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| --- | --- | --- |
| **Application for Transfer of Physical Assets (and Lender Narrative)**  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 5.0 hour. 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.

**PAGES 1-5 OF THIS DOCUMENT ARE MANDATORY FOR SUBMISSION.**

**PAGES 6-42 (LENDER NARRATIVE) ARE AN OPTIONAL SUBMISSION FORMAT.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Project Number: | | | | Date (mm/dd/yyyy): |
| Project Name: | | Seller: | | |
| Project Purchaser (includes form of ownership, e.g., individual, partnership, corporation, trust): | | | | |
| Mortgagee of Record (name and address): | | Servicing Agent (name and address: | | |
| Mortgage Recorded: | State: | | County: | |
| Date (mm/dd/yyyy): | Book: | | Page: | |

**To the Secretary, Department of Housing and Urban Development (HUD):**

The above-named seller and the project purchaser submit herewith the required fee of $      and apply to HUD for permission to transfer the project from the borrower to purchaser and, in support of said request represent to the Secretary as follows:

1. All real and personal property of the seller will be conveyed to the purchaser.
2. After the transfer, purchase will own said real and personal property free and clear of all liens, encumbrances, or project obligations except the insured security instrument and those expressly approved by you in writing as to form, content, terms, and amount.

In further support of this request, the documents enumerated in the instructions on this form are attached for preliminary approval. It is understood and agreed that within 45 working days of the issuance of preliminary approval the final approval documents enumerated in the instructions on this form will, with such changes as you may require and no others, be delivered to you. Unless said documentation is delivered to HUD within the specified time (45 working days) or unless further time for completing the transaction is granted in writing by you, the application for approval of the transfer will be denied and any interest already conveyed in the property shall be reconveyed to the above-named borrower. It is understood and agreed that within 45 working days of the issuance of written authorization to record the documentation previously submitted in connection with this transfer, such documentation will be recorded and the original and copies of the documentation will be returned to you as appropriate. In addition, all of the attachments listed here as required for final approval, some of which have not been submitted previously, must be submitted to you within the same 45 working day period. It is understood that unless appropriate documenta­tion is recorded and returned to you within the prescribed time or unless further time for completing the transaction is granted in writing by you, final approval of the application to transfer the property will be denied and all property transferred will be reconveyed to the borrower.

**Lender's Statement:** If the above transfer is approved by the HUD Secretary, the lender agrees to execute a Release and Assumption Agreement or a Security Instrument Modification Agreement incorporating the Regulatory Agreement in the security instrument. It is understood that the lender's consent to this transfer will in no way prejudice its rights under its contract of insurance with HUD. In the event the consent of the lender to the transfer is not evidenced by endorsement of this application, please provide the following information. Lender hereby certifies that the statements and representations contained in this Agreement and all supporting documentation thereto are true, accurate, and complete and that each signatory has read and understands the terms of this Agreement. This instrument has been made, presented, and delivered for the purpose of influencing an official action of HUD in insuring the Loan, and may be relied upon by HUD as a true statement of the facts contained therein.

|  |  |  |
| --- | --- | --- |
| Date Consent Requested (mm/dd/yyyy):: | Party to Whom Request Directed: | |
| Reason for Refusal to Consent: | | |
| By (name/title): | | Lender: |
| Executed This Date (mm/dd/yyyy): | | By (authorized signature): |

**Lender's Consent to the Creation of a Subordinate Lien Against the Project:** Lender hereby consents to the creation of a subordinate lien(s) against the real property known as <<insert project number>>, <<insert project name here>> in connection with this transfer. Lender waives its right to assign the security instrument and claim insurance benefits by the reason of the creation of such lien(s).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Executed This Date (mm/dd/yyyy):: | | Lender: | | |
| By (name/title): | | | By (authorized signature): | |
| Seller: | Date (mm/dd/yyyy): | | | By (authorized signature): |
| Purchaser: | Date (mm/dd/yyyy): | | | By (authorized signature): |

**General Information**

Use these instructions for overview and checklist purposes. The Submission Checklist-Transfer of Physical Assets (TPA) and/or Change in Lessee/Operator/Management Agent, provides complete instructions.

**The Department of Housing and Urban Development (HUD) will prosecute** false claims and statements. Conviction may result in criminal and/or civil penalties (18 U.S.C. Sections 1001, 1010, 1012; 31 U.S.C. Sections 3729, 3802).

**Use this form** for transfers of properties encumbered by security instruments insured by HUD and for security instruments owned by the Secretary of HUD. It must be executed by the purchaser, the seller, and normally by the lender. It must be presented to the lender for execution. If the lender refuses, the reason must be given to HUD in writing. Copies of correspondence to or from the lender must be attached. If the security instrument has not been finally endorsed for insurance, the application will not be accepted without the lender's execution. **If the proposal to transfer involves the creation of a lien against the property, the lender must consent to the transfer.**

**Avoid** introducing amendments or deviating from the instructions unless absolutely necessary to make the transaction effective. Nonconforming documents and deficient information will delay the process.

**When an Attorney's Opinion** is required, do not use an attorney that has an identity of interest with either the purchaser or seller.

**The final paragraph** of this application must be signed by the lender in every instance where the transfer will result in the creation of a lien against the project.

**HUD imposes a TPA fee** of $0.50 per $1,000 of the original face amount of the security instrument to cover the cost of legal, administrative, and fiscal actions. Send the fee with the application.

Some transactions generally do not require a fee:

1. Substitution of individual general partners of a partnership/ borrower; or
2. Assignment of 100% of the beneficial interest in a passive land trust that holds title to the project, if the assignment does not result in a change in the control of the project.

Some transactions involving multiple transfers may be subject to more than one TPA fee, such as transactions involving two transfers of title by deed. The ORCF Account Executive (after consulting with the Office of General Counsel) will make the determination.

