



CAMBRIDGE

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HUD SECTION 242 MORTGAGE INSURANCE PROGRAM FOR PROPOSED AND EXISTING ACUTE CARE HOSPITALS

Cambridge Realty Capital Ltd. of Illinois is an FHA approved mortgagee and maintains the necessary Federal approvals to obtain FHA mortgage insurance and to arrange the necessary financing which subsequently interfaces with the HUD insurance policy in a manner that provides both construction and permanent financing. These financings are arranged simultaneously on a fixed rate, nonrecourse, and fully assumable basis on any new construction and most existing nursing home projects throughout the United States.

SUMMARY OF PROGRAM

The Department of Housing and Urban Development (HUD) has a mortgage insurance program for the new construction, purchase and rehabilitation, or refinance and rehabilitation of acute care hospitals, whereby HUD will issue an insurance policy which guarantees a lender against default of the borrower. Once an FHA Insurance policy is obtained, it allows the project an easy entry into the financial markets to obtain the lowest cost financing available subject to HUD's AA rating. Applications are submitted to HUD through an FHA-approved mortgagee who has the necessary Federal approvals to obtain the FHA-insured Firm Commitment and arrange the necessary financing which would interface with the HUD insurance policy. Construction and permanent financing is arranged on a simultaneous basis on a fixed rate, nonrecourse, fully assumable basis.

EXECUTIVE SUMMARY

Cambridge Realty Capital and the HUD 242 program provide attractive long term fixed rate construction and permanent mortgage financing for the construction or rehabilitation of acute care hospitals. Cambridge has extensive experience processing nursing homes and related health care facilities through HUD, and has completed 55 separate HUD 232 loans (a similar HUD program for Assisted Living and Nursing Homes facilities) for a total of 9,268 beds. According to HUD's Internal Statistics, Cambridge has been America's Number One HUD 232 lender for the last six years.

A more detailed description of the HUD 242 Acute Care Hospital Financing Program follows:

TERMS	Construction Loan: As Required Permanent Loan: 25 Years
RATES	Based upon current market conditions for taxable financing. Based upon current market conditions for tax exempt financing.

MORTGAGE INSURANCE	Provided by Section 242 of the National Housing Act in conjunction with the Federal Department of Health & Human Services.
FUNDING SOURCE	GNMA Mortgage Backed Securities as guaranteed by FHA mortgage insurance pursuant to Section 242 of the National Housing Act, or by the purchase of the loan by a whole loan investor. Both the construction loan and the permanent loan are arranged simultaneously such that the permanent loan begins immediately upon construction completion and final closing of the construction loan. Tax-exempt bonds may also be used under Section 242 if the borrower and project are eligible for tax-exempt financing.
GUARANTEES	None, on either the Construction or Permanent Loan.
CHARACTERISTICS	Fixed rate, nonrecourse, fully assumable, and prepayable with restrictions.
AUDIT	The owner is subject to a cost certification audit.
PREVAILING WAGES	All construction workmen must be paid prevailing wages pursuant to the Davis-Bacon Wage Act.
AMORTIZATION	Based upon 25 years.
ELIGIBLE BORROWERS	For profit and not-for-profit Mortgagors. <i>Note:</i> Public bodies must create a private, not-for-profit mortgagor corporation to participate in Section 242.
ELIGIBLE PROJECTS	Acute Care Hospitals.
ELIGIBLE SITUATIONS	New construction or rehabilitation and expansion of an existing facility.
MAXIMUM MORTGAGE CRITERIA	New construction and acquisition/rehabilitation projects are 90% loan-to-cost and 90% loan-to-value mortgages.
VALUE CRITERIA	In no event can a mortgage exceed 90% loan-to-value. HUD utilizes two main approaches to value: <ul style="list-style-type: none"> · Value by comparable sales · Value of comparable lease values, capitalized
ANNUAL MORTGAGE INSURANCE PREMIUM	0.50% payable annually to HUD.

HUD includes the following as Elements of Cost. The loan can be a maximum of 90% of the following costs:

- Construction — General requirements, general overhead, and builder's profit.
- Municipal Fees — Building permits, sewer tap fees, water tap fees, surveys, soil test, etc.
- Design Architectural Fees
- Inspecting Architectural Fees
- Construction Interest
- Insurance Reserve
- Insurance Reserve — Builder's Risk-OCP.

- Real Estate Tax Reserve
- HUD Mortgage Insurance Premium — 0.50% per year
- HUD Inspection Fee — 0.50% (a one-time only fee)
- HUD Exam Fee — (0.50%) Refund of HUD application fee.
- Initial HUD Processing Fee — 2.0%
- Financing Fee — 1.5%
- Title and Recording Fees
- Legal and Audit Fees
- Land Value
- Major Movable — Cost of furniture, fixtures, and equipment.

