|  |  |  |
| --- | --- | --- |
| **Lender Narrative –** **Capital Improvements**Section 232 | **U.S. Department of Housing and Urban Development**Office of Residential Care Facilities | OMB Approval No. 2502-0605(exp. 06/30/2017) |

**Public reporting** burden for this collection of information is estimated to average 3.0 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation that 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. 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.

**Warning:** Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of the U.S. Department of Housing and Urban Development is subject to criminal penalties, civil liability, and administrative sanctions

**Privacy Act Notice:** The Department of Housing and Urban Development, Federal Housing Administration, is authorized to collect the information requested in this form by virtue of: The National Housing Act, 12 USC 1701 et seq. and the regulations at 24 CFR 5.212 and 24 CFR 200.6; and the Housing and Community Development Act of 1987, 42 USC 3543(a). The information requested is mandatory to receive the mortgage insurance benefits to be derived from the National Housing Act Section 232 Healthcare Facility Insurance Program. No confidentiality is assured.

**INSTRUCTIONS**:

The narrative is a document critical to the Lean Capital Improvements process. Each section of the narrative and all questions need to be completed and answered. If the lender 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.

* **Charts:** The charts contained in this document have been created with versatility in mind; however they will not be able to accommodate all situations. For this reason, you are allowed to alter the charts as the situation demands. Be sure to state how you have altered the charts along with your justification. Include all the information the form calls for. Charts that include blue text indicate names that should be modified by the lender as the situation dictates.
* **Applicability:** If a section is not applicable, state so in that section and provide a reason. Do not delete a section heading that is not applicable. The narrative will be checked to make certain all sections are provided. If a major section is not applicable, add “ – Not Applicable” to the heading and provide 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. This instruction page may also be deleted.

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

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

Italicized text found between these characters <<*EXAMPLE*>> is instructional in nature, and may be deleted from the lender’s final version. Please use the gray shaded areas (e.g.,      ) for your response. Double click on a check box and then change the default value to mark selection (e.g., [x] ).

*<<Insert Project Photo>>*

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# Executive Summary

|  |  |
| --- | --- |
| **FHA number:** |  |
| **Project name:** |  |
| **Project location:** | *<<street address, city, county, and state>>* |
| **Lender’s name:** |  |
| **Lender’s contact:** |  | **Contact’s phone #:** |  |
| **Borrower:** |  |
| **Operator:** |  |
| **Management agent:** |  |
| **General contractor:** |  |
| **License holder:** | [ ]  Borrower [ ]  Operator [ ]  Management agent |
|  |

## Facility Type

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Type of facility:** | [ ]  | **Skilled Nursing** *(SNF)***:** |  | **beds** |  | **units** |
|  | [ ]  | **Assisted Living** *(AL)***:** |  | **beds** |  | **units** |
|  | [ ]  | **Board & Care** *(B&C)***:** |  | **beds** |  | **units** |
|  | [ ]  | **Dementia Care:** |  | **beds** |  | **units** |
|  | [ ]  | **Independent Living** *(IL)***:** |  | **beds** |  | **units** |
|  |  | **Total:** |  | **beds** |  | **units** |

Select **ALL** that apply:

|  |  |
| --- | --- |
| [ ]  | **Nursing Home** |
|  | [ ]  | Consists of at least 20 beds. |
|  | [ ]  | Considered a “Skilled Nursing Facility” by Department of Health & Human Services. |
|  |  |
| [ ]  | **Intermediate Care Facility** |
|  | [ ]  | Consists of at least 20 beds. |
|  | [ ]  | Considered an “Intermediate Care Facility” by Department of Health & Human Services. |
|  |  |
| [ ]  | **Board and Care** |
|  | [ ]  | Consists of at least 5 beds. |
|  | [ ]  | Provides “Continuous Protective Oversight.” |
|  | [ ]  | Provides areas for central dining. |
|  | [ ]  | Offers three meals per day to each resident. |
|  | [ ]  | Resident must take at least one meal a day. |
|  | [ ]  | Regulated by the state in accordance with Section 1616(e) of the Social Security Act (Keys Amendment) |
|  |  |
| [ ]  | **Assisted Living** |
|  | [ ]  | Consists of at least 5 units. |
|  | [ ]  | Provides “Continuous Protective Oversight.” |
|  | [ ]  | Provides areas for central dining. |
|  | [ ]  | Offers three meals per day to each resident. |
|  | [ ]  | Resident must take at least one meal a day. |
|  | [ ]  | Caters to frail elderly persons (62 years and older) who need assistance with 3 or more activities of daily living (ADLs). |
|  |  |
| [ ]  | **Other - Requires explanation.** *<<describe here>>*       |

*<<NOTE: The above reflect HUD’s definitions of facility or care types. Those definitions may not align with state licensing definitions.>>*

**Third-party reports provided**: [ ]  Market Study [ ]  Phase I Environmental

 [ ]  Appraisal [ ]  Architecture/Cost Review

**Lenders Pre-Construction Conference Coordinator Information:**

|  |  |
| --- | --- |
| Name: |       |
| Email: |       |
| Phone: |       |
| Mailing address: |       |
|  |       |

**General Overview**

<<*Provide narrative of rationale for selection of Wage Decision specified. Be specific about configurations of kitchens and bathrooms (e.g., kitchenette includes a sink, microwave, and refrigerator and bathroom includes a commode, sink, and shower, etc.).*>>

# Continued Program Eligibility

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Will the facility charge “founder’s fees,” “life care fees,” or other similar charges associated with “buy-in” facilities following the completion of the proposed capital improvements? .
 | [ ]  |  | **[ ]**  |
| 1. Upon completion of the proposed capital improvements, will the facility require more than four residents to share a full bathroom (see 24 CFR 232.3)? *(Not applicable for SNFs.)*
 | [ ]  |  | **[ ]**  |
| 1. Following completion of the proposed capital improvements, will any residents be required to access a qualifying bathroom by moving through a public corridor or area (see 24 CFR 232.3)? *(Not applicable for SNFs.)*
 | [ ]  |  | **[ ]**  |
| 1. Has the borrower, operator, or any of their affiliate’s renamed or reformulated companies, filed for or emerged from bankruptcy within the last five (5) years?
 | [ ]  |  | **[ ]**  |
| 1. Is the borrower, operator, or any of their affiliate’s renamed or reformulated companies, currently in bankruptcy?
 | [ ]  |  | **[ ]**  |
| 1. Are there floodways or coastal high hazard areas located on the site of any portion of the proposed capital improvements?\*
 | [ ]  |  | **[ ]**  |

*<<If you answered “yes” to any of the questions above, this facility will no longer be eligible for HUD-insured financing. >>*

**\*Exception:** The floodway and coastal high hazard area prohibitions do not apply if only an incidental portion of the project is in the 100-year floodplain, or for critical actions, the 500-year floodplain, and certain conditions are met in accordance with 24 CFR 55.12(c)(7).

