

Lender Narrative

Section 232, New Construction

Lender Narrative –
New Construction
Section 232– Single Stage

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

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Public reporting burden for this collection of information is estimated to average 87 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.

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

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Firm Commitment Application

Instructions:

INSTRUCTIONS:

The narrative is a document 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 **CHARTS:** The charts contained in this document have been created with versatility in mind; however they will not be able to accommodate all situations. For this reason, you are allowed to alter the charts as the situation demands. Be sure to state how you have altered

the charts along with your justification. Include all the information the form calls for. Charts that include blue text indicate names that should be modified by the lender as the situation dictates.

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

Parent of the Operator – Not Applicable

This section is not applicable because there is no operator.

The rest of the ~~subsections under the inapplicable~~ section can then be deleted. The instruction page (above) may also be deleted.

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- **FORMAT:** In addition to submitting the pdf version of the Lender Narrative to HUD, please submit an electronic Word version as well.

Instead of pasting large portions of text from third party reports into the narrative, it is preferred that the Lender simply reference the page number and the report. The focus of this document is for lender conclusions, analyses, and summaries.

Italicized text found between these characters << >> is instructional in nature, and may be left in or deleted from the lender's final version.

Executive Summary

FHA Number:										Inserted Cells
Project Name:										Formatted Table
Project Address: Location (street address; city/county/state);										
City / State / Zip:										
County Lender Name:				IOI?:	<i>Yes or No</i>				Inserted Cells	
Lender's UW:										Inserted Cells
Section of the Act: Lender's UW Trainee:	232									Inserted Cells
Mortgagor:										Inserted Cells
Operator:				IOI?:	<i>Yes or No</i>					
Purpose of Loan: Operator:	<<description of purpose of loan (e.g., Construction and permanent financing for the construction of an assisted living facility.)>>									Formatted Table
Management Agent:				IOI?:	<i>Yes or No</i>				Inserted Cells	
Type of Facility: General Contractor:				Skill ed Nursi ng: IO I?:	<i>Yes or No</i>	beds		units	Inserted Cells	
License Holder:	<input type="checkbox"/> Mortgag or	<input type="checkbox"/> Assisted Living: Operator	<input type="checkbox"/> Management Agent	beds		units			Deleted Cells	
Board & Care:		beds							Deleted Cells	
Dementia Care:		beds							Deleted Cells	
Independent:		beds							Deleted Cells	

Totals: 0 beds 0 units

Mortgage Amount:

DS
LTV: _____ C: _____ LTC: _____
mon
Term: _____ ths Interest Rate: _____
Principal & Interest: _____ per-month

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

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

Underwritten Market Value:	_____	\$		Market Value per Bed:	_____	\$	
Mortgage Amount:	_____	\$	LTV Ratio:	____%	Mortgage Amount per Bed:	_____	\$
Principal & Interest: <i>(without MIP)</i>	_____	\$	LTC:	____%			
Interest Rate:	_____	%	CAP Rate:	____%			
Term:	_____	years					
DSC Ratio: <i>(with MIP)</i>	_____						

Mortgage Criteria		Sensitivity Analysis	
A 1.0 debt service coverage is still realized if:			
Criterion 1, Borrower Request:	_____	\$	Average rent decreases by: _____ \$ Per bed/prd
Criterion 3, 90% of Replacement Cost:	_____	\$	Physical Occupancy decreases by: _____ %
Criterion 5, Debt Service (1.11 cover):	_____	\$	Operating Expenses increase by: _____ \$
Lean Value, XX% of Value:	_____	\$	Operating Expenses PBPA increase by: _____ \$
Lean Debt Service, 1.45 coverage:	_____	\$	Annual NOI decreases by: _____ \$

<u>Gross Income:</u>	\$	<u>Underwritten Occupancy Rate:</u>	%
<u>Effective Gross Income:</u>	\$		
<u>Expense & Repl. Res.:</u>	\$	<u>Expenses per Bed¹:</u>	\$
<u>Net Operating Income:</u>	\$	<u>Expense Ratio:</u>	%
<u>Total Project Cost:</u>	\$	<u>Total Project Cost Per Bed:</u>	\$

<u>Major Movable Equipment Budget:</u>	\$	<u>Major Movable Amount Per Bed:</u>	\$
--	----	--------------------------------------	----

Construction Contract:	\$	<input type="checkbox"/>	Off-Sites	\$	Demolition	\$	Lump Sum
<u>Total Construction Costs: As reported on HUD-2328, Line 53 plus Offsites and Demolition Costs</u>	\$						
<u>Estimated Construction Start Date:</u>	(First Year)		<u>Construction Period:</u>		<u># of months</u>		
Architectural Contract:	\$	<input type="checkbox"/>	Multiply AIA B181s	Agreements			
Operating Deficit:	\$		<u>Absorption Rate:</u>	<u># of beds</u>	<u>Per month</u>		
			<u>Number of Months to cover shortfall:</u>				
			<u>Break-even Occupancy:</u>	%			
<u>Mortgagor's Working Capital:</u>	\$		<u>Minor Movables:</u>	\$			
Special Escrows, Etc:			<<description of other escrows/reserves>>				

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Mortgagor: <<Legal Name>>
Principal(s): <<List all principals of Mortgagor. Add additional lines as needed.>>

Operator:	<<Legal Name>>	FTE's	Operating Lease Revenues	SWB
Principal(s): Operations	<<List all			

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¹ Use per bed for SNF, or facilities with multiple care types (e.g., SN/AL). Use per unit for ALF only.

(Post Construction)	principals of Operator. Add additional lines as needed.>>			\$	\$
----------------------------	---	--	--	----	----

Parent of the Operator: <<Legal Name>>
 Management Agent: <<Legal Name>>
 General Contractor: <<Legal Name>>
 Architect(s): <<Legal Name>>

Third Party Reports provided:

<<Definitions: **Operations (Post 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.>>

Market Study	Conclusion is:		M		<input type="text" value="Deleted Cells"/> <input type="text" value="Deleted Cells"/> <input type="text" value="Deleted Cells"/> <input type="text" value="Deleted Cells"/>
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				Comments:	<input type="text" value="Inserted Cells"/>
	Accepted as is:		Y		
			es		

General Overview

<<Provide narrative of rationale for selection of Wage Decision specified>> – be specific about configurations of kitchens and bathrooms – e.g. Kitchenette includes a sink, microwave and refrigerator and bathroom includes a commode, sink, and shower, etc.>>

Sensitivity Analysis

<<Provide a Sensitivity Analysis. At a minimum, the analysis 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 debt coverage?
- (b) What occupancy rate is required to provide 1.0 debt coverage?
- (c) How much can expenses increase per bed per year or resident day and provide 1.0 debt 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 GUIDANCE:

Section 241a: Supplemental loans under Section 241a of the Act are subject to Davis-Bacon prevailing wage rates if the mortgage covering the project is insured or pursuant to which the original mortgage was insured.

Program Eligibility

Key Program Eligibility Questions

	Yes	No
1. Will the facility charge ‘founder’s fees’, ‘life care fees’, or other similar charges associated with ‘buy-in’ facilities?		
2. Does the facility require more than four residents share a full bathroom (see 24 CFR 232.3)? (Not applicable for SNF’s.)		
3. Are any residents required to access a qualifying bathroom by moving through a public corridor or area (see 24 CFR 232.3)? (Not applicable for SNF’s.)		
4. Has the Mortgagor, Operator, or any of their affiliates, renamed, or reformulated companies, filed for or emerged from bankruptcy within the last five (5) years?		
5. Is the Mortgagor, Operator, or any of their affiliates, renamed, or reformulated companies, currently in bankruptcy?		

<<A “YES” answer to any of the above questions means the loan is not eligible for this program. >>

Commercial Space / Income

<<Affirmative statement along the lines of: "The project 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.">>Select one of the following:

- There will be NO commercial space at the subject.
- There will be commercial space at the subject; however, it does not exceed the program limitations of 10% of the gross floor area of the project and 15% of the gross income.
- | | | | |
|----------------------------|-----------|-----------------------------|---------|
| a. Total Gross Floor Area: | _____ | d. Total Gross Income: | _____ |
| b. Gross Commercial area: | _____ | e. Gross Commercial Income: | _____ |
| c. % of commercial area: | <<b / a>> | f. % of Commercial Inc.: | <<e/f>> |

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

Facility Type

Select ALL that apply:

- Nursing Home**
- Consists of at least 20 beds.
 - Considered a "Skilled Nursing Facility" by Dept. of Health & Human Services.
- Intermediate Care Facility**
- Consists of at least 20 beds.
 - Considered a "Intermediate Care Facility" by Dept. of Health & Human Services.
- Board and Care**
- Consists of at least 5 beds.
 - Provides "Continuous Protective Oversight"
 - Provides areas for central dining.
 - Offers three meals per day to each resident
 - Resident must take at least one meal a day.
 - Regulated by the State in accordance with Section 1616(e) of the Social Security Act (Keys Amendment)
- Assisted Living**

- [Consists of at least 5 units.](#)
- [Provides "Continuous Protective Oversight"](#)
- [Provides areas for central dining.](#)
- [Offers three meals per day to each resident](#)
- [Resident must take at least one meal a day.](#)
- [Caters to frail elderly persons \(62 years and older\) who need assistance with 3 or more.](#)
- [Activities of Daily Living](#)

[Other - Requires explanation below.](#)

[<<NOTE: The above reflect HUD's definitions of facility or care types. Those definitions may not align with the State licensing definitions.>>](#)

Independent Units

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

Select one of the following:

- [There will be NO unlicensed/independent units at the subject.](#)
- [There will be unlicensed/independent units at the subject; however, the total does not exceed 25% of the total beds at the facility.](#)
 - a. Total Beds: _____
 - b. Unlicensed Independent Beds: _____
 - c. Independent as % of Total: [<<b / a >>](#)
- [A waiver is requested to exceed 25% of the total beds at the facility.](#)

PROGRAM GUIDANCE:

[It has been longstanding policy that HUD will allow up to 25% of the units in a Section 232 facility to be Independent Living Units \(ILU\). This policy remains unchanged under Lean. However, please note the following:](#)

[The facility must offer services to all residents in the project comparable to those found in a skilled nursing facility, assisted living facility, board and care, or intermediate care facility.](#)

[The ILU's do not need to be licensed – they may be licensed or un-licensed so long as all of the other units in the facility are licensed.](#)

[Under Lean, we are continuing with the longstanding policy that if the project combines Nursing Home/Intermediate Care or Board and Care units with ILU's, that a 12 month debt service reserve is required. Note, this requirement does not apply to projects that combine Assisted Living units with ILU's.](#)

[Waivers to exceed the 25% limit will be considered on a case by case basis for good cause. Please note that OHP to date has not provided a waiver if the percentage of Independent Living units exceeds 30% of the total project units.](#)

Licensing / Certificate of Need / Keys Amendment

<<Affirmative statement along the lines of: "The facility is to be licensed by the State of {State}'s Department of Health and Welfare as a {Type of Facility} for {X} beds. The license is to be issued to {Name of Entity on License}. ~~include~~Include statement and dates describing submission of license application and drawings}. Describe the licensing process.">>

<<Affirmative statement along the lines of: "There is no Certificate of Need (CON) requirement in {State} for {Type of Facility}." – OR – "A Certificate of Need (CON), dated {XXX} was issued by the State of {State} authorizing XX beds ~~---~~ and is current through (date)">> <<FOR SKILLED NURSING, where the state doesn't require a CON - discuss the required independent study conducted by the state or commissioned by the state of market need and feasibility. Include in the discussion the number of beds and date through which it is current>>

<<Affirmative statement along the lines of: "The State of {State} has certified its compliance with Section 1616(e) of the Social Security Act (Keys Amendment).">>

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>
1. Did the lender submit a pre-application package?	_____	_____
a. Did the HUD market agreement letter identify issues to be addressed in the firm commitment application?	_____	_____
2. Was an early commencement approved for this project?	_____	_____
a. If there was an Early Commencement approval, were there any issues identified that need to be addressed in the firm commitment application?	_____	_____
3. Will there be Accounts Receivable Financing affecting this project's income? (Operator; Parent of the Operator; Management Company; Mortgagor)	_____	_____
4. Is the Mortgagor a Real Estate Investment Trust (REIT)?	_____	_____
5. 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)	_____	_____

	<u>Yes</u>	<u>No</u>
6. Was an Underwriter Trainee involved in underwriting this transaction?	_____	_____
7. Is a mortgage broker involved in this transaction?	_____	_____
8. Does the underwriting include income from Adult Day Care?	_____	_____
9. Will there be a ground lease?	_____	_____
10. Will the facility be leased?	_____	_____
a. Is a non-disturbance agreement required?	_____	_____
11. Is Accounts Receivable Financing involved with this transaction or the operator or the parent of the operator?	_____	_____
12. Are there any Professional Liability Insurance issues that require special consideration or HQ review?	_____	_____
13. Are any tax credits involved in this transaction?	_____	_____
14. Are any secondary funding sources involved in this transaction?	_____	_____
15. Is any real estate tax abatement or exemption included in the underwriting assumptions?	_____	_____
16. Are there any special escrows or reserves proposed for this transaction?	_____	_____
17. Are there any wetlands on the subject property?	_____	_____
18. Is the subject property located in a 100- or 500-year flood hazard?	_____	_____
19. Is the subject site suspected to be of any historical significance?	_____	_____
20. Other than the aforementioned, are there any other environmental issues identified by the Phase I or lender's due diligence?	_____	_____
21. Other than the aforementioned questions, waivers and program eligibility requirements, are there any other issues that require special or a typical underwriting consideration?	_____	_____
22. 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 10 – Leased Facility

The facility will be leased to XXX.

