

Lender Narrative

Section 232, Substantial Rehabilitation

**Lender Narrative –
Substantial Rehabilitation
Section 232– Single Stage**

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

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

Public reporting burden for this collection of information is estimated to average 93 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)

Privacy Act Notice: The United States Department of Housing and Urban Development, Federal Housing Administration, is authorized to solicit the information requested in the form by virtue of Title 12, United States Code, Section 1701 et seq., and regulations promulgated thereunder at Title 12, Code of Federal Regulations. While no assurance of confidentiality is pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information Act request.

Firm Commitment Application

Instructions:

The narrative is a critical document to the Lean Underwriting process. Each section of the narrative and all questions need to be completed and answered. If the lender's underwriter disagrees and modifies any third party report conclusions, provide sufficient detail to justify. The narrative should identify the strengths and weaknesses of the transactions and demonstrate how the weaknesses are mitigated by the underwriting.

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

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.

Historical Information: Substantial rehabilitation can encompass a wide range of renovations – from “gut” rehabilitations that replace or newly construct nearly everything, to replacements and renovations that barely exceed the substantial rehabilitation threshold. Because of these types of variables, historical financial data on the previous operations may not be available or applicable. In those instances that historical information is not applicable, the underwriter should follow the above instructions for inapplicable sections and provide the reason. Acceptable reasons for not providing historical data include: the lack of data due to a sale or previous use; or, a significant change in use. Be cautioned that changes in census mix without a change the type of license will likely not warrant elimination of the historical data as an underwriting tool.

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Executive Summary

FHA Number:

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

Section of the Act: **232**

Purpose of Loan: <<description of purpose of loan (e.g., financing for the rehabilitation of an assisted living facility.)>>

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

Mortgage Amount: _____ LTV: _____ DSC: _____ LTC: _____
 Cash requirement: _____ Term: _____ months Interest Rate: _____
 Principal & Interest: _____ per month

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

Construction Contract: _____
 Contingency: Cost Plus Off-Sites
 Lump Sum Demolition

Total Construction
 Costs: *As reported on HUD-2328, Line 53, plus Offsites and Demolition Costs* _____ \$

Estimated Construction Start
 Date: (First Year) _____

Construction Period:
 (# of months) _____

Architectural Contract: _____ Multiple AIA B181s Agreements
 Operating Deficit: _____ Relocation escrow required: \$ _____
 Special Escrows, Etc: _____ <<description of other escrows/reserves>>

Formatted Table

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

<<Definitions:

Base Year: Year before construction.

Year: First year of stabilized occupancy after completion of construction. (Example: for completion date of 6/1/13 plus "12 months for reaching stabilized occupancy"* , enter 2014.) * # Of Months reported on OHP's IOD spreadsheet, "Output-Summary Exhibit" tab.

FTE's: As reported on the "Staffing Schedule" - Exhibit in the Operations Section of the application checklist.

Operating Revenues: As reported on form HUD-92264, Section G, Line 3.

SWB (Salaries, Wages, Benefits): As reported on the "Staffing Schedule" - Exhibit in the Operations Section of the application checklist.>>

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

<input type="checkbox"/> Market Study	Conclusion is: <input type="checkbox"/> Accepted as is. <input type="checkbox"/> Modified by underwriter.
<input type="checkbox"/> Appraisal	Conclusion is: <input type="checkbox"/> Accepted as is. <input type="checkbox"/> Modified by underwriter.
<input type="checkbox"/> Phase I Environmental	Conclusion is: <input type="checkbox"/> Accepted as is. <input type="checkbox"/> Modified by underwriter.
<input type="checkbox"/> Architecture/Cost Review	Conclusion is: <input type="checkbox"/> Accepted as is. <input type="checkbox"/> Modified by underwriter.

Labor Relations

Wage Decision Type: Residential Building (Commercial)
Wage Decision Number: _____ Mod #: _____
Wage Decision Modification Date: _____
of Buildings: _____ # of Units _____

of Stories: 25 # of self-contained units¹: _____

Lenders Pre-Construction Conference Coordinator Information

Name: _____
Email: _____
Phone: _____
Mailing Address: _____

General Overview

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

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 Eligibility

Substantial Rehabilitation

This project qualifies for substantial rehabilitation because:

- The hard costs of rehabilitation/construction \${Amount}, represents {X}-percent of the value as rehabilitated, which exceeds 15-percent of the project’s value after completion (note, the hard costs of an addition to the building are included in this calculation).
- The scope of rehabilitation includes substantial replacement of two or more major building components, including: <<list all applicable components here>>

¹ Self-contained means that the units contain both a kitchen/kitchenette and a bathroom. This criterion, in addition to the number of stories, affects whether the construction type will be “residential” or “building”.

