

**FHA Section 242 (Hospitals) - Term Sheet**  
**New Construction and Substantial Rehabilitation Activities**  
**Construction and Permanent Mortgage Financing**

<b>Eligible Projects:</b>	Hospital projects, including those that may involve elements such as garages and medical office buildings, so as long as the hospital is the holder of fee simple title.  No more than 50% of revenues and adjusted patient days may be attributable to the following services: chronic convalescence and rest, drug and alcohol, epileptic, nervous and mental care, mental deficiency and tuberculosis. Also, anticipated revenues earned by delivering these services cannot exceed 50% of total revenues through the end of the project and for two fiscal years thereafter.
<b>Borrower:</b>	Nonprofit or proprietary acute care hospitals and all hospital related facilities where more than 50% of revenues are attributable to acute care services. All properties must be owned by a single asset or single purpose entity.
<b>Term and Amortization:</b>	Construction term, plus 25 year self-amortizing permanent loan.
<b>Loan Parameters:</b>	The loan amount is the lesser of: a) 90% of HUD's estimate of value or project costs, and b) 1.25x debt service coverage utilizing the FHA interest rate plus Mortgage Insurance Premium ("MIP").  There is no limit on the amount that can be insured.
<b>Financing Methods:</b>	a) Tax-exempt bond financing. b) FHA Project Loan Certificates. c) Issuance of a GNMA mortgage-backed security.
<b>Mortgage Lien:</b>	The loan will be secured by a first mortgage lien on the entire hospital, including all appurtenances such as parking lots, physical plants, etc. In certain cases, a long-term lease may be substituted. (Note: Exceptions may include leased equipment, off-site property, capital associated with affiliations etc).
<b>Use of Loan Proceeds:</b>	a) Construction. b) Modernization. c) Remodeling. d) Capital Equipment. e) Expansion. f) Acquisition. g) Refinancing.
<b>Refinancing of Existing Debt:</b>	A minimum of 20% of the proposed FHA insured mortgage loan must be utilized for facility renovation, rehabilitation, or the purchase of new equipment. Of the 20%, half may be used for the purchase of equipment. The remainder may be used to refinance existing debt.
<b>Minimum Financial Requirements:</b>	Over the past three full fiscal years, the hospital should have an average Operating Margin equal to or greater than 0.00%, and Average Debt Service Coverage equal to or greater than 1.25x. However, in certain cases, these requirements may be modified or waived by HUD. The projections for the hospital must meet the aforementioned historical tests.  "Critical Access Hospitals" will be evaluated utilizing financial formulas calculated pursuant to a cost based reimbursement methodology.
<b>Secondary Financing:</b>	Surplus cash notes for proprietary mortgagors and residual receipts notes for nonprofit mortgagors are permitted, but with no foreclosure rights.
<b>Certificate Of Need Requirement:</b>	New construction or substantial rehabilitation projects require a Certificate of Need, or a state commissioned independent financial feasibility report. Not required by HUD for Critical Access Hospitals.
<b>Financial Feasibility Review:</b>	As part of the application for review, the facility must supply a financial feasibility report documenting the demand for the proposed project. The facility must also supply a generic set of financial tables, the forms for which will be supplied by HUD.
<b>Recourse:</b>	Non-recourse, except for standard lender carve-outs.

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<b>FHA Fees:</b>	<p>a) <u>FHA Application Fee</u> - 0.15% of the loan amount, due at loan application.</p> <p>b) <u>FHA Commitment Fee</u> - 0.15% of the loan amount, due at the issuance of loan commitment.</p> <p>c) <u>FHA Inspection Fee</u> - 0.5% of the mortgage amount at closing, to cover physical inspection of the property.</p> <p>d) <u>Mortgage Insurance Premium</u> - 0.5% of the loan amount per year of the anticipated construction period capitalized at closing. Thereafter, 0.5% of the outstanding loan balance paid with monthly mortgage payments.</p> <p>e) <u>FHA Mortgagee Financing and Permanent Placement Fees</u> - negotiated on an individual deal basis between the Borrower and InnoVative Capital.</p>
<b>Escrows:</b>	<p>a) <u>Mortgage Reserve Fund</u> - required to be built up to an amount equal to one year's debt service after five years and two years debt service after ten years.</p> <p>b) <u>Taxes/Insurance</u> - budgeted under the construction loan and disbursed (as required) through normal construction draws. At final endorsement, normal escrows are established and deposits made monthly with mortgage payments.</p> <p>c) <u>Working Capital</u> - cash or letter of credit may be required in the amount of 2% of the mortgage to be posted at initial closing. For a nonprofit facility, working capital may be capitalized within the mortgage, called "Allowance for Making Project Operational" or "AMPO."</p> <p>d) <u>Operating Deficit</u> - cash or a letter of credit in an amount determined by HUD may be required to be posted at initial closing to insure the payment of operating expenses and mortgage payments until the hospital reaches sustaining utilization.</p>
<b>Processing Timeline:</b>	<p>The process from initial review by InnoVative Capital to loan closing and first loan disbursement can be accomplished within nine to ten months for a Critical Access Hospital and eleven to twelve months for a Non-Critical Access Hospital.</p> <ul style="list-style-type: none"> <li>• <u>Pre-Assessment Stage</u> - month one</li> <li>• <u>Pre-Application Stage</u> - month two</li> <li>• <u>Application Stage</u> - months three to seven</li> <li>• <u>Loan Closing Stage (CAH)</u> - months eight to nine</li> <li>• <u>Loan Closing Stage (non CAH)</u> - months eight to eleven</li> </ul>
<b>Contractor's Guarantee Of Completion:</b>	Payment and performance bond for 100% of the construction costs.
<b>Loan Covenants:</b>	HUD will require a minimum set of covenants with which the facility must comply. These include such things as additional debt, transfer of assets, minimum debt service coverage, etc.
<b>The Department of Health and Human Services ("HHS"):</b>	Unlike the other HUD programs, HHS concurrently receives the application for loan insurance. It must review the financial feasibility and construction aspects of the proposed project, and upon completion transmits a letter of approval to HUD. HUD, at the end of its mortgage credit review and receipt of HHS's approval, issues its Firm Commitment to the Mortgagee for insurance.
<b>Prepayment:</b>	<p><u>Taxable Loan:</u> Normally closed for 10 years, then prepayable at par, or closed for 5 years, with a 5% penalty declining 1.0% per year thereafter.</p> <p><u>Tax-Exempt Loan:</u> Normally closed for 10 years, then with a 3.0% penalty declining 1.0% per year thereafter.</p>
<b>Construction Retainage:</b>	Required and equal to 10% of each advance up to 50% completion of construction.
<b>Davis Bacon Act:</b>	Payment of Davis Bacon prevailing wages is required and determined by Department of Labor for the local area.