

# Lender Narrative

## Section 232/241(a)

Lender Narrative –  
Section 232/241(a)

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

OMB Approval No. 9999-9999  
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Public reporting burden for this collection of information is estimated to average 73 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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### Firm Commitment Application

#### **Instructions:**

The narrative is a critical document 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.

*Not Applicable:* If a section is not applicable, state so in that section and provide a reason. Do not delete sections that are not applicable. HUD checks the narrative to make sure that all sections are provided. If a major section is not applicable, add “ – Not Applicable” to the header and provide a narrative section giving the reason. For instance,

Management Agent – 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.

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## Executive Summary

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

Project Address: \_\_\_\_\_

City / State / Zip: \_\_\_\_\_

County: \_\_\_\_\_

Purpose of Loan: <<description of purpose of loan (e.g., Construction and permanent financing for the addition of 20 assisted living beds.)>>

Type of Facility:	<input type="checkbox"/>	Skilled Nursing:	<input type="checkbox"/>	beds	<input type="checkbox"/>	units
	<input type="checkbox"/>	Assisted Living:	<input type="checkbox"/>	beds	<input type="checkbox"/>	units
	<input type="checkbox"/>	Board & Care:	<input type="checkbox"/>	beds	<input type="checkbox"/>	units
	<input type="checkbox"/>	Dementia Care:	<input type="checkbox"/>	beds	<input type="checkbox"/>	units
	<input type="checkbox"/>	Independent:	<input type="checkbox"/>	beds	<input type="checkbox"/>	units
Totals:			<u>0</u>	beds	<u>0</u>	units

### Current Insured Loan(s):

Original Section of the Act: \_\_\_\_\_  
 FHA Number: \_\_\_\_\_  
 Original Loan Amount: \_\_\_\_\_  
 Current Interest Rate: \_\_\_\_\_  
 Principal & Interest (monthly): \_\_\_\_\_

### Proposed 241(a) Supplemental Loan Terms:

FHA Number: \_\_\_\_\_  
 Loan Amount: \_\_\_\_\_  
 Interest Rate: \_\_\_\_\_  
 Principal & Interest (monthly): \_\_\_\_\_

MIP (monthly):	_____	MIP (monthly):	_____
Total P+I+MIP (monthly):	_____	Total P+I+MIP (monthly):	_____
Debt Service Coverage:	_____		
Principal Balance:	_____	<b>Total Insured Mortgages:</b>	
As of:	_____		
Maturity Date:	_____	Total Debt Service Coverage:	_____
Original Term (in months):	_____	Mortgage Term <sup>1</sup> :	_____

Gross Income:	_____		
Effective Gross Income:	_____	Occupancy Rate:	_____
Expenses & Repl. Res.:	_____	Expense Ratio:	_____
Net Operating Income:	_____		

Construction Contract: \_\_\_\_\_

<input type="checkbox"/> P/P Bonds	<input type="checkbox"/> Cost Plus	<input type="checkbox"/> Off-Sites
<input type="checkbox"/> Letter of Credit	<input type="checkbox"/> Lump Sum	<input type="checkbox"/> Demolition

**Total Construction**

Costs: *As reported on HUD-2328, Line 53, plus Offsites and Demolition Costs*

\_\_\_\_\_ \$

**Estimated Construction Start Date:** (First Year) \_\_\_\_\_

**Construction Period:** (# of months) \_\_\_\_\_

Architectural Contract: \_\_\_\_\_

Multiply AIA B184s- AGREEMENTS

Operating Deficit: \_\_\_\_\_

Relocation escrow required: \$ \_\_\_\_\_

Special Escrows, Etc: \_\_\_\_\_ <<description of other escrows/reserves>>

	<u>Year</u>	<u>FTE's</u>	<u>Operating Revenues</u>	<u>SWB</u>
<u>Operations - Base Year</u>			\$	\$
<u>Operations - Post Construction</u>			\$	\$

<<Definitions:  
Base Year: Year before construction.  
Year: First year of stabilized occupancy after completion of construction. (Example: for completion date of 6/1/13 plus "12 months for reaching stabilized occupancy"\* , enter 2014.) \* # Of Months reported on OHP's IOD spreadsheet, "Output-Summary Exhibit" tab.  
FTE's: As reported on the "Staffing Schedule" - Exhibit in the Operations Section of the application checklist.  
Operating Revenues: As reported on form HUD-92264, Section G, Line 3.  
SWB (Salaries, Wages, Benefits): As reported on the "Staffing Schedule" - Exhibit in the Operations Section of the application checklist.>>

<sup>1</sup> Mortgage Term is the projected remaining term of the existing insured mortgage. The loans must be coterminous.

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Mortgagor: <<Legal Name>>

Operator: <<Legal Name>>

Operating Lease

Parent of the Operator: <<Legal Name>>

Management Agent: <<Legal Name>>

General Contractor: <<Legal Name>>

Architect(s): <<Legal Name>>

Third Party Reports provided:

<input type="checkbox"/> Market Study (if required)	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by underwriter.
<input type="checkbox"/> Appraisal	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by underwriter.
<input type="checkbox"/> Draft 4128 (Phase I not required)	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by underwriter.
<input type="checkbox"/> Architecture/Cost Review	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by underwriter.

**Labor Relations**

**Program Guidance:** Supplemental loans under Section 241 of the Act are subject to the provisions of Section 212 that are applicable to the section or title pursuant to which the mortgage covering the project or facility is insured or pursuant to which the original mortgage covering the project or facility was insured.

Wage Decision Type:  Residential  Building (Commercial)

Wage Decision Number: \_\_\_\_\_ Mod #: \_\_\_\_\_

Wage Decision Modification Date: \_\_\_\_\_

# of Buildings: \_\_\_\_\_ # of Units \_\_\_\_\_

# of Stories: 25 # of self-contained units<sup>2</sup>: \_\_\_\_\_

**Lenders Pre-Construction Conference Coordinator Information**

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

Email: \_\_\_\_\_

Phone: \_\_\_\_\_

Mailing Address: \_\_\_\_\_

**General Overview**

<<Provide narrative of rationale for selection of Wage Decision specified>>

<sup>2</sup> Self-contained means that the units contain both a kitchen/kitchenette and a bathroom. This criterion, in addition to the number of stories, affects whether the construction type will be "residential" or "building".

### **Sensitivity Analysis**

<<Provide a Sensitivity Analysis. At a minimum, the analysis of the combined mortgages is to answer the following questions:

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

- (a) How much can rental rates drop per month or resident day and provide 1.0 combined debt coverage?
- (b) What occupancy rate is required to provide 1.0 combined debt coverage?
- (c) How much can expenses increase per bed per year or resident day and provide 1.0 debt combined coverage?
- (d) What sensitivities exist in the proposed census mix?

>>

### **Lender Loan Committee**

<<Provide brief narrative summary of loan committee, including: date held; information provided; any pertinent requirements / conditions of the loan committee to gain the committee's recommendation>>.

### **Program Eligibility**

#### **Commercial Space / Income**

<<Affirmative statement along the lines of: "The entire project after completion of proposed improvements has no qualified commercial space or income; therefore it does not exceed the program limitations of 10 percent of the gross floor area of the project and 15 percent of the gross income.">><<If facility has commercial space, provide calculations for space and for income, as underwritten>>

#### **Founder's Fees / Life Care Fees**

<<Affirmative statement along the lines of: "The facility will not charge 'founder's fees', 'life care fees', or other similar charges associated with 'buy-in' facilities.">>

#### **Bathrooms**

<<Affirmative statement along the lines of: "The facility design meets the minimum requirement as no more than four residents share a full bathroom and all access to the qualifying bathrooms from the resident bedrooms is not through public corridors or areas.">>

#### **Independent Units**

<<Affirmative statement along the lines of: "The entire facility as improved has {X} independent units. This represents {Y} percent of the total, which is under the 25 percent guideline. The independent units are not licensed.">>

#### **Licensing / Certificate of Need / Keys Amendment**

<<Describe the current and proposed licensing for the facility. Include information on Certificate of Need (CON) requirements (if applicable) and Section 1616(e) of the Social Security Act (Keys Amendment) (if applicable).>>

## Bankruptcy

<<Affirmative statement along the lines of: “Neither the Mortgagor nor the Operator nor any of their affiliates, renamed, or reformulated companies, have filed for, are in, or have emerged from bankruptcy within the last five (5) years.”>>

## Continuous Protective Oversight and Assistance

<<Affirmative statement along the lines of: “The facility will provide continuous protective oversight and the minimum assistance required to qualify under the Section 232 mortgage insurance program.”>>

## Waivers

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

## Special Underwriting Considerations

### Key Questions

	<u>Yes</u>	<u>No</u>
<del>1.</del> Did the lender submit a pre application package?	_____	_____
<del>a.</del> Did the HUD market agreement letter identify issues to be addressed in the firm commitment application?	_____	_____
<del>2.</del> Was an early commencement approved for this project?	_____	_____
<del>a.</del> If there was an Early Commencement approval, were there any issues identified that need to be addressed in the firm commitment application?	_____	_____
<del>3-1.</del> Will there be Accounts Receivable Financing affecting this project’s income? (Operator; Parent of the Operator; Management Company; Mortgagor)	_____	_____
<del>4-2.</del> Is the Mortgagor a nonprofit or public entity AND are the nonprofit mortgage criteria utilized in the underwriting? (If yes, Operator must also be a nonprofit entity)	_____	_____
<del>5-3.</del> Was an Underwriter Trainee involved in underwriting this transaction?	_____	_____
<del>6-4.</del> Is a mortgage broker involved in this transaction?	_____	_____
<del>7-5.</del> Does the underwriting include income from Adult Day Care?	_____	_____
<del>8-6.</del> Will there be a ground lease?	_____	_____
<del>9-7.</del> Is Accounts Receivable Financing involved with this transaction or the operator or the parent of the operator?	_____	_____
<del>10-8.</del> Are there any Professional Liability Insurance issues that require special consideration or HQ review?	_____	_____
<del>11-9.</del> Are any tax credits involved in this transaction?	_____	_____
<del>12-10.</del> Are any secondary funding sources involved in this transaction?	_____	_____
<del>13-11.</del> Is any real estate tax abatement or exemption included in the underwriting assumptions?	_____	_____
<del>14-12.</del> Are there any special escrows or reserves proposed for this transaction?	_____	_____
<del>15-13.</del> Are there any wetlands on the subject property?	_____	_____
<del>16-14.</del> Is the subject property located in a 100- or 500-year flood hazard?	_____	_____

	<u>Yes</u>	<u>No</u>
<del>17.15.</del> Is the subject site suspected to be of any historical significance?	_____	_____
<del>18.16.</del> Other than the aforementioned questions, waivers and program eligibility requirements, are there any other issues that require special or atypical underwriting consideration?	_____	_____
<del>19.17.</del> Do you, as the underwriter, recommend or request any HUD technical reviews of issues, exhibits, or third party reports related to this transaction?	_____	_____

If you answer "yes" to any of the above questions, please address below. Insert "N/A" in the No column if not applicable.