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.”>>

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.”>>

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 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?	_____	_____
2-1. Will there be Accounts Receivable Financing affecting this project’s income? (Operator; Parent of the Operator; Management Company; Mortgagor)	_____	_____
3-2. Is the Mortgagor a Real Estate Investment Trust (REIT)?	_____	_____
4-3. 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)	_____	_____
5-4. Was an Underwriter Trainee involved in underwriting this transaction?	_____	_____
6-5. Is a mortgage broker involved in this transaction?	_____	_____
7-6. Does the underwriting include income from Adult Day Care?	_____	_____
8-7. Will there be a ground lease?	_____	_____
9-8. If the facility is leased, is a non-disturbance agreement required?	_____	_____
10-9. Is Accounts Receivable Financing involved with this transaction or the operator or the parent of the operator?	_____	_____
11-10. Are there any Professional Liability Insurance issues that require special consideration or HQ review?	_____	_____
12-11. Are any tax credits involved in this transaction?	_____	_____
13-12. Are any secondary funding sources involved in this transaction?	_____	_____
14-13. Is any real estate tax abatement or exemption included in the underwriting assumptions?	_____	_____
15-14. Are there any special escrows or reserves proposed for this transaction?	_____	_____
16-15. Are there any wetlands on the subject property?	_____	_____
17-16. Is the subject property located in a 100- or 500-year flood hazard?	_____	_____
18-17. Is the subject site suspected to be of any historical significance?	_____	_____
19-18. Other than the aforementioned, are there any other environmental issues identified by the Phase I or lender’s due diligence?	_____	_____
20-19. Other than the aforementioned questions, waivers and program eligibility	_____	_____

	<u>Yes</u>	<u>No</u>
requirements, are there any other issues that require special or a-typical underwriting consideration?	_____	_____
21-20. Is any special treatment proposed for net income or interest, taxes, MIP, and insurance during rehabilitation (for cost certification purposes)?	_____	_____
22-21. 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 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.

Identities-of-Interest

	<u>Yes</u>	<u>No</u>
1. Have you, as the Lender, identified any identities of interest on your certification?	_____	_____
2. Does the 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 B18+B108 of the Design Architect identify any identities of interest?	_____	_____
<u>8. Does the lender know that, or have any reason to believe, that any of the assertions in the other Consolidated Certifications submitted herewith, are inaccurate or incomplete?</u>	_____	_____

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

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

Example:

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

Risk Factors

Key Questions

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

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

<<For each "YES" answer above, provide a narrative discussion regarding the topic. See below program guidance for more discussion of these issues.

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

Given the difficult economic and fiscal environment nationally, the Department is requesting that HUD approved Mortgagees exercise caution in underwriting loans under the LEAN Section 232 programs for new construction and refinance transactions for assisted living facilities. For all Assisted Living Project LEAN mortgage insurance applications under Section 223(f), Section 232 new construction and substantial rehabilitation, and Section 241(a), HUD will require justification/mitigation if the underwritten debt service coverage ratio ("DSCR") is less than 1.45. Moreover, as was previously discussed with various lenders in June of 2008, for all LEAN mortgage insurance applications involving new construction of Assisted Living units, HUD will require justification/mitigation if the underwritten loan to value is greater than 75%.

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

Additional Guidance on the Use of Project Capitalization Rates:

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

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

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

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

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

Strengths

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

Underwriting Team

Lender

Name: _____
Underwriter: _____
Underwriter Trainee: _____
Mortgagee #: _____

Site Inspection Date: _____
Inspecting Underwriter: _____

<<UNDERWRITER>>

<<Brief description of qualifications>>

<<UNDERWRITER TRAINEE, if Applicable>>

<<Brief description of qualifications>>

<<INSPECTING UNDERWRITER, if Applicable>>

<<Brief description of qualifications. A MAP-approved 232 Underwriter or Lean-approved 232 Underwriter employed by the Lender must visit the site **AND sign this narrative.**>>

Architectural Reviewer

<<Brief description of qualifications>>

Cost Analyst

<<Brief description of qualifications>>

Environmental Consultant

<<Brief description of qualifications>>

Market Analyst

<<Brief description of qualifications>>

Landscaping

<<Narrative description about the “as-is” and “as-rehabilitated” landscaping>>

Parking

<<Narrative description about the “as-is” and “as-rehabilitated” 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

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

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

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

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Unit Features

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

Services

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

Scope of Rehabilitation

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

Architectural Review

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

Key Questions

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

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

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

Example:

Item 1 – Fire sprinkler system engineering will be completed by... Note: Fire sprinkler systems or truss designs are the only acceptable submissions that may be deferred until after Initial Closing.

