

# Preliminary Review Process

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# Process Steps

1. Self assessment
2. Initial contact with HUD
3. HUD conducts Preliminary Review
4. Pre-application meeting
5. Application and feasibility study
6. Application review by HUD/HHS
7. HUD decision
8. Insurance commitment
9. Initial closing
10. Construction
11. Final closing



# Step 1: Self assessment

- 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
  - ❖ One-time fees total 0.8 percent of the loan amount
  - ❖ Fixed annual premium is 0.5 percent of the remaining mortgage balance

# Step 1: Self assessment

- The HUD-insured lender must have a first lien position.
- Note: For refinancing, at least 20% of mortgage amount must be used for construction and equipment

# Step 1: Self assessment

- Adjusted patient days at least 50% acute care
- (Critical Access Hospitals Are Exempt)
- Past 3 years average operating margin  $>0$
- Past 3 years average debt service coverage ratio  $>1.25$

(For hospitals recently designated as Critical Access, calculate financial information as though it had been a CAH for all three years)

## Step 2: Initial contact with HUD

- Describe hospital and project
- Ask questions
- Provide additional information
- Receive Pre-application list
- Contact Info:

HUD Washington, DC  
(202) 708-0599

E-mail inquiries:  
Charles\_Y.\_Davis@hud.gov

Website:  
[www.fha.gov/hospitals](http://www.fha.gov/hospitals)

## Step 3: Preliminary Review

- Purpose of the Preliminary Review: Advise applicant of factors that could disqualify an application
- Mortgage banker submits preliminary review materials to HUD
- If favorable: HUD and HHS assign an Account Executive, and pre-application meeting is scheduled

## Step 3: Preliminary Review

1. Last three years audited financial statements
2. Need Tool – Applicant Data Request form
3. Draft HUD Form 92013
4. Preliminary Review Template

# Patient Day Test

- 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
- Critical Access Hospitals are exempt from the patient day rule

# Loan-to-Value

- LTV calculation =

$$\frac{\text{(Total mortgage amount)}}{\text{(Total Estimated Replacement Cost + Net PPE)}}$$

- Maximum LTV = 90 percent

# Project Description

- Basic information on the hospital (location, number of beds, etc)
- Information on the project (replacement, expansion, renovation, refinancing)
- The need for the project

# Ownership Structure

- Types of ownership
  - ❖ Non-profit, privately-owned
  - ❖ Government-owned
  - ❖ Investor-owned hospitals
    - Stark and Anti-kickback

# Financial Screens

- Average operating margin for last 3 yrs  $\geq 0$
- Operating Margin =
  - Operating Income from Last Full FY
  - + Operating Income from Two Full FYs Ago
  - + Operating Income from Three Full FYs Ago
  - Total Operating Revenues from Last Full FY
  - + Total Operating Revenues from Two Full FYs Ago
  - + Total Operating Revenues from Three Full FYs Ago
- HUD removes non-operating revenues from the calculation

# Financial Screens

- Average DSC for last 3 years  $\geq 1.25$
- Debt Service Coverage Ratio (DSC) =  
$$\frac{\text{Net Income} + \text{Depreciation Expense} + \text{Interest Expense}}{\text{Current Portion of Long-Term Debt (Prior Year)} + \text{Interest Expense}}$$
- For hospitals recently designated as Critical Access, calculate ratios as though they have been a CAH for all three years

# Other Program Requirements

- Hospital must agree to contribute to a Mortgage Reserve Fund
- All projects in a CON state must have the appropriate CON approval.

# Other Program Requirements

- Borrower must have sufficient equity and working capital on hand to be considered for 242 mortgage insurance.
- HUD cannot insure a mortgage for a project in progress
- HUD will soon allow the “design/build” form of contracting.

# Applicant Data Request (Need Tool)

- The Purpose of the Need Tool
- Project Description
- Service Area Definition
- Quantify Number of Beds-- Current and Proposed
- Identify Competitor Hospitals
- Outpatient/Emergency Services
- Hospital Classification
- Teaching Hospital Status

# Next Steps

- Length of Preliminary Review Process
- HUD informs mortgage bankers of decision
- If favorable: HUD and HHS assign an Account Executive, and pre-application meeting is scheduled

# Fast-Track Review for Financially Strong Hospitals

- Hospital must meet financial ratios when debt is superimposed on historical financials
- Determined in Preliminary review based on historical data submitted by lender and hospital
- HUD analyzes all Preliminary information before deciding on fast track
- If approved for fast track processing:
  - ❖ Application may be prepared faster
  - ❖ Underwriting review may be faster

# Step 4: Pre-application Meeting

- **Participants:**
  - ❖ Mortgage Banker
  - ❖ Hospital executives, attorney, architect, others
  - ❖ HUD/HHS underwriting team
  - ❖ HUD's Office of General Counsel
  - ❖ HHS' Division of Engineering Services
- **Purpose:**
  - ❖ Introductions
  - ❖ Hospital team presents project
  - ❖ Discuss issues identified during prelim review process
  - ❖ Legal and engineering discussions
  - ❖ HUD explains the application process

# QUESTIONS?

Please write them down for the  
upcoming Q&A Session!