Example:

~~The lease and the operator are discussed in the appropriate sections of this narrative. There are no known special provisions or considerations involved with this lease that require special consideration in the underwriting.~~

Item 14 – 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 16 – 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 20 – Existing Structures on Site

~~A vacant one-story house and two storage sheds currently occupy the site. The current owner of the land will be relocating these structures prior to initial closing, at no cost to the mortgagor. Therefore, no off-site or demolition costs are anticipated.~~

~~Because of the existing structures, we have addressed potential asbestos and lead-based paint concerns. A qualified assessor evaluated the house and outbuildings for asbestos containing materials. No asbestos containing materials were identified. A visual inspection by the environmental assessor also indicated that there is no evidence of peeling paint and no suspect lead-based paint containing surfaces were identified. Given the condition of the paint, the fact that the buildings are not occupied, and the fact that they will be relocated prior to the start of construction, the underwriter and the assessor conclude that no further action is warranted.~~

Item 20 – Pre-Development Management Fees

~~The underwriting includes \$75,000 in organizational costs for pre-development management services. The pre-development management contracted charges are for services to be provided by XYZ Housing Consultants, a firm affiliated with the proposed management agent. The scope of the services include preparing, updating and reviewing lease-up and operational budgets; budgeting, coordinating, and planning for appropriate furniture, fixtures, and equipment; coordination and selection of appropriate business systems (e.g., emergency call, phone and computer systems); occupancy development; licensing submissions and plans; staff hiring and training; and development of operations and systems manuals for major functions (administration, nursing, marketing, dietary, etc.).~~

~~According to a Special Issue Brief published by the American Senior Housing Association (ASHA) for Fall 2006, entitled "Management Companies & Fees: The Changing Dynamics Between Ownership & Management", management fees for senior-care facilities are now typically broken into three types of charges: (1) Pre-Opening Services; (2) Lease-Up Services; and, (3) Stabilized Services. According to the report, during the pre-opening services, management or consulting charges range between \$5,000 and \$10,000 per month.~~

~~The construction period is currently planned to be 13 months. Including four months prior to the start of construction (as the firm is already providing services), the pre-development management charges of \$75,000 equate to \$4,412 per month. According to the ASHA publication, the proposed fee is well within reason. The underwriter has also discussed this type of arrangement with other reputable senior housing management firms and has determined that the charges appear reasonable and customary. Based on these findings, the underwriter has included the pre-development management charges as eligible organizational costs.~~

Item 20 – 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 required by HUD Handbook XXXX and/or Section XXXX of the Section 232 Guide. (Identify the specific HUD requirement(s) that are to be waived.) 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

	Yes	No
1. Have you, as the Lender, identified any identities of interest on your certification?		
2. Does the Mortgagor's certification indicate any identities of interest?		
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 B184 Agreement 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>		

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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. If not applicable, indicate "NA" in describe the No column risk and how it will be mitigated.

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

	Yes	No
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? <u>the maximum LTV identified in the Guidance below?</u>		
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.		
3. <u>Is this a "Special Use Facility" – one that serves a "niche" type of market – e.g. psychiatric facilities; drug, alcohol, or eating disorder recovery facilities; hospice facilities; or short term rehabilitation facilities?</u>		
4. <u>Will the combined % of Medicare and Private Pay beds (of the total SNF beds in the</u>		

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project) underwritten exceed 30%? *

5. Will the % of Private Pay beds used in the underwriting exceed the average % demonstrated in the market, (defined as the average of no less than 5 competing facilities in the primary and secondary market?*

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

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~~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 MIP = .0796 * 1.25 = .0995 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.~~

~~3-6. Will the % of Medicare beds (of the total SNF beds in the project) used in the underwriting exceed 10% or the average % demonstrated in the market, defined as the average of no less than 5 competing facilities in the primary and secondary market?*~~

**If the answer to 4, 5, or 6 is yes, a Waiver must be requested.*

<<If not applicable, indicate "NA" in the No column. For each "YES" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.>>

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

PROGRAM GUIDANCE:

Below is a summary of the LEAN Underwriting Benchmarks for Loan to Value (LTV) and Debt Service Coverage Ratio (DSCR). The maximum insurable mortgage (MIM) amount on new construction loans is limited to 90% of replacement cost. This test applies to the HUD Replacement Cost, as calculated in Section H of HUD Form 92264, not the cost approach of the appraisal, which generally does not factor in Davis Bacon wages. Since the 92264a form only has one space for both the "cost" and "value" tests to be shown in Criteria 3, show the more restrictive MIM in that space, and summarize both tests in the Lender Narrative.

<i>Type of Unit</i>	<i>New/Existing Units</i>	<i>Mortgagor Type</i>	<i>Max. LTV*</i>	<i>Min. DSCR*</i>
<i><u>SNF/ILU</u></i>	<i><u>Both</u></i>	<i><u>For Profit</u></i>	<i><u>80%</u></i>	<i><u>1.45</u></i>
<i><u>SNF/ILU</u></i>	<i><u>Both</u></i>	<i><u>Non-Profit **</u></i>	<i><u>85%</u></i>	<i><u>1.45</u></i>
<i><u>ALF</u></i>	<i><u>New</u></i>	<i><u>For Profit</u></i>	<i><u>75%</u></i>	<i><u>1.45</u></i>
<i><u>ALF</u></i>	<i><u>New</u></i>	<i><u>Non-Profit **</u></i>	<i><u>80%</u></i>	<i><u>1.45</u></i>
<i><u>ALF</u></i>	<i><u>Existing</u></i>	<i><u>For Profit</u></i>	<i><u>80%</u></i>	<i><u>1.45</u></i>
<i><u>ALF</u></i>	<i><u>Existing</u></i>	<i><u>Non-Profit **</u></i>	<i><u>85%</u></i>	<i><u>1.45</u></i>

** Maximum loan to values and minimum debt service coverage ratios are set by the Section 232 Statute and Regulations. Any submittal above the LTV's listed or below the DSCR's listed will require justification/mitigation.*

*** To qualify for the higher Non-Profit benchmarks, the owner/operator must demonstrate a successful operating track record, significant project operating and management experience, an a solid financial track record.*

Other Risk Factors identified by Lender

Additionally, the lender has identified the following risk factors:

<<Provide discussion on other risk factors identified by the lender and how they are mitigated>>

Strengths

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

Underwriting Team

Lender

Name:		<u>"Lean" Approved: Yes/No</u>
Underwriter:		<u>"Lean" Approved: Yes/No</u>
Underwriter Trainee:		
Mortgagee #:		

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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

Broker: _____

PROGRAM GUIDANCE:
On projects involving the addition of beds/units (through new construction, substantial rehabilitation, or Section 241(a)), the Lender's Lean Approved Underwriter of record on the project must inspect not only the subject site but also the market competitors and/or comparables from the appraisal/market study. HUD is not requiring inspection of all comparables listed in the appraisal/market study – it is up to the Underwriter to determine which comparables will give them enough information to become familiar with the market.

Lender's Loan Committee Process

<u>Date of Loan Committee:</u>	
<u>Loan Committee Process:</u>	
<u>Loan Committee</u>	

Conditions:

<<Provide brief narrative summary of qualifications>>

Environmental Consultant

<<Brief description of qualifications>>

Market Analyst

<<Brief description of qualifications>>

Appraiser

<<Brief description of qualifications demonstrating that appraiser meets loan committee, including: information provided; any pertinent 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. of the loan committee to gain the committee's recommendation

>>

Recommendation to HUD

<<Based on analysis and underwriting, XXXXX recommends that HUD issue a firm commitment to insure the proposed mortgage for the subject transaction, subject to the terms and conditions identified in this narrative and the accompanying application exhibits.>>

Third Party Reviewers

<u>Role</u>	<u>Name</u>	<u>Firm</u>	<u>Phone</u>	<u>E-mail</u>
<u>Architectural Reviewer</u>				
<u>Cost Analyst</u>				
<u>Environmental Consultant</u>				
<u>Market Analyst</u>				
<u>Appraiser</u>				

Key Questions

	Yes	No
<u>Architectural Reviewer</u>		
1. <u>Does the architectural reviewer have experience with construction within the healthcare field?</u>		
2. <u>Is the architectural reviewer knowledgeable and experienced with local building standards and construction methods for the type of project proposed, including the Federal Fair Housing Accessibility Guidelines, and the Uniform Federal Accessibility Standards?</u>		
3. <u>Is the architectural reviewer a registered architect or engineer?</u>		
<u>Cost Analyst</u>		
1. <u>Does the cost analyst have experience within the healthcare field?</u>		
2. <u>Is the cost analyst knowledgeable and experienced with local building standards and construction costs for the type of project proposed?</u>		
<u>Environmental Consultant(s)</u> <i>(From MAP Guide 9.1D)</i>		
1. <u>Does the environmental consultant(s) meet all the qualification requirements of Appendix X2 of ASTM E 1527-05?</u>		
2. <u>Does the environmental consultant(s) meet the license/certification, educational, and experiential requirements of Section X.2.1.1(2)(i), (ii), or (iii), of Appendix X2 of ASTM E 1527-05?</u>		
3. <u>Were any Phase II investigations performed by environmental investigator(s) specifically qualified to meet the responsibilities for the issue(s) of concern?</u>		
<u>Market Analyst</u>		
1. <u>Does the market analyst have the knowledge and experience to complete the assignment competently?</u>		
2. <u>Is the market analyst currently active in the market analysis of healthcare properties?</u>		
3. <u>Is the market analyst experienced in the market area in which the subject property is located or established expertise by a thorough investigation of the market?</u>		
4. <u>Did the market analyst personally inspect the property, perform the market analysis, and prepare and sign the market study?</u>		
<u>Appraiser</u>		
1. <u>Is the appraiser is a Certified General Appraiser under the appraiser certification requirements of the State in which the subject property is located as of the effective date of the appraisal?*</u>		
2. <u>Does the appraiser meet the requirements of the Competency Rule described in USPAP?</u>		
3. <u>Did the appraiser sign the appraisal and the required certifications?</u>		
4. <u>Does the appraiser have experience appraising a minimum of five similarly licensed healthcare facilities?</u>		
5. <u>Is the appraiser currently active in the appraisal of healthcare properties?</u>		

	Yes		No
6. Is the appraiser experienced in the market area in which the subject property is located, or establish competency as per USPAP?			
7. Did the appraiser meeting the above qualifications, personally inspect the property being appraised?			
8. If more than one appraiser worked on the appraisal, did they all sign the report and certifications?			

**Lender verification of an appraiser's current standing can be done at <http://www.asc.gov>
<<Any "NO" answers, should be thoroughly explained and justified below.>>*

Housing Consultant (if applicable)

<u>Name:</u>	
<u>Relation to Mortgagor, if any:</u>	

Key Questions

	Yes		No
1. Will the project have a Housing Consultant? If so, please provide a copy of the consultant's agreement with the firm commitment application and provide a narrative discussion which addresses the following: -Terms of the agreement (i.e., fees charged, start and end date); -Consultant's responsibilities			
2. Will the Housing Consultant's responsibilities overlap with those responsibilities provided by other development team members, (i.e., the lender, architect, contractor, attorney, etc.)? If yes, please explain.			
3. Has the lender determined that the fees charged are competitive in the market and considered necessary and reasonable? If no, please explain.			

