

HUD/FHA 242 / 223 (f): Hospital Acquisitions or Non FHA Debt Refinancings

Eligible Loans: Acute care hospital acquisitions and non-FHA debt refinancings.

Use of Loan Proceeds: FHA Section 242 Mortgage Insurance credit enhances low-interest loans for both

refinancing and acquisitions. In each case, the total estimated costs of repairs,

renovations and/or equipment =<20% of the loan amount.

Borrowers: Nonprofit or proprietary hospitals and all hospital related facilities where more

than 50% of revenues and adjusted patient days are attributable to acute care

services.

Minimum Financial Requirements:

Over the last three audited years, an average debt service coverage ratio of greater than or equal to 1.40% and an average operating margin greater than or

equal to 0.0% (exceptions can be requested).

Additional Eligibility Requirements:

At the discretion of HUD, a hospital may be required to meet additional eligibility requirements including, certain financial ratios and debt-related tests as a pre-

condition to applying for mortgage insurance.

Maximum Loan Amount: - Refinancing loans cannot exceed the cost to refinance the outstanding debt

including, the required to pay off amount.

- Acquisition loans cannot exceed the cost to acquire the hospital, including the

purchase price of land and improvements.

Loan Terms: 25 year self-amortizing permanent loan.

Interest Rates: Taxable and tax-exempt fixed rates.

Financing Methods: FHA 242 insured tax-exempt bonds (nonprofit and municipal hospitals).

GNMA secured FHA 242 insured direct taxable mortgage loans (all hospitals).

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Security: Loans must be secured by a first mortgage on the entire hospital. In certain

cases, a long-term lease may be substituted. Exceptions may include leased

equipment, off-site property, capital associated with affiliations, etc.

Application Process: HUD only permits FHA-licensed mortgage lenders to apply for FHA Section 242

Mortgage Insurance on behalf of candidate hospitals. FHA 242 applications submitted by InnoVative Capital are underwritten and credit decisions are made in Washington, D.C. by HUD's Office of Hospital Facilities and the Office of

Architecture and Engineering.

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Financial Feasibility Review:	As a part of the FHA Application, a hospital may be required to: (1) commission an externally prepared financial feasibility report and (2) generate standardized financial tables as specified under the FHA 242 Program, which benchmark the hospital's performance versus industry standards and representative peer groups.
Escrows:	Mortgage Reserve Fund - Hospitals must accumulate an amount equal to 1 year's debt service after 5 years and 2 year's debt service after 10 years. Taxes/Insurance - Standard monthly escrow deposits are required for all insurance, real estate taxes and mortgage insurance premiums.
Transaction Costs:	Application/Closing (these costs may be included in the loan amount): - FHA Application Fee - 0.15% of the loan amount. - FHA Commitment Fee - 0.15% of the loan amount. - Financing and Placement Fees - negotiated with InnoVative Capital (the FHA Mortgagee) and the hospital based on the characteristics of each prospective financing. Annual FHA Mortgage Insurance Premium - 0.65% of the outstanding loan balance.
FHA Financing Timeline:	-The FHA process for <u>refinancings</u> , from initial review by InnoVative Capital to loan closing may be completed within three monthsThe FHA process for <u>acquisitions</u> , from initial review by InnoVative Capital to closing may be completed within five to six months. The length of the HUD review will vary based upon the complexity and particulars of each transaction.
FHA Refinancing Criteria: (need three of seven)	 The proposed refinancing would reduce the hospital's total operating expense by at least .25%; The interest rate of the proposed refinancing would be at least .5 percentage points less than the interest rate on the debt to be refinanced; The interest rate on the debt that the hospital proposes to refinance has increased by at least one percentage point at any time since January 1, 2008, or is very likely to increase by at least one percentage point within one year of the date of application; The hospital's annual debt service is in excess of 3.4% of total operating revenues, based on its most recent audited financial statement; The hospital has experienced a withdrawal or expiration of its credit enhancement, or the lender providing its credit enhancement has been downgraded, or the hospital can demonstrate that one of these events is imminent; The hospital is party to overly restrictive or onerous bond covenants; There are other circumstances that demonstrate the hospital's financial health depends upon refinancing its existing capital debt.

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