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HUD Mortgage Insurance Program Section 232 LEAN

New Construction or Substantial Rehabilitation
Skilled Nursing, Intermediate Care, Assisted Living, Board & Care

Benefits:

- The new LEAN program offers faster processing through a centralized application, simplified valuation process and review by a dedicated healthcare focused team.
- Long term (40 years + construction period), low fixed rate, level pay financing.
- 90% loan to value (95% for nonprofits) by statute.
- Non-recourse and fully assumable.
- Accounts receivable financing now permitted.

Purpose:

To provide mortgage insurance to cover both the construction and permanent loans for the new construction or substantial rehabilitation of long-term healthcare facilities.

Substantial rehabilitation is defined as when the hard costs of repairs, replacements and improvements (including major movable equipment), and additions exceeds 15 % of the project's value after such completion or when two or more major building components are being substantially replaced. An acquisition which includes the funding of repairs meeting the substantial rehabilitation definition would be insured under this section.

Eligible Facilities:

Skilled Nursing Home: public, proprietary or nonprofit facility providing skilled nursing care with a minimum of 20 beds, licensed and regulated. The facility may offer specialized care such as Alzheimer's/Dementia care, Assisted Living or Board and Care but these units must be identifiably separate.

Intermediate Care Facility: public, proprietary or nonprofit facility providing minimum but continuous care (24 hour staffing/supervision) where continuous medical or nursing services are not provided, with a minimum of 20 beds, licensed and regulated. The facility may offer specialized care such as Alzheimer's/Dementia care, Assisted Living or Board and Care but these units must be identifiably separate.

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Assisted Living Facility: public, proprietary or nonprofit facility designed for frail elderly needing assistance with at least 3 activities of daily living, providing continuous protective oversight, room and board, with a minimum of 5 residential units (no more than 4 residents sharing each full bathroom), licensed and regulated. The facility may provide Alzheimer's/Dementia care but not skilled nursing care. The facility must offer 3 meals per day to each resident. If the resident's accommodation does not include a kitchen they must take all 3 meals. If their unit has a kitchen they are required to take at least one meal a day.

Board and Care Facility: public, proprietary or nonprofit facility providing room, board and continuous protective oversight, with a minimum of 5 rooms, each with a full bath, and with no more than 4 residents per room. Continuous protective oversight must include assistance, activities and services on a 24 hour basis. There is no minimum requirement for activities of daily living and skilled nursing care is not allowed. Three meals per day must be offered to each resident. If the resident's accommodation does not include a kitchen they must take all 3 meals, if their unit has a kitchen they are required to take at least one meal a day. The facility must be regulated by the State in accordance with Section 1616(e) of the Social Security Act and meet all applicable State guidelines.

A facility may include unlicensed Independent Living Units but they may not exceed 25% of the total projected number of beds or units. A 12 month debt service reserve for these units will be required in addition to any operating deficit escrow.

Ineligible Facilities:

- Facilities that charge founders fees, entrance fees, life care fees or similar charges.
- Hospitals, clinics, diagnostic and treatment centers, group practice facilities, halfway houses.
- Facilities not providing continuous protective oversight such as retirement homes, boarding houses or single room occupancy residences that provide only food and shelter.

Maximum Loan Term:

The maximum permanent mortgage term is the lesser of 40 years or 75% of the remaining useful life of the property with a minimum term of 10 years.

Maximum Loan Amount (See Underwriting Guidelines Below):

New Construction – The lesser of:	Substantial Rehabilitation – The lesser of:
90% * of HUD’s appraised value, which includes major movable equipment	90% * of HUD’s appraised value, which includes major movable equipment
Amount supported by 90% * of projected net operating income	Amount supported by 90% * of projected net operating income
90% * of the estimated replacement cost of the project, which includes major movable equipment, a builder's fee, and land at market value	If a refinance: 100% of rehabilitation costs plus the lesser of existing debt or 90% * of "as is value" If an acquisition: 90% * of rehabilitation costs plus the lesser of 90% * of purchase price or 90% * of "as is value"

* 95% for nonprofits. Nonprofit facilities may finance 100% of the estimated replacement costs less grants, public loans and tax credits. Net Operating Income includes an adjustment for market-based management fees (usually 5% of total revenues).

Underwriting Guidelines:

The latest underwriting guidelines for HUD establish an 80% loan to value for skilled nursing, intermediate care, independent/board and care facilities with a minimum debt service coverage ratio of 1.45x for nursing homes and 1.25x for independent/board and care facilities. The guidelines for assisted living facilities are a 75% loan to value and minimum 1.45x debt service coverage. Any deviation from these standards requires justification and conclusive mitigation.

Interest Rate: Subject to market conditions

Interest rates are fixed, level-pay for the life of the loan. The rate is set at the time the debt is placed with an investor which occurs after a Firm Commitment is issued and prior to the construction loan closing. Prepayment penalties and discounts vary depending on market conditions.

Personal Recourse:

The HUD insured loan is non-recourse and fully assumable. No additional debt is allowed with the exception of secondary financing from federal, state or local agencies which must be fully subordinated to the HUD insured loan.

Timing:

There is a 2-step application process which must be completed and filed by a qualified LEAN underwriter such as AGM Financial Services. The pre-application requires a project description and narrative (see AGM’s pre-application checklist), flood plain information, a Market Study and a Phase I Environmental with 4128. Under LEAN, HUD provides preliminary approval usually within 30 days. The firm application is then prepared by AGM and filed. The goal of LEAN is to have closing within 60 days of the firm application filing.

Fees: Included in the Cost of Financing

HUD Application Fee	.3% of the Mortgage
Inspection Fee	New Construction: .5% of Mortgage Sub Rehab: .5% of Construction Costs
Financing and Placement Fees	Up to a maximum of 3.5% of the Mortgage (includes Lender’s Counsel, GNMA fees and AGM fees)
Mortgage Insurance Premium	Paid each 12 months of construction and set annually by HUD. First year is .5%.
Other Fees	Appraisal, Market Study, Environmental Reports, Plans and Cost Review

Fees: Annual and Reserves

Mortgage Insurance Premium	Reset annually by HUD. Historically 57 basis points.
Replacement Reserve	New Construction: .6% of Structures Sub Rehab: .4% of Mortgage Amount
Equipment Reserve	10% of major movable equipment collected annually.
Taxes and Insurance	Reviewed annually
Operating Reserve	If required, posted at construction loan closing
Working Capital	2% of Mortgage, posted at construction loan closing, released 1 year after date of substantial completion
Off-site Costs	If required, 100% of costs posted at construction loan closing, released upon off-site work completion
Minor Movables	100% of equipment cost, posted at construction loan closing, released after in place.
Completion Assurance	100% Payment and Performance bonds or a LOC equal to 15% of construction contract for low-rise or 25% for high-rise. Posted at construction loan closing, released at permanent loan closing, and replaced by a 2.5% Latent Defects Escrow.

Additional Program Requirements:

- Three years (five preferred) experience developing, managing, and operating healthcare facilities.
- Proof that professional liability insurance meets HUD guidelines.
- Neither the facility nor the Mortgagor nor the Operator nor any of their affiliates, renamed or reformulated companies, have filed for, are in, or have emerged from bankruptcy within the last 5 years.
- The facility must be located outside the 500 year Floodplain.
- A Firm Commitment requires 100% plans, specifications and costs.
- Davis-Bacon prevailing wages apply. Residential wages apply to Board and Care and Assisted Living Facilities. Commercial wages apply to Skilled Nursing Facilities.