

HRSA's Loan Guarantee Program: An Overview

A Valuable Financing Consideration for Every FQHC

September 29, 2022

Jonathan Chapman

Chief Project Officer



www.caplink.org

Today's Menu

- HRSA's Loan Guarantee Program??
- Benefits to Health Centers
- Health Center Eligibility and Uses
- Considerations Before Applying
- Upcoming Education and Resources

Our Vision: Stronger health centers, actively building healthy communities

Our Mission: Capital Link works to strengthen community health centers - financially and operationally - in a rapidly changing marketplace. We help health centers:



28
years
of experience

Worked with
50+
PCAs/HCCNs
and regional
consortia

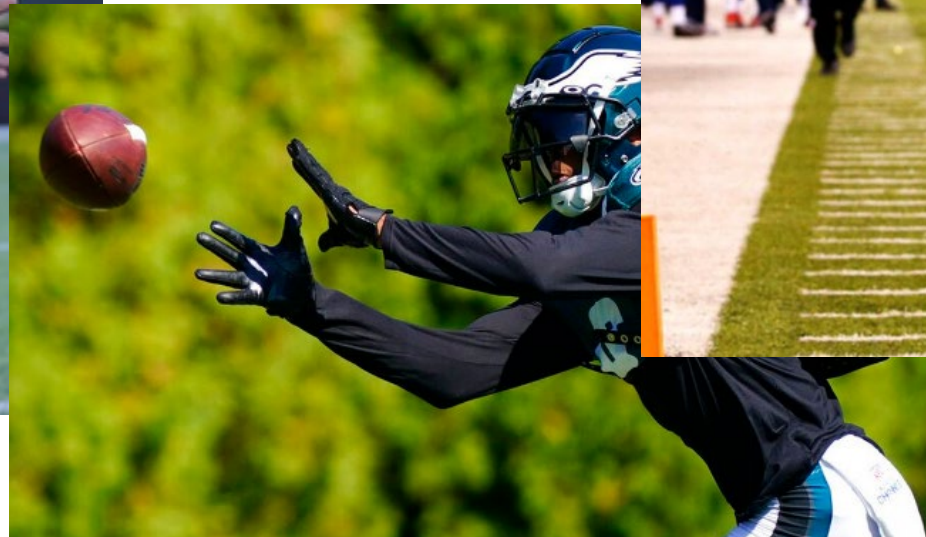
ASSISTED **2/3rds** OF HEALTH CENTERS NATIONALLY

LEVERAGED **\$1.3 billion**

FOR **244+** HEALTH CENTER PROJECTS

\$1.6 billion

Assessing Risk and Opportunity



- Construction Underway
- Financing Within a Year
- Financing Within Two Years
- Initial Planning Underway
- We want one, we need one, just don't know when it will happen...



Not a Loan Itself...

- Originally authorized by Congress in 1997
- Congress appropriated new funding for the program in 2018, allowing HRSA to update and modernize the program to provide guarantees on **~\$900 million** in new loans to health centers
- **Guarantee covers up to 80% of the principal amount of loans**
 - Mitigates risk to lenders, allowing them to:
 - Make loans that they otherwise would not
 - Improve the terms and conditions they can offer to health centers



- Borrower must be a Section 330-funded health center
- Many types of projects are eligible
 - “Medical facilities” operated by a health center
 - Interpreted broadly:
 - Any facility consistent with the health center’s scope of project (i.e. medical, dental, BH, substance use treatment, vision, enabling, pharmacy, administrative offices, call center, wellness services, etc.)
- Most costs are eligible:
 - Land and building purchases
 - Renovation and new construction costs
 - Equipment and “fit out” costs
 - Limited refinancing of existing debt
 - Capitalizable pre-development costs
 - Financing and consultant fees
 - Capitalized interest during construction
 - Limited working capital during a start-up phase
 - Land and equipment, but only if part of a construction, renovation or modernization project
- No maximum or minimum size





- Lower interest rate
 - Less cash to the lender = more cash for your program
- Longer fixed rate term
 - More certainty in a rising interest rate environment
- Higher Loan-to-Value Ratio
 - Lower up-front cash contribution to the project
- Lower collateral requirements
 - More assets unencumbered for other lenders
- More lenient covenants
- There's no fee for this guarantee!

Think like a banker!



Bankers don't like risk!
Consider some examples...

Your health center has experienced financial “ups and downs” in the recent past...

	2019	2020	2021	YTD 2022
Total Revenues	\$4,441,295	\$4,578,655	\$4,253,897	\$3,777,390
Total Expenses	\$4,506,934	\$4,462,311	\$4,596,180	\$3,714,874
Net Operating Income	(\$65,639)	\$116,344	(\$342,283)	\$62,516
Days Cash on Hand	20	30	2	8

Your ability to repay the loan depends greatly on your center's ability to operate with a higher level of provider productivity than you have in the past...

	Now	%	In New Building	%
Provider FTEs	19		25	
Average Annual Patient Visits / Provider	2,402		3,003	
Average Revenue / Visit	\$247		\$249	
Total Revenues	\$11,272,586		\$18,725,842	
Total Expenses	\$10,821,683		\$17,672,859	
Net Operating Income	\$450,903	4%	\$1,052,983	6%
Add back Depreciation			\$833,333	
Cash Available for Debt Service			\$1,886,316	
Annual debt service payments			\$1,604,852	
Debt Service Coverage Ratio			1.2	

Your ability to repay the loan is predicated upon your ability to recruit and retain a significant number of new providers in a rural area...

- An \$800,000 loan will allow you to add a 3,000 SF addition to your existing facility, to accommodate two more providers.
- The loan will add \$66,000 to your annual operating costs, which is affordable if you can recruit the providers
- But if recruitment is slower than expected
 - You could have operating losses, triggering a loan covenant default or a payment default



The scale of your project is large as compared to your current operation...

