

LEAN 232 UNDERWRITING 101

# Review of Legal Documentation for Underwriting

# Presented by:



Talel Aïssi  
VP, Lean Underwriter  
Lument



Kelly Cush  
SVP, Chief Underwriter  
Walker & Dunlop



Sam Love  
VP, Deputy Chief Underwriter  
Walker & Dunlop

# Agenda:



- Title and Survey Overview
- Operating Leases, Master Leases, and Management Agreements
- Accounts Receivable Financing
- Q & A

# Title and Survey Overview

# Title Process Overview

## Title Search



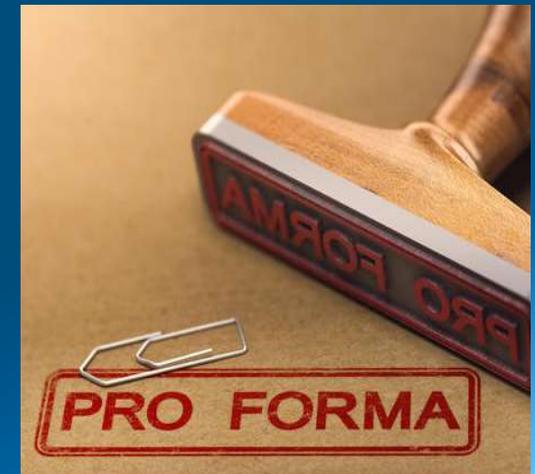
*A comprehensive search through all the public records associated with a property to determine who actually owns it and has rights to sell it.*

## Title Report



*The outcome of the title search and examination process.*

## Proforma Title Policy for Title Insurance



*Sample policy that shows a lender what its actual loan policy will look like after closing.*

# What is a Title Report?

Also known as a “title commitment” or “search report”, a title report is generated from a search of a property’s title history (the title search) and is a true report on the status of the property’s title as of a certain date.

A complete title report contains the following information:

- Identification of the parcel of land (“estate”) or the interest covered
- The owner of record for the estate or interest
- Legal description of the parcel of land
- Zoning and Tax information
- A detailed history of the property’s ownership
- A listing of easements, liens, encumbrances or restrictions, and other information affecting the title to the property as of the time and date of the report.

# Purpose of the Title Report

Ensures no other parties have financial or ownership claims over the property that is the subject of the title report.

Informs Lenders, Borrowers, Buyers of any potential problems or issues that may cloud title and prevent closing.



# What is a Pro Forma Title Policy?

Sample or draft of the title insurance policy

A Pro Forma policy sets forth:

- The insured lender's name as it will appear on the loan policy
- The amount of title insurance to be issued
- The date/time of recording the insured mortgage, deed of trust, or security deed
- The title holder or owner of the real estate
- Exceptions to the loan policy
- Subordinate matters that may appear in the loan policy
- Endorsements to be issued with the policy

# Components of the Title Report and Pro Forma Title Policy

- Cover / signature pages
- Schedule A
- Schedule B – Part I (Exceptions from Coverage)
- Schedule B – Part II (Subordinate Matters)
- Exception Documents (Title/Search Report)
- Endorsements (Pro Forma)

# Schedule A

The following items appear in Schedule A:

- Date of the title commitment or pro forma policy
- Type of commitment or policy (should always be ALTA)
- Policy amount, premium amount, policy number, and endorsement fees (applies to pro forma policy)
- Name of the proposed insured (the lender and HUD – applies to pro forma)
- Name of the vested title holder (should always be the HUD Borrower on the pro forma)
- Quality of estate (fee simple, leasehold estate, etc.)
- Legal Description

2008 ALTA LOAN POLICY  
SCHEDULE A

*First American Title Insurance Company*

**"PRO-FORMA" – NOT A COMMITMENT TO INSURE**

NOTICE: THIS IS A PRO-FORMA POLICY FURNISHED TO OR ON BEHALF OF THE PARTY TO BE INSURED. IT NEITHER REFLECTS THE PRESENT STATUS OF TITLE, NOR IS IT INTENDED TO BE A COMMITMENT TO INSURE. THE INCLUSION OF ENDORSEMENTS AS PART OF THE PRO-FORMA POLICY IN NO WAY EVIDENCES THE WILLINGNESS OF THE COMPANY TO PROVIDE ANY AFFIRMATIVE COVERAGE SHOWN THEREIN.

THERE ARE REQUIREMENTS WHICH MUST BE MET BEFORE A FINAL POLICY CAN BE ISSUED IN THE SAME FORM AS THIS PRO-FORMA POLICY. A COMMITMENT TO INSURE SETTING FORTH THESE REQUIREMENTS SHOULD BE OBTAINED FROM THE COMPANY.

SCHEDULE A

TITLE NO. 6037710.2

POLICY PREMIUM: \$TBD

ENDORSEMENT FEES: \$TBD

POLICY NO.: Proforma

AMOUNT OF INSURANCE: \$TBD

DATE OF POLICY: \_\_\_\_\_, 2022 at \_\_\_\_\_

1. INSURED: WALKER & DUNLOP LLC and THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT, their successors and/or assigns as their interests may appear

2.

3. THE ESTATE OR INTEREST IN THE LAND WHICH IS ENCUMBERED BY THE INSURED MORTGAGE IS: FEE SIMPLE

4. TITLE TO THE ESTATE OR INTEREST IN THE LAND IS VESTED IN:  
Cambridge Manor Realty, LLC, a Connecticut limited liability company

5. THE INSURED MORTGAGE AND ASSIGNMENTS THEREOF, IF ANY, ARE DESCRIBED AS FOLLOWS:

# Schedule B-1: Exceptions from Coverage

Lists all the conditions for which the policy will not insure against loss or damage.

- General Exceptions (generally applicable to all properties)
- Special Exceptions (specific to the subject property)
  - Easements
  - Encumbrances
  - Covenants
  - Court Actions/Pending Litigation
  - Conditions
  - Taxes or Delinquent Tax Payments
  - Restrictions
  - Delinquent Utility Payments

# Schedule B-2: Subordinate Matters

Lists all matters that are subordinate to the insured mortgage. Examples include:

- UCC Filings
- Leases / Memorandum of Leases
- Regulatory Agreements
- Assignment of Leases and Rents

## Glossary of terms commonly found in title reports:

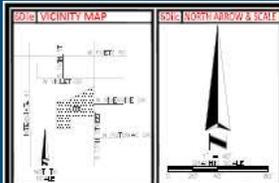
- Covenant: A legally enforceable promise or restriction
- Easement: A right to the limited use or enjoyment of land held/owned by another party; a right to cross or otherwise use someone else's land for a specified purpose.
- Endorsement: A rider to a title policy that is used to expand the coverage under the title policy beyond what is typical.
- Encumbrance: Anything that affects or limits the fee simple title to property, such as mortgages, leases, easements, or restrictions.
- Exception: Any lien, mortgage, security, interest, encumbrance, pledge, assignment, claim, charge, lease, restriction/restrictive covenant, easement, right-of-way, encroachment, overlap, or other exception to title that affects the property.
- Lien: A legal hold or claim of a creditor on the property of another as security for a debt; a right to keep possession of property belonging to another party until a debt owed by that party is discharged/satisfied.

# ALTA Land Survey

An ALTA land survey is a specialized boundary survey of a property that adheres to strict standards developed by the American Land Title Association (ALTA) and the National Society of Professional Surveyors (NSPS).

