designated coastal zone?	☐	☐
6. Did the correspondence with the State Historic Preservation Office (SHPO) accurately reflect the proposed site work, ground disturbance or digging as well as any planned repairs and/or construction?	☐	☐
7. Are there any wetlands on or adjacent to the site that could be potentially impacted by the construction or site work either directly or indirectly via drainage, etc.?	☐	☐
a. If yes, was HUD contacted in advance to conduct an 8 step?	☐	☐
8. Is the project site located in a flood plain?	☐	☐
a. If the footprint of the building or pavement will be significantly increased, was HUD contacted in advance to conduct the 8-step decision making process (24 CFR Part 55.20)?	☐	☐

Increases in Units or Beds

Key Questions

	Yes	No
1. Will there be an increase in units or beds? (If no, move on.)	☐	☐
a. Are there any current Aboveground Storage Tanks (ASTs) on or directly visible from the site?	☐	☐
b. Will any Aboveground Storage Tanks be added?	☐	☐
c. Was an ASD calculation or mitigation plan submitted for all current or proposed ASTs? (Note that a tank safety letter IS	☐	☐

	Yes	No
NOT sufficient for projects that are increasing in units or beds. Refer to Handbook chapter 7.5.F.)		
d. Was a HUD compliant noise analysis provided?	☐	☐

State Historic Preservation Office (SHPO) Clearance

Program Guidance: *Routine maintenance definition.*
For SHPO review purposes, HUD has a specific definition of routine maintenance, which may differ from other definitions of routine maintenance. See Notice CPD-16-02 for HUD's definition.

*Note, if the answer to Key Questions 4 or 5 is yes, then the SHPO **must** be contacted. The lender may submit a Section 106 request to SHPO in order to expedite the process.*

<<Provide narrative description indicating whether or not SHPO has been contacted, information sent to SHPO, and any response received. For example: "Since we are not making changes to the exterior of the building, and internal repairs are limited to routine maintenance as defined in Notice CPD-16-02 there is no impact on any historical property.">>

Key Questions

	Yes	No
1. Was the SHPO contacted?	☐	☐
2. Was the SHPO website for the project's state reviewed for any specific information required by that SHPO and was this information provided?	☐	☐
3. Was all correspondence with the SHPO provided in the application?	☐	☐
4. Are there any known historic preservation issues related to the subject?	☐	☐
5. Does the project involve repairs in excess of routine maintenance (as defined in Notice CPD-16-02), construction, or ground disturbance?	☐	☐
6. Have any other archeological or cultural resource centers been consulted?	☐	☐

<<As applicable, for each "yes" answer above, provide a narrative discussion on the topic. For example: "We have received a letter from the XXXX State Historic Preservation Office, dated XXXX. It was determined that the site is of no historical or suspected cultural significance. No additional investigation was recommended by the State." Please indicate if a response has not been received. If the SHPO concluded that the project will have an adverse effect, please explain how this will be mitigated .>>

Area of Potential Effects

Program Guidance: *Handbook 4232.1, Section II Production, Chapter 7.*
<u>In</u> situations where the SHPO was contacted, provide a description of the Area of Potential Effects (APE) that was included in the correspondence that was sent to the SHPO.

<<Provide a narrative discussion on the Area of Potential Effects. For example: "The subject is located in the X Historic District, so we have determined that the APE is the entire Historic District." Or, "The subject is not located near any properties that are on or eligible for the National Register of Historic Places, so the APE is only the subject site., etc. >>

Floodplain

NFIP Map Panel #: ________________________ Date: _________________

Flood Zone(s): ________________________

<< *When in Zone X, indicate whether it is designated as X "(shaded)" or "(unshaded)". When the site is located in multiple flood zones, identify each zone designation. For example: "X (unshaded), X (shaded), AE".>>*

Key Questions

Question	Yes	No
1. Does the community participate in the National Flood Insurance Program (NFIP)? *(A project located in a FEMA-identified special flood hazard area, where the community has been suspended for or does not participate in the NFIP, is <u>not</u> eligible for mortgage insurance.)*	☐	☐
2. Is flood insurance required for this property?	☐	☐
3. Is the subject site located within a100- year floodplain (1% annual chance flood) or 500-year floodplain(0.2% chance of annual flood)? (If no, move on). *(Use the effective FEMA Flood Insurance Rate Map (FIRM) or, when FEMA provides interim flood hazard data such as Advisory Base Flood Elevations, preliminary or pending maps, use the latest of these sources except when the base flood elevations from interim data are lower than the elevations on the current FIRM.)*	☐	☐
4. If located in a 100-year or 500-year floodplain*, is the 8-step documentation provided in the application materials? ☐ N/A	☐	☐
a. *Preparation of and participation in an early flood warning system:* Was the specific method(s) used to monitor weather conditions and flooding alerts provided?	☐	☐
b. *Emergency evacuation and relocation plan:* Was a relocation plan that includes names and addresses of like facilities that have agreements or contracts with the subject to serve as a temporary relocation site for the subject's residents provided?	☐	☐
c. *Identification of evacuation route(s) out of the 500-year floodplain:* Were road maps and flood zone designations for the relocation sites provided?	☐	☐
d. *Identification marks of past or estimated flood levels:* Was evidence that identification marks showing past or estimated flood levels have been placed on the structure provided?	☐	☐
e. *Resident Notification:* Was an example resident notice to residents provided and does the notice advise residents of the portions of the site that are in the floodplain and that flood insurance is available for their personal property?	☐	☐

*<< *Provide a narrative discussion evaluating the floodplain exhibits required on checklist Exhibit X. Include the elevation of the property, the elevation of the floodplain, and the location of the life support systems.*

(If citing 24 CFR Part 55.12(c)(7) for an exemption from floodplain management regulations, provide a narrative summary confirming that the project qualifies for the regulatory exception. Note that the permanent restrictive covenant or comparable restriction that must be placed on the property's continued use to preserve the floodplain must run with the land and will not be dependent on the mortgage instrument.) >>

Project Capital Needs Assessment (PCNA)

Date of Inspection: ____________________
Firm: ____________________
Needs Assessor: ____________________
Units Inspected: ______ units (______ % of units)

The scope of the inspection consisted of a visual evaluation of the project site, building exteriors, roof, interior common areas, all mechanical rooms, and a sampling of resident units (as indicated above). The report was prepared in accordance with the Project Capital Needs Assessment Statement of Work.

Following is a summary of the PCNA and underwriting conclusions.

