



FHA Section 242 / 223(f)

Mortgage Insurance for Hospitals **Purchase or Refinance with up to 20% of Mortgage Amount** **May Be Used for New Capital Expenditures**

The 242/223(f) Program is insured by the Federal Housing Administration (FHA) and provides hospitals access to affordable financing for capital needs nationwide. U.S. Department of Housing and Urban Development (HUD) has made it a top priority to increase availability of section 242 to Critical Access Hospitals (CAH). FHA insurance enables qualified acute care facilities to enhance creditworthiness due to backing by the full faith and credit of the United States Government.

Eligible Borrowers:

- Single Asset Entity
- For-profit, not-for-profit, and municipally-owned
- Acute Care with no more than 50% of adjusted patient days attributable to the following services: chronic convalescence and rest, drug and alcoholic, epileptic, nervous and mental, mental deficiency, and tuberculosis
- Over the last three full fiscal years, the operation income of the facility must have been equal to or greater than \$0 and the average debt service coverage ratio equal to or greater than 1.4. Facilities that have recently changed reimbursement status may calculate this margin as if they had been receiving the new reimbursement rates previously. Exceptions are possible.

3 of 7 Criteria Test:

- Refinancing will reduce operation expenses by at least .25%
- Interest rate will be reduced at least .5%
- Rate on existing debt has increased by 1% since 1/2008 or will likely increase within 1 year
- Total debt service is more than 3.4% of operation revenues
- Existing credit enhancement vehicle has been canceled or downgraded or such imminent
- Existing debt has overly restrictive or onerous covenants
- Other circumstances that show a refinance is essential to the viability of the hospital

Loan Term: Up to 25 years

Loan Amount: The loan to value may not exceed 90%. A hospital may include the book value of existing plant, property and equipment to meet the 10% equity requirement. There is no limit on the amount that can be financed.

Interest Rate: Subject to market conditions, the fixed interest rate is set at initial closing.

Funding: Qualifies for Ginnie Mae government guaranteed mortgage-backed securities, direct placement or may be used to credit enhance tax-exempt or taxable bonds.

Timing: HUD's processing involves a two-step application progression: pre-application and final application.

Recourse: FHA is non-recourse as to the mortgagor entity, but certain parties may be personally liable for losses arising from certain inappropriate acts and malfeasance.



Fees: FHA application fee, inspection fee, lender fees and mortgage insurance premiums will be collected. Various third party reports may be required. All of these costs may be eligible for inclusion in the mortgage note and are reimbursable to client at closing.

Security: The hospital must grant the FHA lender a first lien position for the mortgage on the entire hospital, including all real estate and improvements being financed. Exceptions are permitted for public hospitals that are statutorily prohibited from mortgaging property, leased equipment, off-site non-revenue producing property and capital associated with affiliations.

Other:

- Client pays for all third party reports which include market study, full appraisal, architectural and cost reviews.
- Final Application requirements include a feasibility report, environmental assessment, project drawings and cost details.
- If a state has a Certificate of Need (CON) process, a CON must be issued or pending.
- Monthly payments are required into a Mortgage Reserve Fund that will build to a balance equal to one year of debt service after ten years. The requirements for CAHs are two years of debt service after ten years.
- Davis Bacon prevailing wage requirements apply to new construction and substantial rehabilitation projects.
- Surplus cash flow notes for proprietary hospitals and residual receipts notes for nonprofit hospitals are permitted but with no foreclosure rights.
- If proposing major expansion of services, an Initial Operating Capital Fund may be required.

This is a general outline of the program requirements. For complete information and to determine how your property can benefit from this financing opportunity, please contact your MH Finance representative at info@MHFinanceLLC.com, or call (267) 629-6700.