

Addendum to Underwriting Narrative

Operator
Addendum to Underwriting Narrative – Operator
Section 232
(223(a)7, 223(d), 241(a))

U.S. Department of Housing and Urban Development
Office of Healthcare Programs

OMB Approval No. 9999-9999
(exp. mm/dd/yyyy)

Public reporting burden for this collection of information is estimated to average 0.5 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. Response to this request for information is required in order to receive the benefits to be derived. 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. No confidentiality is assured.

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This addendum is applicable to Section 223(a)(7), Section 223(d) or Section 241(a), loans when a change in Operator has occurred or is proposed. The addendum must be provided if the Operator has not been previously approved by HUD for the subject property.

Name: _____
State of Organization: _____
Date Formed: _____
Termination Date: _____

Key Questions

	<u>Yes</u>	<u>No</u>
1. Does the Operator currently own, operate, or manage any other facilities?	_____	_____
2. Does the Operator contract out nursing services other than temporary staffing through an agency and/or contracting for ancillary services (e.g., therapies, pharmaceuticals)?	_____	_____
3. According to the application exhibits, is or has the Operator been delinquent on any Federal debt?	_____	_____
4. According to the application exhibits, is or has the Operator been a defendant in any suit or legal action?	_____	_____
5. According to the application exhibits, has the Operator ever claimed bankruptcy or made compromised settlements with creditors?	_____	_____
6. According to the application exhibits, are there judgments recorded against the	_____	_____

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If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. Example:

Other Business Concerns:

XXXXX identified XX other business concerns in addition to the Mortgagor 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.

Other Section 232 Applications:

XXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted and closed in As this is only XXXXX’s Xth FHA-insured healthcare loan, no additional reviews required by HUD Notice H 01-03 are required.

>>

Other Facilities Owned, Operated or Managed

	<u>Yes</u>	<u>No</u>
1. Does 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?	_____	_____
b. Do any of the other facilities have any open professional liability insurance claims?	_____	_____
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 for skilled nursing)?	_____	_____

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. Example:

Other Facilities:

XXXXX identified XX other facilities it owns, operates, or manages in addition to the subject facility....

>>

Financial Statements

The application includes the following Operator financial statements:

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Addendum to Underwriting Narrative

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:

	<u>Yes</u>	<u>No</u>
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 any of the financial statements indicate a loss prior to depreciation?	_____	_____
4. Do the Aging of Accounts Payable schedules show any payables in excess of 60 day in amounts over \$2,500?	_____	_____
5. Do the Aging of Accounts Receivable schedules show any receivables in excess of 60 day in amounts over \$2,500?	_____	_____
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?	_____	_____

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. If not applicable, indicate “NA” in the No column. 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.

Tenant Security Deposits: The tenant security deposits do not appear to be fully funded. At closing, however, the mortgagor 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.

>>

General Review

<<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.>>

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Conclusion

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “The Operator entity has demonstrated an acceptable financial and credit history. 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 Mortgagor template and modify it appropriately for an Operator.>>

Name: _____
State of Organization: _____
Date Formed: _____
Termination Date: _____

Key Questions

	<u>Yes</u>	<u>No</u>
1. Does the Parent of the Operator currently own, operate, or manage any other facilities?	_____	_____
2. According to the application exhibits, is or has the Parent of the Operator been delinquent on any Federal debt?	_____	_____
3. According to the application exhibits, is or has the Parent of the Operator been a defendant in any suit or legal action?	_____	_____
4. According to the application exhibits, has the Parent of the Operator ever claimed bankruptcy or made compromised settlements with creditors?	_____	_____
5. According to the application exhibits, are there judgments recorded against the Parent of the Operator?	_____	_____
6. According to the application exhibits, are there any unsatisfied tax liens?	_____	_____

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.>>

Organization

<<Organization Chart and Narrative, as applicable.>>

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Experience / Qualifications

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

Credit History

Report Date: <<within 60 days of submission>>
Firm: <<Dunn & Bradstreet required for business entities>>
Score: _____

Key Questions

	<u>Yes</u>	<u>No</u>
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?	_____	_____

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.>>

Other Business Concerns/232 Applications

	<u>Yes</u>	<u>No</u>
1. Does 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?	_____	_____
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 or Section 232/223(f) loans on Part VI and Attachment Two of their certification?	_____	_____

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. Example:

Other Business Concerns:

XXXXX identified XX other business concerns in addition to the Mortgagor 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.

