

Summary

Affected Parties: HUD's 7/1/09 notice, authorizing its immediate acceptance of applications for hospital debt refinancing under its new Sec 223 (f) component of the FHA Section 242 Mortgage Insurance Program, offers eligible hospitals with unfavorable loan terms an exciting new option to refinance their existing debt.

Impact: While Sec 223 (f) refinancings for multifamily and senior living providers are commonplace, HUD has consistently excluded hospitals from eligibility under the Section 223 (f) regulations. However, due to the economic downturn, its negative impact on available credit and the effective elimination of many capital funding sources, HUD now believes a Section 242/223(f), refinancing option is essential to help alleviate the financial stress of hospitals, who cannot refinance out of high interest rate debt obligations.

Conclusion: While this is not a panacea for the debt problems plaguing all hospitals, it is a serious refinancing option for hospitals to consider. In many cases, FHA Section 242/223 (f) may offer the best refinancing opportunity for hospitals confronted with expiring letters of credit, unfavorable swaps, variable rate bonds facing mandatory puts and redemptions, or conversion to bank bonds due to bank and bond insurer downgrades. Hospitals seeking to improve their financial bottom-line and maximize debt capacity should consider refinancing outstanding high interest debt with FHA Sec 242/223(f).

Issued July 2, 2009

**HUD Invites Hospitals to Refinance Debt
HUD/FHA Section 242/223(f) Mortgage Insurance**

On July 1, 2009, the Department of Housing and Urban Development, initiated its powerful new debt refinancing program for hospitals. The new FHA 242/223(f) Mortgage Insurance Program allows hospital applicants to retire unfavorable debt and in doing so, lower interest rates, terminate unmanageable bank credit facilities and defease restrictive debt covenants. HUD now permits mortgage loans to be used solely for debt refinancing without a construction component. Prior to FHA 242/223(f), HUD required that all FHA 242 insured loans have a minimum 20% capital project component. To-date, HUD's mission to promote hospital care and economic development has used FHA 242 insurance to construct over \$15 billion in urgently-needed hospital projects. HUD's 242/223(f) authority has been expanded to provide federally guaranteed refinancing loans to offset the loss of private capital into the hospital sector. The current credit crisis adds debt refinancing to the priority responsibilities of HUD's Office of Insured Health Care Facilities to enhance our nation's hospital care.

FHA Section 242/223 (f) Program Eligibility Highlights:

- Refinancing proceeds must be used primarily for debt retirement and costs of issuance with no more than 20% for capital improvements.
- Refinancing must reduce monthly debt service.
- For the past three audited years, hospitals must exhibit: (1) an aggregate operating margin > 0.33 and, (2) average debt service coverage of > 1.8x
- HUD may use its estimate of a projected interest rate in lieu of historical rate(s) in calculating the operating margin and debt service coverage ratios for prior periods.
- The hospital must have experienced an increase in its interest rate of at least 1.0 percent since January 1, 2008, or must demonstrate that such an increase is imminent.
- An application for mortgage insurance, pursuant to Section 223(f), must be submitted by a HUD licensed and approved FHA 242 mortgage lender.

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