



Cambridge Realty Capital Companies
presents

HUD 232 LEAN Financing – A Primer
HUD Nursing Home and Assisted Living
Financing...Answers To All Your
Questions...And Many Questions You Never
Thought To Ask!

June 2009



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



***HUD 232 LEAN Financing – A Primer
HUD Nursing Home and Assisted Living Financing...Answers To All
Your Questions...And Many Questions You Never Thought To Ask!***

Table of Contents

<u>Description</u>	<u>Slide #</u>
Cover Page	1
Table of Contents	2
Cambridge Mission Statement	3
Cambridge Highlights	4
Recently Closed HUD Deals	5
1-Page Summary - 232/223(f) Refinance and Acquisition	6
1-Page Summary - 232 New Construction	7
Cambridge	8
Lean Basics	9
Underwriting & Due Diligence	10
Processing	11 - 12
Eligible Debt Explanation	13
Executive Summary - 232/223(F) Refinance Or Acquisition	14 -16
Executive Summary - 232 New Construction	17 -23

Disclaimer: This Cambridge financing or investment profile is designed to provide information regarding available real estate capital structures. The information provided herein is for preliminary review purposes only, and is subject to errors, omissions, and changes, all without notice, or to be held accountable for any changes of this information. In particular, neither Cambridge Realty Capital Companies, nor Cambridge Realty Capital, LLC, nor Cambridge Investment and Finance, LLC, nor Cambridge Realty Capital Ltd. of Illinois or any other affiliate makes any warranty or representation whether or not the information presented will be applicable for the readers' specific situation and the accuracy or completeness of the information provided. "Cambridge Realty Capital Companies®", "e-Pulse!®" and its logos are registered trademarks of Cambridge Realty Capital, LLC.



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



Cambridge Realty Capital Companies

Combining our vast industry knowledge and capital markets expertise, we provide proven debt and equity financing solutions to senior housing owners, lenders, and investors via HUD Lean financing and multiple capital structures and resources.



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



Cambridge Highlights

- Jeffrey A. Davis founded Cambridge Realty Capital in 1983, after becoming the youngest Senior Vice President at Baird & Warner, Inc., a landmark Chicago real estate firm. During the 1980's, Cambridge provided financing for all types of commercial real estate.
- In 1985, Andrew L. Erkes joined Cambridge from Percy Wilson Mortgage and Finance Group, bringing his expertise in HUD-insured multifamily and healthcare transactions. Cambridge Realty Capital Ltd. of Illinois was formed to focus on the origination, processing, underwriting and servicing of these government-insured loans.
- Cambridge's executive team members have anywhere from 7 years to 20 years of experience in senior housing finance and investment and are supported by an accomplished administrative team.
- Privately owned since our founding in 1983 as a commercial real estate investment banker, Cambridge today ranks as one of the nation's leading Senior Housing / Healthcare lenders and investors.
- Cambridge's team has closed more than 300 senior housing and healthcare transactions totaling more than \$2.75 billion since the 1990s, and is one of the country's top HUD 232 FHA / LEAN lenders.
- Cambridge compliments its HUD lending role by offering an integrated debt / equity financing strategy that includes direct property acquisitions and joint ventures; sale /lease-backs for clients; conventional financing; bridge loans, and distressed debt acquisition. With many years of experience during up-and-down markets, Cambridge is well-situated to solve the challenges of any market environment.
- Cambridge is the creator of The Signature Experience™, a four-step process designed to transform the traditional capital provider / owner relationship and identify "ideal" capital solutions for worthy projects.





Cambridge's Recently Closed HUD Transactions

\$15,930,000	Refinance HUD-Insured 223 (a)(7)	Glenview Terrace Nursing Center Glenview, IL Skilled Care Nursing Facility 314 Beds	May 2009
\$4,274,000	Refinance HUD-Insured 232/223(f) Lean	Beaver Dam Nursing & Rehab Center Beaver Dam, KY Skilled and Personal Care Facility 58 Skilled Care Beds 25 Personal Care Beds	April 2009
\$90,610,000	Refinance HUD-Insured 232/223(f)	Granite Portfolio 10 Immediate Care and Skilled Care facilities in IL 1,488 Immediate Care Beds 65 Skilled Care Beds	April 2009
\$12,627,000	Purchase HUD-Insured 232/223(f)	Hawthorne Inn of Danville Danville, IL 64 Skilled Beds 76 Board and Care	August 2008
\$3,145,000	Refinance HUD-Insured 232/223(f)	Willow Care Center Hannibal, MO 111 Skilled Beds	July 2008
\$6,512,900	Construction/Refinance HUD-Insured 232	Pine Acres Care Center DeKalb, IL 119 Skilled Beds	July 2008
\$24,262,400	Refinance HUD-Insured 207/223(f)	Maple Point Senior Apartments Chicago, IL 342 Units	June 2008
\$10,572,400	Construction/ Substantial Rehabilitation/ Refinance HUD – Insured 232	Alden Wentworth Chicago, IL 300 Skilled Beds	May 2008
\$7,267,500	Refinance HUD-Insured 232/223(f)	Community Nursing and Rehabilitation Center Naperville, IL 153 Skilled Beds	March 2008
\$9,084,500	Refinance HUD-Insured 232/223(f)	The Rehabilitation Centre of Beverly Hills Los Angeles, CA 150 Skilled Beds	January 2008
\$3,227,700	Refinance HUD-Insured 232/223(f)	Sena Kean Manor McKean, Pennsylvania 152 Skilled Beds	December 2007