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 5 - 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 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 ~~B18+B108~~ including Amendment to AIA Document ~~B18+B108~~ Standard Form Agreement between Owner and Architect for Housing Services. All design and inspection services must be accounted for in one or more AIA Document ~~B18+B108~~ Agreements. >>

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

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

Seismic Analysis

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

Other Specialty or Engineering Reports

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

Conclusion

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

Cost Review

Date of Report: _____

Review Firm: _____

Cost Analyst: _____

Key Questions

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

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

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

Cost Overview

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

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

Construction Costs (form HUD-2328)

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

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

Complete this table or provide equivalent detail

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

General Requirements

Guidance:

The cost for General Requirements will include the costs for those items incurred in the construction of the project and directly pertaining to a specific project. It will not include

general overhead expense of operating the contractor's home office. Items of cost to be considered in determining General Requirements allowance include, but are not limited to, items such as:

- Supervision
- Field engineering to provide grades and lines for locating buildings, streets and walks on the site.
- Field office, phones, office supplies and equipment, and clerical help
- Temporary sheds and toilets
- Temporary heat, water, light, and power for construction
- Cleaning and rubbish removal
- Watchmen's wages
- Medical and first aid facilities
- Temporary protection and fences

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

2328 Other Fees – General Contractor

Guidance:

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

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

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

Schedule of Other Fees included in Construction Contract

Line	Description	Amount
A	Survey	
B	Cost Certification	
C	Municipal Inspections	
D	Special Engineering Tests/Fees	
E	Special Taxes	
F	Permits	
G		
H		
I		
J		
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

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

Bond Premium / Assurance of Completion

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

Identities of Interest

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

Unusual Site Improvements

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

Architect's Fees

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

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

Other Fees

Schedule of Other Fees to be paid by Mortgagor

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

Contingency Reserve

Guidance:

Contingency reserve amount is based on available data for the type and condition of structure. Calculate as percentage of the sum of structures, land improvements, and general requirements. Percentage ranges from 1 to 10 percent, depending on the condition of the project, extent of rehabilitation, and experience and financial capacity of the mortgagor and contractor.

The Contingency reserve can only be used to cover unanticipated costs, such as discovering more extensive dry rot than was expected. The contingency reserve is not available for items such as an increase in cost of carpet.

The architectural and cost reviewer concluded that a contingency reserve of XXX percent is sufficient based on the site visit, the type of construction of the existing buildings, and the developer's knowledge of the existing buildings. The underwriter agrees. <<or explain modification>>

Replacement Reserves

Guidance:

Substantial rehabilitation can encompass a wide range of renovations – from “gut” rehabilitations that replace or newly construct nearly everything, to replacements and renovations that barely exceed the substantial rehabilitation threshold. In lieu of requiring total replacement of everything that will require replacement within the next 5 years, the lender can provide a replacement reserve analysis prepared in accordance with the Lean 232/223(f) Statement of Work for Project Capital Needs Assessments to determine an appropriate initial and annual deposit to the replacement reserve.

Year		0	1	2	3	4	5
Interest Earned	2.0%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Deposit		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Initial Deposit	\$ -						
Total Deposits	\$ -						
Claims		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Claims		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance	\$ -						
Year		6	7	8	9	10	
Interest Earned		\$ -	\$ -	\$ -	\$ -	\$ -	
Annual Deposit		\$ -	\$ -	\$ -	\$ -	\$ -	
Initial Deposit							
Total Deposits	\$ -						
Claims		\$ -	\$ -	\$ -	\$ -	\$ -	
Cumulative Claims		\$ -	\$ -	\$ -	\$ -	\$ -	
Balance	\$ -						
Year		11	12	13	14	15	
Interest Earned		\$ -	\$ -	\$ -	\$ -	\$ -	
Annual Deposit		\$ -	\$ -	\$ -	\$ -	\$ -	
Initial Deposit							
Total Deposits	\$ -						
Claims		\$ -	\$ -	\$ -	\$ -	\$ -	
Cumulative Claims		\$ -	\$ -	\$ -	\$ -	\$ -	
Balance	\$ -						

Field Code Changed

Year	0	1	2	3	4	5
Interest Earned	2.0%	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Initial Deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Deposits	\$ -					
Claims	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Claims	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance	\$ -					

Year	6	7	8	9	10
Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Deposit	\$ -	\$ -	\$ -	\$ -	\$ -
Initial Deposit	\$ -	\$ -	\$ -	\$ -	\$ -
Total Deposits	\$ -				
Claims	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Claims	\$ -	\$ -	\$ -	\$ -	\$ -
Balance	\$ -				

Year	11	12	13	14	15
Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Deposit	\$ -	\$ -	\$ -	\$ -	\$ -
Initial Deposit	\$ -	\$ -	\$ -	\$ -	\$ -
Total Deposits	\$ -				
Claims	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Claims	\$ -	\$ -	\$ -	\$ -	\$ -
Balance	\$ -				

As you can see, the year-end balance for each year through year 15 is positive, indicating that the initial and annual deposit are sufficient based on these assumptions. The HUD program requires the lender to re-analyze the capital needs in year ten.

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

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

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

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

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

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

Market Analysis Overview

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

Primary Market Area

<<Describe primary market area and method of selection (e.g., distance, zip codes, etc.). Include the subject’s history and performance in the market.

