
HOSPITAL MORTGAGE INSURANCE PROGRAM

SECTION 242 OF THE NATIONAL HOUSING ACT

APPLICANT'S GUIDE
PRE-APPLICATION



OFFICE OF INSURED HEALTH CARE FACILITIES
FALL 2009

APPLICANT’S GUIDE – PRE-APPLICATION
HUD SECTION 242 MORTGAGE INSURANCE PROGRAM

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INTRODUCTION

Section 242 of the National Housing Act enables the affordable financing of hospital projects by reducing the cost of capital and significantly enhancing the credit of hospitals that qualify for mortgage insurance. The program improves access to quality health care, reduces the cost of hospital care, supports HUD's community development mission, and contributes revenues to the General Insurance Fund. Currently, hospitals in HUD's Section 242 portfolio range from small rural facilities to some of the nation's top urban teaching hospitals.

Through the Section 242 program, lenders may apply for hospital mortgage insurance, supplemental loans, or refinancing. However, potential applicants are asked to first contact HUD and submit pre-application materials for preliminary review before proceeding to the application stage. Because of the comprehensive nature of the application and the rigor of qualifications required by the Section 242 program, The Office of Insured Health Care Facilities (OIHCF) performs an analysis of pre-application materials to determine whether or not potential mortgagors meet the minimum criteria for HUD Section 242 Mortgage Insurance.

Passing this preliminary phase does not assure that an application will be approved; however, the pre-application process enables OIHCF to determine minimum eligibility requirements before a hospital and its lender commit substantial time, expense, and effort to prepare a complete application.

When reviewing applications for mortgage insurance, HUD's main objectives are to evaluate the need, financial feasibility, and risk of proposed hospital projects. When deciding whether or not to approve a loan, HUD considers a large number of factors, and expects complete applications to contain sufficient information and supporting data to enable informed decisions.

ABOUT THE OFFICE OF INSURED HEALTH CARE FACILITIES

OIHCF is centralized in HUD Headquarters in Washington, DC and performs day-to-day program operations with support from Field Offices. Field Offices provide support in underwriting and loan monitoring, provides architectural/engineering services, assign case numbers, review previous participation clearances, perform environmental reviews, and perform loan closings.

The Director of the Office of Insured Health Care Facilities is responsible for overall program management. The Director oversees policy development, loan origination, and asset management.

PRE-APPLICATION PROCESS CHECKLIST

As mentioned in the Introduction to this guide, the purpose of the Preliminary Review is to identify any obvious factors that would cause an application to be rejected, before a hospital and its lender expend the resources needed to prepare an application and before HUD expends resources to review it. The Preliminary Review focuses on statutory eligibility, market need, financial strength, and any other known factors that have the potential to cause an application to be rejected. HUD performs this review at no cost to the lender.

If HUD's review identifies no problems, the next step in the process is a pre-application meeting. The pre-application meeting is an opportunity for the potential mortgagee and mortgagor to summarize the proposed project, for HUD to summarize the application process, and for issues that could affect the eligibility or underwriting of the proposed loan to be identified and discussed.

Following the meeting, HUD may (1) invite the lender to submit an application or (2) identify issues that must be resolved before a full application will be accepted for processing. HUD's participation in a pre-application meeting should in no way be construed as an indication that a subsequent application will be approved.

If HUD does not receive a complete application within one year following the date of the preliminary review letter, another Preliminary Review may be required, at HUD's discretion, before the application process may proceed.

The checklist on the following pages presents the pre-application steps from initial contact through Preliminary Review and pre-application meeting to the submission of the application. It is in a step-by-step format that can be used as a planning tool by both the lender and HUD.