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

Examples Below:

**Item 13 - Real Estate Tax Abatement**

The borrower will be receiving an abatement of real estate taxes for at least two years after opening the facility. The abatement is to be a minimum of 70 percent of the taxes due. Because the specific nature and length of the tax abatement is not known at this time, we have not assumed the abatement for valuation or debt service purposes. The underwriter has, however, excluded 70 percent of the underwritten taxes from the initial operating deficit calculation. Therefore, a condition requiring evidence of the abatement from the local taxing authority is recommended.

**Item 15 - Wetland Area**

A wetland associated with a tributary of Spring Creek was identified on the National Wetland Inventory Map. The wetland affects the northwest corner of the property. A nationwide permit application was submitted to the Army Corps of Engineers for approval. The Army Corp of Engineers has issued a letter February 21, 2007, stating that proposed project does not require a Section 404 permit. No further action is warranted. A copy of the letter is in the application.

**Item 18 - Soils Report**

A Geotechnical Investigation Report by ABC Engineering, Inc. is provided in the application; however, only five boring samples were taken, which does not meet the minimum HUD standard of 1 boring per 2,500 square feet. ABC's conclusion was that five borings were more than sufficient based on the consistency of the samples and they have provided a letter to that affect. Based on this letter and the design architect's certification that the foundations have been designed to conform to the geotechnical report, (Lender's Architectural Reviewer) and (Lender Name) find this acceptable and recommend that HUD accept the soils report and design architect's certification in lieu of requiring additional samples that will in all likelihood lead to the same conclusion.

**Identities-of-Interest**

	<u>Yes</u>	<u>No</u>
1. Have you, as the Lender, identified any identities of interest on your certification?	_____	_____
2. Does the Mortgageor's certification indicate any identities of interest?	_____	_____

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 3. Do any of the certifications provided by Principals of the Mortgagor identify any identities of interest?  | _____      | _____     |
| 4. Does the Operator’s certification indicate any identities of interest? (if applicable)   | _____      | _____     |
| 5. Does the Management Agent’s certification indicate any identities of interest? (if applicable)   | _____      | _____     |
| 6. Does the General Contractor’s certification indicate any identities of interest?   | _____      | _____     |
| 7. Does the HUD Addendum to the AIA <b>B+B108</b> of the Design Architect identify any identities of interest?  | _____      | _____     |
| 8. <u>Does the lender know that, or have any reason to believe, that any of the assertions in the other Consolidated Certifications submitted herewith, are inaccurate or incomplete?</u> | _____      | _____     |

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

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

Example:

**Mortgagor and Operator:** The Mortgagor and Operator are related parties – John Doe has ownership in both entities. No other identities of interest are disclosed. >>

## Risk Factors

### Key Questions

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. If the project is proposing new construction of assisted living units, is the proposed mortgage higher than 75 percent of the underwriter’s concluded value? | _____      | _____     |
| 2. Is the debt service coverage of the loan less than 1.45?   | _____      | _____     |

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. See below program guidance for more discussion of these issues.

**Program Guidance (issued in Lender Email Blast on 2/6/09):**

Given the difficult economic and fiscal environment nationally, the Department is requesting that HUD approved Mortgagees exercise caution in underwriting loans under the LEAN Section 232 programs for new construction and refinance transactions for assisted living facilities. For all Assisted Living Project LEAN mortgage insurance applications under Section 223(f), Section 232 new construction and substantial rehabilitation, and Section 241(a), HUD will require justification/mitigation if the underwritten debt service coverage ratio (“DSCR”) is less than 1.45. Moreover, as was previously discussed with various lenders in June of 2008, for all LEAN

mortgage insurance applications involving new construction of Assisted Living units, HUD will require justification/mitigation if the underwritten loan to value is greater than 75%.

The Department would consider, for example, a mitigating factor to be the inclusion of less expensive independent living units in the project or the presence of facility residents that are being provided with state or federal rental assistance subsidies. The Department's review of mitigating factors will focus on any project specific attributes that result in limiting project market risk or in reducing project financial risk. The Department will be reasonable and flexible in determining where justifiable circumstances or mitigating factors exist.

**Additional Guidance on the Use of Project Capitalization Rates:**

The Department would like to provide general guidance regarding the usage of capitalization rates for Assisted Living projects. HUD believes that the capitalization rate should be a true reflection of conditions in the marketplace and the specific risks associated with a project. The Department is particularly concerned with the use (in some cases) of an approximate "risk free" capitalization rate for Assisted Living projects. The Department is not mandating a minimum capitalization rate. However, HUD may require justification/mitigation on Assisted Living projects if the capitalization rate used by the appraiser appears not to fully account for specific project and market related risks. This capitalization rate issue should be fully discussed in the Lender Narrative of the LEAN Application.

The Department believes that, in most but not all economic environments, the following debt service constant formula (Debt Service Constant + FHA MIP) multiplied by 1.25 would reflect reasonable guidance for the "minimum" capitalization rate for a proposed project. HUD would expect that the market realities of each project would dictate the capitalization rate to be used, which may be higher than the minimum formula. HUD does not wish to impose requirements for determining the capitalization rate and will defer to the USPAP appraisal standards to provide the definitive guidance on this issue. The Department's guidance on capitalization rates is not mandatory and the Department understands that this guidance may not be as helpful as a guide when market and economic conditions are either highly optimistic or overly conservative and/or when the interest rate environment reflects unusually low or high project interest rates.

Example for calculating Cap Rate: 7% fixed interest rate plus the MIP of 50 basis points.  $\{.0746 + .50bp \text{ MIP} = .0796 * 1.25 = .0995 \text{ or } 9.95\%$ . In this example, the minimum capitalization rate "guidance" is 9.95.

The revised guidance relative to the debt service coverage ratio, loan to value, and capitalization rates for assisted living projects *shall apply to any*

future application for mortgage insurance where an FHA Project Number is issued after February 6, 2009. Alternatively, if the FHA number has not been issued but a project appraisal is underway, FHA will accept the lower DSCR of 1.3 for refinancing and 1.35 for new construction if an appraisal engagement letter was executed prior to February 6, 2009, and if appraisals using the lower DSCRs are finalized and provided to HUD prior to April 6, 2009. On projects that do not meet this revised guidance (where the FHA Project Number was issued on or prior to February 6, 2009) the Lender should provide a notification in the Check Transmittal Letter and Lender Narrative of the mortgage insurance application that provides for the discussion of the appraisal lender modifications.

Please note that the previous guidance on loan to value and debt service coverage on Section 232/223(f)'s for Skilled Nursing and Independent Living Facilities have not been revised.

## Strengths

- <<Provide discussion of the strengths of the transaction>>

## Underwriting Team

### Lender

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

Underwriter: \_\_\_\_\_

Underwriter Trainee: \_\_\_\_\_

Mortgagee #: \_\_\_\_\_

Site Inspection Date: \_\_\_\_\_

Inspecting Underwriter: \_\_\_\_\_

<<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.**>>

### **Architectural Reviewer**

<<Brief description of qualifications>>

### **Cost Analyst**

<<Brief description of qualifications>>

### **Market Analyst**

<<Brief description of qualifications>>

### **Appraiser**

<<Brief description of qualifications demonstrating that appraiser meets requirements of Appraisal Statement of Work:

- Be a Certified General Appraiser under the appraiser certification requirements of the State in which the subject property is located;
- Meet all requirements of the Competency Rule described in USPAP;
- Be the individual actually signing the appraisal report;
- Have experience appraising a minimum of 5 similarly licensed healthcare facilities;
- Be currently active and regularly engaged in the appraisal of healthcare properties;
- Be experienced in the market area in which the subject property is located, as per USPAP; and,
- Be knowledgeable concerning current real estate market conditions and financing trends in the geographic market area where the subject property is located, as per USPAP.

>>

## **Project Description**

### **Site**

<<Brief narrative description about site - “as-is” and “as-proposed” - to include location, topography, size, frontage, proposed 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 application submission; and, discuss any variances, conditional uses, non-conformance or other pertinent issues affecting zoning.>>

## **Utilities**

<< Narrative description. Identify utilities proposed for 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. >>

## **Scope of Construction**

<< Narrative description of the planned improvements. The description should be sufficiently detailed to provide the HUD Underwriter and the HUD Review Appraiser a reasonable understanding of the work involved to assess the impact on underwriting and value concerns.

## **Improvement Description**

### **Buildings**

<<<< Narrative description to include “as-is” and “as-proposed”: number of buildings; construction types; floor area; describe common areas; etc. >>

### **Landscaping**

<< Narrative description about the proposed landscaping >>

### **Parking**

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

## **Units**

### Unit Mix

<< provide an “as-is” and “as-proposed” table or provide equivalent detail >>

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
K						
L						
M						
N						
O						
P						
Q						
R						
S						
T						
Totals:	-	-				

  

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
K						
L						
M						
N						
O						
P						
Q						
R						
S						
T						
Totals:	-	-				

Field Code Changed

Unit Features

<<Narrative description to describe “as-is” and “as-proposed” units, including: appliances, flooring, included furnishings, hook-ups, patios, etc. >>

## Services

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

## Architectural Review

Date of Report: \_\_\_\_\_

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

Reviewer: \_\_\_\_\_

### Key Questions

	<u>Yes</u>	<u>No</u>
1. Are any drawings or specifications to be “deferred submissions”?	_____	_____
2. Does the architectural reviewer recommend any commitment conditions?	_____	_____
3. Are the plans and specification incomplete?	_____	_____
4. Does the Architectural Reviewer indicate that relocation of residents is necessary?	_____	_____
5. Is there an Identity-of-interest between the design architect and any other project participant (mortgagor, principal of mortgagor, operator, and general contractor)?	_____	_____
6. Are there Architectural Review comments that have NOT been incorporated into the plans and specifications?	_____	_____

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

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

#### Example:

*Item 1 – Fire sprinkler system engineering will be completed by...*

*Item 3 – The completed plans and specifications will be submitted prior to closing. The architectural reviewer’s inspector has identified minor revisions to the plans and specifications which will be completed and submitted to HUD prior to closing. A list of the minor revisions includes..... The contractor has provided confirmation acknowledging the required revisions and confirms that they do not constitute anything that will cause a change in the costs as reflected on the HUD 2328 submitted with this application package. We (the lender) recommend a Special Condition to the Firm Commitment requiring that completed acceptable plans and specifications will be submitted prior to closing.*

*Item 4 - There is an Identity of Interest between the design architect and the mortgagor. The design architect is a principal of the mortgagor entity. Therefore to meet HUD requirements, a separate AIA ~~B181~~B108 is submitted with this package for an unrelated architect to provide the supervision services. Provide narrative describing the supervising architect’s name, experience, etc. . >>*

## Architectural Overview

<< Provide narrative describing the architectural reviewers report and conclusions and if the lender’s underwriter concurs with the conclusions. Identify any modifications to the report

conclusions and provide justification. Confirm if the review complies with the LEAN statement of work. Identify deliverables included in the application package. Include a narrative concerning key elements of the reviews, the appropriate HUD forms, and their correspondence with the design architect.