Target Population

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

Demand

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

Competitive Environment

<<Describe and identify competing facilities; planned facilities; facilities under construction; and other supply factors that compete with the subject facility. Description of supply should include

types of facilities; acuity; occupancy. Also discuss recent and/or historic absorption of competitive units.>>

Conclusion

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

Appraisal

Date of Valuation: _____
Appraisal Firm: _____
Appraiser: _____
License # / State: _____

The report was prepared to comply with the reporting requirement outlined under the USPAP as a self-contained report. The report also complies with the requirements of the Code of Professional Ethics of the Appraisal Institute and the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), Title XI Regulations

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

Summary of the appraisal and underwriting conclusions:

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

Lender Modifications

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

Hypothetical Conditions and Extraordinary Assumptions

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

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

Income Capitalization Approach - As Rehabilitated

Overview

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

Revenue

Census Mix

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

Census Mix – Subject History
(% of beds)

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

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

Field Code Changed

Census Mix – Market Comparables
(% of beds)

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

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

Field Code Changed

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

Rents - As Rehabilitated

The underwriter's rent conclusion is provided below.

Rent Schedule As Rehabilitated
(Rent per bed)

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

Totals: - - average: #DIV/0!

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

Totals: - - average: #DIV/0!

Field Code Changed

<<Rent Schedule provided should provide equivalent information. For skilled nursing and other facilities, a daily rate may be more appropriate than a monthly conclusion. For continuum of

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

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

Skilled Nursing

Private Pay

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

Rent Comparability Analysis - As Rehabilitated
(Rent Per Resident Day)

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

Field Code Changed

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

Medicare

<<Provide narrative discussion of conclusion. For example, “The appraiser provided a detailed Resource Utilization Group (RUG) rate analysis of the facility’s operation over the last 12-month operating period (using market comparables if there are not currently units of this type in the subject). 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

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

Welfare (Medicaid)

<<Provide narrative discussion of State's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of current or prospective rate. If rate is based on resident care requirements, provide an analysis of the last 12-months of rates for this payor source, as appropriate (using market comparables if there are not currently units of this type in the subject). Identify and discuss any other sources or copayments that are required (e.g., SSI). Identify any modification from the appraiser's concluded rent and provide justification. >>

Veteran's Administration (VA)

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

HMO or Other Private Insurance

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

Other

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

Assisted Living

Private Pay

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

Rent Comparability Analysis – As Rehabilitated
(Rent per Bed)

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

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

Welfare (Medicaid)

<<If applicable, provide narrative discussion of State's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of prospective rate. If rate is based on resident care requirements, provide an analysis of how the concluded rent was determined. Identify and discuss any other sources or copayments that are required (e.g., SSI). Identify any modification from the appraiser's concluded rent and provide justification. >>

Independent Units

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

Rent Comparability Analysis - As Rehabilitated
(Rent per Unit)

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

Field Code Changed

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

Other Income

Schedule of Other Income - As Rehabilitated

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

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

Field Code Changed

Historical Comparison of Other Income
(Actual or Effective Collection)

2005	2006	2007	YTD	2005-2007 Average	Appraisal	UW

2005	2006	2007	YTD	2005-2007 Average	Appraisal	UW

Field Code Changed

<< Provide narrative discussion and support for each other income category as appropriate. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender's option to support their conclusion, as appropriate. A few examples follow:

Additional Personal Care Fees

The project bases additional care fees on levels of care needed as determined by the initial assessment and subsequent assessments as needed. The appraiser concludes to a *net* amount of

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

Second Occupant Income

The appraiser has included a net annual projection of X second occupants at \$X per month. Competitive facilities in the market place report second occupant charges ranging between \$X and \$X with a range of X to X second occupants. Based on the market, the underwriter concurs with the appraiser's conclusion for a net annual income of \$X. Identify any modification from the appraiser's concluded fees and provide justification.

Miscellaneous Income

In addition to room rents, additional care, and second occupant income, the project will receive miscellaneous income from <<list miscellaneous>>. The appraiser has included a net annual projection of \$X. Typically, miscellaneous income is between x and x percent of effective income. The appraiser's conclusion is x. The underwriter has concluded to a net \$X per annum (calculation shown). Identify any modification from the appraiser's concluded fees and provide justification.

>>

Occupancy

A summary of the market occupancy is provided below.

Market Occupancy Analysis

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

Field Code Changed

Historical Occupancy Analysis

	2005	2006	2007	Last 12- months	2005-2007 Average	Appraiser	UW
Total Units							
Occupancy							
Occupied Units	-	-	-	-		-	-
	2005	2006	2007	Last 12- months	2005-2007 Average	Appraiser	UW
Total Units							
Occupancy							
Occupied Units	-	-	-	-		-	-

Field Code Changed

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

Expenses – As Rehabilitated

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

Historic Comparison

Expense Analysis –Subject
(Per Occupied Unit)

Category	2005	2006	2007	YTD	2005-2007 Average	Appraiser	UW
General & Administrative							
Payroll Taxes & Benefits							
Resident Care							
Food Service							
Activities							
Housekeeping/Laundry							
Plant Operations							
Utilities							
Marketing/Promotions							
Real Estate Taxes							
Insurance							
Management Fee							
Replacement Reserves							
TOTAL	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -

Key Data	2005	2006	2007	YTD	2005-2007 Average	Appraiser	UW
Effective Gross Income							
Net Operating Income	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
Expense Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#VALUE!	#DIV/0!	#DIV/0!
Occupancy							
Total Units							

