

**Lender Narrative**  
Section 232/232(i) - Fire  
Safety Equipment Installation,  
with Existing HUD-Insured  
Mortgage

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

OMB Approval No. 2502-0605  
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**Public reporting** burden for this collection of information is estimated to average 15 hour(s). This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

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

**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.

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**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, provide sufficient detail to justify. The narrative should 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>>

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# Executive Summary

<b>FHA number:</b>			
<b>Project name:</b>			
<b>Project location:</b>	<<street address, city, county, and state>>		
<b>Lender's name:</b>			
<b>Lender's UW:</b>		<b>UW trainee:</b>	
<b>Borrower:</b>			
<b>Operator:</b>			
<b>Parent of operator:</b>			
<b>Management agent:</b>			
<b>General contractor:</b>			
<b>License holder:</b>	<input type="checkbox"/> Borrower	<input type="checkbox"/> Operator	<input type="checkbox"/> Management agent

**Purpose of loan:** <<description of purpose of fire safety equipment loan (e.g., automatic sprinklers, fire safety lighting, etc.)>>

<b>Type of facility:</b>	<input type="checkbox"/>	<b>Skilled Nursing (SNF):</b>		<b>beds</b>		<b>units</b>
	<input type="checkbox"/>	<b>Assisted Living (AL):</b>		<b>beds</b>		<b>units</b>
	<input type="checkbox"/>	<b>Memory Care (AL):</b>		<b>beds</b>		<b>units</b>
	<input type="checkbox"/>	<b>Board &amp; Care (B&amp;C):</b>		<b>beds</b>		<b>units</b>
	<input type="checkbox"/>	<b>Independent Living (IL):</b>		<b>beds</b>		<b>units</b>
		<b>Total:</b>		<b>beds</b>		<b>units</b>

**Current insured loan(s):**

Original Section of the Act: \_\_\_\_\_

FHA number: \_\_\_\_\_

Original loan amount: \_\_\_\_\_

Current interest rate: \_\_\_\_\_

Maturity date: \_\_\_\_\_

Original terms (in months): \_\_\_\_\_

Principal & interest (monthly): \_\_\_\_\_

MIP (monthly): \_\_\_\_\_

**Total P+I+MIP (monthly):** \_\_\_\_\_

Debt service coverage: \_\_\_\_\_

Principal balance: \_\_\_\_\_

As of: \_\_\_\_\_

Replacement reserve balance: \_\_\_\_\_

As of: \_\_\_\_\_

**Proposed 232(i) loan terms**

FHA number: \_\_\_\_\_

Proposed loan amount: \_\_\_\_\_

Proposed interest rate: \_\_\_\_\_

Proposed maturity date: \_\_\_\_\_

Proposed term (in months): \_\_\_\_\_

Principal & interest (monthly): \_\_\_\_\_

MIP (monthly): \_\_\_\_\_

**Total P+I+MIP (monthly):<sup>1</sup>** \_\_\_\_\_

**Total debt service coverage:** \_\_\_\_\_

Total repl. reserve deposit: \_\_\_\_\_

Proposed repairs:<sup>2</sup> \_\_\_\_\_

**TOTAL INSURED MORTGAGES:**

<sup>1</sup>Total P+I+MIP of all insured mortgages.  
<sup>2</sup>Repairs that are not for the installation of fire safety equipment may not be included in the mortgage.

UW Effective gross income: \$ \_\_\_\_\_ UW Occupancy Rate: \_\_\_\_\_ %  
 UW Expenses & repl. res.: \$ \_\_\_\_\_ Expense ratio: \_\_\_\_\_ %  
 UW Net operating income: \$ \_\_\_\_\_

**Borrower:** <<Legal Name>>  
**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>>

## **Risk Factors**

### **Key Questions**

	<b>Yes</b>	<b>No</b>
1. Are there any exceptions reflected on the pro forma title policy that materially affect HUD's risk? <i>(This response may be deferred if the lender elects to obtain title information after issuance of the firm commitment.)</i> ..... <input type="checkbox"/> N/A	<input type="checkbox"/>	<input type="checkbox"/>
1. Is the debt service coverage of the loan, including payment of the primary mortgage, less than 1.45?.....	<input type="checkbox"/>	<input type="checkbox"/>
2. Is the project being underwritten at an NOI that is significantly above historical NOI (factoring in normal increases in government payables)? .....	<input type="checkbox"/>	<input type="checkbox"/>
2. Is the borrower entity delinquent on its mortgage payments? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Has the borrower, operator, or any of their affiliates renamed or reformulated companies, filed for or emerged from bankruptcy within the last five (5) years? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. 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?	<input type="checkbox"/>	<input type="checkbox"/>

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

the risk factors and analyze and clarify how they are mitigated.

