

Lender Narrative

Section 232 Substantial Rehabilitation

**Conditional
Lender Narrative –
Substantial Rehabilitation
Section 232 – 2 Stage, Initial
Firm Submission**

**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 70 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- Initial Submission

(Date)

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.

- **CHARTS:** The charts contained in this document have been created with versatility in mind; however they will not be able to accommodate all situations. For this reason, you are allowed to alter the charts as the situation demands. Be sure to state how you have altered the charts along with your justification. Try to include all the information the form calls for. Charts that include blue text indicate fields that should be modified by the lender as the situation dictates.
- **HUD-92264 - HCF:** The conclusions made here in the Lender Narrative should flow into the 92264. The only exception to this is Sections J, K, L and M of the 92264, which should contain the appraiser's conclusions. One of the biggest challenges lenders may face is filling out the expense portion. The expense categories in the Lender Narrative do not match those in Section F of the 92264. For example, the Lender Narrative does not require a breakdown of salaries. For this reason, lenders are not required to complete Section D of the 92264. The new categories of the Lender Narrative were an attempt to show the data in a format that is more conventional in today's market. We do not expect Lenders to spend a great deal of time transposing the expenses, but the totals should correspond to their conclusions. On Section 232/223f's, if the third party appraiser did not utilize the cost approach, you are not required

to complete Section H. The 92264 form should be signed by the lender underwriter, not the appraiser

- ***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.

- In addition to submitting the pdf version of the Lender Narrative to HUD, please submit an electronic Word version as well.
- It is helpful if the Lender references the page # from third party reports when referencing additional information or tables, as applicable, in lieu of reiterating or copying the identical information into the narrative.

Table of Contents

Executive Summary (Lender’s Conclusions)1
 Labor Relations.....2
 Transaction Overview.....2
 Sensitivity Analysis4
 Program Eligibility4
 Lender Loan Committee4
 3-year Rule.....4
 Commercial Space / Income5
 Independent Units5
 Licensing / Certificate of Need / Keys Amendment5
 Identities-of-Interest6
 Risk Factors6
 Strengths.....7
 Underwriting Team.....7

- Field Code Changed

Executive Summary (Lender's Conclusions)

FHA Number:
 Project Name:
 Project Address:
 City / State / Zip:

Section of the Act: 232/Substantial Rehabilitation

Unit Breakdown:

Room Type	Care Type	Beds	Units
e.g. private	e.g. Assisted Living:	0	0
e.g. semi private	e.g. Skilled Nursing	0	0
e.g. 3 bed ward	e.g. Board & Care:	0	0
e.g. 4 bed ward	e.g. Dementia Care:	0	0
	e.g. Independent:	0	0
Totals:		0	0

Mortgage Amount: \$ _____ LTV: % DSCR (with MIP): % Loan to HUD Cost: %
 Term: _____ months Interest Rate: _____ % Field Code Changed

Equity without IOD/WC: \$ _____ Principal & Interest: \$ _____ per month

Equity with IOD/WC: \$ _____

Medicare.Gov Star Rating (# of stars): # _____

Underwritten Value: \$ _____ Cap Rate: % Value per bed(SNF)/Unit (ALF): \$ _____ Field Code Changed

Effective Gross Income: \$ _____ Occupancy Rate: % Field Code Changed

Expenses & Repl. Res.: \$ _____ Expense Ratio: % Field Code Changed

Net Operating Income: \$ _____ Expense per bed(SNF)/Unit (ALF): _____ Field Code Changed

Construction Budget: _____ Off-Sites Demolition Lump Sum

Architectural Budget: _____ Multiple AIA [B181+Agreements](#)

Operating Deficit: _____

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

Mortgagor: <<Legal Name>> Field Code Changed

Operator: <<Legal Name>> Field Code Changed

Does the operating lease cover multiple properties or tenants (master lease)? Yes No

Parent of Operator: <<Legal Name>> Field Code Changed

Management Agent: <<Legal Name>> Field Code Changed

License held by: <<Legal Name>>

Resident contracts with: <<Entity with whom residents contracts for services >>

Third Party Reports provided:

<input type="checkbox"/> <u>Appraisal</u>	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by lender.	Field Code Changed
<input type="checkbox"/> <u>PCNA</u>	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by lender.	Field Code Changed
<input type="checkbox"/> <u>Phase I Environmental</u>	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by lender.	Field Code Changed
<input type="checkbox"/> Other <<identify>>	Conclusion is:	<input type="checkbox"/> Accepted as is.	<input type="checkbox"/> Modified by lender.	

Labor Relations

Wage Decision Type: Residential Building (Commercial)

Wage Decision Number: _____ Mod #: _____

Wage Decision Modification Date: _____

of Buildings: _____ # of Units _____

of Stories: _____ # 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>>

Transaction Overview

Key Questions – Transaction Overview

	<u>Yes</u>	<u>No</u>
1. Is any of the current project debt FHA-insured or HUD-held?	_____	_____

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”.

	<u>Yes</u>	<u>No</u>
2. 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)	_____	_____
3. Does the underwriting include income from Adult Day Care?	_____	_____
4. Is there a ground lease?	_____	_____
5. Is any real estate tax abatement or exemption included in the underwriting assumptions?	_____	_____
6. Is the property subject to any special assessments?	_____	_____
7. Is an operating deficit required for this transaction?	_____	_____
8. Are there any special escrows or reserves proposed for this transaction?	_____	_____
9. Is the transaction being processed as a Purchase? If yes, answer questions a-f below.	_____	_____
a. Will the purchased facility have negative working capital (current assets minus current liabilities) at the date of purchase?	_____	_____
b. Are any of the work write-up repairs or replacement reserves included in the purchase agreement (If yes, these are not allowable and should be deducted from the price)?	_____	_____
c. Is a non-identity of interest operator purchasing the facility and including the costs of debt-financed improvements in the purchase price (If yes, these are not allowable and should be deducted from the price)?	_____	_____
d. Does the value exceed the purchase price (less seller financing)?	_____	_____
e. Is state regulatory approval needed for license transfer?	_____	_____
f. If there are critical repairs, is there a plan for the buyer to gain access to the property to complete critical repairs prior to closing?	_____	_____
10. Is a REIT involved?	_____	_____
11. Are there any waivers proposed for this transaction?	_____	_____

(Identify any waivers required for proposed financing. Identify specific provisions to be waived and justification for the waiver. With the exception of regulatory waivers, Lender must provide a form HUD-2, for each waiver with the application.)

<<For each "YES" answer above, provide a narrative discussion regarding the topic. << As applicable, discuss the issue; it's affect on underwriting; describe any potential risks and the mitigants. >>

Purpose of Transaction

<<Provide a brief summary of the unique characteristics of the project and key deal points of which HUD's underwriter and loan committee should be aware while reading the narrative.

Examples of unique issues and key deal points:

- Identity of interest purchase being treated as a refinance.
- Borrower proposed repairs are adding units
- Facility is master leased
- Timing issues for closing or pay-off
- Etc.

This section should not be a lengthy restatement of the rest of the narrative. It is merely to highlight key points.

If there are no unique characteristics or key deal points to highlight, you can make a simple statement, such as “The purpose of this transaction is to refinance the existing debt.”>>

Sensitivity Analysis

<<Provide a Sensitivity Analysis and identify sensitivities that exist in the proposed census mix. In addition, the analysis shall provide the following:

- If everything else under consideration remains the same (ceteris paribus), then
- (a) The average rental rate can drop by \$ _____ per month and still provide 1.0 debt cover.
 - (b) Occupancy rate could decrease by _____% and still provide a 1.0 debt cover.
 - (c) Operating expenses could increase _____% per year and still provide a 1.0 debt cover.
 - (d) The NOI could drop by \$ _____ (_____ %) and still provide a 1.0 debt cover.