PCNA Repair Summary		
	PCNA	Lender
Critical Repairs Non-Critical Repairs Borrower Proposed Repairs:		
Total Repairs:		

Key Questions

		Yes	No
1. Will the non-critical and/or borrower proposed repair escrow be less than 120% of the repair estimate?	☐ N/A	☐	☐
2. Will the escrowed repairs take more than 12 months to complete?	☐ N/A	☐	☐
3. Will replacement reserve funds be used to fund any of the required or proposed repairs?	☐ N/A	☐	☐
4. Do any of the repairs require drawings and/or specifications?	☐ N/A	☐	☐
5. Do any of the repairs require relocation of the tenants?	☐ N/A	☐	☐

		Yes	No
6. Will any of the repairs create vacancy issues requiring an operating deficit escrow?	☐ N/A	☐	☐
7. Will any of the repairs require permits or locality approvals?	☐ N/A	☐	☐
8. Will any of the repairs require a review by the state licensing authority?	☐ N/A	☐	☐
9. Were any specialty reports (e.g., seismic, wood destroying organisms, etc.) required?		☐	☐
10. Has the lender suggested a lower dollar amount or fewer repairs than the Needs Assessor’s repair conclusions and are they justified?	☐ N/A	☐	☐
11. Is further description and detail of the repairs needed in terms of inspectability (location and what the need is)?	☐ N/A	☐	☐
12. Are there any non-compliance issues with regard to the Fair Housing Act, Section 504 of the Rehabilitation Act of 1973, and the Americans with Disabilities Act, including the applicable accessibility requirements (e.g., the Uniform Federal Accessibility Standards (UFAS), ADA Standards, and Fair Housing Accessibility Guidelines)? (If yes to any of the listed circumstances, the Key Question answer should be marked Yes and non-compliance described below.)		☐	☐
13. Does the proposed underwriting require any increases to the annual replacement reserve deposit over the next 15 years?		☐	☐
14. Will the facility require repairs to be in compliance with the Department of Health & Human Services, Centers for Medicare & Medicaid Services final rule, entitled “Medicare and Medicaid Programs; Fire Safety Requirements for Long Term Care Facilities, Automatic Sprinkler Systems?”		☐	☐

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk <u>and</u> how it will be mitigated.>>

Lender Modifications

<<Provide a brief summary of modifications made by underwriter. If none, state none. Example: “The PCNA’s analysis of reserve requirements for major movable equipment included replacement of the facility’s bus/van. The underwriter has deleted this item as it is not eligible for reimbursement from the replacement reserve account.”>>

Fire/Building Codes and HUD Standards

<<Provide narrative description regarding needs assessor’s finding.>>

Handicapped Accessibility

Program Guidance: *Project Capital Needs Assessment (PCNA) Statement of Work and Accessibility Matrix for Section 232, located at HUD.gov.*

<<Provide a brief summary of modifications made by underwriter. If none, state none. Example: "Per the needs assessor, the facility is in substantial compliance with the Fair Housing Accessibility Guidelines. The needs assessor calls for installation of enunciator/strobe light smoke detectors in one unit in each building under Section 504… >>

Seismic Evaluation

<< Provide narrative discussion. Example: "The facility is located within seismic zone 2B, an area of limited potential for earthquake ground shaking. No additional evaluation is required regarding seismic activity.">>

Repairs

Critical Repairs

<<Provide a brief summary of the required critical repairs. If none, state none. Example: The needs assessor identified the following non-critical repair items totaling $X:

1. *Remove and replace . Estimated cost: $.*
2. *Install in all units. Estimated Cost: $*

Non-Critical Repairs

<<Provide a brief summary of the required non-critical repairs. If none, state none. Example: The needs assessor identified the following non-critical repair items totaling $:

1. *Remove and replace . Estimated cost: $.*
2. *Install in all units. Estimated Cost: $.*

Borrower Proposed Repairs

<<Provide a brief summary of the borrower proposed repairs. If none, state none. >>

1. *Remove and replace . Estimated cost: $.*
2. *Install in all units. Estimated Cost: $.*

Completion and Inspection

The repair list attached to Exhibit C of the Draft Firm Commitment clearly describes the location of the repairs and what is required. The description is sufficiently detailed so that an experienced person can perform the work and an experienced inspector can inspect with minimal additional direction or consultation.

Replacement Reserves

Replacement Reserve Summary		
	Amount	Per Unit
Initial Deposit	$	$
Annual Deposit Years: 1-15	$	$

<<Annual deposits should not change from year to year.>>

General Overview

The replacement reserve analysis includes a combined analysis of both capital items and major movable equipment. The underwriter has reviewed the replacement reserve schedule and provided a summary analysis below. The full 15-year replacement reserve schedule, including the major movable analysis, is provided as Exhibit B to the Draft Firm Commitment submitted with this narrative.

In the analysis below, the underwriter spreads the anticipated replacements by year based on the needs assessor's replacement reserve analysis and assumes an interest of % and an inflation rate of %.

Reserve for Replacement Fund Schedule

(Double click inside the Excel Table to add information)

Year	0	1	2	3	4	5
Interest Earned	1.5%	$0	$0	$0	$0	$0
Annual Deposit		$0	$0	$0	$0	$0
Initial Deposit	$0					
Total Deposits	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Claims		$0	$0	$0	$0	$0
Cumulative Claims		$0	$0	$0	$0	$0
Balance	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Year		6	7	8	9	10
Interest Earned		$0	$0	$0	$0	$0
Annual Deposit		$0	$0	$0	$0	$0
Initial Deposit						
Total Deposits		$0	$0	$0	$0	$0
Claims		$0	$0	$0	$0	$0
Cumulative Claims		$0	$0	$0	$0	$0
Balance	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Year		11	12	13	14	15
Interest Earned		$0	$0	$0	$0	$0
Annual Deposit		$0	$0	$0	$0	$0
Initial Deposit						
Total Deposits		$0	$0	$0	$0	$0
Claims		$0	$0	$0	$0	$0
Cumulative Claims		$0	$0	$0	$0	$0
Balance	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Claims		$ -	$ -	$ -	$ -	$ -
Cumulative Claims		$ -	$ -	$ -	$ -	$ -
Balance		**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

As you can see, the year-end balance for each year through year 15 has the recommended minimum balance of $1,000 per unit in years 2 through 15, indicating that the initial and annual deposit are sufficient based on these assumptions. The HUD program requires the lender to re-analyze the capital needs in year 10.