Senior Housing / Healthcare Lending HUD LEAN 232 Loan Program for Refinance or Acquisition

LOAN AMOUNT:	\$2,500,000 to No Maximum
PROPERTY TYPES:	<u>Senior Housing / Long Term Care</u> Nursing Homes - Skilled and Intermediate Care Assisted Living Facilities Board and Care Facilities Personal Care Homes <u>Behavioral Modification / Other</u> Behavioral Modification Centers Psychiatric Hospitals Juvenile Behavioral Facilities Rehab Centers
TIMEFRAME:	60 – 90 days from engagement to close
GEOGRAPHIC PREFERENCE:	Nationwide
CURRENT RATES:	Based upon current market rates
TERM AND AMORTIZATION:	35 years
TYPES OF LOANS:	Refinance without Rehabilitation Refinance with Rehabilitation Acquisition with Rehabilitation Refinance existing FHA 232 Loan Refinance with Expansion
HIGHLIGHTS:	85% loan-to-value for straight refinance without rehabilitation. (90% for not-for-profit). 80% LTV or less fast track review. Conventional valuation approach using similar appraisal techniques as other lenders 1.18 minimum Debt Service Coverage (1.45 for skilled nursing; 1.30 for assisted living; or, 1.25 for independent or board and care facilities or greater for fast track review) Accounts Receivable financing permitted. Up to 100% loan-to-cost for refinancing/rehabilitation. Fully assumable. No personal liability.



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



LEAN Program Executive Summary 232 New Construction

TERMS Construction Loan: As Required
Permanent Loan: 40 Years

RATES Based upon current market conditions for taxable financing.

GUARANTEES: None, on either the Construction or Permanent Loan.

CHARACTERISTICS: The loan is fixed rate, nonrecourse, fully assumable, and prepayable with restrictions.

PREVAILING WAGES: All construction workmen must be paid prevailing wages pursuant to the Davis-Bacon Wage Act.

AMORTIZATION: Based upon 40 years.

THIRD PARTY REPORTS: To complete the application, HUD requires several third party reports:

- an independent appraisal;
- market feasibility report;
- engineering report;
- environmental report;
- credit report. These reports must be consistent with HUD standards and guidelines and will be paid for by the client.

ELIGIBLE PROJECTS

- Skilled Care Facilities
- Intermediate Care Nursing Facilities
- Sheltered Care or Personal Care Nursing Facilities
- Board and Care, Assisted Living, and Independent Living Facilities
- Psychiatric Facilities
- Rehab Hospitals
- Drug & Alcohol Centers
- Other Special Purpose Facilities
- Note: A Certificate of Need or license is required for all nursing projects in Certificate of Need states.

ELIGIBLE SITUATIONS

- New construction
- Rehabilitation and expansion of an existing facility

MAXIMUM MORTGAGE CRITERIA

- New construction and acquisition/rehabilitation projects are 90% loan-to-cost and 90% loan-to-value mortgages.
- Refinancing/rehabilitation mortgages may be 100% loan-to-cost mortgages, provided that the loan-to-cost mortgage is no greater than 90% of HUD's approved-of value.

ANNUAL MORTGAGE INSURANCE PREMIUM

0.50% payable annually to HUD.



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



CAMBRIDGE & HUD LEAN

1. What steps is Cambridge taking to comply with new Lean requirements?

Cambridge's HUD team is intimately involved with the new Lean processing and has been asked for recommendations on multiple key aspects of the program.

2. How will Cambridge be impacted by the new HUD Lean process?

Cambridge expects the Lean process to have only a positive impact. Several examples include:

1. Ability to close deals in a shorter period of time. We can move from application to closing in 40 days, compared with the previous four to six month timetable.
2. Electronic submission of applications. This will significantly reduce the time in which it previously took our HUD team to assemble paper applications, allowing additional time to be spent on new Lean applications.
3. Ability to strategize and formulate the Lean program.
4. Our expertise and knowledge of the senior housing lending and HUD lending process.