Project Description

Site

<<Brief narrative description about site 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. >>

Improvement Description

Buildings

<<Narrative description to include number of proposed 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. >>

[Unit](#)

Unit Mix & Features

[Unit Mix](#)

<< ~~complete this~~ [Complete](#) 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						
T						
Totals:	-	-				

Field Code Changed

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

Unit

Features:

<< ~~Narrative~~ *Brief narrative description to describe of the units, including: bathrooms, appliances, flooring, included furnishings, hook-ups, patios, etc.* >>

Services

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

Architectural Review

Date of Report: _____
 Review Firm: _____
 Reviewer: _____

Key Questions

	Yes	No
1. Are any drawings or specifications to be “deferred submissions”? <u>If yes, explain.</u>		
2. Does the architectural reviewer recommend any commitment conditions?		
3. Are the plans and specification incomplete?		
4. Is there an Identity-of-interest between the design architect and any other project participant (mortgagor, principal of mortgagor, operator, and general contractor)?		
5. Are there Architectural Review comments that have <u>NOT</u> been incorporated into the plans and specifications?		
6. <u>Are there any architectural drawings and specifications that do not comply with local building code standards, Minimum property standards or any other HUD requirements?</u>		
7. <u>After reviewing the plans, did the Architectural Reviewer confirm that the plans not to be in conformance with FHAG and UFAS requirements?</u>		
8. <u>Is the design architect providing supervision services?</u>		
9. <u>After reviewing the AIA agreement, did the architectural reviewer find the agreement was not complete?</u>		
10. <u>After reviewing the Geotechnical Engineering Evaluation Report, did the Architectural Reviewer find the report unacceptable showing an insufficient number of borings provided?</u>		
11. <u>After reviewing the soils report, did the Architectural Reviewer find the structural design not in compliance with the findings of the report?</u>		
12. <u>After reviewing the survey, did the Architectural Reviewer find the survey not in compliance with HUD requirements?</u>		

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<<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 Examples:

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 ~~B18-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 "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 including Amendment to AIA Document B181 Standard Form Agreement between Owner and Architect for Housing Services. >>~~

PROGRAM GUIDANCE:

~~Construction specification template (CSI Master Format 2010) addressed in Mortgage Letter 2010-41 must be used for all firm applications submitted after April 25, 2011.~~

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. The document is found to meet HUD's requirements. >>~~

Soils Report

~~<<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. >>~~

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

	Yes	No
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?		

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

<u>6. Did the Cost Analyst find any evidence of front-loading in the contractor's cost estimate?</u>		
--	--	--

<<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;

<u>Cost Plus</u>	<u>Lump Sum</u>

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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

Construction Type:

--

--

General Requirements

PROGRAM 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

GuidancePROGRAM GUIDANCE:

On HUD form-2328, Other Fees is reserved for fees and allowances not normally included in General

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Lender Narrative

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Previous versions obsolete

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form HUD-9004-OHP (mm/dd/yyyy)

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 (a cost certification is required when a "Cost Plus" contract is used)
- ~~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		
TOTAL		\$ -

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		
TOTAL		\$ -

Field Code Changed

~~<<Narrative Discussion – Example #1: The cost analyst has reviewed the schedule of other fees and determined the items and the total cost to be reasonable. The underwriter concurs.~~

Other Fees – General Contractor

~~<< Provide breakdown of the Other Fees the general contractor is paying.~~

Example:

#2: The construction contract includes \$xx in other fees. The other fees include building permits, electric service hook-up charges, and cost certification. It is assumed that the general requirements budget includes appropriate amounts for items such as surveys, municipal inspections and the like during the course of construction. The cost analyst is aware of this likelihood and has adjusted his general requirements budget accordingly.

The underwriter is confident there are adequate budgets built in to the underwriting to cover anticipated other fees. Therefore, the form HUD-92013 and the form HUD-92264 reflect the contractor's and owner's mortgagor's cost breakdown.>>

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 B181 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 B181-B108. Confirm if the cost analyst and underwriter find the architectural fees to be reasonable in total and for the cost of design/supervision- for projects of a similar nature and complexity. >>

Other Fees - Mortgagor

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		
TOTAL		\$ -

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		
TOTAL		\$ -

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

<<

1. The borrower has provided a major movable list and budget totaling:		\$
2. The amount per unit is:		\$
3. The cost analyst found the list acceptable and the budget is reasonable.	Yes /No	
4. The underwriter concurs with the analyst's conclusion or has provided justification for any differences.	Yes /No	
5. 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.	Yes /No	

<<If the answer to 3, 4, or 5 are no, provide a narrative explanation and justification regarding the topic.>>

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

Date of Analysis: _____

Market Analysis Firm: _____

Market Analyst: _____

Key Questions

	Yes	No
1. Is the subject located in a declining market <u>area in terms of population, target population, real estate values, or employment?</u>		
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?		

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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: describing the risk and how it is mitigated. 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.>>. Please be brief in this section and refrain from pasting large sections from the market study here. >>

Primary Market Area

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

Target Population

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

Demand

<<Describe ~~Target Population Demographics~~ Age/Income and type of resident (AL, Independent, Dementia, etc.) and acuity of care of the target population. 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~~ Discuss recent and/or historic absorption of competitive units. Discuss any perceived changes to competitive environment. >>

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.>>.>>

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 OHP Appraisal Guidelines for HUD/FHA Section 232 Lean Pilot Program.”](#)

~~Summary of the appraisal and underwriting conclusions:~~

Key Questions

Market Value Summary

	Yes	No
1. Approach Will there be a ground lease?		
2. Income Are any tax credits involved in this transaction?		
3. Comparison Is any real estate tax abatement or exemption included in the underwriting assumptions?		
4. Cost Are there any special escrows or reserves proposed for this transaction?		
5. Conclusion Does the underwriting include income from Adult Day Care?		
6. Are there any other issues that require special or a-typical underwriting considerations?		
7. Does the submission date of the application (i.e., date the application enters the queue) exceed the 120-day timeframe from the effective date of the appraisal (<<date>>)?		

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Lender Modifications

~~<<Brief summary of modifications made by underwriter. For example, "As discussed <<For each "YES" answer above, provide a narrative discussion regarding the topic; Examples as noted below.>>~~

Item 3 - 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 6 - Pre-Development Management Fees

~~The underwriting includes \$75,000 in organizational costs for pre-development management services. The pre-development management contracted charges are for services to be provided by XYZ Housing Consultants, a firm affiliated with the proposed management agent. The scope of the services include preparing, updating and reviewing lease-up and operational budgets; budgeting, coordinating, and planning for appropriate furniture, fixtures, and equipment; coordination and selection of appropriate business systems (e.g., emergency call, phone and computer systems); occupancy development; licensing submissions and plans; staff hiring and training; and, development of operations and systems manuals for major functions (administration, nursing, marketing, dietary, etc.).~~

~~According to a Special Issue Brief published by the American Senior Housing Association (ASHA) for Fall 2006, entitled "Management Companies & Fees: The Changing Dynamics Between Ownership & Management", management fees for senior care facilities are now typically broken into three types of charges: (1) Pre-Opening Services; (2) Lease-Up Services; and, (3) Stabilized Services. According to the report, during the pre-opening services, management or consulting charges range between \$5,000 and \$10,000 per month.~~

~~The construction period is currently planned to be 13-months. Including four months prior to the start of construction (as the firm is already providing services), the pre-development management charges of \$75,000 equate to \$4,412 per month. According to the ASHA publication, the proposed fee is well within reason. The underwriter has also discussed this type of arrangement with other reputable senior housing management firms and has determined that the charges appear reasonable and customary. Based on these findings, the underwriter has included the pre-development management charges as eligible organizational costs.~~

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

~~**Extraordinary Assumptions:** <<identify any extraordinary assumptions identified in specific to this assignment, which if found to be false, could alter the appraisal appraiser's opinions or conclusions. 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.">>~~

~~**Jurisdictional Exceptions:** <<These are rare and should be discussed with HUD before invoking. >>~~

Income Capitalization Approach

Overview

Income Approach Summary		
	Appraisal	Underwriter
Gross Income		
Occupancy Rate:	%	%
Effective Gross Income:		
Expenses (incl. Repl. Res.):	(0)	(0)
Net Operating Income:		
Capitalization Rate:	%	%
Indicated Market Value:		

<<Below reproduce or paste the appraiser's pro forma. If the lender disagrees with the appraiser's value conclusion, a separate pro forma with the lender's conclusions should be added in section entitled "Lender Modifications of Value". A separate lender's pro forma is not required to show OHP required revisions to items such as management fee, reserves, or taxes as part of the Debt Coverage analysis. Those changes will be summarized latter in the expense section.

At a minimum the Pro Forma supplied needs to:

- Summarize the income by source. The income detail needs to be sufficient to show a line item for each source for which a specific rate was concluded. Include the pavor type (Medicare, Medicaid, Private Pay...) and the care type (AL, MC, Ind. SN), and the room type (private, ward, 1 bedroom, studio...) A count of each type should also be shown.
- Show occupancy assumptions and the assumed number of resident days OR occupied units.
- Show the conclusions for the major expense categories.
- Show the Net Operating Income, Effective Gross Income, Expense per bed OR unit, and the overall expense percentage. It is not necessary to show the Potential Gross Income.

If the appraiser's proforma does not include sufficient detail, the following table may be used or adapted to produce a Pro Forma acceptable to OHP. The input fields are shaded. Non shaded fields are automatic calculations. >>

Pro Forma - Appraiser's Conclusions

Enter X to convert to "Per Occupied Unit" (ALF/Indep. only). Otherwise figures shown are "Per Resident Day"

Enter Number of Beds ▶ (Account for second occupants in Other Income.)

Income Source (separate line for each concluded rate)	Rate Per Resident Day	what % of total units are this type?	Occupancy % for this type*	# of Resident Days/year	Source Total Annually	% of EGI
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
<<payor source/care type/room type>>	\$0.00	0.0%	0.0%	0	\$0	#DIV/0!
Residential Income Total		0.0%	0.0%	0	\$0	#DIV/0!

Other Income Sources	Other Inc. @ Forecasted Occupancy	% of EGI	Per Resident Day
e.g. Therapy	\$0	#DIV/0!	#DIV/0!
e.g. Level of Care Fees	\$0	#DIV/0!	#DIV/0!
e.g. Second Occupant Fees	\$0	#DIV/0!	#DIV/0!
e.g. Misc/Assessment Fees	\$0	#DIV/0!	#DIV/0!
Other Income Total	\$0	#DIV/0!	#DIV/0!
Effective Gross Income		\$0	

Expense Categories	Dollars Annually	% of EGI	Per Resident Day
e.g. General & Administrative	\$0	#DIV/0!	#DIV/0!
e.g. Payroll Taxes and Benefits	\$0	#DIV/0!	#DIV/0!
e.g. Resident Care	\$0	#DIV/0!	#DIV/0!
e.g. Food Services	\$0	#DIV/0!	#DIV/0!
e.g. Activities	\$0	#DIV/0!	#DIV/0!
e.g. Housekeeping & Laundry	\$0	#DIV/0!	#DIV/0!
e.g. Maintenance	\$0	#DIV/0!	#DIV/0!
e.g. Utilities	\$0	#DIV/0!	#DIV/0!
e.g. Marketing and Promotion	\$0	#DIV/0!	#DIV/0!
e.g. Insurance (property & liability)	\$0	#DIV/0!	#DIV/0!
e.g. Collection Loss/Bad Debt	\$0	#DIV/0!	#DIV/0!
Sub-total	\$0	#DIV/0!	#DIV/0!
Real Estate (Property) Taxes	\$0	#DIV/0!	#DIV/0!
Management Fees	\$0	#DIV/0!	#DIV/0!
Replacement Reserves	\$0	#DIV/0!	#DIV/0!
Total Expenses	\$0	#DIV/0!	#DIV/0!
Net Operating Income		\$0	

Revenue

Census Mix

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

Census Mix – Market Comparables
(% of beds not revenue)

Local Market Census Mix	e.g. Private-pay	e.g. Medicare	e.g. Welfare (Medicaid)	e.g. V.A.	e.g. HMO (Insurance)	e.g. Other	Total
Comp 1 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 2 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 3 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 4 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 5 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subject as of xx/xx/xx	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Market Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Local Market Census Mix	e.g. Private-pay	e.g. Medicare	e.g. Welfare (Medicaid)	e.g. V.A.	e.g. HMO (Insurance)	e.g. Other	Total
Comp 1 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 2 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 3 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 4 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comp 5 - (Name)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subject as of xx/xx/xx	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Market Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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

The underwriter's ~~rent conclusion is~~ schedule may be provided below.

Rent Schedule
(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!

