

## FHA Section 242/223(f): Hospital Acquisition or Refinance

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| <b>Program Overview:</b>    | Acquisition and refinance of existing hospital facilities. Physical improvements and/or equipment purchases totaling less than 20% of the loan amount are also permitted.   |
| <b>Eligible Properties:</b> | <p>Acute care hospitals having more that 50% of patient days attributable to acute care services.</p> <p>To qualify, over the past three full fiscal years, the aggregate operating margin for the hospital must have been equal to or greater than 0.00, and the average debt service coverage ratio must be equal to or greater than 1.40x (when calculated against the debt service associated with the new FHA-insured loan). Exceptions to these thresholds can be requested on a case-by-case basis.</p> <p>The proposed refinance must also meet three of the following seven criteria:</p> <ol style="list-style-type: none"> <li>1. The proposed refinancing would reduce the hospital's total operating expenses by at least 0.25%;</li> <li>2. The interest rate of the proposed refinancing would be at least 0.5% points less than the interest rate on the debt to be refinanced;</li> <li>3. The interest rate on the debt that the hospital proposes to refinance has increased by at least one percentage point at any time since January 1, 2008, or is very likely to increase by at least one percentage point within one year of the date of application;</li> <li>4. The hospital's annual total debt service is in excess of 3.4% of total operating revenues, based on its most recent audited financial statement;</li> <li>5. The hospital has experienced a withdrawal of its credit enhancement facility, or the lender providing its credit enhancement facility has been downgraded, or the hospital can demonstrate that one of the events is imminent;</li> <li>6. The hospital is party to overly restrictive or onerous bond covenants;</li> <li>7. There are other circumstances that demonstrate that the hospital's financial health depends upon refinancing its capital debt.</li> </ol> |
| <b>Eligible Borrowers:</b>  | Non-profit, public, and private sponsors (owner and operator of the facility must be the same entity)   |
| <b>Maximum Loan Amount:</b> | <p><u>In the case of a refinance</u>, the loan amount may not exceed the lesser of:</p> <ol style="list-style-type: none"> <li>a) The total of: <ul style="list-style-type: none"> <li>• The amount required to pay off existing capital debt, plus</li> <li>• Hard costs (if any) totaling less than 20% of the loan amount, plus</li> <li>• Soft costs typically permitted in Section 242 loan (swap termination fees are eligible for inclusion in the loan under certain conditions); or</li> </ul> </li> <li>b) 90% of HUD's estimate of the replacement cost of the hospital including net property, plant, and equipment used in the operation of the facility.</li> </ol> <p><u>In the case of an acquisition</u>, the loan amount may not exceed the total of:</p> <ul style="list-style-type: none"> <li>• The lesser of the actual purchase price of the land and improvements or HUD's estimate of the fair market value of the land and improvements (prior to repairs, renovations and/or equipment replacement), plus</li> <li>• Hard costs (if any) totaling less than 20% of the mortgage amount, plus</li> <li>• Soft costs typically permitted in a Section 242 loan.</li> </ul>   |
| <b>Loan Term:</b>           | Up to 25 years  |
| <b>Loan Amortization:</b>   | Fully amortizing over the term of the loan.   |
| <b>Interest Rate:</b>       | Fixed for the term of the loan. The interest rate is based upon market conditions at the time of rate lock. Government insurance ensures a low interest rate relative to other financing sources.   |

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| <b>Prepayment Restrictions:</b>       | 10-year lock out, open at par.   |
| <b>Recourse:</b>                      | The loan is non-recourse.  |
| <b>Mortgage Insurance Premium:</b>    | Mortgage Insurance Premium (MIP) of 1.00% of loan amount due at loan closing, which covers the first year's MIP. Annual MIP after the first year is 0.65% of the outstanding loan balance paid with monthly principal and interest payments. Such amounts are collected by JLL and then paid to HUD.   |
| <b>Loan Assumability:</b>             | Fully assumable with JLL and HUD approval.   |
| <b>Fees and Expenses:</b>             | <ul style="list-style-type: none"> <li>• FHA Application Fee – \$1.50 per \$1,000 of requested mortgage amount due at loan application – payable to HUD.</li> <li>• FHA Commitment Fee – \$1.50 per \$1,000 of requested mortgage amount due at loan commitment – payable to HUD.</li> <li>• Mortgage Insurance Premium – see above.</li> <li>• FHA Inspection Fee – Based on a sliding scale percentage depending on the percent of total hard Costs, \$1.00–\$4.00 per \$1,000 of requested mortgage amount due at closing.</li> <li>• Third party reports – Estimated at \$30,000 for appraisal and environmental reports. May also include a study of market need and/or financial feasibility study prepared by a CPA as determined by HUD on a case-by-case basis.</li> <li>• Lender Financing Fee.</li> <li>• Good Faith Deposit – 0.50% paid to JLL at the time of rate lock and fully refunded at closing.</li> <li>• Other standard real estate transactional costs (legal, title, survey, etc.).</li> </ul> |
| <b>Mortgage Reserve Fund:</b>         | This escrow is required to be built up to an amount equal to one year's debt service after 5 years and two years' debt service after 10 years.   |
| <b>Replacement and Other Escrows:</b> | Monthly escrows for insurance and real estate taxes are required. For profit borrowers may be required to establish an equipment replacement reserve account.  |
| <b>Security:</b>                      | The loan is secured by a first mortgage on the entire hospital, including real estate, improvements and equipment.   |
| <b>HUD/OHF Review Time:</b>           | 90-120 Days  |

## For more information, please contact:

**We can support you with expert advice that  
reflects your business needs and priorities**

**Adam Roberts**

FHA Lending Platform Leader

[weadam.roberts@jll.com](mailto:weadam.roberts@jll.com)

+1 614 698 3006

**Kevin Korn**

Managing Director

[kevin.korn@jll.com](mailto:kevin.korn@jll.com)

+1 614 698 3025

**Katherine Sims**

MAP Underwriter

[katherine.sims@jll.com](mailto:katherine.sims@jll.com)

+1 614 698 3023

**John Belluardo**

Associate

[john.belluardo@jll.com](mailto:john.belluardo@jll.com)

+1 330 697 0739

**Jay Chester**

Analyst

[jay.chester@jll.com](mailto:jay.chester@jll.com)

+1 614 464 7241

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