If the Workload Manager determines that a transaction or series of transactions have been structured to avoid paying the TPA fee, the application will be rejected. New application(s) will not be accepted until the required fee(s) have been paid.

**Preliminary Approval Process**

HUD immediately gives the applicant a written acknowledgment of receipt and begins a completeness review. HUD shall determine if the application should be returned or if the missing pieces should be requested and processing delayed.

HUD then reviews other HUD reports to determine acceptability of transfer.

If the instruments are in order, HUD (with the Office of General Counsel’s agreement) gives a written preliminary approval. If some changes are necessary, a conditional approval will be given that authorizes execution of documents not requiring changes.

**Preliminary Approval**

The preliminary approval binds the seller and purchaser to take any steps necessary to reconvey the property to the seller if the terms of the preliminary approval are not met within 45 working days, unless HUD gives a written extension. It also binds the seller and purchaser to meet all other conditions of the preliminary approval to include correcting any unsatisfactory matter revealed in the review of items received for final approval.

It requires that all Final Approval documentation must be recorded and submitted to HUD within this 45 working day period.

**Required documents** that are expected to accompany the application:

1. **TPA Application.** HUD- 92266-ORCF (this form).
2. **Consent by the Lender.**
3. **Application fee.** $0.50 per $1,000 of the original face amount.
4. **Purchaser's letter**. “Purchaser” is defined to include all general partners in a purchasing partnership, or any managing member of a limited liability company or any other individual or entity holding controlling interest in a partnership, limited liability company, or corporation, or any other form of ownership entity. The letter must:

* Must be signed by an authorized principal of the purchasing entity and must describe in detail all financial consideration flowing to the project and the seller as a result of the transfer;
* Detail all funds allocated to project operations as well as those funds designated for use in correcting the physical needs of the project;
* State that if the project is HUD-insured the project security instrument is current or will be brought current as a result of the transfer approval;

All workout plans must comply with HUD workout policies in effect at the time the TPA application is submitted for Preliminary Approval.

1. **Certificate of Previous Participation** (HUD-2530) for Purchaser, Lessee/Operator and Management Agent.
2. **Resumes of new principals.** If there has been no previous participation with HUD, resumes are required for each principal and should be in sufficient detail for HUD to understand the nature of their experience.
3. **Purchaser’s principals personal financial and credit statements** (HUD-92417).
4. **Credit reports for new principals and parent entity.**
5. **Sources and uses of funds.** This shows all expected sources of funds and all expected uses of these funds. **All purchasers are required to include a sources and application of funds.**
6. **Pro forma balance sheet.** The pro forma balance sheet should show how the project accounts are expected to appear the day after the expected date of closing.
7. **Executed purchase and sale agreement.**
8. **Interim unaudited financial statements.**
9. **Lender’s statement of escrow and reserve account.**
10. **Capital needs assessment.**
11. **Current state life safety inspection surveys** for facilities listed as owned, leased or managed that have open “G” level or higher citations outstanding should include any and all Plans of Correction. If facility has recently (within the last two years), resolved “G” or higher citations/deficiencies, include information detailing the resolution of these citations/deficiencies.
12. **Management Improvement and Operating (MIO) Plan** (if needed).
13. **Proposed management agent** (if applicable), including management entity profile, management certification, management agent resume, management agreement, and regulatory agreement, if applicable.
14. **Draft release, assumption and/or modification.**
15. **Draft Regulatory Agreement - Borrower, Riders.**
16. **Draft Regulatory Agreement(s) - Operator, Riders** (if applicable).
17. **Draft Secondary Financing Documents** (if applicable).
18. **Proposed deed** (and ground lease, if applicable).
19. **Security Instruments and Security Agreements,** as applicable, with legal description and description of collateral and Financing Statements (State and County) with legal description and description of collateral.
20. **Healthcare Facility Note.**
21. **Proposed Bill of Sale and Assignment** (HUD-92228).
22. **Title policy pro forma or endorsement** (as applicable).
23. **Executed organizational documents of purchaser** (and lessee/operator and/or management agent, if applicable). For example, ownership hierarchy/organizational charts, bylaws, articles of incorporation/ organization, operating/partnership agreements, resolutions, incumbency certificates).
24. **Evidence of registration in the Business Partner Registration System.**
25. **Evidence of application for user ID with Secure Systems.**
26. **Draft Purchaser’s attorney opinion.**
27. **Draft lessee/operator attorney opinion** (if applicable).
28. **Attorney’s certification.**
29. **Byrd Amendment certifications.**
30. **Draft Deposit Account Control Agreement (DACA) and Deposit Account Instructions Service Agreement (DAISA)** (for government receivables, if applicable).
31. **List of all facilities managed by lessee/operator or management agent.**
32. **Three years of audited and year-to-date financial statements** for Purchaser and/or lessee/operator.
33. **Six years loss history.** Six yearsof all claims against the Purchaser and principals; proposed lessee/operator and principals; and proposed management agent. Include all facilities in claims reporting.
34. **Accounts receivable financing.**
35. **Master lease and sublease** (if applicable).
36. **Accounts payable schedule** (if applicable).
37. **Operating lease,** with HUD Addendum, SNDA, Estoppel Letter and Memorandum of Lease (as applicable).
38. **Operating license.** License for owner, lessee/operator or management agent.
39. **Evidence of Professional Liability Insurance coverage** (Notice H04-15).

**Final Approval Process**

If HUD required any changes to the documents submitted during the Preliminary Approval review, the applicant's attorney must certify to HUD that the required changes have been made.