~~←← Rent Schedule provided should provide equivalent information. For skilled nursing and other facilities, a daily rate may be more appropriate than a monthly conclusion. here if needed to supplement the data summarized in the pro forma. 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
(Rent Per Resident Day)

Skilled Nursing	e.g. Private Room	e.g. Semi-Private	e.g. Ward	e.g. Sub-Acute
Rent Comp 1 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Subject Current Asking	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -	\$ -	\$ -	\$ -

Skilled Nursing	e.g. Private Room	e.g. Semi Private	e.g. Ward	e.g. Sub-Acute
Rent Comp 1 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name, City)	\$ -	\$ -	\$ -	\$ -
Subject Current Asking	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -	\$ -	\$ -	\$ -

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 for the subject in comparison to market comparables. 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)

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 the prospective rate. If rate is based on resident care requirements, provide an analysis of what market comparables are experiencing. 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. >>~~

HMO or Other Private Insurance

~~<< 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. >>~~

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
(Rent per Bed)

Assisted Living	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted
	e.g. Studio		e.g. One Bedroom		e.g. Two Bedroom		e.g. Semi-Private	
Unit/Care Type								
Rent Comp 1 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subject Current Asking	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Field Code Changed

Assisted Living	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted
	e.g. Studio		e.g. One Bedroom		e.g. Two Bedroom		e.g. Semi-Private	
Unit/Care Type								
Rent Comp 1 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subject Current Asking	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<<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)

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
(Rent per Unit)

Independent Living	Adjusted		Unadjusted		Adjusted		Unadjusted	
	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted
Unit/Care Type	e.g. Studio		e.g. One Bedroom		e.g. Two Bedroom			
Rent Comp 1 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subject Current Asking	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Field Code Changed

Independent Living	Adjusted		Unadjusted		Adjusted		Unadjusted	
	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted
Unit/Care Type	e.g. Studio		e.g. One Bedroom		e.g. Two Bedroom			
Rent Comp 1 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 2 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 3 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 4 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Comp 5 - (Name)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subject Current Asking	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market Average	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Appraisal Conclusion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<<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

Breakdown of "Other" Income			
Line	Description	Annual Amount	Per Occupied Day/Unit
A			
B			
C			
D			
E			
F			
Total		\$ -	

Field Code Changed

Breakdown of "Other" Income			
Line	Description	Annual Amount	Per Occupied Day/Unit
A			
B			
C			
D			
E			
F			
Total		\$ -	

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

Market Occupancy	# of Units	Occupancy
Competitor 1 - (Name)		
Competitor 2 - (Name)		
Competitor 3 - (Name)		
Competitor 4 - (Name)		
Competitor 5 - (Name)		
Subject		
Market Total/Average	0	0%
Appraiser's Conclusion for Subject		0%

Field Code Changed

Market Occupancy	# of Units	Occupancy
Competitor 1 - (Name)		
Competitor 2 - (Name)		
Competitor 3 - (Name)		
Competitor 4 - (Name)		
Competitor 5 - (Name)		
Subject		
Market Total/Average	0	0%
Appraiser's Conclusion for Subject		0%

<<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

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

<<The expense comparables should be entered on a per resident day basis (# beds x 365 x occupancy rate) or per occupied unit basis (# units x 12 x occupancy rate).>>

Expense Analysis –Comparables
(Per Occupied Unit)

	Hope Healthcare Anywhere, XX	Appraisal (Market)	Lender's DSC analysis				
Expense Categories	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5		
e.g. General & Administrative							
e.g. Payroll Taxes and Benefits							
e.g. Resident Care							
e.g. Food Services							
e.g. Activities							
e.g. Housekeeping & Laundry							
e.g. Maintenance							
e.g. Utilities							
e.g. Marketing and Promotion							
e.g. Insurance (property & liability)							
e.g. Bad Debt							
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate (Property) Taxes							
Management Fees							
Replacement Reserves							
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Effective Gross Income							
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Occupancy							
Number of Res Days OR Occ. Units							
Date of Expense Information	e.g. July 2009						
Adjustment factor applied for date	0.0%	0.0%	0.0%	0.0%	0.0%		

Field Code Changed

	Hope Healthcare Anywhere, XX	Appraisal (Market)	Lender's DSC analysis				
Expense Categories	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5		
e.g. General & Administrative							
e.g. Payroll Taxes and Benefits							
e.g. Resident Care							
e.g. Food Services							
e.g. Activities							
e.g. Housekeeping & Laundry							
e.g. Maintenance							
e.g. Utilities							
e.g. Marketing and Promotion							
e.g. Insurance (property & liability)							
e.g. Bad Debt							
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate (Property) Taxes							
Management Fees							
Replacement Reserves							
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Effective Gross Income							
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Occupancy							
Number of Res Days OR Occ. Units							
Date of Expense Information	e.g. July 2009						
Adjustment factor applied for date	0.0%	0.0%	0.0%	0.0%	0.0%		

<<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

<<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

Capitalization Rate – Comparable Sales

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

<<

Reserve for Replacement

<u>Reserve for Replacement (Realty)</u>	\$	<u>PUPA</u>
<u>Reserve for Replacement (Major Movable Equipment)</u>	\$	<u>PUPA</u>

<<Provide narrative discussion as necessary. ~~An equivalent analysis.~~>>

Capitalization Rate

<<The selection of the ~~information provided above is required.~~ capitalization rate should be primarily based on recent sales rather than from investment models. Ideally these rates would come from the Building Sales Comparables, however these are often chosen by location before sale date. Recent cap rate data should be included every time, even if an additional set of cap rate comps or a survey needs to be introduced.>>

Capitalization Rate Summary	Hope Healthcare Anywhere, XX					Comp. Average	Appraiser Conclusion
	Comp 1	Comp 1	Comp 3	Comp 4	Comp 5		
Capitalization Rate							
Identify Source of Income Data							
Uses Retro or Prospective NOI							
Date of Sale							
Year Built							

<<Provide narrative discussion as necessary. 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.>>>

Sales Comparison Approach

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

Summary of Comparables Sales Data
(as adjusted by Underwriter)

Sales Comparison		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average	Appraiser's Conclusions
Price Per Unit OR Bed	Unadjusted						#DIV/0!	
	Adjusted						#DIV/0!	
	Net Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	#DIV/0!	\$ -
		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
	EGIM						#DIV/0!	
	Expense Ratio						#DIV/0!	
	Year Built							
	Date of Sale							

Sales Comparison		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average	Appraiser's Conclusions
Price Per Unit OR Bed	Unadjusted						#DIV/0!	
	Adjusted						#DIV/0!	
	Net Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	#DIV/0!	\$ -
		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
	EGIM						#DIV/0!	
	Expense Ratio						#DIV/0!	
	Year Built							
	Date of Sale							

Field Code Changed

Price Perper Unit

<<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)

<<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)

<<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

Overview

Cost Approach Summary		
	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.>>

Development Cost

<<Provide narrative discussion. This section is a place for the lender to summarize the cost conclusions of the appraisal. The costs in this section will be different than those in the Cost Review Section. This section will focus on Market costs, as opposed to the Cost Reviewer Section which will be geared toward HUD specific costs, such as Davis Bacon wages. >>

Depreciation

<<With new construction this will normally be not applicable, but if the appraiser concludes there is external obsolescence, or depreciation associated with a preexisting structure, it should be discussed here. >>

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 valuecost analyst.

~~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).>>>).>>~~

Marketing Allowance

~~<<Provide narrative discussion.>>~~

Land Value

~~<<Provide narrative discussion of assumptions and conclusion. Include an analysis of the comparable data.>>.>>~~

Economic Life

~~<<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.>>.>>~~

Initial Operating Deficit

~~<<Provide a detailed narrative discussion of assumptions and conclusion. Include a discussion of the Mortgagor/Operator/Management's operating deficit; the appraiser's; and, the lender's analysis.>>~~

Reconciliation

~~<<~~

Overall Value Reconciliation

~~<<The appraiser's figures are to be summarized below. If the lender disagreed with the appraiser's conclusions, a discussion should be included in the "Lender Modifications" section to follow.~~

~~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.>>>>~~

Market Value Summary	
Approach	Appraisal
Income Capitalization	\$0
Sales Comparison	\$0
Cost	\$0
Conclusion:	\$0

Lender Modifications of Value

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

Initial Operating Deficit

<<Below is the "output screen" of OHP's required IOD model. Double click to open. There are 3 tabs, the first of which is the "Input" screen. This is the only area you will be able to make entries (cells shaded in light blue). Once finish with the entries, return to the "Output – Summary Exhibit" tab and click your mouse outside the excel chart to close. All three tabs are to be included as exhibit 1-3A.1. The electronic version of exhibit 1-3A.1, should be submitted as a functioning Excel (or equivalent) workbook. Enter narrative explanations below as needed below. >>

0

Prepared: 1/0/1900

Occupancy Assumptions

Unit Type	Total # Beds	UW Occupancy	Number of Preleases	Avg. Monthly Absorption
e.g. Assisted Living	0	0.00%	0.00	0.00
e.g. Memory Care	0	0.00%	0.00	0.00
e.g. Skilled Nursing or Sub-Acute	0	0.00%	0.00	0.00
e.g. Independent Living	0	0.00%	0.00	0.00
Totals	0	#DIV/0!	0.00	0.00

Rounded Operating Deficit Total: #DIV/0!

Period	Occupied Units	Occupied Percent	Income per Period	Exp. & Mort. per Period	Income/Loss per Period
Month 1	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 2	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 3	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 4	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 5	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 6	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 7	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 8	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 9	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 10	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 11	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 12	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 13	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 14	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 15	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 16	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 17	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 18	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 19	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 20	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 21	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 22	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 23	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 24	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 25	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 26	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 27	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 28	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 29	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 30	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 31	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 32	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 33	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 34	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 35	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Month 36	0.00	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

ALTA/ACSM Land Title Survey

Date: _____

Firm: _____

Key Questions

	Yes	No
1. Are there any differences between the legal description on the survey and legal description included in pro forma title policy?		
2. Are there any revisions or modification required to the survey prior to closing?		
3. Does the survey indicate any boundary encroachments?		
4. Does the survey evidence any buildings encroaching on utility or other easements or rights-of-way?		
5. Do any buildings encroach on either the 100 or 500 year flood plains?		
6. Do any buildings or improvements encroach on wetland areas or their buffer zones?		
7.5. Are there any unusual circumstances or items that require special attention or conditions?		

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

~~<<For each "YES" answer above, provide a narrative discussion regarding on the topic—describing the risk and how it will be mitigated and the affect on value or the marketability of the project.>>~~

Example:

Encroachments: The survey indicates an encroachment of the adjoining property fence on the easterly portion of the property....An encroachment endorsement will be received at closing. There is no impact on the value or marketability of the project.>>

>>

Title

Title Search

Date of Search: _____

Firm: _____

File Number: _____

Key Questions

	Yes	No
1. Is the title currently vested in an entity or individual other than the proposed 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?		

~~Lender Narrative~~

~~Page~~

~~Previous versions obsolete~~

~~Page 55 of 106~~

~~form HUD-9004-OHP (mm/dd/yyyy)~~

	Yes	No
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 on the topic>> describing the risk and how it will be mitigated.>>

Pro-forma Policy

Date/Time: _____

Firm: _____

Policy Number: _____

Key Questions

	Yes	No
1. Is the title vested in an entity or individual other than the proposed Mortgagor?		
2. Are there any covenants, <u>conditions, and, encumbrances, liens</u> , restrictions, <u>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 <u>HUD requirement</u> <u>HUDrequired 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?		

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

8. Are there any easements, rights of way, encroachments, etc. identified on Schedules B-1 and B-2 that, in the lenders opinion, affect value or the marketability of the project?

<<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

Date of Inspection: _____

Firm: _____

Consultant: _____

Key Phase I Environmental Questions

	Yes	No
1. Does the report recommend a Phase II assessment, other reports, or additional testing?		
<u>2. Are there any existing structures on the site?</u>		
2-3. Does the report indicate the presence or suspected presence of any Asbestos Containing Materials? <u>in existing structures (even if to be demolished)?</u>		
3-4. Does the report indicate evidence of any soil staining or distressed vegetation, unusual odors, pools of liquid, leaking containers or equipment, hazardous materials or other unidentified substances?		
4-5. Does the report indicate evidence of any chemical misuse or unlawful dumping at the site?		
5-6. Does the report indicate the presence or suspected presence of any underground storage tanks or aboveground storage tanks on the site?		
6-7. Does the report's review of all major governmental databases for listings of potentially hazardous sites within the ASTM required search distances from the property identify any potential contamination concerns for the property?		
7-8. Does the Phase I/II recommend any required <u>repairs/actions or conditions?</u>		
<u>9. Is the date on the Phase I report older than 180 days from the date of the submission of the firm commitment application? (OHP is unable to waive this requirement.)</u>		

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If you answer "yes" to any of the above questions, please address below:
 <<For each "YES" answer above, provide a narrative discussion regarding on the topic describing the risk and how it will be mitigated. >>
 Example:

Item 2 - Existing Structures on Site

A vacant one-story house and two storage sheds currently occupy the site. The current owner of the land will be relocating these structures prior to initial closing, at no cost to the mortgagor. Therefore, no off-site or demolition costs are anticipated.

Because of the existing structures, we have addressed potential asbestos and lead-based paint concerns. A qualified assessor evaluated the house and outbuildings for asbestos containing materials. No asbestos containing materials were identified. A visual inspection by the environmental assessor also indicated that there is no evidence of peeling paint and no suspect lead-based paint containing surfaces were identified. Given the condition of the paint, the fact that the buildings are not occupied, and the fact that they will be relocated prior to the start of construction, the underwriter and the assessor conclude that no further action is warranted.

⇒

PROGRAM GUIDANCE: ABOVE-GROUND STORAGE TANKS:

HUD is required to qualitatively evaluate the risks associated with proximity to hazardous facilities. OHP reviews on Section 232 applications will consider the potential danger presented by liquid fuel and gas storage tanks, even in cases of refinancing where the tanks are pre-existing, and may at times require mitigation. Whenever above ground tanks exist on site, whether containing liquid fuel (over 100 gallons in size), or containing pressurized gas (stationary tanks of any size), a conformance letter from the governing Fire Department/District will be required. The letter must specifically address the safety of the storage tanks. In cases where new units are being added, and where off-site tanks are in close proximity to the subject building, or where safety letters cannot be obtained, a calculation of the Acceptable Separation Distance (ASD) must be included in the application. A useful tool for

[calculating ASDs can be found at http://www.hud.gov/offices/cpd/environment/asdcalculator.cfm.](http://www.hud.gov/offices/cpd/environment/asdcalculator.cfm)

General Overview

The Phase I Environmental Site Assessment (ESA) was performed in conformance with the scope and limitations of ASTM Practice E 1527-05. ~~Because ASTM may amend these requirements, please reference the most recent current version.~~ The investigation specifically included a reconnaissance of the subject site and the immediate surrounding area, a review of regulatory agency information, a survey of local geological and topographical maps, a review of aerial photographic studies, survey of water sources, a review of historical information and a limited visual inspection for suspect asbestos containing materials (ACMs).