### ***Plans and Specifications***

<< Discuss issues relating to plans and specifications. Confirm if they are completed and submitted with the application; or if not, what minor issues remain to be completed in the deferred submittal prior to closing, etc. >>

### ***Building Codes and HUD Standards***

<< Provide narrative indicating the architectural drawings and specifications were found to comply with local building code standards and Minimum property standards.

### ***Accessibility***

Fair Housing Accessibility Guidelines (FHAG) / Uniform Federal Accessibility Standards (UFAS)

<< provide affirmative statement that the architectural reviewer confirmed that the plans are in conformance with FHAG and UFAS requirements. >>

### ***Owner-Architect Agreement***

<<Discuss Architectural Reviewers conclusions regarding compliance with HUD requirements. Indicate if the design architect is or is not providing supervision services. Provide affirmative statement that the architectural reviewer confirmed the agreement is a complete and correct [B181 Agreement](#) including Amendment to AIA Document [B181B108](#) Standard Form Agreement between Owner and Architect for Housing Services. >>

### ***Construction Progress Schedule***

<< Provide narrative discussion of the construction period as projected by the general contractor and project architect. Indicate if Architectural Reviewer agrees. Typically an updated Construction Progress Schedule that accurately reflects the month and date of construction start and completion will be needed prior to closing. >>

### ***Survey***

<< Discuss architectural reviewer's comments regarding the survey and if it is found in conformance to HUD standards. Check the current Lean Survey Instructions document for applicability.>>

### ***Soils Report***

<< Not required unless adding to the building footprint. Discuss soils report related to HUD requirements. Discuss architectural reviewer's findings regarding the report and that structural design is in compliance with findings of the report. Indicate lender's agreement with the conclusions. >>

### **Seismic Analysis**

<< If applicable, discuss reviewer’s findings regarding the analysis and that structural design is in compliance with HUD’s requirements. >>

### **Other Specialty or Engineering Reports**

<< If applicable, discuss reviewer’s findings regarding the reports and that design is in compliance with the findings of the report. >>

### **Conclusion**

<< Indicate if the review architect has appropriately addressed all architectural aspects of the development and the firm commitment application.

### **Cost Review**

Date of Report: \_\_\_\_\_  
Review Firm: \_\_\_\_\_  
Cost Analyst: \_\_\_\_\_

#### **Key Questions**

	<u>Yes</u>	<u>No</u>
1. Are there any variances in excess of 10% between the General Contractor’s form HUD-2328 line items and the Cost Analyst’s form HUD-92326?	_____	_____
2. Is the total reflected on the Cost Analyst’s form HUD-92326 more than 10% higher or lower than the total cost breakdown on form HUD -2328?	_____	_____
3. Will any one subcontractor, material supplier, or equipment lessor be awarded more than 50 percent of the construction contract?	_____	_____
4. Will three or fewer subcontractors, material suppliers, or equipment lessors be awarded more than 75 percent of the construction contract in aggregate?	_____	_____
5. Does or will the Contractor have any identities of interest with any subcontractors, material suppliers, or equipment lessors?	_____	_____

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

<<For each “YES” answer above, provide a narrative explanation and justification regarding the topic.

### **Cost Overview**

<<Confirm the cost reviewer performed the cost review pursuant to LEAN 232 standards. The deliverables included in the application package include a narrative concerning the cost analysis, the appropriate HUD forms, and cost data. Overall, the cost analyst found that there is no evidence of front-loading in the contractor’s cost estimate.

The cost analyst performed a comparison analysis and compared them to the contractor's final schedules of values (forms HUD-2328). The cost analyst ultimately concludes to the contractor's schedule of values. The underwriter concurs.>>

**Construction Costs (form HUD-2328)**

<< Discuss the cost analyst's review of the final forms HUD-2328 supplied by the contractor and owner after completing an independent cost analysis. Confirm the analyst found no front-loading in the final costs reflected in the HUD 2328 submitted. Indicate the analyst completed the FHA forms 2326 in accordance with HUD guidelines and the forms are included in the appropriate section of the application package.

Provide a breakdown of the costs from the form HUD-2328, Contractor's and/or Mortgagor's Cost Breakdown, included in the application package. The form totals \$X,XXX,XXX and is summarized as follows:

Complete this table or provide equivalent detail

Description	Cost	% of Contract	Per Sq ft of GBA	Per Bed
Structures				
Accessory Structures				
Land Improvements				
General/Requirements				
Builder's Overhead				
Builder's Profit				
Other Fees				
Bond Premium				
Total Construction Contract				

**General Requirements**

**Guidance:**

The cost for General Requirements will include the costs for those items incurred in the construction of the project and directly pertaining to a specific project. It will not include general overhead expense of operating the contractor's home office. Items of cost to be considered in determining General Requirements allowance include, but are not limited to, items such as:

- Supervision
- Field engineering to provide grades and lines for locating buildings, streets and walks on the site.
- Field office, phones, office supplies and equipment, and clerical help
- Temporary sheds and toilets

- Temporary heat, water, light, and power for construction
- Cleaning and rubbish removal
- Watchmen's wages
- Medical and first aid facilities
- Temporary protection and fences

The contractor's estimate of general requirements totals \$XXX. The Cost Analyst has determined that the proposed cost of the general requirements and the sub-items included in it are reasonable. The underwriter concurs.

### **2328 Other Fees – General Contractor**

**Guidance:**

On HUD form-2328, Other Fees is reserved for fees and allowances not normally included in General Requirements. Such fees might be:

- Special engineering fees such as test borings not provided for by the project architect.
- Special taxes based on cost of the buildings, such as school taxes, utility taxes or assessments, excise taxes, tap fees, etc.
- Contractor's cost certification
- Building permits

The form HUD-2328 includes other fees to be paid the general contractor totaling \$XXX . The other fees to be paid by the general contractor include the following:

**Schedule of Other Fees included in Construction Contract**

Line	Description	Amount
A	Survey	
B	Cost Certification	
C	Municipal Inspections	
D	Special Engineering Tests/Fees	
E	Special Taxes	
F	Permits	
G		
H		
I		
J		
<b>TOTAL</b>		<b>\$ -</b>

  

Line	Description	Amount
A	Survey	
B	Cost Certification	
C	Municipal Inspections	
D	Special Engineering Tests/Fees	
E	Special Taxes	
F	Permits	
G		
H		
I		
J		
<b>TOTAL</b>		<b>\$ -</b>

Field Code Changed

The cost analyst has reviewed the schedule of other fees and determined the items and the total cost to be reasonable. The underwriter concurs.

**Bond Premium / Assurance of Completion**

<< Provide narrative discussion of either construction bond – bonding company, contractor’s bond capacity, etc. – or the Assurance of Completion escrow – 15% or 25% of contract, cash or letter of credit, etc.>>

**Identities of Interest**

<< Describe any identities of interest between entities or principals including the general contractor, the architect, and mortgagor, operator, or management agent and the effect or mitigation of the effect on the project. >>

**Unusual Site Improvements**

<< Describe unusual site improvements and applicable costs, if any. >>

**Architect's Fees**

<< Provide narrative describing architect fees (design / supervision ). The Owner-Architect Agreement (AIA document [B181B108](#) with HUD Addendum) sets a total design fee of \$xxx and a construction supervision fee of \$xxx, for a total contract amount of \$xxx. The design fee currently represents X percent of the total architectural fee and X percent of the total cost of total structures, land improvements, and general requirements. The construction supervision fee is X percent and X percent of the same, respectively.

Confirm there is not an identity of interest between the mortgagor and the architect or if there is, discuss the separate supervising architect and his/her [B181B108](#) . Confirm if the cost analyst and underwriter find the architectural fees to be reasonable in total and for the cost of design/supervision. >>

**Other Fees**

**Schedule of Other Fees to be paid by Mortgagor**

Line	Description	Amount
A	Survey - Land and Final "As Built"	
B	Building Permits	
C	Soils Report	
D	Traffic Study	
E	Impact Fees	
F	Hook-up Fees	
G		
H		
I		
J		
<b>TOTAL</b>		<b>\$ -</b>

  

Line	Description	Amount
A	Survey - Land and Final "As Built"	
B	Building Permits	
C	Soils Report	
D	Traffic Study	
E	Impact Fees	
F	Hook-up Fees	
G		
H		
I		
J		
<b>TOTAL</b>		<b>\$ -</b>

Field Code Changed

The cost analyst has reviewed the schedule of other fees to be paid by the mortgagor and determined the items and the total cost to be reasonable. The underwriter concurs.

**Off-Site and Demolition**

<< Describe any off-site work to be accomplished and who will be performing the work. If the General Contractor is responsible, describe the cost attributed to it and the cost reviewer’s conclusions about the work and the cost. If the city will be performing the work, describe any cost or hookup fee related.

Describe any demolition that may apply; discuss costs and any other requirements or issues. >>

**Major Movable Equipment**

<< The borrower has provided a major movable list and budget totaling \$XXX,XXX. This equates to approximately \$X,XXX per unit and appears reasonable. (If true) provide affirmative statement confirming that the cost analyst found the list acceptable and the budget is reasonable. The underwriter concurs with the analyst’s conclusion or provide justification for any differences. The underwriter notes that a copy of the major movable list is included as an exhibit to the Draft Firm Commitment submitted with this package. >>

**Conclusion**

<< Provide lender’s conclusions and wrap up of the cost review. Reiterate if any of the cost analyst’s conclusions were modified and justified in the lender’s underwriting. >>

**Market Analysis**

*Market analysis only required if adding additional beds or forecasting improved census mix.*

Date of Analysis: \_\_\_\_\_  
Market Analysis Firm: \_\_\_\_\_  
Market Analyst: \_\_\_\_\_

**Key Questions**

	<u>Yes</u>	<u>No</u>
1. Is the subject located in a declining market area?	_____	_____
2. Are there any negative market influences that require special consideration?	_____	_____
3. Is there a projected or current oversupply that could affect the subject?	_____	_____
4. Was a market agreement letter issued by HUD as a result of submitting a pre-application package? If so, is the market study section of the appraisal, in general agreement with the results of the market study?	_____	_____

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

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

**Oversupply:** The projected oversupply is specifically addressed in the Risk Factors section of this narrative.

>>

**If HUD has issued a market agreement letter, all remaining issues have been addressed, the market section of the appraisal is in general agreement, and the underwritten market rents, absorption, and occupancy levels are not higher than assumed in the market study pre-application stage, the remaining sections of the Market Analysis do not need to be completed.**

**Market Analysis Overview**

<<Provide an overview of the market analysis, including general growth and population information, barriers to entry, unique market influences, etc.>>.