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

Comparable Expense Data – As Rehabilitated

Expense Analysis –Comparables– As Rehabilitated
(Per Occupied Unit)

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

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

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

Net Operating Income – As Rehabilitated

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

Capitalization Rate– As Rehabilitated

Capitalization Rate – Comparable Sales

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

Field Code Changed

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

Sales Comparison Approach – As Rehabilitated

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

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

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

Field Code Changed

Price Per Unit – As Rehabilitated

<<Provide narrative discussion. An equivalent analysis of the information provided above is required. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate analysis for each care type. Include a general discussion of adjustments made to the sales and which comparables best represent the subject facility. Additional analysis can be provided at the Lender’s option to support its conclusion, as appropriate.>>

Effective Gross Income Multiplier (EGIM) – As Rehabilitated

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

Cost Approach – As Rehabilitated

Overview

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

Total for All Improvements

<<Provide narrative discussion.>>

Carrying Charges and Financing

<<Provide narrative discussion.>>

Legal, Organization, and Cost Certification

<<Provide narrative discussion.>>

Marketing Allowance

<<Provide narrative discussion.>>

Major Movable Equipment

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

Land Value

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

Economic Life – As Rehabilitated

<<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 – As Rehabilitated

<<Provide narrative discussion of how the value approaches were reconciled to reach the final conclusions. The statement may be simple. For example, “As demonstrated in the Appraisal Overview section above, the underwritten value conclusion is based on the income approach to value.” If the value conclusion is based on weighting multiple approaches provide an explanation of the rationale. The value used for criterion 3 of the form HUD-92264-A will be the lesser of: (a) Total Estimated Replacement Cost; and, (b) the Fair Market Value.>>

As Is Appraised Value

Summary of the appraisal and underwriting conclusions:

As Is Market Value Summary		
Approach	Appraisal	Underwriter
Income Comparison		
Conclusion:		

As Is Value Overview

<<Discuss the appraiser’s “As Is” Value conclusion in general terms and any significant modifications made by the underwriter. The “As Is” value should be reflective of the historical operations of the facility. The underwriter should make a statement similar to the following: “The underwriter has reviewed the As Is Value methodologies employed by the appraiser to determine the As Is Value of the subject facility. The appraiser selected and adjusted comparable income and expense data that appropriately reflects the facility As Is.” If the NOI for the underwriter’s As Is NOI departs significantly from the historical NOI, provide sufficient justification and support.

As Is Net Operating Income Analysis

Historical Comparison of Net Operating Income
(total \$)

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

Field Code Changed

<<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.>>

Relocation Plan and Budget during Rehabilitation

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

ALTA/ACSM Land Title Survey

Date: _____

Firm: _____

Key Questions

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 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. Are there any unusual circumstances or items that require special attention or conditions? | _____ | _____ |

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:

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.
>>

Title

Title Search

Date of Search: _____

Firm: _____

File Number: _____

Key Questions

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

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

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

Pro-forma Policy

Date/Time: _____

Firm: _____

Policy Number: _____

Key Questions

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

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

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

Additional Endorsements: As described in the Risk Factors section of the narrative, the XXXX does not conform to the past or current zoning requirements. The Lender recommends....

>>

Environmental

Phase I Environmental Site Assessment

If the project is currently HUD Insured and no land is being added to the site, a Phase I Environmental Assessment is not required. However, if the facility was built prior to 1978 and does not have an asbestos survey and/or Operations & Maintenance plan, then said survey must be provided. If asbestos is present, an O & M plan is required.

Date of Inspection: _____

Firm: _____

Consultant: _____

Key Phase I Environmental Questions

	<u>Yes</u>	<u>No</u>
1. Does the report recommend a Phase II assessment, other reports, or additional testing?	_____	_____
2. Does the report indicate the presence or suspected presence of any Asbestos Containing Materials?	_____	_____
3. 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. Does the report indicate evidence of any chemical misuse or unlawful dumping at the site?	_____	_____
5. Does the report indicate the presence or suspected presence of any underground storage tanks or aboveground storage tanks on the site?	_____	_____
6. 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. Does the Phase I recommend any required remediation?	_____	_____

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 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 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

	<u>Yes</u>	<u>No</u>
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. Is the subject located within 5 miles of a civil airport or within 15 miles of a military airfield?	_____	_____
5. Is the project located within 1,000 feet of major highways or busy roads?	_____	_____
6. Is the project located within 3,000 feet of a railroad?	_____	_____
7. 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. Are there any wetlands on the subject site?	_____	_____
9. Is any construction of the project likely to affect any listed or proposed endangered or threatened species or critical habitats?	_____	_____
10. Is the subject located on a sole source aquifer?	_____	_____
11. Are there any known landfills within 1/2-mile of the site?	_____	_____
12. Are any buildings located in the fall zone of any high voltage power transmission or other towers?	_____	_____

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

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

State Historic Preservation Office (SHPO) Clearance

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

Flood Plain

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

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

Mortgagor

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

Key Questions

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

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

Organization

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

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:

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

	<u>Yes</u>	<u>No</u>
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 the topic. If not applicable, indicate "NA" in the No column. Example:

