

OFFICE OF HOSPITAL FACILITIES  
2013 LENDER TRAINING

# FHA SECTION 223(F) REFINANCING FOR HOSPITALS

HUD HEADQUARTERS  
BROOKE-MONDALE AUDITORIUM  
JULY 31, 2013



OFFICE OF HOSPITAL FACILITIES  
2013 LENDER TRAINING

# FHA SECTION 242 AND 223F REFINANCING

**Geoffrey G. Papsco**

Director

Office of Hospital Facilities



# THE OFFICE OF HOSPITAL FACILITIES

Comprised of two divisions:

❖ **Underwriting Division**

- Functions include all underwriting activities involved in the review and processing of Section 242 mortgage insurance applications, client assistance, and staff training

❖ **Portfolio Management Division**

- Functions include portfolio management, client assistance, default prevention, and risk management



**Baton Rouge General Hospital**  
Baton Rouge, LA



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## SECTION 242 PROGRAM



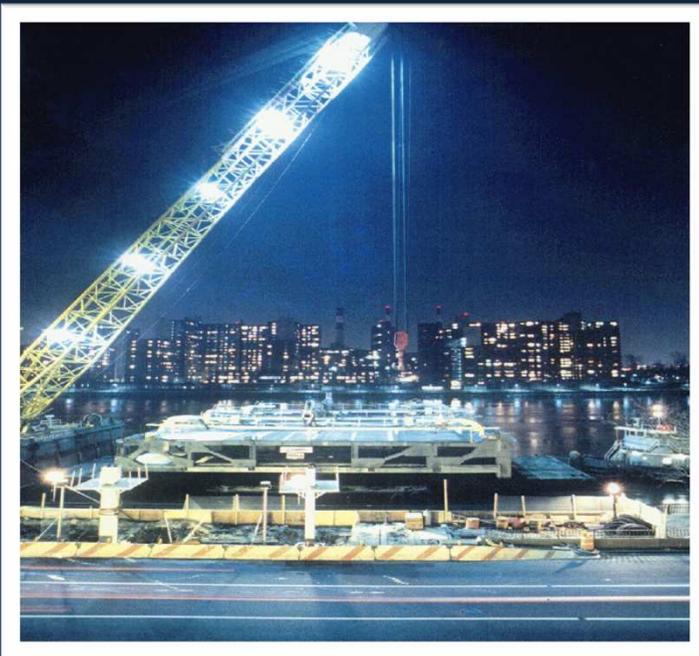
Electra Memorial Hospital  
Groundbreaking  
Electra, TX

- Since 1968, 411 commitments have been issued, totaling **\$17.6 billion**
- OHF issues on average **10 commitments/year** (over past 10 years)
- Average loan size is approximately **\$70 million** for a hospital

## INSURANCE COMMITMENT “TYPES”

- Section 242
- Section 241
- Section 223(f)
- Section 223(a)7

## ATTRACTIVE PROGRAM FEATURES



- No maximum loan amount
- Loan-to-value up to 90%
- No cash down if property value is at least 10%
- Loan term up to 25 years
- Fixed annual premiums
- Section 241 supplemental loans
- 223(a)7 and 223(f) refinancing options for hospitals



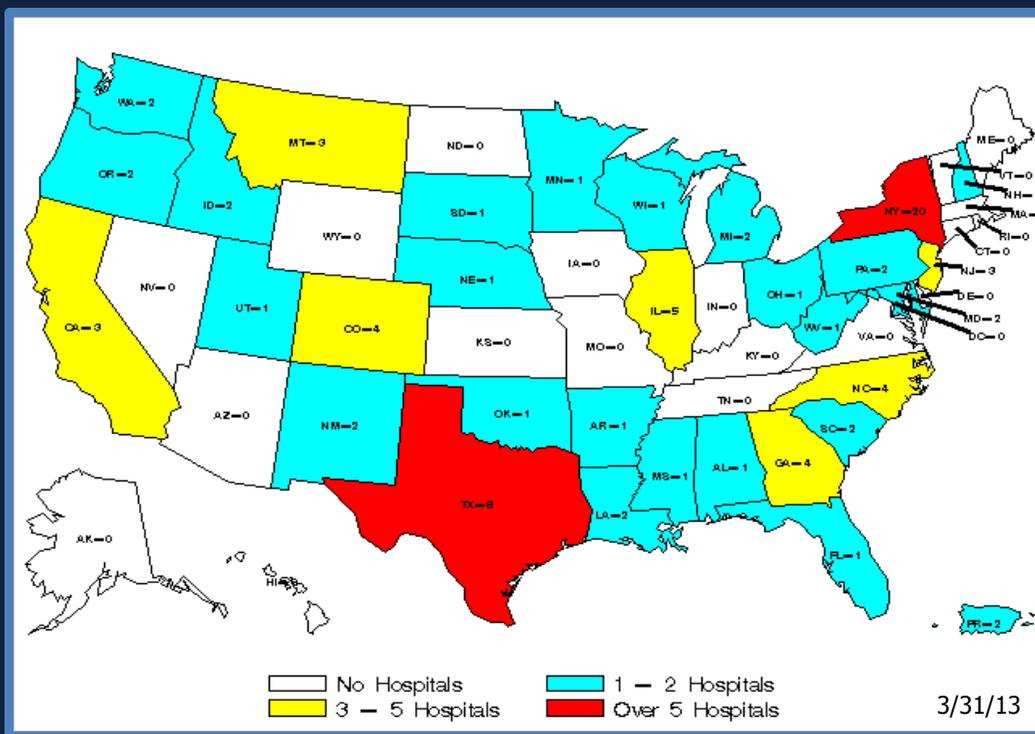
## CURRENT 242 PORTFOLIO

- **84 hospitals** presently in the insured 242 portfolio, totaling **109 active loans**
- **\$8.6 billion** in unpaid principal balances (UPB) in the current 242 portfolio
- Facilities located in **31 states** and Puerto Rico



The Memorial Hospital (CAH)  
Craig, CO

# PORTFOLIO MAP



## PROCESSING TIME

**Pre-Application  
Review  
10 Days**

**Completeness  
Review  
10 Days**

**Application  
Review  
120 Days**  
223(f):  
**90 days**



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**LEGAL  
REQUIREMENTS**

**Kelly Gil**

Counsel

Office of General Counsel



## LEGAL REQUIREMENTS: SECTION 242/223(F)

- **New regulations implementing the Section 242/223(f) statutory authority to refinance existing hospitals became effective on March 7, 2013**
- **Allows existing hospital to refinance its capital debt without a construction component requirement**



## DEFINITION OF CAPITAL DEBT

- **Capital Debt: outstanding indebtedness used for the construction, rehabilitation, or acquisition of the physical property and equipment of a hospital, including those financing costs approved by HUD**
  - ❖ **Definition gives HUD flexibility to determine range of allowable financing costs to include (e.g. interest rate swap termination fees)**



## 223(F): ACQUISITIONS

- **Section 242/223(f) can also be used to acquire an existing hospital**
  - ❖ **Acquisition: the purchase by an eligible mortgagor of an existing hospital facility and ancillary property associated therewith**



## 223(F): LIMITED REHABILITATION

- **Limited Rehabilitation permitted under 242/223(f)**
  - ❖ **Limited Rehabilitation: additions, expansion, remodeling, renovation, modernization, repair and alteration of existing buildings, including acquisition of equipment, where the hard costs are less than 20% of mortgage amount**



## COSTS

- **Hard Costs:** costs of the construction and equipment, including construction-related fees such as architect and construction manager fees
- **Soft Costs:** reasonable and customary legal, organizational, consulting, and such other costs associated with effecting the proposed project and its financing or refinancing



## MAXIMUM MORTGAGE AMOUNT

- **242.7 Maximum mortgage amounts**
  - ❖ **Mortgage shall involve a principal obligation not in excess of 90% of HUD's estimate of the replacement cost of the hospital, including equipment to be used in the operations of the hospital**



## 223(F): MAXIMUM MORTGAGE AMOUNT

- **242.23 Maximum mortgage amounts and cash equity requirements**
  - ❖ **In addition to 242.7, 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 HUD:**



## 223(F): MAXIMUM MORTGAGE AMOUNT

- Amount required to pay off existing capital debt;
- The estimated hard costs, if any, totaling less than 20% of the mortgage amount; and
- Soft costs normally allowed in a Section 242 loan



## 223(F): MAXIMUM MORTGAGE AMOUNT

- ❖ **In addition to 242.7, 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 HUD:**



## 223(F): MAXIMUM MORTGAGE AMOUNT

- Actual purchase price of land and improvements or HUD's estimate (prior to repairs, renovations, and/or equipment replacement) of the fair market value of land and improvements, whichever is lesser;
- The estimated hard costs, if any, totaling less than 20% of the mortgage amount; and
- Soft costs normally allowable in a Section 242 loan



## 223(F): ELIGIBILITY OF REFINANCING

- **242.91(b) – Eligibility of refinancing transactions**
  - ❖ **Refinancing is employed to lower monthly debt service costs (taking into account fees and charges connected with refinancing) of existing hospital;**

## 223(F): ELIGIBILITY OF REFINANCING

- ❖ **Proceeds of refinancing will be used only to retire existing capital debt; pay for limited rehabilitation totaling less than 20% of the mortgage amount; and pay the necessary cost of refinancing on the existing hospital;**

## 223(F): ELIGIBILITY OF REFINANCING

- ❖ **Existing hospital is economically viable; and**
- ❖ **All requirements of Section 242 for certificates, studies, and statements have been met.**



## SECTION 241 OF THE NATIONAL HOUSING ACT

- **Secretary is authorized to make commitments to insure, and to insure, supplemental loans**
- **Supplemental Loan: a loan made for the purpose of financing improvements or additions to a hospital, including equipment to be used in the hospital's operations**



## SECTION 241 SUPPLEMENTAL LOANS

### ❖ **Supplemental Loan shall:**

- Be limited to 90% of the amount which the Secretary estimates will be the value of such improvements, additions and equipment, except that such amount when added to the outstanding balance of the mortgage shall not exceed the maximum mortgage amount insurable under the section pursuant to which the mortgage covering such facility is insured;



## SECTION 241 SUPPLEMENTAL LOANS

- Have a maturity satisfactory to the Secretary;
- Bear interest at such rate as may be agreed upon between borrower and lender;
- Be secured in such manner as Secretary requires;
- Be governed by labor standards under Section 212 of the National Housing Act.



