

HUD Mortgage Insurance Program Section 232 LEAN

New Construction or Substantial Rehabilitation
Skilled Nursing, Intermediate Care, Assisted Living, Board & Care

Benefits:

- The LEAN program offers more efficient processing through a centralized application, simplified valuation process and review by a dedicated healthcare focused team
- Long term (40 years + construction period), fixed rate, level pay financing
- 90% loan to value by statute for exceptionally strong deals; standard loan to value of 80% for nursing/intermediate care and 75% for assisted living. Nonprofits are allowed an additional 5% leverage.
- Non-recourse and fully assumable
- Accounts receivable financing permitted

Purpose:

To provide mortgage insurance to cover both the construction and permanent loans for the new construction or substantial rehabilitation of long-term healthcare facilities.

Substantial rehabilitation is defined as when the hard costs of repairs, replacements and improvements (including major movable equipment), and additions exceeds 15% of the project's value after such completion or when two or more major building components are being substantially replaced. An acquisition which includes the funding of repairs meeting the substantial rehabilitation definition would be insured under this section.

Underwriting Guidelines:

The latest underwriting guidelines for HUD establish an 80% loan to value for skilled nursing/intermediate care facilities with a minimum debt service coverage ratio of 1.45x. The guidelines for assisted living facilities are a 75% loan to value and minimum 1.45x debt service coverage. Any deviation from these standards requires justification and conclusive mitigation. Nonprofits are allowed an additional 5% leverage.

Maximum Loan Amount (Subject to Underwriting Guidelines Above):

New Construction – The lesser of:	Substantial Rehabilitation – The lesser of:
80%* of HUD’s appraised value (75% assisted living), which includes major movable equipment	80%* of HUD’s appraised value (75% assisted living), which includes major movable equipment
Amount supported by a 1.45x debt service coverage ratio	Amount supported by a 1.45x debt service coverage ratio
90%** of the estimated replacement cost of the project, which includes major movable equipment, a builder's fee, and land at market value	If a refinance: 100% of rehabilitation costs plus the lesser of existing debt or 90%* of "as is value" If an acquisition: 90%* of rehabilitation costs plus the lesser of 90%* of purchase price or 90%* of "as is value"

* Nonprofits are allowed an additional 5% leverage

** Nonprofit facilities may finance 100% of the estimated replacement costs less grants, public loans and tax credits.

Maximum Loan Term:

The maximum permanent mortgage term is the lesser of 40 years or 75% of the remaining useful life of the property with a minimum term of 10 years.

Interest Rate: Subject to market conditions

Interest rates are fixed, level-pay for the life of the loan. The rate is set at the time the debt is placed with an investor which occurs after a Firm Commitment is issued and prior to the construction loan closing. Prepayment penalties and discounts vary depending on market conditions.

Personal Recourse:

The HUD insured loan is non-recourse and fully assumable. No additional debt is allowed with the exception of secondary financing from federal, state or local agencies which must be fully subordinated to the HUD insured loan.

Timing: AGM is estimating 12 to 16 months from Engagement to Close

The Borrower has the choice of filing a Straight to Firm Application or filing a 2-step application. The application must be completed and filed by a qualified LEAN underwriter such as AGM Financial Services. Once the client engages AGM, AGM will order third party reports, schedule weekly conference calls with the client to facilitate the process and ensure effective communication, underwrite the loan and file the application.

The 2-step process includes an Initial Submission requiring a project description and narrative, flood plain information, a Market Study and Appraisal, a Phase I Environmental, limited plans and specifications and information to qualify the Mortgagor, Operator and Management. The Initial Submission also requires the 0.3% FHA Application Fee. If HUD declines the application, 0.15% of the Fee will be returned. After HUD issues an Invitation to Apply, the Final Submission will be prepared. The Final Submission includes the architectural and cost review, final plans and construction costs and information to qualify the contractor and architect. The time line referred to above is influenced by the receipt of construction drawings and final costs.

Fees: Included in the Cost of Financing

HUD Application Fee	0.3% of the Mortgage
Inspection Fee	New Construction: 0.5% of Mortgage Sub Rehab: 0.5% of Construction Costs
Financing and Placement Fees	Up to a maximum of 3.5% of the Mortgage (includes Lender's Counsel, GNMA fees and AGM fees)
Mortgage Insurance Premium	Paid each 12 months of construction and set annually by HUD. First year is 0.5%.
Other Fees	Appraisal, Market Study, Environmental Reports, Plans and Cost Review

Fees: Annual and Reserves

Mortgage Insurance Premium	MIP is determined annually by HUD and fixed for the term at closing. Historically 57 basis points.
Repair Reserve	20% of estimated repair costs, posted at closing and released after completion
Building and Equipment Replacement Reserve	Determined by third parties and underwriting
Taxes and Insurance	Reviewed annually
Operating Reserve	If required, posted at construction loan closing
Working Capital	2% of Mortgage, posted at construction loan closing, released 1 year after date of substantial completion
Off-site Costs	If required, 100% of costs posted at construction loan closing, released upon off-site work completion
Minor Movables	100% of equipment cost, posted at construction loan closing, released after in place
Completion Assurance	100% Payment and Performance bonds or a LOC equal to 15% of construction contract for 3 stories or 25% for 4+ stories. Posted at construction loan closing, released at permanent loan closing, and replaced by a 2.5% Latent Defects Escrow.

Ineligible Facilities:

- Facilities that charge founders fees, entrance fees, life care fees or similar charges.
- Hospitals, clinics, diagnostic and treatment centers, group practice facilities, halfway houses.
- Facilities not providing continuous protective oversight such as retirement homes, boarding houses or single room occupancy residences that provide only food and shelter.
- Facilities with fewer than 20 beds for skilled nursing or intermediate care or less than 5 residential units (no more than 4 residents sharing each full bathroom) for assisted living and board and care.

- Facilities not offering 3 meals per day to the residents.
- Facilities not properly licensed and regulated. A facility may include unlicensed Independent Living Units but they may not exceed 25% of the total projected number of beds or units.

Additional Program Requirements:

- Three years (five preferred) experience developing, managing, and operating healthcare facilities.
- Proof that professional liability insurance meets HUD guidelines.
- Neither the facility, the Mortgagor, the Operator, nor any of their affiliates, renamed or reformulated companies, have filed for, are in, or have emerged from bankruptcy within the last 5 years.
- Facility must be located outside the 500 year flood plain.
- 100% plans, specifications and costs for Firm Commitment.
- Davis-Bacon prevailing wages apply. Residential wages apply to Board and Care and Assisted Living Facilities. Commercial wages apply to Skilled Nursing Facilities.