

# A Health Center's Experience Utilizing the HRSA Loan Guarantee Program (LGP)

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*A lender's viewpoint on the LGP and two examples of projects that successfully obtained loan guarantees*

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# HRSA LGP for FQHCs

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Brandon Boyle, Director of Loan Programs, Capital Fund

COMMUNITY  
HEALTH  
CENTER

CAPITAL FUND

# Who We Are



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- **Community Development Financial Institution**
- **Dedicated Exclusively to Serving Community Health Centers**
- **National in Scope, 28 Years Old (Founded in 1994), Headquartered in Boston**
- **Financed 36 Different Health Centers**
- **Three Lending Programs – Direct Loans, LoanPlus and New Markets Tax Credits**
- **Disbursed Over \$169 Million in Loans Since Inception**
- **\$128 Million Portfolio Under Management**

# Lenders' Perspectives

- **Wide Range of Views**
  - Risk mitigation paramount
  - Meet minimum underwriting criteria
- **Project components that impact lenders' views**
  - Loan size
  - Collateral strength and relative value (Loan to Value Ratio)
  - Cash flow strength (Debt Service Coverage Ratio)
  - Health center equity investment in project
  - Financial condition and performance of health center
  - Lender familiarity with FQHCs

# Lenders' Reasons for LGP

- **Perceived collateral weakness**
  - Project is improving a leased space
  - Collateral is owned by a NMTC subsidiary
- **Cashflow is weak/unproven**
  - HC's historical financial results were not strong and cyclical.
  - Cashflow projections were also not strong
- **Lender familiarity with FQHCs**
  - New lending relationship or a much larger loan amount



# GraceHealth

YOUR COMMUNITY HEALTH CENTER

# GRACE HEALTH SERVICE AREA



## Grace Service Area:

- Clay County
- Knox County
- Leslie County
- Whitley County
- Bell County
- Laurel County

Family Practice  
Internal Medicine  
Women's Care  
OB/GYN & MAT Program  
Pediatrics  
Behavioral Health  
    Vivitrol Program  
School Based Health  
School Based Dental  
340b Drug Discount Program

Pharmacy  
Telehealth Program  
Hospital Coverage  
Nursing Home Coverage  
Laboratory  
X-ray  
Outreach & Education  
Transportation Agreement  
Grace Health University



11 Clinic Sites

32 School Based Clinic Sites

300+ Employees

30,575 Unduplicated Patients (2021)

6 County Service Area

- 2013 served 22,156
- 2014 served 29,203
- 2015 served 56,387
- 2016 served 85,234
- 2017 served 113,010
- 2018 served 121,352
- 2019 served 125,735
- 2020 served 115,549 (pandemic)
- 2021 served 126,137 (pandemic)

Successfully applied and obtained two HRSA Loan Guarantees on two different capital projects (both under the new program application)

- Grace Health Women's Care Facility Alteration/Renovation Project
  - Total Project ~\$3 Million (HRSA Loan Guarantee on \$1,725,000)
- Grace Health Medical Campus Facility Alteration/Renovation Project
  - Total Project ~\$30 Million (HRSA Loan Guarantee on \$13,000,000)
  - Project included New Market Tax Credit (NMTC) Program Subsidization/Leveraging
    - HRSA Approved the loan guarantee of \$13 Million on an UPPER TIER SOURCE LOAN that was leveraged by NMTC's
      - Great Opportunity to have a NMTC source loan guaranteed by HRSA

A photograph of the exterior of a modern medical building. The building has a light beige facade with a dark grey brick base. A large glass entrance is centered, reflecting the sky and surrounding greenery. Above the entrance, the name "GraceHealth" is written in large, blue, illuminated letters, with "WOMEN'S CARE" in smaller, white, illuminated letters below it. A white cross symbol is to the left of the name. In the foreground, there are several young trees and small shrubs planted in a landscaped area. The sky is blue with some clouds.