# Scope of Proposed Capital Improvements

*<<Provide narrative description of the planned capital improvements. The description should be sufficiently detailed to provide the HUD account executive and reviewers a reasonable understanding of the work involved to assess the impact on facility and value concerns.>>*

## Capital Improvement Scenario

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Will the proposed capital improvement project require a building permit? .
 | [ ]  |  | **[ ]**  |
| 1. Will completion of the proposed capital improvement require changes to the services currently offered by the Operator?
 | [ ]  |  | **[ ]**  |
| 1. Will the proposed capital improvement alter the legal description of the subject property? .
 | [ ]  |  | **[ ]**  |
| 1. Will the proposed capital improvement project require an addition to be built on the existing property?
 | [ ]  |  | **[ ]**  |
| * 1. Will the addition be constructed on the existing property/land that is encumbered by the HUD-insured mortgage?
 | [ ]  |  | **[ ]**  |
| * 1. Will the addition be constructed on new property/land that is not encumbered by the existing HUD-insured mortgage?
 | [ ]  |  | **[ ]**  |
| 1. Will the addition improve the financial viability of the project (e.g., adds beds with high occupancy or attracts a different payor group that pays a higher rate)?
 | [ ]  |  | **[ ]**  |
| 1. Will the addition increase administrative or other non-revenue-producing space?
 | [ ]  |  | **[ ]**  |
| 1. Will the addition have a use that is inconsistent with the existing approved use?
 | [ ]  |  | **[ ]**  |
| 1. Will the new addition be financed with funds secured by the subject HUD-insured facility and/or the new addition?
 | [ ]  |  | **[ ]**  |

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

# Environmental

|  |
| --- |
| Program Guidance:When HUD’s approval is required for an activity that involves improvements, reconstruction, demolition, addition (land or building), or repairs that go beyond the level of maintenance, an environmental review pursuant to 24 CFR Part 50 is required prior to HUD’s approval of the activity. If the proposed action is limited to a maintenance activity (e.g., in-kind replacement or incidental maintenance of external and internal building features), the action is excluded from environmental review under 24CFR 50.19(b)(13)(Operating Costs). Unlike repairs and improvements, maintenance activities do not materially add to the value of the building, appreciably prolong its useful life, or adapt it to new uses.A new Phase I ESA in accordance with ASTM E 1527-13 (or the most recent edition) is required if the activity being approved involves:1. Significant ground disturbance (digging) or construction not contemplated in the original application.
2. A change in land use not contemplated by the original risk-based mitigation conducted on the site (i.e., from commercial to residential).
3. Site expansion or addition.
4. Any other activities that may result in contaminant exposure pathways or activities not contemplated in the original application.
 |

## Phase I Environmental Site Assessment

|  |  |
| --- | --- |
| Date of inspection: |       |
| Firm: |       |
| Consultant: |       |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the report recommend a Phase II assessment, other reports, or additional testing? .
 | [ ]  |  | **[ ]**  |
| 1. Does the vapor encroachment screen amendment to the Phase I identify a “vapor encroachment condition” (VEC)? (*The vapor encroachment screen must be performed using the Tier 1 “non-invasive” screening pursuant to ASTM E 2600-10.)*
 | [ ]  |  | **[ ]**  |
| 1. 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?
 | [ ]  |  | **[ ]**  |
| 1. Does the report indicate evidence of any chemical misuse or unlawful dumping at the site?
 | [ ]  |  | **[ ]**  |
| 1. Does the report indicate the presence or suspected presence of any underground storage tanks or aboveground storage tanks on the site?
 | [ ]  |  | **[ ]**  |
| 1. 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?
 | [ ]  |  | **[ ]**  |
| 1. Do the Phase I or Phase II reports recommend any required actions or conditions?
 | [ ]  |  | **[ ]**  |

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

|  |
| --- |
| Program Guidance – Above-ground storage tanks (ASTs):HUD is required to qualitatively evaluate the risks associated with proximity to hazardous facilities. ORCF reviews on Section 232 projects will consider the potential danger presented by liquid fuel and gas aboveground storage tanks (ASTs). When existing or proposed ASTs are located onsite or when offsite tanks are visible from the property, a calculation of the Acceptable Separation Distance must be included with this application. |

**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).

## Other Potential Environmental Concerns

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is the project located within a designated coastal barrier resource area .
 | [ ]  |  | **[ ]**  |
| 1. Is the project located within 5 miles of a civil airport or within 15 miles of a military airfield?
 | [ ]  |  | **[ ]**  |
| 1. Is the project located within 1,000 feet of major highways or busy roads
 | [ ]  |  | **[ ]**  |
| 1. Is the project located within 3,000 feet of a railroad?
 | [ ]  |  | **[ ]**  |
| 1. Are there existing or proposed stationary tanks containing explosive or fire-prone materials of 100 gallons or larger on the site or nearby the site that are visible from satellite images or site reconnaissance?
 | [ ]  |  | **[ ]**  |
| 1. Are there any wetlands on the subject site?
 | [ ]  |  | **[ ]**  |
| * If so, will the project impact or disturb wetland areas or their buffer zones? [ ]  N/A
 | [ ]  |  | **[ ]**  |
| 1. Is any construction of the project likely to affect any listed or proposed endangered or threatened species or critical habitats?
 | [ ]  |  | **[ ]**  |
| 1. Is the project located on a sole source aquifer?
 | [ ]  |  | **[ ]**  |
| 1. Are there any known landfills within ½-mile of the site?
 | [ ]  |  | **[ ]**  |
| 1. Are any buildings located (existing or proposed for construction) in the fall zone of any high voltage power transmission or other towers?
 | [ ]  |  | **[ ]**  |
| 1. Does the project include a structure that was built before 1978?
 | [ ]  |  | **[ ]**  |
| * If so, was a comprehensive asbestos survey performed by a qualified asbestos inspector pursuant to the “baseline survey” requirements of ASTM E 2356-10 provided (required for all buildings constructedbefore 1978)? [ ]  N/A
 | [ ]  |  | **[ ]**  |

