



CAMBRIDGE

Senior Housing & Healthcare Capital

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HUD Lean Section 232/223(f) Mortgage Insurance Program For the Acquisition or Refinancing of Existing Nursing Homes, Board & Care, and Assisted Living Facilities

Cambridge Realty Capital, Ltd. of Illinois is an FHA Lean-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.

EXECUTIVE SUMMARY

Cambridge Realty Capital Ltd. of Illinois through the Section 232/223(f) Program provides attractive, long-term, fixed rate, nonrecourse financing for the purchase or refinancing of existing nursing homes which are three years of age or older. During the summer of 2008, HUD addressed its reputation for slow response by embracing the Lean management process. The goal of the new HUD 232 Lean Program is to simplify the application process and substantially reduce the time it takes qualified borrowers to obtain funding. Cambridge embraces and supports these goals.

The Section Lean 232/223(f) Program may also provide financing for repairs and deferred maintenance costs which may be financed within mortgage proceeds. Although repairs and deferred maintenance may be financed utilizing Section Lean 232/223(f), the inclusion of repairs and deferred maintenance is not a prerequisite for eligibility. In addition, furniture, fixtures and equipment, and additions may also be financed with Section 223(f) loan proceeds. Unlike the existing HUD Lean 232 Program, substantial rehabilitation will not be a prerequisite for eligibility under Section 223(f).

LOAN FEATURES:	<ul style="list-style-type: none">▪ Low fixed interest rates▪ 35-year maximum term▪ High loan-to-value ratio: up to 80% (85% for not-for-profit) of value▪ Non-recourse▪ Fully assumable▪ Loan proceeds may be used to pay expenses associated with purchasing or refinancing a property, including financing fees, repair costs, and reserve deposits.
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 Lean 232.

ELIGIBLE PROJECTS:	<ul style="list-style-type: none"> ▪ Skilled Care Nursing Facilities ▪ Intermediate Care Nursing Facilities ▪ Sheltered Care or Personal Care Nursing Facilities ▪ Board and Care, and Assisted Living Facilities
MORTGAGE AMOUNT:	<p>\$1,500,000 to no maximum, subject to the following:</p> <ul style="list-style-type: none"> ▪ Purchase – The lower of 80% (85% for not-for-profit) of cost-to-purchase, or 80% (85% for not-for-profit) of HUD’s appraised value, whichever is less. ▪ Refinancing – The lower of: <ul style="list-style-type: none"> o 100% of the amount to refinance the existing mortgage indebtedness, closing costs, repair costs, furniture, fixtures, equipment purchase, and Initial Deposit to Replacement Reserve; or o 80% (85% for not-for-profit) of HUD’s estimate of value, whichever is less. <p>In either case, purchase or refinancing, the loan may not exceed 80% (85% for not-for-profit) of HUD’s estimate of value. No cash-out is permitted. Refinancing loans are limited to the amount of currently existing debt and costs as determined by HUD.</p>
UNDERWRITING CRITERIA:	Value is determined by the HUD Lean appraiser utilizing a compilation of the three value approaches: (i) Income Approach; (ii) Comparable Sales; and (iii) Cost Approach.
THIRD PARTY REPORTS:	To complete the application, HUD Lean 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 Lean standards and guidelines and will be paid for by the client.
TERM:	Maximum of 35 years.
AMORTIZATION:	Maximum 35-year fully amortizing loan.
INTEREST RATE:	Based on current market conditions.
FUNDING SOURCE:	Directly by Cambridge with participating investors or via issuance of GNMA Securities.
PERSONAL LIABILITY:	None.
UP FRONT FEES:	0.3% Application Fee based upon Mortgage Request plus Cost of Appraisal, Engineering Reports, Phase I Environmental, and Title & Survey.
SECONDARY FINANCING:	<p>In certain cases, secondary financing may be permitted by HUD. Secondary financing cannot exceed 7.5% of the project’s value, or:</p> <ul style="list-style-type: none"> ▪ In a purchase transaction – 7.5% of acquisition costs. ▪ In a refinance transaction – 50% of the difference between total costs and the mortgage amount.

PREPAYMENT:	Yes, but with negotiated penalty.
INSURANCE REQUIREMENTS:	<p>Properties applying for HUD Lean 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.
REQUIRED ESCROWS:	<p><i>Mortgage Insurance Premium</i> In addition, a monthly mortgage insurance premium, payable to HUD, equal to 0.65% per annum will be added to the monthly mortgage payment. (1% per annum on the first loan year.)</p> <p><i>Replacement Reserve</i> A monthly deposit to a replacement reserve will be required to provide for the future replacement of capital items. This cash reserve will be held by Cambridge in an interest bearing account and can be drawn on by the borrower for capital improvements. Interest earned on the account benefits the property and can be paid out periodically. Monthly additions to the reserve are also required.</p> <p><i>Real Estate Taxes, Property Insurance, Etc.</i> These escrows will be established at closing and held in a non-interest bearing account by CAMBRIDGE. Monthly deposits to the Real Estate Tax and Property Insurance Escrow will be required.</p>

INITIAL DEPOSIT TO REPLACEMENT RESERVE:	<p>HUD requires that a lump sum depreciated portion of both the building and the furniture, fixtures and equipment be deposited with the lender as a prerequisite to closing. This Initial Deposit to Replacement Reserve is financable and therefore can be included in mortgage loan proceeds. The amount of the Initial Deposit to Replacement Reserve will be determined by HUD.</p> <p>Repairs</p> <p>If repairs or capital improvements are required for the loan and are not completed prior to closing, the cost of these repairs will be held back from the initial loan funding and placed in escrow. In addition, the borrower must provide CAMBRIDGE OR THE MORTGAGOR ENTITY with cash or a Letter of Credit for 20% of the repair amount. The repair escrow will be released when the repairs are completed.</p>
AUDIT:	Annual Audits must be filed with HUD. HUD may request the operating entity to also furnish financial statements.

PRELIMINARY APPLICATION:

To obtain a prompt initial response, you should provide **CAMBRIDGE** with a preliminary application package that includes the following:

- A brief description of the project.
- A current year-to-date operating statement.
- Breakdown of census and population of the property by payor.
- The sponsor’s resume showing expertise in operating the type of housing to be provided.
- Operating statement for the two most recently completed years.
- If Purchase, a copy of the purchase contract.
- If Refinance, evidence of current indebtedness (both first and second mortgage).
- The sponsor’s unaudited financial statement.

For questions and additional information, please contact:

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<p>DISCLAIMER: This financing outline is designed to provide immediate information regarding a specific real estate capital structure on the above-captioned transaction utilizing HUD Lean-insured financing. It is not a Commitment Letter and is subject to complete review and underwriting by HUD and Cambridge Realty Capital Ltd. of Illinois. The information contained herein is for preliminary review purposes only and is subject to errors, omissions, and changes, all without notice. N:\GoldMine\FaxRush\Outfax\execsherefi.doc "Cambridge Realty Capital Companies@", "e-Pulse!@" and its logos are registered trademarks of Cambridge Realty Capital, LLC.</p>
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