BedfordLending

HUD 232 | Term sheet

Healthcare construction & rehab

LEAN PROGRAM REFERENCE | SEPTEMBER 2026

Purpose & term	New construction or substantial rehabilitation of eligible residential healthcare facilities. Permanent financing can extend up to 40 years, limited to 75% of remaining economic life; the construction period is separately structured.
Property & borrower	Eligible licensed or regulated residential care facilities, including skilled nursing, assisted living and eligible memory care. Borrower generally holds the property in a single-asset entity. Operator, management and ownership experience are reviewed separately.
Independent living	Generally limited to 25% of project beds under the LEAN Handbook. A larger component requires specific HUD review; do not assume a waiver. Care and licensing requirements remain applicable.
Maximum mortgage	Lowest applicable requested amount, eligible replacement-cost, value, debt-service and other cost/funding criteria. New construction is generally limited to 90% of HUD-eligible replacement cost; required escrows and nonmortgageable costs still require separate funding.
Value & coverage benchmarks	New skilled nursing: 80% LTV (85% for qualifying nonprofit). New assisted living: 75% (80% for qualifying nonprofit). Existing assisted living benchmarks are 80%/85%. Standard DSCR benchmark is 1.45x, including MIP. Mixed uses and nonprofit eligibility require specific review.
Substantial rehabilitation	Generally triggered when qualifying repair/improvement costs exceed 15% of completed project value, or when at least 50% of two or more major building components is replaced. Additions and major movable equipment have separate treatment in the tests.
Commercial uses	Generally no more than 10% of gross floor area and 15% of gross project income. Space exclusively serving residents is treated separately. Commercial leases and income require HUD review.
Interest rate & prepayment	Fixed rate established at rate lock. Prepayment lockouts, declining premiums and any buydown are negotiated for the transaction; they are not a HUD-guaranteed rate or universal schedule.
Recourse & transfer	Nonrecourse, subject to loan-document carve-outs and applicable completion obligations. Transfers and assumptions require lender/HUD approval.

General program information, not a loan commitment. Proceeds, pricing and requirements depend on underwriting, HUD approval and applicable guidance.

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Requirements & application

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HUD fees & MIP	Standard application fee: 0.30% of requested mortgage. New-construction inspection fee: 0.50% of mortgage; substantial-rehab inspection fees use the applicable cost-based calculation. MIP depends on the current healthcare schedule and transaction category; do not apply multifamily's 0.25% rate automatically.
Working capital	New-construction insured-advances transactions generally require 4% of the loan, including a 2% construction contingency. Release is subject to handbook and escrow conditions. Substantial rehabilitation follows its applicable escrow requirements.
Lease-up & other escrows	An initial operating deficit escrow is sized to projected cash-flow needs. HUD may require a debt-service reserve for additional risk. Minor movable equipment/supplies, taxes, insurance, MIP and replacement reserves must also be addressed.
Contractor & completion	Contractor credit review, an acceptable construction contract, payment/performance bonds or an approved completion-assurance alternative, supervising architect and construction inspections are required. Applicable Davis-Bacon labor standards must be built into the budget and administration.
Reports & construction	Appraisal/market analysis, environmental review, architectural/engineering and cost review support the application. Draws, change orders and inspections follow HUD procedures. Cost certification and final endorsement follow construction; physical completion is not the same as final closing.
Equipment & equity	Eligible major movable equipment may be mortgageable; expendable supplies are handled separately. BSPRA is a multifamily allowance and does not apply to Section 232. Evaluate land, equity and nonmortgageable items in the full sources-and-uses schedule.
Operations & reporting	Borrower and operator regulatory agreements, facility licensing, approved management, professional/property insurance and required financial reporting continue after closing. Ownership, operator changes and distributions remain subject to HUD controls.
Start the review	Provide site control, licensed/proposed beds and care mix, development budget, operating projections, market information and developer/operator track records. Feasibility, reports/design, firm application, commitment and initial closing precede construction. Timing is project-specific.

General program information, not a loan commitment. Proceeds, pricing and requirements depend on underwriting, HUD approval and applicable guidance.

Sources: HUD Handbook 4232.1, Section II, Chapter 2 (program requirements); Chapter 3 (loan sizing and eligible costs); Current ORCF guidance and program resources.