Borrower

Name: ______________________________

State of Organization: ______________________________

Date Formed: ______________________________

Termination Date: ______________________________

FYE Date: ______________________________

Ownership Start Date in this Project: ______________________________

Key Questions

	Yes	No
1. Does the borrower currently own any assets other than the subject property or participate in any other businesses?	☐	☐
2. Is or has the borrower been delinquent on any federal debt?	☐	☐
3. Is or has the borrower been a defendant in any suit or legal action?	☐	☐
4. Has the borrower ever filed for bankruptcy or made compromised settlements with creditors?	☐	☐
5. Are there judgments recorded against the borrower?	☐	☐
6. Are there any unsatisfied tax liens?	☐	☐
7. Is the single asset borrower entity registered outside the United States and/or in a state other than where their corporate office is located?	☐	☐
8. Does the single asset borrower entity fail to have at least one principal, with operational decision-making authority, as a United States citizen?	☐	☐

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

Program Guidance: *Handbook 4232.1, Section II Production, Chapter 6.1.D, Foreign National and Corporate Entity Participation*

Organization

<<Provide organization chart and narrative, as applicable. At a minimum, all principals of the borrower should be identified.>>

Experience/Qualifications

<<Provide narrative description of borrower experience and qualifications. For example: "The borrower entity is a single-asset entity that was established in {date} to develop and own the subject project. It has owned the facility since its inception…">>

Credit History

Report Date: *<<within 60 days of submission>>*

Reporting Firm: ______________________________

Score: ______________________________

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the 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?	☐	☐

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

Financial Statements

The application includes the following borrower 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 borrower? .	☐	☐
2. Are the financial statements missing any required information or schedules?	☐	☐
3. Do the financial statements provided include financial data from assets or liabilities not related to owning and operating this facility?	☐	☐
4. Do any of the financial statements indicate a loss prior to depreciation and amortization?	☐	☐
5. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of effective gross income) over 90 days?	☐	☐
6. Do the Aging of Accounts Receivable schedules show any material accounts receivables (amounts in excess of 2% of gross income) over 120 days?	☐	☐
7. Are there any issues or discrepancies related to tenant deposit accounts (e.g., not fully funded)? (Generally not applicable for SNF.) ☐ N/A	☐	☐
8. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?	☐	☐

*<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example: **<u>Tenant Security Deposits</u>**: The tenant security deposits do not appear to be fully funded. At closing, however, the borrower will not be the operator and*

the tenant deposit obligation will fall to the new operator. Therefore, the underwriter has included a commitment condition requiring the new operator to set up project accounts by closing and to provide an acceptable, certified Balance Sheet showing that the tenant security deposits are fully funded.

Owner-operated projects with material accounts receivables over 120 days that do not intend to have Accounts Receivable Financing should address the project State's recent trends in length of time until reimbursement is made. The Lender should address these projects' ability to handle delayed payments (e.g., access to sources of liquidity in an amount comparable to material accounts receivable over 120 days.) >>

General Overview

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

Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example: "The borrower entity has demonstrated an acceptable financial and credit history. The borrower has the experience to continue to successfully own this facility. The underwriter recommends this borrower for approval as an acceptable participant in this transaction.">>

Principal of the Borrower – <<enter Principal Name>>

<<Provide this section for each principal of the borrower.>>

Key Questions

	Yes	No
1. Is or has the principal of the borrower been delinquent on any federal debt?	☐	☐
2. Is or has the principal of the borrower been a defendant in any suit or legal action?	☐	☐
3. Has the principal of the borrower ever filed for bankruptcy or made compromised settlements with creditors?	☐	☐
4. Are there judgments recorded against the principal of the borrower?	☐	☐
5. Are there any unsatisfied tax liens against the principal of the borrower?	☐	☐
6. Is this principal a principal of any other HUD-insured projects or principals of a project(s) applying for HUD insurance or TPA within the next 18 months?	☐	☐

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

Organization (not applicable to individuals)

<<If the principal is an entity, provide the following information:>>

State of Organization: ______________________________

Date Formed: ______________________________

Termination Date: ______________________________

<<Provide organization chart and narrative, as applicable.>>

Experience/Qualifications

<<Provide narrative description of principal's experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate that the borrower has sufficient expertise to successfully own the facility. >>

Credit History

Report Date: *<<within 60 days of submission>>*

Reporting Firm: ______________________________

Score: ______________________________

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>

Program Guidance: *Handbook 4232.1, Section II Production, Chapter 6.1.F, The Credit Investigation.*

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?	☐	☐

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

Other Business Concerns/232 Applications

Key Questions

	N/A	Yes	No
1. Does the Principal identify any other business concerns?		☐	☐
a. Do any of the other business concerns have pending judgments; legal actions or suits; or, bankruptcy claims?	☐	☐	☐
b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?	☐	☐	☐
2. Does the Principal identify any other Section 232 program (i.e., 223(f), 241(a), 223(a)(7), 232(i), or 223(d)) loans on the Consolidated Certification – Principal of Borrower (form HUD-90014-ORCF) and Attachment 2 thereof?		☐	☐

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

*Example: **<u>Other Section 232 Applications</u>**: XXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted XXX and closed in XXX. As this is only XXXXX's Xth HUD-insured healthcare loan, no additional reviews are required>>*

<u>Credit Reports for Other Business Concerns</u>:
<<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.)*

Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example, "XXXXX has demonstrated an acceptable credit history and sufficient experience owning and operating this and other facilities. The underwriter recommends this principal as an acceptable participant in this transaction.">>

<u>Operator</u>

Name: ______________________________

State of Organization: ______________________________

Date Formed: ______________________________

Termination Date: ______________________________

FYE Date: ______________________________

Operator Start Date for this Project: ______________________________

Key Questions

	Yes	No
1. Does the operator currently own/operate any assets other than the property or participate in any other businesses?	☐	☐
2. Does the operator have shared expenses with other facilities?	☐	☐
3. Does the operator contract out nursing services other than temporary staffing through an agency and/or contracting for ancillary services (e.g., therapies, pharmaceuticals)?	☐	☐
4. Is or has the operator been delinquent on any federal debt?	☐	☐
5. Is or has the operator been a defendant in any suit or legal action?	☐	☐
6. Has the operator ever filed for bankruptcy or made compromised settlements with creditors?	☐	☐
7. Are there judgments recorded against the operator?	☐	☐
8. Are there any unsatisfied tax liens?	☐	☐

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

Organization

<<Provide organization chart and narrative, as applicable. >>

Experience/Qualifications

<<Provide narrative description of operator's experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions, if any. This section should clearly demonstrate that the operator has the expertise to successfully operate the facility.>>

