

## FHA / HUD Section 232

Construction or Substantial Rehabilitation of Healthcare Properties

### Qualifying Property Types

Skilled Nursing Facilities (SNFs), Assisted Living, Intermediate Care, and Board & Care Facilities.

Core Facility Services	The facility must provide continuous protective oversight and a minimum of three meals per day for residents.
Licensing	The project must be licensed by the state authority governing residential care facilities.
Non-Resident Day Care	Day care services for non-residents cannot exceed 20% of the facility's gross floor area and 20% of its gross income.
Independent Living Units	The facility may include up to 25% non-licensed independent living units (ILUs) as part of the total unit count.
Commercial Space	Commercial (non-resident) space is strictly limited to the lesser of 10% of gross floor area or 15% of total gross income.
Scope of Work	Renovation work must meet one of the following conditions:  Rehabilitation costs exceed 15% of the property's value post-rehabilitation. <b>OR</b> The project involves replacing over 50% of two or more major building systems (e.g., plumbing, HVAC, electrical, or structural).
Prevailing Wages	Davis-Bacon wages are required for all contractors and subcontractors on the project.

	Assisted Living	Other (Skilled Nursing, etc.)
Maximum Loan to Value	75%	80%
Maximum Loan to Eligible Cost	90%	90%
Minimum Debt Service Coverage Ratio	1.45x	1.45x

**There are additional limitations for Substantial Rehabilitation financing:**

100% of the cost of rehabilitation

*Plus the lesser of*

90% of the as-is value of the property

**or**

100% of existing indebtedness – when the property is owned  
85% of eligible acquisition cost – when the property is to be purchased

### Financial & Loan Terms

Borrower Structure	The borrower must be a single asset, special purpose entity (SPE), which can be either a for-profit or a nonprofit organization.
Recourse	The loan is fully non-recourse to the principals and borrower, subject only to standard non-recourse carve-outs.
Loan Term & Amortization	The loan consists of an interest-only period during the construction phase and cost certification, followed by a 40-year fully amortizing permanent loan term.

**Financial & Loan Terms Cont.**

Interest Rate	A single fixed rate is set for the full term, including both the construction and permanent phases. The rate is determined by market conditions at the time of rate lock.
Rate Lock Deposit	A deposit of 0.5% of the loan amount is due at rate lock and is refundable at closing.
Maximum Loan Amount	The loan amount is subject to multiple tests and will be the least of various applicable limits (e.g., LTV, DSCR, LTC, and statutory limits).
Prepayment & Assumption	Best rate is secured with a 10-year prepayment structure. The loan is fully assumable, subject to approval from HUD.
Required Escrows	Pre-Construction: Escrows are established for interest, property taxes, insurance, working capital reserve (4% of loan amount), and operating deficit. Funds released after six consecutive months of break-even operations. Post-Construction: Monthly escrows are required for taxes, insurance, mortgage insurance premium, and a capital needs reserve.
Mortgage Insurance Premium	The annual MIP is 0.77% (or 0.45% for qualifying Low-Income Housing Tax Credit projects), due at closing and collected monthly via escrow.
HUD Application Fee	A fee of 0.30% of the estimated mortgage amount is due upon application submission, 50% of the fee is refundable if HUD declines the loan.
HUD Inspection Fee	A fee of 0.05% of the estimated mortgage amount is due upon application submission, 50% of the fee is refundable if HUD declines the loan.
Required Third-Party Reports	Appraisal, Environmental, and Capital Needs Assessment (CNA). Additional reports may be required based on review.