**Primary Market Area**

<<Describe primary market area and method of selection (e.g., distance, zip codes, etc.)

**Target Population**

<<Describe Age/Income and type of resident (AL, Independent, Dementia, etc.) and acuity of care.>>

**Demand**

<<Describe Target Population Demographics and demand factors concluding to a gross demand.>>

**Competitive Environment**

<<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; occupancy. Also discuss recent and/or historic absorption of competitive units.>>

**Conclusion**

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

**As Is Appraisal**

Date of Valuation: \_\_\_\_\_  
Appraisal Firm: \_\_\_\_\_  
Appraiser: \_\_\_\_\_  
License # / State: \_\_\_\_\_

The report was prepared to comply with the reporting requirement outlined under the USPAP as a self-contained report. The report also complies with the requirements of the Code of

Professional Ethics of the Appraisal Institute and the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), Title XI Regulations

The report was prepared in accordance with the “Healthcare Appraisal Guidelines for HUD/FHA Section 232 Lean Pilot Program.”

Summary of the appraisal and underwriting conclusions:

<b>As-Is Market Value Summary</b>		
Approach	Appraisal	Underwriter
Income Comparison		
Cost (if developed)		
Conclusion:		

**Lender Modifications – As Is**

<<Brief summary of modifications made by underwriter. For example, “As discussed below in the appropriate sections, the underwriter concludes to lower income and higher expenses than those set forth in the appraisal.”>>

**Hypothetical Conditions and Extraordinary Assumptions – As Is**

Hypothetical Conditions: <<identify any hypothetical conditions identified in the appraisal.>>

Extraordinary Assumptions: <<identify any extraordinary assumptions identified in the appraisal. For example, “The appraisal assumes the subject project meets the state licensing requirements and that the facility is constructed as planned. There are no other extraordinary assumptions.”>>

**Income Capitalization Approach – As Is**

**Overview**

<b>Income Approach Summary - As Is</b>		
	Appraisal	Underwriter
Gross Income		
Occupancy Rate:	%	%
Effective Gross Income: Expenses (incl. Repl. Res.):	(0)	(0)
Net Operating Income:		
Capitalization Rate:	%	%
Indicated Market Value:		



**Revenue – As Is**

**Census Mix**

An analysis of the subject and market comparable census mix is provided below.

**Census Mix – Subject History**  
(% of beds)

Source	UW	Appraisal	Subject			
			Last 12-months	2007	2006	2005
Private Pay						
Medicare						
Welfare						
VA						
HMO						
Other						
<b>Total/Average</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

  

Source	UW	Appraisal	Subject			
			Last 12-months	2007	2006	2005
Private Pay						
Medicare						
Welfare						
VA						
HMO						
Other						
<b>Total/Average</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Field Code Changed

**Census Mix – Market Comparables**  
(% of beds)

Source	UW	Appraisal	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average
Beds								
Private Pay								#VALUE!
Medicare								#VALUE!
Welfare								#VALUE!
VA								#VALUE!
HMO								#VALUE!
Other								#VALUE!
<b>Total/Average</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	#VALUE!

  

Source	UW	Appraisal	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average
Beds								
Private Pay								#VALUE!
Medicare								#VALUE!
Welfare								#VALUE!
VA								#VALUE!
HMO								#VALUE!
Other								#VALUE!
<b>Total/Average</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	#VALUE!

Field Code Changed

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

**Rents - As Is**

The underwriter's rent conclusion is provided below.

**Rent Schedule As Is**  
(Rent per bed)



care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type.>>

<<Each type of care should have its own subsection below and discuss each payor source identified in the rent schedule, as demonstrated below.>>

**Skilled Nursing**

Private Pay

The appraiser and underwriter analyzed the private pay rates at XXX comparable facilities. A summary of their analysis is provided below.

**Rent Comparability Analysis - As Is**  
(Rent Per Resident Day)

Skilled Nursing		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter
Private	Unadjusted									
	Adjusted									
Semi-Private	Unadjusted									
	Adjusted									
3-bed Ward	Unadjusted									
	Adjusted									
4-bed Ward	Unadjusted									
	Adjusted									
Skilled Nursing		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter
Private	Unadjusted									
	Adjusted									
Semi-Private	Unadjusted									
	Adjusted									
3-bed Ward	Unadjusted									
	Adjusted									
4-bed Ward	Unadjusted									
	Adjusted									

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender’s option to support its conclusion, as appropriate. Identify any modification from the appraiser’s concluded rent and provide justification. >>

Medicare

<<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 to a weighted average Medicare rate of \$XXX PRD. The RUG Rates used to determine the average rate are based on the <<DATE>> rates. The

underwriter concurs with the appraiser's conclusion. Identify any modification from the appraiser's concluded rent and provide justification. ">>

#### Welfare (Medicaid)

<<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). Identify any modification from the appraiser's concluded rent and provide justification. >>

#### Veteran's Administration (VA)

<< 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. Identify any modification from the appraiser's concluded rent and provide justification.>>

#### HMO or Other Private Insurance

<< If applicable, provide narrative discussion of how the rate is determined. Discuss review of evidence (e.g., rate letter) for the underwritten rate. Identify any modification from the appraiser's concluded rent and provide justification. >>

#### Other

<< If applicable, provide narrative discussion of other types of payor sources: description of source; how the rate is determined. Discuss review of evidence (e.g., rate letter) for the underwritten rate. Identify any modification from the appraiser's concluded rent and provide justification. >>

#### **Assisted Living**

##### Private Pay

The appraiser and underwriter analyzed the assisted living rents at XXX comparable facilities. A summary of their analysis is provided below.

**Rent Comparability Analysis – As Is**  
(Rent per Bed)

<b>Assisted Living Units</b>		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter	Field Code Changed
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										
<b>Assisted Living Units</b>		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter	
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. Identify any modification from the appraiser's concluded rent and provide justification.>>

**Welfare (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 prospective rate. If rate is based on resident care requirements, provide an analysis of how the concluded rent was determined. Identify and discuss any other sources or copayments that are required (e.g., SSI). Identify any modification from the appraiser's concluded rent and provide justification. >>

**Independent Units**

The appraiser and underwriter analyzed the independent living rents at XXX comparable facilities. A summary of their analysis is provided below.

**Rent Comparability Analysis - As Is**  
(Rent per Unit)

<b>Independent Living Units</b>		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<b>Independent Living Units</b>		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Identify any modification from the appraiser's concluded rent and provide justification. >>

**Other Income**

**Schedule of Other Income - As Is**

Line	Description	Qty	Per Qty Per Month	Total Monthly	Annual
A				\$ -	\$ -
B				\$ -	\$ -
C				\$ -	\$ -
D				\$ -	\$ -
E				\$ -	\$ -
F				\$ -	\$ -
G				\$ -	\$ -
H				\$ -	\$ -
I				\$ -	\$ -
J				\$ -	\$ -

  

Line	Description	Qty	Per Qty Per Month	Total Monthly	Annual
A				\$ -	\$ -
B				\$ -	\$ -
C				\$ -	\$ -
D				\$ -	\$ -
E				\$ -	\$ -
F				\$ -	\$ -
G				\$ -	\$ -
H				\$ -	\$ -
I				\$ -	\$ -
J				\$ -	\$ -

Field Code Changed

**Historical Comparison of Other Income**  
(Actual or Effective Collection)

2006	2007	2008	YTD	2006-2008 Average	As Is Appraisal	As Is UW
2006	2007	2008	YTD	2006-2008 Average	As Is Appraisal	As Is UW

Field Code Changed

<< 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. A few examples follow:

**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 based on his analysis of comparable data <<insert comparable data as appropriate>>. Identify any modification from the appraiser's concluded fees and provide justification.

**Second Occupant Income**

The appraiser has included a net annual projection of X second occupants at \$X 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 market, the underwriter concurs with the appraiser's conclusion for a net annual income of \$X. Identify any modification from the appraiser's concluded fees and provide justification.

**Miscellaneous Income**

In addition to room rents, additional care, and second occupant income, the project will receive miscellaneous income from <<list miscellaneous>>. The appraiser has included a net annual projection of \$X. Typically, 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). Identify any modification from the appraiser's concluded fees and provide justification.

>>

## Occupancy – As Is

A summary of the market occupancy is provided below.

### Market Occupancy Analysis

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Overall	Appraisal	Underwriter
Total Units						-		
Occupancy						#DIV/0!		
Occupied Units	-	-	-	-	-	-		
	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Overall	Appraisal	Underwriter
Total Units						-		
Occupancy						#DIV/0!		
Occupied Units	-	-	-	-	-	-		

Field Code Changed

### Historical Occupancy Analysis

	2006	2007	2008	Last 12- months	2006-2008 Average	Appraiser	UW
Total Units							
Occupancy							
Occupied Units	-	-	-	-		-	-
	2006	2007	2008	Last 12- months	2006-2008 Average	Appraiser	UW
Total Units							
Occupancy							
Occupied Units	-	-	-	-		-	-

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. For skilled nursing and other facilities, resident days may be more appropriate than units or beds. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. The narrative should address any decline in or below average occupancy. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. >>

### **Expenses – As Is**

The appraiser concludes to total expenses of \$X including reserve for replacement of \$X. The underwriter concludes to total expenses of \$X including reserve for replacement of \$X. The appraiser compared the subject's expense conclusions to X comparable projects located X.

**Historic Comparison**

**Expense Analysis –Subject**  
(Per Occupied Unit)

Category	2006	2007	2008	YTD	2006-2008 Average	Appraiser	UW
General & Administrative							
Payroll Taxes & Benefits							
Resident Care							
Food Service							
Activities							
Housekeeping/Laundry							
Plant Operations							
Utilities							
Marketing/Promotions							
Real Estate Taxes							
Insurance							
Management Fee							
Replacement Reserves							
<b>TOTAL</b>	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -

Field Code Changed

<b>Key Data</b>	2006	2007	2008	YTD	2006-2008 Average	Appraiser	UW
Effective Gross Income							
Net Operating Income	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
<b>Expense Ratio</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	<b>#VALUE!</b>	#DIV/0!	#DIV/0!
Occupancy							
Total Units							

Category	2006	2007	2008	YTD	2006-2008 Average	Appraiser	UW
General & Administrative							
Payroll Taxes & Benefits							
Resident Care							
Food Service							
Activities							
Housekeeping/Laundry							
Plant Operations							
Utilities							
Marketing/Promotions							
Real Estate Taxes							
Insurance							
Management Fee							
Replacement Reserves							
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>

<b>Key Data</b>	2006	2007	2008	YTD	2006-2008 Average	Appraiser	UW
Effective Gross Income							
Net Operating Income	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
<b>Expense Ratio</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	<b>#VALUE!</b>	#DIV/0!	#DIV/0!
Occupancy							
Total Units							

<<Provide narrative discussion of historical information. An equivalent analysis of the information provided above is required. For skilled nursing and other facilities, resident days may be more appropriate than units or beds. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. The narrative should address any significant fluctuations /anomalies in the historical data. Also, address adjustments made to historical data for one-time expenditures, capital expenditures, etc. Additional analysis can be provided at the Lender's option, as appropriate.>>

**Comparable Expense Data – As Is**

**Expense Analysis –Comparables– As Is**  
(Per Occupied Unit)

Category	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
General & Administrative								
Payroll Taxes & Benefits								
Resident Care								
Food Service								
Activities								
Housekeeping/Laundry								
Plant Operations								
Utilities								
Marketing/Promotions								
Real Estate Taxes								
Insurance								
Management Fee								
Replacement Reserves								
TOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Field Code Changed

Key Data (per occupied unit)	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
Effective Gross Income								
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
Expense Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#VALUE!	#DIV/0!	#DIV/0!
Occupancy								
Total Units								
Independent	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!
Assisted/Dementia	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!