Credit History

Report Date: *<<within 60 days of submission>>*

Reporting Firm: ______________________________

Score: ______________________________

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the 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?	☐	☐

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

Financial Statements

The application includes the following operator 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 operator?	☐	☐
2. Are the financial statements missing any required information or schedules?	☐	☐
3. Do the financial statements indicate a loss prior to depreciation?	☐	☐
4. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of effective gross income) over 90 days?	☐	☐
5. Do the Aging of Accounts Receivable schedules show any material accounts receivables (amounts in excess of 2% of gross income) over 120 days? *(Note: Projects with material accounts receivables over 120 days that do not intend to have Accounts Receivable Financing should address the project State's recent trends in length of time until reimbursement is made. The Lender should address these projects' ability to handle delayed payments, e.g. access to sources of liquidity in an amount comparable to material accounts receivable over 120 days.)*	☐	☐
6. Are there any issues or discrepancies related to tenant deposit accounts (e.g., not fully funded)?	☐	☐
7. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?	☐	☐
8. Within the last 3 fiscal years was NOI negative or declining?	☐	☐

<<If you answer "yes" to any of the above questions, please identify each risk factor and how it is mitigated below. The Accounts Payable and Accounts Receivable analysis provides information regarding an entity's collection and payment practices, policies, and potential risks to the new project. Discuss your analysis of these issues and how the lender determined they are an acceptable risk.

Example: ***No Financial Statements****: The operator is a newly formed entity and does not have a financial history to report. At this time, the operation of this facility is the new entity's sole purpose, so there is no need to review financial data from other facilities or sources.*

Example: ***Tenant Security Deposits****: The tenant security deposits do not appear to be fully funded. At closing, however, the borrower will not be the operator and the tenant deposit obligation will fall to the new operator; therefore, the underwriter has included a commitment condition requiring the new operator to set up project accounts by closing and to provide an acceptable, certified Balance Sheet showing that the tenant security deposits are fully funded.*

Projects with material accounts receivables over 120 days that do not intend to have Accounts Receivable Financing should address the project State's recent trends in length of time until reimbursement is made. The Lender should address these projects' ability to handle delayed payments, e.g. access to sources of liquidity in an amount comparable to material accounts receivable over 120 days.)>>

General Overview

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

Net Income Analysis

Net Income*

In total $

20XX	20XX	20XX	YTD (Indicate time frame)
$	$	$	

**before depreciation, amortization, and any other non-cash expense*

<<Provide an explanation of any Net Losses or declining Net Incomes for the year-to-date and last 3 fiscal years, as applicable.>>

Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example: "The operator entity has demonstrated an acceptable financial and credit history as discussed in our analysis of their financial statements and credit history above. The operator has the experience to continue to successfully operate this facility. The underwriter recommends this operator for approval as an acceptable participant in this transaction.">>

Parent of the Operator (if applicable)

<<Provide this section for each parent organization of the operator. This section is not applicable to individuals who are principals unless you are depending on the person or persons for approval of the operator (e.g., newly formed entity). In that instance (individuals), follow the principal of the borrower template and modify it appropriately for an operator. >>

Name: ____
State of organization: ____
Date formed: ____
Termination date: ____

Key Questions

	Yes	No
1. Is the parent of the operator rated by S&P or another rating agency?	☐	☐
2. Is or has the parent of the operator been delinquent on any federal debt?	☐	☐
3. Is or has the parent of the operator been a defendant in any suit or legal action?	☐	☐
4. Has the parent of the operator ever filed for bankruptcy or made compromised settlements with creditors?	☐	☐
5. Are there judgments recorded against the parent of the operator?	☐	☐
6. Are there any unsatisfied tax liens?	☐	☐
7. Does the parent of the operator have other HUD properties which are master leased separately from the subject project?	☐	☐

*<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk <u>and</u> how it will be mitigated. Example: **<u>S&P Rating</u>**: The entity is rated X by S&P. The rating agency indicates the outlook for the company is X.>>*

Organization

<<Provide organization chart and narrative, as applicable.>>

Experience/Qualifications

<<Provide narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate the expertise to successfully operate the facility. >>

Credit History

Report date: <<*within 60 days of submission*>> ______________

Reporting firm: ______________________________

Score: ______________________________

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the 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?	☐	☐

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

Other Business Concerns/232 Applications

Key Questions

		N/A	Yes	No
1.	Does the parent of the operator identify any other business concerns?		☐	☐
	a. Do any of the other business concerns have pending judgments; legal actions or suits; or, bankruptcy claims?	☐ N/A	☐	☐
	b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?	☐ N/A	☐	☐
2.	Does the Principal identify any other Section 232 program (i.e., 223(f), 241(a), 223(a)(7), 232(i), or 223(d)) loans on the Consolidated Certification – Parent of Operator (form HUD-90016-ORCF) and Attachment 2 thereof?		☐	☐

*<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk <u>and</u> how it will be mitigated. Example: **<u>Other Business Concerns</u>**: XXXXX identified XX other business concerns in addition to the borrower and the newly formed operator discussed in this narrative. 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 participation in this loan transaction.*

*Example: **<u>Other Section 232 Applications</u>**: XXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted XXX and closed in XXX. As this is only XXXXX's Xth HUD-insured healthcare loan, no additional reviews are required.>>*

Other Facilities Owned, Operated or Managed

Key Questions

	Yes	No
1. Does the parent of the operator own, operate, or manage any other facilities?	☐	☐
a. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims? ☐ N/A	☐	☐
b. Do any of the other facilities have any open professional liability insurance claims? ☐ N/A	☐	☐
c. Do any of the other facilities have any open state findings related to instances of actual harm and/or immediate jeopardy (G or higher)? ☐ N/A	☐	☐
d. Does the parent of the operator a participant in 50+ residential healthcare facilities?	☐	☐
e. Does the parent of the operator carry *one* Professional Liability Insurance policy for its residential healthcare facilities?	☐	☐
f. Does the parent of the operator carry *multiple* Professional Liability Insurance policies for its residential healthcare facilities?	☐	☐

*<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk <u>and</u> how it will be mitigated. Example: **<u>Other Facilities</u>**: XXXXX identified XX other facilities it owns, operates, or manages in addition to the subject facility. **<u>PLI Insurance</u>**: XXXXXX identified XX facilities which are carried on the same PLI policy as the subject project. Other facilities of the parent of the operator are covered on XX separate PLI policies.>>*