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

	<u>Yes</u>	<u>No</u>
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?	_____	_____
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 the topic.>>

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. >>

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: _____

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

Key Questions

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the credit report identify any material derogatory information not previously discussed? | _____ | _____ |
| 2. Does the underwriter have any concerns related to their review of the credit report? | _____ | _____ |

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

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

Other Business Concerns/232 Applications

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Does the Principal identify any other business concerns? | _____ | _____ |
| a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims? | _____ | _____ |
| b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? | _____ | _____ |

	<u>Yes</u>	<u>No</u>
2. Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification?	_____	_____

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

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

Example:

Other Business Concerns:

XXXXXX identified XX 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 Other Business Concerns identified by XXXX. {discuss each report} No reports indicated derogatory information that would prohibit XXXXX participation in this loan transaction.

Other Section 232 Applications:

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.

Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example, "XXXXXX 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

	<u>Yes</u>	<u>No</u>
1. Does the Operator currently own, operate, or manage any other facilities?	_____	_____
2. Does the Operator contract out nursing services 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? Yes No

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

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

Organization

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

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. >>

Credit History

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

Key Questions

1. Does the credit report identify any material derogatory information not previously discussed? Yes No

2. Does the underwriter have any concerns related to their review of the credit report? Yes No

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.>>

Other Business Concerns/232 Applications

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

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

b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? Yes No

2. Does the Operator identify any other Section 232 or Section 232/223(f) loans on their certification or its Attachment (s)? Yes No

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.

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.>>

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 Mortgage template and modify it appropriately for an Operator. >>

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

Key Questions

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

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

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

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

Key Questions

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the credit report identify any material derogatory information not previously discussed? | _____ | _____ |
| 2. Does the underwriter have any concerns related to their review of the credit report? | _____ | _____ |

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

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

Other Business Concerns/232 Applications

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the Operator identify any other business concerns? | _____ | _____ |
| a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims? | _____ | _____ |
| b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? | _____ | _____ |
| 2. Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification? | _____ | _____ |

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

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

Example:

Other Business Concerns:

XXXXXX identified XX other business concerns in addition to the Mortgagor and the newly formed Operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for XX Other Business Concerns identified by XXXX. {discuss each report}....

No reports indicated derogatory information that would prohibit XXXXX participation as Parent of the Operator in this loan transaction.

information that would prohibit the approval of the Operator entity as an acceptable participant in this transaction.”>>

Management Agent (if applicable)

<<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

	<u>Yes</u>	<u>No</u>
1. 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 80?	_____	_____
2. Does the Management Agent have less than 3-years of experience managing similar properties?	_____	_____
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 each “YES” answer above, provide a narrative discussion regarding the topic. Example:

Previous HUD Experience

Project Name	Project City	Project State	Type of Facility

>>

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: _____

Key Questions

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the credit report identify any material derogatory information not previously discussed? | _____ | _____ |
| 2. Does the underwriter have any concerns related to their review of the credit report? | _____ | _____ |

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

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

Past and Current Performance

<u>Indicator</u>	<u>Findings</u>
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

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

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

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

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

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

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

Experience / Qualifications

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

Credit History

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

Key Questions

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

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

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

Other Business Concerns/232 Applications

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Does the General Contractor identify any other business concerns? | _____ | _____ |
| a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims? | _____ | _____ |
| b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? | _____ | _____ |

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

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

Other Business Concerns:

XXXXX identified XX other business concerns. The underwriter reviewed Dunn and Bradstreet credit reports for XX Other Business Concerns identified by XXXX. {discuss each report}.... No reports indicated derogatory information that would prohibit XXXXX participation in this loan transaction.

Financial Statements

The application includes the following General Contractor financial statements:

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

Key Questions:

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

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

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

Example:

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

General Review

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

Working Capital Analysis

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

Conclusion

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

Operation of the Facility

State Surveys

Subject

The application includes the following state surveys issued on the following dates over the last three (3) years of operations:

{date}

Key Questions

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

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.>>

General Review and Findings

<< Narrative description of review. For example, "The {date} state survey inspection letter indicates that there were X deficiencies. The deficiencies...">>

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

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Does the lease contain any non-disturbance provisions? | _____ | _____ |
| 2. Does the lease require the Mortgagor to escrow any funds other than those associated with this loan? | _____ | _____ |
| 3. Are there proposed changes to the current operating lease? | _____ | _____ |
| 4. Has the lender recommended any special conditions concerning the lease? | _____ | _____ |

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

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

Lease Payment – During Rehabilitation Period

Guidance

Lease Payment/Net Income during Construction Period–Section 232

Formatted Table

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

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

Lease Payment – During Lease Up

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

Lease Payment Analysis – Stabilized, As Rehabilitated

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.

