



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

Accounts Receivable Essentials Mostly Explained...

Not Losing your Religion when the Operator tells you there is going to be AR Financing on a HUD deal.

Panelists



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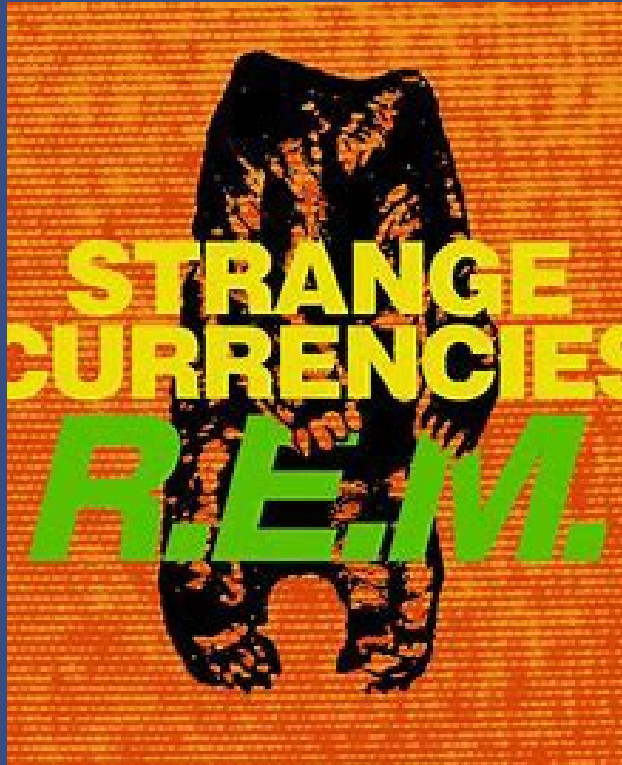


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Agenda

- About AR Financing and history with HUD
- Key Docs and Borrowing Base
- AR Monitoring and Loan Defaults
- Cash Flow Structures
- Intercreditor Agreement (ICA)

What is an AR Loan?

- What is an AR Loan?
 - A revolving loan secured by a first lien on certain receivables.
- Why used?
 - To ensure that there is adequate liquidity available to meet the daily cash flow needs of a project.

- Why does HUD have an interest in AR Loans?
 - Can help meet temporary liquidity shortfalls because of delays in reimbursement.
 - Margins tight, many nursing homes need a credit line.
- History with HUD

Key Documents and Underwriting

Key Docs

- Loan Agreement
- Security Agreement
- Fee Letter
- Promissory Note
- Guaranties
- DACA/DAISA

Other Docs

- Management Fee subordination Letter
- Pledge Agreement
- Landlord Waiver Collateral Access Agreement

Borrowing Base

How is it determined?

- “Maximum Commitment Amount”
- Formula Component

Advance Rate – typically 85% **times** Estimated Net Value (ENV) of Eligible Accounts **minus** Reserves (typically addresses extrinsic issues (e.g., overpayment liability, tax liens))

Calculations as of: **DATE** (of AR aging report submitted with application materials)

	0-90 days	91-120 days	121-150 days	151+ days
Medicare	\$ 8,129,779	\$ 331,198	\$ 319,818	\$ 514,783
Medicaid	6,766,968	449,730	286,772	879,706
Other Govt	4,499,802	385,671	197,663	433,159
Subtotal	\$ 19,396,549	\$ 1,166,599	\$ 804,253	\$ 1,827,648
Commercial	\$ 821,150	\$ 57,470	\$ 42,415	\$ 78,583
Private*	634,969	137,832	97,445	538,522
Total	\$ 20,852,668	\$ 1,361,901	\$ 944,113	\$ 2,444,753

*Inclusion of Private Pay receivables requires waiver approval

5.71%

Medicare, Medicaid, Commercial AR aged 90-120 days

\$ 18,225,503

AR Loan Available

(point in time; based on Borrowing Base described in AR loan documents)

\$ 15,000,000

AR Loan Amount

(from Loan Agreement)

- Over-line Advances
- Overadvance
 - Voluntary or Involuntary
 - Notice to FHA Lender and Other Limitations – Section 2.7(c) of Intercreditor Agreement