An ALTA land survey is used to:

- Properly and professionally delineate the boundaries of a property
- Show all existing improvements, utilities, and significant observations related to the subject site
- Delineate or make note of all easements and exceptions cited within the title commitment
- Show zoning and flood zone restrictions, and in certain cases, contour lines and elevations
- Obtain title insurance for a property



NONING INFORMATION	
DATE	2024.08.01
PROJECT	ADAMS LAND TITLE SURVEY
CLIENT	ADAMS LAND TITLE SURVEY
LOCATION	8841 AND 8881 S 13TH STREET, MILWAUKEE, WI
SCALE	AS SHOWN
BY	ADAMS LAND TITLE SURVEY
CHECKED BY	ADAMS LAND TITLE SURVEY
DATE	2024.08.01

**2. OBSERVED POTENTIAL ENCROACHMENTS**  
 2.1. NONE OBSERVED.

**3. FLOOD INFORMATION**  
 3.1. THE PROPERTY IS NOT IN A FLOOD HAZARD ZONE.

**4. LEGEND AND ABBREVIATIONS**

Symbol	DESCRIPTION
Red dashed line	PROPOSED LOT BOUNDARIES
Blue dashed line	EXISTING LOT BOUNDARIES
Green dashed line	PROPOSED EASEMENTS
Black dashed line	EXISTING EASEMENTS
Red circle	PROPOSED CORNER MARKERS
Blue circle	EXISTING CORNER MARKERS
Green circle	PROPOSED UTILITY MARKERS
Black circle	EXISTING UTILITY MARKERS

**5. PLATTED SETBACK OR RECORDED BUILDING RESTRICTION LINES**  
 5.1. NONE OBSERVED.

- 6. SCHEDULE B - SECTION 27 ITEMS**
1. THE SURVEYOR HAS CONDUCTED A VISUAL INSPECTION OF THE PROPERTY AND HAS FOUND NO EVIDENCE OF ANY VIOLATIONS OF THE ZONING ORDINANCES.
  2. THE SURVEYOR HAS CONDUCTED A VISUAL INSPECTION OF THE PROPERTY AND HAS FOUND NO EVIDENCE OF ANY VIOLATIONS OF THE ZONING ORDINANCES.
  3. THE SURVEYOR HAS CONDUCTED A VISUAL INSPECTION OF THE PROPERTY AND HAS FOUND NO EVIDENCE OF ANY VIOLATIONS OF THE ZONING ORDINANCES.
  4. THE SURVEYOR HAS CONDUCTED A VISUAL INSPECTION OF THE PROPERTY AND HAS FOUND NO EVIDENCE OF ANY VIOLATIONS OF THE ZONING ORDINANCES.
  5. THE SURVEYOR HAS CONDUCTED A VISUAL INSPECTION OF THE PROPERTY AND HAS FOUND NO EVIDENCE OF ANY VIOLATIONS OF THE ZONING ORDINANCES.

**ADAMS LAND TITLE SURVEY IDENTIFICATION TABLE**

NO.	DESCRIPTION	DATE	BY
1	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
2	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
3	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
4	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
5	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
6	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
7	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
8	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
9	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY
10	ADAMS LAND TITLE SURVEY	2024.08.01	ADAMS LAND TITLE SURVEY



**7. SUBSTANTIAL FEATURES OBSERVED**  
 7.1. NONE OBSERVED.

**8. SURVEYOR'S CERTIFICATE**

DATE	2024.08.01
BY	ADAMS LAND TITLE SURVEY
CHECKED BY	ADAMS LAND TITLE SURVEY
DATE	2024.08.01

**9. TITLE COMMITMENT INFORMATION**  
 9.1. THE PROPERTY IS NOT SUBJECT TO ANY TITLE COMMITMENTS.

**10. TITLE DESCRIPTION**  
 10.1. THE PROPERTY IS DESCRIBED AS FOLLOWS:  
 LOT 1: 0.25 ACRES, MORE OR LESS.  
 LOT 2: 0.25 ACRES, MORE OR LESS.  
 OUTLOT 1: 0.25 ACRES, MORE OR LESS.

**11. SURVEYOR'S NOTES**  
 11.1. THE SURVEYOR HAS CONDUCTED A VISUAL INSPECTION OF THE PROPERTY AND HAS FOUND NO EVIDENCE OF ANY VIOLATIONS OF THE ZONING ORDINANCES.

**12. LAND AREA**  
 12.1. TOTAL LAND AREA: 0.75 ACRES, MORE OR LESS.

**13. BEARING BASIS**  
 13.1. THE SURVEY WAS CONDUCTED ON A BEARING BASIS.

**14. CEASEMETER NOTE**  
 14.1. NONE OBSERVED.

**15. EASEMENTS**  
 15.1. NONE OBSERVED.

**16. ACCESS TO PROPERTY**  
 16.1. THE PROPERTY IS ACCESSIBLE BY PUBLIC ROADS.

**17. EARTH MOVING NOTE**  
 17.1. NONE OBSERVED.

**18. CONTIGUITY STATEMENT**  
 18.1. THE PROPERTY IS CONTIGUOUS TO THE ADJACENT PROPERTY.

**19. SURVEYOR'S CERTIFICATE**  
 19.1. THE SURVEYOR HAS CONDUCTED A VISUAL INSPECTION OF THE PROPERTY AND HAS FOUND NO EVIDENCE OF ANY VIOLATIONS OF THE ZONING ORDINANCES.

**ADAMS LAND TITLE SURVEY**  
 2216973-2 WISCONSIN  
 8841 AND 8881 S 13TH STREET  
 MILWAUKEE COUNTY, WISCONSIN

**AMERICAN SURVEYING & MAPPING, INC.**  
 1000 W. WISCONSIN STREET, SUITE 100  
 MILWAUKEE, WI 53233  
 TEL: 414.224.1111  
 FAX: 414.224.1112  
 WWW.ASM-SURVEYING.COM

# Typical Survey Plat

# Title and Survey Review

Lender's legal counsel generally conducts the comprehensive title and survey review.

The lender's role is to make sure information reported in the title and on the survey is consistent with other sources of information used in the underwriting analysis.

Conducting a comprehensive title review is impossible without a current survey of the property.

# HUD's Survey Requirements:

The survey must be made in compliance with the 2021 ALTA/NSPS standards. (<https://www.nspis.us.com/page/2021ALTA>)

Pursuant to form HUD-91111-ORCF Survey Instructions and Borrower's Certification (Available on the ORCF website), HUD-compliant surveys must include Table A items 1, 2, 3, 4, 6a, 6b, 7a, 8, 9, 10, 11a, 12, 13, 16, 17, and 18.