*<< For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. For example:* ***Item 11 - Existing Structures on Site:*** *A vacant one-story house and two storage sheds currently occupy the site. The current owner of the land will be relocating these structures prior to initial closing, at no cost to the Borrower. Therefore, no off-site or demolition costs are anticipated.*

*Because of the existing structures, we have addressed potential asbestos and lead-based paint concerns. A qualified assessor evaluated the house and outbuildings for asbestos containing materials. A comprehensive asbestos survey was performed pursuant to the “baseline survey” requirements of ASTM E 2356-10 and no asbestos containing materials were identified. A visual inspection by the environmental assessor also indicated that there is no evidence of peeling paint and no suspect lead-based paint containing surfaces were identified. Given the condition of the paint, the fact that the buildings are not occupied, and the fact that they will be relocated prior to the start of construction, the underwriter and the assessor conclude that no further action is warranted.>>*

### State Historic Preservation Office (SHPO) Clearance

*<<Provide narrative description indicating whether or not SHPO has been contacted, information sent to SHPO, and any response received. For example: “Since we are not making changes to the exterior of the building, there is no impact on any historical property.”>>*

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are there any known historic preservation issues related to the subject? .
 | [ ]  |  | **[ ]**  |
| 1. Have any other archeological or cultural resource centers been consulted?
 | [ ]  |  | **[ ]**  |

*<<As applicable, for each “yes” answer above, provide a narrative discussion on the topic. For example, “We have received a letter from the XXXX State Historic Society, dated XXXX. It was determined that the site is of no historical or suspected cultural significance. No additional investigation was recommended by the State.”>>*

|  |
| --- |
| How did the SHPO respond regarding the Historic Preservation Review? |
| [ ]  | No potential to cause effect. |
| [ ]  | No adverse effect. |
| [ ]  | Adverse effect (explain below). |
| [ ]  | Other (please describe):       |
| [ ]  | Not applicable; response has not yet been received. |

*<<If the SHPO concluded that the project will have an adverse effect, please explain how this will be mitigated.>>*

### Tribal Consultation

*<<Activities that require HUD consultation with federally-recognized tribes include: ground disturbance (digging), new construction in undeveloped natural areas, introduction of incongruent visual, audible, or atmospheric changes, work on a building with significant tribal association, and transfer, lease, or sale of properties that may have religious and cultural significance to tribes.*

*Tribal consultation must be initiated by HUD and the activity must not begin before HUD completes its environmental review. If tribal consultation is required, the ORCF Account Executive should be notified as early as possible or upon submission of your request for approval of capital improvements so a Tribal Consultation can be initiated by HUD.>>*

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the proposed capital improvement involve activities that require Tribal Consultation? .
 | [ ]  |  | **[ ]**  |
| 1. Has the ORCF Account Executive been notified that a Tribal Consultation is required for the proposed capital improvements?
 | [ ]  |  | **[ ]**  |

*<<As applicable, for each “yes” answer above, provide a narrative discussion on the topic. If the ORCF has been notified that a Tribal Consultation is required, please indicate the name of the individual notified, the date they were notified, and how they were notified (i.e., by email, first-class mail, etc.). >>*

### Flood Plain

|  |  |  |  |
| --- | --- | --- | --- |
| NFIP Map Panel #: |       | Date: |       |
| Flood Zone: |       |  |  |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the community participate in the National Flood Insurance Program (NFIP)? *(A project located in a FEMA-identified special flood hazard area, where the community has been suspended for or does not participate in the NFIP, is not eligible for mortgage insurance.)*
 | [ ]  |  | **[ ]**  |
| 1. Is the subject located within the 100- or 500-year floodplain?\*
 | [ ]  |  | **[ ]**  |
| 1. Does the Standard Flood Hazard Determination Form indicate that the subject is located within the 100- or 500-year floodplain?\*
 | [ ]  |  | **[ ]**  |
| 1. Is flood insurance required for this property?
 | [ ]  |  | **[ ]**  |

*<<\*If the project is in a 100- or 500-year floodplain, provide a narrative discussion evaluating the floodplain exhibits required on the application checklist with detailed information about how the property will be altered and improvements designed. Include the elevation of the property, the elevation of the floodplain, and the location of life support systems.)>>*

# 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 |

*<<Provide narrative description: identify local jurisdiction; zoning designation; results of Zoning Letter provided in application submission; and discuss any variances, conditional uses, non-conformance or other pertinent issues affecting zoning.>>*

## Utilities

*<<Provide narrative description: identify utilities proposed for use at site. Discuss any limitations in service and any other issues that would affect the operation of the facility. Also, clearly identify the utilities to be paid by the residents.>>*

## Improvement Description

### Building Description

*<<Provide narrative description to include “as-is” and “as-improved” number of buildings; construction types; floor area; describe common areas; etc. >>*

### Landscaping

*<<Provide narrative description about the “as-is” and “as-improved” landscaping>>*

### Parking

*<<Provide narrative description about the “as-is” and “as-improved” 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 & Features

*<<Complete “as-is” and “as-improved” tables or provide equivalent detail.>>*

***As-is Unit Mix***

(Double click inside the Excel Table to add information)



***As-improved Unit Mix***

(Double click inside the Excel Table to add information)



**Living Unit Description**

*<<Provide brief narrative description of the “as-is” and “as-improved” units including: bathrooms, appliances, flooring, included furnishings, hook-ups, patios, etc. >>*

## Services

*<<Provide narrative description of “as-is” and “as-improved” services to be provided. Identify which services will be included in rent and which services will be available for extra charges, as applicable.>>*

## Commercial Space/Income

Select one of the following:

|  |  |
| --- | --- |
| [ ]  | There will be no commercial space at the subject. |
| [ ]  | There will be commercial space at the subject; however, it will 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 income: | <<e / d>> |

 |

*<<Provide further explanation, if necessary. If the facility does not meet either of the criteria above, additional review and waivers may be required before approval for the proposed capital improvements can be granted.>>*

|  |
| --- |
| Program Guidance:The commercial limits are a maximum of 20% of the gross floor area of the project and 20% of the gross project income. Commercial space that is intended to exclusively serve the residents of the facility is not counted toward the 20% space and income limitations. Non-resident adult day care space will not be considered commercial space. However, the adult day care space may not be located on a separate site, the space may not exceed 20% of the gross floor area of the facility, and the income may not exceed 20% of gross income. (Provide a Certificate of Need or operating license, if applicable.) |

