

FHA Health Care Mortgage Programs Expand Products, Improve Service

For four decades, the Federal Housing Administration's (FHA's) hospital and nursing home mortgage insurance programs have provided health care facilities with access to needed capital for both new construction and renovations. In recent years, the FHA has concentrated on making its programs more accessible, streamlined, and customer-friendly—efforts that take on even greater importance during this time of severely limited access to capital. This issue of *In-Depth* details the value of FHA insurance, its expanded products and services, and its improved approach to processing applications.

Purpose and Value of FHA Insurance

The National Housing Act of 1968 (the Act) authorized the Secretary of the Department of Housing and Urban Development to issue mortgage insurance to provide hospitals and nursing homes with access to low-cost capi-

tal. Administered today by the FHA's Office of Insured Health Care Facilities, the resulting programs are known as Sections 242 (hospitals) and 232 (nursing homes). The insurance is valuable because it permits non-rated or low-rated hospitals to achieve an interest rate

on their debt equivalent to a rating of at least "AA," and the resulting cost savings can be substantial. According to the FHA, a hospital that is a BBB-rated credit might expect to pay an interest rate 1.5 percentage points lower if it issues bonds insured by the FHA program than if it issues bonds based on the hospital's own credit, assuming that financing would be available to the hospital at all. For many facilities, FHA insurance provides their only access to capital.

Hospitals Drive Economic Stimulus

In carrying out the intent of the Act, the FHA recognizes the important roles health care facilities play in their communities as providers of health care, major employers, and cornerstones of community development. The FHA recently conducted a study of the 17 hospital projects financed through the hospital insurance program during Federal fiscal years 2007 and 2008. Based on those studies, the FHA estimates that every \$1 spent on hospital construction generates \$2.83 in total economic activity. Following construction, the FHA estimates that for every additional \$1 spent by hospitals as a result of a project, \$2.95 in total economic activity is generated. Post construction, for every new hospital job created as a result of a project, 3.4 total jobs are created in

continued on reverse

Figure 1

ECONOMIC STIMULUS AND JOB CREATION (For 17 hospital projects financed using FHA insurance during fiscal years 2007 and 2008)		
ECONOMIC STIMULUS DURING CONSTRUCTION		
Construction expenditures for the 17 projects	Total economic activity generated	Stimulus ratio
\$1.2 billion	\$3.4 billion	For every construction dollar spent, \$2.83 in total economic activity is generated
ECONOMIC STIMULUS FOLLOWING CONSTRUCTION		
Additional annual hospital expenditures	Total annual economic activity generated	Stimulus ratio
\$383 million	\$1.13 billion	For every additional dollar spent, \$2.95 in total economic activity is generated
JOBS CREATED DURING CONSTRUCTION		
Construction jobs for the 17 projects	Total jobs generated	Stimulus ratio
5,445	10,974	For every hospital construction job created, 2.02 total jobs are created in the community
JOBS CREATED FOLLOWING CONSTRUCTION		
Direct hospital jobs resulting from the projects	Total community jobs resulting from the projects	Stimulus ratio
1,980	6,774	For every new hospital job created, 3.4 total jobs are created in the community

Source: Federal Housing Administration

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the community (see figure 1).

Streamlining the Application Process

Although the FHA programs offer considerable interest rate savings, its hospital portfolio historically has been concentrated in New York, largely due to the New York State Public Authorities Control Board's requirement that health care facilities with ratings below an A must obtain credit enhancement, such as FHA insurance, in order to issue bonds through State authorities. In contrast, facilities elsewhere in the country traditionally tended not to pursue FHA insurance, in part because they are not required to obtain credit enhancement and in part because the FHA's approval process was viewed as time-consuming and cumbersome.

However, the FHA recently has focused on improving and streamlining its application process. For this purpose, the FHA has engaged experts in "lean" management principles, focusing first on its nursing home program, where it has reduced the time from application submission to commitment from an average of 158 days to 90 days, with 29 days as the ultimate goal. The FHA has now turned

attention to its hospital program, where it has reduced application processing time from 9.5 months to 3 months, with the ultimate goal being 2 months. To this end, the FHA is reducing

flexible covenants for hospitals that qualify as "Tier 1," indicating they meet a combination of four financial benchmarks that focus on liquidity, profitability, and solvency (see figure 3).

Figure 3
FINANCIAL BENCHMARKS FOR TIER 1 HOSPITALS
(Qualifying for more flexible covenants)

PROFITABILITY	Total margin (TM) Ratio. Three-Year moving average benchmark: 2%.
PROFITABILITY/ SOLVENCY	Debt Service Coverage Ratio. Three-Year moving average benchmark: 2.0X. One-year: 1.4X
LIQUIDITY	Days Cash on Hand. Benchmark: 110 Days
SOLVENCY	Equity Financing Ratio. Benchmark 25%, base of 20%

the number of steps in its application process, obtaining legal review earlier in the process, eliminating internal redundancies in preparing its underwriting report, and developing a Web-based application.

The Hospital Portfolio Today The FHA's improvements to the hospital program, combined with recent barriers to the capital market, have increased demand for FHA insurance across the country. Today, the FHA's Section 242 hospital portfolio consists of 90 insured loans nationwide totaling \$7.4B. Since Federal fiscal year 2001 alone, the FHA has issued \$5.96B in hospital mortgage insurance commitments

(see figure 2). Although the purpose of the program has been to provide access to capital for higher-risk facilities, the program has an exceptionally low claim rate of approximately 0.6%, which is a product of the FHA's upfront underwriting and strong ongoing monitoring. As a result, the program is one of a few to generate a positive return for the Federal government. To attract stronger credits to the hospital program, the FHA has developed more

New Ability to Refinance To assist non-FHA insured hospitals hurt by the recent credit crunch, the FHA announced on July 1, 2009, that, effective immediately, it is implementing its authority under Section 223(f) of the Act to permit hospitals to refinance their debt in conjunction with Section 242 financing, without conditioning the refinancing on new construction or renovation as had been the requirement. The FHA anticipates that the processing of applications for this vehicle will be quicker than the processing time for refinancing construction projects. The FHA will publish a proposed rule in the *Federal Register* that solicits comments on eligibility and application processes to effectuate this new product. The FHA will, however, process applications for refinancing in the meantime.

GNHYHA Call for Flexibility To assist hospitals that may not qualify under existing FHA criteria, GNYHA has called upon Congress and the FHA to provide greater flexibility in the programs' eligibility requirements, particularly in light of the recession and related tight credit market. While FHA insurance is designed to address the capital needs of higher-risk health care facilities, many of the facilities most in need (i.e., that serve the largest number of uninsured and have the oldest physical plants) often do not meet the programs' financial criteria. Consequently, GNYHA has requested that the FHA provide greater flexibility in the criteria, and will continue to work with the FHA program, state authorities, and its members to try to improve access to capital. ■

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Figure 2
SECTION 242 MORGAGE INSURANCE COMMITMENTS
(cumulative)