The applicant has 45 working days from the date of preliminary approval to submit all executed and recorded documentation to HUD. The preliminary approval shall be the date on the letter. Where the applicant finds that he/she is unable to submit the appropriate documentation within the required time period, a written request for an extension of time must be submitted to HUD. This request must explain the reason for the delay. The applicant must provide the following for final approval:

1. **Recorded release, assumption and/or modification.**
2. **Recorded Regulatory Agreement - Borrower; Riders.**
3. **Recorded Regulatory Agreement(s) - Operator; Riders** (if applicable).
4. **Recorded Memorandum of Lease and copy of executed lease** (if applicable).
5. **Recorded secondary financing documents** (if applicable).
6. **Recorded deed** (if applicable)**.**
7. **Recorded Uniform Commercial Code (UCC)** (state and county).
8. **Title Policy or Endorsement,** as applicable.
9. **Executed Deposit Control Agreements and Deposit Account Instructions Service Agreement** (for government receivables, if applicable).
10. **Executed accounts receivable loan documents: note, loan agreement, security agreement, intercreditor agreement, rider, lockbox agreement** (if applicable).
11. **Final Purchaser and/or lessee/operator attorney’s opinion.**
12. **Executed security instrument and security agreements.**
13. **Executed Bill of Sale and Assignment.**

If everything is acceptable, HUD sends a letter approving the transfer.

If recording or other deficiencies are discovered, HUD will immediately tell the purchaser to correct them and to resubmit.

|  |  |
| --- | --- |
| **Lender Narrative**  **Attachment to Application for**  **Transfer of Physical Assets**  Section 232 | **U.S. Department of Housing**  **and Urban Development**  Office of Residential  Care Facilities |

**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.

**INSTRUCTIONS**:

The narrative is a document critical to the Lean Transfer of Physical Assets (TPA) 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.

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., ).

*<<Optional: Insert Project Photo>>*

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# Executive Summary

|  |  |  |  |
| --- | --- | --- | --- |
| **FHA Number:** |  | | |
| **Project Name:** |  | | |
| **Project Address:** |  | | |
| **City / State / Zip:** |  | | |
|  |  | | |
| **Lender Name:** |  | | |
| **Part of a small, medium, or large portfolio:** | | Yes  No | If yes, describe: | |

**Unit Breakdown:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Room Type** | | **Care Type** | **Beds** | **Units** |
| e.g. private | | e.g. Assisted Living: |  |  |
| e.g. semi private | | e.g. Skilled Nursing: |  |  |
| e.g. 3 bed ward | | e.g. Board & Care: |  |  |
| e.g. 4 bed ward | | e.g. Dementia Care: |  |  |
|  | | e.g. Independent: |  |  |
| **Totals:** | | |  |  |
| **Borrower:** | <<*Legal Name*>> | | | | |
| **Operator:** | <<*Legal Name*>>  Operating lease | | | | |
| **Parent of Operator:** | <<*Legal Name*>> | | | | |
| Does the operating lease cover multiple properties or tenants (is it a master lease)?  Yes  No | | | | | |
| **Management Agent:** | <<*Legal Name*>> | | | | |
| **License held by:** | <<*Legal Name*>> | | | | |
| **Resident contracts with:** | *<<Entity with whom residents contract for services>>* | | | | |
|  | | | | | |

## Portfolios

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Do any of the principals of the borrower own any other projects insured or held by HUD? . |  |  |  |
| 1. Do any of the principals of the borrower plan to submit an application for mortgage insurance to HUD in the next 18 months? |  |  |  |
| 1. Have any of the principals of the borrower submitted an application for mortgage insurance to HUD in the past 18 months? |  |  |  |

If you answer “yes” to any of the above questions, identify the size of the portfolio. Complete the “Other Section 232 Applications” chart. (Consolidated Certification – Parent of the Borrower).

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

## Transaction Overview

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is state regulatory approval needed for license transfer? |  |  |  |
| 1. Will there be a change in operations that departs from the historical number of potential resident days? |  |  |  |
| 1. Will the facility participate in the state’s Upper Payment Limit (UPL) Program? *(If you answer “yes,” you must provide a summary of the Upper Payment Limit (UPL) transaction in the following section.)* |  |  |  |

*<<For each “yes” answer above, provide a narrative discussion regarding the topic. As applicable, discuss the issue and its effect on the transaction. Describe any potential risks and the mitigants. For waivers, identify specific provisions to be waived and justification for the waiver.>>*

## Upper Payment Limit (UPL) Transaction Summary (if applicable)

*<<The state will require prelimary approval from HUD in order for the subject to participate in their UPL program. To obtain HUD approval, please provide the following:>>*

Background

*<<Provide narrative to explain how the state’s UPL program works and why the subject facility wants to participate in the program. Provide draft copies of any documents required by the state to participate in the UPL program as an attachment to this document (Exhibit A).>>*

Proposed Structure

*<<Provide narrative discussion and organization charts to describe the current and proposed organizational structure of the subject. Be sure to discuss the effect the proposed structure will have on any existing master lease, if applicable. Also, if applicable, discuss the effect of the proposed structure on any accounts receivable financing and what, if any, changes are needed to accommodate the new operator’s receipt of Medicare and Medicaid receivables.*

*Provide a Cash Flow Chart describing the current and proposed location of the Deposit Account Control Agreement (DACA) and Deposit Account Instructions and Services Agreement (DAISA).>>*

Material Provisions

*<<Provide a narrative discussion of provisions in proposed sublease (e.g., “Under XXX state law, the hospital districts must file change of ownership applications for licensure and Medicaid at least XX days before the sublease becomes effective….”) and management agreement (e.g., “The new management agreement will require the current licensee to provide management services necessary to operate the facility…. The hospital district will pay the current licensee (as manager) a base management fee and incentive payments that are equal to XXX% of the net revenue of the facility plus XX% of the supplemental payments that the hospital district receives under the UPL Program…..”). Attach copies of sublease and management agreement as Exhibits B and C, respectively.>>*