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:

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

Accounts Receivable (A/R) Financing

A/R Lender: _____
A/R Borrower: _____
Current Balance: _____
Current Maturity Date: _____

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

Key Questions

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Does the A/R financing require any guarantees from the Owner, Operator, or Parent of the Operator? | _____ | _____ |
| 2. Does the A/R financing involve multiple facilities and/or borrowers? | _____ | _____ |
| a. Does the A/R financing involve any non-FHA-insured properties? | _____ | _____ |
| b. Does the A/R financing involve facilities located in multiple States and/or HUD jurisdictions? | _____ | _____ |
| 3. Is there an identity of interest between the A/R Lender and the A/R Borrower? | _____ | _____ |

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 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? (OIHCF Director may approve waiver from 120 days to 150 days if justified. OIHCF 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.) | _____ | _____ |

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

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

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

	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

Field Code Changed

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->>. [Attach cash flow chart.](#) >>

Terms and Conditions:

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

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

PROGRAM GUIDANCE:

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

Collateral / Security

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

Permitted Uses and Payment Priorities

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

PROGRAM GUIDANCE:

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

Costs

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

Historical A/R Loan Costs
(total \$)

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

Field Code Changed

Recommendation

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

Insurance

Professional Liability Coverage

Name of Insured: _____

Insurance Company: _____

Rating: _____ Rater: _____

Authorized surplus lines carrier in project state: Yes No

Statute of Limitations: _____

Current Coverage: Per Occurrence: _____

Aggregate: _____

Deductible: _____

Policy Basis: Per occurrence Claims made

Current Expiration: _____

Retroactive Date: _____

Policy Premium: _____

Key Questions

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Does the insurance policy cover multiple properties? | _____ | _____ |
| 2. Is less than 6 years of lost history available? | _____ | _____ |
| 3. Does the loss history indicate a professional liability claims over \$35,000? | _____ | _____ |
| 4. Does the loss history or potential claims certification indicate any uncovered claims? | _____ | _____ |
| 5. Does the loss history or potential claims certification indicate any claims that would exceed the per occurrence or aggregate coverage limits at the facility? | _____ | _____ |
| 6. Has the facility been covered by a "claims made" policy at any time during the statute of limitations for the State in which the facility is located? | _____ | _____ |
| 7. Is the policy funded on a "cash front" basis? | _____ | _____ |

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. Examples:

Multiple properties: The underwriter notes that the professional liability policy is a ‘blanket’ policy covering XXX facilities, including the subject... {address potential impact of other facilities on the subject’s coverage}

Less than 6-year loss history: The claims history reports were examined for the period XX through XX. The underwriter determined that there were no professional liability XX claims during that period... {address claims and sufficiency of coverage, etc. based on history}.

Recommendation

<<Narrative recommendation regarding acceptability of professional liability insurance. For example, “The mortgagor’s professional liability insurance was analyzed in accordance HUD Notice H 04-01 and H 04-15. The property has XX current potential (threatened) insurance claims at this time as reflected on the certification provided by the borrower. It is {lender}’s opinion that the information provided above and in the application sufficiently demonstrates that the existing professional liability coverage meets HUD’s requirements and that the risk from professional liability issues is sufficiently addressed. No modifications to the current coverage are recommended.”>>

Property Insurance

<<Narrative discussion of review. For example, “Hazard and Liability insurance will be provided by XX. The underwriter has confirmed estimates of the cost and coverage for underwriting and will re-verify this information prior to closing. The insurance coverage will comply with HUD requirements prior to closing.”>>

Builder’s Risk

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

Fidelity Bond / Employee Dishonesty Coverage

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

Mortgage Determinants

Overview

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

Fair Market Value:	
Replacement Cost:	
Debt Service:	
Cost of Rehab Plus	
Deduction of Grants, Loans, and Gifts	
Requested Amount:	

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

Mortgage Term

The underwriter concluded to a mortgage term of XX years. The estimated remaining useful life of the project is XX years based on the estimate of the appraiser and engineer. The estimate has been multiplied by 75 percent to arrive at the maximum mortgage term of XX years. {Note: Term not to exceed 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.

Cost of Rehabilitation Plus

The estimated cost of rehabilitation limit is \$X. This amount is based on XX% of the total estimated rehabilitation cost of \$X plus the off-site costs of \$X plus the lesser of 90.0% of as-is value \$X or the allowable existing debt \$X.

Program Guidance

Property held in fee - One hundred percent of the estimated cost of rehabilitation less grant/loan funds attributable to replacement costs items.

Property subject to existing mortgage - Lender's estimated cost of rehabilitation, plus the lesser of:

- (1) Secured indebtedness, or
- (2) Ninety percent (95 percent for nonprofit mortgagors) of the sum of Lender's estimate of the Fair Market (As-Is) Value of the property before rehabilitation less:
 - (a) The value of the leased fee, if leasehold, and
 - (b) The amount of non-pre-payable special assessments.

Property to be acquired - Ninety percent (95 percent for nonprofit mortgagors) of the sum of Lender's estimated cost of rehabilitation plus the lesser of:

- (1) Ninety percent (95 percent for nonprofit mortgagors) of the actual purchase price of the property,
- (2) Ninety percent (95 percent for nonprofit mortgagors) of the sum of Lender's estimate of the Fair Market (As-Is) Value of the property before rehabilitation less:
 - (a) The value of the leased fee, if leasehold and
 - (b) The amount of nonprepayable special assessments.