## Independent Units

Select all applicable statements:

|  |  |
| --- | --- |
| [ ]  | There will be NO unlicensed/independent units at the subject. |
| [ ]  | There will be unlicensed/independent units at the subject; however, the total does not exceed 25% of the total beds at the facility. |
|  |

|  |  |
| --- | --- |
| a. Total beds: |       |
| b. Unlicensed independent beds: |       |
| c. Independent beds as % of total: | *<<b / a>>* |

 |
|  |  |
| [ ]  | A waiver is requested to exceed 25% of the total beds at the facility. |

|  |
| --- |
| Program Guidance:It has been longstanding policy that HUD will allow up to 25% of the units in a Section 232 facility to be Independent Living (IL) units. This policy remains unchanged under Lean. However, please note the following:* The facility must offer services to all residents in the project comparable to those found in a skilled nursing facility, assisted living facility, board and care, or intermediate care facility.
* **A license is not required for the IL units; however, all of the other units in the facility must be licensed.**
* Waivers to exceed the 25% limit will be considered on a case-by-case basis for good cause. Please note that waivers have not been provided when the number of IL units exceeds 30% of the total project units.
 |

## Licensing/Certificate of Need/Keys Amendment

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

*<<Provide 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…”>> For skilled nursing, where the state does not require a CON, discuss the required independent study conducted by the state or commissioned by the state of market need and feasibility. Include in the discussion the number of beds and the date through which it is current.*

*<<(Applicable to B&C’s.) Provide 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).”>>*

# Risk Factors

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is debt service coverage of the current FHA-insured loan less than 1.45?
 | [ ]  |  | **[ ]**  |
| 1. Is this a “special use facility”–one that serves a “niche” type of market (e.g., psychiatric facilities; drug, alcohol, or eating disorder recovery facilities; hospice facilities; or short-term rehabilitation facilities)?
 | [ ]  |  | **[ ]**  |

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

*Example:* ***Debt Service Coverage Lower than 1.45:*** *{If the debt service coverage of the current FHA-insured loan is less than 1.45, the lender must provide sufficient justification/mitigation to support the additional risk associated with the the costs for the proposed capital improvements. The HUD reviewer will be required to specifically approve this item and may ask for additional input and request a discussion with the lender and/or HUD headquarters.}>>*

**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 will be mitigated.>>*

# Strengths

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

## Third Party Reviewers

| **Role** | **Name** | **Firm** | **Phone** | **E-mail** |
| --- | --- | --- | --- | --- |
| Architectural reviewer |       |       |       |       |
| Cost analyst |       |       |       |       |
| Environmental consultant |       |       |       |       |
| Market analyst |       |       |       |       |
| Appraiser |       |       |       |       |

**Key Questions – Architectural Reviewer** **[ ]  This section not applicable/not required**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the architectural reviewer have experience with construction within the healthcare field? .
 | [ ]  |  | **[ ]**  |
| 1. Is the architectural reviewer knowledgeable and experienced with local building standards and construction methods for the type of project proposed, including the Federal Fair Housing Accessibility Guidelines and the Uniform Federal Accessibility Standards?
 | [ ]  |  | **[ ]**  |
| 1. Is the architectural reviewer a registered architect or engineer?
 | [ ]  |  | **[ ]**  |

**Key Questions – Cost Analyst [ ]  This section not applicable/not required**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the cost analyst have experience in the healthcare field? .
 | [ ]  |  | **[ ]**  |
| 1. Is the cost analyst knowledgeable and experienced with local building standards and construction costs for the type of project proposed?
 | [ ]  |  | **[ ]**  |

**Key Questions – Environmental Consultant(s) [ ]  This section not applicable/not required**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the environmental consultant(s) meet all the qualification requirements of Appendix X2 of ASTM E 1527-05? .
 | [ ]  |  | **[ ]**  |
| 1. Does the environmental consultant(s) meet the license/certification, educational, and experiential requirements of Section X.2.1.1(2)(i), (ii), or (iii) of Appendix X2 of ASTM E 1527-05?
 | [ ]  |  | **[ ]**  |
| 1. Were any Phase II investigations performed by environmental investigator(s) specifically qualified to meet the responsibilities for the issue(s) of concern?
 | [ ]  |  | **[ ]**  |

**Key Questions – Market Analyst [ ]  This section not applicable/not required**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the market analyst have the knowledge and experience to complete the assignment competently? .
 | [ ]  |  | **[ ]**  |
| 1. Is the market analyst currently active in the market analysis of other healthcare properties?
 | [ ]  |  | **[ ]**  |
| 1. Is the market analyst experienced in the market area that the subject property is located in or established expertise by a thorough investigation of the market?
 | [ ]  |  | **[ ]**  |
| 1. Did the market analyst personally inspect the property, perform the market analysis, and prepare and sign the market study?
 | [ ]  |  | **[ ]**  |

**Key Questions - Appraiser [ ]  This section not applicable/not required**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is the appraiser a Certified General Appraiser under the appraiser certification requirements of the state where the subject property is located as of the effective date of the appraisal? (See note below this section.) .
 | [ ]  |  | **[ ]**  |
| 1. Does the appraiser meet the requirements of the Competency Rule described in USPAP?
 | [ ]  |  | **[ ]**  |
| 1. Did the appraiser sign the appraisal and the required certifications?
 | [ ]  |  | **[ ]**  |
| 1. Is the appraiser currently active in the appraisal of other healthcare properties?
 | [ ]  |  | **[ ]**  |
| 1. Is the appraiser experienced in the market area in which the subject property is located, or establish competency as per USPAP?
 | [ ]  |  | **[ ]**  |
| 1. Did the appraiser meeting the above qualifications, personally inspect the property being appraised?
 | [ ]  |  | **[ ]**  |
| 1. If more than one appraiser worked on the appraisal, did they all sign the report and certifications?
 | [ ]  |  | **[ ]**  |

*NOTE: If you answer “no” to any of the questions above, the appraiser does not meet HUD requirements. The appraiser must be a Certified General Appraiser under the appraiser certification requirements of the state that the subject property is located, as of the effective date of the appraisal (temporary certifications are permissible) and must meet all requirements of the Competency Rule of the USPAP. Lender verification of an appraiser’s current standing can be done at* [*http://www.asc.gov*](http://www.asc.gov).