Program Eligibility

Key Program Eligibility Questions

	<u>Yes</u>	<u>No</u>
1. Does the facility charge ‘founder’s fees’, ‘life care fees’, or other similar charges associated with ‘buy-in’ facilities?	_____	_____
2. Does the facility require more than four residents share a full bathroom (see 24 CFR 232.3)?	_____	_____
3. Are any residents required to access a qualifying bathroom by moving through a public corridor or area (see 24 CFR 232.3)?	_____	_____
4. Has the facility, Mortgagor, Operator, or any of their affiliates, renamed, or reformulated companies, filed for or emerged from bankruptcy within the last five (5) years?	_____	_____
5. Is the facility, Mortgagor, Operator, or any of their affiliates, renamed, or reformulated companies, currently in bankruptcy?	_____	_____
6. Is less than continuous protective oversight provided at the facility?	_____	_____
7. Is there any minimum assistance requirements necessary to qualify under the Section 232 mortgage insurance program that the facility does not plan to offer?	_____	_____

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

Lender Loan Committee

Date held: _____

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

3-year Rule

Year(s) project was constructed:

Select one of the following:

- The entire facility was constructed over three years ago and has not undergone any substantial *rehabilitation* in the last three years.
- An addition to the facility was constructed LESS than three years ago; however, the addition was not larger than project in size (gross floor area) and number of beds.
- a. Gross Floor Area: _____ d. Total Beds: _____
 b. Sqft added last 3 yrs: _____ e. Beds added last 3 yrs: _____
 c. % of GFA added: <<b / a>> _____ f. % of Beds Added: _____

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

Commercial Space / Income

Select one of the following:

- There is NO commercial space at the subject.
- There is commercial space at the subject; however, it does not exceed the program limitations of 20% of the total net rentable area of the project and 20% of the effective gross income.
- a. Total Net Rentable Area: _____ d. EGI: _____
 b. Net Rentable Commercial area: _____ e. Eff. Commercial Income: _____
 c. % of commercial area: <<b / a>> _____ f. % of Commercial Inc.: _____

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

Independent Units

Select one of the following:

- There are NO unlicensed/independent units at the subject.
- There are unlicensed/independent units at the subject; however, the total does not exceed 25% of the total beds at the facility.
- a. Total Beds: _____
 b. Unlicensed Independent Beds: _____
 c. Independent as % of Total: <<b / a>> _____

- A waiver is requested to exceed 25% of the total beds at the facility.

Licensing / Certificate of Need / Keys Amendment

<<Affirmative statement along the lines of: “The facility is licensed by the State of {State}’s Department of Health and Welfare as a {Type of Facility} for {X} beds. The license is issued to {Name of Entity on License}. It is effective {date}, through {date}. The license covers {number of beds}”>>

<<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...”>>

<<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).”>> (Applicable to B&C’s.) >>

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. Is there any identity of interest issues involving the Underwriting Lender, mortgage broker, or seller?	_____	_____
7. 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?	_____	_____
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?	_____	_____

<< Insert “N/A in the No column if not applicable. For each “YES” answer above, provide a narrative discussion regarding the topic. As applicable, describe the risk and how it will be mitigated. Example:

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

Risk Factors

Key Questions

	<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 (80% on non-profit) of the underwriter’s concluded value?	_____	_____
2. If the project is proposing new construction of skilled nursing or independent living units, is the proposed mortgage higher than 80 percent (85% on non-profit) of the underwriter’s concluded value?	_____	_____
3. Is the debt service coverage of the loan less than 1.45?	_____	_____
4. Is the project being underwritten at an NOI that is significantly above historical NOI (factoring in normal increases in government payables)?	_____	_____

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

Examples:

Loan-to-Value Exceeds 80%:

{Guidance issued in Lender Email Blast on 11/20/09} Our underwriting staff has received many proposals recently where the LTV did not achieve current LEAN benchmarks. The higher LTV projects often demonstrated increased risk and, in some cases, used more

aggressive assumptions in the underwriting as compared to other projects which were underwritten using a more conservative approach.

OIHCf has previously provided underwriting guidance to Lenders regarding Loan to Value (“LTV”) LEAN benchmarks for skilled nursing homes and assisted living facilities. For Skilled Nursing Facilities (“SNF”) and Independent Living Units, the maximum LTV is 80% for all Section 232 loan types. For Assisted Living Facilities (“ALF”), *without the presence of strong, specific, risk-mitigating circumstances*, the maximum LTV is 80% for existing units/beds and 75% for new construction (and substantial rehabilitation/241a’s where ALF units are being added). For projects that combine existing units/beds and new construction of ALF units, you may use a blended LTV that takes into account the number of beds of each type – see below paragraph for additional details. These maximums should not be exceeded unless there are extenuating circumstances that reduce project risk below that of a typical skilled nursing or assisted living facility.

Note that LEAN underwriting benchmarks permit Not-for-Profit Owner/Operators to have 85% LTV proposals for SNF AND ALF refinancing projects and 80% for new construction ALF projects. To achieve the more liberal LTV benchmark, Not-for-Profit Owners and Operators must demonstrate a successful operating track record, significant project operating and management experience, and a solid financial track record.

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

Other Risk Factors identified by Lender

Additionally, the lender has identified the following risk factors:

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

Strengths

- <<Provide discussion of the strengths of the transaction. This is an appropriate place to talk about any capital improvements that have been made in recent years.>>

Underwriting Team

Lender

Name: _____
Underwriter: _____
Underwriter Trainee: _____

Mortgage #: _____

Site Inspection Date: _____

Inspecting Underwriter: _____

LENDER'S UNDERWRITER

<<Brief description of qualifications>>

UNDERWRITER TRAINEE, if Applicable

<<Brief description of qualifications>>

INSPECTING UNDERWRITER, if Applicable

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

Needs Assessor

<<Brief description of qualifications>>

Environmental Consultant

<<Brief description of qualifications>>

Market Analyst

<<Brief description of qualifications>>

Appraiser

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

- Be a Certified General Appraiser under the appraiser certification requirements of the State in which the subject property is located;
- Meet all requirements of the Competency Rule described in USPAP;
- Be the individual actually signing the appraisal report;
- Have experience appraising a minimum of five similarly licensed healthcare facilities.
- Be currently active in the appraisal of healthcare properties;
- Be experienced in the market area in which the subject property is located, or establish competency as per USPAP>>

Project Description

Site

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

Neighborhood

<<Brief narrative description about neighborhood area to include major cross streets and access routes; distance to services, hospitals, etc.; adjacent property uses; predominant character or neighborhood; etc.>>

Zoning

Legal Conforming Legal Non-Conforming Other

<<Narrative description - Identify local jurisdiction; zoning designation; results of Zoning Letter provided in Exhibit 8-5 of application submission; and, discuss any variances, conditional uses, non-conformance or other pertinent issues affecting zoning. If the building is not a legal conforming use, discuss the adequacy of the zoning ordinance insurance coverage and/or recommend a condition to mitigate this risk.>>

Utilities

<<Narrative description - Identify utilities in use at site. Discuss any limitations in service and any other issues that would affect the operation of the facility. Also clearly identify the utilities to be paid by the residents. >>

Improvement Description

Buildings

<<Narrative description to include number of buildings; construction types; building size; describe common areas; amenities, etc. >>

Parking

<<Narrative description about the 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 Mix and Features

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

Services

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

Development Budget

Construction Costs

<< Discuss the estimated construction budget assumed by the developer for the estimated submission>>

Description	Cost	% of Contract	Per Sq ft of GBA	Per Bed
-------------	------	---------------	------------------	---------

Structures				
Accessory Structures				
Land Improvements				
General/Requirements				
Builder's Overhead				
Builder's Profit				
Other Fees				
Bond Premium				
Total Construction Contract				

Architect's Fees

<< Provide narrative describing budgeted architect fees (design / supervision). For example: "The total architectural fees of \$xxxx are estimated. The fee represents X percent of the total cost of total structures, land improvements, and general requirements."

Indicate whether or not an identity of interest between the mortgagor and the architect is planned or if there will be multiple AIA [B18+B108](#) contracts.>>

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

<<discuss as necessary>>

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 budgeted \$XXX,XXX for major movable equipment. This equates to approximately \$X,XXX per unit. >>

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? | _____ | _____ |

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

Market Analysis Overview

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

Primary Market Area

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

Target Population

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

Demand

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

Competitive Environment

<<Describe and identify competing facilities; planned facilities; facilities under construction; and other supply factors that compete with the subject facility. Description of supply should include types of facilities; acuity; occupancy. Also discuss recent and/or historic absorption of competitive units.>>

Conclusion

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

Appraisal

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

The report was prepared to comply with the reporting requirement outlined under the USPAP as a self-contained report. It was prepared in accordance with the "Healthcare Appraisal Guidelines for HUD/FHA Section 232 Lean Program dated <<insert date of statement of work used by appraiser. This should be the most recent version available at the time the assignment was made.>>."

(All charts call for **total dollars**, not per patient day amounts, unless otherwise noted.)

Summary of the appraisal and underwriting conclusions:

Market Value Summary		
Approach	Appraisal	Lender
Income		
Sales Comparison		
Cost	<i>If applicable</i>	<i>If applicable</i>
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.">>

<<View the appraisal as a tool to do your underwriting and loan sizing correctly. Lenders should not use a value they disagree with and are allowed to use a lower value/NOI for loan sizing purposes. If Lenders feel they are prohibited from doing this, they should cite the FIREA rule at issue in the narrative.>>

Hypothetical Conditions and Extraordinary Assumptions

<<Typically, the only Assumptions and/or Limiting Conditions should be the completion of repairs/construction completion. On rare occasions there may need to be other assumptions, such as the execution of a proposed land lease. Under the Lean 223f program, it is generally not appropriate to assume stabilized operations if the property is in reality not at stabilized operations. This is a change from MAP procedure. In cases where there will be added units or a change in operations, the lender is advised to discuss the proposal with HUD before submission.