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NAVIGATING THE  
**NEW HANDBOOK  
& REGULATIONS**

**Glorianna Peng**  
**Nick Bacque**



## NEW HANDBOOK 4615.1 REV-1

- **Replaces the old Handbook from 1973!**
- **Supplements the Section 242 statute regulations, and provides detailed guidance**
  - ❖ **For lenders and hospitals, HUD staff and other interested parties**
- **Complete re-write**
  - ❖ **Reflects the many changes in organization, policy, and regulations that have occurred over the past 40 years**



## ONE STOP SHOP

- **New Handbook compiles and finalizes various guidance documents that have been distributed over the years, including:**
  - ❖ **Former Draft Applicant's Guides (used since 2006)**
  - ❖ **Regulatory Agreement**
  - ❖ **Former HHS Construction Guide**
  - ❖ **Section 223(a)7 Guidance – Released in 2012**



## UNIQUE STRUCTURE

- Unlike other regulations, Section 242 Regulations (revised in 2008) present program policies and procedures in considerable detail
- New Handbook is uniquely organized
  - ❖ To parallel and supplement regulations, rather than duplicate content
  - ❖ NOT meant to be read alone
  - ❖ Best utilized electronically / online
  - ❖ Embedded hyperlinks connect Handbook to online Regulations

## BEST WAY TO USE

- **To fully understand the Section 242 Program**
  - ❖ **First, must be familiar with the 242 regulations**
  - ❖ **Then read the additional detail and guidance provided in the Handbook**
  - ❖ **Know where to find information in the Appendices**

## LOCATION ON HUDCLIPS

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/handbooks/hshg/4615.1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hshg/4615.1)

Links also on FHA Healthcare website:  
**Under Section 242 > Resources page**

**And now, the live demo!**



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242 PRE-APPLICATION AND  
APPLICATION PROCESS:  
**OVERVIEW AND  
223F IMPACT**

**Paul Giaudrone**

Director of Underwriting  
Office of Hospital Facilities



## UNDERWRITING PROCESS OVERVIEW PRELIMINARY REVIEW



Rio Grande Hospital (CAH)  
Del Norte, CO

- What is the purpose of the Preliminary Review?
  - ❖ Evaluate hospitals against minimum eligibility requirements
- How does it benefit Lenders and HUD?
  - ❖ Identify deal killers
  - ❖ Identify areas of focus for underwriting

## UNDERWRITING PROCESS OVERVIEW PRELIMINARY REVIEW



Baptist Hospital of Southeast Texas  
Beaumont, TX

- **Pre-Applicant's Guide**
  - ❖ **Process Checklist**
  - ❖ **Preliminary Review Templates**
- **How does the Preliminary Review process differ for 223f applications?**
  - ❖ **Different Preliminary Review Template (with supplement)**
  - ❖ **Some additional/different eligibility criteria**



## UNDERWRITING PROCESS OVERVIEW PRE-APPLICATION MEETING



**Chatham Hospital (CAH)**  
Siler City, NC

- **What is the purpose of the Pre-Application Meeting**
  - ❖ **Discuss issues identified during Preliminary Review**
  - ❖ **Other issues that could impact underwriting**
  - ❖ **Overview of the Hospital and its Project**
  - ❖ **HUD overview of process**
  - ❖ **Meet and Greet**

## UNDERWRITING PROCESS OVERVIEW PRE-APPLICATION MEETING



Methodist Hospital of Southern California  
Arcadia, CA

- Pre-Applicant's Guide
  - ❖ Checklist
- How does the Pre-Application Meeting process differ for 223f applications?
  - ❖ In-person meeting is optional
  - ❖ May be via conference call



## UNDERWRITING PROCESS OVERVIEW APPLICATION PROCESS



**Matagorda Regional Medical Center**  
Bay City, TX

### Application Documentation

- ❖ **Detailed in the Applicant's Guide**
- ❖ **Documentation for Section 223(f) applications are similar to Section 242 and 241**
- ❖ **Exceptions**
  - Feasibility Study may not be required
  - Certification regarding monthly debt service costs



## UNDERWRITING PROCESS OVERVIEW APPLICATION PROCESS

- **Steps in the Application Process**
  1. **Application Receipt and Completeness Review**
  2. **Completeness Letter**
  3. **Underwriting Questions**
  4. **OHF Site Visit**
  5. **Covenant review and discussion**
  6. **Previous Participation (2530) review**
  7. **Independent Review**
  8. **Credit Report development**
  9. **Internal Review**
  10. **Architectural/Engineering and Environmental Review**



## UNDERWRITING PROCESS OVERVIEW APPLICATION PROCESS



Parkview Community Hospital  
Riverside, CA

- Applicant's Guide
  - ❖ Documentation
  - ❖ Checklist
- How does the Application Process differ for 223f applications?
  - ❖ Independent Review
  - ❖ Processing Times



## PRE-APPLICATION AND APPLICATION PROCESSING TIMES - GOALS

- **Preliminary Review**
  - ❖ **10 business days for Sections 242, 241, 223(f)**
- **Application Completeness Review**
  - ❖ **10 business days for Sections 242, 241, 223(f)**
- **Application Review**
  - ❖ **120 business days for Section 242 and 241**
  - ❖ **90 business days for Section 223(f)**

OHF 2011 LENDER TRAINING

BREAK

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ELIGIBILITY  
REQUIREMENTS  
**FOR 242 AND 223F  
REFINANCING**

**Paul Giaudrone**

Director of Underwriting  
Office of Hospital Facilities



## PROGRAM BASICS

- **Uses of FHA loan**
  - ❖ **Construction financing, modernization, equipment, refinancing, remodeling, expansion**
- **Coverage, Cost, and Conditions**
  - ❖ **FHA insures 99% of the loan amount**
  - ❖ **25-year term**
  - ❖ **Fixed annual premium varies between 0.55% and 0.7% of the remaining mortgage balance**



## SECTION 242 STATUTORY REQUIREMENTS

- **Loan-to-Value Requirement**

- ❖ **Maximum LTV = 90%**

- ❖ **LTV calculation =**

$$\frac{\text{TOTAL MORTGAGE AMOUNT}}{\text{TOTAL ESTIMATED REPLACEMENT COST}}$$

(Note: Total Estimated Replacement Cost includes Net PPE)

- **First Lien**

- ❖ **The HUD-insured lender must have a first lien position.**

- **Market Need**



## SECTION 242 STATUTORY REQUIREMENTS

- **Patient Day Requirement**
  - ❖ **Section 242 Statutory requirement: 50% acute care patient day rule**
  - ❖ **Non-acute patient days include skilled nursing, rehabilitation, psychiatric, and other services**
  - ❖ **HUD allows adjustment of patient days based on revenues**

## SECTION 242 REGULATORY REQUIREMENTS

- **Operating Margin and Debt Service Coverage Ratios**
  - ❖ **OM (3 year historical aggregate – 0%)**
  - ❖ **DSC (3 year historical average – 1.25x)**
- **Mortgage proceeds used for capital purchases**
- **Refinancing limits**
  - ❖ **At least 20% of mortgage amount must be used for construction and equipment**
  - ❖ **No “pick-up” projects**
  - ❖ **Debt may not be refinanced unless the construction project associated with that debt was completed more than 2 years prior to application**



## SECTION 242 REGULATORY REQUIREMENTS

- **Owner/Operator structures not allowed**
  - ❖ **Owner and operator of the facility must be the same entity**
- **“Fully Functioning Hospital” requirement**
- **Compliance with State and Federal Regulations**
  - Is the hospital in “substantial compliance” with federal and state regulations



## SECTION 223(F) – WHAT IS DIFFERENT?

- **Limit on construction**
  - ❖ **Less than 20% of the mortgage amount may be used for construction, equipment**
  - ❖ **Hard costs, if any, may be for equipment only**
- **Debt Service Coverage Ratio**
  - ❖ **Historical 3-year average – 1.4x**
  - ❖ **Reflects regulatory desire for 1.4x coverage, post project, in Section 242**



## 223(F) – THRESHOLD REQUIREMENTS

- **Hospital provides an essential healthcare service**
  - ❖ **How does the Lender demonstrate this requirement is met?**
  - ❖ **Submission of “applicant data request”**
  - ❖ **The criteria are evaluated using data within the “applicant data request”**



## 223(F) – THRESHOLD REQUIREMENTS

- **There are limited comparable affordable refinancing vehicles to the hospital**
  - ❖ **How does the Lender demonstrate that the criteria are met?**
  - ❖ **Submission of a “certification”**
  - ❖ **Lender is in best position to evaluate these criteria**