**SECTION 242 HOSPITAL MORTGAGE INSURANCE
PRE-APPLICATION PROCESS CHECKLIST**

HOSPITAL/CONTACT/PHONE: _____

MORTGAGE BANK/CONTACT/PHONE: _____

HUD ACCOUNT EXECUTIVE/PHONE: _____

ACTION OFFICE	TRIGGER	ACTION	INFORMATION NEEDED TO COMPLETE THIS STEP	DATE ACTION PLANNED & COMPLETED
Potential Applicant (Banker) or Hospital		Contact HUD about possibility of FHA financing. (Note: If the hospital is already a HUD client, all preliminary steps will normally be handled by the client's Account Executive.)	<input type="checkbox"/> Hospital name and location <input type="checkbox"/> General project description	
HUD	Initial inquiry	Provide program information verbally, by referring to web page, and by sending additional materials. Obtain project information by phone or e-mail; if hospital is clearly not a Section 242 candidate, explain why.	During initial contact, HUD should try to determine the following to provide quick answers in some cases or to identify issues to be resolved before proceeding further: <input type="checkbox"/> What is the nature and amount of the project? <input type="checkbox"/> Are statutory eligibility criteria met including 50% patient days calculation? <input type="checkbox"/> Are minimum financial criteria met? <input type="checkbox"/> Is at least 20% of the mortgage amount for a construction or modernization project? <input type="checkbox"/> Is physician ownership present? <input type="checkbox"/> Does local government ownership pose first lien problems? <input type="checkbox"/> Is hospital willing and able to grant a first lien on hospital property, plant, equipment, and receivables? <input type="checkbox"/> Has construction begun already or is it about to? <input type="checkbox"/> Is this a design-build project?	

ACTION OFFICE	TRIGGER	ACTION	INFORMATION NEEDED TO COMPLETE THIS STEP	DATE ACTION PLANNED & COMPLETED
			(continued) <ul style="list-style-type: none"> <input type="checkbox"/> Is the hospital in a CoN state? <input type="checkbox"/> If in a CoN state, does it have required CoNs? <input type="checkbox"/> Does the hospital have a mortgage lender? <input type="checkbox"/> Has the lender attended a training session and/or submitted a successful application within the past 3 years? <input type="checkbox"/> Is the hospital prepared to bring sufficient cash to the table for equity and working capital? <input type="checkbox"/> Is there a current or planned receivables financing program? <input type="checkbox"/> Is it a Critical Access Hospital, Sole Community Provider or Regional Referral Hospital? 	
HUD	Initial contact indicates hospital may be a candidate for Section 242 financing	Request Preliminary information. If initial contact was with a hospital, encourage hospital to retain a mortgage lender as a first stop. Send list of lenders active in the 242 program.	Send or direct the applicant to: <ul style="list-style-type: none"> <input type="checkbox"/> Minimum Criteria for Consideration <input type="checkbox"/> Preapplicant Data Request (Preliminary Review Report & Applicant Data Request (Excel file) <input type="checkbox"/> Adjusted patient days calculation (if applicable) 	
Applicant	HUD requests Preliminary information	Provide Preliminary information to HUD as defined by “Required Documentation for Preliminary Review” in Applicant’s Guide	<ul style="list-style-type: none"> <input type="checkbox"/> Above materials received from HUD <input type="checkbox"/> Written responses to Minimum Criteria <input type="checkbox"/> Project Description and available business plan <input type="checkbox"/> Draft application form HUD-92013 HOSP <input type="checkbox"/> Completed Pre-application Data Request <input type="checkbox"/> Three years audited financial results and fourth year Balance Sheet <input type="checkbox"/> Description of ownership structure <input type="checkbox"/> Other information requested by HUD 	

ACTION OFFICE	TRIGGER	ACTION	INFORMATION NEEDED TO COMPLETE THIS STEP	DATE ACTION PLANNED & COMPLETED
HUD	Receipt of Preliminary information from applicant	Complete Preliminary Review Information Template and (if appropriate) HUD Need Tool.	Review of Preliminary information to determine the following: <ul style="list-style-type: none"> <input type="checkbox"/> Are statutory eligibility requirements met? <input type="checkbox"/> Is market need indicated? <input type="checkbox"/> Do financial results meet minimum criteria for consideration? <input type="checkbox"/> Is ownership structure a problem in relation to Stark and anti-kickback? <input type="checkbox"/> Is 80/20 refi/project rule met? <input type="checkbox"/> Are the sources and uses of funds in the HUD Form 92013-HOSP in accordance with handbook? <input type="checkbox"/> Are there “design-build” issues to resolve? <input type="checkbox"/> Are there other issues that would adversely impact eligibility, need, or risk? <input type="checkbox"/> Determine if hospital qualifies for “fast track” application procedures 	
HUD	Negative Outcome of Preliminary Review	If serious issues are identified in Preliminary review, HUD informs applicant. Possible outcomes: Hospital is determined not to be a candidate for Section 242 Hospital is informed of actions needed to resolve issues (may range from obtaining additional information to waiting a year for financial performance to improve). In some cases, a meeting may be appropriate, but this should not be identified as a pre-application meeting. An Account Executive may or may not be assigned.		

