

**CONSTRUCTION AND SUB-REHABILITATION FINANCING OF HEALTHCARE PROPERTIES FHA Section 232 Mortgage Insurance Program**

<b>Eligible Projects</b>	Skilled nursing, assisted living facilities, intermediate care, board and care home, or a combination of one or more
<b>Not Eligible</b>	Independent Living Facilities, treatment centers, halfway houses, and projects with entrance fees
<b>Requirements</b>	a) Facility must provide continuous oversight of residents and offer three meals per day. b) Facility must be licensed by the state in which it is located. c) No more than 25% of units in a board and care home can be independent living units (units with complete kitchen and bath facilities). d) Nonresident day care may not exceed 20% of gross floor area and 20% of gross income. e) Commercial space that does not exclusively serve residents is limited to 10% of gross floor area and 15% of gross income.
<b>Borrower</b>	Single-asset entity
<b>Use of Proceeds</b>	Proceeds can be used for New Construction or Substantial Rehabilitation ( <i>Substantial Rehabilitation is defined as a project that includes rehabilitation costs equal to 15% or more of post-rehabilitation appraised value or replacement of two or more major building components</i> ) Limitation: No equity take out
<b>Recourse</b>	Non-recourse
<b>Loan Parameters</b>	The maximum loan amount for <b>New Construction</b> is the least of: a) 90% (95% for non-profits) of appraised value or b) 90% (95% for non-profits) of the total development cost ( <i>which includes furniture, fixtures, major movable equipment, and a \$1,500 per bed marketing allowance</i> ) or c) Loan amount that would achieve a debt service coverage ratio of 1.11 to 1.0 (1.05 to 1.0 if Borrower is a non-profit)

**Continued**

<b>Loan Parameters</b> <i>continued</i>	The maximum loan amount for <b>Substantial Rehabilitation</b> is the least of: a) 90% of appraised value based on an improved basis ( <i>95% for non-profits</i> ), b) 90% of the cost of rehabilitation, including a construction contingency plus the as-is value of the property ( <i>95% for non-profits</i> ), or c) loan amount that would achieve a debt service coverage ratio of 1.11 to 1.0 ( <i>1.05 to 1.0 if Borrower is a non-profit</i> ) <b>Note that an equity take out is prohibited under this Section of the National Housing Act</b>
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<b>Term and Amortization</b>	Actual construction term plus up to 40-years; loan will fully amortize over permanent portion of loan term.
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<b>Prepayment</b>	Negotiable. Typically two-year lockout with 8% penalty in the third year, reducing 1% each succeeding year.
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<b>Interest Rate Set</b>	After acceptance of FHA commitment and prior to closing ( <i>contact Lender to discuss early rate lock options</i> )
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<b>Assumable</b>	Loan is assumable, subject to HUD approval and payment of an assumption fee and related transaction expenses
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<b>Fees and Expenses</b>	a) FHA Application Fee of 0.3%; due at application of firm commitment to HUD b) FHA Mortgage Insurance Premium at prevailing rates as determined by HUD c) FHA Inspection Fee: 0.5% of loan amount for <i>New Construction</i> ; 0.5% of improvements for <i>Substantial Rehabilitation</i> ; paid at closing. d) Financing and Placement Fees: up to 3.5%, paid at closing e) Third party report cost
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<b>Escrows</b>	a) Replacement Reserves are required in accordance with HUD guidelines in which the standards are: • <i>New Construction</i> : No initial deposit. After construction, an annual deposit, paid monthly, equal to 0.6% of structures (hard costs other than land improvements) and 10% of the cost of major movables. • <i>Substantial Rehabilitation</i> : Initial deposit is determined by a third-party engineer or HUD, based on the expected useful lives of capital items not replaced. An annual deposit, paid monthly, equal to 0.4% of the loan amount and 10% of the cost of existing and new major movables.
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<b>Escrows</b> <i>continued</i>	b) Taxes and Insurance: Budgeted under the construction loan and disbursed as required. At final endorsement, normal escrows are established and deposits are made monthly with mortgage payments. c) Working Capital Reserve: Cash or letter of credit of 2%. Unused portion released after stabilized operations are achieved. d) Operating Deficit Reserve: amount and timing of release of unused funds is determined by FHA at commitment.
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**Davis Bacon Act**

Payment of prevailing commercial wages is required. Wage rates for each locality are set by Department of Labor.

**Process and Timeline**

HUD offers two choices for processing loans under this section of the National Housing Act as follows: a) Two-Step Process: • Pre-Application: Borrower and Lender work together to assemble and submit preliminary project data along with a market study and an environmental report. HUD has 45 days to review and either issue an Invitation to Firm Commitment or reject. • Firm Commitment Application: Includes all third-party reports; full plans and specifications; general contractor's costs; full credit review of the borrower entity, principals and general contractor; description of proposed property manager; and business plan. HUD review time is up to 45 days. The time from Engagement Letter to closing is approximately nine months for the two-step process. b) One-Step Process: At the Borrower's option, the above process can be combined into one application. HUD review time is up to 60 days. The time from Engagement Letter to closing is approximately six months.