# GraceHealth

## WOMEN'S CARE

- Total Project ~\$3 Million (HRSA Loan Guarantee on \$1,725,000)
  - 19,000 sq. ft. (from ~9,000 sq. ft.)
  - Abundant level parking
  - 26 dedicated exam rooms + 2 dedicated procedure rooms
  - 3 dedicated Ultrasound rooms
  - Services Added On-Site
    - Fetal Non-Stress Test (dedicated room with 2 Stations)
    - Behavioral Health (dedicated counseling rooms)
    - Medically Assisted Treatment (MAT) Program
  - Over 1,000 deliveries for the 2<sup>nd</sup> consecutive year and the only time in this market's history. Even during a pandemic, the number of Grace Health Women's Care patient visits exceeded the budget in 2020. This was all done with 4 OB/GYN Physician providers and 3.25 APC's.
  - New Facility Helped Recruitment Efforts (recently added 2 OBGYN's)

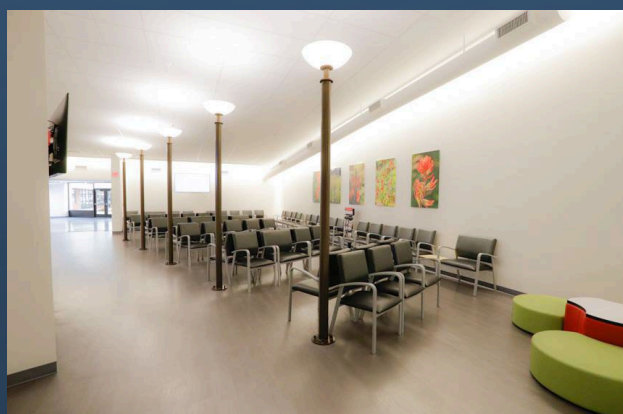
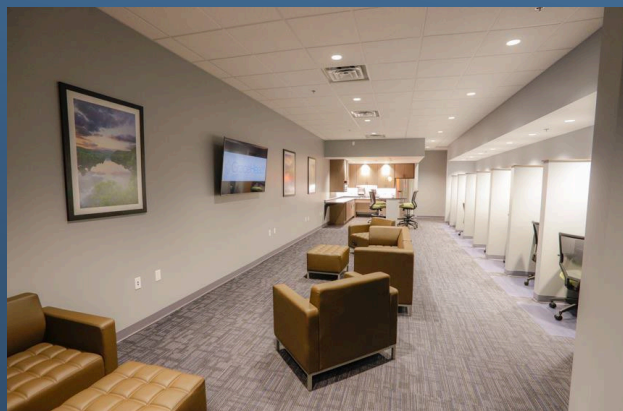
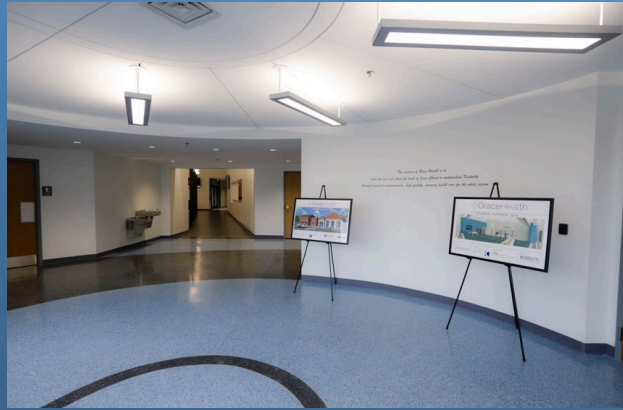
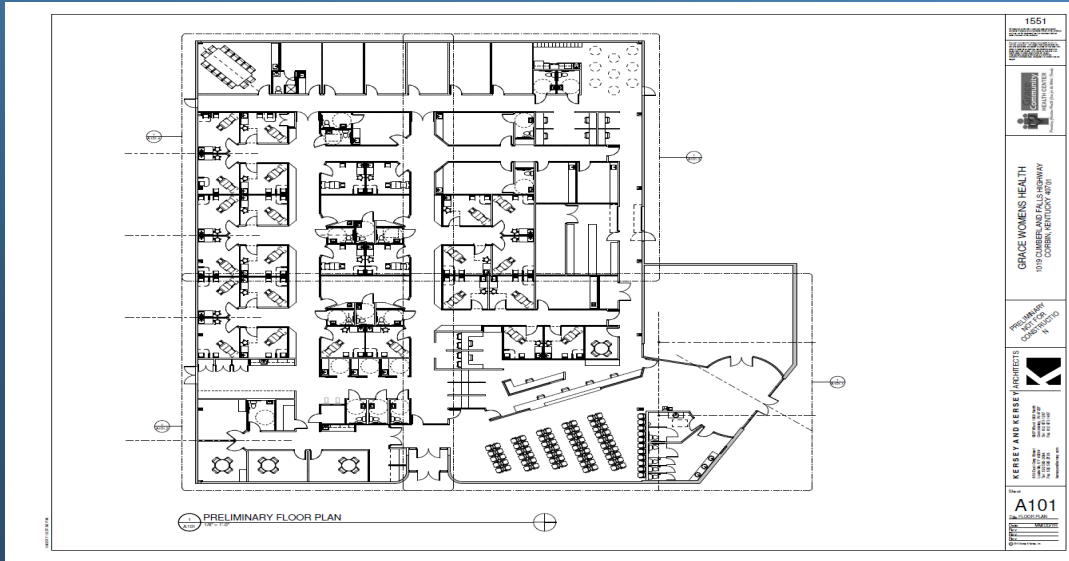
## • Closing Process Experience