COLLATERAL REQUIREMENTS

1. The Contractor must post a 100% of hard construction cost Performance and Payment Bond or post a 15% Letter of Credit of hard construction cost as assurance that the project will be completed. At completion of construction and Final Endorsement, the Bond or LOC is replaced by a Latent Defect Bond which is released 18 months subsequent to the date of substantial completion of construction.
2. The Owner must post a 2% Working Capital Letter of Credit. This 2% LOC is released at completion of construction and Final Endorsement. (*Note:* This provision is applicable to profit mortgagors only.)
3. Because of the slow initial lease-up period associated with the new construction of acute care hospitals, HUD will require an Initial Operating Deficit Letter of Credit (of approximately four to six months of debt service) to insure that mortgage payments will be made during the initial lease-up time. Existing homes may not be subject to this requirement if existing census is sufficient.

PROCESSING YOUR HUD APPLICATION THROUGH CAMBRIDGE

Step 1 — Self Test Pre Underwriting

This is the initial stage of the HUD 242 program. HUD has developed a self test which determines specific physical, financial, licensure, operations and market determination and a corresponding grading system to assist potential borrowers in determining the feasibility of their HUD 242 application and its likelihood of funding. Cambridge will perform the self test for your project in cooperation with you, will work in conjunction with HUD in grading the test, and submit the results back to you for review.

Step 2 — Pre-Application Conference

This meeting is one in which the initial feasibility of the case is discussed with HUD personnel. The purpose of this meeting is to determine whether HUD is desirous of insuring the project. Issues discussed will include the site plan, management team, financial feasibility, the strength of the market (a feasibility study by an approved consultant is required), the design of the buildings, and any environmental concerns. The attendees will include members of the sponsorship, the architect, your

consultants, the mortgagee, and HUD personnel. The desired result is to have HUD invite us to submit a formal application for mortgage insurance to HUD.

Step 3 — File a Conditional Commitment Application with HUD

A Conditional Commitment Application is a complete application to HUD providing information on the site, the market, the sponsors, the proposed financial performance, the management agent, and the architect. Although it is possible to choose and present a general contractor to HUD at this stage, it is not necessary; the selection of the general contractor will be at the discretion of the owner.

The cost is 2/10 of 1% of the requested mortgage payable to the United States Department of Housing and Urban Development.

The end result of the Conditional Commitment is to have HUD:

- Review and approve the proposed design and site plan
- Approve the sponsor as an eligible borrower
- Approve the architect and general contractor (if chosen)
- Approve the market
- Appraise the land
- Provide a complete project underwriting as it relates to income potential and operating expenses
- Determine a maximum mortgage based upon estimated construction costs

This will translate into HUD's formal written commitment to insure a mortgage for the construction and permanent financing of your facility at a given dollar amount based upon a given interest rate. At this time, you will know the amount of the HUD insurance. A Conditional Commitment translates into HUD's commitment to issue a Firm Commitment subject to HUD's receipt of complete working drawings and specifications, selection of a general contractor, and finalizing hard construction costs.

Upon receipt of an acceptable Conditional Commitment, it is customary to then authorize the architect to prepare working drawings and specifications.

Step 4 — File a Firm Commitment Application with HUD

The working drawings and specifications, final construction costs, and financial information on the general contractor is then submitted to HUD along with the Firm Commitment Application Fee of 3/10 of 1% of the mortgage. The Conditional Application Fee may be credited to that amount. Since the project underwriting (i.e. loan amount) has already been completed at the Conditional Commitment stage, the Firm Commitment review focuses on the drawings, the costs, and the general contractor. Also, any last minute negotiations or clarifications are completed. HUD at this point will issue a Firm Commitment to insure the mortgage.

Step 5 — Finalizing the Financing

Upon issuance of the HUD Firm Commitment, a borrower may proceed into formal negotiations to finalize the financing that will interface with the FHA insurance policy. This is primarily a matter of shopping the market for the best price, and this process should take no longer than 10 days to complete. These lenders quote based upon a spread over 10-year treasuries driven by the investor's investment needs at the time.

Step 6 — Prepare for Closing

With the HUD Firm Commitment and the financing in place, the project would be turned over to the lawyers for closing. The use of an experienced FHA lawyer is highly recommended.

**For additional information regarding
The HUD Mortgage Insurance programs
please contact:**

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DISCLAIMER: This financing outline is designed to provide immediate information regarding a specific real estate capital structure on the above-captioned transaction utilizing HUD insured financing. It is not a Commitment Letter and is subject to complete review and underwriting by HUD and Cambridge Realty Capital Ltd. of Illinois. The information contained herein is for preliminary review purposes only and is subject to errors, omissions, and changes, all without notice. N:\GoldMine\FaxRush\Outfax\execaccuteconst.doc