

Financing Capital Investments in Rural Health Care: A Resource Overview

This guide is to help hospital administrators, board members, rural administrators, state associations, community lenders, and community leaders better understand and identify federally sponsored health care financing options. Federal programs can provide favorable terms and lower costs to eligible health organizations that choose to pursue them. Additionally, a number of capital investment programs focus on supporting equipment purchases or starting new lines of business (e.g. USDA Business and Industry Guaranteed Loans) rather than entirely on “bricks and mortar” projects. Depending upon the goal, there are a number of options which can meet your healthcare financing needs.

The links below provide basic background on the different federally sponsored programs, their requirements, best uses, benefits, limitations, and how you can get additional information about them.

Federal programs available to assist with rural health care financing include:

1. [Community Facilities Program in the Department of Agriculture \(USDA\)](#)
2. [Business and Industry Guaranteed Loan Programs, USDA](#)
3. [Section 242 Hospital Mortgage Insurance Program in the Department of Housing and Urban Development \(HUD\)](#)
4. [Section 232 Residential Care Facilities Mortgage Insurance Program, HUD](#)
5. [504 Loan Program in the Small Business Administration \(SBA\)](#)
6. [7\(a\) Business Loan Program, SBA](#)
7. [Intermediary Lending Pilot \(ILP\) Program](#)
8. [New Market Tax Credit Program in the Department of the Treasury](#)

USDA Rural Development

Program: Community Facilities Program

Eligibility: Public entities and not-for-profit corporations that operate essential community facilities in rural areas with populations under 20,000.

Best for: Construction, renovation, and essential equipment, including HIT to meet meaningful use, for hospitals, clinics, and other health care facilities. No size limits but direct loans are generally for \$1-3 million while grants are smaller, averaging \$35,000

Benefits: Cash infusion (grants), below-market fixed interest rates reducing the cost of capital (direct loans), credit extended to more facilities in rural areas (guaranteed loans).

How it works: The program can provide grants, direct loans (with a fixed interest rate), and loan guarantees insuring third party loans (fixed or variable interest rates). Grants are competitive and generally only cover a portion of project costs. Demonstrated community support is an important factor in any application. Facilities apply directly to USDA for grants and direct loans which generally cover only a portion of the project cost. For loan guarantees, a third party lender reaches a loan agreement with a facility and the lender applies to USDA for a loan note guarantee of up to 90% of the principal. This federal guarantee assures the lender of repayment and helps projects that might not otherwise obtain credit. Combinations of funding can also be done, e.g. a direct loan may be combined with a grant, or a guaranteed loan may be combined with a direct loan.

Limitations: Loan approval requires acceptable security which may include bonds, pledges of tax collections or revenues, and a mortgage on real property. Loan repayment cannot exceed 40 years and terms are commonly 15 to 20 years. Interest rates will depend on market conditions. Guaranteed loan terms must be negotiated with the lender.

Learn more: Contact your local USDA Rural Development field office for more information and application materials, http://www.rurdev.usda.gov/recd_map.html
USDA Community Facilities webpage: http://www.rurdev.usda.gov/HCF_CF.html

USDA Rural Development

Program: Business and Industry Guaranteed Loan Program

Eligibility: Public or not-for-profit, organizations or individuals operating or starting businesses in rural areas—in communities fewer than 50,000 people. The project must provide employment and improve the local economic or environmental climate.

Best for: Clinics and private practices seeking funds for business development, expansion, purchase of land, buildings, or equipment.

Benefits: The federal loan guarantee reduces the lender's credit risk and enables borrowers to receive more favorable interest rates and terms.

How it works: The eligible lender* and borrower come to a loan agreement and then apply to USDA for a loan guarantee of 60-80% of the principle depending on loan size. The lender must pay an annual renewal fee to maintain the guarantee.

Limitations: Loan terms cannot exceed 30 years for real estate, 15 years for equipment including HIT/EHR, inventory, supplies, and 7 years for working capital. The maximum loan amount is \$10 million although exceptions up to \$25 million are possible in certain circumstances. The borrower must provide acceptable collateral based on the amount of the loan. Guaranteed loan terms are negotiated with the lender.

Learn more: Applications are prepared with a lender and submitted to the USDA Rural Development State Office. Contact your state office for details, www.rurdev.usda.gov/recd_map.html. Lenders with past experience in the program may also be a source of information.