Conclusion

*<<Provide narrative discussion regarding how the proposed transaction will be of benefit. Complete income analysis in the table provided that compares financial operations with and without UPL participation.>>*

|  |  |  |
| --- | --- | --- |
| **Income Analysis** | | |
|  | **Trailing 12 mos. without UPL participation\***  ***<<TTM thru Month-Year>>*** | **Forecast with UPL participation** |
| Effective Gross Income (EGI) | $ | $ |
| Expenses | $ | $ |
| Replacement Reserves | $ | $ |
| Net Operating Income (NOI) | $ | $ |
| Date UPL participation to begin *(month, year)*: | | |
| *\*Use trailing 12-month (TTM) figures in this column. The TTM data is preferred; however, if TTM is not available, year-to-date annualized figures may be used (please indicate this in the heading).* | | |

Certification

*<The borrower must certify that a change in operator will not occur until HUD has given its preliminary approval for the change. Additionally, if at any time the state determines that it will not fund the UPL Program, the borrower will immediately notify their lender and HUD.*

# Program Eligibility

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Has the proposed borrower, operator, or any of their affiliates’ renamed or reformulated companies, or filed for or emerged from bankruptcy within the last 5 years? |  |  |  |
| 1. Is the proposed borrower, operator, or any of their affiliates’ renamed or reformulated companies, currently in bankruptcy? |  |  |  |

*<<If you answered “yes” to any of the questions above, this TPA will not be approved under this program. >>*

## Licensing

*<<Provide affirmative statement along the lines of: “The facility is currently 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}, effective {date}, through {date}. The license covers {number of beds}. An application to transfer the license to {Name of New Entity} was filed on {Date}.”>>*

# Identities-of-Interest

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Have you, as the lender, identified any identities of interest on your certification? . |  |  |  |
| 1. Does the borrower’s certification indicate any identities of interest? |  |  |  |
| 1. Do any of the certifications provided by principals of the borrower identify any identities of interest? |  |  |  |
| 1. Does the operator’s certification (if applicable) indicate any identities of interest?  N/A |  |  |  |
| 1. Does the management agent’s certification (if applicable) indicate any identities of interest?  N/A |  |  |  |
| 1. Does the lender know, or have any reason to believe, that any of the assertions in the other Consolidated Certifications submitted herewith, are inaccurate or incomplete? |  |  |  |

*<<For each “yes” answer above, provide a narrative discussion regarding the topic. As applicable, describe the risk and how it will be mitigated. For example: The borrower and operator are related parties – John Doe has ownership in both entities. No other identities of interest are disclosed. >>*

# 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 current 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 current 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 requirement? |  |  |  |
| 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. 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…>>*

# New Borrower Entity (Purchaser)

|  |  |
| --- | --- |
| Name: |  |
| State of Organization: |  |
| Date Formed: |  |
| Termination Date: |  |
| FYE Date: |  |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is the borrower entity’s corporate office located and/or registered outside of the United States? . |  |  |  |
| 1. Does the new borrower currently own any other assets/properties or participate in any other businesses? . |  |  |  |
| 1. Is or has the new borrower been delinquent on any federal debt? |  |  |  |
| 1. Is or has the new borrower been a defendant in any suit or legal action? |  |  |  |
| 1. Has the new borrower ever filed for bankruptcy or made compromised settlements with creditors? |  |  |  |
| 1. Are there judgments recorded against the new borrower? |  |  |  |
| 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 will be mitigated.>>*

|  |
| --- |
| Program Guidance:  As required in the Section 232 Handbook, Section II, Production, Chapter 6.1.D, “Generally, foreign nationals and corporate entities may participate as principals. However, the single-asset borrower entity must be registered in the United States in the state where their corporate office is located and at least one principal, with operational decision-making authority, must be a United States citizen.” |

## Organization

*<<Provide organization chart and narrative, as applicable. At a minimum, all principals of the borrower should be identified.>>*

## Experience/Qualifications

*<<Provide narrative description of new borrower’s experience and qualifications. For example: “The borrower entity is a single-asset entity that was established in {date} to develop and own the subject project.”>>*

## Credit History

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

*<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score.>>*

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the credit report identify any material derogatory information not previously discussed? . |  |  |  |
| 1. Does the lender 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.>>*

## Financial Statements

The application includes the following financial statements for the new borrower:

|  |  |
| --- | --- |
| 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 new borrower? . |  |  |  |
| 1. Are the financial statements missing any required information or schedules? |  |  |  |
| 1. Do the financial statements provided include financial data from assets or liabilities not related to owning and operating the subject facility? |  |  |  |
| 1. Do any of the financial statements indicate a loss prior to depreciation and amortization? |  |  |  |
| 1. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of 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)? (Generally not applicable for SNF.)  N/A |  |  |  |
| 1. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed? |  |  |  |

*<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example:* ***Tenant Security Deposits****: The tenant security deposits do not appear to be fully funded. At closing, however, the borrower will not be the operator and the tenant deposit obligation will fall to the new operator. Therefore, the lender 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 Overview**

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

## Conclusion

*<<Provide narrative discussion of the lender’s conclusion and recommendation. For example: “The new borrower entity has demonstrated an acceptable financial and credit history. The borrower has the experience to continue to successfully own this facility. The lender recommends this borrower for approval as an acceptable participant in this transaction.”>>*

# Principal of the New Borrower – <<enter Principal Name>>

*<<Provide this section for each principal of the new borrower.>>*

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is any principal of the new borrower with operational decision-making authority not a United States citizen? . |  |  |  |
| 1. Is or has the principal of the new borrower been delinquent on any federal debt? . |  |  |  |
| 1. Is or has the principal of the new borrower been a defendant in any suit or legal action? |  |  |  |
| 1. Has the principal of the new borrower ever filed for bankruptcy or made compromised settlements with creditors? |  |  |  |
| 1. Are there judgments recorded against the principal of the new borrower? |  |  |  |
| 1. Are there any unsatisfied tax liens against the principal of the new borrower? |  |  |  |
| 1. Are any of the principals of the new borrower, principals of any other HUD-insured projects or principals of a project(s) applying for HUD insurance within the next 18 months? |  |  |  |