Lender Modifications

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

Other Potential Environmental Concerns

Key HUD Environmental Questions

	Yes	No
1. Is the subject located within a designated coastal barrier resource area?		
2. Is the subject located within the 100 or 500 year floodplain?		
3. Are there any known historic preservation issues related to the subject?		
4.2. Is the subject located within 5 miles of a civil airport or within 15 miles of a military airfield?		
5.3. Is the project located within 1,000 feet of major highways or busy roads?		
6.4. Is the project located within 3,000 feet of a railroad?		
7.5. 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?		
8.6. Are there any wetlands on the subject site? • If so, will any buildings or improvements encroach on wetland areas or their buffer zones?		
9.7. Is any construction of the project likely to affect any listed or proposed endangered or threatened species or critical habitats?		
10.8. Is the subject located on a sole source aquifer aquifer?		
11.9. Are there any known landfills within 1/2-mile of the site?		
12.10. Are any buildings located in the fall zone of any high voltage power transmission or other towers?		

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

<<an item is not applicable, indicate "NA" in the No column. For each "YES" answer above, provide a narrative discussion regarding the topic describing the risk and how it will be mitigated.

Examples:

Item 4 - Railroad

A railway exists approximately 2,400 feet to the south of the project site. As this is an existing structure, a noise analysis or study is not required. This noise source has no discernable impact on the marketability of the facility as it operates at nearly 95 percent occupancy with comparable rents to the rest of the market. >>

Item 6 - 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.

State Historic Preservation Office (SHPO) Clearance

<<Provide narrative description indicating whether or not SHPO has been contacted, etc.

	Yes	No
1. Are there any known historic preservation issues related to the subject?		
2. Has the SHPO been contacted?		
3. Have any other archeological or cultural resource centers been consulted?		

<<As applicable, for each "YES" answer above, provide a narrative discussion on the topic.

For example, "We have received a letter from the XXXX State Historic Society, dated XXXX. It was determined that the site is of no historical or suspected archeological/cultural significance. No additional investigation was recommended by the State.">>

Flood Plain

NFIP Map Panel #: _____ Date: _____
Flood Zone: _____

	Yes	No
1. Does the community participate in the National Flood Insurance Program (NFIP)?		
2. Is the subject located within the 100- or 500-year floodplain?		
• If so, will any buildings or improvements encroach on floodplain areas?		
2-3. Is Flood Insurance required for this property?		

NFIP Map Panel #: _____ Date: _____
Flood Zone: _____

<<<As applicable, for each "YES" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. If project is in 100- or 500-year flood plain the floodplain, provide narrative discussion evaluating exhibits required on checklist.>>>

Mortgagor

Name: _____

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

Key Questions

FYE Date: Yes No

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Key Questions

	Yes	No
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?		
3. According to the application exhibits, is or has the Mortgagor been a defendant in any suit or legal action?		
4. According to the application exhibits, has the Mortgagor ever claimed bankruptcy or made compromised settlements with creditors?		
5. According to the application exhibits, are there judgments recorded against the Mortgagor?		
6. According to the application exhibits, are there any unsatisfied tax liens?		

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

7. <u>Is the Mortgagor a Real Estate Investment Trust (REIT)?</u>		
8. <u>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)</u>		

<<As applicable, for each "YES" answer above, provide a narrative discussion regarding the topic describing the risk and how it will be mitigated.>>

Organization

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

Experience / Qualifications

<<-Narrative description of Mortgagor (experience, if any) and qualifications. For example, "The mortgagor entity is a newly formed single asset entity that was established in {date} to develop and own the subject project.">>

Financial Statements

The application includes the following Mortgagor financial statements:

Balance Sheet as of: _____

Key Questions:

	Yes	No
1. Is the balance sheet missing any required information or schedules?		
2. Does the balance sheet provided include financial data from assets or liabilities not related to owning and operating this facility?		
3. Did your review and analysis of the balance sheet indicate any other material concerns or weaknesses that need to be addressed?		

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

<<For each "YES" answer above, provide a narrative discussion **regarding** on the topic. ~~If not applicable, indicate "NA" in the No column. Example:~~ *describing the risk and how it will be mitigated.*>> ~~If N/A, please explain.~~

General Review

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

Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example, "The Mortgagor is a single asset entity registered in the State of xxx on {date}. It was formed solely to own and operate the subject project. The organizational documents have been reviewed by counsel and comply with HUD requirements in order to participate as an acceptable Mortgagor in this transaction.">>

Principal of the Mortgagor – <<PRINCIPAL NAME>>

<<provide this section for each principal of the mortgagor>>

Key Questions

	Yes	No
1. According to the application exhibits, is or has the Principal been delinquent on any Federal debt?		
2. According to the application exhibits, is or has the Principal been a defendant in any suit or legal action?		
3. According to the application exhibits, has the Principal ever claimed bankruptcy or made compromised settlements with creditors?		
4. According to the application exhibits, are there judgments recorded against the Principal?		

~~Lender Narrative~~

~~Page~~

~~Previous versions obsolete~~

~~Page 61 of 106~~

~~form HUD-9004-OHP (mm/dd/yyyy)~~

	Yes	No
5. According to the application exhibits, are there any unsatisfied tax liens against the Principal?		

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** on the topic->> describing the risk and how it will be mitigated. >>

Organization (not applicable to individuals)

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

State of Organization: _____

Date Formed: _____

Termination Date: _____

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

Experience / Qualifications

<< Narrative description of principal's experience and qualifications. Discussion should highlight direct experience and involvement in other FHA transactions. This section should clearly demonstrate that the Mortgagor will have sufficient expertise from which to draw to successfully own the facility. >>

<<Narrative must also include a discussion on the available working capital of the party (or parties) who will be responsible for providing the financial requirements for closing and beyond. The discussion must clearly show that this party has the ability to support the project over the long-term. In addition, include the percentage of owner's/principal's equity into the project, net worth, and liquidity. >> SEE PROGRAM GUIDANCE BELOW.

Credit History

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

<<Dunn & Bradstreet or other acceptable commercial credit report for business entities and RCMR 'residential' for individuals>>

Firm: _____

Score: * _____

*<<Provide an explanation of the credit score in terms of Low Risk, Medium Risk, High Risk, etc. Also, if the score is evaluated numerically, explain what value the credit agency places on the score.>>

Program Guidance: - Credit Reports:

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;

e. and 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.

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.~~

Supporting Documentation of Financial Capability:

Cash Requirement and Financial Qualifications of the Borrower: The January 25, 2011 Email Blast provided additional clarification on the information required for the Mortgagor Entity Related to Financial Capability and Experience in applications for projects that are adding additional units to the market. There has been a significant improvement in the documentation provided to evidence the experience of participants who may be previously unknown to our staff. However, documentation to support the financial needs of a new project is still lacking.

The previous Email Blast stated that in a significant number of cases, the financial statements for many of the newly-created entities typical to new construction/sub rehab proposals often provide only limited financial information. Therefore, effective on that date, Exhibit 3-7 of the application for Firm Commitment was to include YTD financial statements for the party who will be responsible for the financial requirements (typically the parent entity) at initial closing. If the legal entity of the Mortgagor will be capitalized by another party, the financial statements for that party(ies) must also be provided. Lenders were asked to keep in mind that our underwriting process is seeking to confirm that sufficient financial resources will be available for the cash requirements for closing and to meet any unanticipated financial needs of the project going forward.

The true financial needs of a project are not limited to just the numbers that are reflected under Part III of Form HUD 92264A. Although Working Capital, Initial Operating Deficit (IOD) and a Debt Service Reserve Escrow, along with any other required escrows, are presented in this document and should mirror the figures included in the Sources & Uses Statement, there may be times when an owner or principal may be required to contribute funds in the future to maintain a successful project. While it is difficult to determine when and if such an occasion may occur, it is important to OHP to be able to determine the willingness and ability of the principals to support their project over the long-term. Their willingness can be determined by documentation regarding their experience and relationships in the community. Their financial ability can only be evidenced by actual financial reports and evaluation of available working capital.

Exhibit 3-7 of the application for Firm Commitment must include the last three full years and YTD financial statements for the party who will be responsible for providing the financial requirements for closing and beyond. The Lender's Narrative must include a discussion on the available working capital of this party and their ability to support the project over the long-term. In cases where an individual(s) is providing the cash requirement, one full year financial statement on each will suffice. The financial statement must meet either of the following requirements:

1. Personal Financial and Credit Statement, Form HUD-92417:

- The spouse of married sponsors or principals must also sign the form.*
- If a spouse's signature cannot be obtained, the principal must prepare the form reflecting only those assets that are solely in their name and any liability, including those joint liabilities, for which they have any responsibility.*

2. A substitute statement, that contains at a minimum the information contained on Form HUD-92417. This form must contain the following certifications and criminal warning:

I HEREBY CERTIFY that the foregoing figures and statements contained herein submitted by me as agent

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*of the mortgagor [owner] for the purpose of obtaining mortgage insurance under the National Housing Act are true and give a correct showing of _____'s (Name of mortgagor or owner) financial position as of _____ (date of financial statement).
Signed this _____ day of _____, 20____. Signature of authorized agent with name printed or typed under signature _____.*

Warning – HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

For married individuals, the spouse also must sign the certification.

During our analysis of new construction or substantial rehabilitation proposals in which units are being added to the market, we take into consideration the financial commitment of the owner and their ability to provide financial strength when needed. This includes determining the percentage of cash that the party is putting into the transaction related to the total cost of the project. While a definitive degree of coverage is not required due to the unique nature of each transaction, a level of 20%-30% equity coverage on new construction or substantial rehabilitation projects is anticipated. Any less than 20% requires an explanation and mitigation. The discussion under the Mortgagor's financial capability in the Lender's Narrative must include the percentage of owner's equity into the project.

Supporting Documentation of Appropriate Experience:

The application for Firm Commitment must include complete information on the individuals and/or entity that will be bringing appropriate experience to the project. Appropriate experience is 3 to 5 years successful practice in developing, owning and/or operating board and care facilities, assisted living facilities and/or skilled nursing facilities. This requirement has been in place for a number of years and continues under Lean. If an entity or its principal does not have the appropriate experience, it may contract with a third party experienced operator. Evidence of appropriate experience must be provided which includes specific project examples including project name, type of care provided, location, unit/bed count, year opened and key operating metrics (fill pace, occupancy, net operating income margins) and specific responsibilities for the management and operation of the example health care facility. The Office of Healthcare Programs (OHP) is seeking assurance that the developers and other stakeholders are committed to the long-term success of their project and have the requisite experience to operate and manage the project.

*In addition to the requirements of the application package, the **Lender Narrative** must also provide a complete discussion on the Mortgagor's commitment to the project, both financially and in a business sense over the long term as well as his/her experience.*

Key Questions

	Yes	No
1. Does the credit report identify any material derogatory information not previously discussed?		
2. Does the underwriter have any concerns related to their review of the credit report?		
3. <u>Is the credit report current within the last 30 days of application?</u>		

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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** on the topic->> describing the risk and how it will be mitigated.>>

Other Business Concerns/232 Applications

	Yes	No
1. Does the Principal identify any other business concerns?	_____	_____
a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims?	_____	_____

Financial Statements – For Party or Parties Responsible For Financial Requirements for Closing and Beyond << NAME >>

Year to date: <<dates for start and end of period>>
 Fiscal Year Ending: <<date – end of period>>
 Fiscal Year Ending: <<date – end of period>>
 Fiscal Year Ending: <<date – end of period>>

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

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

Effective Date (of HUD-92417)	Total Assets	Net Worth	Total Liquidity (cash available)	Comments
	\$	\$	\$	

Other Business Concerns/232 Applications

	Yes	No
1. Does the Principal identify any other business concerns?	_____	_____
a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims? (If so, a credit report obtained on the business concern.)	_____	_____
2. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?	_____	_____

Yes No

3. ~~Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification?~~

4. ~~If you answer "yes" to any of the above questions, identify~~

3. Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification?

~~<<As applicable, for each "YES" answer above, provide a narrative discussion on the topic describing the risk factor and how it is/will be mitigated below.>>~~

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

Example:

Other Business Concerns:

XXXXX (principal) identified ~~XX~~<<15>> other business concerns in addition to the Mortgagor and the Operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for ~~XX~~<<2>> of the Other Business Concerns identified by XXXXX. ~~(discuss, (Discuss each report).... No reports indicated derogatory information that would prohibit XXXXX participation in this loan transaction. >>~~

Credit Reports for Other Business Concerns

<u>Name of Entity</u>	<u>Report Type (Commercial, etc.)</u>	<u>Report Date</u>	<u>Comments (i.e., any derogatory information, etc.)</u>
<<Name>>			
<<Name>>			

Other Section 232 Applications:

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

Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation.

