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Minimum Criteria for Consideration
for FHA Insured Hospital Mortgage Insurance

These are guidelines to help potential applicants reach their own preliminary assessments on whether or not they meet the minimum criteria for Mortgage Insurance. Passing this preliminary test **DOES NOT** assure that an application will be approved.

1) Is your facility a licensed hospital? (Requisite Response: **YES**)

2) a) For the most recently completed Fiscal Year, were the total patient days for the following services more than 50% of the hospital's total patient days? (Requisite Response: **NO**)

- Chronic convalescent and rest
- Drug and alcoholic
- Epileptic
- Nervous and mental
- Mentally deficient
- Tuberculosis care

Note: If the patient days for the above services are slightly over 50%, calculating adjusted patient days may yield a result under 50%. Contact us for an adjusted patient days worksheet.

b) Through the end of the project construction and for two complete Fiscal Years thereafter, do you anticipate that during any Fiscal Year the total of patient days for the above services will be more than 50% of the hospital's total patient days? (Requisite Response: **NO**)

3) Does your State have a Certificate of Need (CON) process?

a) If yes, has a CON been issued? (Requisite Response: **YES** or **PENDING**)

4) After the project construction is completed, will the mortgage exceed 90% of the estimated book value of all property (existing before project, new additions and/or renovations after project) that secures the mortgage? (Requisite Response: **NO**)

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5) Will you grant to the lender and the insurer a first mortgage on the entire hospital property, plant, and equipment, including receivables? (Note: exceptions may include leased equipment, off site property, capital associated with affiliations, etc.) (Requisite Response: **YES**)

6) Are you willing to make monthly payments into a Mortgage Reserve Fund that will build to: (a) a balance equal to one year of debt service after five years, and (b) a balance equal to two years of debt service after 10 years? (Requisite Response: **YES**)

7) Over the last three full Fiscal Years, has the average operating margin been equal to or greater than 0.00? (Requisite Response: **YES**)

8) Over the last three full Fiscal Years, has the average debt service coverage ratio been equal to or greater than 1.25? (Requisite Response: **YES**)

Calculations:

Note: Include leases in calculations for both Operating Margin and Debt Service Coverage Ratio below.

Operating Margin =

+ Operating Net Income from Two Full FYs Ago
<u>+ Operating Net Income from Three Full FYs Ago</u>

+ Total Operating Revenues from Two Full FYs Ago
+ Total Operating Revenues from Three Full FYs Ago

Debt Service Coverage Ratio (DSC) =

$$\frac{\text{Net Income} + \text{Depreciation Expense} + \text{Interest Expense}}{\text{Current Portion of Long Term Debt (Prior Year)} + \text{Interest Expense}}$$

Compute the DSC for each of the last three full fiscal years, then compute the three year average for this calculation.