



FHA® 242

Arbor provides FHA-insured loans for acute care hospital facilities ranging from large teaching institutions to small rural critical access hospitals. The FHA assists hospitals access affordable financing for capital projects. Uses include new construction, refinancing, and modernization, remodeling, equipment and expansion.

Loan Term	25-year permanent loan plus a construction period.
Amortization	Fully amortizing after 25 years, not to exceed 90% of remaining economic life.
Maximum Loan Amount	No limit on the amount that can be insured, subject to a loan-to-replacement cost of 90% or the costs to refinance in a 242-223(f). Hospitals can pledge existing assets to meet the loan-to-value test.
Fixed Rate	Fixed rate for the length of the mortgage.
Eligible Hospitals	The project to be financed with a mortgage insured under this part shall involve the construction of a new hospital, the substantial rehabilitation (or replacement) of an existing hospital, the limited rehabilitation of an existing hospital, the acquisition of an existing hospital, or the refinancing of the capital debt of an existing hospital pursuant to Section 223(a)(7) or Section 223(f).
Underwriting Criteria	<ul style="list-style-type: none"> • 3 years average breakeven operating margin (1.0), imputing new HUD loan interest rate • 3 years historical average 1.25 Debt Service Coverage, imputing new HUD loan debt service and MIP • Greater than 50% acute-care patient days • 242 Program – At least 20% of loan amount used for construction/rehab/repairs/equipment (242/223f – less than 20%) • First Lien on hospital real estate and accounts receivable • 242/223f Program – Refinance or acquisition of existing hospitals. Hospital construction must be completed 2 years prior to HUD application submission. Used for non-HUD financed hospitals, or HUD-financed hospitals that require a loan greater than the original HUD loan amount • 242/223f Program– Refinance of existing HUD-insured hospital loans (loan increased to maximum of original loan amount; term extended up to 12 years, not to exceed 25 years)
HUD Inspection Fee	<ul style="list-style-type: none"> • 242 Program: 0.5% of construction/rehab/repairs/equipment • 242/223f and 242/223a7 Programs: 0.1% for <5% construction/rehab/repair/equipment; 0.2% for <10%; 0.3% for <15%; 0.4% for <20% • 2% Mortgage Reserve Fund: 20% of annual debt service escrowed during each of years 1-5; additional 20% escrowed annually during each of the years 6-10. Unused reserve may be drawn upon during last 5 years of loan term to supplemental debt service payments.
Eligible Borrower	The mortgagor shall be a public mortgagor (i.e., an owner of a public facility), a private non-profit corporation or association, or a profit-motivated mortgagor meeting the definition of “hospital” in §242.1. The mortgagor shall be approved by HUD and, except in those cases where the hospital is leased as permitted in §242.72, shall possess the powers necessary and incidental to operating a hospital. Eligible proprietary or profit-motivated mortgagors may include for-profit corporations, limited partnerships, and limited liability corporations and companies, but may not include natural persons, joint ventures, and general partnerships. Any proposed mortgagor must demonstrate that it has a continuity of organization commensurate with the term of the mortgage loan being insured.



For new organizations, or those whose continuity is necessarily dependent upon an individual or individuals, broad community participation is required.

Recourse	Non-recourse
Required Reports	Study of market need and financial feasibility, Phase I and Appraisal.
Prepayment	Negotiable, depending on the term and loan amount.
Expense Escrow	Yes – sufficient to cover Arbor’s expenses and third-party report costs.
Origination Fee	Negotiable
HUD Application Fee	A commitment fee that, when added to the application fee will aggregate \$3 per \$1,000 of the amount of the loan set forth in the commitment, shall be paid within 30 days of the date of issuance of the commitment. If such fee is not paid within this 30-day period, the commitment shall automatically terminate.
HUD Inspection Fee	0.5% of the mortgage amount for new construction or sub-rehabilitation. Between 0.10% and 0.40% for 5% to 19% hard costs.
Legal/Closing Fee	Borrower pays Arbor’s counsel fee and miscellaneous closing costs.
Davis Bacon	Davis Bacon wage requirements apply to new construction and/or sub-rehabilitation. Not required on repairs pursuant to 242 / 223(f).
HUD Mortgage Insurance Premium (MIP)	0.70% of the loan amount for a 242. 0.65% for a 242 / 223(f).