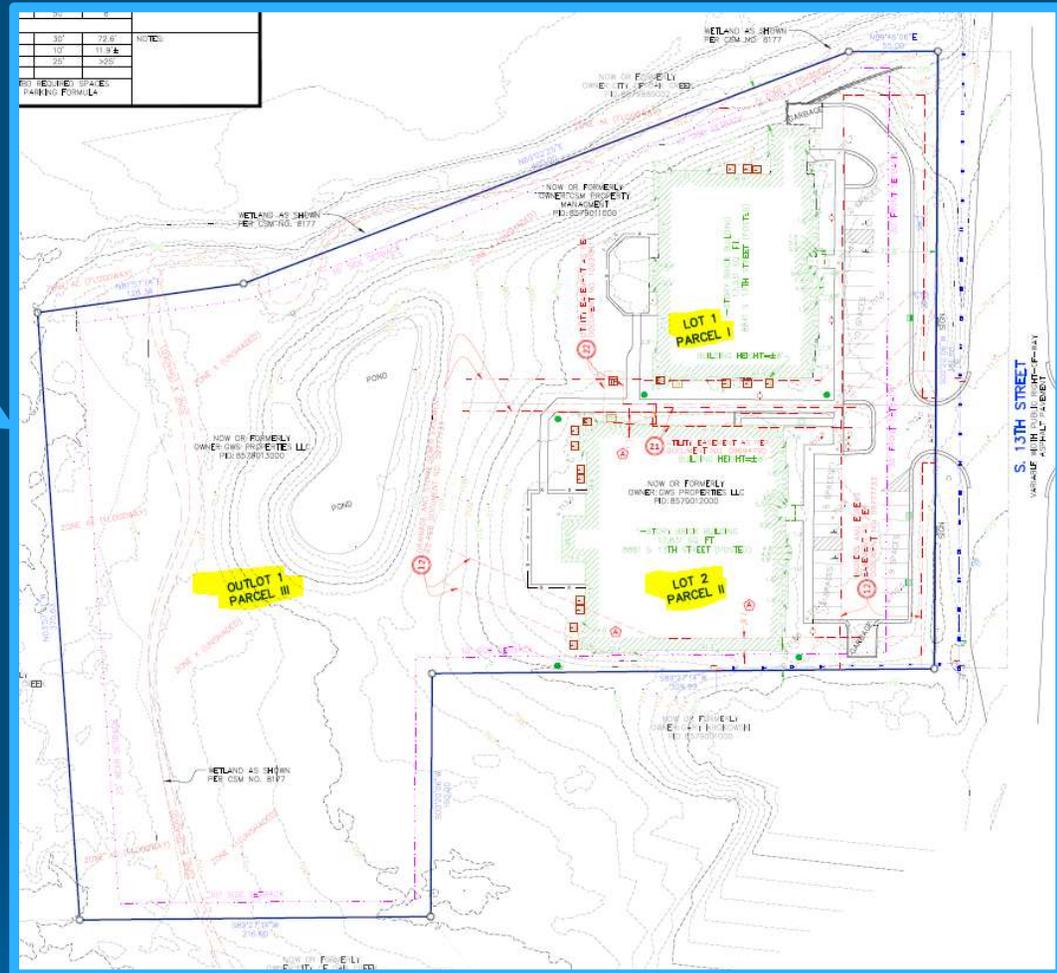
Additional Table A items will apply if:

- The project has wetlands on site
- Any portion of the project lies in a 100- or 500-year floodplain
- Refer to HUD-91111-ORCF

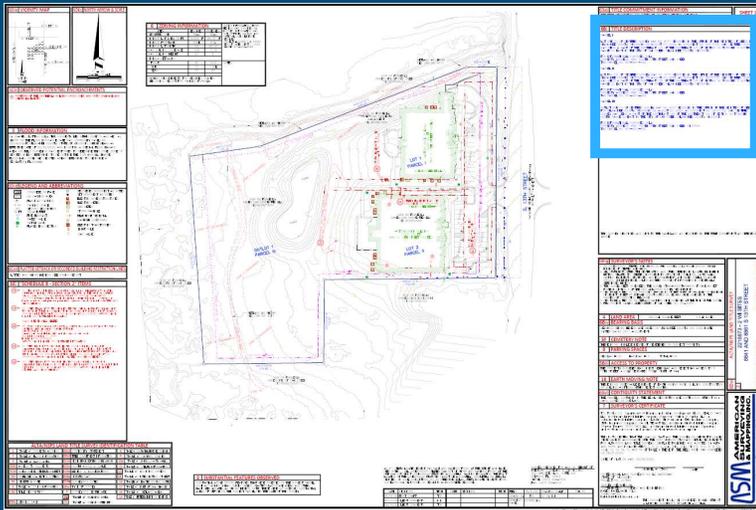
# Survey Review - What to Look For



Confirm the survey encompasses the entirety of the HUD collateral. In this example, there are three contiguous parcels, one of which consists of vacant excess land. Our surveyor almost failed to include it because he didn't realize it was part of the insured property at first.



# Survey Review - What to Look For (cont.)



Confirm the survey includes the legal description and that it matches **EXACTLY** to legal description provided in Schedule A of the title commitment / pro forma title policy.

## 6Bi TITLE DESCRIPTION

### PARCEL I:

LOT ONE (1) OF CERTIFIED SURVEY MAP NO. 8177 RECORDED IN THE OFFICE OF THE REGISTER OF DEEDS FOR MILWAUKEE COUNTY, WISCONSIN ON AUGUST 07, 2009, AS DOCUMENT NO. 09777733, SAID CERTIFIED SURVEY MAP BEING A PART OF THE NORTHEAST 1/4 OF THE NORTHEAST 1/4 OF SECTION 19, TOWNSHIP 5 NORTH, RANGE 22 EAST, IN THE CITY OF OAK CREEK, MILWAUKEE COUNTY, WISCONSIN.

### FOR INFORMATIONAL PURPOSES ONLY:

PROPERTY ADDRESS: 8841 SOUTH 13TH STREET, OAK CREEK  
TAX PARCEL NO. 857-9011-000

### PARCEL II:

LOT TWO (2) OF CERTIFIED SURVEY MAP NO. 8177 RECORDED IN THE OFFICE OF THE REGISTER OF DEEDS FOR MILWAUKEE COUNTY, WISCONSIN ON AUGUST 07, 2009, AS DOCUMENT NO. 09777733, SAID CERTIFIED SURVEY MAP BEING A PART OF THE NORTHEAST 1/4 OF THE NORTHEAST 1/4 OF SECTION 19, TOWNSHIP 5 NORTH, RANGE 22 EAST, IN THE CITY OF OAK CREEK, MILWAUKEE COUNTY, WISCONSIN.

### FOR INFORMATIONAL PURPOSES ONLY:

PROPERTY ADDRESS: 8861 SOUTH 13TH STREET, OAK CREEK  
TAX PARCEL NO. 857-9012-000

### PARCEL III:

OUTLOT ONE (1) OF CERTIFIED SURVEY MAP NO. 8177 RECORDED IN THE OFFICE OF THE REGISTER OF DEEDS FOR MILWAUKEE COUNTY, WISCONSIN ON AUGUST 07, 2009, AS DOCUMENT NO. 09777733, SAID CERTIFIED SURVEY MAP BEING A PART OF THE NORTHEAST 1/4 OF THE NORTHEAST 1/4 OF SECTION 19, TOWNSHIP 5 NORTH, RANGE 22 EAST, IN THE CITY OF OAK CREEK, MILWAUKEE COUNTY, WISCONSIN.

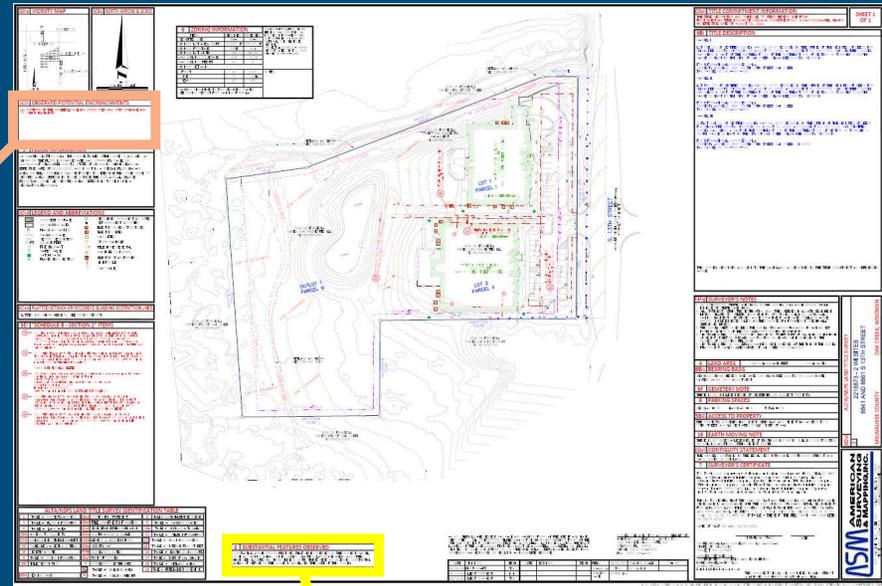
### FOR INFORMATIONAL PURPOSES ONLY:

PROPERTY ADDRESS: 8851 SOUTH 13TH STREET, OAK CREEK, WI 53154  
TAX PARCEL NO. 857-9013-000

# Survey Review - What to Look For (cont.)

Take note of the surveyor's observed potential encroachments, particularly if they are boundary encroachments (cross over the property boundary lines).

