



FHA/HUD Mortgage Insurance Program – Section 232 – New Construction and Substantial Rehabilitation of Healthcare Properties

- Purpose:** Long-term, low, fixed interest rate financing for the new construction and substantial rehabilitation of senior housing healthcare facilities. Fully assumable, subject to lender & HUD approvals.
- Eligible Properties:** Market rate and affordable assisted living and skilled nursing facilities. The facility must contain at minimum 20 beds, provide 3 meals a day and continuous oversight, and be licensed and regulated by the state. HUD allows up to 25% of units to be independent and non-licensed. Borrowers can be for-profit or not-for-profit but must be a single asset borrower entity.
- Substantial Rehabilitation Scope:** HUD defines substantial rehabilitation as projects replacing two or more major building systems or where the rehab costs exceed more than 15% of post-rehabilitated value.
- Commercial Space:** Limited to 10% of gross floor area and 15% gross project income.
- Guarantees:** Non-recourse, including during the construction period.
- Loan Term & Amortization:** Maximum of 40 years. Interest-only during the construction period, then fully amortizing.
- Interest Rate:** Determined by market conditions; fixed for the construction period and the life of the loan.

Loan Parameters & MIP:

Property Type	Max LTC	Max LTV (for profit/not-for-profit)	Min DSCR	Annual MIP (market rate/LIHTC)
Assisted Living	90%	75%/80%	1.45	0.77%/0.45%
Skilled Nursing Facilities	90%	80%/85%	1.45	0.77%/0.45%

- Davis-Bacon Wages:** Required for all contractors and subcontractors
- Pre-Payment:** Negotiable, but typically no lockout and an annual 10 step declining pre-payment penalty.
- Lender Financing Fee:** Deal specific, based on size and complexity of transaction.
- HUD Application Fee:** 0.3% of the loan amount.
- HUD Inspection Fee:** 0.5% of loan amount for new construction or 0.5% of total improvements for sub-rehab
- Third-Party Reports:** Appraisal, Market Study, PCNA, Phase I ESA (including radon testing), and Architectural & Cost Analysis
- Escrows/Reserves:** Standard tax, insurance, and MIP escrows;
 Replacement Reserves: Initial deposit and minimum annual deposit of \$250/unit
 Initial Operating Deficit: 4-12 months of debt service payments
 Working Capital: 4% for new construction, 2% for sub-rehab.
- Timing:** Generally 9-12 months from engagement to closing – dependent on borrower responsiveness and HUD pipelines.