- 80% HRSA Loan Guarantee provided better interest rates and longer loan terms
- Leased Space (Leasehold Improvements)
  - Leasehold Mortgage (Recommendation: discuss with landlord)
- Collateral Considerations
  - Collateralizing existing facilities built with Federal Funds
    - Recommendation: Removal of Notice of Federal Interest (NFI) in EHB ASAP
- Match HRSA LGP Audit Reporting Requirement to CHC's Financial Audit Timeline

## • HRSA LGP Application & Approval (5-7 Months)

- Find a Lender/Financing Partner (Lender's Commitment Letter)
- Comparable to Capital Project Grant Applications
  - Recommendation: Grant Team and/or Consultants
- Create a Business Plan-Tell your CHC's Story and Vision
- Financial Projections- Consolidated and Project Facility Broken Out
  - Be prepared to support any assumptions made in projections

- Third Party engaged by HRSA Performs Application Assessment and Due Diligence
  - Application Questions were provided by third party for preparation of a site visit, where they meet with Lender and Senior Management (including Board of Directors-not all have to participate)
  - Make sure your Lender is prepared to qualify the loan and provide monitoring/reporting requirements
    - Loan to Value (LTV) Analysis and Covenants are very important to HRSA
  - Application Questions: prepare to discuss the following;
    - Senior Management changes (past, present, and future)
    - Projections and assumptions in detail
      - Recommendations:
        - Provide a general cash flow statement
        - The more detail in the assumptions the better
        - Utilize source data i.e. UDS, FQHC Surveys, etc.
    - Provider recruitment (past, present, and future)
    - 340B Program, if applicable