ACTION OFFICE	TRIGGER	ACTION	INFORMATION NEEDED TO COMPLETE THIS STEP	DATE ACTION PLANNED & COMPLETED
HUD	Positive Outcome of Preliminary review	<p>If all indications are positive, or if only manageable issues remain from Preliminary review, HUD informs applicant of results of Preliminary review and discusses next steps.</p> <p>An Account Executive (AE) and Client Service Team (CST) are designated.</p> <p>AE takes the steps necessary to enter hospital into application pipeline if not already done.</p>		
Applicant	Positive outcome of Preliminary Review	For-profit hospitals must submit Stark and Anti-kickback legal opinion on proposed organization structure		
HUD & Applicant	Notification from HUD that minimum criteria are met	Schedule pre-application meeting.	<ul style="list-style-type: none"> <input type="checkbox"/> Date and time <input type="checkbox"/> Place <input type="checkbox"/> Additional project information needed: <ul style="list-style-type: none"> - By HUD from applicant - By applicant from HUD <input type="checkbox"/> Are applicant's participants ready? (Owner or board representative, CEO, CFO, banker, attorney, architect, others) <input type="checkbox"/> Are HUD's participants ready? [HUD program office, account executive, attorney, Division of Architecture and Engineering (DAE)] <input type="checkbox"/> Agenda approved by HUD (AE) and applicant 	

ACTION OFFICE	TRIGGER	ACTION	INFORMATION NEEDED TO COMPLETE THIS STEP	DATE ACTION PLANNED & COMPLETED
HUD & Applicant	Pre-application meeting scheduled	Conduct pre-application meeting.	<u>Topics to be covered include, but are not limited to:</u> <ul style="list-style-type: none"> <input type="checkbox"/> Certification of Need <input type="checkbox"/> Hospital Overview <ul style="list-style-type: none"> <input type="checkbox"/> Community <input type="checkbox"/> Market <input type="checkbox"/> Organization <input type="checkbox"/> Clinical Programs <input type="checkbox"/> Financial Performance <input type="checkbox"/> Business Plan and Market Strategies <input type="checkbox"/> Project Description <ul style="list-style-type: none"> <input type="checkbox"/> Scope <input type="checkbox"/> Timing (Start & End dates) <input type="checkbox"/> Sources and Uses of Funds <input type="checkbox"/> Feasibility Study <input type="checkbox"/> CST Report <input type="checkbox"/> HUD Feasibility Contract Consultants <input type="checkbox"/> Standard Covenants <input type="checkbox"/> Legal Matters <input type="checkbox"/> Architectural and Engineering Matters <input type="checkbox"/> Construction Schedule including any: <ul style="list-style-type: none"> <input type="checkbox"/> Site Preparation <input type="checkbox"/> Pre-commitment Work <input type="checkbox"/> Early Start requests <input type="checkbox"/> First draw <input type="checkbox"/> Phase I Environmental Review <input type="checkbox"/> Application Process and Timing <input type="checkbox"/> Applicant's Guide <input type="checkbox"/> Handbook 4615 <input type="checkbox"/> DAE contacts and phone numbers 	
HUD	Pre-application meeting completed	Decide whether and on what conditions to invite an application (if not done at pre-application meeting). Decide what type of report (study of market need and financial feasibility) and authentication level is required.		

ACTION OFFICE	TRIGGER	ACTION	INFORMATION NEEDED TO COMPLETE THIS STEP	DATE ACTION PLANNED & COMPLETED
Applicant	Application invited by HUD *	Decide whether and on what schedule to proceed with application; notify HUD of target date for submission of complete application.		
Applicant	Decision to proceed with application	<p>Prepare all application materials called for in Applicant's Guide and in accordance with technical requirements in Handbook.</p> <p>Update AE on progress against schedule, monthly or as changes occur.</p> <p>Bring issues or questions to AE as they arise. Bring design issues and questions to assigned DAE representative and AE.</p>		
HUD	Notification that applicant is preparing application	Provide technical assistance to applicant as application is prepared; provide documented responses applicant can rely on.		
Applicant	Application completed	Send application to HUD as directed by AE.	<p>Typical Distribution:</p> <ul style="list-style-type: none"> <input type="checkbox"/> HUD HQ (1) plus one extra set of documents pertaining to organization and other legal issues <input type="checkbox"/> Account Executive (1)*# <input type="checkbox"/> Client Service Team Member(s) (1 or 2) <input type="checkbox"/> Division of Architecture and Engineering (1)* <input type="checkbox"/> HUD Field Office (Multi-family) (1)*+ <input type="checkbox"/> HUD Field Counsel (1)*+ <p>* Include plans and specs with these copies only + Include fee with this copy # Include an electronic copy of the application</p>	