These cases may need to be treated more like sub-rehab in terms of the market study and environmental review requirements. In these cases the appraiser will be asked to supply both an “as repaired based upon current configuration/operations” value, and an “as stabilized” value. In addition, the lender is encouraged to propose a “stabilization escrow” instead of or in addition to the normally required operating deficit escrow. An operating deficit escrow covers the losses sustained in reaching break even occupancy whereas a stabilization escrow is meant to cover the risk of not achieving the proposed incomes used in the loan sizing/valuation. A stabilization escrow is not needed when the underwriting reflects the subject’s current operations.>>

Hypothetical Conditions: <<identify any conditions which are contrary to what exists but are supposed for the purpose of analysis. For example, “The appraisal assumes that the proposed/required repairs are completed. There are no other hypothetical conditions.”>>

Extraordinary Assumptions: <<identify any assumptions specific to this assignment, which if found to be false, could alter the appraiser’s opinions or conclusions.”>>

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

Obsolescence/Depreciation and Remaining Economic Life

<<There are three categories that need to be addressed.>>

1.) **Functional Obsolescence:** <<How the physical plant compares to an optimally configured project and how does that impact income potential? (For example, 3 and/or 4 bed wards; unusual design issues)>>

2.) **External Obsolescence:** <<How do the market/economic environment/location impact the income potential of the project?>>

3.) **Physical Depreciation:** <<What is the typical life of the facility? What is the effective age of the facility? The remaining economic life is _____ years. >>

Market Analysis

Key Questions – Market Analysis

	<u>Yes</u>	<u>No</u>
4. Is the subject located in a declining market in terms of population, target population, real estate values, or employment?	_____	_____
5. Are there any negative market influences that require special consideration?	_____	_____
6. Is there a projected or current oversupply that could affect the subject?	_____	_____

<<For each “YES” answer above, provide a narrative discussion regarding the topic, describing the risk and how it is mitigated. Example:

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

Overview

<<Provide an overview of the market analysis, including general growth and population information, barriers to entry, unique market influences, etc. Please be brief in this section and refrain from pasting large sections from the appraisal here. >>

Primary Market Area (PMA)

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

Demand

<<Describe Age/Income and type of resident (AL, Independent, Dementia, etc.) and acuity of care of the target population. Describe target population demographics and demand factors. >>

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. Discuss recent and/or historic absorption of competitive units. Discuss any perceived changes to competitive environment.>>

Conclusion

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

Income Capitalization Approach

Financial Statements

The appraiser and underwriter have analyzed the following historical financial statements pertaining to the operation of this facility:

<<if less than three years financial information is available for the project's operations, provide a narrative justifying why the data is not available. Even in the cases where there was an acquisition within the past 3 years, the owners will usually have been supplied with the income and expense information from the previous owner.>>

Occupancy

A summary of the subject's occupancy is provided below.

Historical Occupancy Analysis

Historical Occupancy	Year ending xx/xx/xx	Year ending xx/xx/xx	Year ending xx/xx/xx	YTD (e.g. 1/09 - 6/09)
Operating Units/Potential Days	0	0	0	0
Occupied Units/Patient days	0	0	0	0
Occupancy	0.0%	0.0%	0.0%	0.0%
Historical Occupancy	Year ending xx/xx/xx	Year ending xx/xx/xx	Year ending xx/xx/xx	YTD (e.g. 1/09 - 6/09)
Operating Units/Potential Days	0	0	0	0
Occupied Units/Patient days	0	0	0	0
Occupancy	0.0%	0.0%	0.0%	0.0%

Field Code Changed

Market Occupancy Analysis

<<The number of competitors will depend on the size of the market. Please expand or reduce the chart as needed>>

Market Occupancy	Total Units	Occupied Units	Occupancy
Competitor 1 - (Name)			
Competitor 2 - (Name)			
Competitor 3 - (Name)			
Competitor 4 - (Name)			
Competitor 5 - (Name)			
Subject			
Market Total/Average	0	0	0%
Appraisal Conclusion			0%
Lender Conclusion			0%

Field Code Changed

Market Occupancy	Total Units	Occupied Units	Occupancy
Competitor 1 - (Name)			
Competitor 2 - (Name)			
Competitor 3 - (Name)			
Competitor 4 - (Name)			
Competitor 5 - (Name)			
Subject			
Market Total/Average	0	0	0%
Appraisal Conclusion			0%
Lender Conclusion			0%

<<Provide narrative discussion of conclusion. The narrative should address any decline in or below average occupancy. Additional analysis can be provided at the Lender's option to support conclusions, as appropriate. >>

Revenue

Census Mix

An analysis of the subject's historical census mix is provided below. << The following two tables are not required for projects with one type of payor, such as an ALF with 100% private pay. Those may be described in narrative. You may modify the following table as necessary to accommodate your project mix. >>

Census Mix – Subject History

Source	Year ending xx/xx/xx	Year ending xx/xx/xx	Year ending xx/xx/xx	YTD (e.g. 1/09-6/09)	Appraisal	Lender
e.g. Private-pay	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Medicare	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Welfare (Medicaid)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. V.A.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. HMO (Insurance)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Field Code Changed

Source	Year ending xx/xx/xx	Year ending xx/xx/xx	Year ending xx/xx/xx	YTD (e.g. 1/09-6/09)	Appraisal	Lender
e.g. Private-pay	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Medicare	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Welfare (Medicaid)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. V.A.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. HMO (Insurance)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Census Mix – Local Market

Source	Comp 1 - (Name)	Comp 2 - (Name)	Comp 3 - (Name)	Comp 4 - (Name)	Comp 5 - (Name)	Subject Current (date)	Market Average
e.g. Private-pay	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Medicare	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Welfare (Medicaid)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. V.A.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. HMO (Insurance)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source	Comp 1 - (Name)	Comp 2 - (Name)	Comp 3 - (Name)	Comp 4 - (Name)	Comp 5 - (Name)	Subject Current (date)	Market Average
e.g. Private-pay	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Medicare	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Welfare (Medicaid)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. V.A.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. HMO (Insurance)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e.g. Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Field Code Changed

<<Provide narrative discussion of conclusion. For continuum of care facilities (e.g., a combination of skilled and assisted living), it may be appropriate to provide the above analysis for each care type. Additional analysis can be provided at the Lender’s option to support its conclusion, as appropriate. Address any significant shifts in census mix from one payor source to another.>>

Historical Revenue Summary

The following chart compares the historic revenue sources to the conclusions. <<Please adapt the chart to show the income sources specific to your facility. Bad debt can either included in the table below or dealt with as an expense. >>

History by Revenue Source

Period	Year Ending XX/XX/XX			Year Ending XX/XX/XX			Year Ending XX/XX/XX			Field Code Changed
	\$	# Days/Units	PRD	\$	# Days/Units	PRD	\$	# Days/Units	PRD	
e.g. Independent Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!	Continued Below
e.g. Assisted Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!	
e.g. Private Pay Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!	
e.g. Ins./Mngd Care Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!	
e.g. Medicaid Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!	
e.g. Medicare Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!	
e.g. VA Room & Board			#DIV/0!			#DIV/0!			#DIV/0!	
e.g. Therapy & Ancillary Income			#DIV/0!			#DIV/0!			#DIV/0!	
Total Room Revenue	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!	
Other Income	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	
Effective Gross Income	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!	

Period	YTD Annualized (specify months)			Appraisal			Lender		
	\$	# Days/Units	PRD	\$	# Days/Units	PRD	\$	# Days/Units	PRD
e.g. Independent Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Assisted Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Private Pay Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Ins./Mngd Care Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Medicaid Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Medicare Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. VA Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Therapy & Ancillary Income			#DIV/0!			#DIV/0!			#DIV/0!
Total Room Revenue	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!
Other Income	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!
Effective Gross Income	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!

Period	Year Ending XX/XX/XX			Year Ending XX/XX/XX			Year Ending XX/XX/XX		
	\$	# Days/Units	PRD	\$	# Days/Units	PRD	\$	# Days/Units	PRD
e.g. Independent Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Assisted Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Private Pay Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Ins./Mngd Care Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Medicaid Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Medicare Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. VA Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Therapy & Ancillary Income			#DIV/0!			#DIV/0!			#DIV/0!
Total Room Revenue	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!
Other Income	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!
Effective Gross Income	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!

Period	YTD Annualized (specify months)			Appraisal			Lender		
	\$	# Days/Units	PRD	\$	# Days/Units	PRD	\$	# Days/Units	PRD
e.g. Independent Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Assisted Living Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Private Pay Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Ins./Mngd Care Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Medicaid Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Medicare Nursing Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. VA Room & Board			#DIV/0!			#DIV/0!			#DIV/0!
e.g. Therapy & Ancillary Income			#DIV/0!			#DIV/0!			#DIV/0!
Total Room Revenue	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!
Other Income	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!
Effective Gross Income	\$0	0	#DIV/0!	\$0	0	#DIV/0!	\$0	0	#DIV/0!