# Grace Health Medical Campus - Corbin, KY



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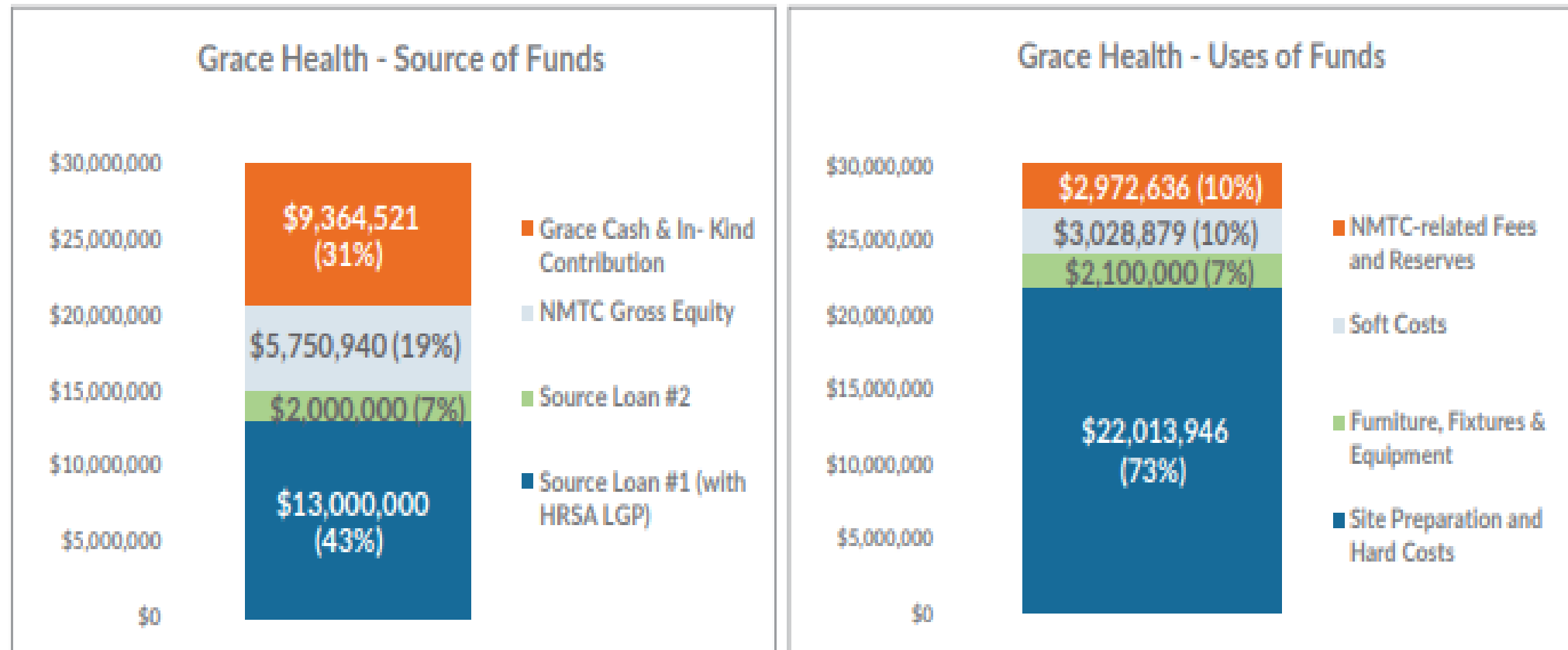


## Total Project Budget ~\$30 Million (HRSA Loan Guarantee on \$13,000,000)

- HRSA Approved the loan guarantee of \$13 Million on an UPPER TIER SOURCE LOAN that was leveraged by NMTC's
  - 4 Local Clinic Locations Combined to 1 Medical Campus
  - ~88,000 sq. ft. (~2 acres under roof)
  - Total of 10 acres
  - 350 parking spaces
  - 30,000 AADT (2007)
  - full range of health care services to include family and internal medicine, pediatrics, behavioral health, dental, optometry, case management, a full-service pharmacy (with a 340B discount program), laboratory and x-ray services, as well as outreach and health education.
  - ~75,000 Patient Visits in 3-5 Year Projections

# HEALTH CENTER STORIES

## *Grace Health, Kentucky*



- Closing Process Experience
  - NMTC Transaction Related Collateral Considerations
    - In order to facilitate the NMTC financing, the health center (the project Sponsor) will establish an affiliated 501c3 Qualified Active Low-Income Community Businesses (QALICB), which will own and complete the project, and the health center will transfer and assign all of its rights to the QALICB. Health Center will enter into a ground lease with the QALICB, with the QALICB as the landlord. Health Center will operate the subject property.
    - The loan shall be secured by the following, in addition to such other security required by the Bank in its discretion and in compliance with the NMTC financing: A leasehold mortgage on the master lease between the Health Center and the QALICB
    - Lenders will seek additional collateral outside of the NMTC subsidized asset (examples: other buildings or depending on loan size a lien on all other business assets)
  - HRSA LGP Application & Approval (3-4 Months)
    - Recommendations:
      - Research/review HRSA LGP pre-application
      - Address the EID Checklist and all Environmental requirements early in the application process