Program Guidance: *Handbook 4232.1, Section II Production, 8.8.*

Financial Statements

The application includes the following parent of the operator 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 parent of the operator?	☐	☐
2. Are the financial statements missing any required information or schedules?	☐	☐
3. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of effective gross income) over 90 days?	☐	☐

	Yes	No
4. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?	☐	☐

<<If you answer "yes" to any of the above questions, please identify each risk factor and how it is mitigated below. The Accounts Payable and Accounts Receivable analysis provides information regarding an entities collection and payment practices, policies, and potential risks to the new project. Discuss your analysis of these issues and how the lender determined they are an acceptable risk. >>

General Overview

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

Net Income Analysis

Net Income*

In total $

20XX	20XX	20XX	YTD (Indicate time frame)
$	$	$	

**before depreciation, amortization, and any other non-cash expense*

<<Provide an explanation of any Net Losses or declining Net Incomes for the year to date and last three fiscal years, as applicable.>>

Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example: "The parent of the operator entity has demonstrated an acceptable financial and credit history as discussed in our analysis of their financial statements and credit history above. The parent of the operator has the experience to continue to successfully operate this facility. The underwriter recommends this parent of the operator for approval as an acceptable participant in this transaction.">>

Management Agent (if applicable)

Name:	
Management Agent Start Date in this Project:	
Relation to borrower:	*<<Owner Managed/IOI Entity/Independent/Other>>*
Principals/officers:	

Key Questions

	Yes	No
1. Does the management agent have experience managing other HUD-insured properties?	☐	☐
a. Has the agent received any "unsatisfactory" management reviews from HUD?	☐	☐
b. Have any managed, owned, or operated properties received REAC scores lower than 60?	☐	☐
2. Does the management agent have less than 3-years of experience managing similar properties?	☐	☐
3. Is or has the management agent been delinquent on any federal debt?	☐	☐
4. Is or has the management agent been a defendant in any suit or legal action?	☐	☐
5. Has the management agent ever filed for bankruptcy or made compromised settlements with creditors?	☐	☐
6. Are there judgments recorded against the management agent?	☐	☐
7. Are there any unsatisfied tax liens?	☐	☐
8. Does (or will) the Management Agent hold the certificate of need, license to provide care, enter into provider agreement(s) with third party payor(s) such as Medicare, Medicaid, or Private Payors, or enter into contracts for patient services (if yes to any of these listed circumstances, the Key Question answer should be marked Yes and a narrative discussion is required below)?	☐	☐

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

Previous HUD Experience

Project Name	Project City	Project State	Type of Facility

Management Agent's Duties and Responsibilities

<<Briefly describe the management agent's duties and responsibilities (i.e., will the management agent control the operating accounts; contract for services; recruit, select or train employees; take responsibility for the management of the functional operation of the facility or the execution of the day-to-day policies of the facility; etc.). Also describe the nature of the management agent's compensation and how it was calculated.>>

Experience/Qualifications

<<Provide a narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate the expertise to successfully manage the facility and meet the obligations of the management agreement.>>

Credit History

Report Date: *<<within 60 days of submission>>*

Reporting Firm: ______________________

Score: ______________________

<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the 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?	☐	☐

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

Other Facilities Owned, Operated or Managed

Key Questions

		N/A	Yes	No
1.	Does the management agent own, operate, or manage any other facilities?		☐	☐
a.	Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims?	☐ N/A	☐	☐
b.	Do any of the other facilities have any open professional liability insurance claims?	☐ N/A	☐	☐
c.	Do any of the other facilities have any open state findings related to instances of actual harm and/or immediate jeopardy (G or higher)?	☐ N/A	☐	☐

<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk *<u>and</u> how it will be mitigated. Example:* ***<u>Other Facilities</u>****: XXXXX identified XX other facilities it owns, operates, or manages in addition to the subject facility.>>*

Program Guidance: *Handbook 4232.1, Section II Production, 8.8.*

Past and Current Performance

Indicator	**Findings**
Billing	*<<acceptable>>*
Controlling operating expenses	
Vacancy rates	
Resident turnover	
Rent collection and accounts receivable	
Physical security	
Physical condition and maintenance	
Resident relations	

<<Provide narrative support for review and finding. For example: "Based on interviews with the principals of the borrower and management agent, as well as a review of the management policies and procedures, the underwriter has concluded that the management agent has demonstrated acceptable past and current performance with regard to all of the above indicators.">>

Management Agreement

Date of agreement: ______________________________

Agreement expires: ______________________________

Management fee: ______________________________

Key Questions

	Yes	No
1. Does the agreement fail to sufficiently describe the services the agent is responsible for performing and for which the agent will be paid management fees?	☐	☐
2. Does the agreement fail to state that the management fees will be computed and paid according to HUD requirements?	☐	☐
3. Does the agreement fail to state that HUD may require the owner to terminate the agreement without penalty and without cause upon written request by HUD and contain a provision that gives no more than a 30-day notice of termination?	☐	☐
4. Does the agreement fail to state that HUD’s rights and requirements will prevail in the event the management agreement conflicts with them?	☐	☐
5. Does the agreement fail to state that the management agent will turn over to the owner all of the project’s cash trust accounts, investments, and records immediately, but in no event more than 30 days after the date the management agreement is terminated?	☐	☐
6. Does the agreement exempt the agent from gross negligence and or willful misconduct?	☐	☐
7. Is the Form HUD-9839-ORCF inconsistent with the Management Agreement?	☐	☐

<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk <u>and</u> how it will be mitigated. >>

Management Certification

<<Provide narrative review. For example: “The form HUD-9839-ORCF, Management Agent Certification, provided in the application package indicates a management fee of XX percent of the residential, commercial and miscellaneous income collected, which is in line with industry standards for projects of this size. The term of the agreement is for XX-years. The stated fee and term match those stated in the management agreement. The fee calculations on page 4 are coordinated with the underwriting conclusions.”>>

Conclusion

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example: “The management agent has demonstrated an acceptable credit history and has the experience to continue to successfully manage this facility. The underwriter recommends this management agent for approval as an acceptable participant in this transaction.”>>

Operation of the Facility

Administrator

Name:	
Employed by:	*<<Name of entity who employs/pays administrator>>*
Facility Start Date:	*<<Date started at this facility as Administrator>>*

<<Narrative description of experience and qualifications - For example, "{Administrator} has been a licensed administrator since XXXX. Her current Residential Care Administrator's license No. XXXXXXX expires XXXXX. It was issued by XXXXXX in the State of XXXX. Her experience includes… Since arriving at the facility, XXXX has helped to increase the revenues and profitability of the project, as evidenced by the increasing effective gross income and net operating income (NOI). XXXXX is well qualified and has demonstrated her ability to act as Administrator for the subject facility.">>

Subject's State Surveys

The application includes the following state surveys issued on the following dates over the last three (3) years of operations: (State when the survey was conducted and when the project was found in compliance.)