**5Ciii OBSERVED POTENTIAL ENCROACHMENTS**  
A PORTIONS OF THE SOUTHERLY BUILDING CROSS OVER AND ONTO DRAINAGE AND UTILITY EASEMENTS



Substantial features observed are those observed by the surveyor in the process of conducting the fieldwork and are in addition to the building improvements

**8 SUBSTANTIAL FEATURES OBSERVED**  
SUBSTANTIAL ABOVE GROUND FEATURES THAT WERE OBSERVED ON THE SUBJECT PARCEL, SUCH AS PARKING AREAS, DRIVES, WALKS, PLANTERS/LANDSCAPE AREAS AND OTHER, HAVE BEEN LOCATED AS SHOWN HEREON. NOTE: THERE WERE NO OBSERVED SUBSTANTIAL AREAS OF REFUSE ON THE SUBJECT PARCEL PER THE DATE OF THIS SURVEY.

# Survey Review - What to Look For (cont.)

Includes the north arrow and graphic scale



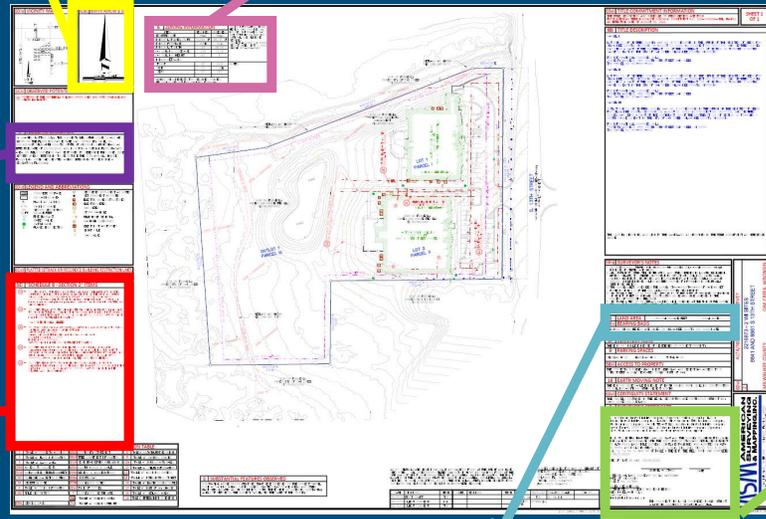
Provides zoning information

6 ZONING INFORMATION			ZONING INFORMATION SHOWN HEREON WAS PROVIDED BY INSURED. INFORMATION WAS NOT OBTAINED BY ASM, INC. NATIONAL TITLE INSURANCE SERVICES PROJECT # 2216873 - 42493 REPORT DATE: SEPT 7, 2022 PHONE: 677-439-2582
ITEM	REQUIRED	OBSERVED	
PERMITTED USE	RM-1	RM-1	NOTES:
MINIMUM LOT AREA (SQFT)	15,000 SF	198,137 SF	
MINIMUM FRONTAGE	NONE	N/A	
MINIMUM LOT WIDTH	100'	381.00'	
MAX BUILDING COVERAGE	50%	15.7%	
MAX BUILDING HEIGHT	50'	8'	
MINIMUM SETBACKS			
FRONT	30'	72.6'	
SIDE	10'	11.9'	
REAR	25'	>25'	
PARKING REQUIREMENTS: TBD REQUIRED SPACES SEE ZONING REPORT FOR PARKING FORMULA			

Includes the standard surveyor's certification and includes the name of the HUD Borrower entity, the HUD Lender, and the U.S. Department of Housing and Urban Development (HUD)

Includes the property's flood information

3 FLOOD INFORMATION	
BY GRAPHIC PLOTTING ONLY, THIS PROPERTY LIES WITHIN ZONE "X AND AE", AS SHOWN ON THE FLOOD INSURANCE RATE MAP, COMMUNITY PANEL NO. 550790068F, MILWAUKEE COUNTY, STATE OF WISCONSIN, WHICH BEARS AN EFFECTIVE DATE OF 06/30/2022, AND IS NOT IN A SPECIAL FLOOD HAZARD AREA. NO FIELD SURVEYING WAS PERFORMED TO DETERMINE THIS ZONE. "X" DENOTES AREAS DETERMINED TO BE OUTSIDE THE 0.2% ANNUAL CHANCE FLOODPLAIN. ZONE "AE" DENOTES AREAS DETERMINED TO BE INSIDE A REGULATORY FLOODWAY.	



Includes Schedule B-2 Items (compare with title report)

5E1 "SCHEDULE B - SECTION 2" ITEMS	
12	Easements, dedications, reservations, provisions, relinquishments, credits, certificates, and any other matters as provided for or delineated on Certified Survey Map No. 8177 recorded on August 07, 2009 as Document No. 09777533 referenced in the legal description contained herein. Reference is hereby made to said plat for particulars. (Affects Parcels I and II) (PLOTTED AND SHOWN HEREON)
13	Utility Easement to The Milwaukee Electric Railway and Light Company and the Wisconsin Telephone Company their successors and assigns, dated January 9, 1925, recorded/field work 16, 1925 as Document No. 1336280. (Affects Parcels I and II) (NO PLOTTABLE INFORMATION)
14-19	INTENTIONALLY DELETED
20	Storm Water Management Practices Maintenance Agreement upon the terms, conditions and provisions contained therein, dated October 30, 2008 between Oak Creek, EBerry, LLC and the City of Oak Creek. Recorded December 17, 2008 Instrument No. 09680960. (Affects Parcel I and II) (NO PLOTTABLE INFORMATION)
21	Utility Easement to Wisconsin Electric Power Company, a Wisconsin corporation doing business as Wisconsin Electric Power, Inc. d/b/a WEPCO Wisconsin, a Wisconsin corporation and Tene Water Entertainment Company, L.P., dated January 19, 2009, recorded/field January 30, 2009 as Document No. 09894790. (Affects Parcels I and II) (PLOTTED AND SHOWN HEREON)
22	Utility Easement to Wisconsin Electric Power Company, a Wisconsin corporation doing business as Wisconsin Electric Power, Inc. d/b/a WEPCO Wisconsin, dated August 25, 2011, recorded/field September 13, 2011 as Document No. 10031811. (Affects Parcels I and II) (PLOTTED AND SHOWN HEREON)

4 LAND AREA		
198,137± SQUARE FEET	4.55± ACRES	

Includes the total land area in both square feet and acres

7 SURVEYOR'S CERTIFICATE	
TO: To the U.S. Department of Housing and Urban Development (HUD), REALCO CAOC LLC, a Delaware limited liability company (Borrower), Walker & Dunlop, LLC, a Delaware limited liability company, (Lender), First American Title Insurance Company, (Title Insurance Company), CA MIL TENANT LLC, a Delaware limited liability company (Master Tenant), OPCO CAOC LLC, a Delaware limited liability company (Operator), and to their successors and assigns, as their interests may appear:	
THIS IS TO CERTIFY THAT THIS MAP OR PLAT AND THE SURVEY ON WHICH IT IS BASED WERE MADE IN ACCORDANCE WITH THE 2021 MINIMUM STANDARD DETAIL REQUIREMENTS FOR ALTA/NSPS LAND TITLE SURVEYS, JOINTLY ESTABLISHED AND ADOPTED BY ALTA AND NSPS, AND INCLUDES ITEMS 1, 2, 3, 4, 6(a), 6(b), 7(a), 7(b)(1), 7(c), 8, 9, 10, 11(a), 12, 13, 16, 17, AND 18 OF TABLE A THEREOF. THE FIELD WORK WAS COMPLETED ON 08/31/2022.	
DATE OF PLAT OR MAP: 09/06/2022.	
_____ MICHAEL A. STANG	_____ DATE
PROFESSIONAL LAND SURVEYOR NO: LS S-3058-8 STATE OF: WISCONSIN PROJECT NO: 22786B	
SURVEY PREPARED BY: NORTHWESTERN SURVEYING AND ENGINEERING KALEB KADELBACH, P.L.S. 218-213-7405 kaleb.kadelbach@nwsnm.com	
THIS DOCUMENT SHOULD BE CONSIDERED INVALID WITHOUT A LICENSED SURVEYOR'S SIGNATURE AND SEAL.	