<<Discuss any departures from historical reimbursements, mix, and trends here. >>

<<Each type of care should have its own subsection below and discuss each payor source identified in the rent schedule, as demonstrated below. You may delete the sections (Skilled Nursing, Assisted Living, and Independent Living) that do not apply to your subject. >>

Skilled Nursing

Private Pay

In addition to an analysis of the subjects rent rolls, the appraiser and underwriter analyzed the private pay rates at XXX comparable facilities. A summary of their analysis is provided below. <<Expand or shorten the table as needed to accommodate the number of comparables used and when rates are distinguished by unit type such Private Rooms, Semi-Private, and Wards, or by care type such as Sub-Acute, Long Term Care, Memory/Alzheimer’s Care, etc. Please identify the comparable by its name and location, (e.g., Hope HealthCare, City). >>

Private-Pay Rates Comparability Analysis

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

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

Field Code Changed

<<Provide narrative discussion of private pay rate conclusion. >>

Medicare

Daily Rate: Underwriting - \$ _____ Appraisal: \$ _____
Average RUG Rate - \$ _____

<<Provide narrative discussion of conclusion. For example, "The appraiser provided a detailed Resource Utilization Group (RUG) rate analysis of the facility's operation over the last 12-month operating period. The analysis concluded to a weighted average Medicare rate of \$XXX PRD. The RUG Rates used to determine the average rate are based on the <<DATE>> rates. The underwriter concurs with the appraiser's conclusion.">>

Welfare (Medicaid)

Daily Rate: Underwriting - \$ _____ Appraisal: \$ _____
Published Rate - \$ _____

<<Provide narrative discussion of State's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of current or prospective rate. If rate is based on resident care requirements, provide an analysis of the last 12-months of rates for this payor source, as appropriate. Identify and discuss any other sources or copayments that are required (e.g., SSI). Identify any anticipated changes to the reimbursement rate, such as when rates are tied to depreciating capital components.>>

Veteran's Administration (VA)

Daily Rate: Underwriting - \$ _____ Appraisal: \$ _____

<<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. >>

HMO or Other Private Insurance

Daily Rate: Underwriting - \$ _____ Appraisal: \$ _____

<<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. >>

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) or historical precedent for the underwritten rate. >>

Assisted Living

Private Pay

In addition to an analysis of the subject's rent rolls, the appraiser and underwriter analyzed the assisted living rents at XXX comparable facilities. A summary of their analysis is provided below.

<<Please identify the comparable by its name and location, (e.g., Hope HealthCare, Anywhere) Use of fewer than 5 rent comparables requires an explanation. >>

Rent Comparability Analysis
(Rent per Bed)

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

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

<<Provide narrative discussion of the private pay 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. >>

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 current or prospective rate. If rate is based on resident care requirements, provide an analysis of the last 12-months of rates for this payor source, as appropriate. Identify and discuss any other sources or copayments that are required (e.g., SSI). >>

Independent Units

In addition to an analysis of the subjects rent rolls, the appraiser and underwriter analyzed the independent living rents at XXX comparable facilities. A summary of their analysis is provided below.

<<Please identify the comparable by its name and location, (e.g., Hope HealthCare, Anywhere). >>

Rent Comparability Analysis

(Rent per Unit)

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

Field Code Changed

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

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

Other Income Breakdown

<<input effective income conclusions, not gross income>>

Breakdown of Underwritten "Other" Income			
Line	Description	Annual Amount	Per Occupied Day/Unit
A			
B			
C			
D			
E			
F			
G			
H			
I			
J			

Breakdown of Underwritten "Other" Income			
Line	Description	Annual Amount	Per Occupied Day/Unit
A			
B			
C			
D			
E			
F			
G			
H			
I			
J			

Field Code Changed

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

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. The underwriter has analyzed the history to determine the average monthly charge of \$X, net of vacancies.... <<insert historical or comparable data as appropriate.

Second Occupant Income

The appraiser has included a net annual projection of X second occupants at \$X per month. Over the last 12 months, the facility has averaged X second occupants 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 history and the market, the underwriter concurs with the appraiser's conclusion for a net annual income of \$X.

Miscellaneous Income

In addition to room rents, additional care, and second occupant income, the project receives miscellaneous income from <<list miscellaneous>>. The appraiser has included a net annual projection of \$X. Historically, typical 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). >>

Expenses

The appraiser concludes to total expenses of \$X including reserve for replacement of \$X. The underwriter concludes to total expenses of \$X including reserve for replacement of \$X. An analysis of subject’s history is provided below. The appraiser also compared the subject’s expense conclusions to X comparable projects located in X. << It is acceptable to alter the expense categories in the following two tables to correspond to those used in the appraisal. The lender must include the most current historical income and expense data available to them, and not the dated information which could be up to 180-days old. >>

Key Questions - Expenses

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Do the Lender’s underwritten expenses include all real estate taxes (without regard to tax abatement or incentives)? | _____ | _____ |
| 2. Are the Lender’s underwritten expenses used for valuing the facility different from the expenses used for determining the debt service mortgage criterion? | _____ | _____ |

For each “YES” answer above, provide a narrative discussion regarding the topic. As applicable, describe the risk and how it will be mitigated.

Historic Comparison

<<The data in the following table must be in totals, not per resident day or per occupied unit. Cells with grey shading will calculate automatically. You are given some latitude in defining the expense categories. The expense categories in black text are required items. You have the option of presenting the current year’s expense data in an annualized amount or in the form of trailing 12 months (T-12) of expense. The trailing 12 months is proffered because it captures any expenses that only occur once a year, whereas the annualized figure may not. >>

Expense Analysis –Subject (use totals not per patient day/occupied bed)

Field Code Changed

Expense Categories	Year ending XX/XX/06	Year ending XX/XX/07	Year ending XX/XX/08	YTD e.g. Jan - Sept 09	Appraisal	Lender
General & Administrative						
Payroll Taxes and Benefits						
Resident Care						
Food Services						
Activities						
Housekeeping & Laundry						
Plant Operations						
Utilities						
Marketing and Promotion						
Insurance (property & liability) e.g. Bad Debt						
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate (Property) Taxes						
Management Fees						
Replacement Reserves						
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Normalized Expenses						
Deduct Actual Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Add Market Management Fee @ X% of EGI	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deduct Actual Reserves for Replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Add Reserves concluded by Lender						
Normalized Expenses	\$0	\$0	\$0	\$0	\$0	\$0
Normalized Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Expense per Patient Day / Occ. Unit	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Key Data						
Effective Gross Income (from previous table)						
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Normalized Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Potential Patient Days/Units						
Actual # Patient days (SNF) / Occ. Unit (ALF)						
Additional detail about expenses included above (if applicable)						
e.g. Ancillaries Included in Resident Care						
e.g. Provider Tax						

Expense Categories	Year ending XX/XX/06	Year ending XX/XX/07	Year ending XX/XX/08	YTD e.g. Jan - Sept 09	Appraisal	Lender
General & Administrative						
Payroll Taxes and Benefits						
Resident Care						
Food Services						
Activities						
Housekeeping & Laundry						
Plant Operations						
Utilities						
Marketing and Promotion						
Insurance (property & liability) e.g. Bad Debt						
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate (Property) Taxes						
Management Fees						
Replacement Reserves						
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Normalized Expenses						
Deduct Actual Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Add Market Management Fee @ X% of EGI	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deduct Actual Reserves for Replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Add Reserves concluded by Lender						
Normalized Expenses	\$0	\$0	\$0	\$0	\$0	\$0
Normalized Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Expense per Patient Day / Occ. Unit	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Key Data						
Effective Gross Income (from previous table)						
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Normalized Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Occupancy	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Potential Patient Days/Units						
Actual # Patient days (SNF) / Occ. Unit (ALF)						
Additional detail about expenses included above (if applicable)						
e.g. Ancillaries Included in Resident Care						
e.g. Provider Tax						

<<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.

<< Address any significant fluctuations /anomalies in the historical data.

<<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

<< A minimum of 3 expense comps are required. More columns/tables can be added if needed.
>>

Expense Analysis –Comparables

Please identify the comparable by its name and location, (e.g., Hope HealthCare, Anywhere, XX).

Expense Categories	Hope Healthcare Anywhere, XX	Comp 2	Comp 3	Comp 4	Comp 5	Average	Lender Conclusion
	Comp 1						
e.g. General & Administrative						#DIV/0!	
e.g. Payroll Taxes and Benefits						#DIV/0!	
e.g. Resident Care						#DIV/0!	
e.g. Food Services						#DIV/0!	
e.g. Activities						#DIV/0!	
e.g. Housekeeping & Laundry						#DIV/0!	
e.g. Plant Operations						#DIV/0!	
e.g. Utilities						#DIV/0!	
e.g. Marketing and Promotion						#DIV/0!	
e.g. Insurance (property & liability)						#DIV/0!	
e.g. Bad Debt						#DIV/0!	
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate (Property) Taxes						#DIV/0!	
Management Fees						#DIV/0!	
Replacement Reserves						#DIV/0!	
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Normalized Expenses							
Deduct Actual Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Add Market Management Fee @ X% of EGI	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Deduct Actual Reserves for Replacement	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Add R-R amount based on per bed/unit in appraisal							
Normalized Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Normalized Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Key Data							
Effective Gross Income						#DIV/0!	
Date of Expense Data	Jan-08						
Annual Adjustment Factor Applied	2.5%					2.5%	
Occupancy	0%	0%	0%	0%	0%	0%	0%
Additional detail about expenses included above (if applicable)							
e.g. Ancillaries Included in Resident Care						#DIV/0!	
e.g. Provider Tax						#DIV/0!	