3. Did Cambridge have any rule or input in drafting the changes in Lean?

The OIHCF requested Cambridge's team to make recommendations for improving Lean processing. Several recommendations that Cambridge's team made were:

1. Revise asset management procedures in order to expedite replacement reserve withdrawals.
2. Decrease frequency of financial statement reporting requirements.
3. Find an alternative for or eliminate REAC inspections. If REAC inspections cannot be eliminated, Cambridge recommended replacing the system with a third-party monitor of state reporting, such as Life Safety reports.

4. Will Cambridge be effective with the new Lean process?

Cambridge will be very effective under the Lean process. With the introduction of the "Super Certifications" and clearly defined underwriting requirements, Cambridge's HUD team will be able to focus on processing and funding even more deals.

5. Does Cambridge foresee any negative aspects with the Lean Process?

We feel that the Lean processing only means good things for both borrowers and lenders. Paperwork requirements have been reduced, processing has been made more efficient, and underwriting guidelines have been clearly defined.

6. Has Cambridge closed any deals under the Lean process?

The refinancing of the Beaver Dam Nursing & Rehab Center in Beaver Dam, KY is Cambridge's first closed Lean deal and we are currently processing numerous Lean transactions.





LEAN BASICS

1. What is HUD Lean? How was it developed?

Lean is the new processing system for all HUD 232/223(f) loans. The Lean system was developed when FHA Commissioner Brian Montgomery made the decision to insert the highly touted “Lean” management concept pioneered by Toyota Motor Corp. into the HUD system of processing and approving loan applications. The “Lean” management process is driven by a few simple rules: all work should be highly specified as to content, sequences, timing and outcome, and every customer-supplier connection must be direct. Also, there needs to be an unambiguous “yes or no” way to send requests and receive responses. The pathway for every product and service must be simple and direct, and any improvements must be made in accordance with the scientific method under the guidance of a teacher at the lowest possible level in the organization. Lean is aimed to eliminate historical inefficiencies in the processing and approval of HUD applications.

2. I hear the process will be more electronic. What does this mean?

HUD Lean lenders are now submitting applications electronically via Oracle Application Server Portal. This allows the application documents to be more accessible to the HUD underwriting team and for processing to be expedited.

3. Can I get cash-out under Lean?

The same rules still apply under Lean as they did for MAP: cash-out is not available immediately to borrower. However, borrowers can receive additional funds to make capital improvements to the facility be financed by HUD. Cash-out can be obtained in conjunction with a bridge loan after 24 months of seasoning.

4. Will my local HUD office still exist?

As of September 1, 2008, Multifamily Hubs and Program Centers are no longer accepting Section 232/223(f) applications.

5. What is OIHCF?

The Office of Insured Health Care Facilities (OIHCF) was created to oversee every HUD-insured healthcare facility financing that is funded. The OIHCF is comprised of individuals that are healthcare industry professionals hailing from several discipline backgrounds, i.e. valuation, architectural, mortgage credit, etc.

6. What property types work for HUD Lean?

HUD Lean primarily finances licensed senior housing and long-term care facilities. Licensed skilled nursing, assisted living, and board and care facilities are eligible for HUD Lean 232/223(f) financing. Facilities containing unlicensed independent units are eligible, as long as the number of these types of units is less than 25% of the total units in the facility.

7. How many deals are closed under the Lean process?

As of May 29, 2009, there have been 32 refinance deals, 1 construction deal, and 2 a(7) deals closed under the new HUD Lean program.

8. Will there be any additional HUD fees under Lean processing that were not applicable under MAP?

There are no additional fees under Lean processing, and all other HUD fees still apply to all 232/223 loans.





UNDERWRITING & DUE DILIGENCE

1. Have the terms of the program changed under the Lean program? Are any other terms changing (LTV, DSCR, etc)?

HUD's loan have not changed under the Lean program. Maximum loan-to-value remains at 85% for for-profit mortgagors and 90% for nonprofit mortgagors. Minimum debt service requirements remain the same at 1.1765 for for-profit mortgagors and 1.11 for nonprofit mortgagors.

2. Are there any restrictions on the payor mix or vacancy rates?

For existing properties, there is no change in the way that a facilities payor mix or vacancy rate is underwritten. Both conclusions must be supported by market data and the subject's operating history. The program still requires a minimum 5% vacancy and collection loss factor.

3. Will appraisers utilize actual management fee expense or standard market management fee, which is typically 5.0% of revenues?

