



OFFICE OF HEALTHCARE PROGRAMS



Office of Hospital Facilities Lender Training

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Underwriting Overview – Program Eligibility Requirements and the Underwriting Process

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Underwriting Division Outline

- Hospital Mortgage Insurance Programs
- Statutory/Regulatory eligibility requirements
- Pre-Application and Application Processes



Hospital Mortgage Insurance Programs

➤ Insurance Types Available:

- §242: For hospitals not currently in the FHA portfolio seeking financing for new construction projects or substantial rehabilitation (may include mortgage proceeds for existing debt refinance – up to 80% of the loan amount).
- §223(f): For hospitals either not currently in the FHA portfolio seeking to refinance existing capital debt (may include mortgage proceeds for capital improvements – up to 20% of the loan amount) or, in limited cases, for hospitals already in the FHA portfolio.
- §241: For hospitals already in the FHA portfolio seeking financing for new construction projects, substantial rehabilitation, or additions.
- §223(a)(7): For hospitals already in the FHA portfolio seeking to refinance existing FHA loans.
- Interest Rate Reduction: For hospitals already in the FHA portfolio seeking interest rate reductions on existing FHA loans, without increasing UPB or the term of the existing loan.

➤ Statute – Section 242 of the National Housing Act

- 12 U.S.C. 1715z–7
 - https://www.hud.gov/sites/documents/SEC242_STATUTE.PDF

- Regulation - Hospital Mortgage Insurance Program - 24 CFR Part 242
 - <https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=1&SID=0d6edd1462c5c07502e67d556895bc0e&ty=HTML&h=L&mc=true&n=pt24.2.242&r=PART>

- Handbook - 4615.1
 - https://www.hud.gov/program_offices/administration/hudclips/handbooks/hsg/4615.1

➤ **Loan-to-Value Requirement**

- Maximum LTV for Section 242, 241, 223(f) programs = 90%
- Based on net book value of property, plant, and equipment
- Appraisals may be used to meet the LTV requirement

➤ **First Lien**

- The FHA-insured lender must have a first lien position on real estate
- FHA requires that the Lender also have a first lien on revenues and accounts receivable (unless approved in writing by HUD)

Statutory Eligibility Criteria (Cont.)

➤ **Market Need**

- Per language in the Statute: “The purpose of this section is to assist the provision of urgently needed hospitals...”
- OHF performs a market need review, based on data provided by the hospital and other in-house sources

➤ **Patient Day Requirement**

- Acute care patient days must be greater than 50% of total patient days
- Non-acute patient days include rehabilitation, psychiatric, and other services listed in the statute

Regulatory Eligibility Criteria

- **§242.16 - Historical Operating Margin Requirement**
 - The 3-year aggregate Operating Margin must exceed 0%.
- **§242.16 - Historical Debt Service Coverage Ratio Requirement**
 - The 3-year average Debt Service Coverage Ratio must exceed 1.25x (1.4x for Section 223f).
- **§242.72 - Owner/Operator**
 - The Owner must also be the facility operator

Regulatory Eligibility Criteria (Cont.)

➤ **§242.8, §242.64, Collateral Requirements**

- All critical pieces of the property and operations must be captured as collateral

➤ **§242.4 - Capital Purchases**

- Mortgage Proceeds must be used for capital purchases, or to refinance loans originally used to purchase capital

➤ **§242.11 - Compliance with State and Federal Regulations**

- If under investigation, it must be disclosed to HUD and evaluated

Other Regulatory Highlights

➤ §242.14 – Mortgage reserve fund (MRF)

- An MRF must be funded after loan closing (223f) or construction completion (242, 241)
 - Standard Requirements:
 - At 5 years, the Borrower must have deposited 12 months of debt service
 - At 10 years, must have deposited 24 months of debt service

➤ **Application (One-Time) Fees**

- Application fee (0.15% of the mortgage amount)
- Commitment fee (0.15% of the mortgage amount)
- Inspection fee (ranges from 0.1% to 0.5% of the mortgage amount, depending on the Section of the Act and hard costs included in the mortgage)

➤ **Ongoing (Annual) Fees - MIP**

- Ranges from 55 bps (223a7) to 70 bps (242), with first-year exceptions

➤ Pre-Application

- Pre-Screening Tool
- Preliminary Review
- Pre-Application Meeting

➤ Application Process

➤ Pre-Screening Tool

- https://portal.hud.gov/hudportal/HUD?src=/federal_housing_administration/healthcare_facilities/section_242/Prescreening242

➤ What is the purpose of the Preliminary Review

- Evaluate hospitals against minimum eligibility requirements

➤ How does it benefit Lenders and HUD?

