Financing Progress

LANCASTER POLLARD

ABOUT FHA SEC. 242 - CRITICAL ACCESS

Purpose:

The program provides mortgage insurance for new or existing critical access hospitals (CAH) in connection with new construction, expansions, substantial rehabilitation, modernization, remodeling and equipment. Hospitals may refinance debt through the 242 program. However, at least 20% of the insured funds must be used for new projects.

Program Description:

Sec. 242 provides a mortgage insurance commitment that FHA-approved lenders utilize as credit enhancement to issue debt securities on behalf of hospital borrowers. All Sec. 242 applications are processed and approved by the Office of Insured Health Care Facilities (OIHCF) in the Housing and Urban Development's (HUD) Washington, D.C. headquarters, with technical support and guidance from the U.S. Department of Health and Human Services (HHS).

Although Sec. 242 is available to hospitals regardless of size, HUD has made it a priority to increase the availability of Sec. 242 mortgage insurance to critical access hospitals, which are generally defined as being: (a) no more than 25 acute care beds (any of the beds can serve as swing beds); (b) located 35 miles or more from another hospital (15 miles in mountainous terrain or in areas having only secondary roads); (c) located in rural areas or classified rural/urban areas; and (d) a provider of 24-hour emergency and nursing services.

Program Volume:

Since 1968, more than 400 loans have been insured for more than $15.6 billion in 42 states and Puerto Rico. The present portfolio contains approximately 57 insured loans with a $4.8 billion unpaid principal balance.

In 2007 changes were introduced to streamline the 242 process. The program was placed under the control of the Department of Housing and Urban Development and the FHA, and a select experienced team processes the applications resulting in a significantly shorter application period.

The 242 program insured its first critical access hospital in 2003 and continues to expand.

Program Benefits:

Because the mortgage insurance provides most hospitals the opportunity to issue "AAA"-rated debt, the 242 program allows borrowers to experience substantial debt-service savings. For example, a $20 million nonprofit hospital project could potentially reduce the interest rate by 2% using the 242 program to enhance its tax-exempt bonds (versus an alternative funding source of unrated tax-exempt bonds). In this example, the hospital could realize interest expense savings of $200,000 annually and more than $5 million over the life of the bond issue.