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The Health Care Services Advocate

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Looking for Affordable Financing for Your Hospital Projects?

Follow the WeiserMazars LLP Roadmap for a HUD Pre-Application Process that Can Help

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Section 242 of the National Housing Act enables the affordable financing of hospital projects by reducing the cost of capital and significantly enhancing the credit of hospitals that qualify for mortgage insurance. The program improves access to quality health care, reduces the cost of hospital care, supports the Department of Housing and Urban Development's ("HUD") community development mission, and contributes revenues to the General Insurance Fund. Currently, hospitals in HUD's Section 242 portfolio range from small rural facilities to some of the nation's top urban teaching hospitals.

Through the Section 242 program, lenders may apply for hospital mortgage insurance, supplemental loans, or refinancing. However, potential applicants are asked to first contact HUD and submit pre-application materials for preliminary review before proceeding to the application stage. Because of the comprehensive nature of the application and the rigor of qualifications required, The Office of Insurance Health Care Facilities (OIHCF) performs an analysis of pre-application materials to determine whether or not potential mortgagors meet the minimum criteria for HUD Section 242 Mortgage Insurance.

Passing this preliminary phase does not assure that an application will be approved; however, the pre-application process enables OIHCF to determine minimum eligibility requirements before a hospital and its lender commit substantial time, expense, and effort to prepare a complete application.

When reviewing applications for mortgage insurance, HUD's main objectives are to evaluate the need, financial feasibility, and risk of proposed hospital projects. When deciding whether or not to approve a loan, HUD considers many factors, and expects complete applications to contain sufficient information and supporting data to enable informed decisions.

Driving the Pre-Application Process: A Simple Checklist to Help You Navigate the Process

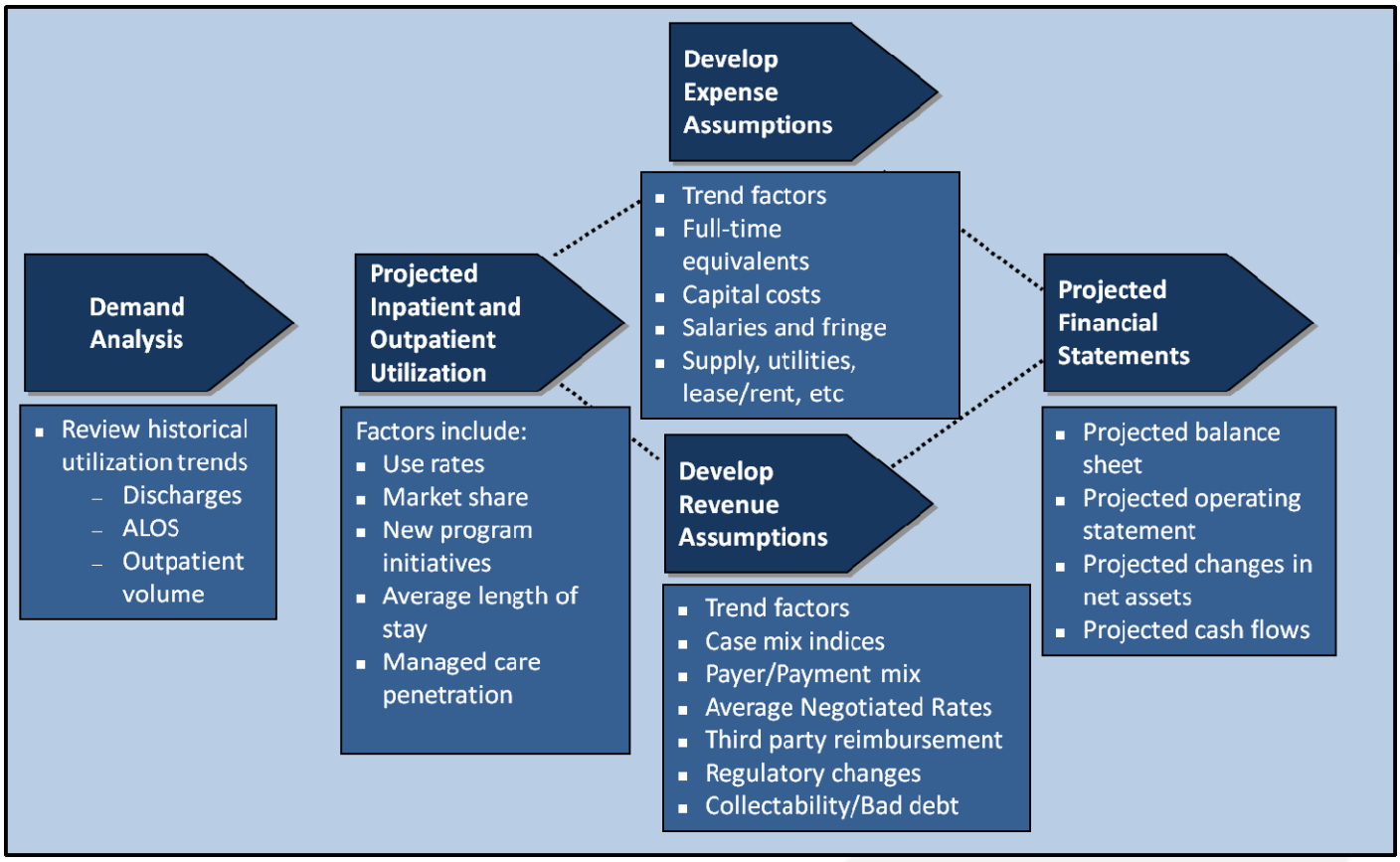
The purpose of the preliminary review is to identify any obvious factors that would cause an application to be rejected before a hospital and its lender expend the resources needed to prepare an application and HUD expends resources to review it.