## 223(F) – THRESHOLD REQUIREMENTS

- **Performance materially improved by refinancing**
  - ❖ **Hospital must meet 3 of 7 criteria**
  - ❖ **How does the Lender demonstrate that the criteria are met?**
  - ❖ **Submission of a “certification”**
  - ❖ **Lender is in best position to evaluate many of the 7 criteria**

## 223(F) – THRESHOLD REQUIREMENTS

- **Performance materially improved by refinancing**
  - ❖ **“3 of 7” Criteria**
  - ❖ **Background**
    - Criteria developed in order to restrict the program to hospitals that demonstrate a strong need to refinance
    - 2009/2010 experience
    - Certifications created to provide clarity



## “3 OF 7 CRITERIA”

**Hospital must demonstrate that it meets 3 of the following 7 criteria:**

- 1. The proposed refinancing would reduce the hospital's total operating expenses by at least 0.25 percent;**
- 2. The interest rate of the proposed refinancing would be at least 0.5 percentage points less than the interest rate on the debt to be refinanced;**
- 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;**



## “3 OF 7 CRITERIA”

**Hospital must demonstrate that it meets 3 of the following 7 criteria (cont'd):**

- 4. The hospital's annual total debt service is in excess of 3.4 percent of total operating revenues, based on its most recent audited financial statement;**
- 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;**
- 6. The hospital is party to overly restrictive or onerous bond covenants;**
- 7. There are other circumstances that demonstrate that the hospital's financial health depends upon refinancing its capital debt.**



## REFINANCING VARIABLE RATE DEBT

- **Common Thread** - Some accommodations provided for hospitals seeking to refinance variable rate debt
  - ❖ **Example – Criterion 1** – “The proposed refinancing would reduce the hospital’s total operating expenses by at least 0.25 percent.”
  - ❖ “In the event that the Hospital is refinancing from a variable rate, the Lender may recast the interest expense line item in the most recent audit to reflect future changes in interest rates over the next 10 years, to arrive at an average interest expense.”
- An accommodation is also allowed in criterion #7



## CONSIDER ALL EXISTING DEBT

- **Common Thread** - the Lender needs to consider all debt to be refinanced
  - ❖ **Example – Criterion 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 statements.”
  - ❖ “In order to document that the Hospital meets this criterion, the Lender must base the calculation of annual total debt service on the average interest expense and principal payments on all of the proposed mortgagor’s long-term debt during the last three completed (audited) fiscal years, and provide those calculations as part of the Preliminary Review submission.”
- Guidance also provided in Criterion #1.



## PROVIDE SUPPORTING DOCUMENTATION

- **Common Thread** - The Lender must provide documentation that the criterion is met.
  - ❖ **Example – Criterion 5** – “The Hospital has experienced a withdrawal or expiration of its credit enhancement facility, or the Lender providing the facility has been downgraded, or the Hospital can demonstrate that one of these events is imminent.”
  - ❖ “In order to meet this criterion, the Lender must provide documentation showing that one of these events (or a similarly detrimental event) has occurred, or is imminent. If the Lender provides this certification based upon the occurrence of a similarly detrimental event, the Lender must provide documentation of that event.”
- Documentation that supports the certification is required for each certification that the Lender submits.



## HUD RELIES ON LENDER AND HOSPITAL

- **Common Thread** - The Lender and Hospital are in the best position to determine that the Criterion is met.
  - ❖ **Example – Criterion 6** – “The Hospital is party to covenants on its existing financing that are substantially more restrictive than the Section 242 mortgage covenants.”
- Also evident in Criteria 1 and 2.

## OTHER CIRCUMSTANCES WILL BE CONSIDERED

- **Common Thread** - Flexibility and clarity.
  - ❖ **Example – Criterion 7** – “There are other circumstances that demonstrate that the Hospital’s financial performance would be materially improved by refinancing its existing capital debt.”
- Provided within the certification are specific circumstances that the Lender can rely upon when determining whether the criterion is met (operating margin impact, operating income impact, annual debt service impact, refinancing from variable rate to fixed rate).
- Evident in most other criteria, to the extent possible.



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POLICIES FOR  
**REFINANCING AND  
SUPPLEMENTAL  
LOANS**

**Bill Williams  
John Whitehead  
J.B. Nathan  
Kelly Gil  
Nathan Dean**



## RECASTING INTEREST EXPENSE

- **Section 242.16(a)(3)(ii)**
- **New interest vs. old for last 3 years**
  - ❖ **Or 4 years if one year is deleted due to unusual results**
- **May need to calculate blended rate if both variable rate and fixed rates exist on current debt instruments**

## TURNAROUND EXCEPTIONS

- **Section 242.16(a)(2)(ii)**
- **Debt Service Coverage of 1.40 required in most recent audited year**
  - ❖ **Using recast interest expense numbers for all years excluding any unusual year**
- **Aggregate operating margin of at least zero percent applies for all years recast**



## STUDY OF MARKET NEED AND FINANCIAL FEASIBILITY

- **242 Regulations:**
  - ❖ **Study presents assumptions and financial forecast**
  - ❖ **Prepared by CPA firm acceptable to HUD**
  - ❖ **Required for 242 because these loans involve major projects**
    - Significant changes projected in revenues, expenses, or market share



## STUDY OF MARKET NEED AND FINANCIAL FEASIBILITY

- **Regs and Handbook for 223(f), 241, 223(a)7**
  - ❖ **HUD determines if study must:**
    - Address market need
      - Based on response to Applicant Data Request and other information
    - Involve CPA firm
      - Based on degree of change assumed in revenue, expense, and market share
  - ❖ **Communicated to applicant following Pre-Application meeting**

## PREMIUMS AND FEES

- **FHA mortgage insurance premium for 223(f) is 65 basis points**

| LOAN TYPE                                 | MIP<br>(basis points) |
|---|-----------------------|
| 223(a)7 Refinancing of portfolio facility | 55                    |
| 223(f) Refinancing                        | 65                    |
| 241 Supplemental Loans                    | 65                    |
| 242 Hospital Loans                        | 70                    |



## PREMIUMS AND FEES

- **Inspection fees will vary according to the amount of “Hard Costs”**
  - ❖ **See Section 242.18 and table on next slide**
  - ❖ **If none, fee will be 10 basis points (for an initial OAE Facilities Review)**



## PREMIUMS AND FEES

| HARD COST % OF MORTGAGE AMOUNT   | INSPECTION FEE<br>(basis points) |
|----------------------------------|----------------------------------|
| Less than 5%                     | 10                               |
| 5% or greater but less than 10%  | 20                               |
| 10% or greater but less than 15% | 30                               |
| 15% or greater but less than 20% | 40                               |
| 20% or greater                   | 50                               |



## MORTGAGEE FEES

- Initial Service Charge  $\leq$  2% of loan amount
- Permanent Financing Fee  $\leq$  1.5% of loan amount
  - ❖ **Plus 2% in the case of a related bond transaction**
- For 223(a)(7): Initial Service Charge + Permanent Financing Fee limited to 1.5% (or 3.5% if related bond financing)
  - ❖ **See Appendix 4, Supplement 2-6 for example of proration if mixed financing.**

## DETERMINING MONTHLY COST SAVINGS

- **Regulations (Section 242.91):**
  - ❖ **223(f): Refinancing is employed to lower the monthly debt service costs**
  - ❖ **223(a)(7): Monthly debt service payment for the refinancing mortgage may not exceed the debt service payment charged for the existing mortgage**

## DETERMINING MONTHLY COST SAVINGS

- **Handbook:**
  - ❖ **Exclude monthly debt service cost attributed to new hard costs**
  - ❖ **If more than one loan is being refinanced, calculate using weighted average monthly debt service cost of those loans**
  - ❖ **Application includes mortgagee's certification that monthly debt service costs are being lowered (see Applicant's Guide)**



## CASH EQUITY REQUIREMENTS FOR 241S

- **10% cash requirement**
  - ❖ **Must provide 10% of the Total Estimated Project Cost in cash as a minimum equity contribution in addition to meeting all of the other requirements under Section 242**



## A7 REFINANCING

- **Points of Contact**
  - ❖ **Paul Giaudrone – Director of Underwriting**
  - ❖ **Nathan Dean – 223(a)7 Lead**
- **First step: Discuss the scope and appropriateness of 223(a)7 with HUD**

## A7 REFINANCING

- **Common Issues Prior to Commitment**

- ❖ **Form 92013**

- Fill out accurately
- Allowable costs
- Needed repairs

- ❖ **2530's**

- Ongoing requirement



## A7 REFINANCING

- ❖ **New set of covenants**

- New loan, new covenants

- ❖ **Carve-outs**

- Unfavorable

- ❖ **After-acquired properties**

- Environmental?