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

## Organization (not applicable to individuals)

*<<If the principal is an entity, provide the following information:>>*

|  |  |
| --- | --- |
| State of Organization: |  |
| Date Formed: |  |
| Termination Date: |  |

*<<Provide organization chart and narrative, as applicable.>>*

## Experience/Qualifications

*<<Provide narrative description of principal’s experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate that the new borrower has sufficient expertise to successfully own the facility. >>*

## Credit History

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

*<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>*

|  |
| --- |
| Program Guidance:  Dunn & Bradstreet (D&B) 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:   1. Public filings that includes suits, liens, judgments, bankruptcies, and federal debt. 2. UCC filings 3. Credit payment history 4. Industry standards showing how the facility compares in the areas of financial stress and payment trends 5. 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**

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

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the Principal identify any other business concerns? . |  |  |  |
| * 1. Do any of the other business concerns have pending judgments; legal actions or suits; or, bankruptcy claims?  N/A |  |  |  |
| * 1. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?  N/A |  |  |  |
| 1. Does the Principal identify any other Section 232 or Section 232/223(f) loans on the Consolidated Certification – Principal of Borrower (form HUD-90014-ORCF) and Attachment 2 thereof? |  |  |  |

*<<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****: XXXXX identified XX other business concerns in addition to the borrower and the newly formed operator discussed in this narrative. The lender 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.*

*Example:* ***Other Section 232 Applications****: XXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted XXX and closed in XXX. As this is only XXXXX’s Xth HUD-insured healthcare loan, no additional reviews are required>>*

## Financial Statements

*<<If the new borrower 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 TPA, provide an analysis similar to the one provided for the new borrower, above. >>*

## Conclusion

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

# New Operator (if applicable)

|  |  |
| --- | --- |
| Name: |  |
| State of Organization: |  |
| Date Formed: |  |
| Termination Date: |  |
| FYE Date: |  |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Will the new operator currently own/operate any assets other than the subject property or participate in any other businesses? . |  |  |  |
| 1. Will the new operator contract out nursing services other than temporary staffing through an agency and/or contracting for ancillary services (e.g., therapies, pharmaceuticals)? |  |  |  |
| 1. Has the new operator been delinquent on any federal debt? |  |  |  |
| 1. Is or has the new operator been a defendant in any suit or legal action? |  |  |  |
| 1. Has the new operator ever filed for bankruptcy or made compromised settlements with creditors? |  |  |  |
| 1. Are there judgments recorded against the new operator? |  |  |  |
| 1. 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

*<<Provide organization chart and narrative, as applicable. >>*

## Experience/Qualifications

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

## Credit History

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

*<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score.>>*

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the credit report identify any material derogatory information not previously discussed? . |  |  |  |
| 1. Does the lender 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.>>*

## Financial Statements

The application includes the following financial statements for the new operator.

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

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are less than 3-years of historical financial data available for the new operator? . |  |  |  |
| 1. Are the financial statements missing any required information or schedules? |  |  |  |
| 1. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of 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. Do the financial statements indicate a loss prior to depreciation? |  |  |  |

*<<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.*

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

*Example:* ***Tenant Security Deposits****: The tenant security deposits do not appear to be fully funded. At closing, however, the borrower will not be the new operator and the tenant deposit obligation will fall to the new operator; therefore, the lender has included an approval 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 Overview**

*<<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 3 fiscal years, as applicable.>>*

## Conclusion

*<<Provide narrative discussion of lender’s conclusion and recommendation. For example: “The new 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 new operator has the experience to continue to successfully operate this facility. The lender recommends this new operator for approval as an acceptable participant in this transaction.”>>*

# Parent of the New Operator (if applicable)

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

|  |  |
| --- | --- |
| Name: |  |
| State of organization: |  |
| Date formed: |  |
| Termination date: |  |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Is the parent of the new operator rated by S&P or another rating agency? . |  |  |  |
| 1. Is or has the parent of the new operator been delinquent on any federal debt? |  |  |  |
| 1. Is or has the parent of the new operator been a defendant in any suit or legal action? |  |  |  |
| 1. Has the parent of the new operator ever filed for bankruptcy or made compromised settlements with creditors? |  |  |  |
| 1. Are there judgments recorded against the parent of the new operator? |  |  |  |
| 1. Are there any unsatisfied tax liens? |  |  |  |
| 1. Does the parent of the new operator have other HUD properties that will be master leased separately from the subject project? |  |  |  |

*<<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 X by S&P. The rating agency indicates the outlook for the company is X.>>*

## Organization

*<<Provide organization chart and narrative, as applicable.>>*

## Experience/Qualifications

*<<Provide narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate the expertise to successfully operate the facility. >>*

## Credit History

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

*<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>*

**Key Questions**

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

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the Principal identify any other business concerns? . |  |  |  |
| * 1. Do any of the other business concerns have pending judgments; legal actions or suits; or, bankruptcy claims?  N/A |  |  |  |
| * 1. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?  N/A |  |  |  |
| 1. Does the Principal identify any other Section 232 or Section 232/223(f) loans on their consolidated certification and Attachment 2 thereof? |  |  |  |

*<<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****: XXXXX identified XX other business concerns in addition to the borrower and the newly formed operator discussed in this narrative. The lender 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.*

*Example:* ***Other Section 232 Applications****: XXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted XXX and closed in XXX. As this is only XXXXX’s Xth HUD-insured healthcare loan, no additional reviews are required.>>*

## Other Facilities Owned, Operated or Managed

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the parent of the new operator own, operate, or manage any other facilities? . |  |  |  |
| * 1. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims?  N/A |  |  |  |
| * 1. Do any of the other facilities have any open professional liability insurance claims?  N/A |  |  |  |
| * 1. Do any of the other facilities have any open state findings related  to instances of actual harm and/or immediate jeopardy (G or  higher)?  N/A |  |  |  |