# Using the Survey in Third-Party Reviews

So that the Appraisal, PCNA, Phase I ESA, and Zoning reports are all consistent, provide vendors with a copy of the draft ALTA survey as soon as it is available.

When reviewing these reports, you'll want make sure the following data matches among each of the reports:

- Site area
- Parcel ID / Correct parcels
- Gross building area / building footprint (if more than one story)
- Shows all structures / building improvements on site (storage sheds, etc.)
- Zoning designation / information
- Number of marked parking spaces

# Operating Leases, Master Leases, and Management Agreements

# Operating Lease Agreement

For projects in which the HUD Borrower is not the licensed Operator of a healthcare project, the licensed Operator must have a contractual obligation with the Borrower. This is usually in the form of an Operating Lease Agreement.

## Operating lease requirements:

- 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 P&I, MIP, annual RFR deposit, annual property insurance premium, and annual real estate taxes.
- Minimum lease term is 5 years
- The lease must provide a description of the responsibilities of the Borrower and the Operator including, but not limited to, payment of real estate taxes; building/property maintenance; capital improvements; replacement of equipment; property insurance; and fidelity bond coverage.
- All ORCF leases must incorporate the HUD-required lease addendum.

# Operating Lease Payment Calculation

a.	Annual Principal and Interest	\$
b.	Annual Mortgage Insurance Premium	\$
c.	Annual Reserve for Replacement	\$
d.	Annual Property Insurance Premium	\$
e.	Annual Real Estate Taxes	\$ _____
f.	Total Debt Service and Impounds	\$
h.	<b>Minimum Annual Lease Payment (f. x 1.05)</b>	<b>\$</b>

# Master Lease Basics

HUD requires a master lease for 3 or more properties, or 2 or more properties having a combined loan amount exceeding \$15MM, that are under common operator or borrower control (same ownership).

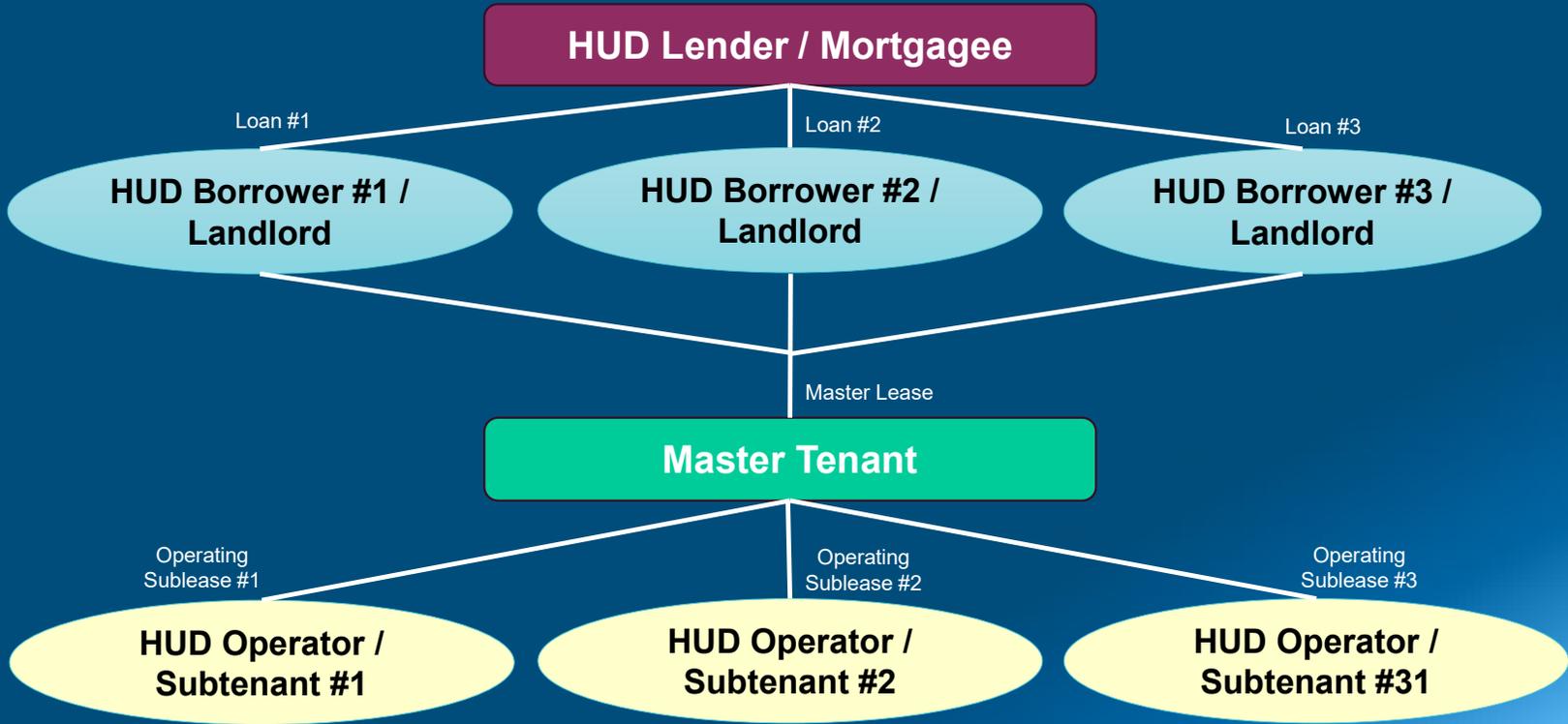
A master lease “ties together” the operating leases from each facility involved:

- Requires each operator covered under the master lease to share its available funds from its project with other projects in the master lease portfolio if those projects don't have enough cash to make their required lease payments.
- Used to lessen the financial risk posed by a portfolio – a “safety in numbers” approach to risk mitigation
- Provides assurance that all portfolio project resources are available to financially support any troubled projects in the portfolio – allows better-performing projects to support weaker-supporting projects.

Each project under a master lease must stand alone and be individually underwritten in accordance with HUD requirements.

A master lease is a single, indivisible lease between the owners of multiple facilities, jointly acting as the landlord, and a master tenant.

# Basic Master Lease Structure



## Master Lease Basics (Cont.)

All projects in the master lease must be subject to a HUD-insured loan.

The master tenant is NOT the actual operator of the facilities and does not hold the license(s) to operate the facilities. The master tenant enters into operating subleases with the actual single-purpose operators (license holders) of each facility.

In the diagram above, if HUD Operator/Subtenant #1 is underperforming and is unable to make its rent payment, HUD Operators/Subtenants #2 and #3 would make up the difference to the extent that projects #2 and #3 have sufficient cash flow to do so.

# Management Agreement

A Management Agent is an entity that directs the day-to-day functions of a healthcare project as a contracted agent for either the HUD Borrower or the HUD Operator.

A Management Agreement describes the specific duties/responsibilities and restrictions of the Management Agent, as negotiated between the Borrower or Operator and the Management Agent.