- ❖ **Construction**

- OAE Review





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OTHER  
**POLICIES**

**Bill Williams**

**J.B. Nathan**

**John Whitehead**



## START-UPS AND INITIAL OPERATING COSTS

- **Section 242.24**
- **Working capital requirements established by HUD on a case-by-case basis**
  - ❖ **Substantially greater requirements for a new “greenfield” hospital**
- **Cash or letter of credit (or combination)**
- **Escrow disbursements approved by HUD**

## LOAN-TO-VALUE

- **Section 242.23**
- **Maximum of 90%**
  - ❖ **Unless swap termination cost is included in mortgage (which reduces the maximum to 85%)**
- **Calculated according to HUD model**
  - ❖ **LTV Excel Spreadsheet posted on FHA website under “Section 242>Resources”**
- **Appraisals accepted if done according to HUD directives**
  - ❖ **Appendix 4 - Applicant’s Guide Supplement 10**



## LOAN-TO-VALUE

- **Handbook guidance related to § 242.16(f):**
  - ❖ **Applicants are cautioned that one factor HUD will consider in evaluating risk is loan-to-replacement cost (loan-to-value or LTV)**
  - ❖ **Higher LTV ratios increase the risk of losses to the insurance fund should a claim occur**

# APPRAISALS

- Mortgagee chooses and hires appraiser
- HUD requirements:
  1. **Certified appraiser**
  2. **Healthcare experience including hospitals**
  3. **Lower of replacement cost (including equipment), sales comparison, and income approach**
- Fair Market Value for land
- Completed within 120 days of application
- Takes place of Net Book Value (proxy)
- Appraisal is required if property is/was acquired through non-arms-length sale
- Appraisal may be considered if:
  - ❖ **Acquired more than 3 years prior**
  - ❖ **Age of building and extent of depreciation results in significant undervalue**
- Actual purchase price is used if arms-length sale was within 3 years



## RULES FOR AMOUNT AND TIMING OF ADVANCES

- **Cash equity**
  - ❖ **10 days before initial endorsement – mortgagor provide evidence to HUD:**
    - Equity is in restricted fund/account, OR
    - Letter of Credit for equity is in place

## RULES FOR AMOUNT AND TIMING OF ADVANCES

- **Initial Advance Maximums**
  - ❖ **75% legal expense on application line C22**
  - ❖ **65% organizational expense from line C23**
  - ❖ **75% consulting expense from line C25**
- **Timing of Disbursement of Proceeds**
  - ❖ **Proprietary – Equity disbursed before proceeds**
  - ❖ **NFP/Gov't – When construction reaches final 25%, all equity funds and funds from other sources (grants, loans) must be disbursed before any more proceeds may be disbursed**



## SWAP TERMINATION COSTS

- Handbook 4615.1 Appendix 2 Supplement 1
- Must be “Qualified Hedge” (Treasury definition)
  - ❖ HUD may request legal opinion
- Must be done at time of original financing
- LTV requirement is 85% (max) if swap termination fee is in mortgage
- Limit in mortgage: No more than 10% of mortgage – 223(f)
  - ❖ 5% limit up to \$10M if substantial rehab/replacement
- HUD will require “Fairness Certification” from broker/dealer

## OTHER MORTGAGEABLE COSTS

- Handbook 4615.1 Appendix 2
- Mortgagors should know what can and cannot be included when preparing budgets and applications.
- Examples:
  - ❖ **Mortgagor's costs in fund-raising for equity portion, awareness campaigns, and "grand openings" may not be included in loan**

## OTHER MORTGAGEABLE COSTS

- ❖ **Bonus payments to contractor for any reason may not be included**
- ❖ **Costs of retiring debt to be refinanced may be included: Prepayment penalties or premiums or defeasance costs.**
  - Unlike swap termination cost, there are no arbitrary limits. However, adding these costs to the mortgage can degrade LTV and ratios, causing it to fail underwriting

## INSURANCE REQUIREMENTS

- Handbook 4615.1 Appendix 7
- Minimum acceptable required coverages for HUD
  - ❖ **Reference: Section 242.33**
- HUD must be named as additional insured except for professional liability policies
- Financing of costs not allowed
- Evidence of insurance must be provided at Initial Endorsement
  - ❖ **ACORD forms**
- Property insurance company must be A.M. Best “A-”, or better
- Professional/malpractice must be A.M. Best “B++”, or better
- Captive, or state pools may be acceptable to HUD
  - ❖ **With independent insurance consultant positive opinion)**
- Earthquake insurance required for Seismic Zones 3 and 4



OHF 2011 LENDER TRAINING

BREAK FOR LUNCH

OFFICE OF HOSPITAL FACILITIES  
2013 LENDER TRAINING

NEW  
**FORMS**

REVISED HUD FORMS  
92013-OHP AND 2264-OHP

**J.B. Nathan**

Senior Financial Analyst,  
OHF



# HUD FORM 92013-OHP

**Application for Hospital Project** U.S. Department of Housing and OMB No. 2502-0602  
(Exp. 05/31/2015)  
**Mortgage Insurance** Urban Development  
Hospital - Section 242 Office of Housing  
Federal Housing Commissioner

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**Part I Mortgage's Application**

Mortgagor's Legal Name: \_\_\_\_\_ Project  
Number: \_\_\_\_\_  
Section A. Date Prepared: \_\_\_\_\_

To: \_\_\_\_\_ and the Secretary of Housing and Urban Development,  
The undersigned hereby applies for a loan in the principal amount of \$ \_\_\_\_\_ to be insured under the  
provisions of Section \_\_\_\_\_ of the National Housing Act, said loan to be secured by a first mortgage on  
the property hereinafter described. Insurance of advances during construction  is,  is not desired.

**B. Project Background Information**

|   |          |              |                                 |                   |                                       |
|---|----------|--------------|---------------------------------|-------------------|---------------------------------------|
| 1. Street Address:  |          |              | 2. Municipality                 |                   |                                       |
| 3. County   | 4. State | 5. Zip Code: | 6. No. of Licensed Beds         | 7. Building Type: | 8. Project Type                       |
|   |          |              |                                 | Multistory        | New/Repl                              |
|   |          |              |                                 | One Story         | Rehab                                 |
| 9. <input type="checkbox"/> Non-Profit <input type="checkbox"/> Governmental<br><input type="checkbox"/> For-Profit |          |              | 10. Specify the Funding source: |                   | 11. Calendar Days in constr. contract |

**C. Total Estimated Replacement Cost of Project**

|   |    |  |  |
|---|----|--|--|
| 1. Total Construction Cost Per Contracts(s) | \$ | 22. Legal  |  |
| <b>Fees</b>                                 |    | 23. Organization   |  |
| 2. Architect's Fee - Design                 | \$ | 24. Special Tax Assessment   |  |
| 3. Architect's Fee - Supervisory            |    | 25. Consultant   |  |
| 4. Construction Mgmt. Fee                   |    | 26. AMPO   |  |
| 5. Other Fees (Identify)                    |    | 27. Total Leg., Org., Consult, AMPO, & Spec. Asses.                  |  |
| 6. Total Fees (Lines 2-5)                   | \$ | 28. Total Soft Costs (lines 21 & 27)                                 |  |
| <b>Other</b>                                |    | 29. Total Estimated Project Cost (Lines 11 & 28)                     |  |
| 7. Contingency                              | \$ | 30. Existing Land & PP&E to be included in Collateral                |  |
| 8. Other (Identify)                         |    | 31. Land & PP&E to be acquired for Project                           |  |
| 9. Total Other (Lines 7-8)                  | \$ | 32. Total Estimated Replacement Cost of Project (lines 29, 30, & 31) |  |
| 10. Equipment and Furnishings               | \$ | <b>D. Estimated Cash Requirements - Sources and Uses</b>             |  |
| 11. Total Hard Costs (Lines 1, 6, 9, & 10)  | \$ | 1. Total Estimated Project Cost (from C.29)                          |  |
| <b>Carrying Charges and Financing</b>       |    | 2. Refinanced Capital Debt   |  |
| 12. Interest: ___ mos. @ ___ %              |    | 3. Purchase Price of Property to be Acquired                         |  |
| On \$                                       | \$ | 4. Total Project Costs (Lines D1 through D3)                         |  |
| 13. Taxes                                   |    | 5. Other Funding Req. (Identify)                                     |  |
| 14. Insurance                               |    | 6. Other Funding Req. (Identify)                                     |  |
| 15. HUD Mgt. Ins. Prem.                     |    | 7. Total Uses of Funds (Lines D4 through D6)                         |  |
| 16. HUD Exam. Fee 0.3 %                     |    | 8. Less Insured Loan amount  |  |
| 17. HUD Inspection Fee                      |    | 9. Less Grant or Approved Loans (if any)                             |  |
| 18. Remainder Financing Fee ___ %           |    | 10. Less Other FHA Cash Requirements                                 |  |
| 19. Initial Service Charge ___ %            |    | 11. Cash Equity  |  |



## HUD FORM 92013-OHP

- Posted on the web since last summer
- New 2013 version posted
- Modified for 241- no requirement for construction cost
  - ❖ 223(f) in online version
  - ❖ Swap termination costs

**NOTE**

All dollar amounts entered on the HUD-92013-OHP shall be in whole dollars. The principal amount of the Mortgage must be in multiples of \$100.00. Round down to the nearest whole dollar when calculating the HUD Exam Fee, HUD Inspection Fee, HUD Mortgage Insurance Premium, and if the Initial Service Charge or Permanent Financing Fee is calculated as a percentage of the insured loan amount using the maximum allowable rates.