Example: **Debt Service Coverage Lower than XXX:** {If the debt service coverage of the loan is less than 1.45, the lender must provide sufficient justification/mitigation to support the additional risk associated with the loan. The HUD Underwriter will be required to specifically approve this item and may ask for additional input and request a discussion with the lender and/or HUD HQ.}>>

**Other Risk Factors identified by Underwriter**

Additionally, the underwriter has identified the following risk factors: <<Provide discussion on other risk factors identified by the underwriter and how they are mitigated.>>

**Program Eligibility**

<<Provide affirmative statement that project is currently HUD-insured, and the loan is not HUD-held.>>

**Waivers**

<<Identify any waivers required for proposed financing. Identify specific provisions to be waived and justification for the waiver.>>

**Special Underwriting Considerations**

**Key Questions**

	Yes	No
1. Is there any non-HUD-insured debt associated with this project?.....	<input type="checkbox"/>	<input type="checkbox"/>
2. Was an underwriter trainee involved in underwriting this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Was a mortgage broker involved in underwriting this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. 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.) .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Is there a ground lease? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Are there any professional liability insurance issues that require special consideration or HQ review? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. Are any tax credits involved in this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>
8. Are any secondary funding sources involved in this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>
9. Are there any special escrows or reserves proposed for this transaction? .....	<input type="checkbox"/>	<input type="checkbox"/>
10. Other than the aforementioned questions, waivers, and program eligibility requirements, are there any other issues that require special or atypical underwriting consideration? .....	<input type="checkbox"/>	<input type="checkbox"/>

	Yes	No
11. Do you, as the underwriter, recommend or request any HUD technical reviews of issues, exhibits, or third-party reports related to this transaction?	<input type="checkbox"/>	<input type="checkbox"/>

<<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 to be waived and justification for the waiver.>>

## **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. A MAP-approved 232 Underwriter or Lean-approved 232 Underwriter employed by the lender must visit the site AND sign this narrative.>>

## **Identities-of-Interest**

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

### **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 borrower’s certification indicate any identities of interest? .....	<input type="checkbox"/>	<input type="checkbox"/>



- |                                                                                                                                                                                     | Yes                      | No                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 3. Is there any identity of interest issues involving the Underwriting Lender, the existing lender or note holders, or the mortgage broker? .....                                   | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. 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.>>

## **Property Description**

### **Site**

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

### **Zoning**

- Legal Conforming       Legal Non-Conforming       Other

<<Narrative description: identify local jurisdiction; zoning designation; results of Zoning Letter provided in 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.>>

### **Title**

<<Lenders may elect to defer addressing title-related issues (including title search, pro forma policy matters, and land title survey matters) until after receiving a firm commitment with conditions related to these items.>>

### **Title Search**

Date of Search: \_\_\_\_\_

Firm: \_\_\_\_\_

File Number: \_\_\_\_\_

**Key Questions**

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

**Pro Forma Policy**

Date/Time: \_\_\_\_\_

Firm: \_\_\_\_\_

Policy Number: \_\_\_\_\_

**Key Questions**

	<b>Yes</b>	<b>No</b>
1. Is the title vested in an entity or individual other than the proposed borrower?.....	<input type="checkbox"/>	<input type="checkbox"/>
2. Are there any covenants, encumbrances, liens, restrictions, or other exceptions indicated on Schedule B-1? .....	<input type="checkbox"/>	<input type="checkbox"/>
3. Are there any use or affordability restrictions remaining in effect on the property? .....	<input type="checkbox"/>	<input type="checkbox"/>
4. Are there any easements or rights-of-way listed that are not indicated on the survey? .....	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there any endorsements included aside from the standard HUD requirement? .....	<input type="checkbox"/>	<input type="checkbox"/>
6. Are there any subordination agreements, encroachments or similar issues that require HUD’s approval? .....	<input type="checkbox"/>	<input type="checkbox"/>
7. Are there any other matters requiring special consideration, agreements, or conditions that require HUD’s attention? .....	<input type="checkbox"/>	<input type="checkbox"/>
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? .....	<input type="checkbox"/>	<input type="checkbox"/>