For example, "XXXXX has demonstrated an acceptable credit history and sufficient experience owning and operating other facilities. The underwriter recommends this principal as an acceptable participant in this transaction.">>

Operator

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

Key Questions

1. Does the Operator currently own, operate, or manage any other facilities? Yes No

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	Yes	No
2. Does the Operator contract out nursing services exclusive of temporary staffing through an agency and/or contracting for ancillary services (e.g., therapies, pharmaceuticals)?		
3. According to the application exhibits, is or has the Operator been delinquent on any Federal debt?		
4. According to the application exhibits, is or has the Operator been a defendant in any suit or legal action?		
5. According to the application exhibits, has the Operator ever claimed bankruptcy or made compromised settlements with creditors?		
6. According to the application exhibits, are there judgments recorded against the Operator?		
7. According to the application exhibits, are there any unsatisfied tax liens?		

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

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

Organization

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

Experience / Qualifications

<<Provide narrative description of Operator's experience and qualifications. Discussion should highlight direct experience and involvement in other FHA transactions, if any. This section should clearly demonstrate that the Operator has the expertise to successfully lease up a new facility and operate a facility. >> [SEE PROGRAM GUIDANCE ABOVE REGARDING EXPERIENCE.](#) >>

Credit History

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

Credit History

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

Firm: <<Dunn & Bradstreet or other acceptable commercial credit report for business entities>>

Score: <<Dunn & Bradstreet or other acceptable commercial credit report for business entities>>

Firm: <<Dunn & Bradstreet or other acceptable commercial credit report for business entities>>

Score:* <<Dunn & Bradstreet or other acceptable commercial credit report for business entities>>

*<<Provide an explanation of the credit score in terms of Low Risk, Medium Risk, High Risk, etc. Also, if the score is evaluated numerically, explain what value the credit agency places on the score.>>

Key Questions

	Yes	No
1. Does the credit report identify any material derogatory information not previously discussed?		
2. Does the underwriter have any concerns related to their review of the credit report?		
3. Is the credit report current within the last 30 days of application?		

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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->> describing the risk and how it will be mitigated.>>

Other Business Concerns/232 Applications

	Yes	No
1. Does the Principal identify any other business concerns?		

Other Business Concerns/232 Applications

	Yes	No
1. Does the Operator identify any other business concerns? a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims?		
2. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims? a. If so, was a credit report obtained on the business concern?		
2-3. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?		
2. Does the Operator identify any other Section 232 or Section 232/223(f) loans on their certification or its Attachment (s)?		

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

4. <<For>> Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification?		
--	--	--

<<As applicable, for each "YES" answer above, provide a narrative discussion regarding the topic-describing the risk and how it will be mitigated.>>

Examples:

Example:
Other Business Concerns:

XXXXX (**principal**) identified XX<<15>> other business concerns in addition to the Mortgagor and the Operator discussed in this narrative. The underwriter reviewed *Dunn and Bradstreet* credit reports for XX<<2>> of the Other Business Concerns identified by XXXX. {discuss each report}.... No reports indicated derogatory information that would prohibit XXXXX participation in this loan transaction-

Credit Reports for Other Business Concerns

Name of Entity	Report Type (Commercial, etc.)	Report Date	Comments (i.e., any derogatory information, etc.)
<<Name>>			
<<Name>>			

Other Section 232 Applications:

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

⇒

Financial Statements

The application includes the following Operator financial statements:

Other Facilities Owned, Operated or Managed

	Yes	No
1. Does the Operator own, operate, or manage any other facilities?		
2. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims?		
3. Do any of the other facilities have any open professional liability insurance claims?		
Year to date: +4_<<dates for start and end of period>> Do any of the other facilities have any open State findings related to instances of actual harm and/or immediate jeopardy (G or higher)?		

<<As applicable, for each “YES” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.

Example: Other Facilities:

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

PROGRAM GUIDANCE: For other projects/facilities owned, operated, or managed, the Lender must submit copies of inspection reports for the facilities that have open level “G” or higher citations/deficiencies. The Lender must address any issues/risks associated with the reports and show how they would be mitigated. If no open/unresolved level G or higher deficiencies, this should be stated. Note: If any facility has recent (within last 2 years) resolved “G” or higher citations/deficiencies, the Lender must address this in the Narrative, however, a copy of the report is not required.

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Financial Statements

The application includes the following Operator financial statements:

Year to date: <<dates for start and end of period>>
 Fiscal Year Ending: <<date – end of period>>
 Fiscal Year Ending: <<date – end of period>>
 Fiscal Year Ending: <<date – end of period>>

Key Questions:

	Yes	No
1. Are less than 3-years of historical financial data available for the Operator?		
2. Are the financial statements missing any required information or schedules?		
3. Do any of the financial statements indicate a loss prior to depreciation?		
4. Do the Aging of Accounts Payable schedules show any <u>material accounts</u> payables (amount in excess of 60 day in amounts <u>5% effective gross income</u>) over \$2,500 <u>90 days</u> ?		
5. Do the Aging of Accounts Receivable schedules show any <u>material accounts</u> receivables (amounts in excess of 60 day in amounts <u>2% of gross income</u>) over \$2,500 <u>120 days</u> ?		
6. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?		
<u>7. Within the last 3 fiscal years (as applicable) are there any negative or declining NOI?</u>		

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

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

Example:

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

General Review

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

Net Income Analysis

<u>Net Income*</u>			
<u>In total \$</u>			
<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>YTD</u>
			<u>(Indicate time frame)</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	

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

Conclusion

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

Parent of the Operator (if applicable)

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

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

Key Questions

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

~~If you answer "yes" to any of the above questions, identify the risk factor and how it is mitigated.~~
~~<<For<<As applicable, for each "YES" answer above, provide a narrative discussion regarding the topic.>>>>
describing the risk and how it will be mitigated. Example: S&P Rating: The entity is rated X by S&P. The rating agency indicates the outlook for the company is X. >>~~

Organization

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

Experience / Qualifications

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

Credit History

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

<<Dunn & Bradstreet or other acceptable commercial credit

Firm: report for business entities. >>

Score:*

*<<Provide an explanation of the credit score in terms of Low Risk, Medium Risk, High Risk, etc. Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>

Key Questions

	Yes	No
1. Does the credit report identify any material derogatory information not previously discussed?		
2. Does the underwriter have any concerns related to their review of the credit report?		

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

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

Other Business Concerns/232 Applications

	Yes	No
1. Does the Operator Parent identify any other business concerns?		
2. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims?		
3. If so, was a credit report obtained on the business concern?		
3-4. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?		
4-5. Does the Principal Parent identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification?		

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

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

Example:

Other Business Concerns:

XXXXX (*principal*) identified XX<<15>> other business concerns in addition to the Mortgagor and the newly formed Operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for XX<<2>> of the Other Business Concerns identified by XXXXX. ~~(discuss, /Discuss each report)...~~... No reports indicated derogatory information that would prohibit XXXXX participation as Parent of the Operator in this loan transaction. >>

Credit Reports for Other Business Concerns

<u>Name of Entity</u>	<u>Report Type</u> (Commercial, etc.)	<u>Report Date</u>	<u>Comments (i.e., any derogatory information, etc.)</u>
<<Name>>			
<<Name>>			

Other Section 232 Applications:

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

>>

Other Facilities Owned, Operated or Managed

	<u>Yes</u>
<u>1. Does the Parent of the Operator own, operate, or manage any other facilities?</u>	
<u>2. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims?</u>	
<u>3. Do any of the other facilities have any open professional liability insurance claims?</u>	
<u>4. Do any of the other facilities have any open State findings related to instances of actual harm and/or immediate jeopardy (G or higher)?</u>	

<<As applicable, for each “YES” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated.

Example: Other Facilities:

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

PROGRAM GUIDANCE: For other projects/facilities owned, operated, or managed, the Lender must submit copies of inspection reports for the facilities that have open level “G” or higher citations/deficiencies. The Lender must address any issues/risks associated with the reports and show how they would be mitigated. If no open/unresolved level G or higher deficiencies, this should be stated. Note: If any facility has recent (within last 2 years) resolved “G” or higher citations/deficiencies, the Lender must address this in the Narrative, however, a copy of the report is not required.

Financial Statements

The application includes the following financial statements for the Parent of the Operator:

Year to date: <<dates for start and end of period>>
 Fiscal Year Ending: <<date – end of period>>
 Fiscal Year Ending: <<date – end of period>>
 Fiscal Year Ending: <<date – end of period>>

Key Questions:

	Yes	No
1. Are less than 3-years of historical financial data available for the Parent of the Operator?		
2. Are the financial statements missing any required information or schedules?		
3. Do any of the financial statements indicate a loss prior to depreciation?		
4.3. Do the Aging of Accounts Payable schedules show any material accounts payables (amount in excess of 60 day in amounts 5% effective gross income) over \$2,500 90 days?		
5. Do the Aging of Accounts Receivable schedules show any receivables in excess of 60 day in amounts over \$2,500?		
6.4. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?		

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

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

General Review

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

Net Income Analysis

Net Income*
In total \$

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

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

Conclusion

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “The Parent of the Operator entity has demonstrated an acceptable financial and credit history. The underwriter’s review of the Parent of the Operator does not reveal any material derogatory information that would prohibit the approval of the Operator entity as an acceptable participant in this transaction.”>>

Management Agent (if applicable) <<Name>>

<<Provide this section if application exhibits are required for the Management Agent>>

Name: _____
 Relation to Mortgagor: Owner Managed/IOI Entity/Independent/Other
 Principals/Officers: _____

Key Questions

	Yes	No
1. According to the application exhibits, is or has the Management Agent been delinquent on any Federal debt?		
2. According to the application exhibits, is or has the Management Agent been a defendant in any suit or legal action?		
3. According to the application exhibits, has the Management Agent ever claimed bankruptcy or made compromised settlements with creditors?		
4. According to the application exhibits, are there judgments recorded against the Management Agent?		
5. According to the application exhibits, are there any unsatisfied tax liens?		

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

Key Questions – Previous Experience

	Yes	No
1. Does the Management Agent currently own, operate, or manage any other facilities?		
2. Does the Management Agent have experience managing other FHA-insured properties?		
a. Has the agent received any “unsatisfactory” management reviews from HUD?		
b. Have any managed, owned, or operated properties received REAC scores lower than 8060?		
3. Does the Management Agent have less than 3-years of experience managing similar properties?		

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Yes No

3. If the Management Agent is named on the license for the facility, does the Management Agent contract out nursing services exclusive of temporary staffing through an agency and/or contracting for ancillary services (e.g., therapies, pharmaceuticals)?

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

<<For<<As applicable, for each "YES" answer above, provide a narrative discussion regarding the topic. Example: describing the risk and how it will be mitigated.>>

Previous HUD Experience (Past and Current)

Table with 7 columns: Project Name, Project City#, Project City & State, Type of Facility (SNF/ALF/Other), Role (Owner, Operator, Management Agent), # of years experience, Is entity still associated with the project? Yes/No

Annotations: Inserted Cells, Formatted Table

Management Agent's Duties and Responsibilities

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

<<Also describe the nature of the management agent's compensation and how it was calculated. >>

Experience / Qualifications

<<-Narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other FHA transactions, if any. This section should clearly demonstrate the expertise to successfully manage the facility and meet the obligations of the management agreement. This section should clearly demonstrate that the Management Agent has the expertise to successfully lease up a new facility and operate a facility.>>

Credit History

Report Date:
Firm:
Score+*

*<<Provide an explanation of the credit score in terms of Low Risk, Medium Risk, High Risk, etc. Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>

Key Questions

	Yes	No
1. Does the credit report identify any material derogatory information not previously discussed?		
2. Does the underwriter have any concerns related to their review of the credit report?		

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

Other Facilities Owned, Operated or Managed

	Yes	No
1. Does the Management Agent own, operate, or manage any other facilities?		
2. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims?		
3. Do any of the other facilities have any open professional liability insurance claims?		
4. Do any of the other facilities have any open State findings related to instances of actual harm and/or immediate jeopardy (G or higher)?		

<<As applicable, for each "YES" answer above, provide a narrative discussion regarding the topic describing the risk and how it will be mitigated. >>

Other Facilities:

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

PROGRAM GUIDANCE: For other projects/facilities owned, operated, or managed, the Lender must submit copies of inspection reports for the facilities that have open level "G" or higher citations/deficiencies. The Lender must address any issues/risks associated with the reports and show how they would be mitigated. If no open/unresolved level G or higher deficiencies, this should be stated. Note: If any facility has recent (within last 2 years) resolved "G" or higher citations/deficiencies, the Lender must address this in the Narrative, however, a copy of the report is not required.