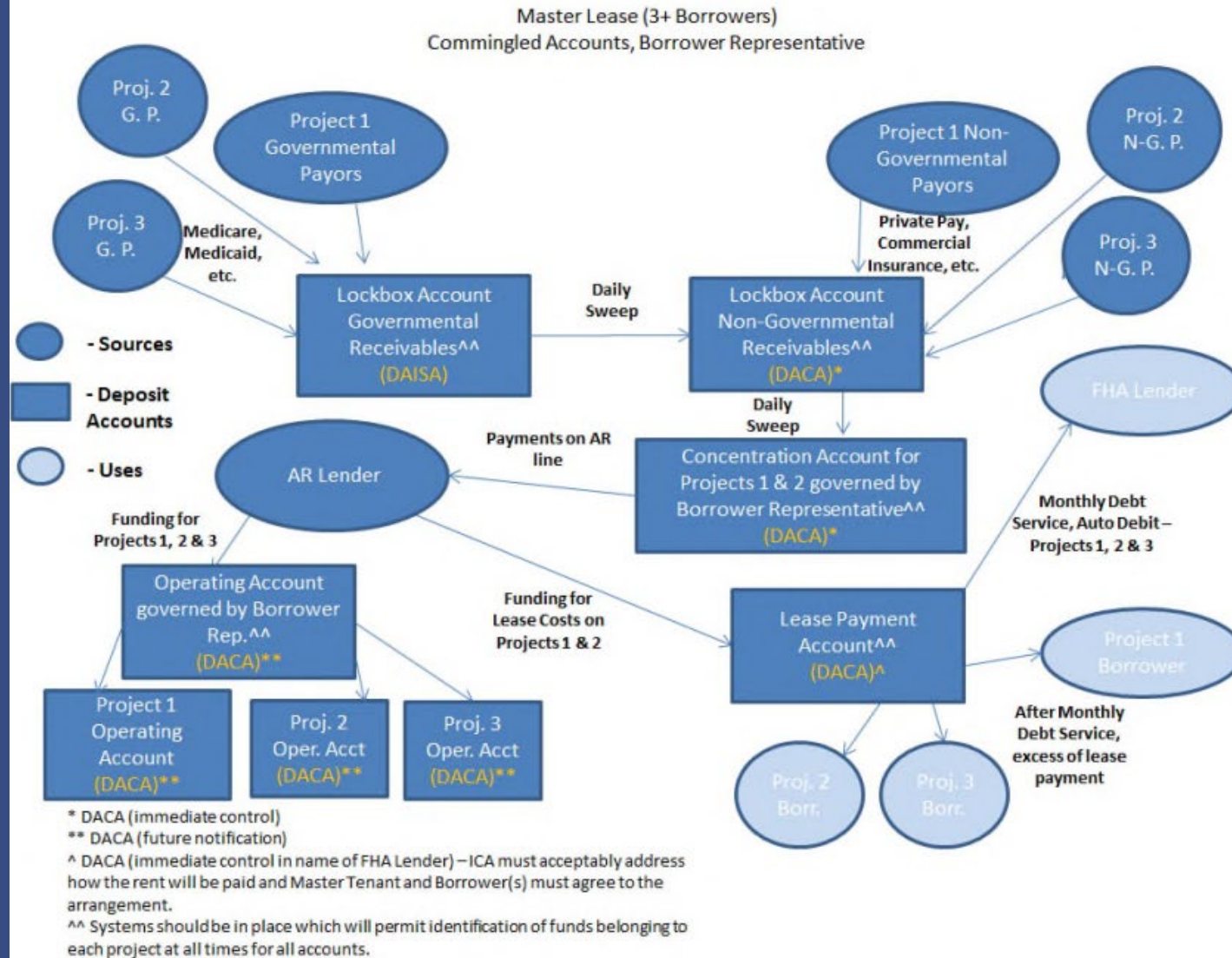
- HUD Notice 22-10
 - Borrowing base modification.

AR Monitoring and Default Process

- AR Lender Monitoring
 - How is HUD notified?
- Typical Default Process
 - Discussions and Negotiations with Borrowers
 - Waivers and Amendments
 - Reservations of Rights Letters
 - Forbearance Agreements
 - Last Resort: Legal Action
- ICA Considerations
 - Intercreditor Lien Flip Considerations
 - Lien flip from AR Lender's perspective



Sample Cash Flow Chart



ICA

- ICA – key considerations
 - Sections 2.7(g) and 3.4
 - A Brief History of Cross-Defaults and Cross-Collateralization in HUD-Insured Loans
- Cross defaults – Exhibit B
 - How to present?
 - Don't copy/paste from Default section of Loan Agreement.

- Key Considerations
 - HUD Loan
 - Non-HUD AR and Term Loans made by AR Lender to Affiliates of HUD Operators
 - Other funded indebtedness
 - Leases
 - Guarantor defaults
 - Material contracts
 - Intercreditor/Subordination Agreement defaults
 - Operations Transfer Documents
 - Additional indebtedness
 - MAC/MAE clauses