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>>

Other Facilities Owned, Operated or Managed

	<u>Yes</u>	<u>No</u>
2. Does the Parent of the Operator own, operate, or manage any other facilities?	_____	_____
d. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims?	_____	_____
e. Do any of the other facilities have any open professional liability insurance claims?	_____	_____
f. Do any of the other facilities have any open State findings related to instances of actual harm and/or immediate jeopardy (G or higher for skilled nursing)?	_____	_____

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Financial Statements

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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:

	<u>Yes</u>	<u>No</u>
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 any of the financial statements indicate a loss prior to depreciation?	_____	_____
4. Do the Aging of Accounts Payable schedules show any payables in excess of 60 day in amounts over \$2,500?	_____	_____

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	<u>Yes</u>	<u>No</u>
5. Do the Aging of Accounts Receivable schedules show any receivables in excess of 60 day in amounts over \$2,500?	_____	_____
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?	_____	_____

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. If not applicable, indicate “NA” in the No column.>>

General Review

<<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.>>

Conclusion

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “The Operator entity has demonstrated an acceptable financial and credit history. 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.”>>

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. XXXXXXXX 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.”>>

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Staffing

<< 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

Date of Agreement: _____

Current Lease Term Expires: _____

Description of Renewals: _____

Current Lease Payment: _____

Major Movable Equipment

- Current Ownership: <<Mortgagor / Operator>>

- Post Closing Ownership: <<Mortgagor / Operator>>

Key Questions

	<u>Yes</u>	<u>No</u>
1. Does the lease contain any non-disturbance provisions?	_____	_____
2. Does the lease require the Mortgagor to escrow any funds other than those associated with this loan?	_____	_____

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.>>

Lease Payment Analysis

The lease payments need to be sufficient to (1) enable the lessor to meet debt service and impound requirements; and, (2) enable the lessee to properly maintain the project and cover operating expenses. The current leases indicate an aggregate rent payment of \$XX per month (\$XX annually) above the payments required by the FHA-insured loan.

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The underwriter has prepared an analysis demonstrating the minimum acceptable lease payment.

a.	Annual Principal and Interest	\$	-
b.	Annual Mortgage Insurance Premium		-
c.	Annual Replacement Reserves		-
d.	Annual Property & Liability Insurance		-
e.	Annual Real Estate Taxes		-
f.	Total Debt Service and Impounds	\$	-
g.	% of Net Income Available for Debt Service		85.0%
h.	Programs Debt Service Coverage		1.176
i.	Minimum Annual Lease Payment	\$	-
j.	Annual Return on Lease	\$	-
k.	Net Operating Income (NOI)	\$	-
l.	Adjusted NOI (k+c+d+e)	\$	-
m.	Operator's Coverage		#DIV/0!

The lease payment as currently proposed in the lease would amount to \$XX (\$XX per year + \$436,798 for debt service and impounds). The lease payment should be increased to \$77,082 per year (\$6,423.50 per month) plus the total debt service and impound amounts required by the FHA-insured loan. The underwriter has included a special condition to the firm commitment requiring the lease payment be revised to meet or exceed this minimum. 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.>>

HUD Lease Provisions

Prior to closing, the lease needs to be modified to include the appropriate HUD requirements outlined in the HUD Operating Lease Agreement, including, but not limited to:

1. Contain a restriction against ~~its~~ assignment or subletting without HUD prior approval;
2. Requires prior written approval by HUD for any modification in bed authority;
3. Requires the lessee to submit financial statements to HUD within ~~60~~90 days of the close of the facility's fiscal year;
4. Designates the lessee as having the responsibility to seek and maintain all necessary licenses and provider agreements including Medicaid and Medicare.

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5. Requires the lessee to submit a copy of the licenses and provider ~~agreement~~agreements to HUD.
6. Requires the ~~mortgagor/lessor~~lessee ensure that the facility meets State licensure requirements and standards.

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