

FHA - 242/223(f) - Hospital Refinance or Purchase Term Sheet

FHA 242/223(f) Hospital Refinancing - Critical Access Hospital - Acute Care Facilities

Hospital Facility Refinance Loan Program FHA Section 242/223(f) Mortgage Insurance Refinancing for Acute Care Hospitals - Critical Access Hospitals - Less than 20% Rehab

Summary: No loan limit, many loans above \$100,000,000 - Tax-exempt Bond Replacement Credit Enhancement AA FHA/HUD Government Mortgage Insurance

Insured mortgages guaranteed by the Federal Housing Administration (FHA), in conjunction with the Department of Health and Human Services (HHS), provides hospitals access to affordable financing for capital needs. The program application process was modified to include Critical Access Hospitals in 1998. FHA insurance enables qualified acute care facilities to enhance creditworthiness due to backing by the full faith and credit of the United States Government. July 2009 program modified for straight Hospital Refinance under FHA 242 Hospital Facility Loan pursuant to FHA 223(f) refinancing rules.

Eligible Borrowers:

- Single Asset Entity
- For profit or non-profit owners
- (A)** Hospitals with an aggregate operating margin of less than 0.33 when calculated from the three most recent annual audited financial statements are not eligible for Section 242/223(f) insurance.
- (B)** Hospitals with average debt service coverage ratio of less than 1.80 when calculated from the three most recent annual audited financial statements are not eligible for Section 242/223(f) insurance.
- (C)** HUD may, at its discretion, use its estimate of projected interest rate in lieu of the historical interest rate(s) in calculating the operating margin and debt service coverage ratios for prior periods.
- (D)** The hospital must have experienced an increase in its interest rate of at least 1.0 percent since January 1, 2008, as a result of the credit crisis, or must demonstrate that such an increase is imminent.

Terms: • Up to 25 Years

Loan Benefits:

- Non-recourse permanent financing.
- Credit enhancement of Tax-Exempt Housing Bonds providing AA rating
- **At HUD's discretion there may be no requirement for involvement of a certified accounting firm - New!** This saves time and money for strong owners with good records. FHA 242 - 223(f) only.

Eligible Properties:

- **Acute care facilities with proper licensing**
- **Critical access hospitals are allowed to use 25 beds in any mix of acute and skilled level care. With an additional 10 each for psychiatry, and for acute rehabilitation (total 45 beds)**

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Mortgage Interest Rates: • Fixed for the length of the mortgage

Mortgage Loan Limitations:

- Maximum loan term of 25 years
- Maximum loan to Value 90% under § 242.7
- Maximum Repairs 20% of Mortgage Amount - none required
- FHA application fees of 0.3% (0.15% paid at closing)
- Fixed annual insurance premium of 0.5% of remaining balance
- 1.80 average debt service coverage ratio based on average of prior three years
- No limit on insurable amount
- Monthly payments into a mortgage reserve fund equal to one year's debt service after five years' debt service after ten years, accessible for debt service after 15 years
- Lender commitment and placement fee determined by size and scope of project
- One-time FHA inspection fee of 0.1%

The mortgage shall involve a principal obligation not in excess of 90 percent of HUD's estimate of the replacement cost of the hospital, including the equipment to be used in its operation.

Section 242/223(f) refinancing – additional limit. (1) In addition to meeting the requirements of § 242.7, if the existing hospital debt is to be refinanced by the insured mortgage (i.e., without a change in ownership or with the hospital sold to a purchaser who has an identity of interest as defined by the Commissioner with the seller), the maximum mortgage amount must not exceed the cost to refinance the existing indebtedness, which will consist of the following items, the eligibility and amounts of which must be determined by the Commissioner:

(i) The amount required to pay off the existing indebtedness;

(ii) Reasonable and customary legal, organization, title, and recording expenses, including mortgagee fees under § 242.22;

(iii) The estimated costs, if any, of repairs, renovation, and/or equipment totaling less than 20 percent of the mortgage amount;

(iv) Architect's and engineer's fees, municipal inspection fees, and any other required professional or inspection fees.

(2) In addition to meeting the requirements of § 242.7, if mortgage proceeds are to be used for an acquisition, the maximum mortgage amount must not exceed the cost to acquire the hospital, which will consist of the following items, the eligibility and amounts of which must be determined by the Commissioner:

(i) The actual purchase price of the land and improvements or HUD's estimate (prior to repairs, renovation, and/or equipment replacement) of the fair market value of such land and improvements, whichever is the lesser;

(ii) Reasonable and customary legal, organization, title, and recording expenses, including mortgagee fees under § 242.22;

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(iii) The estimated costs, if any, of repairs, renovation, and/or equipment totaling less than 20 percent of the mortgage amount;

(iv) Architect's and engineer's fees, municipal inspection fees, and any other required professional or inspection fees.

Timing: The entire process takes between six and nine months, if audited financial statements are available the process may be faster

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