Field Code Changed

Expense Categories	Hope Healthcare Anywhere, XX	Comp 2	Comp 3	Comp 4	Comp 5	Average	Lender Conclusion
	Comp 1						
e.g. General & Administrative						#DIV/0!	
e.g. Payroll Taxes and Benefits						#DIV/0!	
e.g. Resident Care						#DIV/0!	
e.g. Food Services						#DIV/0!	
e.g. Activities						#DIV/0!	
e.g. Housekeeping & Laundry						#DIV/0!	
e.g. Plant Operations						#DIV/0!	
e.g. Utilities						#DIV/0!	
e.g. Marketing and Promotion						#DIV/0!	
e.g. Insurance (property & liability)						#DIV/0!	
e.g. Bad Debt						#DIV/0!	
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate (Property) Taxes						#DIV/0!	
Management Fees						#DIV/0!	
Replacement Reserves						#DIV/0!	
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Normalized Expenses							
Deduct Actual Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Add Market Management Fee @ X% of EGI	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Deduct Actual Reserves for Replacement	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Add R-R amount based on per bed/unit in appraisal							
Normalized Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Normalized Expense Percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Key Data							
Effective Gross Income						#DIV/0!	
Date of Expense Data	Jan-08						
Annual Adjustment Factor Applied	2.5%					2.5%	
Occupancy	0%	0%	0%	0%	0%	0%	0%
Additional detail about expenses included above (if applicable)							
e.g. Ancillaries Included in Resident Care						#DIV/0!	
e.g. Provider Tax						#DIV/0!	

<<Provide narrative discussion of comparable information. If the comparables were adjusted for changes in the market over time, explain how they were adjusted. 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. Note: the appraiser should trend the expense comparables to the effective date of the appraisal. >>

Net Operating Income

Historical Comparison of Net Operating Income

	Year ending 20XX	Year ending 20XX	Year ending 20XX	20XX YTD Annualized	20XX-20XX Average	Appraiser	Lender
NOI (Total \$)							
Percentage of EGI							
NOI/Per Patient Day or Occupied Room							
	Year ending 20XX	Year ending 20XX	Year ending 20XX	20XX YTD Annualized	20XX-20XX Average	Appraiser	Lender
NOI (Total \$)							
Percentage of EGI							
NOI/Per Patient Day or Occupied Room							

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.>>

Capitalization Rate

{The selection of the capitalization rate should be primarily based on recent sales. Ideally these rates would come from the Building Sales Comparables, however these are often chosen by location before sale date. Recent cap rate data should be included every time, even if an additional set of cap rate comps needs to be introduced.}

Please identify the comparable by its name and location, (e.g., Hope HealthCare, Anywhere, XX).

Capitalization Rate Summary	Hope Healthcare Anywhere, XX					Comp Average	Appraiser	Lender
	Comp 1	Comp 1	Comp 3	Comp 4	Comp 5			
Capitalization Rate								
Identify Source of Income Data								
Uses Retro or Prospective NOI								
Date of Sale								
Year Built								
Percent Private Pay & Other								
Percent Medicaid								
Percent Medicare								

Field Code Changed

<<Provide narrative discussion as necessary. If the subject has sold recently include the cap rate analysis here. 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

{If large adjustments are required in the sales comparison approach, extra attention and explanation are required to support the determination of the adjustments. Generally, those sales that require the smallest adjustment are the most desirable.}

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

Summary of Comparable Sales Data

<<A minimum of three sales are required; at least five is preferred. Please identify the comparable by its name and location, (e.g., Hope HealthCare, Anywhere, XX). >>

		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average
		Hope Healthcare Anywhere, XX					
Price Per Unit	Unadjusted						#DIV/0!
	Adjusted						#DIV/0!
	Net Adjustment	\$ - #DIV/0!	\$ - #DIV/0!	\$ - #DIV/0!	\$ - #DIV/0!	\$ - #DIV/0!	
EGIM							
Expense Ratio							
Year Built							
Date of Sale							
		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average
		Hope Healthcare Anywhere, XX					
Price Per Unit	Unadjusted						#DIV/0!
	Adjusted						#DIV/0!
	Net Adjustment	\$ - #DIV/0!	\$ - #DIV/0!	\$ - #DIV/0!	\$ - #DIV/0!	\$ - #DIV/0!	
EGIM							
Expense Ratio							
Year Built							
Date of Sale							

Field Code Changed

Price per Unit

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

Effective Gross Income Multiplier (EGIM)

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

Subject’s Purchase Price

<<Provide analysis of subject’s purchase price for all sales that have occurred within the last 3 years. (The analysis should provide: date of purchase; purchase price; whether the purchase was an arms-length transaction; and the financing term. In addition, the analysis should also state whether the sale was a market price. If not, explain.)>>

Cost Approach

Overview

<<enter NA in the chart below if the appraiser concluded the cost approach was not applicable to the assignment. Note, HUD views this approach as being applicable on newer facilities and on older facilities where the concluded values per unit approach the levels of cost to build new. >>

Cost Approach Summary		
	Appraisal	Lender
Development Costs:		
Major Movable Equipment:		
Depreciation:		
Land Value:		
Indicated Market Value:		

Development Costs

<<Provide narrative discussion. >>

Depreciation

<<Provide narrative discussion of depreciation assumptions and conclusion. >>

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. The land value will be deducted from the market value used on the Property Insurance Schedule.>>

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

<<Provide narrative discussion of how the value approaches were reconciled to reach the final conclusions. The statement may 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. >>

ALTA/ACSM Land Title Survey

Date: _____
 Firm: _____

Key Questions – ALTA/ACSM Land Title Survey

	<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. Are there any unusual circumstances or items that require special attention or conditions?	_____	_____

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

<<Example:

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

Title

Title Search

Date of Search: _____
 Firm: _____
 File Number: _____

Key Questions – Title Search

	<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?	_____	_____

Yes No

5. Are there or will there be any Use and Maintenance Agreements associated with this facility? _____

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

Pro-forma Policy

Date/Time: _____
 Firm: _____
 Policy Number: _____

Key Questions – Pro-forma Policy

	Yes	No
1. Is the title vested in an entity or individual other than the proposed Mortgagor?	_____	_____
2. Are there any covenants, <u>conditions, and encumbrances, liens, restrictions, or other exceptions</u> indicated on Schedule B-1?	_____	_____
3. Are there any use or affordability restrictions remaining in effect on the property?	_____	_____
4. Are there any easements or rights of way listed that are not indicated on the Survey?	_____	_____
5. Are there any endorsements included aside from the standard HUD <u>requirement required endorsements</u> ?	_____	_____
6. Are there any subordination agreements, <u>encroachments</u> or <u>similar</u> issues that require HUD's approval?	_____	_____
7. Are there any other matters requiring special consideration, agreements, or conditions that require HUD's attention?	_____	_____
8. Are there any easements, rights of way, <u>encroachments</u> , etc, identified on Schedules B-1 and B-2 that, in the lenders opinion, affect value or the marketability of the project?	_____	_____

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

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

Environmental

Phase I Environmental Site Assessment

Date of Inspection: _____
 Firm: _____
 Consultant: _____

Key Phase I Environmental Questions

Yes No

	<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 repairs?	_____	_____

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

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 current version.*). The investigation specifically included a reconnaissance of the subject site and the immediate surrounding area, a review of regulatory agency information, a survey of local geological and topographical maps, a review of aerial photographic studies, survey of water sources, a review of historical information and a limited visual inspection for suspect asbestos containing materials (ACMs).

