Skilled Nursing & Assisted Living Facilities

NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION

FHA Section 232

PROGRAM PURPOSE

Provides mortgage insurance for the construction or rehabilitation of skilled nursing and assisted living facilities. Unlicensed independent living units are also allowed but cannot exceed 25%/waiverable up to 30% in some instances. Other licensed seniors housing property types are also eligible, including intermediate care facilities and board & care homes (collectively, “Residential Care Facilities”).

ELIGIBLE BORROWERS

Experienced profit motivated, non-profit and public owners are eligible.

MAXIMUM TERM

40 years plus a construction period.

STANDARD LOAN AMOUNTS

New Construction:
The lesser of:

1. 80% of stabilized value (85% for non-profits) for skilled nursing and independent living units.
2. 75% of stabilized value (80% for non-profits) for assisted living units.
3. 90% of FHA’s allowable replacement cost.
4. Amount that results in a debt service coverage ratio of 1.45x based on the underwritten Net Operating Income.
5. 100% of FHA’s allowable costs less grants, public loans and tax credits.

Substantial Rehabilitation:
The lesser of:

1. 80% of stabilized value (85% for non-profits) for skilled nursing and independent living units.
2. 75% of stabilized value (80% for non-profits) for assisted living units.
3. 90% of FHA’s allowable replacement cost (95% for non-profits).
4. Amount that results in a debt service coverage ratio of 1.45x based on the underwritten Net Operating Income.
5. If owned - 100% of hard and soft costs plus the lesser of existing debt or 90% of existing value (95% for non-profits). To be acquired - 90% of hard and soft costs (95% for non-profits) plus 90% of the lesser of purchase price or existing value (95% for non-profits).
6. 100% of FHA’s allowable costs less grants, public loans and tax credits.

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HIGHLAND COMMERCIAL MORTGAGE

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***Commercial Space is allowable up to 10% of Gross Floor Area AND 15% of Gross Project Income. Minimum 20% vacancy used for underwriting purposes.**

GENERAL LOAN TERMS
NOI & VALUE CALCULATION

In determining underwritten NOI, market-based management fees are included for debt service coverage and loan-to-value sizing tests.

RECOURSE

None. The FHA loan is non-recourse; however, identified principal(s) will be required to sign “bad acts” and malfeasance carve outs at closing.

ASSUMABLE

Yes, subject to HUD and lender approval and payment of the assumption fee (0.05% of the original loan amount).

INTEREST RATE

Subject to market conditions. A rate lock deposit in the amount of 0.5% of the loan amount is collected at acceptance of the Firm Commitment and fully refunded at initial endorsement.

PREPAYMENT

Subject to market conditions. Typical structures include either a 1 or 2-year lock-out period, with the remainder of the first 10 years open to prepayment subject to a penalty that declines annually. Other variations are possible based on market conditions and borrower preferences.

FHA APPLICATION FEES

0.3% of loan amount, payable to HUD at submission of the firm application.

MORTGAGE INSURANCE PREMIUM

The annual MIP is currently 0.77% (0.45% if the project utilizes Low Income Housing Tax Credits) of the outstanding loan amount.

FHA INSPECTION FEES

0.5% of loan amount (new construction).
0.5% of costs associated with construction (sub rehab).

REPLACEMENT RESERVES

Annual deposits required equivalent to the sum of (i) 0.60% of total structure cost and (ii) 10% of major moveable equipment per annum.

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ASSURANCE OF COMPLETION

For non-elevator or three story or less elevator buildings cash deposit or Letter of Credit in the amount of 15% of estimated construction or rehabilitation cost.

SECONDARY FINANCING

Permitted in the form of a surplus cash note and from governmental sources only.

FUNDING

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

TIMING

Lender underwriting and preparation of an application will take approximately 8-12 weeks. Timing for approval from FHA will be contingent on their workload at the time of the application submission. Highland will estimate this timing based on recent experience.

ADDITIONAL PARAMETERS

- The FHA Section 232 mortgage insurance program is one of the most attractive credit enhancement programs available for taxable and tax-exempt financing of new construction and rehabilitation of residential care facilities.
- Under the FHA Section 232 program, FHA insures each construction loan disbursement as an advance is made and, upon “Final Endorsement,” it insures the permanent mortgage. The mortgagor may also choose insurance upon completion of construction.
- The proposed operator/manager needs to demonstrate experience in leasing and operating facilities similar to the proposed development.
- A master lease may be required when an owner finances 3 or more properties or $15 million or greater in combined loan amounts with the FHA healthcare programs within an 18-month period.

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Highland Commercial Mortgage is a HUD MAP/LEAN approved lender and is a national leader offering underwriting, loan origination and servicing for multifamily mortgages, skilled nursing and assisted living facilities. Our team is recognized nationally for its work with HUD 232, 232/223(f), and 232/223(a)(7) programs. Highland works closely with developers, non-profit housing organizations, operators, and large property managers across the United States. The Highland team has also developed long-standing and strategic relationships within FHA and has a deep and thorough understanding of FHA/HUD underwriting guidelines.

For additional information contact:

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ESCROWS: CASH OR LETTER OF CREDIT

WORKING CAPITAL (non-mortgageable): 4% of mortgage amount

- 2%: Uses include initial marketing and rent-up, operating deficits in first operating year, shorts falls in taxes, interest, insurance and MIP.

  Unused balance released, subject to HUD approval, one year after Final Endorsement and when the project has achieved 6 consecutive months of break- even occupancy defined as 1.0 debt service coverage.

- 2%: New construction contingency used to fund necessary change orders.

  Unused balance to be release at final endorsement subject to HUD approval

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INITIAL OPERATING DEFICIT (non-mortgageable):

- Amount requested will be approximately 12-18 months of debt service coverage.

  Unused balance will be released 12 months after Final Endorsement and when the project has achieved a 1.45x debt service coverage for 3 consecutive months.