## Housing Consultant (if applicable)

|  |  |
| --- | --- |
| Name of consultant: |  |
| Relation to borrower, if any: |  |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Will the project have a housing consultant? *(If so, please provide a copy of the consultant’s agreement with the Capital Improvements submission and provide a narrative discussion that addresses the following: (a) terms of the agreement (i.e., fees charged, start and end date, etc.); and (b) consultant’s responsibilities.)* .
 | [ ]  |  | **[ ]**  |
| 1. Will the housing consultant’s responsibilities overlap with those responsibilities provided by other development team members (i.e., the lender, architect, contractor, attorney, etc.)? If yes, please explain.
 | [ ]  |  | **[ ]**  |
| 1. Has the lender determined that the fees charged are competitive in the market and considered necessary and reasonable? If no, please explain.
 | [ ]  |  | **[ ]**  |

*<<Please provide a brief narrative discussion, as applicable, in response to the questions above.>>*

# Architectural Review

|  |  |
| --- | --- |
| Date of report: |       |
| Review firm: |       |
| Reviewer: |       |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are any drawings or specifications to be “deferred submissions?” If yes, explain below. .
 | [ ]  |  | **[ ]**  |
| 1. Does the architectural reviewer recommend any commitment conditions?
 | [ ]  |  | **[ ]**  |
| 1. Are the plans and specification incomplete?
 | [ ]  |  | **[ ]**  |
| 1. Is there an identity of interest between the design architect and any other project participant (i.e., borrower, principal of borrower, operator, and/or general contractor)?
 | [ ]  |  | **[ ]**  |
| 1. Are there architectural review comments that have not been incorporated into the plans and specifications?
 | [ ]  |  | **[ ]**  |
| 1. Are there any architectural drawings and specifications that do not comply with local building code standards, minimum property standards, or any other HUD requirements?
 | [ ]  |  | **[ ]**  |
| 1. After reviewing the plans, did the architectural reviewer confirm that the plans are not in conformance with FHAG and UFAS requirements?
 | [ ]  |  | **[ ]**  |
| 1. Is the design architect providing supervision services?
 | [ ]  |  | **[ ]**  |
| 1. After reviewing the AIA agreement, did the architectural reviewer find the agreement was not complete?
 | [ ]  |  | **[ ]**  |
| 1. After reviewing the Geotechnical Engineering Evaluation Report, did the architectural reviewer find the report unacceptable showing an insufficient number of borings provided?
 | [ ]  |  | **[ ]**  |
| 1. After reviewing the soils report, did the architectural reviewer find the structural design not in compliance with the findings of the report?
 | [ ]  |  | **[ ]**  |
| 1. After reviewing the survey, did the architectural reviewer find the survey not in compliance with HUD requirements?
 | [ ]  |  | **[ ]**  |
| 1. Were any repairs recommended that were not incorporated into the plans and specifications?
 | [ ]  |  | **[ ]**  |

*<<If you answer “yes” to any of the above questions, please address below. For example, Item 1 – Fire sprinkler system engineering will be completed by XXX, Item 3 – The completed plans and specifications will be submitted prior to closing. The architectural reviewer’s inspector has identified minor revisions to the plans and specifications that will be completed and submitted to HUD prior to closing. A list of the minor revisions includes XXX. The contractor has provided confirmation acknowledging the required revisions and confirms that they do not result in changes to the costs reflected on the HUD 2328 submitted with this application package. We (the lender) recommend a Special Condition to the Firm Commitment requiring that completed acceptable plans and specifications will be submitted prior to closing.*

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

## Architectural Overview

*<<Provide narrative describing the architectural reviewers report and conclusions and if the lender’s underwriter concurs with the conclusions. Identify any modifications to the report conclusions and provide justification. Confirm if the review complies with the statement of work. Identify deliverables included in the application package. Include a narrative concerning key elements of the reviews, the appropriate HUD forms, and their correspondence with the design architect*.>>

|  |
| --- |
| Program Guidance:Construction specification template (CSI Master Format 2010), addressed in Mortgagee Letter 2010-41, must be used for all applications submitted after April 25, 2011. |

### Soils Report

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

## Construction Progress Schedule

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

## Conclusion

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

# Cost Review

|  |  |
| --- | --- |
| Date of report: |       |
| Review firm: |       |
| Cost analyst: |       |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are there any variances in excess of 10% between the general contractor’s form HUD-2328 line items and the cost analyst’s form HUD-92326? .
 | [ ]  |  | **[ ]**  |
| 1. Is the total reflected on the cost analyst’s form HUD-92326 more than 10% higher or lower than the total cost breakdown on form HUD-2328?
 | [ ]  |  | **[ ]**  |
| 1. Will any one subcontractor, material supplier, or equipment lessor be awarded more than 50% of the construction contract?
 | [ ]  |  | **[ ]**  |
| 1. Will three or fewer subcontractors, material suppliers, or equipment lessors be awarded more than 75% of the construction contract in aggregate?
 | [ ]  |  | **[ ]**  |
| 1. Does or will the contractor have any identities of interest with any subcontractors, material suppliers, or equipment lessors?
 | [ ]  |  | **[ ]**  |
| 1. Did the cost analyst find any evidence of front-loading in the contractor’s cost estimate?
 | [ ]  |  | **[ ]**  |

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

## Cost Overview

<<*Confirm the cost reviewer performed the cost review pursuant to Section 232 standards. The deliverables in the application package include a narrative concerning the cost analysis, the appropriate HUD forms, and cost data*. *For example, “The cost analyst performed a comparison analysis and compared them to the contractor’s final schedules of values (form HUD-2328). The cost analyst ultimately concludes to the contractor’s schedule of values. The Lender concurs*.”>>

|  |
| --- |
| Program Guidance:The ORCF construction manager (the “CM”) may advance the completion date to prevent unnecessary accumulation of soft costs. Such advancement may be deemed warranted by HUD for nearly-completed projects that face unnecessary delays. 1. The CM may set an administrative completion date for any project when the monthly inspection reports show ninety-five percent (95%) completion of work, and thereafter less than a two percent (2%) increase in percentage of completion in any subsequent month.
2. The CM shall notify in writing each of the Borrower, general contractor and Lender of such administrative completion date, and the following:
3. That the administrative completion date shall be the effective date for cost certification, except that all soft costs up to sixty (60) days beyond such date may be included at the option of the Borrower.
4. That the date of the balance sheet and operating statement must be the same as the cut-off date selected by the Borrower.
5. That all liquidated and/or actual damages for cost certification purposes shall be computed using the administrative completion date. However, the general contractor shall be liable for any liquidated and/or actual damages that arise after the administrative completion date and before the date of substantial completion.
 |

## Construction Costs (Form HUD-2328)

<<*Discuss the cost analyst’s review of the final forms HUD-2328 supplied by the contractor and owner after completing an independent cost analysis. Confirm the analyst found no front-loading in the final costs reflected in the HUD-2328 submitted. Indicate the analyst completed the HUD 9236 in accordance with HUD guidelines and those forms are included in the appropriate section of the application package*.

