

FHA / HUD Section 241(a)

Supplemental Loan to Finance Improvements

Qualifying Properties

Existing healthcare properties that are currently financed with an FHA-insured first mortgage.

Qualifying Scope of Work

Can finance improvements/additions to keep the project competitive, extend economic life, or replace obsolete equipment. New units are permitted but cannot exceed the number of units in the underlying HUD-financed property.

Borrower

Must be the same entity that is the borrower under the existing FHA-insured first mortgage.

Loan Framework

Maximum Loan to Eligible Cost: Up to 90% of the replacement cost attributable to the improvements and any additional land acquired.

Minimum Debt Service Coverage Ratio: The project's existing first mortgage must maintain the minimum required DSCR (i.e. 1.45x), and therefore, the supplemental loan's debt service must be supported by the remaining net operating income (NOI). Performance of the obligations of the supplemental loan cannot trip the DSCR covenants under the first mortgage.

Maximum Loan to Value:

- (A) For non-profit borrowers: 85% of the difference between (i) the stabilized/improved value and (ii) the unpaid principal balance on the first mortgage; or
- (B) For all other borrowers: 80% of the difference between (i) the stabilized/improved value and (ii) the unpaid principal balance on the first mortgage.

Recourse

Non-recourse. The 241(a) loan includes a cross-default provision in which a default on the first mortgage results in a default under the 241(a) loan, but not vice versa.

Loan Term & Amortization

Typically, the supplemental mortgage and the FHA-insured first mortgage must expire on the same date.

Interest Rate

Fixed for the loan term and set by market conditions at the time of rate lock. A 0.5% rate lock deposit is required and refunded at closing (*the first mortgage's rate remains unchanged*).

Prepayment & Assumption	Best rate is secured with a 10-year prepayment structure. The loan is fully assumable, subject to approval from HUD.
Required Escrows	The existing capital needs reserve will be re-analyzed using a new Capital Needs Assessment (CNA) to determine future needs for the entire post-improvements project. The loan requires an initial reserve deposit and ongoing monthly contributions sufficient to maintain the required minimum balance.
Mortgage Insurance Premium	A 1% fee is payable to HUD at closing, followed by an additional 0.72% annually.
HUD Application Fee	0.30% of the estimated loan amount is due upon application submission (reduced fee for properties in Opportunity Zones).
Application Timing	The application process follows the HUD LEAN program (equivalent to new construction) and typically takes 6 to 9 months from application submission to closing.
