HOSPITALS | FHA/HUD Section 242/223(f)

Acquisition and Refinancing of Hospital Properties

This program provides acquisition or refinance of the hospital.

Eligible Properties	The facility must be a licensed hospital.
Eligible Borrowers	For-profit or not-for-profit.
Term	Up to 25 years, self-amortizing.
Interest Rate	Locked before closing and fixed for the duration of the term. (Subject to market conditions)
Security	First mortgage on subject property and all improvements.
Loan Parameters	Over the past three years: • Aggregate debt service coverage ratio greater than 1.40%. • Aggregate positive operating margin.
HUD Fees and Expenses	• FHA application (examination) fee: 0.3% of mortgage amount. • FHA inspection fee (varies by deal) • Mortgage Insurance Premium of 0.65% of the outstanding loan amount.
Third-Party Reports	Phase I Environmental Assessment and may include study of market need and financial feasibility prepared by a CPA firm (HUD will determine the need for such a study on a case-by-case basis).
Timing	Approximately 8 – 10 months for engagement, submission, FHA/HUD review, and closing.
Funding	Ginnie Mae guaranteed mortgage-backed securities.

Eligibility Requirements	The hospital must have an aggregate operating margin of greater than or equal to 1:1 and an average debt service coverage ratio of at least 1.40 for the past three years, and meet three of the following seven criteria: 1. Total operating expenses will be decreased as a result of refinancing by at least 0.25%. 2. New interest rate will be at least 50 bps less than the current rate. 3. Current interest rate has increased at least 1 % since January 1, 2008 or will very likely increase by that amount within a year of filing an application. 4. Total annual debt service in the most recent audited financials is at least 3.4% of total operating revenues. 5. Credit enhancement on current financing has been or will imminently be withdrawn or expired, or the provider has been or will be downgraded. 6. Existing financing has overly restrictive or onerous bond covenants. 7. Other circumstances exist that demonstrate that the hospital's financial health depends upon refinancing its existing capital debt.
Other Program Parameters	• Escrows for property taxes, insurance, MIP, working capital, and replacement reserves are required. • If the State has a Certificate of Need (CON) process, a CON must be issued or pending. • Mortgage cannot be insured if a major construction project is currently underway. Construction must be complete for at least two years prior to applying for an FHA refinance loan. Starting with commencement of amortization, FHA requires insured hospitals to make contributions to a Mortgage Reserve Fund (MRF). The MRF must be funded through annual contributions so that it achieves a funding level equal to one year of debt service by five years after commencement of amortization and two years of debt service after ten years of amortization. The MRF may be used, at FHA's discretion, to assist the hospital with mortgage payments if the need arises.

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