*Provide a breakdown of the costs from the form HUD-2328, Contractor’s and/or Borrower’s Cost Breakdown, included in the application package. The form totals $XXX and is summarized as follows (complete the following table or provide equivalent detail):>>*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Cost** | **% of Contract** | **Per Sq ft of GBA** | **Per bed** |
| Structures |  |  |  |  |
| Accessory structures |  |  |  |  |
| Land improvements |  |  |  |  |
| General requirements |  |  |  |  |
| Builder’s overhead |  |  |  |  |
| Builder’s profit |  |  |  |  |
| Other fees |  |  |  |  |
| Bond premium |  |  |  |  |
|  **Total construction contract** |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Construction Contract Type:** | [ ]  | **Cost Plus** | [ ]  | **Lump Sum** |

### General Requirements

*<<The contractor’s estimate of general requirements totals $XXX. The cost analyst has determined that the proposed cost of the general requirements and the sub-items included in it are reasonable. The Lender concurs.>>*

|  |
| --- |
| Program Guidance:The cost for “General Requirements” will include the costs for those items incurred in the construction of the project and directly pertaining to a specific project. It will not include general overhead expense of operating the contractor’s home office. Items of cost to be considered in determining General Requirements allowance include, but are not limited to, items such as:* Supervision
* Field engineering to provide grades and lines for locating buildings, streets, and walks on the site.
* Field office, phones, office supplies and equipment, and clerical help
* Temporary sheds and toilets
* Temporary heat, water, light, and power for construction
* Cleaning and rubbish removal
* Watchmen’s wages
* Medical and first aid facilities
* Temporary protection and fences
 |

### Other Fees – General Contractor

|  |
| --- |
| Program Guidance:On Form HUD-2328, “Other Fees” is reserved for fees and allowances not normally included in General Requirements. Such fees might be:* Special engineering fees such as test borings not provided for by the project architect.
* Special taxes based on cost of the buildings (i.e., school taxes, utility taxes or assessments, excise taxes, tap fees, etc.).
* Contractor’s cost certification (a cost certification is required when a “Cost Plus” construction contract is used)
* Building permits
 |

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

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

(Double click inside the Excel Table to add information)



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

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

*The Lender is confident there are adequate budgets built in to the proposed transaction to cover anticipated other fees. >>*

### Bond Premium/Assurance of Completion

<<*Provide narrative discussion of either construction bond (bonding company, contractor’s bond capacity, etc.) or the Assurance of Completion escrow (15% or 25% of contract, cash or letter of credit, etc. Also, address whether the surety is listed on the Treasury Circular and is authorized to issue bonds in the state for the required amount*.*>>*

## Unusual Site Improvements

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

## Architect’s Fees

*<<Provide narrative describing architect fees (design/supervision). For example: “The Owner-Architect Agreement (AIA document B108 with HUD Addendum) sets a total design fee of $XXX and a construction supervision fee of $XXX, for a total contract amount of $XXX. The design fee currently represents XX% of the total architectural fee and XX% of the total cost of total structures, land improvements, and general requirements. The construction supervision fee is XX% and XX% of the same, respectively*.”

*Confirm there is not an identity of interest between the borrower and the architect or if there is, discuss the separate supervising architect and his/her B108. Confirm if the cost analyst and Lender find the architectural fees to be reasonable in total and for the cost of design/supervision*.>>

## Other Fees - Borrower

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

(Double click inside the Excel Table to add information)



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

## Off-Site and Demolition

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

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

## Major Movable Equipment

|  |  |
| --- | --- |
| The borrower has provided a major movable list and budget totaling: | $      |
| The amount per unit is: | $      |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. The cost analyst found the list acceptable and the budget is reasonable. .
 | [ ]  |  | **[ ]**  |
| 1. The Lender concurs with the analyst’s conclusion or has provided justification for any differences.
 | [ ]  |  | **[ ]**  |
| 1. The Lender notes that a copy of the major movable list is included as an Exhibit submitted with this package.
 | [ ]  |  | **[ ]**  |

*<<For each “no” answer above, provide a narrative explanation and justification regarding the topic.>>*

## Contingency Reserve

|  |
| --- |
| Program Guidance:The contingency reserve amount is based on available data for the type and condition of structure. Calculate as percentage of the sum of structures, land improvements, and general requirements. Percentage ranges from 1% to 10%, depending on the condition of the project, extent of rehabilitation, and experience and financial capacity of the borrower and contractor.The contingency reserve can only be used to cover unanticipated costs, such as discovering more extensive dry rot than was expected. The contingency reserve is not available for items such as an increase in cost of carpet. |

*<<The architectural and cost reviewer concluded that a contingency reserve of XX% is sufficient based on the site visit, the type of construction of the existing buildings, and the developer’s knowledge of the existing buildings. The underwriter agrees (explain modification).>>*

### Reserve for Replacement

|  |
| --- |
| Program Guidance:Substantial rehabilitation can encompass a wide range of renovations—from “gut” rehabilitations that replace or newly construct nearly everything, to replacements and renovations that barely exceed the substantial rehabilitation threshold. In lieu of requiring total replacement of everything that will require replacement within the next 5 years, the lender can provide a replacement reserve analysis prepared in accordance with the 232/223(f) Statement of Work for Project Capital Needs Assessments to determine an appropriate initial and annual deposit to the replacement reserve.In the case of “gut” rehabilitation, this analysis is not required and the lender and cost analyst can depend on the calculation of 0.004 times the mortgage amount plus 10% of the major movable cost for the annual deposit and not require an initial deposit to the replacement reserve.As the scope of rehabilitation narrows (fewer replacements and fewer areas are involved), the necessity of providing a replacement reserve analysis increases. |

|  |
| --- |
| **Replacement Reserve Summary** |
|  | Annually | Per Unit |
| Reserve for replacement |  |  |
|  Realty | $      | $       |
|  Major movables | $      | $      |
|  |  |  |
|  **Total** | $      | $       |
| Was the standard HUD formula used to calculate the annual reserve for replacement deposits? *(A “no” answer requires a waiver.)* | [ ]  Yes [ ]  No |

**General Review**

The replacement reserve analysis includes a combined analysis of both capital items and major movable equipment. The Lender 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 submitted with this narrative.

In the analysis below, the Lender has spread the anticipated replacements by year based on the needs assessor’s replacement reserve analysis and assumes an interest of      % and an inflation rate of      %.

