

Case Study: Financing Rural, Community & Critical Access Hospitals

North Valley Hospital Whitefish, Montana



1st Necessary-Provider CMS-Approved FHA 242 Relocation Financing

Borrower:

North Valley Hospital

Location:

Whitefish, Montana

Loan Amount:

\$29 Million

Type of Project:

Replacement Facility and Relocation
A Planetree Critical Access Hospital

Financing Structure:

FHA Section 242 Mortgage Insurance

Role of InnoVative Capital:

FHA Mortgage Banker

A New Hospital is Needed - North Valley Votes to Pursue a Replacement Facility Project

In 2002, the leadership of North Valley Hospital agreed its 35-year old facility could no longer be counted on to meet the growing medical needs of the residents of Whitefish, MT. With a consensus that renovating its current facility would not be cost-effective, the decision was made to relocate NVH to a nearby undeveloped site.

How to Afford the Project? InnoVative Capital Assists North Valley to Become a CAH

By 2003, NVH's vision of a new hospital was in jeopardy, as its financial performance did not support the project they desired. A solution was found in the critical access hospital ("CAH") program, as InnoVative Capital, NVH and its management company, QHR, described to NVH's Board the benefits of cost-based reimbursement for hospitals contemplating major capital improvement projects. On November 1, 2003, NVH became a necessary-provider CAH.

How to Finance the Project? Harnessing the Power of Government Financing

NVH's new hospital was not going to be an "ordinary" CAH. With a \$29m budget, NVH was being designed as a Planetree facility to best match the character and natural beauty of Whitefish, MT. With its modest cash reserves, NVH needed to find low-cost money and required leverage of 90/10 debt/equity. The FHA Section 242 Program was the answer. As its FHA Banker, InnoVative Capital structured an FHA 242 insured 28-year fixed rate loan. With an all-in-one construction and permanent FHA 242 insured loan, there would be none of the renewal risk of a bank loan, or variable rate interest risk of a USDA Guaranteed Loan; a major concern in times of high short term interest rates.

Two Milestones Achieved - 1st Necessary Provider CAH Approved Relocation Project & Largest FHA CAH Loan to Date

Passage of new CMS Regulations delayed the issuance of HUD's insurance commitment, and required NVH to obtain bank borrowed funds to

begin site preparation in advance of the fast approaching winter. With help from its legislators, the support of its neighboring hospital, and a site located well within the new CMS guidelines, NVH's relocation project was quickly approved by CMS in October 2005. By December 2005, NVH's FHA Insured Mortgage Loan was funded. With the proceeds of the loan, NVH began building its new 73,000 square foot facility. The new North Valley Hospital – a Planetree CAH opened in March 2007.

About InnoVative Capital

InnoVative Capital is a banking and financial advisory firm specializing in construction/permanent financing for hospitals. With tailored representation of rural, community and critical access hospitals we can best meet the unique financing challenges that differentiate small hospitals from tertiary care and health systems. Offering broad access to capital markets at attractive rates and terms; InnoVative Capital acts as financial advisor or mortgage banker for FHA 242 financings, USDA loans, municipal bond transactions, commercial loans and equity deals.

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