Past and Current Performance

Indicator	Findings
Billing	<<acceptable>>
Controlling Operating Expenses	
Vacancy Rates	
Resident Turnover	
Rent Collection and Accounts Receivable	
Physical Security	
Physical Condition and Maintenance	
Resident Relations	

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

Management Agreement

Date of Agreement: _____
 Agreement Expires: _____
 Management Fee: _____

Key Questions

	Yes	No
1. Does the agreement sufficiently describe the services the agent is responsible for performing and for which the agent will be paid management fees?		
2. Does the agreement provide that the management fees will be computed and paid according to HUD requirements?		
3. Does the agreement provide that HUD may require the owner to terminate the agreement (1) Immediately, in the event a default under the Mortgage, Note, Regulatory Agreement, or Subsidy Contract attributable to the management agent occurs; (2) Upon 30 days without penalty and without cause upon written request by HUD and contain a provision that gives no more than a thirty day notice, for failure to comply with the provisions of the Management Certification or other good cause; or (3) When HUD takes over as Mortgagee in Possession (MIP)? termination?		
4. Does the agreement provide that HUD's rights and requirements will prevail in the event the management agreement conflicts with them?		
5. Does the agreement provide that the management agent will turn over to the owner all of the project's cash trust accounts, investments, and records immediately, but in no event more than 30 days after the date the management agreement is terminated?		
6. The agreement does NOT exempt the agent from all liability for damages and injuries?		

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<<If you answer "NO" to any of the above questions, identify the risk factor and how it is mitigated below. >>
 <<For each "NO" answer above, provide a narrative discussion regarding the topic.>>

HUD Documents

Form HUD-9839-A, HUD-9839-B, or HUD-9839-C

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

Form HUD-9832

<<Provide narrative review. For example, "The form HUD-9832, Management Entity Profile, is provided in the application. The form has been reviewed by the underwriter and found acceptable for underwriting. The management agent's responses are indicative of experienced management agents in the industry and demonstrate the agent's experience.">>

Conclusion

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

General Contractor

Name: _____
State of Organization: _____
License No. / State: _____
Surety: _____

Key Questions

	Yes	No
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)		

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<<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>>

Credit History

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

Firm: <<Dunn & Bradstreet or other acceptable commercial credit report for business entities >>

Score: *
* <<Provide an explanation of the credit score in terms of Low Risk, Medium Risk, High Risk, etc. Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>

Key Questions

Table with 2 columns: Question, Yes, No. Contains 2 questions about credit report identification and underwriter concerns.

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<<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

Table with 2 columns: Question, Yes, No. Contains 3 questions about other business concerns and credit reports.

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If you answer "yes" to any of the above questions, identify the risk factor and how it is mitigated below.
<<For <<As applicable, for each "YES" answer above, provide a narrative discussion regarding the topic: describing the risk and how it will be mitigated.>>

Example:

Other Business Concerns:
XXXXX (principal) identified XX<<15>> other business concerns in addition to the Mortgagor and the Operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for XX<<2>> of the Other Business Concerns identified by XXXXX. {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:

Credit Reports for Other Business Concerns

Year to date:	<<dates for start and end of period>>	Name of Entity	Report Type (Commercial, etc.)	Report Date	Comments (i.e., any derogatory information, etc.)
Fiscal Year Ending:	<<date—end of period>>				
Fiscal Year Ending:	<<date—end of period>>				
Fiscal Year Ending:	<<date—end of period>>				

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Key Questions:

Financial Statements

The application includes the following General Contractor financial statements:

Year to date:	<u>Yes</u> <<dates for start and end of period>>	<u>No</u>
Fiscal Year Ending:	<<date – end of period>>	
Fiscal Year Ending:	<<date – end of period>>	
Fiscal Year Ending:	<<date – end of period>>	

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Key Questions:

	Yes	No
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 <u>significant any material accounts payables (amount in excess of 605% effective gross income) over 90 days?</u>		
5. <u>Do the Aging of Accounts Receivable schedules show any material accounts receivables (amounts in excess of 2% of gross income) over 120 days?</u>		
5-6. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?		
6-7. Does the Contractor have less than the required 5% adjusted working capital?		

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<<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 67 – 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.>>

Example: XXXX current balance sheet is summarized below.

	<u>Financial Statement As of XXXXXXX</u>	<u>Working Capital Analysis</u>
<u>Current Assets</u>		
<u>Cash Accounts</u>	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
<u>Retainage Receivable</u>	<u>3,600,000</u>	<u>3,600,000</u>
<u>Accounts Receivable</u>	<u>4,900,000</u>	<u>4,700,000</u>
<u>Accounts Receivable - Employees</u>	<u>110,000</u>	<u>-</u>
<u>Accounts Receivable - RELATED</u>	<u>5,000</u>	<u>-</u>
<u>Accounts Receivable - RELATED</u>	<u>25,000</u>	<u>-</u>
<u>Cost & Profit in Excess of Bill</u>	<u>650,000</u>	<u>650,000</u>
<u>Prepaid Insurance</u>	<u>150,000</u>	<u>-</u>
<u>Total Current Assets</u>	<u>\$ 10,640,000</u>	<u>\$ 10,150,000</u>
<u>Current Liabilities</u>		
<u>Retainage Payable</u>	<u>\$ 2,680,000</u>	<u>\$ 2,680,000</u>
<u>Accounts Payable</u>	<u>4,720,000</u>	<u>4,720,000</u>
<u>Profit Sharing Payable</u>	<u>-</u>	<u>-</u>
<u>Current Portion of Notes Payable</u>	<u>66,000</u>	<u>66,000</u>
<u>Accrued Payables</u>	<u>445,000</u>	<u>445,000</u>
<u>Total Current Liabilities</u>	<u>\$ 7,911,000</u>	<u>\$ 7,911,000</u>

The underwriter has made the following modification for the working capital analysis:

Example:

- Only used accounts receivable less than 90 days old
- Did not use accounts receivable from related parties.

- *Did not include prepaid expenses.*

The underwriter's analysis of Work in Progress is as follows:

<u>Job</u>	<u>Contract Amount</u>	<u>% Complete</u>	<u>Contract Balance</u>	<u>Used for Work In Progress</u>
Project A	\$ 309,875	87.0%	\$ 40,284	\$ 40,284
Project B	25,790,007	92.6%	1,908,461	-
Project C	11,050,619	99.6%	44,202	-
Project D	1,673,600	66.5%	560,656	560,656
Project E	5,935,000	77.0%	1,365,050	1,365,050
:	8,807,800	61.0%	3,435,042	3,435,042
:	196,200	42.2%	113,404	113,404
:	244,429	39.2%	148,613	148,613
:	833,806	98.0%	16,676	-
:	100,164	16.8%	83,336	83,336
:	2,063,500	4.6%	1,968,579	1,968,579
:	74,434	36.5%	47,266	47,266
:	922,400	25.7%	685,343	685,343
	<u>\$ 58,001,834</u>		<u>\$ 10,416,912</u>	<u>\$ 8,447,572</u>
		5% of Work in Progress	=	422,379

The underwriter calculated the working capital necessary for the work in progress as 5% of the contract balances for all work that was less than 90% complete. The working capital for the planned sister facility in XXXXX is 5% of the contract amount of \$6,356,426. The working capital for the subject is 5% of the contract amount of \$6,502,743.

Based on the above adjustments and analysis, the underwriter concludes to the following working capital analysis:

<u>Current Assets</u>	<u>10,150,000</u>
<u>Current Liabilities</u>	<u>(7,911,000)</u>
<u>Working Capital</u>	<u>\$ 2,239,000</u>
<u>Working Capital for Other Work in Progress</u>	<u>(422,379)</u>
<u>Working Capital for planned SISTER Facility</u>	<u>(317,821)</u>
<u>Working Capital for Subject</u>	<u>(325,137)</u>
<u>Excess Working Capital</u>	<u>\$ 1,173,663</u>

The contractor clearly demonstrates sufficient working capital for the current work in progress and the planned sister facility and the subject facility. In addition to the above working capital, the contractor also has a \$XXXXM revolving line of credit that currently has no balance. The line of credit is available to supplement the above working capital, if necessary, during construction. >>

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 continue to complete the construction. The underwriter recommends this General Contractor for approval as an acceptable participant in this transaction." >>

Operation of the Facility

~~State Surveys~~

~~Other Facilities Operated or Managed~~

~~<<This section is only applicable for SKILLED NURSING facilities.>>~~

~~Key Questions~~

	<u>Yes</u>	<u>No</u>
1. Do any State Surveys identify any instances of actual harm and/or immediate jeopardy?	_____	_____
2. Are there currently any open findings at any of the facilities?	_____	_____

~~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.>>~~

~~General Review and Findings~~

~~<<Narrative description of review. For example, "The most recent state survey inspections are provided for XX skilled nursing facilities that are owned, operated, or managed by XXXX. The underwriter has reviewed the findings and found....">>~~

~~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

	Yes	No
<u>1. Will the facility be leased?</u>		
<u>2. Will the facility be subleased (master lease)?</u>		
<u>3. Will the lease at closing have a term that will expire within 5 years with no lease renewal options? See guidance below.</u>		
4. Does the lease contain any non-disturbance provisions?		
5. Does the lease require the Mortgagor to escrow any funds other than those associated with this loan?		

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

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~~Lender Narrative~~

~~Page~~

~~Previous versions obsolete~~

~~Page 84 of 106~~

~~form HUD-9004-OHP (mm/dd/yyyy)~~

6. Has the lender recommended any special conditions concerning the lease?			
7. Is the lease payment adequate to provide sufficient debt coverage after the costs of the mortgage?			

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

Example:

Item 10 – Leased Facility

The facility will be leased to XXX. The lease and the operator are discussed in the appropriate sections of this narrative. There are no known special provisions or considerations involved with this lease that require special consideration in the underwriting.

Master Lease

<< If the project is part of a portfolio of properties either totaling three or more facilities or \$15 million, then a master lease is required. Provide a narrative describing the terms of the master lease, lease payments, all parties involved, renewal provisions, etc. The HUD Lease Addendum must be attached to the Subleases. If the applicant is not contemplating a master lease, then the lender must request a waiver, describing why a master lease is not feasible and proposing mitigation to offset the absence of a master lease.>>

Lease Payment Analysis

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

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

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

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.

PROGRAM GUIDANCE:

Clarification of Minimum Lease Payments. During the closing of Section 232 loans, OHP and OGC have encountered confusion on the minimum lease payment required for closing documents and operating leases. For the actual leases, we are requiring that the annual lease payment be calculated using a minimum of a 1.05 coverage ratio - annual principal + annual interest + annual mortgage insurance premium + annual reserve for replacement deposit + annual property insurance + annual property taxes times a multiplier of 1.05. This minimum coverage level required for executed leases is different than the test measurement used in the 223 F Lender's Narrative, which remains unchanged - it will continue at the 1.17 coverage level.

Subordination, Non-Disturbance and Attornment Agreement (SNDA). If there is an identity of interest between the Mortgagor and the Operator, a SNDA is not permitted.

Responsibilities

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

HUD Lease Provisions

Prior to closing, the lease needs to be modified to include the appropriate HUD requirements outlined in the [HUD Operating Lease 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 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: and
Facility FHA#: _____

Maximum Loan Amount: \$ _____

Current Balance: \$ _____

Current Maturity Date: _____

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Key Questions

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):

	Yes	No

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Key Questions

Yes No

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?

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	Yes	No
b. Does the A/R financing involve facilities located in multiple States and/or HUD jurisdictions?		
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 121 days old? (OHCFOHP Director may approve waiver from 120 days to 150 days if justified. OHCFOHP HQ must approve waiver over 150 days for special or unique circumstances.)		
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.)		

