

# Bedford Lending

## FHA Mortgage Insurance Programs

### Section 232

#### Healthcare New Construction & Substantial Rehabilitation

**Bedford Lending** is a leading FHA-approved Mortgagee and MAP/LEAN lender that actively underwrites FHA insured mortgage loans for multifamily housing, seniors housing, assisted living and skilled care properties nationwide.

**Program Purpose:** Provides mortgage insurance to facilitate funding the new construction of substantial rehabilitation of Assisted Living, Memory Care, and Intermediate or Skilled Nursing Facilities.

**Eligible Borrowers:** Profit motivated, non-profit motivated and public owners are eligible.

**Maximum Loan:** **New Construction:** The lesser of:

1. 90% of the HUD eligible Replacement Cost of the facility (hard costs, soft costs and land value);
2. 80% of the market value to Skilled Nursing Facilities (up to 85% of market value for qualified Non-Profit borrowers) and 75% of market value for Assisted Living and Memory Care facilities (up to 80% of market value for qualified Non-Profit borrowers);
3. Minimum Debt Service Coverage of 1.45x;

**Substantial Rehabilitation:**

1. The loan amount is determined in the same fashion unless the mortgage already owns the property. If the mortgagor owns the property, the cost criterion equals the redevelopment cost plus the lesser of the existing indebtedness before rehabilitation or 90% of the estimated value of the project before rehabilitation;
2. For a property to qualify for substantial rehabilitation, the cost of repairs, replacements and/or improvements to the existing property must exceed 15% of the project's value after completion (not including costs of an addition). Additionally, a property can qualify if two or more major building components are being substantially replaced (at least 50%), regardless of cost.

**Maximum Term:** 40 years (fully amortizing) plus construction period, not to exceed 75% of remaining economic life..

**Interest Rate:** Subject to market conditions.

**Mortgage Insurance:** 0.77% of outstanding loan amount.

**Prepayment:** Typically closed for 2 years then open to prepayment at 108% in year 3, declining 1% per year. Other variations are possible based on market conditions and borrower preferences.

**Timing:** Section 232 processing usually takes about 5 to 6 months (subject to deal specifics).

**FHA Application Fees:** 0.30% of the loan amount (non-refundable) due at application. Financing and permanent placement fees of up to 3.5% are based on final loan amount, due upon commitment and payable at closing. HUD inspection fee for new construction is 0.5% of mortgage amount. 0.77% of loan amount due at closing for each 12 months of construction term or part thereof.

**FHA Inspection Fees:** 0.50% of the loan amount (non-refundable).

**Personal Liability:** Non-recourse.

**Assumable:** Yes, subject to FHA approval.

**Territory:** Nationwide.

**Program Notes:**

- Working Capital Escrow of 4% of the loan amount is escrowed at closing. 2% of this escrow is used for construction contingencies and is refunded at final closing, if not used. The other 2% is for working capital and the unused portion will be refunded at the later of 12 months after final closing or after 6 months of break-even occupancy.
- Initial Operating Deficit Escrow will be required and can be posted in cash or letter of credit. This is typically equal to 12-18 months of debt service and released upon property maintaining 1.45x debt service coverage for 3 consecutive months.
- Debt service reserve may be required and ranges from 6-12 months of principal, interest and MIP payments; will be held until the underwritten debt service coverage is met for 12 consecutive months.
- Commercial space cannot exceed 10% of gross floor area or 15% of gross income.
- Independent living cannot exceed 25% of total units (up to 30% with a waiver).

- Maximum underwriting occupancy of 95%.
  - Any “off site” construction costs or demolition costs require separate funding by the mortgagor.
  - The general contractor must pay Davis-Bacon prevailing wage rates as required by the Department of Labor.
  - The mortgagor must retain a qualified arms-length supervisory architect during construction.
  - A cost certification by the general contractor and owner will be required after construction.
  - The general contractor must execute a guaranteed maximum price contract, provide a 100% performance and payment bond (or cash or letter of credit acceptable to FHA), and have liquid net worth equal to at least 5% of the project construction contract plus all other uncompleted construction work.
  - The client must pay for all third party reports, which include a market study, a phase 1 environmental assessment, a full appraisal, an architectural/engineering review and a cost analysis. Funds must be remitted to Bedford Lending and these contractors are engaged and paid by Bedford Lending directly.
  - Escrows for property taxes, insurance, MIP, and replacement reserves are required.
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**For additional information visit [www.bedfordlending.com](http://www.bedfordlending.com) or contact:**

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