



Staying Ahead in Seniors Housing: How We Differ from the Competition



2018 Seniors Housing Seller Workshop

- Managing Volatility
- Green Advantage®
- Float to Fixed
- Lease-Up
- Acuity Mix Changes
- Case Studies



Managing Volatility

Managing Volatility: For Freddie Mac and Your Borrower

Spread Hold

- Borrower signs the application and Freddie Mac holds spread for 75 days
 - Seller sends the application to Freddie Mac
 - Freddie Mac accepts the application and a Spread Hold is instituted
- Spread is held for 75 days vs. 60 days for Multifamily
- Spread is held for the credit structure of the deal at the time of application
- If the credit structure of the transaction changes, spreads are subject to change (relative to the credit changes)

Index-Lock

- Helps repeat borrowers manage market volatility
 - Locks only the Index for 75 days
 - Process to Index Lock: As quick as one day
- ERL options continue to be available for all borrowers

Spread Hold



Index Lock



More Certainty

Managing Volatility: For Freddie Mac and Your Borrower, Continued

- Treasury Floor
 - » Based on the Floor rate provided at the time of quote
 - » Floor rate is based on the corresponding Treasury rate as of COB of the prior day
 - The day prior to quote date
 - » Borrower continues to receive the benefit of up to 25 bps Treasury drop
 - » If Treasury drops >25 bps from the time of application, the additional drop is added to quoted spread

Example

- Quoted gross spread: 250 bps
- Treasury at the time of quote: 1.90%
- UW Note rate = 4.40%
- Floor rate of 1.65% is in place
- During the underwriting process, Treasury drops to 1.62% and Borrower is ready to lock
- New spread of 253 bps and Treasury of 1.62% = Note Rate of 4.15%

Green Advantage[®]

New Requirements (Effective January 2018)

- 25% consumption reduction requirement
 - » Water/Sewer or Energy
 - » Calculation based on whole-building consumption only
- Removed vintage requirement
- Removed \$350/unit requirement



Option One: As-Is Only	Option Two: As-Is and As-Improved
<ul style="list-style-type: none">• As-Is: Policy-Compliant DCR/LTV• Expense UW benefit may not be underwritten	<p>As-Improved: Policy-Compliant DCR/LTV</p> <p>As-Is: Relaxed DCR/LTV requirements in some cases</p> <ul style="list-style-type: none">» DCR: -0.05x of policy-compliant DCR» LTV: +5.0% of policy-compliant LTV
<p>Expense Underwriting (If Applicable)</p> <ul style="list-style-type: none">• Green Up[®]: Underwrite 50% of owner-paid projected savings• Green Up Plus[®]: Underwrite 75% of owner-paid projected savings	

- When green savings are underwritten, an As-Improved green value is required
- Appraiser should not add the projected cost of the green improvements to the As-Is value and consider this a complete valuation
- Appraiser should not assume a change in rents or the cap rate when analyzing the green improvements
- Appraiser should assume change in green expenses and income
- Pricing reflects the LTV and DCR based on the As-Improved green value



Float to Fixed

- Available to experienced Seniors Housing sponsors on a case-by-case basis
- 2+7 year loan term
 - » First 2 years floating, uncapped, IO, no prepayments
 - » Remaining 7-years fixed
- Structure allows for flexibility to maximize NOI in the first two years while locking in a fixed rate early, ideal for
 - » Acuity conversion
 - » Light rehab
 - » Lease-Up near stabilization
 - » Implementation of new care model

- Float and fixed rates are locked at initial closing, pricing is based on current spreads + 20bps for both.
- Fixed-rate sizing as well as IO for fixed portion, based on current credit parameters
- Prior to the loan converting to fixed rate
 - » Additional proceeds available at the then first mortgage pricing
 - 150 day prior notice required
- Supplemental permitted in year 2 of fixed-rate portion

Lease-Up

- Types available
 - » Refinance or acquisition of newly constructed properties in lease up
 - » Acquisition of properties undergoing major acuity mix changes
- Located in strong Primary and Secondary NIC Markets
- Repeat experienced Sponsor with proven track record of new construction and Lease-Up
- Strong Sponsor financial capacity, senior housing management / operating expertise, and credit history
- Required 3 months of stabilized operations within 12 months from closing
- Underwriting Parameters
 - Fixed expenses such as real estate taxes and insurance are the same for As-Is and As-Stabilized NOI;
 - Variable expenses such as payroll and seniors housing related expenses for As-Is based on T3
 - As-Is NRI supported by T1 and Rent Roll NRI
 - Min. occupancy at closing 65% physical/ 75% pre-leased

Appraisal

- As-Is and As-Stabilized Valuations
- As Stabilized to be based on the prospective future date of stabilized operations at the property

LST

- Underwriting
 - » T12
 - » T3
 - » T1
 - » Stabilized Budget
 - » S/S As-Is
 - » S/S Stabilized
 - » As-Stabilized Value

Narrative

Additional Information

- Lease-up schedule broken down by move ins and move outs
 - » Monthly historical & forward looking through stabilization
- Concession, historical, current schedule and concession burn off schedule
 - » One month free? Which month?
- Lease-up schedule by acuity
- Construction costs (for refinance)

