

# FHA Mortgage Insurance Programs

## Section 232

### New Construction/Substantial Rehabilitation Skilled Nursing and Assisted Living Facilities

**RED Mortgage Capital, LLC** is a leading FHA-approved Mortgagee and MAP/LEAN lender that actively underwrites, funds and services FHA insured mortgage loans for multifamily housing, seniors housing, assisted living and skilled nursing properties nationwide.

#### **PROGRAM PURPOSE:**

Provides mortgage insurance for the construction or rehabilitation of skilled nursing and assisted living facilities. Unlicensed independent living units are also allowed but cannot exceed 25% of the total units of the project without a waiver. Other licensed seniors housing property types are also eligible, including intermediate care facilities and board & care homes (collectively, "Residential Care Facilities").

#### **ELIGIBLE BORROWERS:**

Experienced profit motivated, non-profit and public owners are eligible.

#### **TERRITORY:**

Nationwide.

#### **MAXIMUM TERM:**

40 years plus a construction period.

#### **STANDARD LOAN AMOUNTS:**

**NEW CONSTRUCTION:** The lesser of:

1. 80% of stabilized value (85% for non-profits) for skilled nursing and independent living units.
2. 75% of stabilized value (80% for non-profits) for assisted living units.
3. 90% of FHA's allowable replacement cost (95% for non-profits).
4. Amount that results in a debt service coverage ratio of 1.45x based on the underwritten Net Operating Income.
5. 100% of FHA's allowable costs less grants, public loans and tax credits.

**SUBSTANTIAL REHABILITATION:** The lesser of:

1. 80% of stabilized value (85% for non-profits) for skilled nursing and independent living units.
2. 75% of stabilized value (80% for non-profits) for assisted living units.
3. 90% of FHA's allowable replacement cost (95% for non-profits).
4. Amount that results in a debt service coverage ratio of 1.45x based on the underwritten Net Operating Income.

5. If owned - 100% of hard and soft costs plus the lesser of existing debt or 90% of existing value (95% for non-profits). To be acquired - 90% of hard and soft costs (95% for non-profits) plus 90% of the lesser of purchase price or existing value (95% for non-profits).
6. 100% of FHA's allowable costs less grants, public loans and tax credits

#### **PROGRAMMATIC MAXIMUM LOAN AMOUNTS:**

FHA is authorized to exceed the stabilized value and debt service coverage limits identified above up to (i) 90% of stabilized value (95% for non-profits) and (ii) an amount that results in a 1.11x debt service coverage ratio. Exceptions to the Standard Loan Amounts are rare and only granted when a project has unique attributes that mitigate the additional risk of a higher loan amount.

#### **NOI & VALUE CALCULATION:**

In determining underwritten NOI, market-based management fees are included for debt service coverage and loan-to-value sizing tests.

#### **PERSONAL LIABILITY:**

None. The FHA loan is non-recourse; however, identified principal(s) will be required to sign "Bad Boy" carve outs at closing.

#### **ASSUMABLE:**

Yes, subject to HUD and lender approval and payment of the assumption fee (0.05% of the original loan amount).

#### **INTEREST RATE:**

Subject to market conditions.

#### **PREPAYMENT:**

Subject to market conditions. Typical structures include either a 1 or 2-year lock-out period, with the remainder of the first 10 years open to prepayment subject to a penalty that declines annually. Other variations are possible based on market conditions and borrower preferences.

**FHA APPLICATION FEES:**

0.3% of loan amount, payable to HUD at submission of the firm application.

**MORTGAGE INSURANCE PREMIUM:**

The annual MIP is currently 0.77% (0.45% if the project utilizes Low Income Housing Tax Credits) of the outstanding loan amount.

**FHA INSPECTION FEES:**

0.5% of loan amount (new construction).  
0.5% of costs associated with construction (sub rehab).

**REPLACEMENT RESERVES:**

Annual deposits required equivalent to the sum of (i) 0.60% of total structure cost and (ii) 10% of major moveable equipment per annum.

**SECONDARY FINANCING:**

Permitted in the form of a surplus cash note and from governmental sources only.

**FUNDING:**

Qualifies for Ginnie Mae guaranteed mortgage-backed securities or direct placement, or may be used to credit enhance tax-exempt bonds.

**TIMING:**

Lender underwriting and preparation of an application will take approximately 8 weeks. Timing for approval from FHA will be contingent on their workload at the time of the application submission. Red will estimate this timing based on recent experience.

**THE PROGRAM HAS THE FOLLOWING ADDITIONAL PARAMETERS:**

- The FHA Section 232 mortgage insurance program is one of the most attractive credit enhancement programs available for taxable and tax-exempt financing of new construction and rehabilitation of residential care facilities.
- Under the FHA Section 232 program, FHA insures each construction loan disbursement as an advance is made and, upon "Final Endorsement," it insures the permanent mortgage. The mortgagor may also choose insurance upon completion of construction.
- The proposed operator/manager needs to demonstrate experience in leasing and operating facilities similar to the proposed development.
- A master lease may be required when an owner finances 3 or more properties or \$15 million or greater in combined loan amounts with the FHA healthcare programs within an 18-month period.

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For additional information visit [www.redcapitalgroup.com](http://www.redcapitalgroup.com) or contact:

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RED Mortgage Capital, LLC is a leading FHA-approved Mortgagee and MAP/LEAN lender and actively provides financing utilizing FHA insurance programs nationwide pursuant to Multifamily Accelerated Processing (MAP) and LEAN underwriting methods.

In its prequalifying review, RED Mortgage Capital, LLC will attempt to estimate both the loan amount and the fees and costs associated with the transaction. Actual loan amounts and actual fees and expenses may vary from the prequalifying estimates. A prequalifying estimate is not a commitment to make a loan.