According to the Appraisal Statement of Work, "A management fee must be included in the expenses for determining overall market value. It should be supported by expense comparables with arm's length management agreements." Upward or downward adjustments can be made to the management fee by the lender if it is justified and supported by market data. In cases where a management agent review is required, the management fee approved by the Lender should be consistent with and supported by the market for similar types and sizes of facilities. In these cases, the underwritten net operating income should reflect the higher of market and the contracted fee.

4. Does every deal get underwritten centrally in Washington D.C.?

No, all HUD deals are underwritten by HUD-approved Lean lenders. The underwriting is submitted to HUD as part of the application.

5. How is underwriting going to be changed?

The two major changes to HUD underwriting are:

1. Elimination of proprietary earnings adjustment. Lenders and appraisers no longer deduct proprietary earnings from a facility's NOI.
2. Inclusion of Risk Analysis. The Lean underwriting is more focused on the operator. If the Risk Factors are identified, the lender must provide sufficient justification / mitigation to support the additional risk associated with the loan. These risk factors are:
 - a. If the loan exceeds 80% of the underwritten value.
 - b. If the debt service coverage of the loan is less than (a) 1.45 for skilled nursing; (b) 1.30 for assisted living; or, (c) 1.25 for independent or board and care facilities.

6. FHA now accepts fair market value appraisals vs. FHA-specific appraisals. Does this reduce costs to borrower? Can I use my old appraisal under Lean?

Expenses will not change for Lean appraisals. The same appraisal standards that applied under MAP apply under Lean. Also, a previous appraisal may be used if it is a Lean-approved appraiser, and the date of valuation may not be more than 180 days prior to the date Lender makes application to HUD/FHA.

7. Will the same due diligence process still apply (i.e. appraisal, Phase I, PCNA, etc.)?

HUD Lean projects still require the same third party reports.





PROCESSING

1. How will Lean applications be submitted and reviewed?

Electronic applications are submitted to the OIHCF. Team members access the applications remotely via Oracle platform. This creates a “virtual” office. All funding decisions will be made by the OIHCF.

2. How is the Lean process different from the existing MAP process?

The most significant improvements:

- Shorter timeline to close. Cambridge can process and fund a HUD Lean loan in 60-90 days.
- Improvements in underwriting. HUD Lean underwriters are specifically focused on and have experience with senior housing and healthcare facilities.
- Simplified appraisal process. Fair market value appraisals are now acceptable.
- Elimination of proprietary earnings adjustment.
 - Elimination of proprietary earnings adjustment will make HUD lending more user-friendly.
 - HUD previously required proprietary earnings adjustment of 15% – 25% for skilled nursing and 10 – 15% for assisted living. This adjustment was deducted from the NOI and could impact valuation.

3. How does the new Lean process affect construction projects? Is the construction program affected?

Effective March 1, 2009, all other Section 232 loans (including new construction, substantial rehabilitation, supplemental loans, operating loss loans, and Section 223(a)(7) loans) are being processed with our new LEAN process.

4. How are the offices set up for processing? Can I submit a loan directly to HUD?

Presently, all Lean applications are being submitted electronically to the OIHCF in Washington, D.C. Applications must be submitted to HUD using a HUD-approved mortgagee such as Cambridge; borrowers cannot submit loans directly to HUD.





PROCESSING (cont'd)

5. Potential closing dates will be identified upon receipt of the FHA firm commitment for mortgage insurance. Does this mean we will know the actual closing date at time of commitment?

The legal review will begin at the time an application is submitted to HUD, greatly expediting the closing process. This allows for closing dates to be identified and set at the time a firm commitment is issued.

6. What does Lean mean for acquisition deals? Can HUD fund in time to meet most sellers' timing needs?

Lean processing means that more borrowers can take advantage of HUD's long-term, fixed low rate when acquiring a facility. Cambridge has the ability to execute HUD Lean loans within 60-90 days from engagement to closing, which is a reasonable time to execute a purchase and sale agreement and similar to conventional loan timing.

7. Which processing steps are being modified?

- **Several steps during the Lean processing phase will significantly improve turnaround time, resulting in a faster closing. A few of these major modifications include:**
 - Legal review begins once the application is submitted to HUD. This step of the process historically took place later in the processing, and sometimes significantly increased the time to set a closing date.
 - Many forms and certifications are now being combined as "Super Certifications." This will save the lender and borrower a significant amount time in filling out forms.

8. What is the process for a loan to be approved? How many committees must sign off?

- **Each Lean application must be signed off at three levels: by the Lean team, by the OICHF, and by Legal. The approval process is as follows:**
 - Lender submits application to the OICHF via internet portal and two hard copies. Simultaneously, the legal review begins.
 - The application is reviewed by a Lean Team, including Valuation; Environmental; Mortgage Credit; and Architectural and Engineering.
 - Members of the Lean team approve and sign off on the application.
 - OICHF approves and signs off on the application and issues a Firm Commitment.
 - The legal review is finalized.
 - Closing takes place.