(Double click inside the Excel Table to add information)



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 10.

## Conclusion

*<<Provide Lender’s conclusions and wrap-up of the cost review. Reiterate if any of the cost analyst’s conclusions were modified and justified by the Lender’s.>>*

# ALTA/ACSM Land Title Survey

|  |  |
| --- | --- |
| Date: |       |
| Firm: |       |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are there any differences between the legal description on the survey and legal description included in the pro forma title policy? .
 | [ ]  |  | **[ ]**  |
| 1. Are there any revisions or modification required to the survey prior to completion of the capital improvements?
 | [ ]  |  | **[ ]**  |
| 1. Does the survey indicate any boundary encroachments?
 | [ ]  |  | **[ ]**  |
| 1. Does the survey evidence any buildings encroaching on utility or other easements or rights-of-way?
 | [ ]  |  | **[ ]**  |
| 1. 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 effect on value or the marketability of the project. For example, “****Encroachments****: The survey indicates an encroachment of the adjoining property fence on the easterly portion of the property. An encroachment endorsement will be received at closing. There is no impact on the value or marketability of the project.>>*

# Title

## Title Search

|  |  |
| --- | --- |
| Date of search: |       |
| Firm: |       |
| File number: |       |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is the title currently vested in an entity or individual other than the borrower? .
 | [ ]  |  | **[ ]**  |
| 1. Does the report indicate that delinquent real estate taxes are owed?
 | [ ]  |  | **[ ]**  |
| 1. Does the report indicate any outstanding special assessments?
 | [ ]  |  | **[ ]**  |
| 1. Does the report identify any outstanding debt that is not disclosed on the borrower’s listing of outstanding obligations?
 | [ ]  |  | **[ ]**  |
| 1. 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**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is the title vested in an entity or individual other than the borrower? .
 | [ ]  |  | **[ ]**  |
| 1. Are there any covenants, , encumbrances, liens, restrictions, or other exceptions indicated on Schedule B-1? .
 | [ ]  |  | **[ ]**  |
| 1. Are there any use or affordability restrictions remaining in effect on the property?
 | [ ]  |  | **[ ]**  |
| 1. Are there any easements or rights-of-way listed that are not indicated on the survey?
 | [ ]  |  | **[ ]**  |
| 1. Are there any endorsements included aside from the standard HUD-required endorsements?
 | [ ]  |  | **[ ]**  |
| 1. Are there any subordination agreements, encroachments or similar issues that require HUD’s approval?
 | [ ]  |  | **[ ]**  |
| 1. Are there any other matters requiring special consideration, agreements, or conditions that require HUD’s attention?
 | [ ]  |  | **[ ]**  |
| 1. Are there any easements, rights-of-way, encroachments, etc., identified on Schedules B-1 and B-2 that, in the lenders opinion, affect value or the marketability of the project?
 | [ ]  |  | **[ ]**  |

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

# Borrower

|  |  |
| --- | --- |
| Name: |       |
| Fiscal year-end date: |       |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the borrower currently own any assets other than the property or participate in any other businesses? .
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, is or has the borrower been delinquent on any federal debt?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, is or has the borrower been a defendant in any suit or legal action?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, has the borrower ever claimed bankruptcy or made compromised settlements with creditors?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, are there judgments recorded against the borrower?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, are there any unsatisfied tax liens?
 | [ ]  |  | **[ ]**  |

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

## Financial Statements

The application includes the following Borrower financial statements:

|  |  |
| --- | --- |
| Balance Sheet as of:  |       |

**Key Questions**

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

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

**General Review**

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

# Operator

|  |  |
| --- | --- |
| Name: |       |

## Financial Statements

The application includes the following operator financial statements:

|  |  |
| --- | --- |
| Year to date: |      *<<dates for start and end of period>>* |
| Fiscal year ending: |      *<<date – end of period>>* |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are less than 3-years of historical financial data available for the operator? .
 | [ ]  |  | **[ ]**  |
| 1. Are the financial statements missing any required information or schedules?
 | [ ]  |  | **[ ]**  |
| 1. Do any of the financial statements indicate a loss prior to depreciation?
 | [ ]  |  | **[ ]**  |
| 1. Do the Aging of Accounts Payable schedules show any material accounts payables (amount in excess of 5% effective gross income) over 90 days?
 | [ ]  |  | **[ ]**  |
| 1. Do the Aging of Accounts Receivable schedules show any material accounts receivables (amounts in excess of 2% of gross income) over 120 days?
 | [ ]  |  | **[ ]**  |
| 1. Are there any issues or discrepancies related to tenant deposit accounts (e.g., not fully funded)?
 | [ ]  |  | **[ ]**  |
| 1. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?
 | [ ]  |  | **[ ]**  |
| 1. Within the last 3 fiscal years (as applicable) are there any negative or declining NOI?
 | [ ]  |  | **[ ]**  |

*<<If you answer “yes” to any of the above questions, identify the 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. For example: “****No Financial Statements****: The operator is a newly formed entity and does not have a financial history to report. At this time, the operation of this facility is the new entity’s sole purpose, so there is no need to review financial data from other facilities or sources.”>>*

**General Review**

<<*Provide narrative and analysis of financial statements as appropriate. In addition to the Key Questions above, net 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 3 fiscal years, as applicable.>>*

# Management Agent (if applicable) – <<insert name here>>

|  |  |
| --- | --- |
| Name: |       |
| Relation to borrower: | <<owner managed/IOI entity/independent/other>> |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. According to the application exhibits, is or has the management agent been delinquent on any federal debt? .
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, is or has the management agent been a defendant in any suit or legal action?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, has the management agent ever filed for bankruptcy or made compromised settlements with creditors?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, are there judgments recorded against the management agent?
 | [ ]  |  | **[ ]**  |
| 1. 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 has been or will be mitigated.>>*

# General Contractor

|  |  |
| --- | --- |
| Name: |       |
| State of organization: |       |
| License number/state: |       |
| Surety: |       |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. According to the application exhibits, is or has the general contractor been delinquent on any federal debt? .
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, is or has the general contractor been a defendant in any suit or legal action?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, has the general contractor ever filed for bankruptcy or made compromised settlements with creditors?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, are there judgments recorded against the general contractor?
 | [ ]  |  | **[ ]**  |
| 1. According to the application exhibits, are there any unsatisfied tax liens?
 | [ ]  |  | **[ ]**  |
| 1. Is the general contractor a joint-venture?
 | [ ]  |  | **[ ]**  |
| 1. If the general contractor is a subsidiary of another entity, are they relying upon the parent to demonstrate financial capacity? *(If yes, provide financial analysis of parent.)*
 | [ ]  |  | **[ ]**  |