USDA Business and Industry webpage: http://www.rurdev.usda.gov/BCP_gar.html

**Eligible banks-Federal or state-chartered banks, Farm Credit System institutions, savings and loan associations, credit unions, insurance companies, and the National Rural Utilities Cooperative Finance Corporation automatically are eligible lenders, while other types of lenders must pre-qualify with the USDA.*

HUD Office of Healthcare Programs

Program: Section 242 Hospital Mortgage Insurance Program

Eligibility: Public, government-owned, or private (either for-profit or not-for-profit), or acute care hospitals, including Critical Access Hospitals (CAHs).

Best for: Construction, renovation, or refinancing of hospital buildings and equipment purchases.

Benefits: Predictable debt costs from a fixed-rate, fully amortized loan with up to a 25-year term. The federal mortgage insurance provides credit enhancement helping borrowers achieve a lower interest rate. The Section 242 program staff specializes in hospitals and has extensive knowledge of their construction and operation. Proposals are evaluated on the basis of whether the proposal is an acceptable insurance risk for the Federal Housing Administration (FHA) Insurance Fund. It is not a competitive process.

How it works: A borrower works with a proposed lender to prepare and submit an application. If approved, the lender will purchase the mortgage insurance on behalf of the borrower. HUD staff review the application to ensure the project provides needed health care and that the underwriting analysis demonstrates the borrower's ability to repay the loan.

Limitations: The borrower must be able to provide a first priority mortgage to secure the loan and demonstrate the ability (past income and financial stability) to pay its debts in the future. The loan must be less than the appraised value of the mortgaged hospital. The lender must pay an annual mortgage insurance premium which is usually passed on to the borrower. There are up-front costs associated with preparing the application (for example, a market study, environmental analysis, appraisal, architectural review, etc.) and certain reporting requirements as long as the loan is insured.

Learn more: Contact the Office of Healthcare Programs for more information and to access the list of HUD-approved lenders who can submit applications, HUD Office of Healthcare Programs webpage: http://www.hud.gov/healthcare_hospitals@hud.gov

1-877-HLTH-FHA

HUD Office of Healthcare Programs

Program: Section 232 Residential Care Facility Mortgage Insurance Program

Eligibility: Public, not-for-profit, or profit-motivated residential care facilities including assisted livings and nursing homes that provide services and accommodations to people who cannot live on their own.

Best for: Construction, renovation, or refinancing of residential care facilities. There are no minimum or maximum loan sizes, but very small for-profit projects may find a better fit with the SBA programs.

Benefits: Similar to the 242 Program—predictable, fully amortized, fixed-rate debt payments, terms up to 40 years depending on type, savings from lower interest rates.

How it works: The borrower works with a lender to prepare and submit an application (similar to 242 but specific to the type of facility). HUD staff review the underwriting to assess the borrower's ability to repay the loan and determine the risk of the project to the FHA Insurance Fund. It is not a competitive process.

Limitations: The borrower must grant a first priority mortgage on buildings and assets. The loan must be less than the appraised value of the facility and there are percentage limits by type of project. Facilities that are leased or owned by larger organizations are eligible but they should review the requirements for ownership structure. The facility must meet state licensing requirements. Only eligible costs can be financed with the loan and the owner may not receive a return of equity. There are up-front costs associated with preparing the application and ongoing reporting requirements.

Learn more: Contact the Office of Healthcare Programs for more information and to access the list of HUD-approved lenders who can submit applications, www.hud.gov/healthcare.

SBA Office of Capital Access

Program: *504 Loan Program*

Eligibility: Small businesses operated for a profit. Publically owned and not-for-profit organizations are not eligible. SBA publishes the small business size limits annually, <http://www.sba.gov/content/small-business-size-standards>. Additionally under the 504 Program the business must have a net worth no more than than \$15 million and net income after federal taxes of no more than \$5 million.

Best for: Private practices seeking financing for equipment, construction, or modernization. For-profit businesses that provide services to health care providers.

Benefits: Long term (10- or 20-year), fixed-rate financing to ensure predictable debt costs, savings from lower interest rates.

How it works: A typical 504 loan has three participants, the borrower, a Certified Development Company (CDC), and a bank or other private lender. The lender contributes 50% of total project costs, the CDC funds 40%, and the borrower pays for 10%. Under certain circumstances (including new businesses) the borrower must contribute up to 20% of total costs. CDCs are not-for-profit corporations dedicated to supporting economic growth in their area of operations; they get investment funds from SBA debentures.

Limitations: Loans may not be used for working capital or to refinance existing debt. Collateral, generally the project assets being financed, is required. The owner must personally guarantee at least 20% of the loan.

Learn more: Contact the local SBA district office for more information and to find CDCs in your area, <http://www.sba.gov/about-offices-list/2>.