HUD LEAN ELIGIBLE DEBT SUMMARY

- Outstanding mortgage(s) incurred in connection with the construction or purchase of the project, or with capital improvements made to the property as confirmed by the current mortgagee.
- Other recorded indebtedness, such as mechanic's liens and tax liens, provided they did not result from personal obligations of the mortgagor.
- Unrecorded debt directly connected with the project, supported by documentation from the mortgagor. If the indebtedness is not recorded, the mortgagor must provide the Lender with documentation which unquestionably indicates that the obligation is directly connected to the project. Examples include: indebtedness incurred in making needed improvements and betterments to the property.
- Other eligible costs associated with paying off the existing debt. Examples are:
 - a. Delinquent and accrued interest;
 - b. Prepayment penalties on the mortgage;
 - c. Reasonable and customary legal, organizational, title, and recording expenses;
 - d. Initial financing fee not to exceed 2% of the original principal amount of the mortgage.





Executive Summary: HUD Lean Lending Programs for Senior Housing and Healthcare Facilities

Cambridge Realty Capital Ltd. of Illinois is an FHA-approved mortgagee that both originates and funds mortgage loans which are insured under the mortgage loan programs of the U.S. Department of Housing and Urban Development.

Introduction	<p>Cambridge Realty Capital Ltd. of Illinois (“Cambridge”) is a leading provider of FHA-Insured loans and commercial real estate loans in North America. Cambridge is uniquely positioned to meet customer needs through a broad range of financing sources. The Cambridge lending staff is prepared to discuss the full range of FHA financing options.</p> <p>Please note that the guidelines presented below are general in nature. Special loan programs may provide more or less flexibility on certain deal points.</p>	
Property Types	<ul style="list-style-type: none"> · Nursing Homes Skilled and Intermediate Care · Assisted Living Facilities · Board and Care Facilities · Personal Care Homes 	<ul style="list-style-type: none"> · Alcohol & Drug Treatment Centers · Psychiatric Hospitals · Juvenile Behavioral Facilities · Behavioral Modification Centers
Loan Size	No minimum, no maximum.	
Security	First mortgage on the Fee Simple interest. Leaseholds and ground leases allowed.	
Interest Rate	Long-term fixed interest rate set at time of rate lock prior to initial closings for both construction and permanent. Rate lock available prior to closing with refundable deposit at closing.	
Borrower	Borrower must be a single purpose entity.	
Liability	Non-recourse to Borrower and Key Principals except with respect to fraud, misappropriation or misuse of funds, and as necessary to foreclose on its interest in the mortgaged property.	



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



Executive Summary: HUD Lean Lending Programs for Senior Housing and Healthcare Facilities (cont'd)

Term of Loan	Depending on the FHA program type, up to 40 years term. Full amortization for life of loan.
Loan to Value	Depending on the FHA program type, up to 90% for profit-motivated mortgagors and up to 95% for not-for-profit mortgagors.
Debt Service Coverage	1.11x for new construction and substantial rehabilitation, higher for non-profits. 1.175 for existing project acquisitions or refinances (higher for non-profits under healthcare programs).
Timing to Closing	60 to 100 days from accepted signed application and fee.
Fees	Maximum allowable Financing and Placement fee may not exceed 3.5%. HUD Exam Fee: 0.3%. HUD Inspection Fee: 0.5%, if construction or repairs
Annual Audits	Required to be filed with HUD.
Third-Party Reports	Appraisal, Environmental, Engineering, Seismic (if applicable) and Credit Reports.
Escrows	Monthly escrow for taxes, property insurance, and mortgage insurance will be required.
Reserves	Monthly reserve for replacement and repairs is required.
Secondary Financing	Not permitted on new construction or substantial rehabilitation. Existing project refinance or acquisition permits up to 7.5% of value after repairs.
Assumability	Fully assumable. Allowed subject to HUD and Cambridge approval. Payment of a 1.0% fee may be charged for preparing the transfer to HUD.
Prepayment	Negotiable with no yield maintenance or achievement clauses.
Appraisal Report	Current MAI Appraisal conforming to HUD and FIRREA guidelines and acceptable to Cambridge.
Engineering & Environmental Reports	Current Architectural final working drawings or Engineering report by licensed architect and/or engineer in State where project is located and a Phase I Environmental report meeting ASTM+ standards and HUD checklist acceptable to HUD and Cambridge.
Survey	Current ALTA survey, satisfactory to HUD and Cambridge.
Title Report	ALTA Lender's title insurance policy, satisfactory to HUD and Cambridge.