* Applicant can submit an application without invitation. However, resolution of all preliminary issues before applying is strongly recommended.

REQUIRED DOCUMENTATION FOR A PRELIMINARY REVIEW

PRELIMINARY REVIEW REPORT

TEMPLATE

[INSERT DATE]

FOR THE FILE AND INFORMATION OF PROGRAM STAFF

HOSPITAL: [Hospital, City, State]
[From, Title]
[Phone]

RECEIVED:

ANALYSTS:

DOCUMENTS PROVIDED:

- ___ 3 years audited financial statements & balance sheet from 4th year historical
- ___ Project description
- ___ Business plan
- ___ Draft 92013-HOSP
- ___ Applicant Data Request (Excel file)
- ___ Description of ownership structure
- ___ Other:

WHAT IS THE NATURE AND AMOUNT OF THE PROJECT?

Please provide a brief description of the project and a breakout of project costs including construction, equipment, financing and transaction expenses. Please estimate the length of the construction period. If the project involves a refinancing component indicate the amount being refinanced and the interest rate(s) on the existing debt. Please complete and provide a draft 92013-HOSP mortgage insurance application form.

ARE STATUTORY ELIGIBILITY CRITERIA MET? (INCLUDING 50% PATIENT DAYS CALCULATION, LTV<90%?)

The 242 program is designed for acute care hospitals and as such there is a patient day determination to see whether the hospital is primarily an acute care facility. Patient days assignable to chronic convalescent and rest, drug and alcoholic, epileptic, mentally deficient, mental, nervous and mental, and tuberculosis are **ineligible** patient days. Included in the **ineligible** patient day category are patient days attributable to skilled nursing, intermediate care, convalescent care, rehabilitation, and psychiatric care. If ineligible patient days exceed eligible patient days by only a small amount, contact the Section 242 program office. Hospitals designated as Critical Access Hospitals are exempt from the eligible/ineligible patient day calculation until July 31, 2011.

LTV calculation = (Total mortgage amount) / (Total Estimated Replacement Cost + Net PPE)
 Certain other adjustments may be required to adjust for items such as capital leases, property excluded from the project, etc.

IS THIS A START-UP HOSPITAL?

If yes, fill out the **Start-up Hospital Preliminary Review Report Supplement** and skip the Minimum Financial Criteria and Fast Track questions.

ARE MINIMUM FINANCIAL CRITERIA MET?

Average operating margin for last 3 years ≥ 0.00

	2006	2005	2004	Average
Operating Margin				

Average DSC for last 3 years ≥ 1.25

	2006	2005	2004	Average
DSC				

OPTIONAL: FAST TRACK CALCULATION

WITH THE PROPOSED DEBT OVERLAID ON EACH OF THE PAST 2 YEARS' FINANCIAL RESULTS, WHAT WOULD HAVE BEEN THE OPERATING MARGIN AND DEBT SERVICE COVERAGE?

Operating margin for past 2 years ≥ 0.00

	2006	2005
Operating Margin		

DSC for past 2 years ≥ 1.40

	2006	2005
DSC		

IF PROPOSED PROJECT MEETS CRITERIA ABOVE, DOES HISTORICAL PRO FORMA ALSO MEET THE FOLLOWING?

- a) Current Ratio ≥ 1.25
- b) Working Capital as a percent of Total Assets ≥ 0.05
- c) Equity Financing Ratio ≥ 0.20 (.10 for CAH)
- d) Long Term Debt to Capitalization ≤ 0.70
- e) Debt Service as a percent of Operating Revenue ≤ 0.055

IS AT LEAST 20% OF THE MORTGAGE AMOUNT FOR A CONSTRUCTION OR MODERNIZATION PROJECT?