# Management Agreement Requirements

A Management Agreement must comply with HUD requirements and include the following:

- **Scope of Service** – must describe all services the Management Agent will be responsible for performing and for which it will be paid management fees.
- **Project Authority Limitations** – shall define the expenditure limits granted to the Management Agent by the Borrower or Operator.
- **Required HUD Provisions:**
  - Sets forth conditions and requirements for termination (i.e. Shall terminate without penalty upon failure to comply with the provisions of the Management Certification to HUD, or for other good cause.)
  - Management Agent may not be assigned without the prior written approval of HUD.
  - Management Agent cannot be indemnified from liability for gross negligence and/or willful misconduct.
  - ORCF's rights and requirements will prevail in the event of conflicts between the Management Agent and program requirements.
  - Any material amendment to the management agreement must be acceptable to HUD, in accordance with program obligations.

# Management Agreement Requirements (Cont.)

- **Length/Term of the Agreement** – may provide for a fixed term or an open-ended term (e.g. automatically renewable)
- **Management Fee** – Management Agents may be compensated either based on a percentage of project receipts or as a negotiated flat rate on a designated, recurring basis (such as monthly). However, such fees, incentives, bonuses and other considerations must be clearly designated in the management agreement, must be computed and paid in accordance with HUD Program Obligations, and must be approved by ORCF. The agreement must describe in sufficient detail all specifics of the Management Agent compensation, including how the management fee will be calculated and whether any incentive or other fees will be paid from surplus cash.



# Accounts Receivable Financing

# What is Accounts Receivable Financing?

Accounts Receivable (AR) financing is a type of short-term funding that allows a healthcare operation to receive an immediate cash advance by leveraging its outstanding (yet to be paid) receivables.

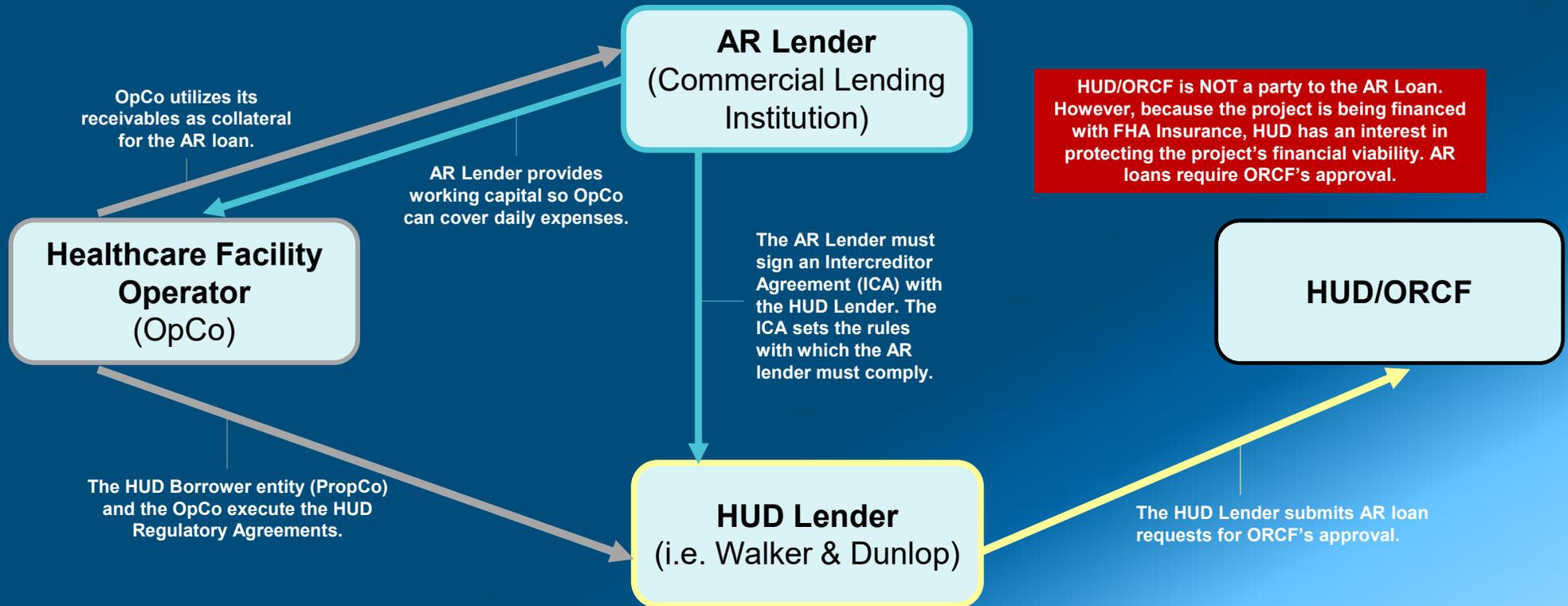
## When and why is AR financing needed?

- It is used to help healthcare operators cover their daily operating expenses (such as payroll, medical supplies, food, etc.) when reimbursement payments from various payor sources are delayed.
- Payor Sources:
  - Governmental Receivables (Medicare, Medicaid and Veterans' Administration)
  - Non-Governmental Receivables (Private pay and Commercial Insurance/HMO)

# How AR Financing Works:

An Operator (the AR Borrower) borrows against their outstanding receivables.

The AR Lender determines the amount that can be borrowed each month (the Borrowing Base).



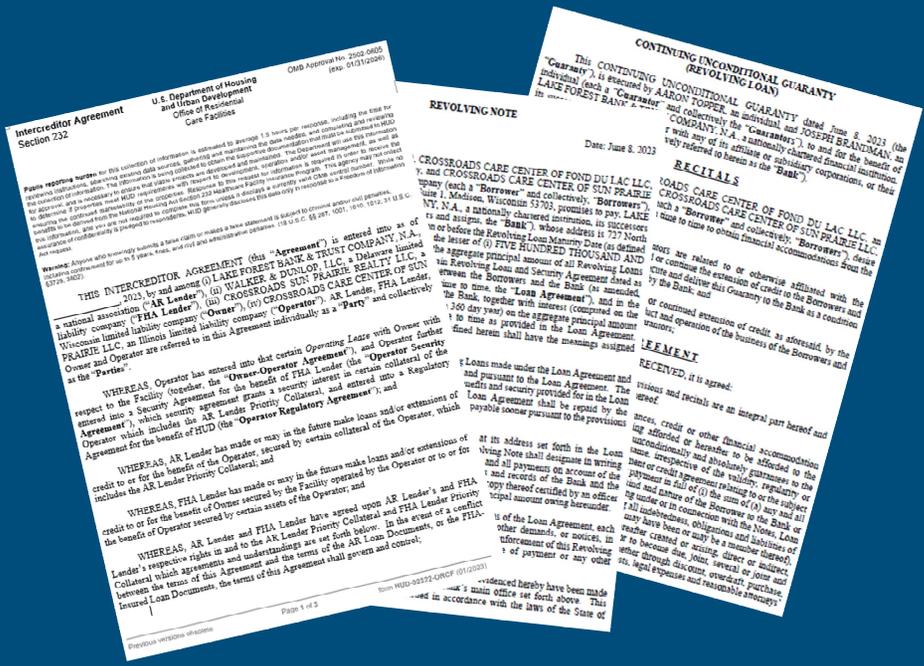
# Lender's AR Review

## Key Documents to Review:

- Borrowing Base Certificate
- AR Note and AR Loan Agreement
- Intercreditor Agreement (ICA)
- Cash Flow Chart

## AR Loan Analysis for Underwriting:

- AR Aging Schedule
- Borrowing Base Analysis
- Historical AR Loan Costs
- Proposed (Underwritten) AR Loan Costs