# NEW FIELDS

- Mortgagor's legal name
- To = Mortgagee
- Date
- Section of Act
  - ❖ 242
  - ❖ 241
  - ❖ 223(a)7
  - ❖ 223(f)
- Type of entity
  - ❖ NP, FP, Gov
- Funding source
- Constr. days

|   |                |   |   |   |                       |
|---|----------------|---|---|---|-----------------------|
| <b>Application for Hospital Project Mortgage Insurance</b>  |                | U.S. Department of Housing and Urban Development<br>Office of Housing<br>Federal Housing Commissioner |   | OMB No. 2502-0602 (Exp. 05/31/2015)         |                       |
| Hospital - Section 242  |                |   |   |   |                       |
| <b>Part I Mortgagor's Application</b>   |                |   |   |   |                       |
| Mortgagor's Legal Name: _____   |                |   |   | Project Number: _____                       |                       |
| <b>Section A.</b>   |                |   |   |   |                       |
| To: _____   |                |   |   | Date Prepared: _____                        |                       |
| The undersigned hereby applies for a loan in the principal amount of \$ _____ and the Secretary of Housing and Urban Development, to be insured under the provisions of Section _____ of the National Housing Act, said loan to be secured by a first mortgage on the property hereinafter described. Insurance of advances during construction <input type="checkbox"/> is, <input type="checkbox"/> is not desired. |                |   |   |   |                       |
| <b>B. Project Background information</b>  |                |   |   |   |                       |
| 1. Street Address: _____  |                |   | 2. Municipality _____   |   |                       |
| 3. County _____   | 4. State _____ | 5. Zip Code: _____  | 6. No. of Licensed Beds _____   | 7. Building Type: _____                     | 8. Project Type _____ |
|   |                |   |   | Multistory                                  | New/Repl              |
|   |                |   |   | One Story                                   | Rehab                 |
| 9. <input type="checkbox"/> Non-Profit <input type="checkbox"/> Governmental  |                | 10. Specify the Funding source: _____   |   | 11. Calendar Days in constr. contract _____ |                       |
| <input type="checkbox"/> For-Profit   |                |   |   |   |                       |
| <b>C. Total Estimated Replacement Cost of Project</b>   |                |   | <b>Legal , Organization , Consultant, AMPO, &amp; Special Assessments</b> |   |                       |
| 1. Total Construction Cost Per Contracts(s) \$ _____  |                |   | 22. Legal _____   |   |                       |
| Fees _____  |                |   | 23. Organization _____  |   |                       |



## SECTION A SPECIAL RULES

- **New Construction vs. Rehab**
  - ❖ **New construction on a lot vs. knocking out walls and rebuilding existing space**

Line 8 – *Project Type*. - A “New” hospital is a completely new project, including complete replacement of an existing hospital. A “Rehab” hospital is one that is to be renovated/modernized including additions thereto. Leave blank if only refinancing with no Hard Cost (e.g. line C.11 is \$0.00).

- **Not-for-profit vs. For-Profit**
  - ❖ **For profits not eligible for AMPO**
- **Source of Funding**
  - ❖ **Presence or absence of bond involvement affects maximum fee that can be charged by Mortgagee**



## SECTION A SPECIAL RULES

- **Calendar Days in Construction Contract**
  - ❖ **Used to determine**
    - Commencement of amortization date
    - MIP
    - Capitalized interest
  - ❖ **Basic formula**
    - $[\text{Number of days} / 30] \text{ (rounded up)} + 2 = \text{Months}$

# REVISED SECTIONS C & D

- Line numbering
- New Fields
  - ❖ Contingency
  - ❖ Total Hard Costs
  - ❖ Total Soft Costs
  - ❖ Special Tax Assessment
  - ❖ Land & PPE to be Purchased
- Renamed Section
  - ❖ Legal, Org, Consultant, AMPO, & Special Assessments
  - ❖ Estimated Cash Requirements – Sources & Uses
- Section D completely reformatted as Sources and Uses

| C- Total Estimated Replacement Cost of Project                 |    | Legal, Organization, Consultant, AMPO, & Special Assessments  |  |
|--|----|---|--|
| 1. Total Construction Cost Per Contracts(s)                    | \$ | 22. Legal   |  |
| <b>Fees</b>  |    | 23. Organization  |  |
| 2. Architect's Fee - Design                                    | \$ | 24. Special Tax Assessment  |  |
| 3. Architect's Fee - Supervisory                               |    | 25. Consultant  |  |
| 4. Construction Mgmt. Fee                                      |    | 26. AMPO  |  |
| 5. Other Fees (Identify)                                       |    | 27. Total Leg., Org., Consult, AMPO, & Spec. Asses.   |  |
| 6. Total Fees (Lines 2-5)                                      | \$ | 28. Total Soft Costs (lines 21 & 27)  |  |
| <b>Other</b>   |    | 29. Total Estimated Project Cost (Lines 11 & 28)  |  |
| 7. Contingency   | \$ | 30. Existing Land & PP&E to be included in Collateral   |  |
| 8. Other (Identify)  |    | 31. Land & PP&E to be acquired for Project  |  |
| 9. Total Other (Lines 7-8)                                     | \$ | 32. Total Estimated Replacement Cost of Project (lines 29, 30, & 31)  |  |
| 10. Equipment and Furnishings                                  | \$ | <b>D. Estimated Cash Requirements – Sources and Uses</b>  |  |
| 11. Total Hard Costs (Lines 1,6,9, & 10)                       | \$ | 1. Total Estimated Project Cost (from C.29)   |  |
| <b>Carrying Charges and Financing</b>                          |    | 2. Refinanced Capital Debt  |  |
| 12. Interest: ___ mos. @ ___ %                                 |    | 3. Purchase Price of Property to be Acquired  |  |
| On \$  | \$ | 4. Total Project Costs ( Lines D1 through D3)   |  |
| 13. Taxes  |    | 5. Other Funding Req. (Identify)  |  |
| 14. Insurance  |    | 6. Other Funding Req. (Identify)  |  |
| 15. HUD Mgt. Ins. Prem.  |    | 7. Total Uses of Funds ( Lines D4 through D6)   |  |
| 16. HUD Exam. Fee 0.3 %  |    | 8. Less Insured Loan amount   |  |
| 17. HUD Inspection Fee   |    | 9. Less Grant or Approved Loans (if any)  |  |
| 18. Permanent Financing Fee ___ %                              |    | 10. Less Other FHA Cash Requirements  |  |
| 19. Initial Service Charge ___ %                               |    | 11. Cash Equity   |  |
| 20. Title and Recording  |    | 12. Total Estimated FHA Cash Requirements   |  |
| 21. Total Carrying Charges and Financing (Lines 12 through 20) | \$ | E. 1. Information on Leased Property (based on inspection of Title Policy) Is any of the property to be mortgaged held pursuant |  |



# SECTION C

- C10. – C11.
- Section 242
  - ❖ Total Hard costs must be  $\geq 20\%$  of loan
  - ❖ Equipment must be  $\leq 50\%$  of Total Hard costs
- Section 223(f)
  - ❖ Total Hard costs must be  $< 20\%$  of loan
  - ❖ No rule on equipment... could be all equipment.
- Section 223(a)(7) and 241
  - ❖ No requirement could be all or none
  - ❖ No equipment requirement either
  - ❖ Hard costs limited to “Required repairs”
- Included in 2264-OHP tests

| C. Total Estimated Replacement Cost of Project |    |  |
|--|----|--|
| 1. Total Construction Cost Per Contracts(s)    | \$ |  |
| Fees   |    |  |
| 2. Architect's Fee - Design                    | \$ |  |
| 3. Architect's Fee - Supervisory               |    |  |
| 4. Construction Mgmt. Fee                      |    |  |
| 5. Other Fees (Identify)                       |    |  |
| 6. Total Fees (Lines 2-5)                      | \$ |  |
| Other  |    |  |
| 7. Contingency                                 | \$ |  |
| 8. Other (Identify)                            |    |  |
| 9. Total Other (Lines 7-8)                     | \$ |  |
|  |    |  |
| 10. Equipment and Furnishings                  | \$ |  |
| 11. Total Hard Costs (Lines 1,8,9, & 10)       | \$ |  |



# SECTION C

- **C12. Interest**
  - ❖ **Read 92013 instructions**
  - ❖ **Number of months is determined by days in construction contract**
  - ❖ **2264 checks**
    - Warning to check with Director of Underwriting at  $\pm 5\%$
- **C13. is for taxes on property being developed**
- **C14. is for bond insurance on the construction project**

| Carrying Charges and Financing                                 |    |  |
|--|----|--|
| 12. Interest: ___ mos. @ ___ %                                 |    |  |
| On \$ _____  | \$ |  |
| 13. Taxes  |    |  |
| 14. Insurance  |    |  |
| 15. HUD Mtge. Ins. Prem.                                       |    |  |
| 16. HUD Exam. Fee 0.3 %  |    |  |
| 17. HUD Inspection Fee   |    |  |
| 18. Permanent Financing Fee ___%                               |    |  |
| 19. Initial Service Charge ___%                                |    |  |
| 20. Title and Recording  |    |  |
| 21. Total Carrying Charges and Financing (Lines 12 through 20) | \$ |  |



# SECTION C

- **C15. Mortgage Insurance Premium**

- 223(a)7: 55 basis points  
(First year is 50 basis points)
- 223(f): 65 basis points
- 241: 65 basis points
- 242: 70 basis points

- ❖ **Only allowed up to substantial completion date**
- ❖ **2264 calculates**
- ❖ **No Cap-I, Taxes, Insurance, or MIP in Section C if insured on completion [most 223(f) or 223(a)7]**
  - MIP goes to Section D(5)
  - Cap-I, Taxes, & Insurance do not apply

| Carrying Charges and Financing                                    |    |  |
|---|----|--|
| 12. Interest: ___ mos. @ ___ %                                    |    |  |
| On \$ _____   | \$ |  |
| 13. Taxes   |    |  |
| 14. Insurance   |    |  |
| 15. HUD Mtge. Ins. Prem.  |    |  |
| 16. HUD Exam. Fee 0.3 %   |    |  |
| 17. HUD Inspection Fee  |    |  |
| 18. Permanent Financing Fee ___ %                                 |    |  |
| 19. Initial Service Charge ___ %                                  |    |  |
| 20. Title and Recording   |    |  |
| 21. Total Carrying Charges and Financing<br>(Lines 12 through 20) | \$ |  |