<<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...>>

## **ALTA/ACSM Land Survey**

Date: \_\_\_\_\_

Firm: \_\_\_\_\_

### **Key Questions**

	<b>Yes</b>		<b>No</b>
1. Have there been any material changes in the legal description of the property since the date of the existing survey (e.g., due to a partial release, the addition of property or both)?	<input type="checkbox"/>		<input type="checkbox"/>
2. Have any new easements affecting the property been granted since the date of the existing survey (other than blanket easements or other easements that clearly do not conflict with use of project facilities, as determined by HUD)?	<input type="checkbox"/>		<input type="checkbox"/>
3. Have any additional improvements (including driveways and parking areas) been constructed on the property since the date of the existing survey?	<input type="checkbox"/>		<input type="checkbox"/>

*If you answer “no” to all of the above questions, copies of the most recent signed and certified “as-built” survey, accepted by HUD, must be provided (originals are not required). No further review is needed. If copies are not available, a current “as-built” survey, confirming to the HUD Survey Instructions & Owner’s Certification may be required and the ALTA/ACSM Land Title Survey addendum must be attached to this narrative. If a current “as-built” survey is submitted, **COMPLETE THE KEY QUESTIONS BELOW.**>>*

*<<If you answer “yes” to any of the above questions, a current “as-built” survey, confirming to the HUD Survey Instructions & Owner’s Certification is required. **COMPLETE THE QUESTIONS BELOW.**>>*

	<b>Yes</b>		<b>No</b>
4. Are there any differences between the legal description on the survey and legal description included in the pro forma title policy, third party appraisal, Phase 1 and Exhibit A of the Firm Commitment?	<input type="checkbox"/>		<input type="checkbox"/>
5. Are there any revisions or modification required to the survey prior to closing?	<input type="checkbox"/>		<input type="checkbox"/>
6. Does the survey indicate any boundary encroachments?	<input type="checkbox"/>		<input type="checkbox"/>
7. Does the survey evidence any buildings encroaching on utility or other easements or rights-of-way?	<input type="checkbox"/>		<input type="checkbox"/>
8. Are there any unusual circumstances or items that require special attention or conditions?	<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 and the effect on value or the marketability of the project. For 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.>>

**Borrower**

Name: \_\_\_\_\_  
 State of Organization: \_\_\_\_\_  
 Date Formed: \_\_\_\_\_  
 Termination Date: \_\_\_\_\_  
 FYE Date: \_\_\_\_\_

**Key Questions**

- |                                                                                                                            | Yes                      | No                       |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. Does the borrower currently own any assets other than the subject property or participate in any other businesses?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. According to the application exhibits, 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?                                                                                    | <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.>>

**Organization**

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

**Principal of the Borrower – <<enter name of principal here>>**

**Key Questions**

- |                                                                                                                                                                                                                                 | <b>Yes</b>               | <b>No</b>                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. Have any principals of the borrower changed or are any such changes proposed that have not been approved by HUD? If yes, provide this section for each principal of the borrower; if no, move on to Operating Lease section. | <input type="checkbox"/> | <input type="checkbox"/> |

**Key Questions**

- |                                                                                                                                                               | <b>Yes</b>               | <b>No</b>                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1.                                                                                                                                                            | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is or has the principal of the borrower been delinquent on any federal debt?                                                                               | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Is or has the principal of the borrower been a defendant in any suit or legal action?                                                                      | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Has the principal of the borrower ever filed for bankruptcy or made compromised settlements with creditors?                                                | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Are there judgments recorded against the principal of the borrower?                                                                                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Are there any unsatisfied tax liens against the principal of the borrower?                                                                                 | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. 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? | <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. >>

**Organization**

<<Not applicable to individuals. If the principal is an entity, provide the following:>>