No more than 80 percent of the mortgage amount can be for refinancing. There must be a construction component in a 242 project, and at least 20 percent of the mortgage amount must be for construction and equipment. (This is the amount shown on Section C, Line 5 of the 92013-HOSP application form.) Of this 20 percent, no more than half may be used for equipment. (This is the amount shown on Section C, Line 4.)

IS PHYSICIAN OWNERSHIP PRESENT?

Physician-owned facilities must comply with the Stark amendments and anti-kickback prohibitions. In addition, investor owned hospitals are reviewed for their impact on existing healthcare providers particularly those providing uncompensated care.

DOES LOCAL GOVERNMENT OWNERSHIP POSE FIRST LIEN PROBLEMS?

HUD must be able to have a first lien position on property, plant, equipment and revenue. Is there a reverter clause? Does local government ownership allow HUD to have a mortgage on the property? Will a conduit issuer have title? Please describe in detail the ownership structure of the proposed transaction.

IS HOSPITAL WILLING AND ABLE TO GRANT A FIRST LIEN ON HOSPITAL PROPERTY, PLANT, EQUIPMENT, AND RECEIVABLES? (See above)

HAS CONSTRUCTION BEGUN ALREADY OR IS IT ABOUT TO?

HUD cannot insure a mortgage for a project in progress.

IS THIS A DESIGN-BUILD PROJECT?

IS THE HOSPITAL IN A CON STATE? IF SO, HAS THE APPROPRIATE CON BEEN FILED?

DOES THE HOSPITAL HAVE A MORTGAGE LENDER?

Please identify the mortgage lender. HUD can provide a list of mortgage lenders that are active in the Section 242 program. Selection of a mortgage lender is the hospital's responsibility.

HAS THE LENDER ATTENDED A SECTION 242 LENDER TRAINING SESSION AND/OR SUBMITTED A SUCCESSFUL APPLICATION WITHIN THE PAST THREE YEARS?

IS APPLICANT PREPARED TO BRING SUFFICIENT CASH TO THE TABLE FOR EQUITY AND WORKING CAPITAL?

The maximum mortgage amount is 90 percent of the estimated replacement cost. Borrower must have sufficient equity and working capital on hand to be considered for Section 242 mortgage insurance.

IS THERE A CURRENT OR PLANNED RECEIVABLES FINANCING PROGRAM?

HUD must have a first lien position on the hospital's receivables. If an AR financing program exists or is contemplated, please provide the details.

IS IT A CRITICAL ACCESS HOSPITAL, SOLE COMMUNITY PROVIDER OR REGIONAL REFERRAL HOSPITAL?

Self explanatory

NEED FOR THE HOSPITAL BASED ON OBJECTIVE CRITERIA

OTHER

Please provide any additional information deemed relevant regarding the application for Section 242 mortgage insurance.

Please request an electronic copy of the HUD Need Tool file pictured below (*file: HUD Need Tool.xls*). Fill out and submit an electronic copy to HUD when submitting the Preliminary Review Report. This file does not need to be submitted for critical access hospitals unless specifically requested by HUD.

HUD Need Tool.xls:

HUD NEED TOOL Applicant Data Request	
<p>Background: Section 242 of the National Housing Act allows the U.S. Department of Housing and Urban Development (HUD) to insure mortgages of acute care hospitals, specifically, "to assist the provision of urgently needed hospitals" and to "encourage programs that undertake responsibility to provide comprehensive health care, including outpatient and preventive care, as well as hospitalization, to a defined population." This tool is designed to assist HUD in providing initial advice to the potential applicant on whether the hospital appears "needed" in the community. This tool is a precursor to a demonstration of need through a full blown market assessment and/or demand study and a financial feasibility study. Some information used in determining need must be provided by the potential applicant, as they would likely have access to the most accurate and reliable</p>	
<p>Directions: The applicant must provide information requested, and prepare or obtain the data according to specific data parameters which indicated where applicable. Information obtained during this process will be used in the HUD Need Tool to determine need, so accuracy is essential. Please enter information only in the designated areas. Should the applicant feel they need to provide additional explanation or information, please attach to this form.</p>	
<p>Facility Information</p> <p>Name: <input style="width: 95%;" type="text"/></p> <p>Address: <input style="width: 95%;" type="text"/></p> <p>State: <input style="width: 95%;" type="text"/></p> <p>Phone: <input style="width: 95%;" type="text" value="N.A."/></p>	<p>Contact Information</p> <p>Name: <input style="width: 95%;" type="text"/></p> <p>Address: <input style="width: 95%;" type="text"/></p> <p>State: <input style="width: 95%;" type="text"/></p> <p>Phone: <input style="width: 95%;" type="text"/></p>
<p>1. Brief Description of Proposed Project</p> <div style="background-color: #ffff00; height: 200px; display: flex; align-items: center; justify-content: center; text-align: center;"> Page 1 </div>	
<p>Classify your project as ONE of the following: (Please answer Yes to only one of the choices)</p> <p>- Existing hospital undergoing a major modernization project with no change in bed count. <input style="width: 40px;" type="checkbox"/> (includes expansion/modernization of outpatient services)</p> <p>- Existing hospital undergoing a major modernization project with a reduction in bed count. <input style="width: 40px;" type="checkbox"/> (includes expansion/modernization of outpatient services)</p> <p>- Existing hospital increasing bed count. <input style="width: 40px;" type="checkbox"/></p> <p>- New hospital. <input style="width: 40px;" type="checkbox"/></p> <p>- Other (describe) <input style="width: 40px;" type="checkbox"/></p>	
<p>Notes: <input style="width: 95%; height: 20px;" type="text"/></p>	