# SECTION C

- **C16. Exam Fee**
  - ❖ **Application Fee: 15 basis points**
    - Due with application
  - ❖ **Commitment Fee: 15 basis points**
    - Adjusted for amount paid with application
    - Due within 30 days of commitment
      - Commitment expires if not paid on time
  
- **C17. Inspection Fee (24 CFR 242.18)**
  - ❖ **Based on Total Hard costs C11 compared to loan D8 (2264-OHP calculates):**
    - 0% - <5%: 10 basis points
    - 5%- <10%: 20 basis points
    - 10% - <15%: 30 basis points
    - 15% - <20%: 40 basis points
    - 20% or greater: 50 basis points

| Carrying Charges and Financing                                 |    |  |
|--|----|--|
| 12. Interest: ___ mos. @ ___ %                                 |    |  |
| On \$ _____  | \$ |  |
| 13. Taxes  |    |  |
| 14. Insurance  |    |  |
| 15. HUD Mtge. Ins. Prem.                                       |    |  |
| 16. HUD Exam. Fee 0.3 %  |    |  |
| 17. HUD Inspection Fee   |    |  |
| 18. Permanent Financing Fee ___%                               |    |  |
| 19. Initial Service Charge ___%                                |    |  |
| 20. Title and Recording  |    |  |
| 21. Total Carrying Charges and Financing (Lines 12 through 20) | \$ |  |



## SECTION C

- **C18. Permanent Financing Fee**
  - ❖ **Matches name in regulation**
  - ❖ **Limited to 1.5% (or 3.5%)**
  - ❖ **Special rules if mixed financing**
- **C19. Initial Service Charge**
  - ❖ **Limited to 2%**
- **2264-OHP checks for and prevents excess charges**
- **223(a)7 limits combined charge to 1.5% or 3.5% with related bond financing**

| Carrying Charges and Financing                                 |    |  |
|--|----|--|
| 12. Interest: ___ mos. @ ___ %                                 |    |  |
| On \$ _____  | \$ |  |
| 13. Taxes  |    |  |
| 14. Insurance  |    |  |
| 15. HUD Mtge. Ins. Prem.                                       |    |  |
| 16. HUD Exam. Fee 0.3 %  |    |  |
| 17. HUD Inspection Fee   |    |  |
| 18. Permanent Financing Fee ___ %                              |    |  |
| 19. Initial Service Charge ___ %                               |    |  |
| 20. Title and Recording  |    |  |
| 21. Total Carrying Charges and Financing (Lines 12 through 20) | \$ |  |

# SECTION C - LEGAL, ORG....

- **C24. Special Tax Assessment**
  - ❖ **Legal term of art for when city puts in utility feature and property owner does not pay for the “land improvements up front”**
- **C26. AMPO**
  - ❖ **Up to 2%**
  - ❖ **Only applies to non-profit or governmental**
  - ❖ **May elect to post AWC**
  - ❖ **Not required... but potential underwriting question**
  - ❖ **Clarified that savings clause applies.**
    - Not intended to cover items that could be paid from operations, or additional change orders approved by hospital without prior HUD authorization.
- **C27. & C28. Section Totals**

| Legal , Organization , Consultant, AMPO, & Special Assessments |  |  |
|--|--|--|
| 22. Legal  |  |  |
| 23. Organization   |  |  |
| 24. Special Tax Assessment                                     |  |  |
| 25. Consultant   |  |  |
| 26. AMPO   |  |  |
| 27. Total Leg., Org., Consult, AMPO, & Spec. Asses.            |  |  |
| <b>28. Total Soft Costs (lines 21 &amp; 27)</b>                |  |  |



# SECTION C - PROJECT COSTS

- **C29. Total Estimated Project Cost**
  - ❖ **Total Hard Cost + Soft Cost**
  - ❖ **Used to determine amount of inspection fee**
- **C30. & C31. Existing land & PP&E included in collateral and PP&E to be purchased**
  - ❖ **Instructions require attached schedule (if attaching loan to value worksheet, explain any excluded property)**
    - Based on most recent audit (or appraisal)
    - Adjusted for exclusions... property to be destroyed or loses value...leases on balance sheet.... Leasehold interest.....
    - Similar adjustments for property to be purchased.
    - Make sure that hospital has fee simple title and not leasehold interest on all real property.

|   |  |
|---|--|
| 29. Total Estimated Project Cost (Lines 11 & 28)                    |  |
| 30. Existing Land & PP&E to be included in Collateral               |  |
| 31. Land & PP&E to be purchased for Project                         |  |
| 32. Total Estimated Replacement Cost of Project (lines 29,30, & 31) |  |



# SECTION D - SOURCES & USES

- **D2. Refinanced Capital Debt**
  - ❖ **The outstanding indebtedness used for the construction, rehabilitation, or acquisition of the physical property and equipment of a hospital, including those financing costs approved by HUD**
    - May include SWAP termination costs
    - Should be a note showing SWAP termination costs
    - SWAP terminations costs included on line D2 should be listed in box to left of Section E.
    - “Ineligible SWAP termination costs go on line D5 or D6
- **D3. New line for purchase price of property to be purchased**
  - ❖ **Only 90% of the lower of Value (C31) or Purchase Price (D3) may be included in the mortgage (Handbook 242.23.8)**
- **D5. & D6. Other funding requirements**
  - ❖ **MIP... AWC... Special HUD escrows... Pay off Line of Credit... Disallowed SWAP termination cost, etc.**

| D. Estimated Cash Requirements – Sources and Uses |  |
|---|--|
| 1.  | Total Estimated Project Cost (from C.29)   |
| 2.  | Refinanced Capital Debt                    |
| 3.  | Purchase Price of Property to be Purchased |
| 4.  | Total Project Costs ( Lines D1 through D3) |
| 5.  | Other Funding Req. (Identify)              |
| 6.  | Other Funding Req. (Identify)              |
| 7.  | Total Uses of Funds ( Lines D4 through D6) |



## SECTION D - SOURCES & USES

- **D7. Total Uses of Funds**
  - ❖ **Sum of D1 through D6**
- **Various subtractions (or Sources used to meet the listed Uses)**
  - ❖ **Insured loan amount**
  - ❖ **Grants or approved loans (new line item)**
    - Rare but sometimes Dept. of Agriculture
    - Always been present... but was ignored
- **C11. clearly separates required Cash Equity from Other Cash Requirements and Other Sources.**
- **C12. Total Sources of Funds**
  - ❖ **Sum of D8 through D11**

|   |  |
|---|--|
| 7. Total Uses of Funds ( Lines D4 through D6) |  |
| 8. Less Insured Loan amount                   |  |
| 9. Less Grant or Approved Loans (if any)      |  |
| 10. Less Other FHA Cash Requirements          |  |
| 11. Cash Equity                               |  |
| 12. Total Estimated FHA Cash Requirements     |  |

## SECTION E & HUD USE ONLY

- **Section E -**
  - ❖ **E1. Info on Leased Property**
    - Needed to determine reduction in value
  - ❖ **E2. Other Non-FHA Cash Requirements**
    - Use in underwriting to reduce available cash
      - Affects Current Ratio, Days Cash on Hand, etc.
    - i.e. Cash needed to support letter of credit, pay for wrap, etc.
- **HUD use - Space to initial, date, and indicate amount of application fee received**
  - ❖ **Big blank used to record SWAP termination cost in requested mortgage amount.**



# PAGE 2

- Needs to be completed and signed
- Part II
  - ❖ Total Mortgage Amount should match Page 1
  - ❖ Permanent Financing Rate
  - ❖ Term of Loan
    - Usually 300 months, but may be less
  - ❖ Initial Service Charge and Permanent Financing Fee is also listed here, should match Page 1
  - ❖ Statement on Certificate of Need

**Part II - Mortgage's Application**  
To: The Secretary of Housing and Urban Development:

Pursuant to the provisions of the Section of the National Housing Act identified in the Mortgage's application and HUD Regulations applicable thereto, application is hereby made for the insurance of a mortgage covering property described in the above application of the Mortgage. After examination of the application and the proposed security, the undersigned proposed mortgagee considers the project to be desirable and is interested in making the loan in the principal amount of \_\_\_\_\_ Dollars

(\$ \_\_\_\_\_), which will bear interest at \_\_\_\_\_ percent (\_\_\_\_\_%), will require repayment of principal over a period of \_\_\_\_\_ months and, according to an amortization plan to be agreed upon. Insurance of advances during construction  is,  is not desired.

This application by the undersigned proposed Mortgagee is subject to your commitment, its own final action and the payment of its charges. It is understood that the initial service charge in the amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) is subject to adjustment so that the total will not exceed \_\_\_\_\_ percent (\_\_\_\_\_% of the amount of your commitment.

Discount or Permanent Financing Fee for the mortgage is \_\_\_\_\_%.

Herewith is check for \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), which is in payment of the application fee required by said HUD Regulations.