Existing Indebtedness

<<For a **purchase**, this section should be titled "Purchase Price" and the information below should be replaced by an appropriate narrative section describing the pertinent terms of the purchase transaction, generally including: purchase price; itemization of costs to be paid by seller; date of agreement and addendums; expiration date; date by which sale must occur; etc. Note: Process a property acquired after the initial application as property to be acquired. If an identity of interest exists, regardless of how slight, between the seller of the property and the sponsor, the transaction must be considered a refinancing transaction rather than a purchase transaction.>>

Schedule of Debt to Refinance

<u>Lender</u>	<u>Pay-off Amount</u>
Total:	\$ 0.00

Key Questions

	<u>Yes</u>	<u>No</u>
1. Are there any debts on the Mortgagor’s balance sheet or recorded against the property that will survive closing?	_____	_____
2. Are any of the debts to be paid off less than two-years old?	_____	_____
3. Are any of the debts to be paid off less than five-years old AND owed to either (a) your company (the Lender), or (b) any entity related to your company, no matter how slight the identity-of-interest?	_____	_____
4. Do any of the debts to be paid off have prepayment penalties or other significant cost associated with them?	_____	_____
5. Does the Mortgagor have any identities of interest with any of the existing lenders?	_____	_____
6. Is any of the existing debt cross-collateralized with other assets or financed with a line of credit?	_____	_____
7. Is a REIT involved?	_____	_____
8. Are delinquent real estate taxes included as an eligible transaction cost?	_____	_____

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>>

PROGRAM GUIDANCE

Key Question 2 - Two-Year Rule:

Any debt to be refinanced that is less than 24-months old will have to be investigated and must meet the definition of “Eligible Debt” below.

Key Question 3 - Five-Year Rule:

Any debt to be refinanced that is less than five-year old AND is owed to either

1. the underwriting HUD lender; or,
2. any entity related to the HUD lender, no matter how slight the identity-of-interest

will have to be qualified as “Eligible Debt”, meeting the definition below. In this case, only the “eligible” portion of the outstanding balance qualifies.

Example: Thirty months ago, the mortgagor obtained a loan from the HUD lender applying for mortgage insurance. The loan was made to replace the siding. The current

balance is \$400,000. The lender can only include the qualified balance as eligible debt. For instance, if the borrower or lender can only provide sufficient documented evidence that clearly demonstrates the cost and content of the expenditures within the appropriate timeframes to qualify \$375,000, the lender may only include \$375,000 balance as eligible debt.

Definition of Eligible Debt:

Existing indebtedness in a refinancing transaction is defined as:

1. Outstanding mortgage(s) incurred in connection with the construction of the project or with capital improvements made to the property as confirmed by the current mortgagee.
2. Other recorded indebtedness such as mechanic's liens and tax liens provided they did not result from personal obligations of the mortgagor.
3. Unrecorded debt directly connected with the project supported by documentation from the mortgagor. If the indebtedness is not recorded, the mortgagor must provide the Lender with documentation which unquestionably indicates that the obligation is directly connected to the project. Examples include:
 - a. Indebtedness incurred in making needed improvements and betterments to the property.
 - b. Indebtedness incurred or advances made to cover operating deficits
4. Other eligible costs associated with paying off the eligible debt. Examples are:
 - a. Reasonable delinquent and accrued interest
 - b. Reasonable prepayment penalties on the mortgage
 - c. Recording, release, and re-conveyance fees
 - d. Documentation or processing fees

General Review

<<Narrative review of debt and pay-off information. For example, "Per the statement from XXX dated XXXX, the current existing indebtedness is \$XXXX. The pay-off balance will be reconfirmed prior to closing and only eligible pay-off charges will be included in the cost certification.">>

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

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

a.	Amount Based on Estimated Cost of Rehabilitation	\$ _____
b.	(1) Grants/loans/gifts	_____
	(2) Tax Credits	_____
	(3) Value of Leased Fee	_____
	(4) Excess Unusual Land Improvement Cost	_____
	(5) Unpaid Balance of Special Assessment	_____
	(6) Sum of Lines (1) through (5)	\$ _____

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c. Line a. minus line b. (6)

The secondary sources are discussed in detail below in the Sources & Uses section of the narrative.

Program Guidance

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

Sources & Uses

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

Secondary Sources

<<List and discuss all secondary sources, including terms and conditions of each. Secondary sources include Surplus Cash Notes, Grants/Loans, Tax Credits, and the like. Demonstrate compliance with HUD limits on private sources. Remember that Criterion 11 is applicable to mortgage sizing.>>

Program Guidance

Government Sources

1. 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.
2. 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.
3. 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.
4. 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 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 documentation included with the application submission.

Surviving Debt

<<List and discuss all existing long-term debt that will survive closing.>>

Other Uses

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

Special Commitment Conditions

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

Conclusion

<<Narrative conclusion and recommendation>>

Signatures

Lender: _____

HUD Mortgagee Number: _____

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

<<Name>>
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