Category	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
General & Administrative								
Payroll Taxes & Benefits								
Resident Care								
Food Service								
Activities								
Housekeeping/Laundry								
Plant Operations								
Utilities								
Marketing/Promotions								
Real Estate Taxes								
Insurance								
Management Fee								
Replacement Reserves								
<b>TOTAL</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Key Data (per occupied unit)	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
Effective Gross Income								
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
Expense Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#VALUE!	#DIV/0!	#DIV/0!
Occupancy								
Total Units								
Independent	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!
Assisted/Dementia	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!

<<Provide narrative discussion of comparable information. An equivalent analysis of the information provided above is required. For skilled nursing and other facilities, resident days may be more appropriate than units or beds. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. The narrative should discuss the subject in relation to the comparable data. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. >>

**Net Operating Income – As Is**

<<Provide narrative discussion as necessary. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender’s option to support its conclusion, as appropriate. >>

**Capitalization Rate– As Is**

**Capitalization Rate – Comparable Sales**

Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable Average	Appraiser	Underwriter
					#DIV/0!		
Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable Average	Appraiser	Underwriter
					#DIV/0!		

Field Code Changed

<<Provide narrative discussion as necessary. 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 – As Is**

<b>Comparison Approach Summary – As Is</b>		
	Appraisal	Underwriter
Per <<Unit or Bed>>:		
Total:		
EGIM:		
Total:		
Concluded Market Value:		

**Summary of Comparables Sales Data  
(as adjusted by Underwriter)**

		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average
Price Per Unit	Unadjusted						#DIV/0!
	Adjusted						#DIV/0!
	Net	\$ -	\$ -	\$ -	\$ -	\$ -	
	Adjustment	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
EGIM Expense Ratio							
Located in State/PMA?		<<Yes or No>>					
		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average
Price Per Unit	Unadjusted						#DIV/0!
	Adjusted						#DIV/0!
	Net	\$ -	\$ -	\$ -	\$ -	\$ -	
	Adjustment	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
EGIM Expense Ratio							
Located in State/PMA?		<<Yes or No>>					

Field Code Changed

**Price Per Unit – As Is**

<<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. Include a general discussion of adjustments made to the sales and which comparables 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) – As Is**

<<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.>>

**Cost Approach – As Is**

If applicable.

**Reconciliation – As Is**

<<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. The value used for criterion 3 of the form HUD-92264-A will be the lesser of: (a) Total Estimated Replacement Cost; and, (b) the Fair Market Value.>>

## As Proposed Appraisal

Summary of the appraisal and underwriting conclusions:

As Proposed Market Value Summary		
Approach	Appraisal	Underwriter
Income Comparison Cost		
Conclusion:		

### Lender Modifications

<<Brief summary of modifications made by underwriter. For example, “As discussed below in the appropriate sections, the underwriter concludes to lower income and higher expenses than those set forth in the appraisal.”>>

### Hypothetical Conditions and Extraordinary Assumptions

Hypothetical Conditions: <<identify any hypothetical conditions identified in the appraisal.>>

Extraordinary Assumptions: <<identify any extraordinary assumptions identified in the appraisal. For example, “The appraisal assumes the subject project meets the state licensing requirements and that the facility is constructed as planned. There are no other extraordinary assumptions.”>>

### Income Capitalization Approach - As Proposed

#### Overview

Income Approach Summary - As Proposed		
	Appraisal	Underwriter
Gross Income		
Occupancy Rate:	%	%
Effective Gross Income:		
Expenses (incl. Repl. Res.):	(0)	(0)
Net Operating Income:		
Capitalization Rate:	%	%

Indicated Market Value:

**Revenue**

**Census Mix**

An analysis of the subject and market comparable census mix is provided below.

**Census Mix – Market Comparables**  
(% of beds)

Source	UW	Appraisal	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average
Beds								
Private Pay								#VALUE!
Medicare								#VALUE!
Welfare								#VALUE!
VA								#VALUE!
HMO								#VALUE!
Other								#VALUE!
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	#VALUE!
Source	UW	Appraisal	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average
Beds								
Private Pay								#VALUE!
Medicare								#VALUE!
Welfare								#VALUE!
VA								#VALUE!
HMO								#VALUE!
Other								#VALUE!
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	#VALUE!

Field Code Changed

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

**Rents – As Proposed**

The underwriter's rent conclusion is provided below.

**Rent Schedule As Proposed**  
(Rent per bed)

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type	Payor Source	UW Monthly Rent
A								
B								
C								
D								
E								
F								
G								
H								
I								
J								
K								
L								
M								
N								
O								
P								
Q								
R								
S								
T								

Totals: - - average: #DIV/0!

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type	Payor Source	UW Monthly Rent
A								
B								
C								
D								
E								
F								
G								
H								
I								
J								
K								
L								
M								
N								
O								
P								
Q								
R								
S								
T								

Totals: - - average: #DIV/0!

Field Code Changed

<<Rent Schedule provided should provide equivalent information. 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.>>

<<Each type of care should have its own subsection below and discuss each payor source identified in the rent schedule, as demonstrated below.>>

**Skilled Nursing**

Private Pay

The appraiser and underwriter analyzed the private pay rates at XXX comparable facilities. A summary of their analysis is provided below.

**Rent Comparability Analysis – As Proposed**  
(Rent Per Resident Day)

Skilled Nursing		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter
Private	Unadjusted									
	Adjusted									
Semi-Private	Unadjusted									
	Adjusted									
3-bed Ward	Unadjusted									
	Adjusted									
4-bed Ward	Unadjusted									
	Adjusted									
Skilled Nursing		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter
Private	Unadjusted									
	Adjusted									
Semi-Private	Unadjusted									
	Adjusted									
3-bed Ward	Unadjusted									
	Adjusted									
4-bed Ward	Unadjusted									
	Adjusted									

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender’s option to support its conclusion, as appropriate. Identify any modification from the appraiser’s concluded rent and provide justification. >>

Medicare

<<Provide narrative discussion of conclusion. For example, “The appraiser provided an analysis of the Medicare reimbursements through an analysis of average RUG census rates over the preceding 6 to 12 months in the subject’s market area by type of facility. The analysis concluded to a weighted average Medicare rate of \$XXX PRD. The RUG Rates used to determine the average rate are based on the <<DATE>> rates. The underwriter concurs with the appraiser’s

conclusion. Identify any modification from the appraiser's concluded rent and provide justification. ">>

#### Welfare (Medicaid)

<<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. Facility specific, cost-based Medicaid rates may also be developed or provided by third party experts (e.g. developer, operator, or management company). The estimated Medicaid rate must incorporate the rate-setting methodologies used by the respective state. For rates that are developed from cost-based, facility-specific systems, the Medicaid rate must be reconciled to the forecasted "Medicaid-allowable" operating expenses of the subject. It is not permissible to apply an un-reconciled rate to the forecasted expenses of the appraiser where cost-based, facility specific systems are used.

Identify and discuss any other sources or copayments that are required (e.g., SSI). Identify any modification from the appraiser's concluded rent and provide justification. >>

#### Veteran's Administration (VA)

<< 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. Identify any modification from the appraiser's concluded rent and provide justification.>>

#### HMO or Other Private Insurance

<< If applicable, provide narrative discussion of how the rate is determined. Discuss review of evidence (e.g., rate letter) for the underwritten rate. Identify any modification from the appraiser's concluded rent and provide justification. >>

#### Other

<< If applicable, provide narrative discussion of other types of payor sources: description of source; how the rate is determined. Discuss review of evidence (e.g., rate letter) for the underwritten rate. Identify any modification from the appraiser's concluded rent and provide justification. >>

#### **Assisted Living**

##### Private Pay

The appraiser and underwriter analyzed the assisted living rents at XXX comparable facilities. A summary of their analysis is provided below.

**Rent Comparability Analysis – As Proposed**  
(Rent per Bed)

<b>Assisted Living Units</b>		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter	Field Code Changed
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										
<b>Assisted Living Units</b>		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter	
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										
<<unit type>>	Unadjusted										
	Adjusted										

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. Identify any modification from the appraiser's concluded rent and provide justification.>>

**Welfare (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 prospective rate. If rate is based on resident care requirements, provide an analysis of how the concluded rent was determined. Identify and discuss any other sources or copayments that are required (e.g., SSI). Identify any modification from the appraiser's concluded rent and provide justification. >>

**Independent Units**

The appraiser and underwriter analyzed the independent living rents at XXX comparable facilities. A summary of their analysis is provided below.

**Rent Comparability Analysis - As Proposed**  
(Rent per Unit)

<b>Independent Living Units</b>		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<b>Independent Living Units</b>		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Subject Current Asking Rent	Appraisal	Underwriter
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									
<<unit type>>	Unadjusted									
	Adjusted									

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Identify any modification from the appraiser's concluded rent and provide justification. >>

**Other Income**

**Schedule of Other Income - As Proposed**

Line	Description	Qty	Per Qty Per Month	Total Monthly	Annual
A				\$ -	\$ -
B				\$ -	\$ -
C				\$ -	\$ -
D				\$ -	\$ -
E				\$ -	\$ -
F				\$ -	\$ -
G				\$ -	\$ -
H				\$ -	\$ -
I				\$ -	\$ -
J				\$ -	\$ -

  

Line	Description	Qty	Per Qty Per Month	Total Monthly	Annual
A				\$ -	\$ -
B				\$ -	\$ -
C				\$ -	\$ -
D				\$ -	\$ -
E				\$ -	\$ -
F				\$ -	\$ -
G				\$ -	\$ -
H				\$ -	\$ -
I				\$ -	\$ -
J				\$ -	\$ -

Field Code Changed

<< 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. A few examples follow:

**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 based on his analysis of comparable data <<insert comparable data as appropriate>>. Identify any modification from the appraiser's concluded fees and provide justification.

**Second Occupant Income**

The appraiser has included a net annual projection of X second occupants at \$X 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 market, the underwriter concurs with the appraiser's conclusion for a net annual income of \$X. Identify any modification from the appraiser's concluded fees and provide justification.