Lender Modifications

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

Other Potential Environmental Concerns

Key HUD Environmental Questions

	<u>Yes</u>	<u>No</u>
1. Is the subject located within a designated coastal barrier resource area?	_____	_____
2. Are there any known historic preservation issues related to the subject?	_____	_____
3. Is the subject located within 5 miles of a civil airport or within 15 miles of a military airfield?	_____	_____
4. Is the project located within 1,000 feet of major highways or busy roads?	_____	_____
5. Is the project located within 3,000 feet of a railroad?	_____	_____
6. Are explosive or fire-prone materials such as liquid propane, gasoline or other storage tanks adjacent to or visible from the project site?	_____	_____

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 7. Are there any wetlands on the subject site? | _____ | _____ |
| • If so, do any buildings or improvements encroach on wetland areas or their buffer zones? | _____ | _____ |
| 8. Are any repairs or modifications to the project likely to affect any listed or proposed endangered or threatened species or critical habitats? | _____ | _____ |
| 9. Is the subject located on a sole source aquifer? | _____ | _____ |
| 10. Are there any known landfills within ½-mile of the site? | _____ | _____ |
| 11. Are any buildings located in the fall zone of any high voltage power transmission or other towers? | _____ | _____ |
| 12. Do any of the required or proposed repairs change the foot print of the building(s)? | _____ | _____ |
| 13. Other than the aforementioned, are there any other environmental issues identified by the Phase I or lender's due diligence? | _____ | _____ |

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

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

State Historic Preservation Office (SHPO) Clearance

<<Provide narrative description indicating whether or not SHPO has been contacted, etc. For example, "Since we are not making changes to the exterior of the building, there is no impact on any historical property.">>

Flood Plain

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Is any portion of the site located within the 100 or 500-year floodplain? | _____ | _____ |
| 2. Is Flood Insurance required for this property? | _____ | _____ |
| FIRM Map Panel #: _____ Date: _____ | | |
| Flood Zone: _____ | | |

<<. As applicable, for each "YES" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. If project is in the floodplain, provide narrative discussion evaluating exhibits required on checklist Exhibit 8-11. >>

Project Capital Needs Assessment (PCNA)

Date of Inspection: _____

Firm: _____
 Needs Assessor: _____
 Units Inspected: X units (X% of units)

The scope of the inspection consisted of a visual evaluation of the project site, building exteriors, roof, interior common areas, all mechanical rooms, and a sampling of resident units (as indicated above). The report was prepared in accordance with the Project Capital Needs Assessment Statement of Work.

A summary of the PCNA and underwriting conclusions

PCNA Repair Summary		
	PCNA	Lender
Critical Repairs		
Non-Critical Repairs		
Borrower Proposed Repairs:		
Total Repairs:		

Key PCNA Questions

	<u>Yes</u>	<u>No</u>
1. Will the non-critical and/or borrower proposed repairs be escrowed at closing?	_____	_____
a. Will the escrowed repairs take more than 12 months to complete?	_____	_____
b. Is the repair escrow to be less than 120% of the repair estimate?	_____	_____
2. Will replacement reserve funds be used to fund any of the required or proposed repairs?	_____	_____
3. Do any of the repairs require drawings and/or specifications?	_____	_____
4. Do any of the repairs require relocation of the tenants?	_____	_____
5. Will any of the repairs create vacancy issues requiring an operating deficit?	_____	_____
6. Will any of the repairs require permits or locality approvals?	_____	_____
7. Will any of the repairs require a review by the State licensing authority?	_____	_____
8. Were any specialty reports (e.g., seismic, wood destroying organisms, etc.) required?	_____	_____
9. Has the Lender suggested a lower dollar amount or fewer repairs than the Needs Assessor's repair conclusions and are they justified?	_____	_____
10. Is further description and detail of the repairs needed in terms of inspectability (location and what the need is)?	_____	_____
11. Are there any non-compliance issues with regard to the Fair Housing Accessibility Guidelines (FHAG) and Part 504 of the Rehabilitation Act of 1973?	_____	_____
12. Does the proposed underwriting require any increases to the annual replacement reserve deposit over the next 15 years?	_____	_____
13. Will the facility require repairs to be in compliance with the Department of Health & Human Services, Centers for Medicare & Medicaid Services, final rule entitled, "Medicare and Medicaid Programs; Fire Safety Requirements for Long Term Care Facilities, Automatic Sprinkler Systems"?	_____	_____

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

Repair Escrow: The non-critical and borrower proposed repairs will be escrowed at closing, for further detail see the Repair section below.

FHAG Compliance: The PCNA recommends repairs to address non-compliance issues. For further detail see the Handicapped Accessibility section below.

Escalation of Annual Replacement Reserve Deposit: The annual deposit to the replacement reserve is increased by \$XXX per unit per year in Year 6 on the underwriter’s analysis of the replacement reserves. This increase can be met by....>>

Automatic Fire Sprinkler Systems Compliance: This nursing home is not currently in compliance with the 1999 edition of the National Fire Protection Association’s (NFPA) “Standard for the Installation of Sprinkler Systems” (NFPA 13). Non-Critical Repairs are proposed to bring the facility into compliance prior to the August 13, 2013, deadline.

Lender Modifications

<<Provide a brief summary of modifications made by underwriter. If none, state none.
Example: “The PCNA’s analysis of reserve requirements for major movable equipment included replacement of the facility’s bus/van. The underwriter has deleted this item as it is not eligible for reimbursement from the replacement reserve account.”>>

Fire / Building Codes and HUD Standards

<<Provide narrative description regarding needs assessor’s finding, application exhibits (8-5 and 8-6)>>

Handicapped Accessibility

<< Provide a brief summary of modifications made by underwriter. If none, state none.
Example: “Per the needs assessor, the facility is in substantial compliance with the Fair Housing Accessibility Guidelines. The needs assessor calls for installation of enunciator/strobe light smoke detectors in one unit in each building under Section 504...”

PROGRAM GUIDANCE: The following is an *excerpt* from: Project Capital Needs Assessment (PCNA) Statement of Work Lean Section 232/223(f) and 232/223(a) 7; IV. SPECIFIC REQUIREMENTS, B. Inspections, 3. Compliance with other HUD requirements.
d. Handicapped Accessibility Requirements. The Fair Housing Accessibility Guidelines are applicable for projects with first occupancy after March 13, 1991, and for which building permits were issued or reissued after June 15, 1990, on a building by building basis. Section 504 / Uniform Federal Accessibility Standards (UFAS) is applicable for all housing receiving Federal financial assistance (note: Medicaid and Medicare are not considered Federal financial assistance when determining accessibility compliance), plus all existing HUD Section 232 New Construction, and existing HUD Section 232 Substantial Rehabilitation (but only those elements that underwent alteration), built after 1973. Project marketability and *functional obsolescence* must always be a consideration, no matter if compliance with the above accessibility standards is required or not.

>>

Seismic Evaluation

<< Provide narrative discussion. Example: “The facility is located within seismic zone 2B, an area of limited potential for earthquake ground shaking. No additional evaluation is required regarding seismic activity.”>>

Repairs

Critical Repairs

<<Provide a brief summary of the required critical repairs. If none, state none. See example for Non-Critical Repairs below. >>

Non-Critical Repairs

<<Provide a brief summary of the required critical repairs. If none, state none. Example: The needs assessor identified the following non-critical repair items totaling \$XXXX:

1. Remove and replace...Estimated cost: \$XXXX.
2. Provide a fire alarm annunciator, including strobe lighting, for...Estimated cost: \$XXXX.>>

Borrower Proposed Repairs

<<Provide a brief summary of the borrower proposed repairs. If none, state none. See example for Non-Critical Repairs above. >>

Completion and Inspection of Repairs

The repair list attached to Exhibit C of the Draft Firm Commitment clearly describes the location of the repairs and what is required. The description is sufficiently detailed so that an experienced person can perform the work and that an experience inspector can inspect with minimal additional direction or consultation..

Replacement Reserves

Replacement Reserve Summary		
	Amount	Per Unit
Initial Deposit	\$	\$
Annual Deposit Years: 1-15	\$	\$

<<The above table should identify all changes in the annual deposit from year to year>>

General Review

The replacement reserve analysis includes a combined analysis of both capital items and major movable equipment. The underwriter has reviewed the replacement reserve schedule and provided a summary analysis below. The full 15-year replacement reserve schedule, including the major movable analysis, is provided as Exhibit B to the Draft Firm Commitment submitted with this narrative.

In the analysis below, the underwriter spreads the anticipated replacements by year based on the

needs assessor's replacement reserve analysis and assumes an interest of X% and an inflation rate of X%.

Reserve for Replacement Fund Schedule

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

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.

Mortgagor

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

Termination Date: _____
 FYE 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?	_____	_____

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

Organization

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

Experience / Qualifications

<<Narrative description of Mortgagor experience and qualifications - For example, "The mortgagor entity is a single asset entity that was established in {date} to develop and own the subject project. It has owned the facility since its inception...">>

Credit History

Report Date: <<within 60 days of submission>> _____
 Reporting Firm: _____
 Score:* _____

***Explanation of Credit Score(s):** Provide an explanation of the credit score in terms of Low Risk, Medium Risk, High Risk, etc.

Key Credit 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?	_____	_____

<<For each "YES" answer above, provide a narrative discussion on the topic describing the risk

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? | _____ | _____ |

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

Other Business Concerns/232 Applications

- | | <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 suits; or, bankruptcy claims? | _____ | _____ |
| b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? | _____ | _____ |
| 2. Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification? | _____ | _____ |

<<For each "YES" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. If not applicable, indicate "NA" in the No column. 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 XXXXXX 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 XXXXXX's Xth FHA-insured healthcare loan, no additional reviews required by HUD Notice H 01-03 are required. >>

Financial Statements

<<If Mortgagor has sufficient financial strength, no review of a principal's financials is required.

