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HUD Mortgage Insurance Program Section 232/223(f) LEAN

Acquisition or Refinance
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 (35 years), low fixed rate, level pay financing.
- 100% of refinancing costs, up to 85% loan to value (90% for nonprofits) by statute.
- Non-recourse and fully assumable.
- Accounts receivable financing now permitted.

Purpose:

To provide mortgage insurance for the purchase or refinance of existing long-term healthcare facilities. Facilities with existing HUD insured mortgages are eligible for streamlined refinancing through Section 223(a)(7).

Repairs, deferred maintenance and capital improvements are allowed but must have a combined cost less than 15% of after repair value and may not include the replacement of more than one system. The cost of an addition may be included through this program although it must meet the less than 15% value test.

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.
- Facilities less than 3 years of age.

Maximum Loan Term:

The maximum permanent mortgage term is the lesser of 35 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):

Refinance – The lesser of:	Acquisition – The lesser of:
85%* of HUD’s appraised value after repairs, which includes major movable equipment	85%* of HUD’s appraised value after repairs, which includes major movable equipment
Amount supported by 85%* of projected net operating income	Amount supported 85%* of projected net operating income
100% of HUD approved transaction costs. No equity recapture.	85%* of HUD approved acquisition costs.

* 90% for nonprofits. Nonprofit facilities may finance 100% of the approved transaction 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 and assisted living facilities with a minimum debt service coverage ratio of 1.45x for nursing homes, 1.30x for assisted living and 1.25x for independent/board and care facilities. 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 and Secondary Financing:

The HUD insured loan is non-recourse and fully assumable.

Secondary financing must be fully subordinated to the HUD insured loan. If the source is from federal, state or local agencies the loan cannot exceed the difference between the HUD insured mortgage and the HUD fair market value of the project. If the secondary source is from private entities or natural persons the aggregate amount of the insured first loan and the second loan cannot exceed 92.5% of the HUD fair market value of the project.

Timing:

A firm commitment application must be completed and filed by a qualified LEAN underwriter such as AGM Financial Services. AGM will prepare a preliminary mortgage calculation to indicate whether the project qualifies for a HUD insured loan acceptable to the Borrower. If the project qualifies, AGM will schedule a site visit with the Borrower and informally discuss the project with HUD. The firm application will then be filed and the legal review process begins. This process allows for a closing in less than 60 days, less than 30 days if the underwriting meets the faster processing criteria.

Fees: Included in the Cost of Financing

HUD Application Fee	.3% of the Mortgage
Inspection Fee	Greater of 1% of repairs or \$30/bed
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	Reset annually by HUD. First year is 1% due at closing.
Other Fees	Appraisal, Market Study, Environmental Reports, Property Capital Needs Assessment

Fees: Annual and Reserves

Mortgage Insurance Premium	Reset annually by HUD. Historically 50 basis points.
Replacement Reserve	20% of repair costs, posted at closing and released after completion
Equipment Reserve	10% of major movable equipment collected annually
Taxes and Insurance	Reviewed annually
Operating Reserve	If required, posted at closing and released as needed or after 90 days sustaining occupancy

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 flood plain.
- A Firm Commitment requires a detailed work write-up listing quantities and unit prices for repair items.
- Davis-Bacon prevailing wages do not apply.