# The AR Aging Schedule

Payer Type	Total + 04/23	Future Cash	Current 04/23	30 03/23	60 02/23	90 01/23	120 12/22	150 11/22	180 10/22	210 + 09/22
Managed Care	\$229,720.23	\$0.00	\$96,656.21	\$108,456.85	\$25,711.55	(\$1,610.48)	\$40.35	\$2,698.16	(\$2,232.41)	\$0.00
Medicaid	\$255,755.82	\$0.00	\$175,670.48	\$36,688.83	\$7,792.92	\$8,704.00	\$3,852.12	\$7,377.82	\$4,985.44	\$10,684.21
Medicare A	\$169,946.66	\$0.00	\$97,630.55	\$71,481.36	\$0.00	\$0.00	\$0.00	(\$546.28)	\$0.00	\$1,381.03
Medicare B	\$822.79	\$0.00	\$839.36	\$77.09	\$75.99	\$225.84	(\$124.33)	(\$271.16)	\$0.00	\$0.00
Other	\$42,395.98	\$0.00	\$14,600.00	\$13,000.00	\$9,700.00	\$1,900.00	\$1,556.00	\$0.00	\$0.00	\$1,639.98
Private	\$49,383.53	(\$6,666.35)	\$22,202.25	\$3,242.35	\$4,010.00	\$8,789.00	\$2,985.83	\$3,507.33	\$2,621.13	\$8,691.99
<b>TOTAL</b>	<b>\$748,025.01</b>	<b>(\$6,666.35)</b>	<b>\$407,598.85</b>	<b>\$232,946.48</b>	<b>\$47,290.46</b>	<b>\$18,008.36</b>	<b>\$8,309.97</b>	<b>\$12,765.87</b>	<b>\$5,374.16</b>	<b>\$22,397.21</b>

**What is it?** A financial report that categorizes an Operator's outstanding receivables (unpaid invoices) by the length of time they have been outstanding.

The AR Aging Schedule groups outstanding receivables in “age buckets” based on how far past their due date they are:

- Current (0-30 days)
- Slightly overdue (31-60 days)
- Moderately late (61-90 days)
- Significantly overdue (91-120 days)
- Severely overdue (over 121 days - highest risk of becoming uncollectible)

# Borrowing Base Certificate

A document that an operator submits to the AR Lender to calculate and certify its borrowing capacity for the AR loan/AR revolving line of credit.

- Details the eligible accounts receivable that can be used as collateral to secure the loan
  - Eligible AR: Eligible accounts (Medicare, Medicaid, VA, Insurance receivables) aged not more than 120 days
  - Ineligible AR: Eligible accounts aged over 120 days and all private pay receivables
- Serves as a reporting tool for the AR Lender, allowing them to monitor the value of their collateral and ensure the AR Borrower's loan balance does not exceed the agreed-upon limit.

		Payor Class				
		Medicare	Commercial	Medicaid	Private	Total
<b>A</b>	<b>Section A: A/R Availability</b>					
1	Beginning A/R Month Ending					
	0-30 Days	\$ 750,000.00	\$ 200,000.00	\$ 500,000.00	\$ 7,500.00	\$ 1,457,500.00
	31-60 Days	\$ 450.00	\$ 125,000.00	\$ 300.00	\$ 7,500.00	\$ 133,250.00
	61-90 Days	\$ 600.00	\$ 35,000.00	\$ -	\$ 7,000.00	\$ 42,600.00
	91-120 Days	\$ -	\$ 14,000.00	\$ 300.00	\$ 480.00	\$ 14,780.00
	Over 120 Days	\$ 75,000.00	\$ 7,500.00	\$ 25,000.00	\$ 200.00	\$ 107,700.00
2	Total Beginning A/R	\$ 750,000.00	\$ 380,000.00	\$ 500,000.00	\$ 23,000.00	\$ 1,653,000.00
3	Ineligibles (as set by Lender)					
	(-) A/R Over 120 Days	\$ 75,000.00	\$ 7,500.00	\$ 25,000.00		\$ 107,500.00
	(-) Offsets/Recoupments					\$ -
	(-) Private				\$ 23,000.00	\$ 23,000.00
4	Total Ineligibles	\$ 75,000.00	\$ 7,500.00	\$ 25,000.00	\$ 23,000.00	\$ 130,500.00
5	Ending Eligible A/R	\$ 675,000.00	\$ 372,500.00	\$ 475,000.00	\$ -	\$ 1,522,500.00
6	Advance Rate (as set by Lender)					85.00%
7	A/R Availability					\$ 1,294,125.00
8	Gross Availability (lesser of A/R Availability and Revolving Loan Limit of \$3,000,000)					\$ 1,294,125.00
<b>B</b>	<b>Section B: Revolving Loan</b>					
1	Beginning Loan Balance					\$ 300,000.00
2	(+) Rent Payment Request					
3	(+) Revolving Loan Request					\$ 601,755.43
4	Ending Loan Balance					\$ 901,755.43
5	Net Availability (Gross Availability less Ending Loan Balance)					\$ 392,369.57

# AR Note & AR Loan Agreement

The AR Note is the promissory note (AR Borrower's promise to repay) for the AR Loan/Revolving Line of Credit. The AR Note includes the following information:

- Identification of the parties (Borrower and the Lender)
- Loan/Revolver Amount
- Interest Rate
- Repayment Terms
- Maturity Date
- Default Provisions
- Signatures

The AR Loan Agreement (or "Security Agreement") is the contract between the AR Lender and the AR Borrower (OpCo) that further defines the terms and conditions of the AR Note, and generally includes/addresses the following:

- Calculation of Interest (applicable margin, etc.)
- Collateral
- Borrowing Base (eligible receivables)
- Security interest
- Advance rate
- Payment priorities
- Use of proceeds
- Additional fees/penalties

# Intercreditor Agreement (ICA)

An AR loan is another project obligation in addition to the FHA-Insured mortgage loan, and the accounts receivable of a healthcare project is part of the collateral for both the HUD loan and the AR loan. As such, an Intercreditor Agreement (ICA) is needed to define which lender has priority over the other.

- The ICA gives the FHA Lender priority (first lien position) over the AR Lender for the project (the real estate), while it gives the AR Lender priority (first lien position) over the HUD Lender for the receivables (AR Lender Priority Collateral)
- The ICA provides other protections for the FHA Lender and the stability of the project:
  - Priority of claims
  - Collateral and security interests
  - Payment blockages
  - Standstill provisions
  - Remedies for default
  - Consent for waivers and amendments



# AR Cash Flow Chart

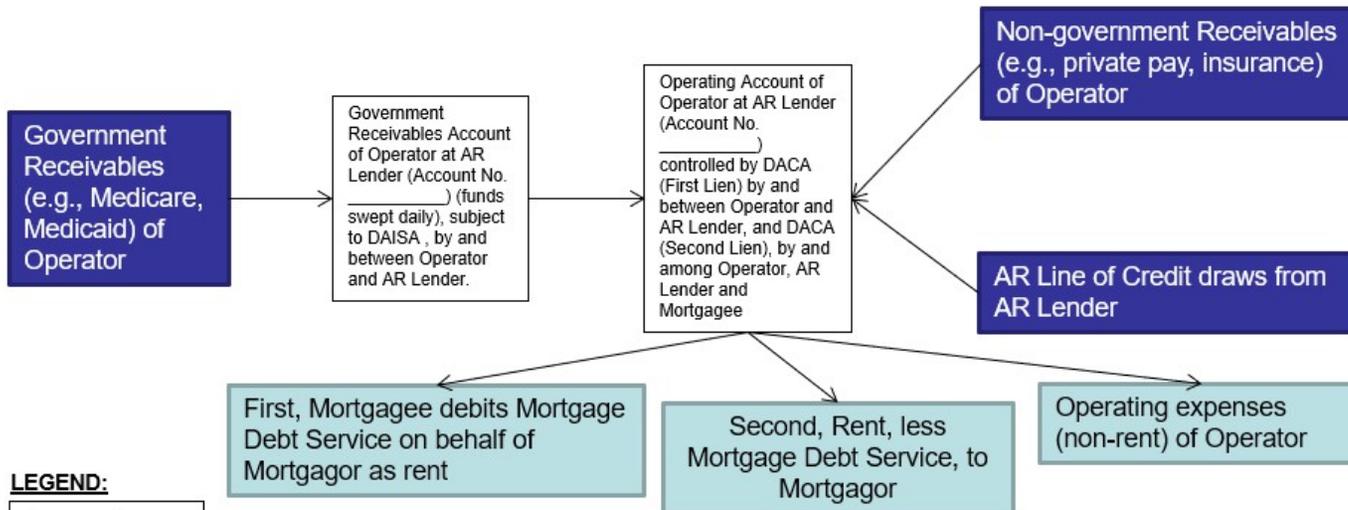
Illustrates how funds are collected and disbursed from accounts to protect the HUD-Insured collateral.