Executive Summary: HUD Lean Lending Programs for Senior Housing and Healthcare Facilities (cont'd)

Insurance Requirements:	<p>Properties applying for HUD mortgage insurance must evidence property insurance, commercial liability insurance, professional liability insurance, and vehicle liability insurance. The following represents indicative coverage:</p> <ul style="list-style-type: none">▪ Property coverage for the lesser of the mortgage loan amount or 80% of property's insurable value.▪ Professional and commercial liability policy which covers the following:<ul style="list-style-type: none">• Minimum \$1,000,000 per occurrence per location.• Minimum \$3,000,000 in aggregate per location. (blanket coverage permissible)• Maximum \$100,000 deductible if the borrower has fewer than 50 properties.• Insurance issuer maintaining either an A.M. Best Company rating of BB+ or better or Demotech Inc. rating of A or better.• Insurance issuer needs to be licensed as a surplus lines carrier in the state of property.▪ Vehicle Liability Insurance<ul style="list-style-type: none">• Minimum \$300,000 for one person.• Minimum \$500,000 for more than one person.• Minimum \$100,000 against claims for damage to property of others.▪ Additional insurance requirements may exist regarding history of coverage and annual reviews.
Closing Costs	Borrower is required to pay all closing costs, as applicable, including but not limited to title insurance, recording fees, third-party reports and reviews, survey, escrows, reserves and closing and legal fees.





HUD LEAN SECTION 232 MORTGAGE INSURANCE PROGRAM FOR PROPOSED NURSING HOMES AND ASSISTED LIVING FACILITIES

Cambridge Realty Capital Ltd. of Illinois is an FHA-approved mortgagee and maintains the necessary Federal approvals to obtain FHA mortgage insurance and to arrange the necessary financing which subsequently interfaces with the HUD insurance policy in a manner that provides both construction and permanent financing. These financings are arranged simultaneously on a fixed rate, nonrecourse, and fully assumable basis on any new construction and most existing nursing home projects throughout the United States.

SUMMARY OF PROGRAM

The Department of Housing and Urban Development (HUD) has a mortgage insurance program for the new construction, purchase and rehabilitation, or refinance and rehabilitation, of nursing home and assisted living facilities, whereby HUD will issue an insurance policy which guarantees a lender against default of the borrower. Once an FHA Insurance policy is obtained, it allows the project an easy entry into the financial markets to obtain the lowest cost financing available subject to HUD's AAA rating. Applications are submitted to HUD through an FHA-approved mortgagee who has the necessary Federal approvals to obtain the FHA-insured Firm Commitment and arrange the necessary financing which would interface with the HUD insurance policy. Construction and permanent financing is arranged on a simultaneous basis on a fixed rate, nonrecourse, fully assumable basis.

EXECUTIVE SUMMARY:

Cambridge Realty Capital and the HUD Lean 232 program provide attractive long term fixed rate construction and permanent mortgage financing for the construction of to-be-built nursing homes or assisted living facilities. Cambridge has extensive experience processing nursing homes and related health care facilities through HUD, and has completed 20 separate HUD 232 construction loans for a total of 3,921 beds. According to HUD internal statistics, Cambridge has financed over 5,000 beds over the last 36 months, which makes Cambridge the country's leading HUD 232 lender.



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



HUD LEAN SECTION 232 MORTGAGE INSURANCE PROGRAM FOR PROPOSED NURSING HOMES AND ASSISTED LIVING FACILITIES (CONT'D)

FHA financing for nursing homes is a commonly used financial vehicle in the United States. Approximately 1800 nursing homes have been constructed in the United States using FHA mortgage insurance. A more detailed description of the HUD Lean 232 Nursing Home Financing Program follows:

TERMS	Construction Loan: As Required Permanent Loan: 40 Years
RATES	Based upon current market conditions for taxable financing.
MORTGAGE INSURANCE FUNDING SOURCE	Provided by Lean Section 232 of the National Housing Act. GNMA Mortgage-Backed Securities as guaranteed by FHA mortgage insurance pursuant to Lean Section 232 of the National Housing Act, or by the purchase of the loan by a whole loan investor. Both the construction loan and the permanent loan are arranged simultaneously, such that the permanent loan begins immediately upon construction completion and final closing of the construction loan. Tax-exempt bonds may also be used under Lean Section 232 if the borrower and project are eligible for tax-exempt financing.
GUARANTEES	None, on either the construction or Ppermanent loan.
CHARACTERISTICS	The loan is fixed rate, nonrecourse, fully assumable, and prepayable with restrictions.
AUDIT	The owner is subject to a cost certification audit.
PREVAILING WAGES	All construction workmen must be paid prevailing wages pursuant to the Davis-Bacon Wage Act.