- There are no fees associated with the Prelim process
- Identify Statutory/Regulatory/Credit barriers
- Identify areas of focus for the Pre-Application Meeting and application underwriting

➤ **Preliminary Review Submission Contents**

- Preliminary Review Template
- Audited financial statements
- Utilization statistics
- Project description
- Organizational chart/collateral discussion
- Other items listed in Appendix 3 of the Handbook (Pre-Applicant's Guide)

➤ **OHF Review**

- Review of eligibility
- Credit review

Pre-Application Overview / Preliminary Review

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➤ **Credit/Programmatic Review**

- Financial Statement review
- Market Review
- Regulatory/Policy Review
- Other Unique Issues

➤ **Process – Underwriter review, followed by brief committee review**

➤ **Goal: Provide feedback to lender in 2 weeks**



- **What is the purpose of the Pre-Application Meeting**
 - Discuss issues identified during the Preliminary Review
 - Overview of the Hospital and its project
- **Following the meeting, OHF staff meets and determines next steps**

➤ **Application Requirements/Development**

- Volume 1
 - Application form (sources and uses)
 - Information on the Board Members, Executives
 - Other requirements
- Volume 2
 - Financial Statements and budget
 - Forecast (if applicable)
 - Other Requirements
- Volume 3
 - Architectural and Engineering documents

➤ Steps in the Application Process

1. Application Receipt and Completeness Review
2. Underwriting Questions
3. OHF Site Visit
4. Previous Participation (2530) review
5. Architectural/Engineering/Environmental Review
6. Credit Report development
7. Credit Committee Review
8. Approvals (if applicable) – Deputy Assistant Secretary of OHP, Office of Risk Management

Process Processing Times

➤ Preliminary Review

- 10 business days for Sections 242, 241, 223(f)

➤ Application Completeness Review

- 10 business days for Sections 242, 241, 223(f)

➤ Application Review

- 120 business days for Section 242 and 241
- 90 business days for Section 223(f)
- 30 days for Section 223(a)(7)



Underwriting Transaction Metrics

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Hospital Program Production (FY15 – FY20 (YTD)) ²¹

- **25 successful applications**
- **\$2.28 Billion**
 - 10 Section 241 loans totaling \$1.0B
 - 6 Section 223(a)(7) loans (including 1 portfolio hospital 223(f) loan) totaling \$515M
 - 9 Section 223(f) loans totaling \$754M



OHF Commitment Metrics

Medians for FY 2015 to 2020 (YTD) Commitments			
	223(f)	223(a)(7)	241
Number of Commitments	9	6	10
Total Revenue	\$264,742,000	\$59,409,559	\$406,875,768
Mortgage Amount	\$47,642,200	\$50,976,000	\$58,062,000
Operating Margin	0.5%	0.2%	3.0%
Total Margin	1.0%	1.3%	4.7%
Debt Service Coverage	2.0	1.9	3.0
Days Cash on Hand	109.3	58.2	70.7
LTD to Capitalization	35.8%	65.9%	52.1%
Loan to Value	68.9%	86.9%	71.7%
Mortgage Amount/Revenue	45.3%	88.9%	42.3%



Metrics Analysis – Takeaway Points

- OHF looks for a combination of strengths in broad metric areas (liquidity, leverage, profitability).
- “Deal Killers” (for 242 and 223(f) in particular) – very low or negative net assets, very low days cash on hand (<10 days), Mortgage/Revenue ratio > 1.0, going concern opinion
- Disclaimer – all projects are different, and evaluated on their individual merits

Median Processing Times (FY15-20 projects)

- **Preliminary Reviews** – 21 days (ranged from 5 to 85 days).
- **Prelim Review Letter to Pre-App Meeting** – 39 days (ranged from 19 days to 113 days).
- **Pre-App Meeting to Complete Application** – 126 days (ranged from 32 to 290 days).
- **Application Complete to Commitment** – 84 days (ranged from 27 to 225 days).