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
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 =**

\[
\frac{(Total \ mortgage \ amount)}{(Total \ Estimated \ Replacement \ Cost + Net \ PPE)}
\]

- **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** =
  
  \[
  \text{Operating Income from Last Full FY} \\
  + \text{Operating Income from Two Full FYs Ago} \\
  + \text{Operating Income from Three Full FYs Ago} \\
  \text{Total Operating Revenues from Last Full FY} \\
  + \text{Total Operating Revenues from Two Full FYs Ago} \\
  + \text{Total Operating Revenues from Three Full FYs Ago}
  \]

- **HUD** removes non-operating revenues from the calculation
Financial Screens

- Average DSC for last 3 years ≥ 1.25

- Debt Service Coverage Ratio (DSC) =
  \[
  \text{Net Income} + \text{Depreciation Expense} + \text{Interest Expense}
  \]
  \[
  \text{Current Portion of Long-Term Debt (Prior Year)} + \text{Interest Expense}
  \]

- 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!