If a review of the principal's financials is required to support approval of the loan, provide an analysis similar to the one provided for the Mortgagor, above.>>

Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example, "XXXXX has demonstrated an acceptable credit history and sufficient experience owning and operating this and other facilities. The underwriter recommends this principal as an acceptable participant in this transaction.">>

Operator (if applicable)

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

Key Questions

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

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

Organization

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

Experience / Qualifications

<<Provide narrative description of Operator's experience and qualifications. Discussion should highlight direct experience and involvement in other FHA transactions, if any. This section should clearly demonstrate that the Operator has the expertise to successfully operate the facility. >>

Credit History

Report Date: <<within 60 days of submission>>
 Firm:
 Score:*

***Explanation of Credit Score(s):** <<Provide an explanation of the credit score in terms of Low Risk, Medium Risk, High Risk, etc.>>

Key Questions

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

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

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

Other Business Concerns/232 Applications

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

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

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 XXXXXX participation in this loan transaction.

Other Section 232 Applications:

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

Other Facilities Owned, Operated or Managed

Yes No

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

Examples:

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

Tenant Security Deposits: The tenant security deposits do not appear to be fully funded. At closing, however, the mortgagor will not be the operator and the tenant deposit obligation will fall to the new operator; therefore, the underwriter has included a commitment condition requiring the new operator to set up project accounts by closing and to provide an acceptable, certified Balance Sheet showing that the tenant security deposits are fully funded. >>

General Review

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

Net Income Analysis

Net Income*			
In total \$			
20XX	20XX	20XX	YTD (Indicate time frame)
\$	\$	\$	

**before depreciation, amortization, and any other non-cash expense*

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

Conclusion

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

Parent of the Operator (if applicable)

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

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

Key Questions

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Is the Parent of the Operator rate by S&P or another rating agency? | _____ | _____ |
| 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? | _____ | _____ |

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

S&P Rating: The entity is rated XXX by S&P. The rating agency indicates the outlook for the company is XXXX.>>

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 operate the facility. >>

Credit History

Report Date: <<within 60 days of submission>> _____
 Firm: _____
 Score:* _____

***Explanation of Credit Score(s):** Provide an explanation of the credit score in terms of Low Risk, Medium Risk, High Risk, etc.

Key Questions

Yes No

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

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

Other Business Concerns/232 Applications

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

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

Other Section 232 Applications:

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

Other Facilities Owned, Operated or Managed

- | | Yes | No |
|---|-------|-------|
| 1. Does the Parent of the Operator own, operate, or manage any other facilities? | _____ | _____ |
| a. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims? | _____ | _____ |
| b. Do any of the other facilities have any open professional liability insurance claims? | _____ | _____ |
| c. Do any of the other facilities have any open State findings related to instances of actual harm and/or immediate jeopardy (G or higher)? | _____ | _____ |

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

Other Facilities:

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

Conclusion

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

Management Agent (if applicable) (Name)

<<provide this section if (1) the facility is not leased, and/or (2) the Management Agent contracts in its own name ~~with~~to provide patient care to the residents, and/or (3) the Management agent is the sole entity named on the license for the facility.

>>

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 60?	_____	_____
2. Does the Management Agent have less than 3-years of experience managing similar properties?	_____	_____

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

Previous HUD Experience

Project Name	Project City	Project State	Type of Facility

Management Agent’s Duties and ~~Responsibilities~~Responsibilities

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

Past and Current Performance

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

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

Management Agreement

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

Key Questions

	Yes	No
1. Does the agreement sufficiently describe the services the agent is responsible for performing and for which the agent will be paid management fees?	_____	_____
2. Does the agreement provide that the management fees will be computed and paid according to HUD requirements?	_____	_____
3. Does the agreement provide that HUD may require the owner to terminate the agreement (1) Immediately, in the event a default under the Mortgage, Note, Regulatory Agreement, or Subsidy Contract attributable to the management agent occurs; (2) Upon 30 days without penalty and without cause upon written request by HUD and contain a provision that gives no more than a thirty day notice, for failure to comply with the provisions of the Management Certification or other good cause; or (3) When HUD takes over as Mortgagee in Possession (MIP)? termination?	_____	_____

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

<<For each "NO" answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. >>

HUD Documents

Form HUD-9839-A, HUD-9839-B, 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.">>

Operation of the Facility

Administrator

Name: _____
 Employed by: {Name of Entity who employs/pays administrator} _____
 Facility Start Date: {Date Started at this facility as Administrator} _____

<<Narrative description of experience and qualifications - For example, "{Administrator} has been a licensed administrator since XXXX. Her current Residential Care Administrator's license No. XXXXXXXX expires XXXXX. It was issued by XXXXXXXX in the State of XXXX. Her

experience includes.....Since arriving at the facility, XXXX has helped to increase the revenues and profitability of the project, as evidenced by the increasing effective gross income and net operating income (NOI). XXXXX is well qualified and has demonstrated her ability to act as Administrator for the subject facility.”>>

State Surveys

Subject

The application includes the following state surveys issued on the following dates over the last three (3) years of operations: (State when the survey was conducted and when the project was found in compliance.)

3 Years of Survey Inspections

Date of Survey/Inspection	Date State Issued Letter Approving POC

Key Questions – Subject’s State Surveys

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Do the State Surveys identify any instances of actual harm and/or immediate jeopardy (during last 3 year period)? | _____ | _____ |
| 2. Are there currently any open findings? | _____ | _____ |

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

General Review and Findings

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

Staffing

<<Narrative description of review - For example, “The appraiser and underwriter have reviewed the current and proposed staffing to be charged to the facility and found it to be acceptable and within reason...”>>

Operating Lease

- Date of Agreement: _____
- Current Lease Term Expires: _____
- Description of Renewals: _____
- Current Lease Payment: _____
- Major Movable Equipment
- Current Ownership: <<Mortgagor / Operator>> _____
- Post Closing Ownership: <<Mortgagor / Operator>> _____

Key Questions – Operating Lease

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

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

PROGRAM GUIDANCE (from 11/20/09 Email Blast): OIHCf has recently reviewed several applications that were submitted for review with Operator Agreements that will expire within 5 years or less. The underwriting criteria used by both OIHCf and the Lender is based on the current Operator. Lenders need to provide HUD with information in their application regarding any changes to the Operator that will occur within the next five years. This plan of action is needed to ensure that the quality and experience of any potential new Operator will be comparable or better than the current Operator. For assisted living facilities (ALF), it is important to reemphasize that operators need to be experienced and have a proven track record with the operation, marketing and lease up of ALF facilities. The five year lease expiration issues does not apply to lessees that have lease renewal options.

Master Lease

<< If the project is a part of a portfolio (whether small, mid-sized, or large-sized as defined in Notice 01-03), and no master lease is contemplated, describe why the proposal (with no master lease) is an acceptable risk to HUD and/or a master lease is not feasible. If a master lease is contemplated, provide part of a portfolio of properties either totaling three or more facilities or \$15 million, then a master lease is required. Provide a narrative describing the terms of the master lease, lease payments, all parties involved, renewal provisions, etc.- The HUD Lease Addendum must be attached to the ~~Master Lease~~Subleases. If the applicant is not contemplating a master lease, then the lender must request a waiver, describing why a master lease is not feasible and proposing mitigation to offset the absence of a master lease.>>

Lease Payment Analysis

The lease ~~payments need~~payment needs 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~~lease indicates an aggregate rent payment of \$XX per month (\$XX annually) above the ~~payments~~payment required by the FHA-insured loan.

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

a. Annual Principal and Interest	\$	315,739.12
b. Annual Mortgage Insurance Premium		22,409.00
c. Annual Replacement Reserves		26,350.00
d. Annual Property & Liability Insurance		36,000.00
e. Annual Real Estate Taxes		36,300.00
f. Total Debt Service and Impounds	\$	436,798.12
g. % of Net Income Available for Debt Service		85.0%
h. Programs Debt Service Coverage		1.176
i. Minimum Annual Lease Payment	\$	513,880.14
j. Annual Return on Lease	\$	77,082.02
k. Net Operating Income (NOI)	\$	504,121.00
l. Adjusted NOI (k+c+d+e)	\$	602,771.00
m. Operator's Coverage		1.173

Field Code Changed

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

Responsibilities

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

HUD Lease Provisions

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

1. Contain a restriction against ~~its~~ assignment or subletting without HUD prior approval;
2. Requires prior written approval by HUD for any modification in bed authority;
3. Requires the lessee to submit financial statements to HUD within 6090 days of the close of the facility's fiscal year;
4. Designates the lessee as having the responsibility to seek and maintain all necessary

licenses and provider agreements including Medicaid and Medicare.

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

Accounts Receivable (A/R) Financing (if applicable)

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):

- 1.
- 2.
- 3...