Address: \_\_\_\_\_

Mortgagee: \_\_\_\_\_ Signature: \_\_\_\_\_



# LOAN TO VALUE

- AEs prepare their own and confirm values
- Pretty straightforward
  - Enter Hospital Name
  - Mortgage Amount
  - Project Number
- Fill in lines as directed
  - ❖ Only enter appraisal if appraisal is submitted, otherwise leave blank
- Lines 12 and 19 should match the 92013-OHP
  - ❖ Use line 12 & 19 for 2264

| Worksheet 1<br>Loan to Value Worksheet  |                               |         |         |
|---|-------------------------------|---------|---------|
| Hospital:   | FHA Project:                  |         |         |
| Proposed Mortgage Amount:   | Loan-to-Value (Entity level): | #DIV/0! |         |
| <b>Existing PP&amp;E</b>  |                               |         |         |
| 1 Enter Net PP&E from most recent audit   |                               |         |         |
| 2 Enter appraised value of property (if applicable)   |                               |         |         |
| 3 Subtract line 1 from line 2, and enter difference   |                               | \$0     |         |
| 4 Subtotal (sum of line 1 and line 3)   |                               |         | \$0     |
| 5 Less book value of excluded property  | \$0                           |         |         |
| 6 Less net book value of leases on equipment  | \$0                           |         |         |
| 7 Less the value of property that will be destroyed or less value as a result of the project                                  | \$0                           |         |         |
| 8 Less 90% of the net book value of real property subject to a leasehold interest (if less than 99 year)                      | \$0                           |         |         |
| 9 Less 5% of the net book value of real property subject to a leasehold interest (if 99 year lease)                           | \$0                           |         |         |
| 10 Less site demolition costs   | \$0                           |         |         |
| 11 Total subtractions (Total of lines 5 through 10)   |                               | \$0     |         |
| 12 Existing Land & PP&E to be included in Project (Line 4 minus line 11) (Also enter on Data entry worksheet row 54)          |                               |         | \$0     |
| <b>PP&amp;E to be Acquired</b>  |                               |         |         |
| 13 Enter appraised value of property  |                               | \$0     |         |
| 14 Less value of excluded property  |                               |         |         |
| 15 Less value of leases on equipment (if applicable)  |                               |         |         |
| 16 Less the value of property that will be destroyed or less value as a result of the project                                 |                               |         |         |
| 17 Less site demolition costs   |                               |         |         |
| 18 Total subtractions (Total of lines 14 through 17)  |                               | \$0     |         |
| 19 Value Land & PP&E to be acquired included in Project (Line 13 minus line 18) (also enter on Data entry worksheet row 55)   |                               |         | \$0     |
| 20 Enter Total Estimated Project Cost   |                               |         | \$0     |
| 21 Total Estimated Replacement cost of project (enter sum of lines 12, 19 and 20)   |                               |         | \$0     |
| 22 Enter the principal balance on other approved loans that are a part of this project.                                       |                               |         | \$0     |
| 23 Enter the unpaid principal balance on other approved loans (i.e. existing HUD insured, or other outstanding approved loan) |                               |         | \$0     |
| 24 Loan-to-Value Entity level (the proposed mortgage amount + line 22 + line 23 all divided by line 21)                       |                               |         | #DIV/0! |
| 25 Loan-to-Value project level (for 241, the proposed mortgage amount + line 22 all divided by (line 20 - line 19))           |                               |         | #DIV/0! |

REV 05/08/2013

## 2264-OHP

- **HUD Form, provided as courtesy**
  - ❖ **File name 2264-template 05132013.xlsx**
  - ❖ **Locked, but white spaces can be changed or enter data**
  - ❖ **Complete instructions are available**
    - Instructions include formulas and edit checks
    - Please note the comments including pop-up comments!
  - ❖ **Column A is space for AE Comments**
  - ❖ **Column J gives the source for entering the info**
  - ❖ **Made to match the 92013-OHP**
  - ❖ **Runs several edit checks and quickly identifies potential problems**
  - ❖ **DO NOT SUBMIT TO HUD!**



OFFICE OF HOSPITAL FACILITIES  
2013 LENDER TRAINING

OFFICE OF  
ARCHITECTURE AND  
ENGINEERING  
**PROCESSES  
RELATED TO 223F**

**Teresa Bilyk, R.A.**

Director of the Office of  
Architecture and  
Engineering



## FHA SECTION 242/223(F)

- **Construction cost + equipment is less than 20% of the mortgage**
- **Construction cost may be \$0**
- **Minimum Federal Wages Rates are NOT required**
- **OAE must make a site visit for every 223(f) project**
- **OAE needs to perform an environmental review (HUD form 4128) for every 223(f) project**



## OAE CHECKLIST FOR 223(F)

### OAE Internal Checklist for Proposed FHA-223(f) Projects:

1. Define scope of work of proposed project.
2. What is the dollar value of the proposed work?
3. What is (are) the ages of the existing structures?
4. Has the facility endured any unusual event since the original construction, i.e. hurricane, earthquake, fire, tornado, etc.?
5. Is the existing hospital poorly constructed in any area?  
Clarify.



## OAE CHECKLIST FOR 223(F)

6. Describe the quality of the maintenance of the existing structure(s).
7. When was the last phase 1 environmental study completed? Get a copy.
8. Is there a capital expenditure plan for maintenance and repair over the next five years? Get a copy.
9. Is there a facility master plan? Get a copy.
10. Check condition of roof, exterior skin, structural, mechanical, electrical, plumbing systems to verify major deficiencies.

## OAE CHECKLIST FOR 223(F)

- 11. Check status of warranties on major pieces of mechanical, plumbing and electrical equipment such as boilers, emergency generators, air handling equipment, etc. Take copies.**
- 12. Is the hospital focusing on work that is of a critical nature in terms of the priority needs of the facility in your opinion? Justify.**
- 13. What is the status of the functionality of various spaces considering future needs?**
- 14. Categorize the proposed work. Is it related to life safety, programmatic, fixed equipment, mechanical, functional layout, patient care, etc. Identify.**



## OAE CHECKLIST FOR 223(F)

- 15. Is the cost estimate for the repair work reasonable for the scope, location and magnitude of the project?**
- 16. How will the work be executed? Are there proposed contracts? Does the hospital have adequate staff to oversee the work?**
- 17. What is the schedule of work planned? Will phasing be necessary and will patient care be interrupted?**
- 18. Has energy conservation, sustainability and green design been considered in the plans for the facility? Give examples. If not, why not?**

## OAE CHECKLIST FOR 223(F)

19. What are the conditions of the exterior of the structures, ie. Aesthetic appearance, accessibility, etc.
20. Would the project be better off considering an FHA-242 project?
21. Is the proposed work really necessary?
22. Is there any work OAE could suggest in addition to that proposed that might be more critical or that should have been considered in light of current codes and standards?
23. Are there any Joint Commission on Accreditation or other authorities having jurisdiction noted deficiencies that need to be resolved that have not been considered in the scope of the proposed work?



## OAE CHECKLIST FOR 223(F)

- 24. How much functional obsolescence is there in the facility? Double bedded rooms, small surgical suites, dead-ends or spaces without sprinklers, structural deficiencies?**
- 25. Can OAE measure the energy savings on the proposed project? Has a cost benefit analysis or study been done for the proposed project?**
- 26. Document the site inspection made by the OAE Project Manager and/or the OAE environmental staff person.**

## OAE CHECKLIST FOR 223(F)

- 27. Has the hospital invested in making plant, property and equipment enhancements over the last five years? If so, identify what they did.**
- 28. Are photographs available for the existing facility?**
- 29. Do the databases searched for does the information at hand for the proposed project indicate any changes that impact negatively from an environmental point of view?**
- 30. Are there any new above ground or underground storage tanks? Have the adjacent properties around the hospital undergone major changes since the closeout of the project?**



## OAE CHECKLIST FOR 223(F)

- 31. Are there any outstanding environmental conditions that need to be monitored on the existing hospital site as part of the 4128 process?**
- 32. Will a licensed architect and/or engineer be required for the proposed work?**
- 33. Will a building permit be required for the proposed work? Have any necessary local authorities been contacted for review of the proposed work?**

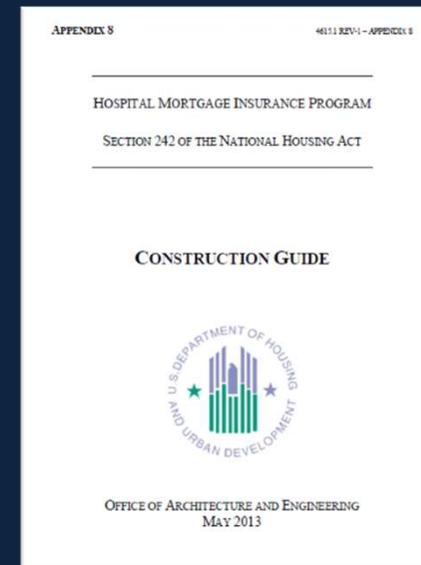
## OAE CHECKLIST FOR 223(F)

- 34. What is the outcome of the HUD-4128?**
- 35. Will a licensed architect and/or engineer be required for the proposed work?**
- 36. Will a building permit be required for the proposed work? Have any necessary local authorities been contacted for review of the proposed work?**
- 37. What is the outcome of the HUD-4128?**

HANDBOOK 4615.1

# APPENDIX 8-CONSTRUCTION GUIDE

- **Part I** –Overview of Construction Process and Requirements
- **Part II** –Guide for Project Applicants- Construction Management Services
- **Part III** –Guide for Project Applicants – Design-Build Services
- **Part IV** –Environmental Review and Requirements



## APPENDIX 8-CONSTRUCTION GUIDE

### Part I-Overview of Construction Process and Requirements

1. Introduction
2. Design of the Project and Contract Requirements
3. Bids, Awards, Contracts and Modifications
4. Reserve for Replacement of Equipment (proprietary Facilities)



## APPENDIX 8-CONSTRUCTION GUIDE

- 5. Responsibility for Construction**
- 6. Preconstruction Conference**
- 7. Labor Standards**
- 8. Change Orders**
- 9. Substantial Completion Date**
- 10. OAE Final Inspection**
- 11. Incomplete On-Site and Off-Site Facilities**