Name: \_\_\_\_\_

State of organization: \_\_\_\_\_

Date formed: \_\_\_\_\_

Termination date: \_\_\_\_\_

<<As applicable, please provide organization chart and narrative discussion.>>

**Experience/Qualifications**

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

<<Provide narrative description of principal’s experience with development, lease-up and operations of facilities similar to the proposed project in resident type, regulatory environment, size and complexity of project. Discussion should highlight direct experience and involvement in other transactions. Provide key operating metrics from initial lease-up to stabilization, including fill pace, occupancy and net operating income.>>

## 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? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the underwriter 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 Business Concerns/232 Applications

### Key Questions

- |                                                                                                                                                                                                                                    | Yes                          | No                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|--------------------------|
| 12. Does the principal identify any other business concerns?                                                                                                                                                                       | <input type="checkbox"/>     | <input type="checkbox"/> |
| a. Do any of the other business concerns have pending judgments, legal actions/suits, or bankruptcy claims? (If so, a credit report must be obtained on the business concern.)                                                     | <input type="checkbox"/> N/A | <input type="checkbox"/> |
| b. If so, was a credit report obtained on the business concern?                                                                                                                                                                    | <input type="checkbox"/> N/A | <input type="checkbox"/> |
| 13. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?                                                                                                         | <input type="checkbox"/> N/A | <input type="checkbox"/> |
| 14. 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? | <input type="checkbox"/>     | <input type="checkbox"/> |

<<As applicable, a “yes” answer requires a narrative discussion on the topic describing the risk and how it will be mitigated.>>

### **Credit Reports for Other Business Concerns:**

<<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.)

**Financial Statements – For Party(ies) Responsible for Financial Requirements for Closing and Beyond – <<enter name(s) of responsible party(ies) here>>**

<<Complete this section if the borrower entity does not have sufficient financial capacity.>>

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>>

<<Include a discussion on the borrower’s financial capacity. Include the percentage of owner’s equity into the project. The discussion must address: (1) the borrower’s net worth; (2) liquidity; (3) the borrower’s ability to meet the cash requirements of the project; and (4) the borrower’s ability to meet the financial obligations of the project for the long term.>>

<<If Form HUD-92417-ORCF is included, provide discussion on the individual’s financial capacity, net worth and liquidity.>>

Effective date (of HUD-92417)	Total assets	Net worth	Total liquidity (cash available)	Comments
	\$	\$	\$	

**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 other facilities. The underwriter recommends this principal as an acceptable participant in this transaction.”>>

## Operating Lease

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. Does the lease contain any non-disturbance provisions? .....                                              | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the lease require the borrower to escrow any funds other than those associated with this loan? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Is state approval of the lease payment required? .....                                                    | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Will the lease payment need to be increased to cover increased debt service? .....                        | <input type="checkbox"/> | <input type="checkbox"/> |

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

## HUD Lease Provisions

<<Discuss compliance with HUD lease provisions and identify any modifications required.>>

### Key Questions

- |                                                                                                                                                                                              | Yes                      | No                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. Is the facility subleased (master lease)? .....                                                                                                                                           | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Will the lease at closing have a term that will expire within 5 years with no lease renewal options? (See guidance below.) .....                                                          | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Does the lease contain any non-disturbance provisions? .....                                                                                                                              | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Does the lease require the borrower to escrow any funds other than those associated with this loan? .....                                                                                 | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Are there proposed changes to the current operating lease? .....                                                                                                                          | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Has the lender recommended any special conditions concerning the lease? ..                                                                                                                | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Is an increased to the current lease payment required to provide sufficient debt coverage for the mortgage payment, MIP, and other insurance premiums, taxes, reserves or impounds? ..... | <input type="checkbox"/> | <input type="checkbox"/> |

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



### Master Lease

<<If the project is a part of a portfolio subject to an existing master lease, explain how the lease provisions will be modified to reflect payments to cover increased debt service associated with this loan.>>

### 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 current leases indicate an aggregate rent payment of \$ \_\_\_\_\_ per month (\$ \_\_\_\_\_ annually) above the payments required by the HUD-insured loan.

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	\$
<b>h Minimum annual lease payment</b>	<b>\$</b>
.	

