

**Lender Narrative –
Change of Management
Agent
Section 232**

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

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Public reporting burden for this collection of information is estimated to average 2.0 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 Change in Management Agent review process. If the transaction includes a Change of Operator in conjunction with the Change of Management Agent, **do not use this form**; you must use HUD-92266A-ORCF. For further description of these requirements, please refer to Chapter 8 of the Section 232 Handbook 4232.1, Section III Asset Management.

Each section of the narrative and all questions need to be completed and answered. If the lender disagrees and modifies any third-party report conclusions, provide sufficient detail to justify. The narrative should identify the strengths and weaknesses of the transaction and demonstrate how the weaknesses are mitigated.

- **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 this document 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.,)

<<Optional: Insert Project Photo>>

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Executive Summary

This application is for use when there is a change in **Management Agent only**.

Note: Do not use this document if there is a change in Operator in addition to the change in Management Agent.

FHA Number:
Project Name:
Project Address:
City / State / Zip:
County:

Lender Name:

| | | Licensed | Operating | | Licensed | Operating | |
|-------------------|--------------------------|--------------------------|-----------|-------------|----------|-----------|--------------|
| Type of facility: | <input type="checkbox"/> | Skilled Nursing (SNF): | | beds | | | units |
| | <input type="checkbox"/> | Assisted Living (AL): | | beds | | | units |
| | <input type="checkbox"/> | Board & Care (B&C): | | beds | | | units |
| | <input type="checkbox"/> | Dementia Care: | | beds | | | units |
| | <input type="checkbox"/> | Independent Living (IL): | | beds | | | units |
| | | Total: | | beds | | | units |

Borrower: <<Legal Name>>

Current Management Agent Entity (if applicable)

Management Agent: <<Legal Name>>

License held by: <<Legal Name>>

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

Proposed Management Agent Entity

Management Agent: <<Legal Name>>

License held by: <<Legal Name>>

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

Program Eligibility

Key Questions

- | | Yes | No |
|--|--------------------------|--------------------------|
| 1. Has the proposed new management agent, or any of its affiliates renamed or reformulated companies, or filed for or emerged from bankruptcy within the last 5 years? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is the proposed new management agent, or any of its affiliates renamed or reformulated companies, currently in bankruptcy? | <input type="checkbox"/> | <input type="checkbox"/> |

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

Identities-of-Interest

Program Guidance: Handbook 4232.1, Section I, Introduction, Chapter 1.6

Key Questions

- | | Yes | No |
|---|------------------------------|--------------------------|
| 1. Have you, as the lender, identified any identities of interest on your certification?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the management agent’s certification indicate any identities of interest? | <input type="checkbox"/> N/A | <input type="checkbox"/> |
| 3. 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? | <input type="checkbox"/> | <input type="checkbox"/> |

<<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. >>

New Management Agent

Name: _____

Relation to borrower: <<Owner Managed/IOI Entity/Independent/Other>>

Principals/officers: _____

Key Questions

| | Yes | No |
|--|--------------------------|--------------------------|
| 1. Does the new management agent have experience managing other HUD-insured properties?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Has the agent received any “unsatisfactory” management reviews from HUD? | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Have any managed, owned, or operated properties received REAC scores lower than 60? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the new management agent have less than 3-years of experience managing similar properties? | <input type="checkbox"/> | <input type="checkbox"/> |

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

Previous HUD Experience

| Project Name | Project City | Project State | Type of Facility |
|--------------|--------------|---------------|------------------|
| | | | |
| | | | |
| | | | |

New Management Agent’s Duties and Responsibilities

<<Briefly describe the new management agent’s duties and responsibilities (i.e., will the new 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. >>

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?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the lender have any concerns related to their review of the credit report? | <input type="checkbox"/> | <input type="checkbox"/> |

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

Other Facilities Owned, Operated or Managed

Key Questions

| | Yes | No |
|--|------------------------------|--------------------------|
| 1. Does the new management agent own, operate, or manage any other facilities?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims? | <input type="checkbox"/> N/A | <input type="checkbox"/> |
| b. Do any of the other facilities have any open professional liability insurance claims? | <input type="checkbox"/> N/A | <input type="checkbox"/> |
| c. Do any of the other facilities have any open state findings related to instances of actual harm and/or immediate jeopardy (G or | <input type="checkbox"/> | <input type="checkbox"/> |

higher)? N/A Yes No

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

Program Guidance: Handbook 4232.1, Section II Production, Chapter 8.8 Operator and Management Agent Analysis, Lender Responsibilities

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 new borrower and new management agent, as well as a review of the management policies and procedures, the lender has concluded that the new 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 insufficiently describe the services the agent is responsible for performing and for which the agent will be paid management fees?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the agreement fail to state that the management fees will be computed and paid according to HUD requirements? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Does the agreement fail to state that HUD may require the owner to | <input type="checkbox"/> | <input type="checkbox"/> |

- | | Yes | No |
|--|--------------------------|--------------------------|
| 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? | <input type="checkbox"/> | <input type="checkbox"/> |
| 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? | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Does the agreement exempt the agent from gross negligence and or willful misconduct? | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Is the Form HUD-9839-ORCF consistent with the Management Agreement? | <input type="checkbox"/> | <input type="checkbox"/> |

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

Management Certification

<<Provide narrative review. For example: “The form HUD-9839-ORCF, Project Owner’s/ Management Agent’s 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.”>>

Conclusion

<<Provide narrative discussion of Lender’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 Lender recommends this management agent for approval as an acceptable participant in this transaction.”>>

Circumstances that May Require Additional Information

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

Special Conditions

<<List any recommended special conditions. If none, state "None.">>

- 1.
- 2.

Signatures

Lender hereby certifies that the statements and representations of fact contained in this instrument and all documents submitted and executed by lender in connection with this transaction are, to the best of lender's knowledge, true, accurate, and complete. Lender further acknowledges that any material changes to this transaction subsequent to the submission date may void this transaction in its entirety. This instrument has been made, presented, and delivered for the purpose of influencing an official action of HUD and may be relied upon by HUD as a true statement of the facts contained therein.

Lender: _____

HUD Mortgagee/Lender No.: _____

This report was prepared by: Date This report was reviewed by: Date

| | |
|-----------|-----------|
| _____ | _____ |
| <<Name>> | <<Name>> |
| <<Title>> | <<Title>> |
| <<Phone>> | <<Phone>> |
| <<Email>> | <<Email>> |