FHA/HUD 242/223(f): REFINANCING, ACQUISITION, OR MODERATE REHABILITATION FOR HOSPITALS

Ziegler
CAPITAL :: INVESTMENTS :: ADVICE

GENERAL TERMS

Eligible Properties	Licensed acute care hospitals, hospitals, including critical access hospitals. 50% of patient days must be acute care days. Hospitals that provide a significant level of outpatient services can use an adjusted patient day calculation to determine eligibility.
Eligible Borrowers	Not-for-profit, for profit or public entity
Eligibility Requirements	Must have an aggregate operating margin of at least 0.00% and an average debt service coverage ratio of at least 1.40x 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 Credit enhancement on current financing has been or will imminently be withdrawn or expired, or the provider has been or will be downgraded. 6.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. **If the operating margin and DSC criteria are not met, OHF will recast these ratios for prior periods by applying its estimate of the projected interest rate at the time the mortgage is expected to close in lieu of the historical rate(s). In addition, if the hospital's performance in one of the three years used in the calculation was affected by exceptional, one-time events that substantially altered financial performance, the hospital may exclude that year (and include a fourth year) in determining the three-year average.*
Amortization	Fixed rate, fully amortizing
Term	Maximum of 25 years or 75% of the remaining economic life of the property
Maximum Loan Amount	The lesser of: 1. 90% of net property plant or equipment replacement cost (or 90% of appraised value); 2. For *refinance*, 100% of the cost to refinance existing indebtedness; or 3. For *acquisition*, 100% of the cost to acquire the hospital including the actual purchase price for the land and improvements.
Prepayment Options	Negotiable with best pricing for 10 years of call protection (can be a combination of lockout and/or penalty)

Personal Liability	Non-recourse loan subject to carve-outs for fraud and misrepresentation
Assumability	Subject to FHA approval
Secondary Financing	Allowable subject to FHA criteria
Repair Limitations	May include construction component (hard cost) of up to 20% of the mortgage amount

ADDITIONAL PARAMETERS

Third Party Reports	Phase I Environmental and Feasibility Study (scope to be determined by HUD). An appraisal will only be required for proposed mortgages loans greater than 90% of net property, plant and equipment or where there has been significant increase in value since purchase
Escrows	Property taxes, insurance and HUD mortgage insurance premium
Mortgage Reserve Fund	Required to equal one year's debt service after five years and two year's debt service after 10 years. Funded through hospital operations
HUD MIP	The initial insurance premium is 1.00% of the mortgage amount. Thereafter, 0.65% annually, payable in monthly installments
HUD Application Fee	0.15% of the mortgage amount
HUD Inspection Fee	Inspection fee ranges from 0.10% to 0.50% of the mortgage amount depending on the amount of construction costs included in the loan