3 Years of Survey Inspections

Date of survey/inspection	Date state issued letter approving POC

Key Questions

	Yes	No
1. Do the state surveys identify any instances of actual harm and/or immediate jeopardy (during last 3 year period)?	☐	☐
2. Do prior surveys (during last 3 year period) contribute to a pattern of findings?	☐	☐
3. Are there currently any open findings?	☐	☐

*<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk <u>and</u> how it will be mitigated. Example: **<u>General Review and Findings:</u>** Provide narrative description of review. For example: "The {date} state survey inspection letter indicates that there were X deficiencies. The deficiencies constitute a pattern of findings, or repetitive findings from survey to survey, resulting in repeat deficiencies and civil money penalties of $XXX…">>*

Risk Management Program

Program Guidance: *See Risk Management Program grid on the Section 232 program website for additional guidance. Note that the below tier descriptions are general descriptions and HUD retains discretion to require additional risk management measures, as warranted, on a case by case basis.*

Risk Management Tier General Descriptions:
Tier 1 Baseline: For most assisted living and low-risk skilled nursing projects with no more than one incident of actual harm/immediate jeopardy in the past three years. In these instances, the risk management program may be administered internally or by a third party provided the party administering the program is qualified.

Tier 2 Elevated Risk: Higher risk projects with two more incidents of actual harm/immediate jeopardy within the past three years. In these instances the risk management program should be administered by a third party.

(Note both Tier and Internal/External)

☐ Tier 1 Baseline	☐ Internally Administered Risk Management Program
☐ Tier 2 Elevated Risk	☐ External 3rd Party Administered Risk Management Program

Describe the Risk Management Program and how it meets the following requirements

1. Real-time incident reporting and tracking that informs senior management:

2. Experience of Staff:

3. Training:

4. Continuous Improvement:

<<If a third party is involved, describe the contractual arrangement, what company has been contracted, what the contract provides for, when the contract was entered into, when it expires, what results have been seen thus far if the contract has been in place, etc.>>

Staffing

<<Provide narrative description of review. For example: "The appraiser and underwriter have reviewed the current and proposed staffing to be charged to the facility and found it to be acceptable and within reason…">>

Operating Lease

Program Guidance: *Handbook 4232.1, Section II Production, Chapter 8.6, Operating Lease Requirements*

Date of Agreement: ______________________________

Current Lease Term Expires: ______________________________

Description of Renewals: ______________________________

Current Lease Payment: ______________________________

Major Movable Equipment

Current Ownership: *<<Borrower/Operator>>*

Post Closing Ownership: *<<Borrower/Operator>>*

Key Questions

		Yes	**No**
1.	Will the facility be subleased (master lease)?	☐	☐
2.	At closing, will the lease have a term that expires within 5 years with no lease renewal options (see guidance above)?	☐	☐
3.	Does the lease contain any non-disturbance provisions?	☐	☐
4.	Does the lease require the borrower to escrow any funds other than those associated with this loan?	☐	☐
5.	Are there proposed changes to the current operating lease?	☐	☐
6.	Has the lender recommended any special conditions concerning the lease?	☐	☐
7.	Does the current lease payment need to be increased to provide sufficient debt coverage for the mortgage payment, MIP, other insurance premiums, taxes, reserves, or impounds?	☐	☐

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

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**	**$**

<<Compare the minimum annual lease payment to the current lease payment. If the lease payment needs to increase, add the following language: "The lease payment must be increased to $XX per year ($XX per month). The underwriter has included a special condition to the firm commitment requiring the lease payment be revised to meet or exceed this minimum." If the lease payment does not need to increase, add the following language: "The current lease payment is sufficient. The recommended annual lease payment also provides the operator with an acceptable profit margin.">>

Responsibilities

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

Master Lease

Program Guidance: *Handbook 4232.1, Section II Production, Chapter 13. It is the lender's responsibility to read the handbook chapter and provide HUD with a full set of documents for review of the proposed master lease or alternative master lease structure.*

Key Questions

	Yes	**No**
1. Are three or more projects (or two projects with an aggregate total mortgage loan amount greater than $15 million) being submitted to HUD that are under common control or have the same ownership?	☐	☐
2. Have projects under common control or with the same ownership applied for mortgage insurance or a TPA within the *past* 18-months OR will projects under common control or with the same ownership apply for mortgage insurance or a TPA within the *next* 18 months?	☐	☐
3. Is the parent of the operator the same for all of these projects?	☐	☐

If you answered "yes' to all three questions, a master lease or master lease alternative <u>is required</u>.

Key Questions	**Yes**	**No**
1. Is a new master lease proposed for the subject project?	☐	☐
2. Will the subject project be joined to an existing HUD master lease?	☐	☐

Key Questions		Yes	No
3. Do the borrower principals currently participate in any other HUD master leases?		☐	☐
4. Does the parent of the operator currently participate in any other HUD master leases?	☐ N/A	☐	☐

<<Provide a narrative describing the terms and conditions of the master lease proposed payments to and from the master tenant, lease agreements between borrower, master tenant and subtenants, the flow of funds from the subtenants to the master tenant and the borrower (including the AR lender if applicable), and any waivers or requests for modification to standard requirements. .

If the subject is being joined to an existing master lease, list projects/project numbers already included in the master lease.