## Key components:

- Cash flow sources: Governmental payors and non-governmental payors
- Segregated bank accounts:
  - Governmental receivables account – dedicated account for funds from governmental payors (controlled by a DAISA)
  - Operator’s account – funds from all other (non-governmental) payor sources (controlled by a DACA)
- Funds Sweep: Funds from the governmental receivables account are swept into the Operator’s account daily to ensure all AR cash is consolidated and controlled.
- Payments and Distributions: Operator’s use of funds is prioritized and detailed on the chart (permitted uses and payment priorities)
- Collateral Control: Shows the AR Lender’s control over the accounts

# AR Cash Flow Chart - Basic Example

\_\_\_\_\_, (“Operator”)  
Cash Flow Chart



**LEGEND:**

Accounts
Sources
Uses

“Mortgagor”:

“AR Lender”:

“Mortgagee”:

**A note about DACAs and DAISAs:**

DACAs are required for all Lean 232 projects, including AL and B&C facilities, even if the Operator does not utilize AR financing. DAISAs are required only for those projects with governmental receivables.

# Borrowing Base Analysis

Summarizes the AR Aging Schedule to assist the underwriter in determining HUD's maximum AR loan amount, which is the lesser of:

- The total AR loan commitment; or
- 85% of eligible receivables (Medicare, Medicaid, VA, and Commercial AR less than 120 days old)

When there are multiple facilities covered on an AR line:

- They must ALL be HUD-insured or proposed for HUD financing.
- We must review the combined AR aging schedules for all covered facilities

MAXIMUM AR LOAN CALCULATION				
	0-90 Days	91-120 Days	121-150 Days	151+ Days
Medicare	\$319,987	\$16,207	\$8,118	\$17,074
Medicaid	\$1,961,504	\$59,961	\$40,920	\$308,647
Other Govt	\$117,589	-\$1,209	-\$947	-\$1,591
Subtotal	\$ 2,399,080	\$ 74,958	\$ 48,091	\$ 324,129
Commercial	\$458,584	\$121,197	\$46,118	\$211,499
Private*	-\$26,203	\$4,733	-\$11,425	\$76,932
Total	\$ 2,831,461	\$ 200,888	\$ 82,784	\$ 612,561

*\* Private is not considered when determining HUD's maximum AR loan amount.*

<b>6.42%</b>	of Medicare, Medicaid and Commercial AR less than 121 days old is over 90 days old.
<b>\$2,595,746</b>	HUD Maximum AR Loan Amt = 85% of Medicare, Medicaid and Commercial AR less than or equal to 120 days old.
<b>\$1,500,000</b>	<b>AR Lender Maximum Loan Amount is the Lesser of \$1,500,000 or 85% of eligible receivables, as defined by HUD.</b>

# Historical and Proposed AR Loan Costs

- For existing AR loans/revolving lines, review the historical AR loan costs (interest and fees). These are typically shown as a separate line item in the OpCo financials, but if they are not broken out, you may have to request.
- If the project is adding a new AR line for the first time, there would be no historical AR loan costs.

## To calculate proposed AR Loan costs:

### 1. Calculate the annual interest for the AR loan. To do this, you will need:

- Total AR Loan Amount (the maximum AR loan) - *Let's assume this is \$3,000,000.*
- Interest rate noted in the AR Note/Loan Agreement – *Our hypothetical AR loan agreement states this is based on the current Wall Street Journal (WSJ) Prime Rate. (Search the internet to find the current rate.) Current Prime rate as of today is 7.50%*
- Applicable margin noted in the AR Note/Loan Agreement – *Per the loan agreement, the applicable margin is 1.50%. The applicable margin gets added to the WSJ Prime rate to calculate the total interest.*
- As rates tend to fluctuate, to be conservative, round the rate up by 1.00% (Lender's assumed floor rate) – *We rounded up the actual rate from 9.00% to 10.00%.*
- Calculate the annual interest (Annual interest = Max. AR Loan Amount x Lender's Assumed Rate Floor) -  $\$3,000,000 \times 10.00\% = \$300,000$

ACCOUNTS RECEIVABLE FINANCING INTEREST CALCULATION	
	Per AR Loan Agreement
Maximum AR Loan Amount:	\$3,000,000
Current WSJ Prime Rate*:	7.50%
Applicable Margin:	1.50%
Current Rate:	9.00%
Lender's Assumed Rate Floor:	10.00%
Monthly Interest Expense:	\$25,000.00
<b>Annual Interest Expense:</b>	<b>\$300,000.00</b>
* As of the week of 9/9/2025	

# Proposed AR Loan Costs (Cont.)

To calculate proposed AR Loan costs (Cont.):

2. Determine if there are any other regularly assessed fees associated with the AR line (i.e. monthly service fee, unused line fee, etc.)
  - Generally, this is N/A, there are no additional fees outside of interest, but review the AR loan agreement to be sure.
  - An “Unused Line Fee” is generally a nominal fee that is charged by the AR lender for the portion of the AR loan/AR line of credit that the Borrower does not utilize. *In our hypothetical example, the max. AR loan is \$3,000,000, but the Borrower’s current AR loan balance is only \$2,000,000. The AR loan agreement states the unused line fee is 0.5% of the unused portion of the AR loan (or \$1,000,000). As such, the annual unused line fee would be \$50,000 ( $\$1,000,000 \times 0.5\% = \$50,000$ ). Divide this by 12 months to get the monthly unused line fee, or \$4,167/month. For purposes of our underwriting analysis, the most conservative (and easiest) approach to calculating an unused line fee is to assume the full balance of the AR loan is outstanding. In this scenario, there would be no unused line fee because the unused portion of the AR loan would be \$0.*

# Proposed AR Loan Costs (Cont.)

To calculate proposed AR Loan costs (Cont.):

3. Take the Underwritten NOI for the proposed HUD loan, and deduct the amounts for:
  - The annual P&I + MIP
  - The total annual AR loan costs (Interest + Fees)
  
4. Calculate the resulting debt service coverage ratio (DSCR) to demonstrate the AR loan will not financially burden the project
  - The annual P&I + MIP
  - The total annual AR loan costs (Interest + Fees)

<b>Proposed AR Loan Costs:</b>	
<b>AR Line at 10.00% Interest:</b>	<b>As Underwritten</b>
Operating Revenue:	\$ 10,065,233
Operating Expenses*:	\$ 7,623,760
<b>Net Operating Income:</b>	<b>\$ 2,441,472</b>
Annual P&I + MIP:	\$ 1,275,984
AR Loan Costs (Interest + Fees):	\$ 300,000
Total DS and AR Expense:	\$ 1,575,984
DSCR Including AR Expenses:	1.55

*\* Actual Operating Expenses including underwritten RFR*

The word "QUESTIONS" is written in a bold, white, 3D sans-serif font. It is centered on a white rectangular background. Surrounding the text are several overlapping squares in various shades of blue and green, creating a dynamic, abstract graphic effect. The squares vary in size and opacity, with some appearing to be behind the text and others in front. The entire graphic is set against a dark blue background that has a subtle gradient from top to bottom.

# QUESTIONS