3. Quantify Licensed, Staffed, and Available Beds

Quantify the licensed, available, and staffed beds by clinical service in the table below. (Proposed new hospitals should estimate this information.) Use the following definitions as guidelines in determining the accurate count.

Licensed - The total current number of beds recognized by the state and listed on the facility's operating certificate.

Operational - The total number of beds that are available for use. This number may be equal to or less than licensed, and should reflect only those beds that could potentially be operational with minimal to no time or dollar investment. For example, this number should not include licensed beds in a unit that was subsequently converted to outpatient services; the unit would have to be renovated back (with a time and dollar investment) to regain those beds.

Staffed - The average number of operational beds that are supported by existing staff. This number may be equal to or less than licensed and operational and should reflect only those beds that can actually be used by a patient today.

Facility	Total Current Beds			Total Final Beds w/Project	
	Licensed	Operational	Staffed	Licensed	Staffed
Hospital					
Acute					
General Service*					
Intensive Care Unit					
Coronary Care Unit					
Burn Intensive Care Unit					
Surgical Intensive Care Unit					
Neonatal ICU					
Premature ICU					
Pediatric ICU					
Detoxification ICU					
Psychiatric ICU					
Trauma ICU					
Other Special Care					
Subtotal Special Care	-	-	-	-	-
Subtotal Acute	-	-	-	-	-
Nursery					
Subtotal Hospital	-	-	-	-	-
Skilled Nursing Facility					
Nursing Facility					
Other Long Term Care					
Hospice					
Subtotal Facility	-	-	-	-	-

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* General service beds include: medical/surgical, pediatrics, obstetrics, psychiatry, physical rehabilitation, substance abuse detox & substance abuse rehabilitation.

Notes: _____

4. Identify Competitor Hospitals

Identify by name and location all hospitals considered to be a competitor. Please distinguish between those hospitals that are located within the physical boundaries of the service area and those that are outside the service area.

	Competitor Name	Zip	County
<i>Competitors in Service Area</i> (hospitals located within the service area zip codes)			

	Competitor Name	Zip	County
<i>Competitors Outside Service Area</i> (other hospitals located within the counties that are included in the service area)			

Notes:

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5. Outpatient and Emergency Room Services

Enter the most recent year for which data is available and complete. Then provide outpatient utilization statistics for the current year and for a projected year that represents 2 full years after the completion of the project. If the project is for a new hospital, leave current year column blank.

Most recent year of data available (current year):
 Projection year (two years after completion of project):

Outpatient Clinic Visits		
Ambulatory Surgery Visits		
Emergency Room Visits		

Does the hospital provide full service emergency room services?

Does the hospital have a certified trauma center?

Notes:

6. Hospital Classification

Is the applicant classified as a Sole Community Hospital?

Is the applicant classified as a Rural provider?

Is the applicant classified as a Rural Referral Center?

Notes:

7. Teaching Hospital

Does the applicant have Intern/Resident Teaching Programs?

