

## HUD 242

Eligible Properties: Proposed new construction, acquisition with substantial rehabilitation/modernization and refinances with substantial rehabilitation/modernization of existing hospital facilities.

a) The program defines a hospital facility as one:

1. That provides community service for inpatient medical care of the sick and injured;
2. Which has not more than 50% of the total patient days during any year assigned to the categories of chronic convalescence and rest, drug and alcoholic, epileptic, nervous and mental, mental deficiency and tuberculosis, and;
3. Which is a proprietary facility, or facility of a private nonprofit corporation or association, licenses or regulated by the State.

b) A minimum of 20% of the mortgage amount must be for new construction, rehabilitation or modernization (1/2 of the percentage for construction/rehabilitation can be used for equipment purchase). This program may not be used for straight refinancing.

c) Certificate of Need (CON) requirements. Eligible projects must have a CON issued by a State Agency. If there is no CON process in the project state, the State must commission or conduct an independent feasibility study, paid for by the hospital or from mortgage proceeds. This is not required for Critical Access Hospitals.

d) Financial Data. For existing properties, over the past three full fiscal years, the average operating margin for the hospital must have been equal to or greater than 0.00, and the average debt service coverage ratio equal to or greater than 1.25.

e) Group Practice. The law provides that encouragement shall be given to group practice sponsors seeking mortgage insurance for hospitals as defined above.

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Recourse: Non-recourse during both construction and permanent phases of financing

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Loan Amount: No limits

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Maximum Mortgage Limits: The lesser of:  
a) 90% replacement cost or value  
b) 1.25 DSCR

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Interest Rate: Fixed rate determined by market conditions at the time of rate lock

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Amortization and Term: Interest only during the construction period, plus 25 years fully amortizing

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Escrows: Escrows for taxes, insurance, replacement reserves and mortgage insurance premium are required

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Initial Operating Deficit: The facility will be underwritten with an initial operating deficit escrow to cover the debt service payments during typically the first twelve to eighteen months of the loan. This may be satisfied in the form of cash or letter of credit.

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Mortgage Reserve Fund: This escrow is required to be built up to an amount equal to one year's debt service after five years and two years' debt service after ten years

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Working Capital Escrow: For proprietary projects only. A 2% working capital deposit is established by the borrower at initial endorsement in the form of cash or a letter of credit.

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## HUD 242

(Continued)

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Non-Profit Developer's Fee:	For nonprofit projects only. This fund is primarily used as a working capital escrow for accruals during the course of construction for mortgage insurance premiums, taxes, ground rents, property insurance premiums and assessments, when other funds available for these purposes have been exhausted.
Mortgage Insurance Premium:	.50% of the loan amount per year of the anticipated construction period capitalized at closing. Thereafter, .50% of the outstanding loan balance paid with monthly principal and interest payments.
Prepayment Terms:	To be determined
Security:	The loan shall be secured by a first mortgage on the entire hospital, including all real estate and improvements.
Federal Labor Standards:	Federal prevailing wage and reporting requirements
Secondary Financing:	Permitted under certain conditions at closing
Assurance of Completion	Payment and performance bond or cash deposit/LOC
Financing Fees:	Fees negotiable
HUD Application Fee:	\$1.50 per \$1,000 of requested mortgage due at loan application
HUD Commitment Fee:	\$1.50 per \$1,000 of requested mortgage, due at the issuance of the loan commitment
HUD Inspection Fee:	\$5 per \$1,000 of requested mortgage amount at closing, to cover the physical inspection of the property
Good Faith Deposit:	\$10,000 due at acceptance of Engagement Letter; non-refundable
Third Party Expense Deposit:	Estimated at \$150,000 for feasibility study (approx. \$125,000 of the total), appraisal and environmental reports
Legal/Closing Fees:	Estimated to be \$20,000 payable to Walker & Dunlop's Closing Counsel at Final Endorsement from loan proceeds
HUD/HHS Review Time:	120 – 150 days
Fast Track Processing:	Available to financially strong hospitals

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