Key Questions – A/R Financing

	<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?	_____	_____
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, [and attach a 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/Financing Fees (Interest Only, etc):
5. Late Payment Fees:
6. Interest Rate on Unused line:

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

<<

PROGRAM GUIDANCE:
Borrower shall maintain and pay for a ~~Lock-Box~~ 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 \$)

20XX	20XX	20XX	YTD specify months	20XX-20XX Average	UW
20XX	20XX	20XX	YTD specify months	20XX-20XX Average	UW

Field Code Changed

Recommendation

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

Insurance

Professional Liability Coverage (PLI)

<<

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

>>

Name of Insured: _____

Insurance Company: _____

Rating: _____ Rater: _____

Authorized surplus lines carrier in project state: 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 - PLI

	<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 any patterns or significant claims?	_____	_____
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?	_____	_____
8. Is an actuarial study applicable (more than 50 facilities)? (if yes, discuss study results)	_____	_____
9. Are there any Professional Liability Insurance issues that require special consideration or HQ review per HUD Notice 2004-15?	_____	_____
10. For all facilities identified on the insured's Schedule of Facilities Owned, Operated or Managed, are there any surveys/reports that have open G level or higher citations outstanding? (As appropriate, provide a complete analysis of the surveys.)	_____	_____
11. Are any entities that provide resident care (as discussed in the Provider Agreements and "Resident Care Agreements/Rental Agreements) not covered by the PLI policy?	_____	_____

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

1. 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}

2. 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}.

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

Lawsuits

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

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

Recommendation

<<Narrative recommendation regarding acceptability of professional liability insurance - For example, "The mortgagor's professional liability insurance was analyzed in accordance HUD 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.">>

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:

Application Amount:	
Fair Market Value:	
Debt Service:	
Transaction Costs:	
Deduction for Loans, Grants, Gifts:	

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

Mortgage Term

The underwriter concluded that 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 35 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 (Criterion 3)

The \$XX fair market value limit was calculated in accordance with HUD guidelines. This is based on XX% 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. *Note: If the Loan to Value exceeds 80% (85% for Non-Profit), justification/mitigation of the additional risk to HUD must be addressed in the Risk Factors section of this narrative.*

Debt Service Limit (Criterion 5)

The \$XX debt service limit was calculated using HUD’s guidelines. This is based on XX% 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. *Note: If the debt service coverage rate is less than 1.45, justification/mitigation of the additional risk to HUD must be addressed in the Risk Factors section of this narrative.*

Transaction Costs (Criterion 7 or 10)

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

Eligible Existing Indebtedness	\$0
Init. Dep. To Replacement Reserve	\$0
Repairs	\$0
Legal & Organizational	\$0
Title & Recording	\$0
Other Fees	\$0
HUD Fees (MIP, App, Insp.)	\$0
Financing Fees	\$0
Total:	\$0.00

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.>>

Schedule of Debt to Refinance

<u>Lender</u>	<u>Pay-off Amount</u>
	\$0
	\$0
	\$0
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? (Refer to Program Guidance below)	_____	_____
3. Does the Mortgagor have any identities of interest with any of the existing lenders or note holders? (Refer to Program Guidance below)	_____	_____
4. Do any of the debts to be paid off have prepayment penalties or other significant cost associated with them?	_____	_____
5. Is any of the existing debt cross-collateralized with other assets or financed with a line of credit? If yes, explain how you allocated the debt between the facilities cross-collateralized.	_____	_____
6. Are delinquent real estate taxes included as an eligible transaction cost?	_____	_____

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

PROGRAM GUIDANCE RELATED TO ELIGIBLE DEBT ON A REFINANCE (from 4/10/09 Email Blast)

A. Two* Year Rule:

Project debt that is less than 24 months old will need to be investigated and must meet the definition of “Eligible Debt” below (See Section B) if it is to be used in the calculation of the cost to refinance. No investigation is needed on project debt that is at least 24 months old prior to using it in the calculation of the cost to refinance, provided the identity of interest described in the next sentence is not present. Note: in the case of refinancing a bridge loan, as long as there is not an identity of interest between the Mortgagor/Borrower and the underwriting HUD lender and/or its affiliated bridge lender, the refinance transaction may be treated under the Two-Year Rule. **If this identity of interest is present, the debt must be seasoned for at least five years if it doesn’t meet the definition of “Eligible Debt” below.**

B. Definition of Eligible Debt: Project debt that meets any of the below definitions, may be included in the cost to refinance – there is no seasoning required.

1. Outstanding mortgage(s) incurred in connection with the construction or purchase of the project, or with capital improvements made to the property as confirmed by the current mortgagee – provided it can be demonstrated that there was no cash out to the mortgagor of the proposed FHA Insured loan or its principals. However, if the debt was incurred as a result of an identity of interest **** purchase**, the debt is not considered eligible debt and must meet the seasoning requirements described herein. Furthermore, if the debt was incurred as a result of buying out a partner, the debt is not considered eligible debt and must meet the seasoning requirements above.

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 that substantially verifies 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,

* The debt seasoning requirement under MAP was one year, and the two year requirement has been phased in by OIHCF. The one year requirement applies only to debt that has been funded or put into place prior to September 1, 2008 and was subject to a signed engagement letter with the LEAN lender on or prior to that date. Beginning April 1, 2009, all projects must meet the two year requirement unless the project has a signed engagement letter prior to September 1, 2008. OIHCF provided a seven month phase in period for the two year rule, because a number of projects with interim financing were subject to a pre-existing engagement letter with a LEAN/MAP approved Lender.

** An identity of interest purchase is defined as one in which there is any identity of interest, however slight, between the seller and the purchaser that survives the sale transaction. An owner operator that continues to operate the facility after the sale constitutes an identity of interest.

>>

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.">>

Legal and Organizational Costs

The borrower's legal and organization costs are estimated to total \$X (\$X for legal / \$X for organizational expenses). The underwriter concluded that the budgeted amounts are reasonable.

Title and Recording Fees

Title and recording fees are estimated to cost \$X. The underwriter concluded that the budgeted amount is reasonable.

Other Fees

A total of \$X in third party report fees has been included in the mortgage calculation and the fees include...

HUD Fees

<<This section pertains to the transaction cost calculation and may not match the actual fees in the source and use. >>

The HUD fees total \$X and are comprised of MIP totaling 1.00 percent of the mortgage amount (\$X); the FHA application fee totaling 0.3 percent of the mortgage amount (\$X); and, the FHA inspection fee (\$X). {i.e., 1% of the cost of repairs; minimum threshold for the inspection fee is \$30 per unit or bed, whichever applies}

Financing Fees

<<This section pertains to the transaction cost calculation and may not match the actual fees in the source and use. >>

The financing fees payable to the lender total \$X. The total is made up of a fee of 1.00 percent of the mortgage amount (\$X); plus fixed lender fees totaling \$X. In total, the fees payable to the lender represent X percent of the mortgage amount.

A broker IS/IS NOT involved in this transaction. The broker fee is \$X and will be paid by XXXX, using mortgaged/non-mortgaged funds.

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

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

a.	Transaction Cost from Criterion 7 or 10	\$ _____
b.	(1) Grants/loans/gifts	_____
	(2) Tax Credits	_____
	(3) Value of Leased Fee	_____
	(4) Excess Unusual Land Improvement Cost	_____
	(5) Unpaid Balance of Special Assessment	_____
	(6) Sum of Lines (1) through (5)	\$ _____
c.	Line a. minus line b. (6)	\$ _____

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

Sources & Uses

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

Secondary Sources

<<List and discuss all secondary sources, including terms and conditions of each. Secondary sources include Surplus Cash Notes, Grants/Loans, Tax Credits, and the like.

Program Guidance

Government Sources

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

Private Sources

1. Secondary financing in the form of a promissory note is permitted to cover a portion of the equity requirement under Section 223(f). The aggregate amount of the FHA insured first loan and the private second loan cannot exceed 92.5% of FMV. Therefore, the amount of a private loan may range from 7.5% of FMV (the difference between 85% and 92.5% of FMV) to a larger percentage if a mortgage criterion is lower than 85% of FMV controls. This rule also applies to Sections of the Act that are pursuant to Section 223(f), i.e., Section 232 pursuant to Section 223(f). However, this allowance should not be used to circumvent our existing policies which do not permit equity take-out on Section 232 refinance transactions or on purchase transactions, a way to finance costs that otherwise would not be permitted. For example, seller take backs on property acquisition costs that are not supportable by market data should not be approved.

2. When private secondary financing is combined with Federal, State or local government agency secondary financing, like in #1 above, the aggregate amount of the HUD insured first loan and the private second loan cannot exceed 92.5% of FMV. However the governmental loan, in aggregate with the HUD first and private second, may exceed the property's FMV. The addition of the governmental loan may result in total liens that exceed the property's FMV.
3. Private secondary financing may be used to cover non-mortgageable costs in combination with equity or solely for one purpose or the other. Whatever option is decided upon, as stated under #1 above, the aggregate of the HUD first and private second cannot exceed 92.5% of FMV.
4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary financing from private sources must be certified to be reasonable and required to complete the project by the provider of sources in 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 any 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>>	<<Name>>
<<Title>>	<<Title>>
<<Phone>>	<<Phone>>
<<Email>>	<<Email>>

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

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