



# RED CAPITAL GROUP'S Small & Rural Hospital Case Study

## RED CAPITAL GROUP Provides the First FHA Enhanced Build America Bond Financing for Wills Memorial Hospital



RED CAPITAL GROUP's integrated mortgage and investment banking companies combined FHA mortgage insurance with a new financing alternative known as Build America Bonds or "BABs" to provide Wills Memorial Hospital low cost, fixed rate financing during difficult economic times.

Wills Memorial in Washington, Georgia embarked on the renovation and expansion of its facility at an all-in project cost of \$13 million. BAB proceeds will fund the much needed replacement and renovation of the existing Hospital, which was constructed in 1961. The project will replace the Hospital's existing inpatient nursing unit, renovate the pharmacy, respiratory therapy, and emergency departments, and construct new outpatient specialty clinic, main entrance and patient registration areas. The BABs will provide a 35% subsidy on bond interest payments, resulting in a 4.74% fixed net interest cost for the financing over 27.5 years.

As a Hospital Authority and component of Wilkes County, the Hospital initially sought to finance the project through the issuance of county-backed general obligation bonds and commercial bank loans. With uncertain economic times facing the County and the banking industry in turmoil, these financing efforts were unsuccessful. Hospital management realized it needed a lender with multiple sources of capital that understood the unique challenges and credit worthiness of small community hospitals.

### Solution

RED developed a financing strategy to issue Build America Bonds backed by a FHA insured loan, providing a low fixed interest rate during construction and 25 year amortization period. The FHA loan is provided by Red Mortgage Capital, LLC and insured through the Section 242 Program for hospitals administered by the Department of Housing and Urban Development (HUD). The FHA loan is additionally guaranteed by Ginnie Mae, allowing for the highest AAA credit rating from Standard & Poor's.

With AAA credit enhancement procured, it was necessary to select the funding method that would provide low ongoing costs and minimize upfront cash requirements for the Hospital. Funding was ultimately provided by Red Capital Markets, LLC (Member FINRA/SIPC) underwriting of taxable Build America Bonds or "BABs". BABs are a new financing option created with the passage of the American Recovery and Reinvestment Act in early 2009. The Hospital qualified to issue taxable BABs that provide a 35% subsidy of interest payments from the U.S. Treasury over the life of the bonds. Additionally, RED structured the BABs as "draw-down" bonds, or bonds that are purchased as project funds are needed, rather than funding the entire bond issue upfront as is customary. The draw-down feature minimized construction period interest and rating agency required reserves.

### Result

RED submitted the FHA insurance application for Wills Memorial in December 2008 and received the FHA insurance commitment from HUD in May 2009. In August 2009, RED underwrote \$12.4 million of taxable fixed-rate AAA-rated draw-down Series 2009A Build America Bonds and \$600,000 in taxable fixed-rate AAA-rated draw-down Series 2009B bonds. Net of the BAB interest subsidy, the Hospital's all-in ongoing fixed cost of capital is 5.51% for construction and the 25-year mortgage amortization period. The unique draw-down BABs structure employed by RED's team saved the Hospital approximately \$900,000 in cash escrows at the time of closing and will result in approximately \$5.8 million of interest savings over the life of the financing.

The first of its kind FHA/Ginnie Mae-backed Build America Bond execution for Wills Memorial reduced the Hospital's upfront cash requirements and ongoing capital cost, enabling the Hospital to protect its liquidity reserves, reduce debt service payments and expand the scope of its facility improvement project. Most importantly the project will help Wills Memorial's medical staff provide better and expanded healthcare services to the residents of Wilkes and Lincoln Counties.

RED CAPITAL GROUP thanks Wills Memorial Hospital for the opportunity to assist with the financing of its facility expansion and renovation. We look forward to the continued success of the Hospital.

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