

FHA SECTION 232

HEALTHCARE NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION LOAN

PROGRAM OVERVIEW

This program provides non-recourse, assumable construction and permanent financing to build new or substantially rehabilitate assisted living, memory care and intermediate or skilled nursing facilities

QUALIFIED PROPERTIES New construction or substantial rehabilitation of assisted living, memory care and intermediate or skilled nursing facilities

- Maximum processing occupancy of 95%
- Commercial space cannot exceed 10% of gross floor area or 15% of gross income
- Independent living units cannot exceed 25% of total units or beds in the project (up to 30% with a waiver)

MAXIMUM LOAN

For new construction, the lesser of:

- 90% of the HUD eligible Replacement Cost of the facility (hard costs, soft costs and land value);
- 80% of the market value for skilled nursing facilities (up to 85% of market value for qualified Non-Profit borrowers) and 75% of market value for assisted living and memory care facilities (up to 80% of market value for qualified non-profit borrowers);
- Minimum debt service coverage of 1.45x

For substantial rehabilitation, loan amount is determined in the same fashion unless the mortgagor already owns the property. If the mortgagor owns the property, the cost criterion equals the redevelopment cost plus the lesser of the existing indebtedness before rehabilitation or 90% of the estimated value of the project before rehabilitation. For a property to qualify for substantial rehabilitation, the cost of repairs, replacements and/or improvements to the existing property must exceed 15% of the project's value after completion (not including costs of an addition). Additionally, a property can qualify if two or more major building components are being substantially replaced (at least 50%), regardless of cost

MAXIMUM TERM

Lesser of 40-years (fully amortizing) plus construction period, or 75% of remaining economic life. The minimum term is ten years

PERSONAL LIABILITY

FHA loan is non-recourse

ASSUMABILITY

Yes, subject to FHA approval

COMMERCIAL LIMITATIONS

10% of total net rentable area; 15% of effective gross income

FEES AND EXPENSES

0.30% application fee due at submission of application. Financing and permanent placement fees of up to 3.5% are based on final loan amount, due upon commitment and payable at closing. HUD inspection fee for new construction is 0.5% of mortgage amount. Love Funding will charge a nominal processing fee

MORTGAGE INSURANCE PREMIUM

0.77% of loan amount due at initial loan closing for each 12 months of construction term, or part thereof; 0.77% of outstanding principal balance thereafter

OTHER FHA REQUIREMENTS

- Working capital escrow of 4% of the loan amount is escrowed at closing. 2% of this escrow is used for construction contingencies and is refunded at final closing, if not used. The other 2% is for working capital and the unused portion will be refunded at the later of 12 months after final closing or after 6 months of break-even occupancy
- Initial operating deficit escrow will be required and can be posted in cash or letter of credit. This is typically equal to 12-18 months of debt service and released upon property maintaining 1.45x debt service coverage for 3 consecutive months
- Short-term debt service reserve escrow may be required when new units are being added to the property. Unused portions will be returned after the project has maintained an average of the underwritten debt service coverage for a twelve month period after final closing
- Any "off site" construction costs or demolition costs require separate funding by the mortgagor
- The general contractor must pay Davis-Bacon prevailing wage rates as required by the Department of Labor
- The mortgagor must retain a qualified arms-length supervisory architect during construction
- A cost certification by the owner will be required after construction completion. General contractors are required to submit a cost certification if there is an identity of interest with the borrower
- The general contractor must execute a lump sum or cost plus contract depending on relationship between owner and contractor, provide a 100% performance and payment bond (or cash escrow or letter of credit acceptable to FHA), and have liquid net worth equal to at least 5% of the project construction contract plus all other uncompleted construction work
- The client must pay for all third party reports, which include a market study, a phase I environmental assessment, a full appraisal, an architectural/engineering review and a cost analysis. Funds must be remitted to Love Funding and these contractors are engaged and paid by Love Funding directly
- Escrows for property taxes, insurance, MIP and replacement reserves required