

FHA Mortgage Insurance Programs Section 242 Mortgage Insurance for Hospitals

Red Mortgage Capital, LLC is a leading FHA-approved Mortgagee and MAP/LEAN lender and actively provides financing utilizing FHA insurance programs nationwide pursuant to Multifamily Accelerated Processing (MAP) and LEAN underwriting methods.

Program Purpose: Provides mortgage insurance in connection with New Construction, Substantial Rehabilitation, Modernization, Remodeling, Equipment and Expansions, or Refinances. Projects must fund at least 20% in new money proceeds.

Section 242 provides a loan commitment that FHA-approved lenders such as **Red Mortgage Capital, LLC** can obtain from the U.S. Department of Housing and Urban Development (HUD) on behalf of hospital borrowers nationwide. All Section 242 applications are processed and approved by the Office of Insured Health Care Facilities (OIHCF) in HUD's Washington, DC headquarters.

Section 242 is available to acute care hospitals of all sizes nationwide. HUD has made it a top priority to increase the availability of Section 242 insurance to Critical Access Hospitals (CAH).

Eligible Borrowers: Acute care hospitals with no more than 50% of adjusted patient days attributable to the following services: chronic convalescence and rest, drug and alcoholic, epileptic, nervous and mental, mental deficiency, and tuberculosis.

Over the last three full fiscal years, the operating income of the facility must have been equal to or greater than \$0 and the average debt service coverage ratio equal to or greater than 1.25. Facilities that have recently changed reimbursement status (e.g. CAH, Sole Community Provider, etc) may calculate this margin as if they had been receiving the new reimbursement rates previously.

Maximum Term: 25 years plus a construction period

Maximum Loan: The loan to value may not exceed 90%. A hospital may include the book value of existing plant, property and equipment to meet the 10% equity requirement. The FHA mortgage insurance program is not subject to annual budgetary limits. There is no limit on the amount that can be financed.

Interest Rate: Subject to market conditions. The fixed interest rate for construction and permanent amortization is set at initial closing.

Funding: Qualifies for Ginnie Mae government guaranteed mortgage-backed securities, direct placement or may be used to credit enhance tax-exempt or taxable bonds.

Timing: Processing can be completed within 120 days from submission of an accepted final application. HUD's processing involves a two step application progression: a pre-application and a final application.

Personal Liability: None. The FHA loan is non-recourse.

FHA Application Fees: 0.3% of the loan amount.

Mortgage Insurance Premium: 0.5% of the outstanding loan amount reset annually. Once closed, the insurance premium will not change for the life of the loan.

FHA Inspection Fees: 0.5% of the loan amount.

Availability: Nationwide.

Security:

The hospital must grant the FHA lender a first mortgage on the entire hospital, including all real estate and improvements being financed. Exceptions are permitted for public hospitals that are statutorily prohibited from mortgaging property, leased equipment, off-site non-revenue producing property and capital associated with affiliations.

Additional Section 242 Program Requirements:

- If a hospital meets, or believes it could meet the Eligible Borrower guideline, the next step is to work with an FHA-approved lender such as **Red Mortgage Capital, LLC** to prepare a Debt Capacity Analysis and FHA 242 Pre-Application.
- Based on HUD’s review and analysis of the Pre-Application, HUD may request a Pre-Application meeting with **Red Mortgage Capital, LLC**, the borrower and its development team to discuss the proposed project in greater detail. Projects that appear financially sound are invited to submit a full application for mortgage insurance processing.
- Final-Application requirements include a feasibility report, environmental assessment, project drawings and pricing.
- If a State has a Certificate of Need (CON) process, a CON must be issued or pending.
- The borrower must agree to make monthly payments into a Mortgage Reserve Fund that will build to a balance equal to one year of debt service after ten years. The requirement for CAHs is two years of debt service after ten years.
- Davis Bacon prevailing wage requirements apply to New Construction and Substantial Rehabilitation projects.

For additional information visit www.redcapitalgroup.com or contact:

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In its prequalifying review, **Red Mortgage Capital, LLC** will attempt to estimate both the loan amount and the fees and costs associated with the transaction. Actual loan amounts and actual fees and expenses may vary from the prequalifying estimates. A prequalifying estimate is not a commitment to make a loan.

RED CAPITAL GROUP, LLC Offices

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