HUD 242: NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION OF HOSPITALS

Ziegler
CAPITAL :: INVESTMENTS :: ADVICE

GENERAL TERMS

Eligible Properties:	Licensed acute care hospitals, including critical access hospitals. At least 50% of patient days must be acute care days. Hospitals that provide a significant level of outpatient services can use an adjusted patient day calculation to determine eligibility.
Eligible Borrowers:	Non-profit, for-profit or public entity.
Eligibility Requirements:	Over the last three full fiscal years, the operating income of the existing facility must have been equal to or greater than $0 and the average debt service coverage ratio equal to or greater than 1.25. Facilities that have recently changed reimbursement status (e.g. CAH, Sole Community Provider, etc.) may calculate this margin as if they had been receiving the new reimbursement rates previously. Start-Up Hospitals are not subject to this criteria.
Territory:	Nationwide and Puerto Rico
Term & Amortization:	25 years plus the construction period. Fully amortizing with interest only payable during construction.
Maximum Loan Amount:	Equal to 90% of the replacement cost, including equipment to be used in the hospital's operation, upon completion of the project.
Interest Rate:	Fixed, subject to market conditions. The fixed interest rate for construction and permanent amortization is set at initial closing.
Prepayment Options:	To be determined at time of interest rate lock.
Timing:	**Call Ziegler for current timing.**
Assumability:	Yes, subject to FHA approval.
Personal Liability:	Non-recourse loan subject to carve-outs for fraud and misrepresentation.
Secondary Financing:	Allowable, subject to FHA criteria.

ADDITIONAL PARAMETERS

Repair and Rehab Limitations:	The construction component of the project must total 20% of the mortgage amount or greater. Up to one-half (50%) may be for the cost of new equipment.
Required Third Party Reports:	Phase I Environmental and Feasibility Study (scope to be determined by HUD). An appraisal will only be required for proposed mortgage loans greater than 90% of net property, plant, and equipment or where there has been significant increase in value since purchase (sub-rehab only).
Certificate of Need (CON):	If the state has a CON process, a CON must be issued or pending.
Davis Bacon Wages:	Payment of prevailing wages is required by HUD.
Cost Certification:	The borrower must submit a cost certification prepared by an independent CPA upon completion of construction or substantial rehabilitation.
Post-closing Reporting:	Quarterly unaudited financial statements and annual audited financial statements.

ADDITIONAL PARAMETERS (Continued)

Rate Lock Deposit:	0.5% of the mortgage amount set forth in the firm commitment. Required after client's acceptance of firm commitment and prior to rate lock. The rate lock deposit will be held until closing and it will be returned shortly thereafter.
Extension Fees:	A fee is required to extend the closing date if the mortgage does not close within the timeframe agreed to by the borrower when the mortgage loan was rate locked. This fee is determined at the time of the rate lock.

ADDITIONAL FEES & EXPENSES (CAPITALIZED WITHIN THE LOAN)

HUD Exam Fee (Application Fee):	0.3% of the mortgage amount, one half payable at firm application submission and one half payable upon issuance of HUD's firm commitment for insurance.
HUD Inspection Fee:	0.5% of the mortgage amount.
HUD Mortgage Insurance Premium:	The initial mortgage insurance premium is 0.70% of the mortgage amount per year of construction or part thereof. Thereafter, 0.70% annually, payable in monthly installments.
Other Fees**:**	Borrower must pay for third-party reports such as appraisal, environmental Phase I, feasibility study, survey, mortgage credit analysis and for ZFC's legal fees associated with closing. An upfront deposit will be required to cover these costs and will be reimbursable at closing.

REQUIRED ESCROWS

Working Capital:	A working capital escrow requirement of 2% of the mortgage amount may be required. Typically working capital funds are not mortgageable and the unused portion may be released to the borrower. However, a non-profit borrower may request the working capital escrow to be capitalized within the mortgage.
Operating Deficit:	An escrow will be required when any period of deficit operations is identified. The escrow will ultimately be determined during final loan underwriting and is not mortgageable, and must be funded either through cash or through one or more unconditional, irrevocable letter(s) of credit.
Mortgage Reserve Fund (MRF):	Deposits are made monthly on a pro rata basis in order to achieve the fiscal year-end balances reflected in the MRF Schedule. Must equal one year's debt service after five years and two years debt service after 10 years. The MRF is reduced pro rata each year after year 15 to "$0"by Year 25
Additional Escrows:	Property taxes, insurance, and MIP.

REQUESTED ITEMS FOR PRELIMINARY ANALYSIS

- Description of project, location, unit mix, year built, (if applicable), physical characteristics, etc.
- Last three years of audited financial statements and interim year-to-date, including occupancy data (if applicable, substantial rehabilitation only)
- Detailed operating pro forma
- Most recent balance sheet
- Detailed description and cost estimate of any construction/repairs to be completed