

# HUD 242/223(f): REFINANCING, ACQUISITION, OR MODERATE REHABILITATION OF HOSPITALS



## GENERAL TERMS

Eligible Properties:	Licensed acute care hospitals, including critical access hospitals. 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:	<p>The hospital must have an aggregate operating margin of at least 0.00% and an average debt service coverage ratio of at least 1.40 for the past three years, and meet three of the following seven criteria*:</p> <ol style="list-style-type: none"><li>1. Total operating expenses will be decreased as a result of refinancing by at least 0.25%.</li><li>2. New interest rate will be at least 50 bps less than the current rate.</li><li>3. Current interest rate has increased at least 1% since January 1, 2008, or will very likely increase by that amount within a year of filing an application.</li><li>4. Total annual debt service in the most recent audited financials is at least 3.4% of total operating revenues.</li><li>5. Credit enhancement on current financing has been or will imminently be withdrawn or expired, or the provider has been or will be downgraded.</li><li>6. Existing financing has overly restrictive or onerous bond covenants.</li><li>7. Other circumstances exist that demonstrate that the hospital's financial health depends upon refinancing its existing capital debt.</li></ol> <p><i>*If the operating margin and DSC criteria are not met, OHF will recast these ratios for prior periods by applying its estimate of the projected interest rate at the time the mortgage is expected to close in lieu of the historical rate(s). In addition, if the hospital's performance in one of the three years used in the calculation was affected by exceptional, one-time events that substantially altered financial performance, the hospital may exclude that year (and include a fourth year) in determining the three year average.</i></p>
Territory:	Nationwide and Puerto Rico.
Term & Amortization:	25 years, fully amortizing over term.
Maximum Loan Amount:	The lesser of: <ol style="list-style-type: none"><li>1. 90% of net property plant, or equipment (or 90% of appraised value);</li><li>2. (Refinance) 100% of the cost to refinance the existing indebtedness, including the amount required to pay off the indebtedness; or</li><li>3. (Acquisition) 100% of the cost to acquire the hospital, including the actual purchase price for the land and improvements.</li></ol>
Interest Rate:	Fixed, subject to market conditions.
Prepayment Options:	To be determined at time of interest rate lock.
Timing:	<b>Call Ziegler for current timing.</b>
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

Rehab Limitations:	May include a construction component (hard costs) of up to 20% of the mortgage amount.
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.
Two Year Rule:	Projects are ineligible if the property was constructed within two years of application.
Equity Cash-Out:	Not applicable for Section 242/223(f) mortgage loans.
Post-closing Reporting:	Quarterly unaudited financial statements and annual audited financial statements.
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:	Generally 0.1% of the mortgage amount for Section 242/223(f) loans, increasing pro rata up to 0.4% of the mortgage amount for transactions that include a limited rehabilitation project (hard costs of less than 20% of the mortgage amount).
HUD Mortgage Insurance Premium:	The initial mortgage insurance premium is 1.00% the mortgage amount. Thereafter, 0.65% annually, payable in monthly installments.
Existing Debt:	100% of the existing debt can be included within the FHA insured loan (if applicable).
Prepayment Penalties:	100% of the associated prepayment penalties on the existing debt can be included within the FHA insured loan (if applicable).
Swap Termination Fees:	Allowed to be capitalized within the mortgage up to 10% of the requested FHA loan amount (if applicable). For a mortgage that includes swap termination costs, the LTV shall not exceed 85%.
Acquisition Costs:	100% of the acquisition cost can be included within the FHA insured loan (if applicable).
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

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, physical characteristics, etc.
- ◆ Last three years of audited financial statements and interim year-to-date, including occupancy data
- ◆ Budget for upcoming 12-months (note any large variances from historical)
- ◆ Most recent balance sheet
- ◆ (If refinance) Detail on existing debt (including amount outstanding, interest rate, maturity, any prepayment penalties, etc.)
- ◆ (If acquisition) Detail on proposed acquisition terms (including purchase price, timing and source of sponsor equity, etc.)
- ◆ Detailed description and cost estimate of any contemplated repairs or rehabilitation projects

## CONTACT US

### **BILL MULLIGAN**

PRESIDENT, ZFC

Phone: 414 978 6554

Email: [bmulligan@ziegler.com](mailto:bmulligan@ziegler.com)

### **JEREMY FRANKEL**

SENIOR VICE PRESIDENT - NEW BUSINESS

Phone: 312 705 7244

Email: [jfrankel@ziegler.com](mailto:jfrankel@ziegler.com)

### **ASHLEY WILKENS**

VICE PRESIDENT, HUD UNDERWRITER

Phone: 414 978 6460

Email: [awilkens@ziegler.com](mailto:awilkens@ziegler.com)