Describe any other HUD master leases the principals of the borrower or parent of the operator are party to, list projects/project numbers, and indicate the HUD lender who is party to the lease(s).>>

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 AR loan require any guarantees from the borrower, operator, 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 ?	☐	☐
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.E or its successors)?	☐	☐
6. Does the maximum AR loan amount exceed 85% of the Medicaid, Medicare, and other governmental accounts receivable less than 121 days	☐	☐

	Yes	No
old?		
7. Of the total Medicaid, Medicare and other governmental accounts receivable less than 121 days old, are more than 30% over 90 days old? ☐ N/A	☐	☐
8. Does the AR lender have less than 3 years of experience providing AR financing?	☐	☐
9. Is the AR borrowing base <u>not</u> monitored by the AR lender on a regular basis (e.g., daily, weekly, or monthly basis)?	☐	☐
10. 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 secured by project collateral?	☐	☐
13. Does the ICA propose loan extensions or interest rate changes?	☐	☐
14. Does the ICA include any cross-default or cross-collateralization provisions?	☐	☐
15. Does the ICA identify a flow of funds inconsistent 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). >>

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.):

<u>Mechanisms for Operator receipts, disbursements and control of operator funds</u>:
<<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. >>

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				
Private*				
Total	$ -	$ -	$ -	$ -

*Inclusion of Private Pay receivables requires waiver approval

#DIV/0!	Medicare, Medicaid, Commercial AR aged 90-120 days
$ -	AR Loan Available (point in time; based on Borrowing Base described in AR loan documents)
$ -	AR Loan Amount (from Loan Agreement)

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

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

Insurance

Professional Liability Insurance (PLI) Coverage

Program Guidance: *Handbook 4232.1, Section II Production, Appendix 14.1.*

Name(s) of Insured:	______________________	
Insurance company:	______________________	
Rating:	______ Rater: ______	
Insurance company is licensed in the United States:	☐ Yes	☐ No
Statute of limitations:	______________________	
Current coverage:	Per occurrence:	______________
	Aggregate:	______________
	Deductible:	
Policy Basis:	☐ Per occurrence	☐ Claims made
Current Expiration:	______________________	
Retroactive Date:	______________________	
Policy Premium:	______________________	

Summary of Six-Year Loss History for Operator or its Parent of Operator				
Year	Total claims paid under this policy *(dollars)*	Total claims paid under this policy *(no. of claims)*	Total bed count covered under the policy	Dollars paid in claims per bed
1				
2				
3				
4				
5				
6				
Total/average				

Key Questions

	Yes	No
1. Does the insurance policy cover multiple properties?	☐	☐
2. Is less than 6 years of loss history available?	☐	☐
3. Does the loss history indicate any professional liability claims over $35,000?	☐	☐
4. Does the loss history or potential claims certification indicate any uncovered claims?	☐	☐
5. Does the loss history or potential claims certification indicate any claims that would exceed the per occurrence or aggregate coverage limits at the facility?	☐	☐
6. Has the facility been covered by a "claims made" policy at any time during the statute of limitations for the State in which the facility is located?	☐	☐
7. Is the policy funded on a "cash front" basis?	☐	☐
8. Is an actuarial study applicable (self-insurance)? *(If yes, discuss results below.)*	☐	☐
9. For all facilities Owned, Operated or Managed by the operator and/or parent of the operator, are there any surveys/reports that have open G-level or higher citations outstanding? *(As appropriate, provide a complete analysis of the surveys.)*	☐	☐
10. Are any entities that provide resident care (as discussed in the Provider Agreements and Resident Care Agreements/Rental Agreements) not covered by the PLI policy?	☐	☐
11. Are there any PLI issues that require special consideration?	☐	☐

<<For each "yes" answer above, provide a narrative discussion on the topic describing the risk

<u>and</u> how it will be mitigated.

*Example: **1.<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}*

*Example: **2.<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}.*

*Example: **<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. >>*

Lawsuits

<<Identify all potential or expected professional liability insurance (PLI) claims in excess of $35,000 that have been or may be filed for all periods within the statute of limitations for the state where the claim occurred. Identify any reserves held for potential claims. Discuss the risk associate with each potential PLI claim. Discuss how that risk is mitigated. Describe the circumstances, identify the potential award amount, provide evidence and analysis showing that the suits are covered by PLI insurance, and if the insurance is not sufficient, does the insured demonstrate adequate funds to cover the potential excess? Describe any other information that mitigates the risk.

As applicable, discuss other types of lawsuits (non-PLI) and describe the potential risk related to the party's participation in the proposed project. Discuss how that risk is mitigated. If the suit is closed, does it contribute to a pattern? Does it materially affect the party's ability to participate in the project? If not closed, describe the circumstances, identify the potential award amount, provide evidence and analysis showing that the suits are covered by insurance (general liability), and if the insurance is not sufficient, do they demonstrate adequate funds to cover the potential excess? Describe any other information that mitigates the risk.>>

Commercial General Liability Insurance

<<Provide narrative discussion of policy coverage for bodily injury, property damage and personal injury. For example: General liability insurance will be provided by XX. The underwriter has confirmed estimates of the cost and coverage for underwriting and will re-verify

this information prior to closing. The insurance coverage will comply with HUD requirements prior to closing.>>

Recommendation

<<Provide narrative recommendation regarding acceptability of professional and general liability insurance. For example: "The borrower's professional and general liability insurance was analyzed in accordance with Handbook 4232.1, Section II Production, Chapter 14 and Appendix 14.1.). 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 policy coverages as applicable, including property damage, ordinance and law coverage, and boiler and machinery/equipment breakdown insurance. For example: "Property insurance will be provided by XX. The underwriter has confirmed estimates of the cost and coverage for underwriting and will re-verify this information prior to closing. The insurance coverage will comply with HUD requirements prior to closing.">>

Fidelity Bond/Employee Dishonesty Coverage

<<Provide narrative discussion of fidelity bond/crime insurance coverage. 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 ***potential*** *gross income receipts would total $XX. The current level of coverage is sufficient for this project." If not sufficient, recommend commitment condition.*

Mortgage Determinants

Overview

The mortgage criteria shown on the form HUD-92264a-ORCF are summarized as follows:

Requested amount:	$
Amount based on loan-to-value:	$

Amount based on debt service coverage:	$
Amount based on cost to refinance:	$
Amount based on deduction of loans, grants, gifts for mortgageable items:	$

The proposed mortgage is $ and is constrained by .

Mortgage Term

The underwriter concluded that the estimated remaining economic life of the project is years based on the analysis of the appraiser. The estimate has been multiplied by 75% to arrive at the maximum mortgage term of years. *<<Note: Term not to exceed 35 years.>>*

Type of Financing

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

Amount Based on Required Loan-to-Value

(Criterion D of HUD-92264a-ORCF)

The $ fair market value limit was calculated in accordance with HUD guidelines. 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. *<<Note: If the loan-to-value exceeds 80% (85% for non-profit), justification/ mitigation of the additional risk to HUD must be addressed in the Risk Factors section of this narrative.>>*

Amount Based on Required Debt Service Coverage

(Criterion E of HUD-92264a-ORCF)

The $ debt service limit was calculated using HUD's guidelines. This is based on % of the underwriter's net operating income for debt service purposes 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.

