HUD 232: NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION OF ASSISTED LIVING, BOARD & CARE, AND SKILLED NURSING FACILITIES

Ziegler
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GENERAL TERMS

Eligible Properties:	Skilled nursing, assisted living, or board and care properties
Eligible Borrowers:	Single-asset, special purpose entity (for profit or not-for-profit)
Territory:	Nationwide and Puerto Rico
Term & Amortization:	Maximum of 40 years or 75% of the remaining economic life of the property. Fully amortizing with interest only payable during construction.
Maximum Loan Amount:	For for-profit mortgagors, the lesser of: 1. 90% of total replacement cost; 2. 75%, 80%, or 80% of value for assisted living (new), assisted living (existing) or skilled nursing properties (both new and existing), respectively; 3. The amount of debt that can be serviced by 1.45x of net operating income; or 4. (Substantial Rehabilitation) 100% of rehabilitation costs plus the lesser of: 90% of the property's as-is market value prior to rehabilitation or 100% of the existing debt (property owned)/90% of the purchase price (property to be acquired) For not-for-profit mortgagors, the lesser of: 1. 90% of total replacement cost; 2. 80%, 85%, or 85% of value for assisted living (new), assisted living (existing) or skilled nursing properties (both new and existing), respectively; 3. The amount of debt that can be serviced by 1.45x of net operating income; or 4. (Substantial Rehabilitation) 100% of rehabilitation costs plus the lesser of: 95% of the property's as-is market value prior to rehabilitation or 100% of the existing debt (property owned)/95% of the purchase price (property to be acquired)
Interest Rate:	Fixed, subject to market conditions.
Prepayment Options:	To be determined at time of interest rate lock. Typical options include a 2-year lockout with penalty of 8% in the 3rd year, declining 1% each year thereafter and reaching zero after the 10th year.
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.

ADDITIONAL PARAMETERS

Repair and Rehab Limitations:	Must meet the following criteria: 1. The hard costs of repairs, replacements, and improvements exceeds 15% of the project's value after completion of all repairs, replacements, and improvements; and 2. Two or more major building components are being substantially replaced (>50%).
Independent Living Units:	Up to 25% of the total units or beds of the project.
Commercial Space:	Limited to 10% of gross floor area and 15% of gross project income.
Required Third Party Reports:	Market Study, Appraisal, Phase I ESA, and Architectural Plans, Specifications and Cost Review
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.

ADDITIONAL PARAMETERS (Continued)	
Developer's Fee (not-for-profit borrowers only):	Non-profits may earn a developer's fee on a new construction or substantial rehabilitation mortgage. Consult Ziegler for further information.
Builder and Sponsor's Profit and Risk Allowance (for-profit borrowers):	The calculation of BSPRA is not applicable for Section 232 projects.
Debt Seasoning Requirement:	A two-year seasoning requirement applies only to applications for which the requested FHA loan amount is greater than 70% loan-to-value or for applications in which the requested loan amount is between 61%-70% loan-to-value and less than 50% of the existing debt was used for project purposes. Consult Ziegler for further information.
Insurance of Advances vs. Insurance Upon Completion:	HUD can insure loans to cover both the construction and permanent loan (Insurance of Advances) or just the permanent loan (Insurance upon Completion). Consult Ziegler for further information.
Post-closing Reporting:	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.
HUD Inspection Fee:	1. (New Construction) 0.5% of the requested loan amount. 2. (Substantial Rehabilitation) 0.5% of the total repairs and improvements.
HUD Mortgage Insurance Premium:	The initial mortgage insurance premium is 0.77% per year of construction, or part thereof. Thereafter, 0.77% annually, payable in monthly installments.
Other Fees:	Borrower must pay for third-party reports (e.g., Market Study, Appraisal, Phase I ESA, Architectural Plans, Specifications and Cost Review), survey, 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	
Reserve for Replacement:	Ongoing annual deposits to the reserve for replacement are required for all projects in order to maintain a minimum balance of $1,000 per unit for 15 years. The annual deposit will be identified in the PCNA during loan underwriting.
Additional Escrows:	Property taxes, insurance, MIP and replacement reserves.
Working Capital Escrow (Cash or Letter of Credit):	The working capital escrow requirement for new construction is 4% of the mortgage amount, half of which will be a construction contingency for cost overruns and approved change orders. The working capital escrow requirement for substantial rehabilitation is 2% of the mortgage amount. Working capital funds are not mortgageable and the unused portion may be released to the borrower.

REQUIRED ESCROWS (Continued)

Initial Operating Deficit (Cash or Letter of Credit):	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.
Short-Term Debt Service Reserve (DSR) Escrow:	A DSR may be required on applications where units are being added to a market. The DSR will be between 6 and 12 months of principal, interest and MIP payments, or longer as needed to mitigate risk. The escrow is not mortgageable and the unused portion may be released to the borrower.

REQUESTED ITEMS FOR PRELIMINARY ANALYSIS

- Description of project, location, unit mix, year built (if applicable), physical characteristics, etc.
- Details on commercial space, if any
- Any third party reports that have been completed
- Last three years of detailed operating statements and interim year-to-date including occupancy data (if applicable, substantial rehabilitation only)
- Detailed operating pro forma
- (If property is owned) Detail on existing debt (including amount outstanding, interest rate, maturity, any prepayment penalties, etc.)
- (If property is to be acquired) Detail on proposed acquisition terms (including purchase price, timing and source of sponsor equity, etc.)
- Detailed description and cost estimate of any construction/repairs to be completed
- Description of ownership structure, experience of sponsor, experience of management agent