HRSA engages a third party to perform application assessments

Prepare to discuss the following with this third party;

Senior Management changes (past, present, and future)

Projections and assumptions in detail

Cash flows

Existing debt service

Provider recruitment (past, present, and future)

Employee recruitment/retention (past, present, and future)

COVID Response & Recent Awarded Federal Funding

PPP Loan Status, if applicable

340B Program, if applicable

Project Details

Experience of Owner Representatives, Architect, Contractor

Project Budget/Plan & Cost Review

Permitting

FF&E

BOD's questions regarding role and main concerns regarding the project





Grace CHC	FY2021	Projected 2028 (Year End)	Growth
Number of Patients	30,575	46,000	50%
Number of Visits	126,137	180,000	43%
Permanent FTEs	301	372	24%

- 36 guarantees executed since 2000
- 5 total loan guarantees in FY 2021; 5 loan guarantees in FY 2022 thus far,
- Additional 5 projected to date
- Regionally diverse usage – OH, ID, MA, OR, KY, WI, PA, OK, WA, NY
- Average loan size - \$3.7 million

# Commonly Missing or Possibly Not Yet Broken Out Info In LGP Applications:

3-years audited financial statements and unaudited YTD financial statements as close to the time of application submission as are available

Make sure your projection model includes:

Visit volume and payor mix data for audited base years and projected years

Provider productivity, by provider type, for each historical year and for each projected year

Average per visit reimbursement rate by payer category, for each historical year and each projected year

Other:

Contractor's name and experience

Updated status of regulatory and building department approvals

EID results from your architect firm

Has the possible change in scope been submitted? If yes, please share notification and expiration date.

- **PRE-APPLICATION:** preliminary environmental review (architect); initial consultation with HRSA; identify basic project information
- **SUBMIT COMPLETE APPLICATION ONLINE USING ELECTRONIC HANDBOOK**
- **APPLICATION REVIEW:** 60 days; financial feasibility; environmental review; interview with management, other project team members and Board members to discuss reason for project, goals of project and transaction structure elements like collateral and other terms & conditions
- **HRSA ISSUES PRELIMINARY GUARANTEE COMMITMENT LETTER** (subject to finalized underwriting and finalization of the loan closing process)
- **LOAN CLOSING:** lender coordinates closing and negotiation of all documents and submits lender's certification and closing docs to HRSA – *then HRSA executes loan guarantee agreement*

The originating lender is responsible for servicing the loan for itself and for any loan participant or assignee. The originating lender is also required to monitor the project during construction and over the life of the loan, as detailed in [the Loan Guarantee Agreement](#). Semi-annually, the lender and health center are required to provide periodic information and updates to HRSA, including the following information as applicable:

- Semi-annual financial statements of the health center (within 45 days of quarter close)
- Independent annual audited financial statements of the health center as required under 45 CFR Part 75 (within 120 days of year-end) prepared in accordance with generally accepted accounting principles (GAAP)
- Project status updates, including:
  - Construction schedule and project completion status (percent complete; during construction period only)
  - Actual versus projected budget information – sources and uses of funds (during construction period only)
  - Current Health Center Program operational grant (H80) status (i.e., program compliance, mergers, acquisitions)
  - Status of compliance with loan terms, conditions, and covenants
  - Operating performance
  - New Markets Tax Credit (NMTC) loan compliance (if applicable)
  - Loan repayments/restructurings
  - Loan amounts disbursed to date
  - Summary of most recent site visits
  - A statement confirming the termination/release of the loan guarantee (once all obligations of the guaranteed loan have been satisfied)

For lender responsibilities during a default or liquidation scenario, please carefully review the [Loan Guarantee Agreement](#).



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