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# 3 Ways HUD Is Making Senior Housing Financing Easier in 2017

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# 3 Ways HUD Is Making Senior Housing Financing Easier in 2017

Senior housing companies have long been able to obtain financing through the Section 232 Healthcare Mortgage Insurance program under the Department of Housing and Urban Development (HUD). An update to the 232 Handbook recently has taken effect, improving access to that financing in several key ways.

Skilled nursing, assisted living, and other residential care facilities still can utilize Section 232 (also known as the LEAN program) for a variety of purposes, including to finance purchases, new construction, substantial rehabilitation, or to refinance existing conventional loans.

But now, senior housing companies may be able to obtain HUD financing more rapidly and for a greater variety of options, and as such some previously ineligible borrowers may now qualify. This is all thanks to the updates that took effect on January 19, 2017.

Those with financing needs should familiarize themselves with these updates, in particular three headline changes related to debt seasoning requirements, identity of interest/buyout scenarios, and operator debt options.

# Top 3 Changes for Senior Housing Borrowers

## 1) New Seasoning Requirements

Some senior housing borrowers no longer have to wait as long as they once did to refinance existing debt through HUD.

Formerly, the agency's debt seasoning requirement was two years across the board for the HUD takeout of interim or bridge loans in which equity is returned to the borrower.

"Now, a borrower has the added option of seeking an interim or bridge loan to return some of their equity as long as the loan is lower leverage and then immediately go to HUD," says HHC Finance CIO Michael Gehl. "It provides a middle ground for the borrowers that are weighing the option of maximum return of equity versus locking long term low interest rates in a rising interest rate environment."

The new rules still maintain leverage standards, but two-year seasoning is not required in certain cases, depending on the percentage of existing debt used for project purposes and the requested loan amount.

For instance, if the requested amount is less than 70% loan-to-value and the percentage of existing debt used for project purposes is greater than 50%, the application for HUD financing can be submitted within two years.

Two-year seasoning still applies to all loans with a loan-to-value greater than 70%.

To be considered for HUD refinancing before the two-year mark, a third-party appraisal and three-plus years of stabilized historical cash flow must support the value.

"There are borrowers who have had trapped equity in transactions. With the new seasoning rules, you can pull some of that equity out of the property with an interim or bridge loan and then quickly go into a HUD loan with an LTV of 70% or less and three years of historical financials supporting that LTV," says HHC Finance Managing Director Latoria Thompson. "Borrowers are very excited to tap into that trapped equity."

**Borrowers now can go to HUD for long-term financing more quickly, if their project meets guidelines for loan-to-value and percentage of existing debt:**

GUIDELINES FOR LOAN-TO-VALUE AND PERCENTAGE OF EXISTING DEBT			
% of Existing Debt Used for Project Purposes	Requested FHA Loan Amount Less than 60% LTV	Requested FHA Loan Amount 60% - 70% LTV	Requested FHA Loan Amount Greater than 70% LTV
Greater than 50%	Application may be submitted within 2 years	Application may be submitted within 2 years	2 year seasoning applies
Less than or equal to 50%	Application may be submitted within 2 years	2 year seasoning applies	2 year seasoning applies

## 2) Identity-of-Interest and Partner Buy-Out Scenarios

In reviewing Section 232 applications, HUD considers whether an identity of interest (IOI) relationship exists among any of the project stakeholders, such as the development team, operators, and investors.

Broadly speaking, an IOI relationship can be created by family or financial ties between entities, and HUD imposes additional requirements and/or restrictions for transactions involving these related parties.

The new handbook also relaxes some of these rules. Now, these types of transactions may be refinanced without two-year seasoning if they meet certain requirements, such as timelines for buyback provisions.

## 3) Operator Debt Options

Previously, only the real estate owner was eligible to refinance debt through the Section 232 program. In another change under the new handbook, licensed operator debt also could be eligible now, if the funds are used for particular project-related purposes.

These purposes include purchasing furniture, fixtures, or equipment; working capital related to lease-up and project stabilization; and other capital expenditures.

Costs associated with an accounts receivable line of credit are excluded, as are costs related to acquiring bed authority or certificates of need (CON).

“I think HUD recognized that there are many properties out there with third-party operators or related-party operators that are doing a lot of repairs and work to the property, and they may be utilizing debt to do that work,” Thompson says. “The operator itself can be party to that debt so long as the use of funds can be tied directly to the specific project.”

## Senior Housing Benefits

The opportunities presented by the new handbook are clear and numerous.

While interest rates are rising and expected to rise further in 2017, recent historic low rates have senior housing borrowers eager to utilize long-term HUD financing. With the new seasoning rules in effect, they now have additional opportunities to do so quickly. Furthermore, more types of transactions are eligible than previously, and additional types of borrowers now can tap into the program.

# IOI PURCHASE

An IOI purchase is a transaction in which there is any identity of interest between the buyer and seller after the sales transaction, or where a partner buys out the interest of another partner. Under the revised handbook, such a transaction could be immediately eligible for HUD financing when certain conditions are met, including that the seller has no residual rights to reacquire the project within five years of the HUD closing.



Showing the demand for HUD financing under these new conditions, borrowers were seeking permission to obtain financing under the new rules even before the handbook officially took effect. The agency already had granted more than a dozen waivers related to the new seasoning requirements as of late last year, according to Thompson.

While those relaxed seasoning requirements may be the headline handbook changes, all the updates will make an impact.

“The three key changes all stand out in their own right,” Thompson says. “There are different borrowers with different needs. Depending on what the needs are, one or more of the new changes can work in their favor.”

At the same time that HUD has relaxed certain provisions, it has an interest in maintaining a high quality portfolio. To that end, HUD has maintained certain bedrock principles of the LEAN program underwriting.

“For example, HUD maintains that the LEAN program does not provide cash-out to borrowers. That’s something I would reiterate still stands,” Thompson emphasizes. “You certainly have to obtain bridge financing prior to the HUD refinance.”

By continuing to safeguard the integrity of the program while providing new options for borrowers, the revised handbook has created a win-win situation for the lender and senior housing companies. HUD is to be commended, Gehl says, while senior housing borrowers are encouraged to explore the new opportunities now available.

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HHC Finance Managing Director  
Latoria Thompson

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# About Housing & Healthcare Finance, LLC

Founded in 2002, Housing & Healthcare Finance, LLC (HHC Finance) is a leading boutique commercial finance company headquartered in the Washington, DC area with additional offices in New York, New Jersey, Pennsylvania, North Carolina, Ohio, Illinois, and California. While we are active in the conventional commercial loan markets, our expertise is in underwriting and closing loans insured by the Department of Housing and Urban Development (HUD).

HHC Finance's experience and understanding of healthcare finance allows it to tackle opportunities that other firms find either too complicated or beyond their capabilities. HHC Finance has created financing processes that are more user-friendly and service-oriented than those offered by its competitors. Our focus and expertise result in the most efficient lending process and closings for our borrowers.

HHC Finance prides itself on developing long-term relationships with its clients. We are a high touch and focused group of HUD professionals. We have a strong working relationship with the HUD LEAN team.

## Our primary focus is making HUD-insured loans to:

- Skilled Nursing Facilities • Acute Care Hospitals
- Assisted Living Facilities • Board & Care Homes
- Low Income/Subsidized and Market Rate Multifamily Housing

## Top 3 HUD LEAN Lender Since 2012

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