

FHA LEAN Rehabilitation and Permanent Financing of Healthcare Facilities Section 232

Eligible Projects	<p>Skilled nursing, assisted living, intermediate care, and board and care facilities, or any combination are eligible, including an up to 25% non-licensed independent living component.</p> <p>Non-residential treatment centers, halfway houses, and projects with entrance fees are NOT eligible.</p> <p>a) Facility must provide continuous protective oversight of residents and offer three meals per day.</p> <p>b) Facility must be licensed by the state in which it is located.</p> <p>c) No more than 25% of units can be non-licensed independent living units.</p> <p>d) Non-resident day care may not exceed 20% of gross floor area and 20% of gross income.</p> <p>e) Commercial space that does not exclusively serve residents is limited to 20% gross floor area and 20% of gross income</p>
Borrower	<p>Single-asset entity</p>
Use of Proceeds	<p>Substantial Rehabilitation is defined as a project that includes rehabilitation costs equal to 15% or more of post-rehabilitation appraised value or replacement of two or more major building components.</p>
Interest Rate	<p>Fixed rate for the term of the loan</p>
Loan Parameters	<p>The maximum loan amount is the lesser of:</p> <p>a) 90% (95% for non-profits) of appraised, stabilized value post rehabilitation*</p> <p>b) Loan amount that achieves the minimum debt service coverage ratio of 1.11x (1.05 for non-profits)*</p> <p>c) If property already owned: The cost of rehabilitation plus the lesser of existing indebtedness, or 90% (95% for non-profits) of as-is value</p> <p>d) If property to be purchased: 90% (95% for non-profits) of the cost of rehabilitation plus the lesser of 90% (95% for non-profits) of the purchase price, or 90% (95% for non-profits) of as-is value</p> <p>*Based upon the difficult economic and fiscal environment, HUD has requested that the above underwriting parameters be changed to the following, unless there is significant justification or mitigation to support higher leveraged underwriting parameters:</p> <p>Skilled Nursing Facilities: 80% LTV and 1.45 DSCR Assisted Living Facilities: 75% LTV and 1.45 DSCR Board and Care and Independent Living Facilities: 80% LTV and 1.25 DSCR</p>

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Greystone Servicing Corporation, Inc.

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Recourse	Non-recourse
Term and Amortization	Actual construction term plus up to 40 years or 75% of the remaining economic life. Loan will fully amortize over the permanent portion of loan term.
Prepayment	Negotiable. Typically two-year lockout with 8% penalty in the third year, reducing 1% each succeeding year.
Interest Rate Set	After acceptance of FHA commitment and prior to closing
Assumable	Loan is assumable, subject to HUD approval and payment of an assumption fee and related transaction expenses.
Fees and Expenses	<ul style="list-style-type: none"> a) FHA Application Fee: 0.3% due at submission of application to HUD. b) FHA Mortgage Insurance Premium at prevailing rates as determined by HUD. c) FHA Inspection Fee: 0.5% of improvements; paid at closing. d) Financing and Permanent Placement Fees: Contact Greystone; paid at closing. e) Third party reports and other actual expenses incurred by Lender.
Escrows	<ul style="list-style-type: none"> a) Replacement Reserves: Initial deposit may be required. After construction, an annual deposit, paid monthly, is required generally equal to 0.6% of hard costs and 10% of the cost of major movables. b) Taxes and Insurance: Budgeted under the construction loan and disbursed as required. At final endorsement, normal escrows are established and deposits are made monthly with mortgage payments. c) Working Capital Reserve: Cash or letter of credit of 2%. Unfunded portion released after stabilized operations are achieved. d) Operating Deficit Reserve: amount and timing of release of unused funds is determined by FHA at commitment. d) For all unlicensed independent living units HUD requires a prorated 12 month debt service escrow. For example, if 25% of the project is unlicensed independent living units, 25% of the annual debt service must be escrowed at closing and held along with the operating deficit reserve. e) Minor movables and off-site escrows: Non-mortgageable items that are necessary for project operation, such as linens, dishware, housekeeping supplies, and costs incurred outside the perimeter of the property such as utility extension fees, and sidewalks.
Davis Bacon Act	Payment of prevailing wages is required. Wage rates for each locality are set by Department of Labor, and can be viewed at www.gpo.gov/davisbacon/ .

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Processing and Timeline

HUD offers two choices for processing loans under this section of the National Housing Act as follows:

a) Two-Step Process:

- **Pre-Application:** Borrower and Lender work together to assemble and submit preliminary project data along with a market study and an environmental report. HUD issues a Market Acceptance Letter.
- **Firm Commitment Application:** Includes all third-party reports, full plans and specifications, general contractor's costs, full credit review of the borrower entity, principals and general contractor, description of proposed property manager, and business plan.

b) One-Step Process:

- At the borrower's option, the above process can be combined into one application, although none of the required documentation is eliminated.

In the past, the time from Engagement Letter to closing has been approximately nine months. LEAN administration estimates expedited HUD review times totaling as little as 30 days, and expedited closing times. We anticipate three to nine months from Engagement Letter to closing under LEAN Processing.

Professional Liability Insurance

Minimum coverage \$1,000,000 per occurrence and \$3,000,000 aggregate with a maximum deductible of \$100,000 (for operators with 50 or fewer facilities) provided by an insurer rated "B++" or better by AM Best.

LEAN administration has advised that HUD regulations for professional liability insurance will be revised to conform to LEAN, and that waivers will be granted in certain cases when premiums are high and claims history is clean.