## APPENDIX 8-CONSTRUCTION GUIDE

**12. Equipment**

**13. Final Construction Closeout by OAE**

**14. Loan Modification Projects**

**15. 11-Step Construction Draw Procedure**



## APPENDIX 8-CONSTRUCTION GUIDE

### Part II-Guide for Project Applicants: Construction Management Services

1. Construction Management in the Section 242 Program
2. Team Functions and Responsibilities
3. Preparing Construction Management Agreements
4. Selection of a Construction Manager



## APPENDIX 8-CONSTRUCTION GUIDE

**5. Special Consideration for CM/GMP Contracts**

**6. Responsibilities and Relationships**

**Addendum: Definitions Applicable to CM/GMP Contracts  
for Section 242 Projects**

**Exhibits 1-8 including Parts A & B**



## APPENDIX 8-CONSTRUCTION GUIDE

### Part III-Guide for Project Applicants Design-Build (D/B) Services

- No limitation to dollar value in a D/B contract.
- Uses AIA A141-2004, Exhibits A-C as the basic D/B contract
- Requires an Owner's Rep that is a licensed architect or engineer
- Requires the hospital to hire an independent cost estimator if competitive bidding is not utilized for 100% of the contracts or if the D/B firm is not competitively selected



HANDBOOK 4615.1

## APPENDIX 8-CONSTRUCTION GUIDE

**The Design-Build (D/B) AIA 141 contract with the Owner must incorporate a required addendum reflecting HUD's requirements set forth on Pg. 2 of the D/B requirements in the handbook's construction guide. Some of the items include:**

- Use of drawings and specs
- Debarred list
- Fixed scope of work with a fixed sum only permitted
- Savings return to owner
- HUD 92554-Supplementary Conditions- Labor and EEO
- Federal minimum wage rates
- 100% complete construction documents are required prior to proceeding to a commitment
- Retainage requirements (10% to 50%, etc)
- 80% of architect's fee paid at initial endorsement
- Calendar days for duration of work shall be included in d/b contract
- Liquidated damages (\$.09/\$1,000 of construction cost)
- No bonuses permitted
- D/B architect must be present at tour with OAE on jobsite and must sign the HUD-92448



## APPENDIX 8-CONSTRUCTION GUIDE

- No cash allowances permitted
- All change orders must be approved by the Owner, Lender and HUD
- Payment utilizing HUD forms
- Requirements for off site storage
- Partial and final releases of lien
- Final retainage paid at final endorsement
- 100% P&P Bonds
- No line item for D/B contingency allowed

**NOTE: We recommend hospitals request letters of recommendation from the d/b firm or obtain a list of previous projects where we could follow up on D/B's past performance.**



## APPENDIX 8-CONSTRUCTION GUIDE

### Part IV-Environmental Review and Requirements

- **FHA-242 projects must comply with NEPA Act of 1969**
- **Lender must submit environmental info**
  - ❖ **Phase 1 environmental assessment**
  - ❖ **If applicable, Phase 2 environmental assessment and remediation plan**
- **Need to receive OAE's environmental clearance on HUD Form 4128 prior to receiving a HUD commitment**
- **Commitment may be conditioned**
  - ❖ **Soil contamination, wetlands mitigation, noise abatement, historic preservation, and/or design related to floodplain maps**
- **Need a HUD Form 4128 approval prior to receiving approval to do site prep, pre-commitment work**



## APPENDIX 8-CONSTRUCTION GUIDE

- **OAE will fill out the HUD Form 4128**
- **Contact OAE early in the application process to arrange an environmental site visit**
- **Any environmental conditions requiring project design and remediation must be fully detailed on the contract drawings and specifications.**



## APPENDIX 8-CONSTRUCTION GUIDE

- **Make certain environmental professionals are qualified**
  - ❖ **See Appendix X2 of ASTM E1527-05**
- **Phase 1- Initial determination**
- **Phase 2- Ascertain by chemical testing**
- **Remediation Plans- Complete or incomplete removal**
- **Monitoring, flushing, or testing wells**
- **Off-site contamination**

## APPENDIX 8-CONSTRUCTION GUIDE

- **Other Considerations**
- **Endangered species**
- **Explosive/Flammable Hazards**
- **Coastal Barriers & Zones**
- **Sole Source Aquifers**
- **Runway Zones**
- **Environmental Justice**
- **Other Federal and State Laws**



## APPENDIX 8-CONSTRUCTION GUIDE

- **Glossary of Acronyms has been added to the end of Appendix 8**



OFFICE OF HOSPITAL FACILITIES  
2013 LENDER TRAINING

HELPFUL TIPS FROM THE  
**PORTFOLIO  
MANAGEMENT  
PERSPECTIVE**

**Bert Mirarchi**

Portfolio Management  
Division Director , OHF



## ISSUES TO CONSIDER

How is the Board & Management?

Medical Staff Issues?

Effective Physician Employment?

Effective Strategic Planning?

How is Liquidity?

Have Ancillary Losses Drained Cash?

Adequate Investment in Facility?

Turnover of CEO, CFO, and other Senior Leadership?

OFFICE OF HOSPITAL FACILITIES  
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# APPLICATION AND UNDERWRITING PROCESS UPDATES

**Geoff Papsco**

**Paul Giaudrone**

**Kathryn Killeen,**  
Office of Risk Management



OHF 2011 LENDER TRAINING

# OFFICE OF RISK MANAGEMENT PERSPECTIVE

## FHA: A DELICATE BALANCE...

- **Ensure insurance programs are sufficiently capitalized, balancing risk & mission objectives**
- **Achieve FHA mission**
- **Support improvements to the risk culture**
- **Maintain FHA's countercyclical role in the markets when needed**



# CORE RISK MANAGEMENT ACTIVITIES

## Risk Transparency

1. Estimate the impact and probability of risks across credit and operating platforms
2. Enhance risk reporting and incorporate risk issues into the management processes

## Appetite & Strategy

1. Set tolerance for key risks against the organization's overall risk capacity
2. Identify and minimize risks to support sustainable businesses practices

## Processes

1. Define policies and thresholds that escalate risk above tolerance levels
2. Develop risk monitoring processes and loopback system improvements

## Risk Culture

1. Develop credit risk training and risk education programs
2. Embed credit risk into individual performance management

## Organization & Governance

1. Design the risk function organization structure
2. Design governance model and processes



## GOVERNANCE PRINCIPLES

- **Business units own production decisions and are accountable for managing credit risks**
- **Higher impact risks require a higher level of responsiveness**
- **ORM owns overall risk management policies and standards**
- **ORM shares performance objectives with business units *where appropriate***



## OFFICE OF RISK MANAGEMENT (ORM) PERSPECTIVES

- Taking risks is part of being in the business
- Risk has two “tails” (risks of rare events): there can be upside & downside
  - ❖ Insurers do not share in upside (beyond premium income)
  - ❖ Insurers share disproportionately on downside
  - ❖ Higher volatility (i.e., uncertainty) increases tail risk
  - ❖ Focus on understanding and managing downside tail risk

## EMERGING RISKS – HEALTHCARE INDUSTRY

- **Future role of government in the healthcare space**
- **Industry consolidation & changing business models**
- **Weakness in state and municipal sectors**
- **Analyze Macroeconomic Risks**

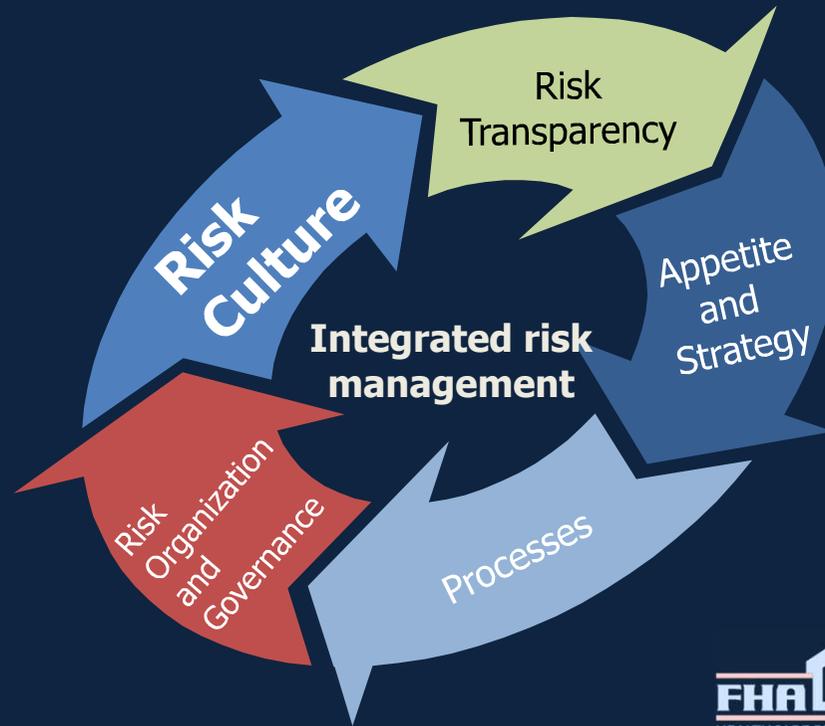


## CORE RISK MANAGEMENT ACTIVITIES PROMOTING A RISK CULTURE

### Promoting a Risk Culture

❖ **Does the culture support the right mindsets and behaviors?**

- Support from the top
- Shared risk-related performance targets
- Credit Committee



OHF 2011 LENDER TRAINING

Q & A  
SESSION



THANK YOU

Office of Hospital Facilities

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