HUD 232/223f Cash Out

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Who is Bedford Lending

- Company formed in 1991 – family owned
- Headquartered in Bedford, N.H. with 5 offices nationwide
- Approved to finance Apartment, Healthcare, and Hospital loans
- Management averages 30 years commercial experience
- Maintains highest designations –MAP and LEAN Approved
- Direct FHA Lender
- Certified to underwrite HUD loans Nationwide
- Has closed over $2 billion in loans

Our Finance Process

Step 1 – BLC and Client work together to define scope of the project, with no upfront fees.

Step 2 - BLC to prepare a financial analysis outlining optimal financing options.

Step 3 - BLC to prepare extensive timeline and detail each step in process, and present proposal to HUD.

Step 4 – BLC to engage client.

Step 5 – BLC to send weekly progress reports as loan enters formal underwriting.

232/223f Overview

- The HUD 232/223(f) program provides non-recourse, assumable financing for the purchase or refinance of existing assisted living, memory care and intermediate or skilled nursing facilities. An independent living component no greater than 25% to 30% of the total units is allowable.

Qualified Properties

- The facility must have been completed or substantially rehabilitated for at least three years prior to the date of the application.
- Projects with additions completed less than three years previous are eligible as long as the addition was not larger than the original project size and number of beds.
- Commercial space cannot exceed 20% of the gross floor area or gross projected income.

Loan Terms

Loan amount for the refinance or purchase of existing properties is the lesser of:

- (a) 80% (85% non-profit) of market value;
- (b) A mortgage amount supported by a DSC of 1.45x;
- (c) 100% of the transaction cost for a refinance, and 85% of the transaction cost for a purchase transaction. Recognizable transaction costs include repairs, initial replacement reserves, third party reports, closing costs, along with eligible existing indebtedness or purchase price

Other Terms

- The program offers a 35 year fixed rate
- Non-recourse
- Assumable
- Repairs are allowed up to 15% of the appraised value of the property after completion of repairs, so long as no more than one building system is substantially renovated or replaced

Cash-Out Challenges

- Unlike HUD multifamily, no healthcare projects have historically be able to secure cash out (or "equity take-out") using the 232 healthcare program.
- While direct-cash out with HUD is still not available, with the new 2017 HUD healthcare guide, certain properties are now eligible to rapidly refinance with a HUD permanent loan after securing cash-out with a conventional source.

The Old Rules

- HUD has never allowed Section 232/223(f) refinancing of existing indebtedness that a borrower used for cash-out within two years prior to the date of the Section 232/223(f) loan application.
- HUD's stated basis for this rule is to allow a period of time for a project to demonstrate its ability to generate sufficient cash flow to support its value and pay debt service.
- However, the effect of this rule has been to impose a two-year waiting period that has arbitrarily prevented some residential care facilities from receiving the benefits of the low fixed rates of FHA-insured financing, even if they have more than sufficient value to support the loan amount.

The New Rules

- In order to encourage more widespread use of the Section 232/223(f) program, HUD is now allowing certain exceptions to this "two-year rule." Under the revisions, HUD would allow a borrower's application for a Section 232/223(f) loan within two years after the borrower used the existing indebtedness for cash-out, but only under the following two circumstances:

- (1) If (a) greater than 50% of the existing indebtedness was used for project purposes (*i.e.*, not for an equity distribution), and (b) the requested FHA-insured loan would have a loan-to-value (LTV) equal to or less than 70%; or
- (2) If (a) less than 50% of the existing indebtedness was used for project purposes, and (b) the requested FHA-insured loan would have an LTV equal to or less than 60%.

Why?

- HUD normally permits FHA-insured loans under Section 232/223(f) to have LTVs as high as 85% for for-profit borrowers and 90% for nonprofit borrowers. The effect of these changes is to allow the earlier refinancing of equity take-out loans for projects with a lower LTV in recognition of the demonstrated financial strength of these projects.

Official Guidance

D. **Debt Seasoning**. Debt seasoning is a minimally required period of time between the closing date of a loan and the date that an application to refinance the existing debt is submitted to HUD.

ORCF has identified specific exceptions to the full 2 years seasoning requirement as outlined in this section.

The below matrix will be used in determining debt seasoning. All debt must be in place prior to the submission of the firm application.

% of Existing Debt Used for Project Purposes	Requested FHA Loan Amount <60% LTV	Requested FHA Loan Amount 60% - 70% LTV	Requested FHA Loan Amount > 70% LTV
> 50%	Application may be submitted within 2 years	Application may be submitted within 2 years	2 year seasoning applies
<= 50%	Application may be submitted within 2 years	2 year seasoning applies	2 year seasoning applies

Consideration for less than two years seasoning requires value supported by a 3rd party appraisal and 3+ years of stabilized historical cash flow which supports the value. Additionally, an ORCF appraisal review will be required.

Other New Guide Highlights

Eligibility of Licensed Operator Indebtedness

- A licensed operator's debt is eligible to be refinanced under Section 232/223(f) so long as the debt was used for project-related costs as supported by documentation satisfactory to HUD (*i.e.*, costs for the purchase of additional furniture fixtures and equipment, working capital related to lease-up and stabilization of the project, and other capital expenditures).

- Until now, only debt of the real estate owner and not of the licensed operator was technically eligible for refinancing with a Section 232/223(f) loan.

Eligibility of Defeasance Costs

HUD now allows Section 232/223(f) refinancing of defeasance costs associated with underlying bond financing, yield maintenance, swap termination fees, or costs to satisfy similar derivative instruments, up to 10% of the requested loan amount.

Given the current interest rate environment, this change can benefit prospective borrowers whose prior high-interest rate debt contained yield maintenance payments or required interest rate swap contracts due to costs.

It is important to note that HUD continues its prohibition on allowing refinancing of penalties arising from the defeasance of tax-exempt and taxable bonds.

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