<<Note: If the debt service coverage rate is less than 1.45, justification/mitigation of the additional risk to HUD must be addressed in the Risk Factors section of this narrative.>>

Amount Based on the Cost to Refinance

(Criterion H of HUD-92264a-ORCF)

The costs to refinance associated with the project totals $ on the form HUD-92264a-ORCF that is used to calculate the mortgage amount for this criterion. This total includes the following:

Existing indebtedness	$
Repayment of investor debt	
Estimate of repair cost (critical & non-critical)	
Initial deposit to the reserve for replacement	
Prepayment penalty	
Appraisal (including update)	
Phase I ESA/HUD 4128	
PCNA	
Financing/placement fee	
Lender legal	
Borrower legal	
Title & recording	
HUD inspection fee	
First year MIP	
HUD application fee	
Other fees (<<*describe*>>)	
Other fees (<<*describe*>>)	
Other fees (<<*describe*>>)	
Other fees (<<*describe*>>)	
TOTAL HUD-ELIGIBLE COSTS	**$**

Amount Based on Deduction of Grants, Loans, Gifts

(Criterion L OF HUD-92264a-ORCF)

The Criterion 11 limit was calculated in accordance with HUD guidelines as follows:

a.	Transaction Cost from Criterion 7 or 10	$
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.

Existing Indebtedness

Program Guidance: *Handbook 4232.1, Section II Production, 3.3.*

*<<For a **purchase**, this section should be titled “Purchase Price” and the information below should be replaced by an appropriate narrative section describing the pertinent terms of the purchase transaction, generally including: purchase price, itemization of costs to be paid by seller, date of agreement and addendums, expiration date, date by which sale must occur, etc.>>*

<<Provide detailed breakdown of all existing debt(s) being included in requested mortgage amount below. Include similar detail on HUD-92264a-ORCF.>>

Schedule of Debt to Refinance

Lender	**Identity of Interest with Borrower (Yes or No)**	**Date Originated**	**Originated Amount**	**Pay-off Amount**
			$	$
			$	$
			$	$
Total:			$	**$**
Total to be refinanced with this transaction:				

Key Questions

	Yes	No
1. Are there any debts on the borrower’s balance sheet or recorded against the property, other than the primary mortgage, that will survive closing?	☐	☐
2. Are any of the debts to be paid off less than 2 years old? If yes, is 100% of the debt project related and eligible (Refer to Handbook 4232.1, Section II, Chapter 3.13.B)? If not, complete the Debt Seasoning Matrix below.	☐	☐
3. Does the borrower have any identities of interest with any of the existing lenders or note holders? (Refer to Section 232 Handbook, Section II, Production, Chapter 3.)	☐	☐
4. Do any of the debts to be paid off have prepayment penalties or other significant cost associated with them?	☐	☐
5. Is any of the existing debt cross-collateralized with other assets (pooled debt or master leased) or financed with a line of credit? (If yes, explain how you allocated the debt between the facilities cross-collateralized.)	☐	☐
6. Are delinquent real estate taxes or other liens included as eligible debt?	☐	☐
7. Is unrecorded debt of, or costs incurred in connect with the project, included as eligible debt?	☐	☐

	Yes	No
8. Is Operator debt included as eligible debt?	☐	☐
9. Are reserves or escrows held by the current lender included as eligible debt?	☐	☐
10. Are Swap Fees included in the HUD-insured mortgage (as deemed eligible in the Section 232 Handbook, Section II, Production, Chapter 3)?	☐	☐

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

<u>General Overview</u>

<<Narrative review of debt and pay-off information. For example, "Per the statement from XXX dated XXXX, the current existing indebtedness is $XXXX. The pay-off balance will be reconfirmed prior to closing and only eligible pay-off charges will be included in the cost certification.">>

<u>Debt Seasoning Matrix</u>

Program Guidance: *Handbook 4232.1, Section II Production, 3.3.*

Check the appropriate box in the below table:

% of Existing Debt Used for Project Purposes	Requested FHA Loan Amount <= 60% LTV	Requested FHA Loan Amount 61% - 70% LTV	Requested FHA Loan Mount >=71% LTV
>50%	☐ Application may be submitted within 2 years	☐ Application may be submitted within 2 years	☐ 2 year seasoning required
<=50%	☐ Application may be submitted within 2 years	☐ 2 year seasoning required	☐ 2 year seasoning required

Existing Debt for Projects with Less than 2 Year Seasoning				
Project Related Debt	Origination Date of Project-Related Debt	Non-Project Related Debt	Origination Date of Non-Project Related Debt	% of Existing debt that is Non-Project Related
$		$		

Analysis of Stabilized Net Operating Income (NOI) that supports UW Value (Normalized) NOI				
Year 1	Year 2	Year 3	T12	CAGR
$	$	$	$	%

Legal and Organizational Costs

The borrower's legal and organization costs are estimated to total $ ($ for legal, $ for organizational expenses). The underwriter concluded that the budgeted amounts are reasonable.

Title and Recording Fees

Title and recording fees are estimated to cost $. The underwriter concluded that the budgeted amount is reasonable.

Other Fees

A total of $ in third-party report fees has been included in the mortgage calculation and the fees include .

HUD Fees

<<This section pertains to the transaction cost calculation and may not match the actual fees in the source and use.>>

The HUD fees total $ and are comprised of MIP totaling 1.00% of the mortgage amount ($); the HUD application fee totaling 0.3% of the mortgage amount ($); and, the HUD inspection fee ($). *<<i.e., 1% of the cost of repairs; minimum threshold for the inspection fee is $30 per unit or bed, whichever applies.>>*

Financing Fees

<<This section pertains to the transaction cost calculation and may not match the actual fees in the sources and uses chart. >>

The financing fees payable to the lender total $. The total is made up of a fee of % of the mortgage amount ($); plus fixed lender fees totaling $. In total, the fees payable to the lender represent % of the mortgage amount.

A broker *<<select one>>* ☐ **is** / ☐ **is not** involved in this transaction. The broker fee is $ and will be paid by , using *<<select one>>* ☐ **mortgaged** / ☐ **non-mortgaged** funds.

Sources & Uses – Copied from HUD-92264a-ORCF

<<Provide a Statement of Sources and Uses of actual estimated cost at closing. Include all eligible and ineligible transaction costs. Describe any fees associated with delegated administration of the non-critical repair escrow. >>

Secondary Sources

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

Surviving Debt

<<List and discuss all existing long-term debt that will survive closing. >>

Other Uses

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

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

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<<Name>>
<<Title>>
<<Phone>>
<<Email>>

This report was reviewed by: Date

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<<Name>>
<<Title>>
<<Phone>>
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This report was reviewed and the site inspected by: Date

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