

FHA Section 242:

Hospital New Construction or Rehabilitation

Program Overview:	New construction of hospital facilities. Acquisition with substantial rehabilitation/modernization and refinance with substantial rehabilitation/modernization of existing hospital facilities.
Eligible Properties:	<p>Acute care hospitals having more that 50% of its patient days attributable to acute care services.</p> <p>A minimum of 20% of the mortgage amount must be for new construction, rehab or modernization, of which up to one half (50%) may be for the cost of new equipment.</p> <p>For existing properties 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 equal to or greater than 1.25x.</p>
Eligible Borrowers:	Non-profit, public, and private sponsors (owner and operator of the facility must be the same entity).
Maximum Loan Amount:	There is no statutory limit on the amount that can be financed. Loan to value may not exceed 90%. HUD determines value based on estimated replacement cost (including net property, plant, and equipment).
Loan Term:	Up to 25 years plus the construction period.
Loan Amortization:	Interest only during the construction period, fully amortizing over the term of the permanent loan.
Interest Rate:	Fixed for the term of the loan, inclusive of the construction period. 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.
Prepayment Term:	10-year lock out, open at par.
Recourse:	The loan is non-recourse during both construction and permanent phases.
Mortgage Insurance Premium:	Annual 0.70% of the outstanding loan balance paid with monthly principal and interest payments.
Loan Assumability:	Fully assumable with JLL and HUD approval.
Fees and Expenses:	<ul style="list-style-type: none"> • FHA Application Fee – \$1.50 per \$1,000 of requested mortgage amount due at loan application – payable to HUD. • FHA Commitment Fee - \$1.50 per \$1,000 of requested mortgage amount due at loan commitment – payable to HUD. • Mortgage Insurance Premium – 0.70% of the loan amount per year of the anticipated construction period due at closing – payable to HUD. • FHA Inspection Fee – \$5.00 per \$1,000 of requested mortgage amount due at closing. • Third party reports – Estimated at \$150,000 for feasibility study (approx. \$125,000 of total), appraisal and environmental reports.

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	<ul style="list-style-type: none"> • Lender Financing Fee • Good Faith Deposit – 0.50% paid to JLL at the time of rate lock and fully refunded at closing.. • Other standard real estate transactional costs (legal, title, survey, etc.).
Initial Operating Deficit:	The facility will be underwritten with an initial operating deficit escrow to cover the debt service payments and other operating costs during typically the first 12-18 months of the loan. This may be satisfied in the form of cash or a letter of credit.
Mortgage Reserve Fund:	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.
Working Capital Escrow (AMPO):	A working capital deposit is required at initial endorsement in the form of cash or a letter of credit. This escrow is generally 2% of the mortgage amount, but can be larger as determined by HUD on a case-by-case basis. For non-profit hospitals only, this requirement is satisfied by capitalizing 2% of the total construction cost as an Allowance to Make Project Operational (AMPO) escrow. This AMPO fund is primarily used as a working capital escrow for accruals during the course of construction for mortgage insurance premiums, taxes, ground rent, property insurance premiums and assessments, when other funds available for these purposes have been exhausted.
Security:	The loan is secured by a first mortgage on the entire hospital, including real estate, improvements and equipment.
Construction Guidelines:	Davis-Bacon prevailing wage rates apply to new construction, additions and substantial rehabilitation projects.
Assurance of Completion:	Payment and performance bond or cash deposit/LOC.
HUD/OHF Review Time:	120-150 Days

For more information, please contact:

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

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