*<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example:* ***Other Facilities****: XXXXX identified XX other facilities it owns, operates, or manages in addition to the subject facility.>>*

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

## Financial Statements

The application includes the following financial statements for the parent of the new operator:

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

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are less than 3-years of historical financial data available for the parent of the new operator? . |  |  |  |
| 1. Are the financial statements missing any required information or schedules? |  |  |  |
| 1. Do the Aging of Accounts Payable schedules show any material accounts payables (amounts in excess of 5% of effective gross income) over 90 days? |  |  |  |
| 1. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed? |  |  |  |

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

**General Overview**

*<<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 lender’s conclusion and recommendation. For example: “The parent of the new 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 parent of the new operator has the experience to continue to successfully operate this facility. The lender recommends this parent of the new operator for approval as an acceptable participant in this transaction.”>>*

# New Management Agent (if applicable)

|  |  |
| --- | --- |
| Name: |  |
| Relation to borrower: | *<<Owner Managed/IOI Entity/Independent/Other>>* |
| Principals/officers: |  |
|  |  |
|  |  |
|  |  |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the new management agent have experience managing other HUD-insured properties? . |  |  |  |
| * 1. Has the agent received any “unsatisfactory” management reviews from HUD? |  |  |  |
| * 1. Have any managed, owned, or operated properties received REAC scores lower than 60? |  |  |  |
| 1. Does the new 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.*

## Previous HUD Experience

|  |  |  |  |
| --- | --- | --- | --- |
| **Project Name** | **Project City** | **Project State** | **Type of Facility** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

## New Management Agent’s Duties and Responsibilities

*<<Briefly describe the new management agent’s duties and responsibilities (i.e., will the new management agent control the operating accounts; contract for services; recruit, select or train employees; take responsibility for the management of the functional operation of the facility or the execution of the day-to-day policies of the facility; etc.). Also describe the nature of the management agent’s compensation and how it was calculated.>>*      

## Experience/Qualifications

*<<Provide a narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other HUD transactions. This section should clearly demonstrate the expertise to successfully manage the facility and meet the obligations of the management agreement.>>*

## Credit History

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

*<<Provide an explanation of the credit score in terms of risk level (i.e., low, medium, or high). Also, if the score is evaluated numerically, explain what value the credit agency places on the score. >>*

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the credit report identify any material derogatory information not previously discussed? . |  |  |  |
| 1. Does the lender 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 Facilities Owned, Operated or Managed

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the new management agent own, operate, or manage any other facilities? . |  |  |  |
| * 1. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims?  N/A |  |  |  |
| * 1. Do any of the other facilities have any open professional liability insurance claims?  N/A |  |  |  |
| * 1. Do any of the other facilities have any open state findings related  to instances of actual harm and/or immediate jeopardy (G or  higher)?  N/A |  |  |  |

*<<For each “yes” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example:* ***Other Facilities****: XXXXX identified XX other facilities it owns, operates, or manages in addition to the subject facility.>>*

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

## 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 new borrower and new management agent, as well as a review of the management policies and procedures, the Lender has concluded that the new 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? . |  |  |  |
| 1. Does the agreement provide that the management fees will be computed and paid according to HUD requirements? |  |  |  |
| 1. Does the agreement provide that HUD may require the owner to terminate the agreement without penalty and without cause upon written request by HUD and contain a provision that gives no more than a 30-day notice of termination? |  |  |  |
| 1. Does the agreement provide that HUD’s rights and requirements will prevail in the event the management agreement conflicts with them? |  |  |  |
| 1. 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? |  |  |  |
| 1. The agreement does not exempt the agent from gross negligence and or willful misconduct? |  |  |  |
| 1. Is the Form HUD-9839-ORCF consistent with the Management Agreement? |  |  |  |

*<<For each “no” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. >>*

## Management Certification

*<<Provide narrative review. For example: “The form HUD-9839-ORCF, 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.”>>*

## Conclusion

*<<Provide narrative discussion of lender’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 lender 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. XXXXXXX expires XXXXX. It was issued by XXXXXX 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.”>>*

## Operating Lease

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

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Will the facility be subleased (master lease)? . |  |  |  |
| 1. At closing, will the lease have a term that expires within 5 years with no lease renewal options (see guidance below)? |  |  |  |
| 1. Does the lease contain any non-disturbance provisions? |  |  |  |
| 1. Does the lease require the new borrower to escrow any funds other than those associated with this loan? |  |  |  |
| 1. Are there proposed changes to the current operating lease? |  |  |  |
| 1. Has the lender recommended any special conditions concerning the lease? |  |  |  |
| 1. Does the current lease payment need to be increased to provide sufficient debt coverage for the mortgage payment, MIP, other insurance premiums, taxes, reserves, or impounds? |  |  |  |

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

|  |
| --- |
| Program Guidance:  Lenders need to provide HUD with information in their application regarding any changes to the operator that will occur within the next 5 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 (ALFs), it is important to re-emphasize that operators need to be experienced and have a proven track record with the operation, marketing, and lease up of ALF facilities. The 5- year lease expiration issue does not apply to lessees that have lease renewal options. |

## Lease Payment Analysis

The lease payments must be sufficient to (1) enable the borrower to meet debt service and impound requirements; and (2) enable the operator to properly maintain the project and cover operating expenses. The minimum annual lease payment must be at least 1.05 times the sum of the annual principal, interest, mortgage insurance premium, reserve for replacement deposit, property insurance, and property taxes.