Notes:

**START-UP HOSPITAL PRELIMINARY REVIEW REPORT SUPPLEMENT
 TEMPLATE
 [INSERT DATE]**

FOR THE FILE AND INFORMATION OF PROGRAM STAFF

HOSPITAL: [Hospital, City, State]
ANALYST(S):

DOCUMENTS PROVIDED:

- ___ Any available draft cash flow statements
- ___ Any available draft forecast income statements and balance sheets
- ___ Any available demand statistics (admissions, outpatient visit, and surgeries), payor mix, bad debt/charity assumptions, and medical staff recruiting budget
- ___ 2% of mortgage in lieu of AMPO on HUD Form 92013 Hospitals, line D.5 (for-profit hospitals only)
- ___ Initial operating capital defined on HUD Form 92013 Hospitals, line D.6
- ___ Resumes of key management personnel
- ___ Business Plan including draft Medical Staff recruiting plan

ARE MINIMUM FINANCIAL CRITERIA MET?

Average operating margin for first 3 years \geq 0.00

	1 st Year	2 nd Year	3 rd Year	Average
Operating Margin				

Average Debt Service Coverage (DSC) for first 3 years $>$ 1.4

	1 st Year	2 nd Year	3 rd Year	Average
DSC				

INITIAL OPERATING CAPITAL = TO HUD REQUIREMENTS?

Sub-section 242.24 of the Code of Federal Regulations requires in the case of a new hospital or a hospital expansion, that HUD shall establish, on a case-by-case basis, the amount of initial operating capital, if any, that must be deposited in cash or a letter of credit (or combination) to be available to the new hospital upon commencement of operations. Letters of credit are usually not an option for for-profit hospitals. Generally, the initial operating capital other than AMPO (not-for-profit only) shall not be borrowed funds unless HUD determines that there are offsetting financial strengths to compensate for the risk associated with borrowing. What initial operating capital is available for this project? HUD's general guidelines for new hospitals are as follows.

	Pre-Opening Expenses	First Day Inventory & Non-Capital Items	First 6 Months of Cash Expenses	First 3 Months of Principal Payments [For-Profit Only]	2% of Mortgage Amount in lieu of AMPO (Project Capital) [For-Profit Only]	Total Initial Operating Capital
Initial Operating Capital						

IS THE HOSPITAL NEEDED?

Revisions to the Hospital Mortgage insurance Program Final Rule published in the Federal Register on November 28, 2007 (Final Rule) provide guidance to our office and the public concerning the definition of market need. Generally, Section 242 insurance may support start-up hospitals only if existing hospital capacity or services are clearly not adequate to meet the needs of the population in the service area. The Market Need approval process entails a determination of the market need of the proposal and stresses the impact of the proposed facility on, and its relationship to, other healthcare facilities and services, particularly hospitals that have a disproportionate share of Medicaid and uninsured patients or provide a substantial amount of charity care. Other factors for which the Final Rule requires review include the number and percentage of any excess beds and demographic projections. Are there any special conditions or considerations that should be taken into account concerning the need for this particular hospital?

DOES HOSPITAL MANAGEMENT HAVE SUCCESSFUL PAST EXPERIENCE WITH START-UP HOSPITALS?

Please provide a narrative describing the management team’s start-up hospital experience and, if possible, the financial performance of the hospitals they started.

IS THE ORGANIZATION THAT PROPOSES THE START-UP HOSPITAL NEW AND/OR DEPENDENT ON ONE OR A FEW INDIVIDUALS FOR CONTINUITY AND SUCCESS?

Sub-section 242.10 of the Code of Federal Regulations requires all hospitals to demonstrate continuity of organization commensurate with the 25 year term of the mortgage loan and makes particular note of new organizations, or those whose continuity is necessarily dependent upon an individual or individuals because of the increased risk the program has experienced with such owner/operators. If the answer to the above question is yes, please provide a narrative explaining what steps have been taken to ensure continuity or organization for the life of the loan and the degree to which the community has participated in and is solidly behind the project.

WILL THE HOSPITAL BE ABLE TO RECRUIT ENOUGH MOTIVATED PHYSICIANS TO ACHIEVE BUSINESS PLAN DEMAND STATISTICS AND POSITIVE CASH FLOW FOR THE FIRST YEAR OF OPERATION?

Please describe how the medical staff recruiting plan and recruiting budget support the business plan in terms of defining and funding searches for the types and numbers of physicians to be recruited and providing the lead time necessary to recruit each physician.