**Miscellaneous Income**

In addition to room rents, additional care, and second occupant income, the project will receive miscellaneous income from <<list miscellaneous>>. The appraiser has included a net annual projection of \$X. Typically, 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). Identify any modification from the appraiser’s concluded fees and provide justification.

>>

**Occupancy**

A summary of the market occupancy is provided below.

**Market Occupancy Analysis**

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Overall	Appraisal	Underwriter
Total Units						-		
Occupancy						#DIV/0!		
Occupied Units	-	-	-	-	-	-		
	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Overall	Appraisal	Underwriter
Total Units						-		
Occupancy						#DIV/0!		
Occupied Units	-	-	-	-	-	-		

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. For skilled nursing and other facilities, resident days may be more appropriate than units or beds. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. The narrative should address any decline in or below average occupancy. Additional analysis can be provided at the Lender’s option to support its conclusion, as appropriate. >>

**Expenses – As Proposed**

The appraiser concludes to total expenses of \$X including reserve for replacement of \$X. The underwriter concludes to total expenses of \$X including reserve for replacement of \$X. The appraiser compared the subject’s expense conclusions to X comparable projects located X.

**Comparable Expense Data – As Proposed**

**Expense Analysis –Comparables– As Proposed**  
(Per Occupied Unit)

Category	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
General & Administrative								
Payroll Taxes & Benefits								
Resident Care								
Food Service								
Activities								
Housekeeping/Laundry								
Plant Operations								
Utilities								
Marketing/Promotions								
Real Estate Taxes								
Insurance								
Management Fee								
Replacement Reserves								
TOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Field Code Changed

Key Data (per occupied unit)	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
Effective Gross Income								
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
Expense Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#VALUE!	#DIV/0!	#DIV/0!
Occupancy								
Total Units								
Independent	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!
Assisted/Dementia	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!

Category	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
General & Administrative								
Payroll Taxes & Benefits								
Resident Care								
Food Service								
Activities								
Housekeeping/Laundry								
Plant Operations								
Utilities								
Marketing/Promotions								
Real Estate Taxes								
Insurance								
Management Fee								
Replacement Reserves								
<b>TOTAL</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Key Data (per occupied unit)	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
Effective Gross Income								
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
Expense Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#VALUE!	#DIV/0!	#DIV/0!
Occupancy								
Total Units								
Independent	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!
Assisted/Dementia	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!

<<Provide narrative discussion of comparable information. An equivalent analysis of the information provided above is required. For skilled nursing and other facilities, resident days may be more appropriate than units or beds. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. The narrative should discuss the subject in relation to the comparable data. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. >>

**Net Operating Income – As Proposed**

<<Provide narrative discussion as necessary. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender’s option to support its conclusion, as appropriate. >>

**Capitalization Rate – As Proposed**

**Capitalization Rate – Comparable Sales**

Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable Average	Appraiser	Underwriter
					#DIV/0!		
Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable Average	Appraiser	Underwriter
					#DIV/0!		

Field Code Changed

<<Provide narrative discussion as necessary. 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 – As Proposed**

Comparison Approach Summary – As Proposed		
	Appraisal	Underwriter
Per <<Unit or Bed>>:		
Total:		
EGIM:		
Total:		
Concluded Market Value:		

**Summary of Comparables Sales Data  
(as adjusted by Underwriter)**

		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average
Price Per Unit	Unadjusted						#DIV/0!
	Adjusted						#DIV/0!
	Net Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	
		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
EGIM Expense Ratio							
Located in State/PMA?		<<Yes or No>>					
		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average
Price Per Unit	Unadjusted						#DIV/0!
	Adjusted						#DIV/0!
	Net Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	
		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
EGIM Expense Ratio							
Located in State/PMA?		<<Yes or No>>					

Field Code Changed

**Price Per Unit – As Proposed**

<<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. Include a general discussion of adjustments made to the sales and which comparables 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) – As Proposed**

<<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.>>

## Cost Approach – As Proposed

### Overview

Cost Approach Summary – As Proposed		
	Appraisal	Underwriter
Total for All Improvements:		
Carrying Charges and Financing:		
Legal, Organization, Cost Cert:		
Marketing Allowance:		
Major Movable Equipment:		
Land Value:		
Indicated Market Value:		

### Total for All Improvements

<<Provide narrative discussion.>>

### Carrying Charges and Financing

<<Provide narrative discussion.>>

### Legal, Organization, and Cost Certification

<<Provide narrative discussion.>>

### Marketing Allowance

<<Provide narrative discussion.>>

### Major Movable Equipment

<<Provide narrative discussion of assumptions and conclusion. Address discrepancies between appraiser and needs assessor. Identify the total value of the major movables, as if new. ~~This value~~ Value of Major Movable Equipment will be ~~deducted from the market value used~~ listed as a separate line item on the Property Insurance Schedule, Form HUD-92329, and ~~shown~~ included as a separate line on part of the schedule 100% Insurable Value. Additionally, address ownership of the major movable equipment (e.g., Mortgagor or Operator).>>

### Land Value

<<Provide narrative discussion of assumptions and conclusion. Include an analysis of the comparable data for an as-is land value conclusion.>>

### Economic Life – As Proposed

<<Provide narrative discussion of assumptions and conclusion. The underwriter and appraiser are required to sufficiently justify the remaining economic life to determine the term of the mortgage.>>



# ALTA/ACSM Land Title Survey

## Key Questions

	<u>Yes</u>	<u>No</u>
1. Does the pro forma title policy include a survey exception?	_____	_____
2. 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)?	_____	_____
3. Have any new easements affecting the property have 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)?	_____	_____
4. Have any additional improvements (including driveways and parking areas) <del>have</del> been constructed on the property since the date of the existing survey?	_____	_____

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If you answer “yes” to any of the above questions, a current “as built” survey conforming to the *HUD Survey Instructions for Health Care Facilities Insured under Section 232 LEAN Programs* is required and the ALTA/ACSM Land Title Survey addendum must be attached to this narrative

If you answer “no” to all of the above questions, copies of the most recent signed and certified as-built survey accepted by HUD ~~need~~needs to be provided (need not be ~~original~~the original). No further review is ~~no~~ needed. If copies are not available, a current “as built” survey conforming to the *HUD Survey Instructions for Health Care Facilities Insured under Section 232 LEAN Programs* may be required and the ALTA/ACSM Land Title Survey addendum must be attached to this narrative.

## Title

### Title Search

Date of Search: \_\_\_\_\_  
 Firm: \_\_\_\_\_  
 File Number: \_\_\_\_\_

## Key Questions

	<u>Yes</u>	<u>No</u>
1. Is the title currently vested in an entity or individual other than the proposed Mortgagor?	_____	_____
2. Does 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 Mortgagor’s listing of outstanding obligations?	_____	_____
5. Are there or will there be any Use and Maintenance Agreements associated with this facility?	_____	_____

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

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

### Pro-forma Policy

Date/Time: \_\_\_\_\_  
Firm: \_\_\_\_\_  
Policy Number: \_\_\_\_\_

#### Key Questions

	<u>Yes</u>	<u>No</u>
1. Is the title vested in an entity or individual other than the proposed Mortgagor?	_____	_____
2. Are there any covenants, <u>conditions, and encumbrances, liens, restrictions, or other exceptions</u> indicated on Schedule B-1?	_____	_____
3. Are there any use or affordability restrictions remaining in effect on the property?	_____	_____
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 <u>requirement required endorsements</u> ?	_____	_____
6. Are there any subordination agreements, <u>encroachments</u> or <u>similar</u> issues that require HUD's approval?	_____	_____
7. Are there any other matters requiring special consideration, agreements, or conditions that require HUD's attention?	_____	_____

If you answer "yes" to any of the above questions, please address below.

<<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

#### Phase I Environmental Site Assessment

##### Key HUD Environmental Questions

	<u>Yes</u>	<u>No</u>
1. Is additional land being added to the loan security?	_____	_____
2. If the facility was built prior to 1978, has an asbestos survey been completed and/or has an Operation & Maintenance plan for asbestos been incorporated into the on-site procedures?	_____	_____

Question 1: If additional land is being added to the original mortgage security, a Phase I Environmental Assessment is required and the appropriate addendum to this report must be provided.

Question 2: If the facility was built prior to 1978, provide a copy of the asbestos survey and/or the Operations & Maintenance plan, then said survey must be provided. If asbestos is present, an O&M plan is required.

**Draft form HUD-4128 / Potential Environmental Concerns**

**Key HUD Environmental Questions**

	<u>Yes</u>	<u>No</u>
3. Is the subject located within a designated coastal barrier resource area?	_____	_____
4. Is the subject located within the 100- or 500-year floodplain?	_____	_____
5. Are there any known historic preservation issues related to the subject?	_____	_____
6. Is the subject located within 5 miles of a civil airport or within 15 miles of a military airfield?	_____	_____
7. Is the project located within 1,000 feet of major highways or busy roads?	_____	_____
8. Is the project located within 3,000 feet of a railroad?	_____	_____
9. Are industrial facilities handling explosive or fire-prone materials such as liquid propane, gasoline or other storage tanks adjacent to or visible from the project site?	_____	_____
10. Are there any wetlands on the subject site?	_____	_____
11. Is any construction of the project likely to affect any listed or proposed endangered or threatened species or critical habitats?	_____	_____
12. Is the subject located on a sole source aquifer?	_____	_____
13. Are there any known landfills within ½-mile of the site?	_____	_____
14. Are any buildings located in the fall zone of any high voltage power transmission or other towers?	_____	_____

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

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

**State Historic Preservation Office (SHPO) Clearance**

<<Provide narrative description indicating whether or not SHPO has been contacted, etc. For example, “We have received a letter from the XXXX State Historic Society, dated XXXX. It was determined that the site is of no historical or suspected archeological significance. No additional investigation was recommended by the State.”>>

**Flood Plain**

	<u>Yes</u>	<u>No</u>
Does the community participate in the National Flood Insurance Program (NFIP)?	_____	_____
Is Flood Insurance required for this property?	_____	_____
NFIP Map Panel #: _____ Date: _____		
Flood Zone: _____		

<<If project is in 100- or 500- year flood plain, provide narrative discussion evaluating exhibits required on checklist.>>

## Mortgagor

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

### Key Questions

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the Mortgagor currently own any assets other than the property or participate in any other businesses? | _____      | _____     |
| 2. According to the application exhibits, is or has the Mortgagor been delinquent on any Federal debt?         | _____      | _____     |

If you answer "yes" to any of the above questions, please identify each risk factor and how it is mitigated below.

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

### Organization

<<Organization Chart and Narrative, as applicable. At a minimum, all principals of the mortgagor should be identified.>>

## Operator

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

### Organization

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

### 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? | _____      | _____     |
| 3. Is State approval of the lease payment required?   | _____      | _____     |
| 4. Will the lease payment need to be increased to cover increased debt service?                         | _____      | _____     |

If you answer "yes" to any of the above questions, please identify specifics of the circumstance and describe how the underwriter justified or identified mitigation of the risk..