<<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.”>>

### State Inspections

#### Key Questions

- |                                                                                        | Yes                      | No                       |
|----------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. Are there currently any open findings resulting from state survey inspections?..... | <input type="checkbox"/> | <input type="checkbox"/> |

<<If you answered “yes” to the question above, please discuss the open findings and the resolution.>>

**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)

<input type="checkbox"/> Tier 1 Baseline	<input type="checkbox"/> Internally Administered Risk Management Program
<input type="checkbox"/> Tier 2 Elevated Risk	<input type="checkbox"/> External 3 <sup>rd</sup> 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.>>

## **Insurance**

### **Professional Liability Insurance (PLI) Coverage**

Commercial insurance:  Yes  No  
Self insurance:  Yes  No  
If self insurance, describe: \_\_\_\_\_  
Is there a fronting policy?  Yes  No  
Name 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: \_\_\_\_\_  
OR Self insurance retention: \_\_\_\_\_  
Policy Basis: .....  Per occurrence  Claims made  
Current Expiration: ..... \_\_\_\_\_  
Retroactive Date: ..... \_\_\_\_\_  
Policy Premium: ..... \_\_\_\_\_

### **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 general and professional liability insurance. For example, “The mortgagor’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 has been and/or will be provided by XX. The underwriter has confirmed estimates of the cost and coverage for underwriting and that it complies with HUD requirements.”>>

## **Mortgage Loan Determinants**

### **Overview**

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

Requested amount:	\$
Debt service coverage:	\$
Transactions costs:	\$
Deduction of loan(s), grant(s), and gift(s) for mortgageable items:	\$

### **Mortgage Term**

The underwriter concluded that the estimated remaining useful life of the project is \_\_\_\_\_ years. For mortgages equal to \$100,000 or more, the term of the mortgage is to be coterminous with the maturity of the existing HUD mortgage or 15 years. For mortgages less than \$100,000, the term of the mortgage is to be coterminous with the maturity of the existing HUD mortgage or 10 years.

### **Debt Service Limit**

The \$ \_\_\_\_\_ debt service limit was calculated using HUD’s guidelines. This is based on 90% of the underwritten net operating income of \$ \_\_\_\_\_, interest rate of \_\_\_\_\_ % and a \_\_\_\_\_ -year term. The mortgage calculation should account for debt service required by other mortgages that will remain in place.

<<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.>>

### **Transaction Cost Limit**

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

Legal and organizational fees \$ \_\_\_\_\_

Title and recording fees  
HUD fees  
Lender fees  
Survey, if required  
Other: <<identify here>>

---

**Total:** \$

### **Additional Replacement Reserve Deposit**

<<If none, please state "None." Note that loan proceeds may not be used for additional replacement reserve deposits.>>

### **Repairs**

<<Repairs that are not for the installation of fire safety equipment may not be included in the mortgage.>>

### **Legal and Organizational Costs**

The borrower's legal and organization costs are estimated to total \$ ( \$ for legal and \$ 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 sources and uses. The HUD inspection fee is \$5 per \$1,000 of the fire safety mortgage amount.>> The HUD fees total \$ and are comprised of MIP totaling 1.0% of the mortgage amount ( \$ ); the HUD application fee totaling 0.3% of the mortgage amount ( \$ ); and the HUD inspection fee ( \$ ).

### **Financing Fees**

<<This section pertains to the transaction cost calculation and may not match the actual fees in the source and use. All fees paid to the lender are to be discussed. Maximum lender fees cannot

exceed 3.5% of the mortgage.>> The financing fees payable to the lender total \$ . The total is made up of a fee of 1.50% of the mortgage amount (\$ ); plus, fixed lender fees totaling \$ . In total, the fees payable to the lender represent % of the mortgage amount.

### **Other Fees**

<<If none, please state “None.” If the other fees are included, provide a descriptive listing with the estimated cost. Provide justification for eligibility.>>

### **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.>>

### **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. >>

### **Type of Financing**

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

### **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. >>

### **Special Commitment Conditions**

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

- 1.
- 2.

## **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.

## **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 \_\_\_\_\_ This report was reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

<<Name>>

<<Title>>

<<Phone>>

<<Email>>

<<Name>>

<<Title>>

<<Phone>>

<<Email>>

This report was reviewed, and the Date  
site inspected by:

---

<<*Name*>>

<<*Title*>>

<<*Phone*>>

<<*Email*>>