The lender has prepared an analysis demonstrating the minimum annual lease payment.

|  |  |  |
| --- | --- | --- |
| a. | Annual principal and interest | $ |
| b. | Annual mortgage insurance premium |  |
| c. | Annual replacement reserves |  |
| d. | Annual property insurance |  |
| e. | Annual real estate taxes |  |
| f. | Total debt service and impounds | $ |
| **h.** | **Minimum annual lease payment** | **$** |

*<<Compare the minimum annual lease payment to the current lease payment. If the lease payment needs to increase, add the following language: “The lease payment must be increased to $XX per year ($XX per month). The lender has included a special condition to the firm commitment requiring the lease payment be revised to meet or exceed this minimum.”  If the lease payment does not need to increase, add the following language: “The current lease payment is sufficient. 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 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 90 days of the close of the facility’s fiscal year.
4. Designates the lessee as having the responsibility to seek and maintain all necessary licenses and provider agreements including Medicaid and Medicare.
5. Requires the lessee to submit a copy of the licenses and provider agreement to HUD.
6. Requires the /lessee ensure that the facility meets state licensure requirements and standards.

## Master Lease

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Are three or more projects (or two projects with an aggregate total mortgage loan amount greater than $15 million) being submitted to HUD that are under common control or have the same ownership? . |  |  |  |
| 1. Will the projects be submitted within an 18-month window?  N/A |  |  |  |
| 1. Is the parent of the operator the same for all of these projects?  N/A |  |  |  |

If you answered “yes’ to all three questions, a master lease is required. This is true regardless of whether a mortgagor chooses to use different lenders for the loans in its portfolio.

*<<Provide a narrative describing the terms of the master lease, lease payments, all parties involved, renewal provisions, etc. The HUD Lease Addendum must be attached to the Subleases. Refer to definitions of Common Control and Same Ownership previously provided in this lender narrative.>>*

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

|  |  |
| --- | --- |
| AR Lender: |  |
| AR Borrower |  |
| Maximum Loan Amount: |  |
| Current Balance: |  |
| Current Maturity Date: |  |

**Key Questions**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the AR loan require any guarantees from the new borrower, new operator, parent of the new operator, or any of those entities’ principals? |  |  |  |
| 1. Are the guarantors guaranteeing performance on any other AR loans? . |  |  |  |
| 1. Does the AR loan involve multiple facilities or borrowers ? . |  |  |  |
| * 1. Does the AR loan involve any non-HUD-insured properties? |  |  |  |
| * 1. Does the AR loan involve facilities located in multiple states or HUD field office jurisdictions? |  |  |  |
| 1. Is there an identity of interest between the AR lender and the AR borrower? |  |  |  |
| 1. Is there a conflict of interest between the AR lender and the new borrower or its principals (as defined in Notice H 08-09 or its successors)? |  |  |  |
| 1. Does the maximum AR loan amount exceed 85% of the Medicaid, Medicare, and other governmental accounts receivable less than 121 days old? |  |  |  |
| 1. Of the total Medicaid, Medicare and other governmental accounts receivable less than 121 days old, are more than 30% over 90 days old?  N/A |  |  |  |
| 1. Does the AR lender have less than 3 years of experience providing AR financing? |  |  |  |
| 1. Does the AR lender lack the financial controls and capability to monitor the operator’s performance? |  |  |  |
| 1. Are the new borrower or new operator out of compliance with any business agreements with HUD (i.e., in default on those agreements, not current on financial submissions, etc.)? . |  |  |  |
| 1. Is the AR loan being syndicated or participated? . |  |  |  |
| 1. Is the lockbox associated with the DAISA Government Receivables account a “springing” lockbox? |  |  |  |

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

## Terms and Conditions

1. *Describe the borrowing base formula (e.g., XX% of the AR borrowers accounts receivable up to 120 days):*
2. *Describe term and renewal options:*
3. *Describe the rate applied to the used and unused portion of the AR loan:*
4. *Other fees (i.e., financing fees, late payment fees, etc.):*

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

*<<Describe the flow of all funds, into and out of accounts. Describe how deposit accounts are controlled (e.g., number of controlled accounts, hard or springing lockbox, daily sweeps, etc.). Attach cash flow chart.*>>

## Collateral/Security

*<Provide narrative description of the AR lender’s collateral/security. Explain any unsecured AR financing.>>*

## Permitted Uses and Payment Priorities

*<<Provide descriptions of the permitted uses of the AR loan funds in order of priority. For example: (1) debt service incurred in connection with the AR loan; (2) operating costs; and (3) distributions to the operator’s shareholders. See Attachment C of Notice H 08-09, Rider to Intercreditor, Paragraph 3 or any other successor guidance.>>*

## Financial Analysis

**Maximum AR Loan Calculation**

(Double click inside the Excel Table to add information)



## Historical AR Loan Costs

*<<If there is an existing AR loan that is not yet approved by HUD, provide a financial analysis that explains how the cost of the AR loan has been factored into the NOI calculation. Complete the Historical AR Loan Costs table.>>*

**Historical AR Loan Costs**

(Double click inside the Excel Table to add information)



## Proposed AR Loan Costs

*<<If the AR borrower is obtaining AR financing for the first time, provide a financial analysis that demonstrates that the AR borrower has sufficient financial capacity to pay all projected operating expenses, AR financing costs and loan payments, and all rent or debt service payments. The analysis must assume the maximum AR loan amount to stress test the AR financing based on the lesser of the operator’s 12-month trailing operating statements. Calculate the impact on the borrower’s debt coverage after payment of the AR loan expenses and payments.>>*

Assuming the $      maximum AR loan limit, an annual interest rate of      %, and that the entire amount is outstanding for the year, the maximum annual interest expense would be $     . In addition to the interest, the other associated fees are the       fees *<<list types of fees>>*, that total $      per year for the same assumed balance. An analysis of the operator’s 12 month trailing financial statement (Month 20XX – Month 20XX) is below:

|  |  |
| --- | --- |
| **12-Month Trailing Operating History** | |
| Operating revenue | $ |
| Less: Operating expenses |  |
| Net operating income (NOI) | $ |
|  |  |
| Annual P&I + MIP | $ |
| AR fee: Interest |  |
| AR fee: Other |  |
| Total annual mortgage & AR debt service | $ |
|  |  |
| DSCR including AR |  |

The transaction assumed an NOI of $     . The 12-month trailing NOI is $     . The annual debt service including the MIP amount is $      per year. Adding the AR fees equates to a total mortgage and AR debt service expense of $      per year. This equates to       prospective debt service coverage.