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

**Management Agent** (if applicable)

Name: \_\_\_\_\_  
Relation to Mortgagor: <<Owner Managed/IOI Entity/Independent/Other>> \_\_\_\_\_

**General Contractor**

Name: \_\_\_\_\_  
State of Organization: \_\_\_\_\_  
License No. / State: \_\_\_\_\_  
Surety: \_\_\_\_\_

**Key Questions**

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. According to the application exhibits, is or has the General Contractor been delinquent on any Federal debt?  | _____      | _____     |
| 2. According to the application exhibits, is or has the General Contractor been a defendant in any suit or legal action?   | _____      | _____     |
| 3. According to the application exhibits, has the General Contractor ever claimed bankruptcy or made compromised settlements with creditors?                                       | _____      | _____     |
| 4. According to the application exhibits, are there judgments recorded against the General Contractor?   | _____      | _____     |
| 5. According to the application exhibits, are there any unsatisfied tax liens?   | _____      | _____     |
| 6. Is the general contractor a joint venture?  | _____      | _____     |
| 7. If the General Contractor is a subsidiary of another entity, are they relying upon the parent to demonstrate financial capacity? (If yes, provide financial analysis of parent) | _____      | _____     |

If you answer "yes" to any of the above questions, identify the risk factor and how it is mitigated below.

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

### Experience / Qualifications

<< Narrative description of General Contractor’s experience and qualifications. Discussion should highlight the contractor’s experience constructing similar type and size projects. It should discuss the architectural and cost reviewer’s analysis of the contractor’s experience, bonding capacity, financial capacity, etc. >>

### Credit History

Report Date: <<within 60 days of submission>>  
Firm: <<Dunn & Bradstreet or other *acceptable* commercial credit report for business entities >>  
Score: \_\_\_\_\_

**Program Guidance:** Dunn & Bradstreet or other *acceptable* commercial credit report for business entities and RCMR ‘residential’ for individuals are required. If not using D&B an acceptable commercial credit report must include the following: a) public filings that includes suits, liens, judgments, bankruptcies & federal debt; b) UCC filings; c) credit payment history; d) industry standards showing how the facility compares in the areas of financial stress & payment trends; and e) a credit payment delinquency risk score over a 12-month period. Credit reports can be no more than 60 days old at the time of the Firm Application submission.

### 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, identify the risk factor and how it is mitigated 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 General Contractor identify any other business concerns?  | _____      | _____     |
| a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims?           | _____      | _____     |
| b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? | _____      | _____     |

If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated below.

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

#### **Other Business Concerns:**

XXXXX 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 participation in this loan transaction.

### **Financial Statements**

The application includes the following General Contractor 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:**

	<u>Yes</u>	<u>No</u>
1. Are less than 3-years of historical financial data available for the General Contractor?	_____	_____
2. Are the financial statements missing any required information or schedules?	_____	_____
3. Is there a pattern of significant downward income prior to depreciation over the years as demonstrated in the General Contractor’s Income & Expense statements?	_____	_____
4. Do the Aging of Accounts Payable schedules show significant payables in excess of 60 days?	_____	_____
5. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?	_____	_____
6. Does the Contractor have less than the required 5% adjusted working capital?	_____	_____

If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated below.

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

#### *Example:*

*Item 6 – Contractor has less than 5% working capital. Contractor may hypothecate fixed assets. The contractor has a sale pending on another building that they have constructed. Lender will provide evidence prior to closing that funds are available to meet the 5% working capital.*

### **General Review**

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

### **Working Capital Analysis**

<<Provide Narrative and analysis of contractor’s working capital. Analysis should discuss appropriate adjustments to current assets and liabilities; how you account for work-in-progress; lines-of-credit; verifications of deposit; etc.>>

### Conclusion

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “The General Contractor has demonstrated an acceptable financial and credit history. The General Contractor has the experience to complete the construction. The underwriter recommends this General Contractor for approval as an acceptable participant in this transaction.”>>

### Operation of the Facility

#### Staffing

<< Narrative description of review. For example, “The appraiser and underwriter have reviewed the 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  
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?	_____	_____
3. Are there proposed changes to the current operating lease?	_____	_____
4. Has the lender recommended any special conditions concerning the lease?	_____	_____

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

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

#### Lease Payment – During Construction

##### **Guidance**

Lease Payment/Net Income during Construction Period–Section 232

1. When an identity-of-interest situation exists, all project income in the construction period, *irrespective of the lease amount paid by the identity-of-interest lessee*, will be considered and mortgage reductions applied accordingly. There should be no difference in the overall basic income figures whether or not there is an identity of interest ~~leasee~~lessee.

2. At the time of cost certification, an audited operating statement covering the period from the beginning of marketing and rent-up activities (or date of initial endorsement in rehabilitation projects involving insurance of advances or start of construction for rehabilitation projects involving insurance upon completion) to the cost certification cut-off date, must be submitted by:
  - a. The mortgagor entity, in all cases;
  - b. The lessee, when an identity-of-interest exists between the mortgagor and lessee and the lessee has executed the Regulatory Agreement–Nursing Home, Form HUD-92466 NHL.
  - c. The mortgagor entity only, where no identity-of-interest exists between the mortgagor and lessee and the lessee has executed the Regulatory Agreement, Nursing Home, Form HUD-92466 NHL. The mortgagor’s income statement should reflect a market comparable lease payment as income.
  - d. The mortgagor, where the mortgagor and the administrator are the same entity and Form HUD-92466 NHL has not been executed.
3. Treat net income resulting from review of the operating statement as a recovery of construction costs (on Form HUD-92331A, Cost Certification Review Worksheet) for a profit motivated mortgagor and for a nonprofit mortgagor as:
  - a. At cost certification, as a recovery of construction costs to the extent it was used to reduce liquidated/actual damages.
  - b. As an offset for any eligible mortgage increase.
  - c. At final endorsement, deposit the unused portion of net income to the Reserve Fund for Replacements.

<< Provide narrative explaining the terms of the lease and the payments to be made during the rehabilitation.>>

### **Lease Payment – During Lease Up**

<< Provide narrative explaining the terms of the lease and the payments to be made while the project is in lease-up.>>

### **Lease Payment Analysis, As Proposed**

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.

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

a.	Total Annual Principal and Interest	\$	-
b.	Total Annual Mortgage Insurance Premium		-
c.	Total Annual Replacement Reserves		-
d.	Total Annual Property & Liability Insurance		-
e.	Annual Real Estate Taxes		-
f.	Total Debt Service and Impounds	\$	-
g.	% of Net Income Available for Debt Service		90.0%
h.	Programs Debt Service Coverage		1.111
i.	<b>Minimum Annual Lease Payment</b>	\$	-
j.	Annual Return on Lease	\$	-
k.	Net Operating Income (NOI)	\$	-
l.	Adjusted NOI (k+c+d+e)	\$	-
m.	Operator's Coverage		#DIV/0!
a.	Total Annual Principal and Interest	\$	-
b.	Total Annual Mortgage Insurance Premium		-
c.	Total Annual Replacement Reserves		-
d.	Total Annual Property & Liability Insurance		-
e.	Annual Real Estate Taxes		-
f.	Total Debt Service and Impounds	\$	-
g.	% of Net Income Available for Debt Service		90.0%
h.	Programs Debt Service Coverage		1.111
i.	<b>Minimum Annual Lease Payment</b>	\$	-
j.	Annual Return on Lease	\$	-
k.	Net Operating Income (NOI)	\$	-
l.	Adjusted NOI (k+c+d+e)	\$	-
m.	Operator's Coverage		#DIV/0!

Field Code Changed

The lease payment as currently proposed in the lease would amount to \$XX (\$XX per year + \$XXX for debt service and impounds). The lease payment should be increased to \$xx per year (\$XXX 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

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

Program Guidance:

Prior to closing, the lease needs to be modified to include the appropriate HUD requirements outlined in the HUD Operating Lease Addendum, 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 6090 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.
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

### Accounts Receivable (A/R) Financing

A/R Lender: \_\_\_\_\_  
 A/R Borrower: \_\_\_\_\_  
 Current Balance: \_\_\_\_\_  
 Current Maturity Date: \_\_\_\_\_

A/R Facility List: (list all facilities that are involved with A/R loan, including facility name, location (city/state), and whether or not they are FHA-insured):

**Key Questions**

	<u>Yes</u>	<u>No</u>
1. Does the A/R financing require any guarantees from the Owner, Operator, or Parent of the Operator?	_____	_____
2. Does the A/R financing involve multiple facilities and/or borrowers?	_____	_____
a. Does the A/R financing involve any non-FHA-insured properties?	_____	_____
b. Does the A/R financing involve facilities located in multiple States and/or HUD <u>jurisdictions/field offices</u> ?	_____	_____
3. Is there an identity of interest between the A/R Lender and the A/R Borrower?	_____	_____
4. Is there any conflict of interest between the A/R Lender and the Mortgagor or its principals?	_____	_____
5. Does the maximum A/R loan amount exceed 85% of the Medicaid and Medicare accounts receivable less than <b>121</b> days old? ( <del>OHCFOHP</del> Director may approve waiver from 120 days to 150 days if justified. <del>OHCFOHP</del> HQ must approve waiver over 150 days for special or unique circumstances.)	_____	_____

- |   |            |           |
|---|------------|-----------|
|   | <u>Yes</u> | <u>No</u> |
| 6. Are more than 30% of Medicaid and Medicare accounts receivable over 90 days old?   | _____      | _____     |
| 7. Does the AR Lender have less than 3 years experience in providing AR financing?  | _____      | _____     |
| 8. Does the AR Lender lack the financial controls and capability to monitor the Operator's performance?   | _____      | _____     |
| 9. Are the Mortgagor and Operator out of compliance with any business agreements with HUD? (i.e., in default on those agreements, not current on financial submissions, etc.) | _____      | _____     |

**For each "YES" answer above, provide a narrative discussion below describing the risk and how it is mitigated:**

**Details on Question 5 & Question 6 above: Accounts Receivable Aging**

	0-90 days	91-120 days	121-150 days	151+ days	% 91+ days
Medicare					
Medicaid					
Other Govt					
Subtotal	\$ -	\$ -	\$ -	\$ -	
Non-Govt*					
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

\*Non Govt. is not considered when determining HUD's maximum A/R loan amount.

**#DIV/0!** of Medicare, Medicaid, and Other Government A/R less than 121 days old is over 90 days old.

**\$ -** HUD Maximum A/R Loan Amt = 85% of Medicare, Medicaid, and Other Govt A/R 120 or less days old.

A/R Lender Maximum Loan Amount

Field Code Changed

	0-90 days	91-120 days	121-150 days	151+ days	% 91+ days
Medicare					
Medicaid					
Other Govt					
Subtotal	\$ -	\$ -	\$ -	\$ -	
Non-Govt*					
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

\*Non Govt. is not considered when determining HUD's maximum A/R loan amount.

