

HUD Mortgage Insurance Program Section 232/223(f) LEAN

Acquisition or Refinance
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 (35 years), fixed rate, level pay financing
- 85% loan to value by statute for exceptionally strong deals; standard loan to value of 80%. Nonprofits are allowed an additional 5% leverage.
- Non-recourse and fully assumable
- Accounts receivable financing permitted

Purpose:

To provide mortgage insurance for the purchase or refinance of existing long-term healthcare facilities. Facilities with existing HUD insured mortgages are eligible for streamlined refinancing through Section 223(a)(7).

Repairs, deferred maintenance and capital improvements are allowed but must have a combined cost less than 15% of after repair value and may not include the replacement of more than one system. The cost of an addition may be included through this program although it must meet the “less than 15% of value” test.

Underwriting Guidelines:

The latest underwriting guidelines for HUD establish an 80% loan to value (85% for nonprofit) for skilled nursing and intermediate care, board and care and assisted living facilities with a minimum debt service coverage ratio of 1.45x. Any deviation from these standards requires justification and conclusive mitigation.

Maximum Loan Amount (Subject to Underwriting Guidelines Above):

| Refinance – The lesser of: | Acquisition – The lesser of: |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| 80%* of HUD’s appraised value after repairs, which includes major movable equipment | 80%* of HUD’s appraised value after repairs, 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 |
| 100%** of HUD approved transaction costs. No equity recapture. | 80%* of HUD approved acquisition costs. |

* Nonprofits are allowed an additional 5% leverage

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

Maximum Loan Term:

The maximum permanent mortgage term is the lesser of 35 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 and Secondary Financing:

The HUD insured loan is non-recourse and fully assumable.

Secondary financing must be fully subordinated to the HUD insured loan. If the source is from federal, state or local agencies the loan cannot exceed the difference between the HUD insured mortgage and the HUD fair market value of the project. If the secondary source is from private entities or natural persons the aggregate amount of the insured first loan and the second loan cannot exceed 92.5% of the HUD fair market value of the project.

Timing: AGM is estimating 9 to 12 months from Engagement to Close

A firm commitment 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 application will be placed in a queue in the order in which it was filed and then be assigned a HUD underwriter. Currently AGM estimates a 3 month process for the filing of the application, a 5 month wait in the queue, and 2 months for HUD approval and closing.

Fees: Included in the Cost of Financing

| | |
|----------------------------------|---------------------------------------------------------------------------------------------|
| HUD Application Fee | 0.3% of the Mortgage |
| Inspection Fee | Greater of 1% of repairs or \$30/bed |
| 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 (MIP) | 1% due at closing |
| Other Fees | Appraisal, Market Study, Environmental Reports, Property Capital Needs Assessment |

Fees: Annual and Reserves

| | |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| Mortgage Insurance Premium (MIP) | MIP is determined annually by HUD and fixed for the term at closing. Historically MIP has been 50 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 closing and released as needed or after 90 days sustaining occupancy |

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.
- Facilities less than 3 years of age.

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.
- Owner to provide a detailed list of repair items including quantities and unit prices.
- Davis-Bacon prevailing wages do not apply.