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Client Alert

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HUD Financing Opportunities for Long-Term Care Facilities

With the changes in Georgia's Certificate of Need (CON) law implemented by S.B. 433, which permits the relocation of all or a part of a nursing home's beds within the same county, together with the upcoming Fair Rental Value System reimbursement methodology for property costs, nursing home owners in Georgia have unprecedented opportunities to relocate, renovate, or replace their facilities. Unfortunately, these opportunities arise in the midst of a credit crunch, with financing for such projects becoming increasingly difficult to obtain.

Nursing home owners (and for that matter, owners and developers of other types of long-term care facilities) might consider the benefits available under the Department of Housing and Urban Development's Section 232 and 232/223 (f) loan programs when comparing financing packages for new construction, substantial rehab or simply refinancing existing debt.

Eligible projects must be able to accommodate 20 or more residents who require skilled nursing care and related medical services and/or who need intermediate care or assisted living services. The property must meet state licensing and operating standards, and nursing home applicants must submit a CON or similar assessment from the applicable state agency. There are no low or moderate income tenancy requirements, but facilities requiring founder's, entrance or life estate fees are not eligible.

For qualifying properties, FHA insurance will be provided to approved lenders on what typically are attractive terms. Loans for new construction or substantial rehab are fully amortizing long-term (40 years) assumable fixed rate debt and the construction phase automatically converts into permanent financing without requiring a second closing. Loan to value ratios can be as high as 90% for a for-profit entity and up to 95% for non-profits. For the acquisition or refinancing of operating properties that do not require significant renovation, similar packages are available, with debt terms of 35 years and a loan to value ratio of up to 85% (or 90% for non-profit entities).

FHA insurance allows lenders to provide the financing at low interest rates (based on prevailing market terms) and on a non-recourse basis. As with any comparable loan, however, borrowers must pay various fees, some of which are set by HUD and others that are negotiable depending upon the lender. Replacement reserve deposits are required and operating deficit escrows are

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often necessary, particularly for new projects, until sustaining occupancy levels are attained.

Of course, when comparing financing packages, the operator must consider both the benefits and the burdens of HUD loan programs. Although Section 232 and 232/223 (f) loans can be closed through HUD's "fast-track" Multifamily Accelerated Processing procedures for approved lenders, even the expedited process can take 6 months from start to finish for existing projects and 7-9 months for new construction or substantial rehab. Using architects, accountants and other professionals who know the local HUD personnel and who are experienced in complying with HUD financing requirements can, however, help the transaction run more efficiently and smoothly.

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