

Form Follows Finance: Designing Capital Improvements within the HUD Section 242 program

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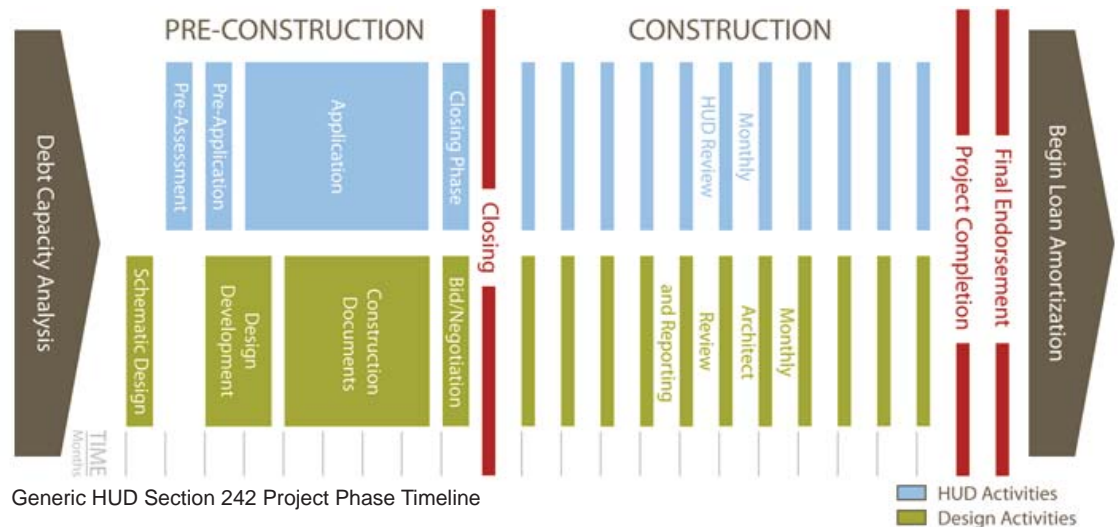
The near collapse of the bond insurance market in 2008 and the increased cost of credit enhancement have created a tepid environment for healthcare bonds. For many hospitals seeking financing for capital improvements, federal credit enhancement through the HUD Section 242 Program has become the only viable option. This short article introduces the basics of the HUD 242 program and the vital role of the design team in a successful, federally-backed project.

What is the HUD Section 242 Program?

HUD 242 mortgage insurance acts as a credit enhancement, offering borrowers the opportunity to issue bonds with federal backing at up to the equivalent of an “AA” or “AAA” rating. This enhancement results in lower interest rates, allowing borrowers to spend more of their loan on the actual improvements and less on the financing. A HUD-242 insured loan can have a loan-to-value as high as 90% of the project value and the FHA can insure up to 99% of the total loan amount. The fixed-rate, with a payment period of up-to twenty-five years, provides hospitals the opportunity to predictably service their debt at lower interest rates over a longer period of time.

The Roles and Responsibilities of the Architect in the HUD Section 242 Program

The entire HUD-242 application, assessment and closing process can be completed in as little as six months. When embarking upon a HUD-242 project, it is vital that the entire project team work collaboratively through all phases. A debt-capacity analysis sets the ceiling for the project’s “soft costs” (i.e., financing, legal, accounting fees, etc.) and the scope of work for the “hard costs” (i.e., construction, depreciable equipment and construction management fees). This requires the architect to collaborate with the project’s financial consultants so that the design strikes an appropriate balance between the budgetary constraints and the clinical and operational needs. Throughout the HUD-242 project duration, the architect will assist with the following tasks:



Design to Fit Budget -

Up to 70% of the total debt capacity may be used for financing “hard costs” and the resultant schematic designs should be held under the appropriate cost threshold. Space programming and schematic efforts must be sized to not exceed costs. As the design progresses, periodic construction estimates should be secured to confirm that the design remains within budget.



Chatham Hospital, Siler City, NC

Assist with Loan Application – With schematic plans and an estimate of total project costs, the Hospital and design team are able to begin the formal application for a Section 242 loan. Ideally, the design development process and the 242 application run concurrently so that closing occurs shortly after the construction documents have been bid or with a guaranteed maximum price obtained from a qualified general contractor.

Ensure Construction Conformance - After the closing and the commencement of construction, the architect’s primary role is to ensure that the construction conforms to the contract drawings and specifications. Throughout the construction phase, the architect is required to report monthly to HUD on the construction status, validate contractor payment requests and keep accurate field reports of construction activity.

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When considering financing a project with a Section 242 program loan, it is important to utilize an experienced team of consultants who can help you successfully realize your HUD-backed project. Batson Associates spent four years assisting Chatham Hospital of Siler City, NC to envision, pursue and construct a replacement campus for their 25-bed Critical Access Hospital facility through funding from the 242 program. To learn more about how we might replicate this success on your hospital campus, please contact Trevor Ream at tream@bainc.com or at 864-233-2232.