**#DIV/0!** of Medicare, Medicaid, and Other Government A/R less than 121 days old is over 90 days old.

**\$ -** HUD Maximum A/R Loan Amt = 85% of Medicare, Medicaid, and Other Govt A/R 120 or less days old.

A/R Lender Maximum Loan Amount

## Terms and Conditions

<< Provide a description of pertinent terms and conditions of A/R loan. Also explain the mechanisms for operator receipts, disbursements and control of operator funds-->>, and provide [cash flow chart.](#) >>

### Terms and Conditions:

1. Maximum amount of advances available during the term: \$\_\_\_\_\_.
2. Advances are limited to: (describe how maximum advance is determined)\_\_\_\_\_.
3. Term: \_\_\_\_\_.
4. Payment Terms: Interest Only, etc

### Mechanisms for Operator receipts, disbursements and control of operator funds:

#### **PROGRAM GUIDANCE:**

*Borrower shall maintain and pay for a ~~Lock-Box~~ Controlled or Blocked Account mutually satisfactory to borrower and lender for borrower's cash collections. There shall be no material change in borrower's business or financial condition. There shall be no material default in any of Borrower's obligations under any contract or compliance with applicable laws. Lender shall receive an opinion from borrower's ~~counsel satisfactory to lender.~~ For so long as lender has this loan outstanding to the borrower, lender shall have a first right of refusal to make further loans to the borrower on the same terms and conditions as offered by any other party, or operator's counsel satisfactory to lender.*

## Collateral / Security

<< Narrative description of the A/R lender's collateral / security.>>

## Permitted Uses and Payment Priorities

<< Provide a description of the permitted uses and payment priorities of A/R loan funds.>>

#### **PROGRAM GUIDANCE:**

*Attachment C of Notice 08-09, Rider to Intercreditor, para. 3 – states in part the following: (i) first, to pay current debt service obligations to AR Lender, (ii) second, to pay Lessee's costs of operations including, but not limited to, rent and all other payment obligations due under its Lease with Landlord, payroll and payroll taxes, ordinary maintenance and repairs and management fees ("**Current Operating Costs**") and (iii) ~~(third)~~ after the payment of Current Operating Costs, subject to applicable restrictions in the AR Lender Loan Documents and Lessee Regulatory Agreement, AR Advances may be distributed to Lessee's shareholders, partners, members or owners, as the case may be.*

**Costs**

<< Provide a description of the cost of A/R loan. List all fees associated with the A/R financing and indicate whether they are one-time charges or ongoing. Indicate if there any fees associated with unused portion of the loan. Also, provide an analysis demonstrating that the Operator can support the additional financial expenses of the A/R loan. NOTE: A/R loan costs are to be included in the underwritten operating expenses for determining debt service coverage. Identify the total A/R loan costs used in underwriting and the line item on the 92264, which includes this cost.>>

**Historical A/R Loan Costs**  
(total \$)

2006	2007	2008	YTD	2006-2008 Average	UW
2006	2007	2008	YTD	2006-2008 Average	UW

Field Code Changed

**Recommendation**

<< Lender’s recommendation with regard to acceptance of A/R financing>>

**Insurance**

**Professional Liability Coverage**

Name of Insured: \_\_\_\_\_

Insurance Company: \_\_\_\_\_

Rating: \_\_\_\_\_ Rater: \_\_\_\_\_

Licensed by the project’s State:  Yes  No

Authorized surplus lines carrier in project’s State:  Yes  No

Statute of Limitations: \_\_\_\_\_

Current Coverage: Per Occurrence: \_\_\_\_\_

Aggregate: \_\_\_\_\_

Deductible: \_\_\_\_\_

Policy Basis:  Per occurrence  Claims made

Current Expiration: \_\_\_\_\_

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

Policy Premium: \_\_\_\_\_

**Key Questions**

	<u>Yes</u>	<u>No</u>
1. Does the insurance policy cover multiple properties?	_____	_____
2. Is less than 6 years of lost history available?	_____	_____
3. Does the loss history indicate a 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. Is the policy funded on a "cash front" basis?	_____	_____

If you answer "yes" to any of the above questions, please identify the circumstance and address below.

<<For each "YES" answer above, provide a narrative discussion regarding mitigation of the risk

Examples:

**Multiple properties:** 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}

**Less than 6-year loss history:** 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}.

>>

**Recommendation**

<<Narrative recommendation regarding acceptability of professional liability insurance. For example, "The mortgagor's professional liability insurance was analyzed in accordance HUD Notice H 04-01 and H 04-15. 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**

<<Narrative discussion of review. For example, "Hazard and Liability insurance will be provided by XX. The underwriter has confirmed estimates of the cost and coverage for underwriting and will comply with HUD requirements prior to occupancy.">>

**Builder's Risk**

<< If contractor is paying, show in contractor's other fees. If mortgagor is paying, show in mortgagor's other fees. Must meet the requirements of 92447. >>

### **Fidelity Bond / Employee Dishonesty Coverage**

<<Narrative discussion of review. 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 gross income receipts would total \$XX. The current level of coverage is sufficient for this project.” If not sufficient, recommend commitment condition.>>

### **Relocation Plan and Budget During Construction**

Provide details on the relocation plan (if applicable) and the budget for such relocation plan.

### **Mortgage Determinants**

#### **Overview**

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

Value of Improvements:	
Debt Service:	
Deduction of Grants, Loans, and Gifts:	
Total Indebtedness:	
Requested Amount:	

The proposed mortgage is \$XX and is constrained by XXX.

#### **PROGRAM GUIDANCE**

Two forms HUD-92264-A are required per the form instructions for a Section 241(a). The first HUD-92264-A determines the maximum total of all FHA-insured loans based on the “as proposed” value and value criterion for the current FHA-insured loan’s section of the act.

The second HUD-92264-A determines the size of the supplemental loan based on the lesser of:

- Criterion 3: Amount based on Value of Improvements, Additions or Equipment
- Criterion 5: Amount based on Debt Service Available for Supplemental Loan
- Criterion 10: Amount based on Total Indebtedness
- Criterion 11: Amount based on Deduction of Grants, Loans, and Gifts

See form and program instructions for applicable percentages.

#### **Mortgage Term**

The underwriter concluded to a mortgage term of XX years {must be coterminous with the current first mortgage}.

### Type of Financing

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

### Value of Improvements (Betterments)

The \$XX value of improvement limit was calculated in accordance with HUD guidelines. This is based on XX% of the underwriter's value of improvements \$X. No deductions for ground leases, excess unusual site improvements, or special assessments are applicable to this project.

### Debt Service Limit

The \$XX debt service limit was calculated using HUD's guidelines. This is based on x% of the net operating income available for the supplemental loan (as calculated below), interest rate of XX% and an assumed remaining term of XX months (the insured loans must be coterminous).

<b>Calculation of Net Operating Income Available for Supplemental Loan</b>	
Net Operating Income (NOI) of Project After Improvement:	\$ -
Percentage of NOI Available for Total Debt Service:	90.000%
NOI Available for Total Debt Service:	\$ -
<del>Less: Annual Debt Service Payments Required on</del>	
All Outstanding Indebtedness Relating to Property:	-
Less: Annual Ground Rent:	-
Less: Annual Special Assessment(s):	-
<b>NOI Available for Supplemental Loan:</b>	<b>\$ -</b>
<b>Calculation of Net Operating Income Available for Supplemental Loan</b>	
Net Operating Income (NOI) of Project After Improvement:	\$ -
Percentage of NOI Available for Total Debt Service:	90.000%
NOI Available for Total Debt Service:	\$ -
<del>Less: Annual Debt Service Payments Required on</del>	
All Outstanding Indebtedness Relating to Property:	-
Less: Annual Ground Rent:	-
Less: Annual Special Assessment(s):	-
<b>NOI Available for Supplemental Loan:</b>	<b>\$ -</b>

Field Code Changed

The proposed supplemental mortgage is constrained by XXXXX. The underwritten debt service coverage for FHA-insured mortgages after improvement is XX, which is X% of the estimated net operating income for debt service and MIP payments. **If the debt service coverage rate is not in accordance with the FAQ's, justification/mitigation of the additional risk to HUD must be addressed in this section.**

### Total Indebtedness

The \$XX total indebtedness limit was calculated as follows:

<i>Amount based on Total Indebtedness</i>	
"As Proposed" Value	\$ -
Loan-to-Value Percentage:	90.000%
Maximum Mortgage Insurable Under Section <u>????</u>	\$ -
Less: Total of All Outstanding Indebtedness Relating to Property:	-
<b>Amount Available for Supplemental Loan:</b>	<b>\$ -</b>
<i>Amount based on Total Indebtedness</i>	
"As Proposed" Value	\$ -
Loan-to-Value Percentage:	90.000%
Maximum Mortgage Insurable Under Section <u>????</u>	\$ -
Less: Total of All Outstanding Indebtedness Relating to Property:	-
<b>Amount Available for Supplemental Loan:</b>	<b>\$ -</b>

Field Code Changed

### **Deduction of Grants, Loans, and Gifts (Criterion 11)**

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

- |    |  |          |
|----|--|----------|
| a. | Amount Based on Estimated Cost of Rehabilitation | \$ _____ |
| 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.

#### **Program Guidance**

The grants, loans, gifts, and tax credits to be deducted under Criteria 11 are those credits for FHA mortgageable cost only. Sources for non-mortgageable cost are not included in the Criterion 11 calculations and are also not reflected in any of the other criterion on Form HUD-92264-A. The sources and uses statement provided by the mortgagor should outline all mortgageable and non-mortgageable costs and the source(s) to fund each.

### **Sources & Uses**

<<Provide a statement of Sources and Uses of actual estimated cost at closing. Include all eligible and ineligible 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, and the like.>>

### Other Uses

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

### Special Commitment Conditions

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

### Conclusion

<<Narrative conclusion and recommendation>>

### Addenda

Check all those that apply and include as addenda to this report.

<input type="checkbox"/>	Survey	<i>Refer to ALTA/ACSM Land Title Survey section.</i>
<input type="checkbox"/>	Phase I Environmental	<i>Land added to existing insured loan's security.</i>
<input type="checkbox"/>	Principal of the Mortgagor	<i>Ownership change; principal not previously approved by HUD.</i>
<input type="checkbox"/>	Operator	<i>Operator change, not previously approved by HUD.</i>
<input type="checkbox"/>	Management Agent	<i>Management Agent change, not previously approved by HUD.</i>
<input type="checkbox"/>	Management Agreement	<i>Management Agreement changes, not previously approved by HUD.</i>

### Signatures

Lender: \_\_\_\_\_

HUD Mortgagee Number: \_\_\_\_\_

This report was prepared by:	Date	This report was reviewed by:	Date
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\_\_\_\_\_  
 <<Name>>  
 <<Title>>  
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