SBA Loan Programs: <http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs>

SBA Office of Capital Access

Program: *7(a) Business Loan Program*

Eligibility: Small businesses (check size [guidelines](#)) operated for a profit.

Best for: Individuals and private practices unable to find credit elsewhere. The loan may be used to purchase land or equipment; to build or modernize existing facilities; to provide short or long-term working capital; to refinance existing debt that has unreasonable terms; or to purchase an existing business.

Benefits: Federally guaranteed loans with flexible underwriting, extended terms, and low down payment. Small businesses benefit from increased financing availability and more advantageous terms. Interest rates may be fixed or variable but in either case they must be less than the SBA cap. The 7(a) Program has simplified and expedited processing for small loans (under \$350,000) and rural lenders.

How it works: Borrowers apply through a participating lender and must demonstrate good management, the ability to repay, and the inability receive credit elsewhere. Banks and other lenders that meet SBA requirements make loans to small businesses and apply to SBA for a loan guaranty of up to 85% for loans under \$150,000 and 75% for loans over \$150,000. This encourages small business loans and, particularly for small lenders, reduces their asset requirements enabling them to make more loans in the community.

Limitations: The maximum standard loan is \$5 million. Real estate loans are limited to 25 years, working capital loans to 7 years, and equipment loans to the useful life of the asset. The business owner(s) may not receive a reimbursement or return of equity from the loan. SBA assesses a fee for each participating loan and these are typically passed on to borrowers.

Learn more: Use the SBA search tool to identify federal, state, and local sources of small business assistance, www.sba.gov/loans-and-grants, or contact local lenders for information on their SBA participation.

SBA Loan Programs: <http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs>

Also, contact SBA Community Advantage Lenders, mission-oriented lenders meeting the credit, management, and technical assistance needs of small businesses in underserved markets: <http://www.sba.gov/content/community-advantage-approved-lenders>.

The SBA resource guide for small businesses: <http://www.sba.gov/content/resource-guides>

SBA Initiative

Program: *Intermediary Lending Pilot (ILP) Program*

Eligibility: Small businesses (check size guidelines) operated for a profit.

Best for: Individuals and private practices unable to find credit elsewhere. The loan may be used for short or long-term working capital, to purchase land or equipment, and the acquisition of materials, supplies, furniture, and fixtures.

Benefits: Loans are offered through selected nonprofit intermediaries for the purpose of providing loans to small businesses. Intermediaries, which include private, nonprofit community development corporations, have flexible underwriting requirements and more advantageous terms than typically offered by conventional lenders. Small businesses benefit from increased financing availability and low interest rates.

How it works: SBA makes loans to participating ILP Intermediaries of up to \$1 million. ILP Intermediaries relend those funds to startup, newly established, and growing small businesses.

Borrowers apply through a participating ILP Intermediary for loans up to \$200,000. The maximum interest rate the ILP Intermediary may charge for loans of \$50,000 or less is 8.75%. For loans greater than \$50,000 but \$200,000 or less, the maximum interest rate is 7.5%. All credit decisions are made at the local, intermediary level.

Limitations: The maximum loan to a small business borrower is \$200,000. The maximum loan term is 10 years or less, unless the loan finances or refinances real estate or equipment with a useful life exceeding 10 years, in which case the maximum loan term is 25 years.

Learn more: Visit <http://www.sba.gov/content/intermediary-lending-pilot-program-0> to view the list of approved ILP Intermediaries. Also, use the SBA search tool to identify federal, state, and local sources of small business assistance, www.sba.gov/loans-and-grants.

SBA Loan Programs: <http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs>

The SBA resource guide for small businesses: <http://www.sba.gov/content/resource-guides>

Department of Treasury, Community Development Financial Institutions (CDFI) Fund

Program: *New Markets Tax Credit (NMTC) Program*

Eligibility: Public, not-for-profit, or profit-motivated entities operating in low-income communities¹ or serving a low-income population and maintain accountability to the low-income community through representation on an advisory board or on the governing board known as Community Development Entities (CDEs)². The CDFI Fund lists area eligibility by census tract, www.cdfifund.gov/what_we_do/acs/update-census-data.asp.

Best for: Construction or renovation of real estate, including community facilities such as hospitals, clinics, and health care centers.

Benefits: Loans with flexible terms and lower interest rates. In many circumstances a portion of the debt will convert to equity after a successful repayment period (e.g. 7 years). Borrowers obtain financing from CDEs that are awarded with tax credit allocations. A list of these CDEs is provided on the CDFI Fund's web site. Different CDEs operate in different regions (or nationwide) and/or with different specializations (e.g., transit oriented development, or grocery-anchored retail, or health care).

