FHA 242/223(f) – Refinancing and Acquisition Financing for Acute Care Hospitals

Property Type	Acute Care Hospitals
Eligible Borrowers	Not-for-profit, governmental, and for-profit hospitals with at least 50% of adjusted patient days or revenue attributable to acute care services (critical access hospitals exempted).
Use of Proceeds	Acquisition or refinancing with less than 20% of loan proceeds used for repairs, renovations and equipment.
Maximum Loan-to-Value	90%
Maximum Loan Amount	Refinancing: Maximum mortgage amount not to exceed the cost to refinance the existing indebtedness. Acquisition: Maximum mortgage amount not to exceed the cost to acquire the hospital based on actual purchase price, or HUD's estimate of fair market value, whichever is less.
Maximum Term	25 years, level annual mortgage payments.
Interest Rate	Fixed (taxable or tax-exempt)
Prepayment	Typically, five to ten years based on market conditions and funding source.
Security	First mortgage, or, in certain cases, a long term lease acceptable to FHA.
Guaranty	Non-recourse to the owner.
Assumable	Yes, subject to FHA approval.
Escrows	Property insurance, real estate taxes, mortgage insurance premiums, and mortgage reserve fund.
Timing	Four to six months

Eligibility Requirements

The hospital must have an aggregate operating margin of at least 0.00% and an average debt service coverage ratio of at least 1.40 for the past three years, and meet three of the following seven criteria:

1. Total operating expenses will be decreased as a result of refinancing by at least 0.25%.
2. New interest rate will be at least 50 bps less than the current rate.
3. Current interest rate has increased at least 1% since January 1, 2008, or will very likely increase by that amount within a year of filing an application.
4. Total annual debt service in the most recent audited financials is at least 3.4% of total operating revenues.
5. Credit enhancement on current financing has been or will imminently be withdrawn or expired, or the provider has been or will be downgraded.
6. Existing financing has overly restrictive or onerous bond covenants.
7. Other circumstances exist that demonstrate that the hospital's financial health depends upon refinancing its existing capital debt.