HUD LEAN SECTION 232 MORTGAGE INSURANCE PROGRAM FOR PROPOSED NURSING HOMES AND ASSISTED LIVING FACILITIES (CONT'D)

AMORTIZATION	Based upon 40 years.
ELIGIBLE BORROWERS	For profit and not-for-profit mortgagors. <i>Note:</i> Public bodies must create a private, not-for-profit mortgagor corporation to participate in Section 232 Lean.
THIRD PARTY REPORTS	To complete the application, HUD requires several third-party reports: 1) an independent appraisal; 2) market feasibility report; 3) engineering report; 4) environmental report; 5) credit report. These reports must be consistent with HUD standards and guidelines and will be paid for by the client.
LIABILITY INSURANCE	Properties applying for HUD mortgage insurance must evidence property insurance, commercial liability insurance, professional liability insurance, and vehicle liability insurance. The following represents indicative coverage: <ul style="list-style-type: none">▪ Property coverage for the lesser of the mortgage loan amount or 80% of property's insurable value.▪ Professional and commercial liability policy which covers the following:<ul style="list-style-type: none">• Minimum \$1,000,000 per occurrence per location.• Minimum \$3,000,000 in aggregate per location. (blanket coverage permissible)• Maximum \$100,000 deductible if the borrower has fewer than 50 properties.• Insurance issuer maintaining either an A.M. Best Company rating of BB+ or better or Demotech Inc. rating of A or better.• Insurance issuer needs to be licensed as a surplus lines carrier in the state of property.▪ Vehicle Liability Insurance<ul style="list-style-type: none">• Minimum \$300,000 for one person.• Minimum \$500,000 for more than one person.• Minimum \$100,000 against claims for damage to property of others.▪ Additional insurance requirements may exist regarding history of coverage and annual reviews.





HUD LEAN SECTION 232 MORTGAGE INSURANCE PROGRAM FOR PROPOSED NURSING HOMES AND ASSISTED LIVING FACILITIES (CONT'D)

ELIGIBLE PROJECTS

- Skilled Care Facilities
- Intermediate Care Nursing Facilities
- Sheltered Care or Personal Care Nursing Facilities
- Board and Care, Assisted Living, and Independent Living Facilities
- Psychiatric Facilities
- Rehab Hospitals
- Drug & Alcohol Centers
- Other Special Purpose Facilities

Note: A Certificate of Need or license is required for all nursing projects in Certificate of Need states.

ELIGIBLE SITUATIONS

- New construction
- Acquisition of an existing facility
- Refinancing of an existing facility
- Rehabilitation and expansion of an existing facility
- Refinance of existing facility typically structures using HUD Lean 232/223(f). Please request specific Executive Summary.

To become eligible for Lean Section 232 as an acquisition or refinance of an existing facility, current HUD regulations provide that to be eligible a project must:

- Be three years or older; *and*
- The refinance or acquisition must be accompanied by rehabilitation expenditures, the cost of which exceeds the greater of (a) \$6500 per dwelling unit; *or* (b) 15% of the project's value after completion of all repairs, replacements, improvements, and additions; *or*
- Involve the replacement of more than one major building component.





HUD LEAN SECTION 232 MORTGAGE INSURANCE PROGRAM FOR PROPOSED NURSING HOMES AND ASSISTED LIVING FACILITIES (CONT'D)

MAJOR BUILDING COMPONENTS

- Foundations
- Roof structures
- Plumbing systems
- Ceiling, wall, or floor structures
- Electrical systems
- Heating and air conditioning systems

The element must be significant and not minor or cosmetic:

Major: roof sheeting, rafter, trusses

Minor: shingles, built-up roofing

Total replacement is not required, but at least 50% must be replaced.

MAXIMUM MORTGAGE CRITERIA

- New construction and acquisition/rehabilitation projects are 90% loan-to-cost and 90% loan-to-value mortgages.
- Refinancing/rehabilitation mortgages may be 100% loan-to-cost mortgages, provided that the loan-to-cost mortgage is no greater than 90% of HUD's approved-of value.
- Straight refinancing of existing facility typically eligible under HUD Lean 232/223(f) loans. Please refer to specific Executive Summary.

VALUE CRITERIA

In no event can a mortgage exceed 90% loan-to-value. HUD utilizes two main approaches to value:

- Value by comparable sales
- Value of comparable lease values, capitalized

ANNUAL MORTGAGE INSURANCE PREMIUM

0.50% payable annually to HUD.