Seniors Housing Lease-Up Loans



	Policy Requirements with Credit Enhancement	Policy Requirements without Credit Enhancement
Min. Closing DCR As Is (IO and Amortizing)	1.00x Refinance or Acquisition If less, borrower must remit a Closing Debt Service Escrow equal to 3 month. Debt Service	No Change
Min. DCR As-Stabilized (Amortizing)	1.35x IL/ 1.45x AL Refinance or Acquisition	1.40x IL/ 1.50x AL refinance or acquisition
Timing to Stabilization	12 months	4 months
Max Loan to Cost:	80% refinance 75% acquisition	No Change
Max Loan to Value As Stabilized	70% refinance or acquisition	70% <u>As-Is</u> and <u>As-Stabilized</u> refinance or acquisition
Credit Enhancement	Minimum of 5% of UPB Cash, LOC or Guaranty. If a Guaranty: <ul style="list-style-type: none"> • Must be = to 2X size of credit enhancement required • Guarantor and Borrower must be policy compliant 	N/A
Release Conditions for Credit Enhancement	<u>Loan Ratios</u> Achieved based on lower of UW As-Stabilized DCR or policy-compliant DCR for the transaction (including credit baseline adjustments) for 3 consecutive months <u>Financials</u> NRI corresponding to release DCR with income supported by rent roll, T-3 collections and Care Expenses greater of UW or annualized T3 actual <u>Length of Time</u> Max. 12 mos to achieve, with max extension of 3 months If not achieved, the Lease-Up Credit Enhancement can be used to resize the loan and for monthly payments	N/A

- Reasons for waiving required Cash Equity 20%-25%
 - » As-Is Amortizing DCR at 1.10x-1.15x or 10 to 15 bps less than stabilized DCR
 - » Little or no new construction in Primary Market Area (PMA)
 - » High barriers to entry based on location, zoning and licensing
 - » Stabilized occupancy achieved within 2-4 months after closing
 - » Economic occupancy improving trends with evidence of reduced concessions on occupied units

Quote Sheet

Underwriting Assumptions:						
	As-Is			As-Stabilized		
Minimum Occupancy:	85.40%			94.50%		
Minimum Collections:	\$566,549			\$626,919		
	<u>Total</u>	<u>Per Unit</u>		<u>Total</u>	<u>Per Unit</u>	<u>Escrows</u>
Real Estate Taxes:	\$431,434	\$3,319		\$431,434	\$3,319	Collected
Insurance Premiums:	\$23,188	\$178		\$23,188	\$178	Collected
Utilities:	\$229,558	\$1,766		\$241,640	\$1,859	
Repairs & Maintenance:	\$214,862	\$1,653		\$214,862	\$1,653	
Management Fee:	\$355,027	\$2,731	5% EGI	\$394,149	\$3,032	
Payroll & Payroll Taxes:	\$0	\$0		\$0	\$0	
General & Administrative:	\$886,736	\$6,821		\$870,516	\$6,696	
Misc. Expenses:	\$2,529,883	\$19,461		\$2,813,483	\$21,642	
Replacement Reserves:	\$39,000	\$300		\$39,000	\$300	Collected
Total Expenses and Reserves:	\$4,709,688	\$36,228	66.2% EGI	\$5,028,272	\$38,679	
I/O DCR:	1.42x			1.70x		
Amortizing DCR:	1.08x			1.29x		
NOI:	\$2,390,843	\$18,391		\$2,854,700	\$21,959	
Value:	\$55,000,000	\$423,077		\$55,000,000	\$423,077	
Cap Rate:	4.35%			5.19%		

Lease-Up Assumptions:				
	<u>Rate Lock</u>	<u>Funding</u>	<u>1.25x Amortizing DCR</u>	<u>At Stabilization</u>
Estimated Timing:	4/15/2018	5/30/2018	6/15/2018	6/15/2018
Occupancy (%):	91%	93%	95%	95%
Leased (%):	91%	93%	95%	95%
I/O DCR:	1.45	1.56		1.62
Amortizing DCR:	1.13	1.21		1.26

Acquisition Lease-Up Stipulations:	
Fixed Rate: an additional 6 months has been added to the loan term and initial lock-out period.	
Unless Noted Otherwise, Quote Assumes:	Requirements:
-Appraisal must provide the "as-is" and "as-stabilized" value for the property.	*At Rate Lock:
-No credit enhancement required.	-85% occupied
-Stabilization is defined as 3 consecutive months of 1.25x DCR or above.	-100% or more of Certificate of Occupancy issued
-Stabilized collections supported by T3.	*At Funding:
-Stabilization to occur within 6 months, or the loan may be resized.	-1.0x I/O DCR
	-85% occupancy
	-100% of Certificate of Occupancy issued

Acuity Mix Changes

Types of Conversions

- Standard Conversion
 - » 25% with respect to the accumulated increase in acuity mix
 - » 10% with respect to the accumulated decrease in acuity mix
 - » Not more than 40% Memory Care
- Special Conversion Options
 - » Converting units/ beds above the standard percentage thresholds
 - » Adding new units/beds to an existing community, within boundaries of land secured by mortgaged property
- Special Conversion Requirements
 - » Completion guaranty
 - » Funded escrow at 20%-35% of construction cost if over 5%-25% of UPB
 - » Submitted plans to include budget, specs and contracts
 - » Loan sized based on highest acuity
 - » Start 12 months after loan closing/ completed 6 months prior to maturity
 - » Shortfall escrow if DCR falls below 1.10x during conversion

- Special Conversion Considerations
 - » Market demand for new acuity
 - » Appraisal value post acuity change
 - » Staff requirements
 - » Licensing requirement
 - » Sufficient funds available to construct
 - » Borrower and operator experience with additions/ new construction
 - » Offline units