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For each "YES" <<If you answer "yes" to any of the above, provide a narrative discussion questions, please address below **describing the risk.** >>

TERMS and CONDITIONS

<<Description of the significant terms and conditions of the A/R Loan, including (1) how ~~it~~ the maximum A/R loan amount is **mitigated**; determined (e.g., an amount up to XXX% of the net collectible value of A/R Borrowers accounts receivable due from eligible payors (e.g., Medicaid, Medicare) up to XXX days past the date of service); (2) Describe how receivables will be directed and deposit accounts are to be controlled (e.g., number of controlled accounts, daily sweeps, etc.); (3) describe security interest in controlled accounts; and, (4) describe any other pertinent terms and conditions affecting FHA/HUD's and the FHA Lender's security interests that are not discussed below.>>

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*					
Total	\$ -	\$ -	\$ -	\$ -	

*Non Govt. is 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 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 >>

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: /Financing Fees (Interest Only, etc): _____
5. Late Payment Fees: _____
6. Interest Rate on Unused line: _____

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

PROGRAM GUIDANCE:

~~Borrower shall maintain and pay for a Lock Box mutually satisfactory to borrower and lender for borrower's cash collections.—There shall be no material change in borrower's Operator's business or financial condition. There shall be no material default in any of Borrower's Operator'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.~~

Collateral / Security

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

Permitted Uses and Payment Priorities

<<Provide a description of <<Describe the flow of all funds, into and out of controlled – point of origination to final destination. Attach cash flow chart.>>

COLLATERAL / SECURITY

<<describe the A/R Lender's Collateral/Security for the loans. Identify all assets in which the A/R Lender will be taking a security interest - for example, A/R Borrower's accounts receivable, provider agreements, etc.>>

PERMITTED USES

<<describe the permitted uses ~~and payment priorities~~ of the A/R loan funds>>. For example, debt service fee incurred in connection with the A/R Loan; ; working capital needs in connection with operations at the FHA-insured facilities; etc.>>

PAYMENT PRIORITIES

<<describe the payment priority of A/R funds in priority order. For example, (1) to pay the debt service obligation to the A/R Lender; (2) to pay A/R Borrower's costs of operations, including but not limited to rent, payroll, taxes, management fees, etc.; (3) distributions to equity holders, but only to the extent expressly permitted by the terms of the A/R loan agreement. The payment priority provisions will also be addressed in the Intercreditor Agreement and Rider to Intercreditor Agreement (collectively, the "Intercreditor Documents") to be executed between A/R Lender and Lender. The Intercreditor Documents are under review by HUD legal counsel and are subject to HUD approval.>>

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

INTEREST RATE

<<Indicate the fixed rate or clearly describe how the floating interest rate is determined, include the base rates or index, the spread over the base rate, and any minimum/maximum rate limitations.>>

FEES

~~<<describe the fees associated with the A/R financing and indicate whether they are loan that the A/R Borrower is required to pay. The list of fees should clearly identify one-time charges of origination fees; ongoing-
Indicate if there are any fees associated with the loan (e.g., unused portion of the loan. Also line fees or annual
renewal fees); late payment; early termination; and any other significant charges. If appropriate, provide an
analysis demonstrating that the Operator can support the additional financial expenses of the A/R
loan. NOTE: the historical A/R loan costs are to be included in the underwritten at the facility for the YTD
and last 3 fiscal years.>>~~

FINANCIAL ANALYSIS

~~<<provide a financial analysis that demonstrates that the A/R Borrower and the facilities involved with the A/R
loan have sufficient financial capacity to pay all operating expenses for determining, A/R financing costs and
loan payments; and all rent and/or debt service coverage. Identify payments. The analysis should include the
following items: (1) overall lending capacity for each facility involved; (2) description of assumptions regarding
A/R loan amount, interest rate, annual expenses, etc. (this should assume maximums to stress test the A/R
financing); (3) an analysis of the Operator's 12-month trailing operating statements (see below) and the impact the
of the A/R financing; (4) a comparison of the 12-month trailing NOI to the original or proposed underwriting of the
NOI for the FHA loan (as applicable); (5) the impact on the Mortgagor's debt coverage after payment of the A/R
Loan expenses and payments; and, (6) any additional financial analysis need to support the feasibility of the A/R
loan for the facilities involved.>>~~

~~<<Note: This section is likely to be provided by the FHA Lender(s). If there are multiple FHA Lenders involved,
each lender will need to provide an analysis for their respective loans based on a pro rata assumption of each
facilities contribution to the total A/R loan costs used in underwriting and capacity.>>~~

~~<<An Example Lending Capacity Analysis is below.>>~~

Accounts Receivable Aging

(Double click inside the line item on Excel Table to add information)

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

*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

<<An Example Financial Analysis is below.

Assuming the ~~92264~~\$1.2M maximum A/R loan limit and an annual interest rate of 8.0% and that the entire amount is outstanding for the year infers an annual interest expense of \$100,000. In addition to the interest, the other ongoing fee is the collateral management fee, which ~~includes this cost~~ would be a maximum of \$15,000 per year for the same assumed balance. An analysis of the Operator's 12 month trailing financial statement (XXX 2009 - XXX 2010) is below:

Historical A/R Loan Costs
(total \$)

2006	2007	2008	YTD	2006-2008 Average	UW

Recommendation

<<12-month Trailing Operating History

<u>Operating Revenue</u>	<u>\$ 9,000,000</u>
<u>Operating Expenses</u>	<u>(7,000,000)</u>
<u>Net Operating Income (NOI)</u>	<u>\$ 2,000,000</u>
<u>Lease Expense / Rent</u>	<u>(1,200,000)</u>
<u>NOI After Lease</u>	<u>\$ 800,000</u>
-	-

<u>Non-Operating Revenue</u>	<u>\$ (10,000)</u>
<u>Non-Operating Expenses</u>	<u>(75,000)</u>
<u>Non-Operating Income (Expense)</u>	<u>\$ (85,000)</u>
-	-
<u>NOI Available for A/R Expenses</u>	<u>\$ 715,000</u>
<u>A/R Fee: Interest</u>	<u>(100,000)</u>
<u>A/R Fee: Collateral Management</u>	<u>(15,000)</u>
<u>NOI After A/R Expenses:</u>	<u>\$ 600,000</u>

As shown above, there is more than sufficient NOI at the XXX facility to cover the recurring annual expenses associated with its portion of the A/R financing.

The original underwriting assumed an NOI of \$1,400,000. The 12-month trailing NOI is \$2,000,000. The annual debt service including the original MIP amount is \$725,000 per year. Adding the A/R fees equates to a total Debt Service & A/R expense of \$840,000 per year. The 12-month trailing NOI offers 2.38 coverage of the total Debt Service & A/R expense.>>

RECOMMENDATION

<<The FHA Lender's recommendation with regard to acceptance of A/R financing>>that FHA accept the A/R Loan proposal.>>

Insurance

Professional Liability Coverage

PROGRAM GUIDANCE: The PLI insurance policy must be in the name of the entity that is conducting the day to day operations of the nursing home. The PLI policy can be issued to the parent operator as long as each operating entity that is conducting the day to day operations of the nursing home is listed on the policy.

Name of Insured: _____

Insurance Company: _____

Rating: _____ Rater: _____

Authorized surplus lines carrier in project state:
Insurance Company is licensed in the United States: Yes No

Statute of Limitations: _____

Planned Coverage: Per Occurrence: _____

Aggregate: _____

Deductible: _____

Policy Basis: Per occurrence Claims made

Policy Premium: _____

Key Questions

	Yes	No
1. Will the insurance policy cover multiple properties? If yes, complete a – e below.		
a. Is less than 6 years of loss history available?		
b. Does the loss history indicate a professional liability claims over \$35,000?		
c. Does the loss history or potential claims certification indicate any uncovered claims?		
d. Does the loss history or potential claims certification indicate any claims that would exceed the per occurrence or aggregate coverage limits?		
e. Have the facilities been covered by a “claims made” policy at any time during the statute of limitations for the State in which the facilities are located?		
2. Is the policy funded on a “cash front” basis?		
3. Are there any PLI issues that require special consideration or HQ review?		

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.

Examples:

Multiple properties: *The underwriter notes that the professional liability policy is a ‘blanket’ policy covering XXX facilities, including the subject...{address... [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}.*

Claims made coverage: *The project’s previous professional liability insurance coverage was a “claims made” form policy with XXXX, which expired XXXX, when the current policy was put in place. -In XXXX the borrower purchased a “nose coverage” policy which is the coverage needed when going from a “claims made” form of insurance to a “per occurrence” form of insurance. The premium for this “nose” coverage liability was a ~~one~~ one ~~time~~ one ~~time~~ charge and was paid in XXX.- Because of that additional insurance coverage, the insurance expense for XXXX was substantially higher than the current expense. The current “per occurrence basis” insurance policy covers the entire statute of limitations. The project’s professional liability insurance is in compliance with HUD’s requirements. >>*

Lawsuits

<<As applicable, discuss each lawsuit and describe the potential risk related to the party’s participation in the proposed project. Discuss how that risk is mitigated.

If the suit is closed, does it contribute to a pattern? Does it materially affect the party’s ability to participate in the project? If not closed, describe the circumstances, identify the potential award amount, provide evidence & analysis showing that the suits are covered by insurance (general or professional liability –identify which one), and if the insurance isn’t sufficient, do they demonstrate adequate funds to cover the potential excess? Describe any other information which mitigates the risk. >>

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 HUD-92447. >>

Fidelity Bond / Employee Dishonesty Coverage

<<Narrative discussion of review. For example, "The current insurance policy reflects fidelity (crime) insurance with the limit of \$XXXXXX and \$XXXXXX deductible. The HUD requirement for at least two months potential gross income receipts would total \$XXXXXX. The current level of coverage is sufficient for this project." If not sufficient, recommend commitment condition:>>>

Mortgage Determinants

Overview

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

Fair Market Value is \$XXXXXXXXXX;	\$
75%/80% LTV is:	\$
Replacement Cost is \$XXXXXXXXX;	\$
90% of RC is:	\$
Debt Service:	\$
Requested Amount:	\$

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The proposed mortgage is \$XXXXXXXXXX and is constrained by XXXXXXXXX.

Mortgage Term

A mortgage term of 40 years.

Type of Financing

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

Fair Market Value Limit

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

Replacement Cost Limit

The \$XX fair market value limit was calculated in accordance with HUD guidelines. This is based on x% of the underwriter’s value of \$X. No deductions for ground leases, grants or loans, excess unusual site improvements, cost containment, 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 underwriter’s net operating income of \$X, interest rate of XX% and a XX-year term. The proposed mortgage is constrained by XXXXX; therefore, the underwritten debt service coverage is XX, which is X% of the estimated net operating income for debt service and MIP payments.

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

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

a.	Total Estimated Replacement Cost of Project as Depreciated	\$ _____
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. ()	\$ _____

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.

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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. Demonstrate compliance with HUD limits on private sources. Remember that Criterion 11 is applicable to mortgage sizing-->>

Program Guidance

Government Sources

- a. Secondary financing, grants and tax credits from a Federal, State, or local government agency or instrumentality, may be used to cover up to 100% of the applicable Section of the Act equity requirement.
- b. Secondary financing, grants, and tax credits from a Federal, State or local government agency or instrumentality, may also be used to finance non-mortgageable costs. Such funds covering non-mortgageable cost, when added to the HUD mortgage and required equity contribution may exceed 100% of the project's Fair Market Value (FMV) or Replacement Cost.
- c. Subordinated liens against the property that result from secondary loans from a Federal, State or local governmental agency or instrumentality to cover non-mortgageable costs and/or equity, in combination with HUD's primary lien, may exceed 100% of the property's FMV or Replacement Cost.
- d. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary loans, grants and tax credits must be certified by the source provider to be required to complete the project and that the related costs are reasonable. Documentation to this effect must be included with the application submission.

Private Sources

1. Secondary financing in the form of a promissory note is permitted to cover a portion of the equity requirement under Section 223(f). The aggregate amount of the FHA insured first loan and the private second loan cannot exceed 92.5% of FMV. Therefore, the amount of a private loan may range from 7.5% of FMV (the difference between 85% and 92.5% of FMV) to a larger percentage if a mortgage criterion is lower than 85% of FMV controls. This rule also applies to Sections of the Act that are pursuant to Section 223(f), i.e., Section 232 pursuant to Section 223(f). However, this allowance should not be used to circumvent our existing policies which do not permit equity take-out on Section 232 refinance transactions or on purchase transactions, a way to finance costs that otherwise would not be permitted. For example, seller take backs on property acquisition costs that are not supportable by market data should not be approved.
2. When private secondary financing is combined with Federal, State or local government agency secondary financing, like in #1 above, the aggregate amount of the HUD insured first loan and the private second loan cannot exceed 92.5% of FMV. However the governmental loan, in aggregate with the HUD first and private second, may exceed the property's FMV. The addition of the governmental loan may result in total liens that exceed the property's FMV.
3. Private secondary financing may be used to cover ~~nonmortgageable~~non-mortgageable costs in combination with equity or solely for one purpose or the other. Whatever option is decided upon, as stated under #1 above, the aggregate of the HUD first and private second cannot exceed 92.5% of FMV.
4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary financing from private sources must be certified to be reasonable and required to complete the project by the provider of sources in

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documentation included with the application submission.

5-4

Other Uses

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

Cash Requirements

Initial Operating Deficit:	
	Absorption Rate/# Units per month:
	# Months to cover shortfalls:
	Breakeven Occupancy %:
Working Capital:	\$
*Cash Investment:	\$
Debt Service Reserve Escrow:	\$
	# Months of Principal and Interest payments:
Offsite Escrow:	\$
Minor Movable Equipment Escrow:	\$
Demolition:	\$
Other:	\$
Total:	\$
	% of total construction amount:
	%*

**Total cash requirements divided by replacement cost (HUD-92264, Section H, and Line 39)*

Cash Requirement will be met by: (pre-pays; LOC; sponsor, etc.)

Example: Borrower's cash and LOC's.

Based on a review of the principals (identify principal) their net worth is estimated at \$XXXXXX; their liquidity meets/exceeds \$XXXXXX.

Special Commitment Conditions

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

2.

Conclusion

<<Narrative conclusion and recommendation>>

Signatures

Lender Name: _____

HUD Mortgagee _____

~~Number:~~ Lender Address: _____

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

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

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End Notes