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

## Experience/Qualifications

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

## Credit History

|  |  |
| --- | --- |
| Report date: |       *<<within 60 days of submission>>* |
| Reporting firm: |       |
| Score: |       |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the credit report identify any material derogatory information not previously discussed? .
 | [ ]  |  | **[ ]**  |
| 1. Are there any concerns related to the review of the credit report?
 | [ ]  |  | **[ ]**  |
| 1. Is the credit report dated more than 60 days before the application date?
 | [ ]  |  | **[ ]**  |

*<<If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated below. Provide an explanation of the credit score in terms of low, medium, or high risk, etc. Also, if the score is evaluated numerically, explain the value the credit agency places on the score.>>*

## Other Business Concerns

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the general contractor identify any other business concerns? .
 | [ ]  |  | **[ ]**  |
| * 1. Do any of the other business concerns have pending judgments, legal actions/suits, or bankruptcy claims? *(If so, a credit report must be obtained on the business concern.)* [ ]  N/A
 | [ ]  |  | **[ ]**  |
| * 1. If so, was a credit report obtained on the business concern? [ ]  N/A
 | [ ]  |  | **[ ]**  |
| 1. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information? [ ]  N/A
 | [ ]  |  | **[ ]**  |

*<<As applicable, a “yes” answer requires a narrative discussion on the topic describing the risk and how it will be mitigated.>>*

**Credit Reports for Other Business Concerns**:

*<<Provide narrative discussion on other business concerns. For example, “XXX identified XX other business concerns. The Dunn and Bradstreet credit reports for XX other business concerns identified by XXXX. {Discuss each report} have been reviewed. No reports indicated derogatory information that would prohibit XXXXX from participation in this transaction.>>*

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of Entity**  | **Report Type** *(Commercial, etc.)* | **Report Date** | **Comments***(i.e., any derogatory information, etc.)* |
|       |       |       |       |
|       |       |       |       |

## Financial Statements

The application includes the following General Contractor financial statements:

|  |  |
| --- | --- |
| Year to date:  |      *<<dates for start and end of period>>* |
| Fiscal year ending: |      *<<date – end of period>>* |
| Fiscal year ending: |      *<<date – end of period>>* |
| Fiscal year ending: |      *<<date – end of period>>* |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are less than 3-years of historical financial data available for the general contractor? .
 | [ ]  |  | **[ ]**  |
| 1. Are the financial statements missing any required information or schedules?
 | [ ]  |  | **[ ]**  |
| 1. Is there a pattern of significant downward income prior to depreciation over the years as demonstrated in the general contractor’s Income & Expense statements?
 | [ ]  |  | **[ ]**  |
| 1. Do the Aging of Accounts Payable schedules show any material accounts payables (amount in excess of 5% effective gross income) over 90 days?
 | [ ]  |  | **[ ]**  |
| 1. Do the Aging of Accounts Receivable schedules show any material accounts receivables (amounts in excess of 2% of gross income) over 120 days?
 | [ ]  |  | **[ ]**  |
| 1. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?
 | [ ]  |  | **[ ]**  |
| 1. Does the general contractor have less than the required 5% adjusted working capital?
 | [ ]  |  | **[ ]**  |

*<<If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated below. For example: Item 7 – Contractor has less than 5% working capital. Contractor may hypothecate fixed assets. The contractor has a sale pending on another building that they have constructed. Evidence that funds will be available to meet the 5% working capital prior to construction will be provided..>>*

**General Review**

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

## Working Capital Analysis

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

***Example****: XXXX current balance sheet is summarized below.*

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

*The Lender has made the following modification for the working capital analysis:*

*Example:*

* *Only used accounts receivable less than 90 days old*
* *Did not use accounts receivable from related parties.*
* *Did not include prepaid expenses.*

*The analysis of Work in Progress is as follows:*

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

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

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

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

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

## Conclusion

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

## Cash Requirements

|  |  |
| --- | --- |
|  |  |
| **Initial operating deficit:** |       |
|  | **Absorption rate/no. units per month:**       |
|  | **No. months to cover shortfalls:**       |
|  | **Breakeven Occupancy %:**       |
| **Working capital:** | $      |
| **Cash investment:** | $      |
| **Debt service reserve escrow:** | $      |
|  | **No. months of principal & interest payments:**       |
| **Offsite escrow:** | $      |
| **Minor movable equipment escrow:** | $      |
| **Demolition:** | $      |
| **Other:** | $      |
| **TOTAL:** | $      | **% of total project cost:**      **%\*** |
| *\*Total cash requirements divided by total project cost.* |
|  |
| **Cash requirement will be met by:** |       *<<pre-paids, letter of credit, sponsor, etc. Example: “Borrower’s cash and letters of credit.”>>* |
| Based on a review of the principals *<<identify principal(s)>>* their net worth is estimated at $     ; their liquidity meets/exceeds $     . |

# Circumstances that May Require Additional Information

In addition to the information required in this narrative, depending upon the facility for which mortgage insurance is provided, the mortgagor, operator, management agent and such other parties involved in the operation of the facility, current economic conditions, or other factors or conditions as identified by HUD, HUD may require additional information from the lender to accurately determine the strengths and weaknesses of the transaction.  If additional information is required, the questions will be included in an appendix that accompanies the narrative.

# Special Commitment Conditions

*<<List any recommended special conditions. If none, state “None.”>>*

1.
2.

# Conclusion

*<<Provide narrative conclusion and recommendation.>>*

# Signatures

Lender hereby certifies that the statements and representations of fact contained in this instrument and all documents submitted and executed by lender in connection with this transaction are, to the best of lender’s knowledge, true, accurate, and complete. This instrument has been made, presented, and delivered for the purpose of influencing an official action of HUD and may be relied upon by HUD as a true statement of the facts contained therein.

|  |  |
| --- | --- |
| Lender: |       |
| HUD Mortgagee/Lender No.: |       |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| This report was prepared by: | Date |  | This report was reviewed by: | Date |
|      *<<Name>>*     *<<Title>>*     *<<Phone>>*     *<<Email>>* |  |  |      *<<Name>>*     *<<Title>>*     *<<Phone>>*     *<<Email>>* |  |

|  |  |
| --- | --- |
| This report was reviewed and the site inspected by: | Date |
|      *<<Name>>*     *<<Title>>*     *<<Phone>>*     *<<Email>>* |  |