1. Conduct a self-assessment.
2. Make initial contact with HUD to learn more about the precise steps required in their process and to acquire essential paperwork and process documentation.
3. The preliminary HUD assessment review focuses on:
    - Statutory eligibility;
    - Market need;
    - Financial strength; and
    - Any other known factors that have the potential to cause an application to be rejected.

    HUD performs this review at no cost to the lender.
4. If HUD's review identifies no problems, a pre-application meeting comes next. The pre-application meeting is an opportunity for the potential mortgagee and mortgagor to summarize the proposed project, for HUD to summarize the application process, and for issues that could affect the eligibility of underwriting of the proposed loan to be identified and discussed.

5. Following the meeting, HUD may invite the lender to submit an application or identify issues that must be resolved before a full application will be accepted for processing. It's important to note that HUD's participation in a pre-application meeting should, in no way, be construed as an indication that a subsequent application will be approved.

6. If you are given the green light for the submission of an application and feasibility study, it would be helpful to seek out professionals who are experienced in taking your hospital's background, project needs and goals into consideration and who have experience in using this information to create a financial feasibility study that reflects these items. A solid feasibility study outline will include the following:



7. The application is then reviewed by HUD and, if the hospital meets all of HUD's architectural and financial criteria, a decision is issued.

8. Once the decision is made to support the construction project, HUD issues an insurance commitment which is a commitment from HUD that it will provide support to the project.

9 Next, an initial closing is held to get the initial mortgage documents executed in order to provide the proceeds for the construction project to commence.

10. Construction can then begin

11. The final closing occurs after the construction project is completed and the final construction costs are certified by an independent public accountant. At this point all final mortgage documents are executed.

It is important to remember that if HUD does not receive a complete application within one year following the date of the preliminary review letter, another preliminary review may be required, at HUD's discretion, before the application process proceeds.

If you feel your organization would benefit from submitting a pre-application for the Section 242 program, and are interested in discussing your pre-application or financial feasibility study needs with the experts of the WeiserMazars LLP Health Care Services Group, please contact Lawrence Cafasso by phone (212.375.6914) or e-mail (lawrence.cafasso@weisermazars.com).