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FEATURED ARTICLE

HUD DEVELOPMENTS IN NEW CONSTRUCTION PROGRAM

The new HUD LEAN^[1] program has received much attention this year. Through Ziegler Financing Corporation (ZFC), Ziegler's licensed HUD lender, Ziegler stays abreast of this program and its nuances. While the program was a focus of an educational session of the recent Ziegler Senior Living Finance + Strategy Conference and summarized in a recent **Z-News**, questions about the program continue to surface. This **Z-News** will address some of these questions as senior living providers are trying to determine if HUD's financing options are an effective and practical solution for their communities.

Given the challenges of securing new construction financing (for skilled nursing and assisted living facilities), most of the questions relate to the LEAN 232 New Construction program. If your organization has an interest in this program, here are a few facts you should know:

- Significant market interest in the LEAN program has caused HUD to re-evaluate the best way to process these applications;
- On 12/18/2009, HUD provided guidance to lenders that no further "pre-application submissions will be accepted" for new construction and substantial rehabilitation projects. The old process contemplated a "market acceptance" letter, followed by an invitation to submit a "firm application." The "market acceptance" letter served as HUD's blessing of the project's market and general concept. This was a gating issue for most HUD-financed new construction and substantial rehabilitation projects; and
- Firm applications require significant due diligence and time commitment including the following (by no means a comprehensive list):
 - Evidence the site is legally and financially secured;

- Market Study & Appraisal clearly documenting both need and value of the proposed project;
- Environmental work on the site;
- Substantially complete construction working drawings; and
- A firm construction price from a contractor on either a fixed price or a cost plus basis.

The bottom-line is that the developer/borrower must risk significant upfront costs in assembling the materials necessary for a "firm application."

The good news in Ziegler's opinion is that qualified projects with quality providers will make it through the HUD process. HUD has scheduled an upcoming meeting with HUD lenders in Chicago in late January to provide more detail on the process to secure approval of new construction and substantial rehabilitation projects. ZFC will send five of its team to attend and will provide an update for **Z-News** readers on any significant new information presented regarding the new construction programs and other HUD programs (such as health care FHA financings, including refinancings and acquisitions).

In the mean time, this link (www.Ziegler.com/FHA) includes the contact information for ZFC professionals that are available to discuss HUD's financing programs.

Stay tuned for future updates!

Ziegler's FHA Website Link: www.Ziegler.com/FHA

*Prepared by William Mulligan, President,
Ziegler Financing Companies*

[1] LEAN is a term with its origins in the manufacturing industry (Toyota, to be specific); it represents processes developed to produce results in a consistent, timely, and efficient manner.