



## FHA Section 242 Hospital Mortgage Insurance Program

### Affordable Financing for Acute Care Hospital Construction, Equipment and Refinancing

#### Overview of the Program:

The FHA 242 program provides mortgage insurance for acute care hospitals – including Critical Access Hospitals – for loans to finance new construction, expansion, modernization, equipment, and refinancing of existing debt. U.S. Government backing of financing results in AA/AAA credit rating, enabling hospitals to obtain very attractive interest rates.

Eligibility	<ul style="list-style-type: none"> <li>Facility must be an acute care hospital (i.e., no more than 50% of patient days attributable to the following services: chronic convalescence and rest, drug and alcoholic, epileptic, nervous and mental, mental deficiency, and tuberculosis).</li> <li>Mortgage cannot be insured if a construction project is already underway.</li> </ul>
Maximum Loan	<ul style="list-style-type: none"> <li>No maximum loan amount; Maximum 90% loan-to-value ratio (i.e., can borrow up to 90% of the estimated replacement cost of the project).</li> </ul>
Maximum Term	<ul style="list-style-type: none"> <li>Construction period, plus 25-year, self-amortizing, permanent loan.</li> </ul>
Minimum Financial Requirements	<ul style="list-style-type: none"> <li>Over past three fiscal years:               <ul style="list-style-type: none"> <li>Aggregate debt service coverage ratio greater than 1.25.</li> <li>Aggregate operating margin greater than 0.</li> </ul> </li> </ul>
Personal Liability	<ul style="list-style-type: none"> <li>FHA loan is non-recourse.</li> </ul>
Assumability	<ul style="list-style-type: none"> <li>Yes, subject to FHA approval.</li> </ul>
Upfront Fees and Expenses	<ul style="list-style-type: none"> <li>The client must pay for all third party reports, which include a Phase I Environmental Assessment and study of market need and financial feasibility prepared by a CPA firm.</li> </ul>
FHA Fees and Mortgage Insurance Premium	<ul style="list-style-type: none"> <li>Upfront FHA fees of 0.8% of the mortgage amount, which can be included in the financing.</li> <li>Annual Mortgage Insurance Premium (MIP) is 0.7% of the outstanding loan balance.</li> </ul>
Other FHA Requirements	<ul style="list-style-type: none"> <li>If the state has a Certificate of Need (CON) process, a CON must be issued or pending.</li> <li>Davis-Bacon prevailing wage requirements apply to construction projects.</li> <li>Starting with commencement of amortization, FHA requires insured hospitals to make contributions to a Mortgage Reserve Fund (MRF). The MRF is a fund which, at FHA's discretion, may assist the hospital with mortgage payments if the need arises.</li> </ul>