How it works: CDEs compete for tax credits from the CDFI Fund based on the quality of their proposals and the community benefits they will provide. CDEs that are awarded an allocation use the tax credit to raise investment capital. They use investor capital to make loans and/or equity investments in qualifying businesses that meet the CDE's specific regional or topical specialty area. Community banks and local lenders may partner with a CDE to provide the loan portion of a NMTC investment package.

Limitations: Project investments are made by individual CDEs so terms and conditions will vary depending on negotiations between the borrower and the CDE. CDEs must invest their tax credit funds quickly so they develop project pipelines, often even before tax credits are awarded. The amount of tax credit allocation is limited so NMTC investments are not available to many projects.

Learn more: Contact a CDE with a history of investing in projects similar to yours. The CDFI Fund provides an Allocatee CDE search tool at http://cdfifund.gov/what_we_do/need_a_loan.asp. Perform an advanced search

¹ Generally, non-metropolitan counties with less than 80% of the state median income qualify.

² The CDE is an investment vehicle for tax credits. It may be a stand-alone organization or operated by another entity such as a bank or a Community Development Financial Institution.

setting “Award program” to NMTC, “States served” to your state, and leave all other fields (including “State”) with default settings, generally “All”. The results will list background and contact information on CDEs with a focus in the state. This search does not return national organizations without a specific service area. The community loan department of a local bank may also have information about CDE investments in the area.

Treasury CDFI webpage: <http://www.cdfifund.gov/>

Summary of federal capital programs for health care organizations

Program	Who Qualifies¹	Use of Funds	Type of Funding	Maximum Maturity	Maximum Amount	Structure	Benefit²
USDA Community Facilities	Public and not-for-profit organizations serving rural communities with fewer than 20,000 people	Land, buildings, equipment including HIT equipment	Loans, some grants (with priority to small & low income communities)	40 years	None (grants typically less than \$1 million)	Loan secured by assets. Either direct (USDA) loan or loan guaranty.	Predictable costs, reduced interest rates, full amortization
USDA Business & Industry Guaranteed Loan Program	Public, not-for-profit, or profit-motivated organizations serving rural communities with fewer than 50,000 people	Real estate, equipment, working capital	Loans	20 years for real estate, 15 for equipment, 7 for working capital	\$10 million with certain exceptions up to \$25 million	Fixed or variable rate loan as negotiated with lender. USDA guaranty of up to 80% of balance.	Reduced interest rates. Can enable small banks to do additional community lending.
HUD Section 242 Hospital Mortgage Insurance	Public, government-owned, private, not-for-profit, or profit-motivated acute care hospitals	Land, buildings, equipment. May refinance existing debt	Loans	25 years	None	Fixed rate loan secured by first mortgage. 99% loan guaranty	Predictable costs, reduced interest rates, full amortization

HUD Section 232 Residential Care Facilities Mortgage Insurance	Public, not-for-profit, or profit-motivated residential care facilities	Land, buildings, equipment. May refinance existing debt	Loans	40 years (new construction) 35 years (refinancing)	None	Fixed rate loan secured by first mortgage. 99% loan guaranty	Predictable costs, reduced interest rates, full amortization
SBA 504 Loan	Profit-motivated businesses that meet the SBA size requirement	Land, buildings, equipment, working capital under conditions	Loans	20 years for real estate, 10 for equipment	\$5 million	2 fixed rate loans, one in 2 nd position, secured by long-term assets.	Predictable costs, reduced interest rates, full amortization
SBA 7(a) Business Loan	Profit-motivated businesses that meet the SBA size requirement	Real estate, equipment, working capital	Loans	25 years for real estate, 10 for fixed assets, 10 for working capital	\$5 million	Term loan, borrower contribution required, up to 85% loan guaranty	Predictable costs, full amortization
SBA ILP Loan	Profit-motivated businesses that meet the SBA size requirement	Profit-motivated businesses that meet the SBA size requirement	Loans	25 years for real estate, 10 for working capital	\$200,000	Fixed rate, term loan	Predictable costs, reduced interest rates, full amortization
US Treasury New Market Tax Credit	Public, not-for-profit, or profit-motivated organizations in low income communities	Real estate, equipment, working capital	Loans, Equity investment	As determined by lender	None	As determined by lender	Lower costs, a portion of debt may be forgiven after a defined repayment period

1. These are the minimum statutory eligibility requirements. All borrowers will also be required to show creditworthiness and the ability to repay a loan although the details will vary depending on the type and size of project.
2. All of these federal loan programs include the benefit of helping eligible borrowers to obtain financing when it would not otherwise be available.