

**HUD INSURED LOANS for NEW CONSTRUCTION or
SUBSTANTIAL REHABILITATION of
LONG-TERM CARE FACILITIES
Section 232**

~ LEAN Processing ~

BENEFITS OF PROGRAM FINANCING

- Faster Processing
- Fixed-rate, level pay
- Non-recourse
- Accounts receivable financing now permitted
- Long term - 40 years
- Fully assumable
- 90% of costs
- 90% loan to value

QUALIFYING PROPERTIES

- Nursing Homes, Intermediate Care Facilities (ICF's), Board and Care homes, and Assisted Living Facilities that require new construction or substantial rehabilitation.

Substantial rehabilitation is defined as:

Replacement of two or more systems; or,
Repairs costing more than 15% of after-rehabilitation value.

- An addition may be built as part of an acquisition or refinance of an existing property.
- Nursing Homes and ICF=s must have at least 20 beds and a CON or market study; Board & Care homes and Assisted Living Facilities must have at least 5 units with not more than 4 residents sharing each full bathroom.
- Up to 25% of the units in a Board & Care home may have bedrooms and kitchenettes or full kitchens. Assisted Living Facilities may offer 0, 1 and 2 bedroom units with or without full kitchens/kitchenettes. Both must provide central dining and recreation areas for residents.
- A Nursing Home may include Board & Care units but Board & Care residents must be kept identifiably separate. Assisted Living units may be offered in a nursing home, but nursing home beds may not be offered in an Assisted Living Facility.

Financing Communities with FHA

LOAN AMOUNT

New construction, least of:

- **Value:** 90% of appraised value including major movable equipment: or
- **Cost:** 90% of the estimated replacement cost of the project, which includes major movable equipment, a builder's fee, and land at market value; or
- **Debt Service:** An amount for which debt service does not exceed 90% of NOI.

Substantial Rehabilitation, least of:

- **Value:** 90% of appraised value including major movable equipment; or
- **Cost:**
 - **Refinance:** 100% of rehabilitation costs plus the lesser of: existing debt or 90% of "as is value" (refinance);
 - **Acquisition:** 90% of rehabilitation costs plus the lesser of: 90% of purchase price or 90% of "as is value"; or
- **Debt Service:** An amount for which debt service does not exceed 90% of NOI.

<p>For Faster Processing: 80% LTV; 1.45 debt service coverage for nursing homes; 1.30 debt service coverage for assisted living facilities; 1.25 debt service coverage for independent or board and care facilities.</p>

Non-profit Borrowers, use

- 100% of costs, 95% of NOI, and 95% of appraised value.

LOAN TERM

- The maximum loan term is the lesser of 40 years or 75% of the remaining economic life of the property; plus the construction period.

INTEREST RATE

- Interest rates are fixed rate, level-pay for the life of the loan, and are set at the time the loan is purchased which occurs after a Firm Commitment is issued and before Closing. Prepayment penalties and discounts vary depending on market conditions.

SECONDARY FINANCING

- Secondary financing from federal, state or local agencies must be fully subordinated to the HUD-insured loan.

UNDERWRITING PROCESS

- AGM prepares a preliminary mortgage calculation. If the preliminary analysis indicates that the project qualifies for an acceptable HUD-insured loan, AGM will schedule a site visit with the Borrower and informally discuss the project with HUD. The formal application can be made in the following two stages, or they can be combined into one:
- Pre-Application: A pre-application package includes a Phase I, Form HUD-4128 (further environmental investigation), a market study, and a limited appraisal. Once HUD accepts the pre-application, HUD has up to 45 days to issue an Invitation to Apply or reject the application.
- Firm Commitment Application: The Borrower then has up to 120 days plus two 30-day extensions for good cause to file a Firm Commitment Application. This application includes the complete appraisal, full plans and specifications with a review, and all mortgage credit documents. HUD has another 45 days to issue a Firm Commitment after HUD accepts the application.

COMMITMENT & CLOSING

- Once AGM receives an acceptable Firm Commitment from HUD, the Borrower's attorney prepares the HUD closing package with HUD's and lender's attorneys. The debt is competitively bid. Initial Closing date is scheduled by HUD.

MORTGAGEABLE FEES

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|------------------------------|---|
| • HUD Application fee | 0.3% of the mortgage |
| • Inspection fee | 0.5% of the mortgage (New); or
0.5% of construction & certain fees (Rehab) |
| • Financing fee | 2.0% of the mortgage |
| • Placement fee | 1.5% of the mortgage |
| • Mortgage Insurance Premium | Reset annually by HUD |

- Review Fees Appraisal, Market Study, all Environmental Reports, Plans and Cost Review

ANNUAL FEES AND RESERVES (Paid Monthly)

- Mortgage Insurance Premium Reset annually by HUD
- Reserve for Replacement 0.6% of structures (New Construction), 0.4% of mortgage (Rehabilitation)
- Major Movable Equipment Reserve 10.0% annually
- Taxes & Insurance Reviewed annually

ESCROWS/LETTERS OF CREDIT

- **Operating Deficit:** If required, posted at Initial Closing, released as needed or after 90 days of sustaining occupancy.
- **Off-site Costs:** If required, 100% of costs posted at Initial Closing, released when work is complete.
- **Minor Movables:** 100% of cost of equipment (\$350 per bed). Posted at Initial Closing and released after equipment is in place.
- **Working Capital:** 2.0% of mortgage, posted at Initial Closing; released 1 year after Final Closing.
- **Completion Assurance:** 100% Payment and Performance bonds or a LOC equal to 15% of the construction contract for low-rise or 25% for high-rise. Posted at Initial Closing, released at Final Closing, and replaced by a 2.5% Latent Defects Escrow.

OTHER PROGRAM FEATURES

- Five years experience developing, managing, and marketing is required for Assisted Living Facilities.
- Proof of professional liability insurance, meeting HUD guidelines, must be provided.
- Lease facilities (in place) are processed (financially) as if operating lease were not in effect.
- Firm Commitment requires 100% plans, specifications, and costs.
- Typical underwriting occupancy is 90-93%; HUD assumes 70% Medicaid occupancy in nursing homes, unless consistent operating history of existing property indicates otherwise, 100% private pay in Board and Care homes and Assisted Living facilities.

- Processing requires a 3rd party market study, appraisal, environmental, plans and cost review at your expense. AGM completes mortgage credit.
- Board & Care homes and Assisted Living Facilities must offer three meals per day. Assisted Living residents with kitchens must take at least one meal per day.
- Owners cannot require assisted living residents to share an apartment.
- Davis-Bacon (prevailing) wages apply. Residential wage rates apply to Board & Care and Assisted Living Facilities; commercial wage rates apply to nursing homes.
- Board & Care homes and Assisted Living Facilities may be insured only in states or territories in compliance with Section 1616(e) of the Social Security Act. Both must be licensed if required by the state.