HUD LEAN SECTION 232 MORTGAGE INSURANCE PROGRAM FOR PROPOSED NURSING HOMES AND ASSISTED LIVING FACILITIES (CONT'D)

HUD includes the following as Elements of Cost. The loan can be a maximum of 90% of the following costs:

- Construction - General requirements, general overhead, and builder's profit.
- Municipal Fees - Building permits, sewer tap fees, water tap fees, surveys, soil test, etc.
- Design Architectural Fees
- Inspecting Architectural Fees
- Construction Interest
- Insurance Reserve
- Insurance Reserve - Builder's Risk-OCP
- Real Estate Tax Reserve
- HUD Mortgage Insurance Premium - 0.50% per year
- HUD Inspection Fee - 0.50% (a one-time only fee)
- HUD Exam Fee - (0.30%) Refund of HUD application fee
- Initial HUD Processing Fee - 2.0%
- Financing Fee - 1.5%
- Title and Recording Fees
- Legal and Audit Fees
- Land Value
- Major Movable - Cost of furniture, fixtures, and equipment

COLLATERAL REQUIREMENTS

1. The Contractor must post a Performance and Payment Bond equal to 100% of hard construction costs, or post a 15% Letter of Credit of hard construction cost as assurance that the project will be completed. At completion of construction and Final Endorsement, the Bond or LOC is replaced by a Latent Defect Bond which is released 18 months subsequent to the date of substantial completion of construction.
2. The Owner must post a 2% Working Capital Letter of Credit. This 2% LOC is released at completion of construction and Final Endorsement. (*Note: This provision is applicable to for-profit mortgagors only.*)
3. Because of the slow initial lease-up period associated with the new construction of nursing homes, HUD will require an Initial Operating Deficit Letter of Credit (of approximately four to six months of debt service) to insure that mortgage payments will be made during the initial lease-up time. Existing homes may not be subject to this requirement if existing census is sufficient.



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



HUD LEAN SECTION 232 MORTGAGE INSURANCE PROGRAM FOR PROPOSED NURSING HOMES AND ASSISTED LIVING FACILITIES (CONT'D)

PROCESSING YOUR HUD APPLICATION THROUGH CAMBRIDGE

Step 1 - Pre-Application Conference

This meeting is one in which the initial feasibility of the case is discussed with HUD personnel. The purpose of this meeting is to determine whether HUD is desirous of insuring the project. Issues discussed will include the site plan, the strength of the market, the design of the buildings, and any environmental concerns. The attendees will include members of the sponsorship, the architect, the mortgagee, and HUD personnel. The desired result is to have HUD invite us to submit a formal application for mortgage insurance to HUD.

Step 2 - File a Firm Commitment Application with HUD

A Firm Commitment Application is a complete application to HUD providing information on the site, the sponsors, the management agent, and the architect. Although it is possible to choose and present a general contractor to HUD at this stage, it is not necessary; the selection of the general contractor will be at the discretion of the owner.

The working drawings and specifications, final construction costs, and financial information on the general contractor is then submitted to HUD along with the Firm Commitment Application Fee of 3/10 of 1% of the mortgage. Since the project underwriting (i.e., loan amount) has already been completed at the Conditional Commitment stage, the Firm Commitment review focuses on the drawings, the costs, and the general contractor. Also, any last minute negotiations or clarifications are completed. HUD at this point will issue a Firm Commitment to insure the mortgage.

This will translate into HUD's formal written commitment to insure a mortgage for the construction and permanent financing of your facility at a given dollar amount based upon a given interest rate. At this time, you will know the amount of the HUD insurance. A Conditional Commitment translates into HUD's commitment to issue a Firm Commitment subject to HUD's receipt of complete working drawings and specifications, selection of a general contractor, and finalizing hard construction costs.

Step 3 - Finalizing the Financing

Upon issuance of the HUD Firm Commitment, a borrower may proceed into formal negotiations to finalize the financing that will interface with the FHA insurance policy. This is primarily a matter of shopping the market for the best price, and this process should take no longer than 10 days to complete. These lenders quote based upon a spread over 10-year Treasuries driven by the investor's investment needs at the time. Upon finalizing the financing, a project can:

Step 4 - Prepare for Closing

With the HUD Firm Commitment and the financing in place, the project can be turned over to the lawyers for closing. The use of an experienced FHA lawyer is highly recommended.



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



**For additional information regarding
The HUD Lean 232 Mortgage Insurance programs
please contact:**

Financing Information Group
Cambridge Realty Capital Companies
125 South Wacker Drive – Suite 1800
Chicago, Illinois 60606
Telephone 312-357-1601
Fax 312-357-1611
info@cambridgecap.com

<http://www.cambridgecap.com>



Cambridge Realty Capital Companies
125 South Wacker Drive • 18th Floor • Chicago, Illinois 60606
Telephone: 312-357-1601 • Fax 312-357-1611 • www.cambridgecap.com



P:\Projects\Katie\HUD Lean Formal Presentation\v6
Preliminary Outline for HUD LEAN Formal
Presentation.ppt