*<<If multiple HUD-insured facilities have access to the AR loan, repeat the analysis above with the consolidated revenues and expenses for all those facilities.>>*

## Recommendation

*<<The lender recommends approval of the AR loan.>>*

# 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 subject facility. 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 facility is listed on the policy. |

|  |  |  |  |
| --- | --- | --- | --- |
| Name of insured: |  | | |
| Insurance company: |  | | |
| Rating: |  | Rater: |  |
| Insurance company is licensed in the United States: | 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**

|  | **Yes** |  | **No** |
| --- | --- | --- | --- |
| 1. Does the insurance policy cover multiple properties? . |  |  |  |
| 1. Is less than 6 years of loss history available? |  |  |  |
| 1. Does the loss history indicate any patterns or significant claims? |  |  |  |
| 1. Does the loss history or potential claims certification indicate any uncovered claims? |  |  |  |
| 1. Does the loss history or potential claims certification indicate any claims that would exceed the per occurrence or aggregate coverage limits at the facility? |  |  |  |
| 1. 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? |  |  |  |
| 1. Is the policy funded on a “cash front” basis? |  |  |  |
| 1. Is an actuarial study applicable (more than 50 facilities)? (If yes, discuss study results.) |  |  |  |
| 1. Are there any professional liability insurance issues that require special consideration or HQ review per HUD Notice 2004-15? |  |  |  |
| 1. 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.) |  |  |  |
| 1. 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.*

*Example:* ***1.Multiple properties****: The lender 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}*

*Example:* ***2.Less than 6-year loss history****: The claims history reports were examined for the period XX through XX. The lender determined that there were no professional liability XX claims during that period… {Address claims and sufficiency of coverage, etc. based on history}.*

*Example:* ***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. >>*

|  |
| --- |
| Program Guidance:  State licensing surveys of all individual facilities of the operator for the last 3 years, are to be transmitted as part of the application submission. These surveys will be used to determine the quality of care provided by the operator. The operator or its parent must also submit a 6-year loss history of all professional liability claims filed against it for all facilities controlled by the operator or its parent. This loss history should be provided in annual summary form and should:   1. Provide a current inventory of all paid or settled claims. 2. Break out the expected cost of claims in a year-by-year summary. In separate line items, list the amount of the actual and/or anticipated awards, claims expenses, and any funds reserved for estimated claims. 3. List total actual or estimated claims costs for compensatory damages, medical expenses, punitive damages, and legal expenses incurred processing the claim. 4. Identify potential or expected professional liability claims in excess of $35,000 that have been or may be filed for all periods within the statute of limitations for the state where the claim occurred. 5. Include a brief discussion or chart that provides the timeframe for the statutes of limitations for filing claims of negligence, injuries, wrongful death, and/or improper care based on the law in the states where the parent operator’s facilities are located. 6. Include a certification from the parent operator (or operator, if no parent) as to the accuracy of this documentation. The certification must be signed and dated by a senior officer of the parent operator (or operator, if no parent), and include the following statement:   *“HUD will prosecute false claims and statements. Convictions may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)”* |

## 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 and analysis showing that the suits are covered by insurance (general or professional liability–identify which one), and if the insurance is not sufficient, do they demonstrate adequate funds to cover the potential excess? Describe any other information that mitigates the risk.>>*

## Recommendation

*<<Provide narrative recommendation regarding acceptability of professional liability insurance. For example: “The new borrower’s professional liability insurance was analyzed in accordance HUD H04-15. 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

*<<Provide narrative discussion of review. For example: “Hazard and Liability insurance will be provided by XX. The lender has confirmed estimates of the cost and coverage for 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

*<<Provide 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* ***potential*** *gross income receipts would total $XX. The current level of coverage is sufficient for this project.” If not sufficient, recommend commitment condition.>>*

## Secondary Financing Sources

*<<List and discuss all secondary sources, including terms and conditions of each. Secondary sources include surplus cash notes, grants/loans, tax credits, etc. >>*

|  |
| --- |
| Program Guidance:  **Government Sources**   * 1. Secondary financing, grants and tax credits from a federal, state, or local government agency or instrumentality, may be used to cover up to 100% of the applicable Section of the Act equity requirement.   2. Secondary financing, grants, and tax credits from a federal, state or local government agency or instrumentality, may also be used to finance non-mortgageable costs. Such funds covering non-mortgageable costs, when added to the HUD mortgage and required equity contribution, may exceed 100% of the project’s Fair Market Value (FMV) or Replacement Cost.   3. Subordinated liens against the property that result from secondary loans from a federal, state or local governmental agency or instrumentality to cover non-mortgageable costs and/or equity, in combination with HUD’s primary lien, may exceed 100% of the property’s FMV or Replacement Cost.   4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary loans, grants and tax credits, must be certified by the source provider to be required to complete the project and that the related costs are reasonable. Documentation to this effect must be included with the application submission.   **Private Sources**   1. Secondary financing in the form of a promissory note is permitted to cover a portion of the equity requirement under Section 223(f). The aggregate amount of the HUD-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 that 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 takebacks 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. >>*

# Circumstances that May Require Additional Information

In addition to the information required in this narrative, 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.

# 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. Lender further acknowledges that any material changes to this transaction subsequent to the submission date may void this transaction in its entirety. 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>>* |  |