	2019	2020	2021
Net Income	\$375,611	\$286,357	\$565,023
Add Back Depreciation	\$188,000	\$210,000	\$243,000
Cash Available for Debt Service	\$563,611	\$496,357	\$808,023
Adjust for 1.25 Debt Service Coverage Ratio	\$450,889	\$397,086	\$646,418
Debt Supported by Adjusted Cash Flow:			
@ 4% interest, 20 year amortization	\$6,127,726	\$5,396,523	\$8,785,037
@ 5% interest, 20 year amortization	\$5,619,071	\$4,948,564	\$8,055,802
@ 6% interest, 20 year amortization	\$5,171,659	\$4,554,541	\$7,414,368

We

~~You~~ are operating in an uncertain revenue environment...

- Shift to value-based care/reimbursement
- Significant dependence on uncertain funding streams (340B, grant-funded, etc.)
- You are opening a new site or program, and you aren't sure how it will turn out
- State policy environment not that friendly to health centers



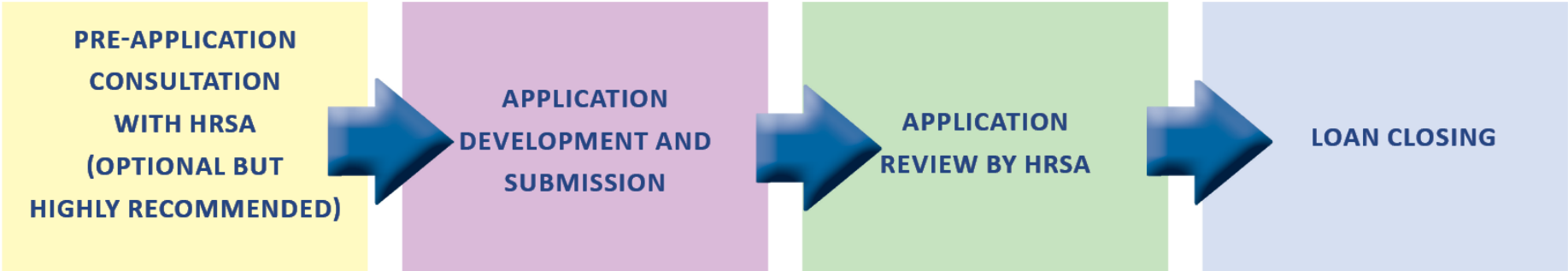
The appraised value of your project is likely to be less than the cost to build...

Scenario: No LGP	
Total Project Cost	\$6,000,000
Appraised Value	\$4,500,000
Max Loan Size - 80% LTV	\$3,600,000
Cash Required from HC	\$2,400,000

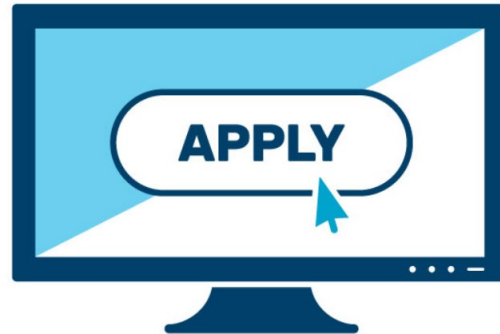
Scenario: With LGP, Assuming adequate cash flow	
Total Project Cost	\$6,000,000
Appraised Value	\$4,500,000
Max Loan Size - 95% LTC	\$5,700,000
Cash Required from HC	\$300,000

- Questionable Financial Performance
- Productivity Projections
- Workforce Concerns
- Project Scale Compared to Current Operations
- General Risk and Uncertainty
- Collateral / Appraisal
- For More Than One Reason Above

Why Should We Consider the HRSA LGP?



- Not required, but highly recommended!
 - Gives you (and HRSA) an opportunity to gain a better understanding of the process and any special issues or requirements you may need to address with your specific project
- To submit an application, you must have a loan commitment from a lender
- So “application preparation” really means completing all the planning processes you normally would to obtain a lender commitment



<https://bphc.hrsa.gov/programopportunities/loan-guarantee-program.html>
<https://www.capl原因ink.org/advisory-services/financing-assistance/hrsa-loan-guarantee-program>

- HRSA expects to rely heavily on the lender's due diligence to streamline HRSA review process.
- HRSA and its Lender Coordinator will review the lender's credit memo, acting similarly to a "Senior Credit Officer"
- Once a complete application is submitted, HRSA will generally make a determination of approval or disapproval within 60-90 days



- The lender will manage the loan closing, using the lender's standard loan documents and security agreements
- Appraisals and environmental reports will generally be required
- Required HRSA documents will be limited in number and in standard form
- The lender will manage the loan as it would any other loan, reporting periodically to HRSA regarding its status



- As HRSA's capital development NTTAP, Capital Link can provide a range of technical assistance to health centers applying to the LGP
 - General assistance for health centers and lenders regarding eligibility and readiness,
 - Debt capacity analysis,
 - Determination regarding whether to apply,
 - Work plan development,
 - Funding source identification,
 - Timeline considerations,
 - Eligibility for a range of funding sources including NMTC, and
 - Upcoming Learning Collaborative



*Upcoming
HRSA Loan Guarantee Program
Learning Collaborative*

- For health centers **planning or anticipating a capital project** in next **one to three years**
- **No cost** to participants
- Four interactive learning sessions - provide further guidance and insights on applying for a HRSA Loan Guarantee
- Approximately 45-minute learning sessions during **October and November 2022** via webinars.



- Market Assessment
- Facility Development
- LGP Application Development
- Identifying a Lender
- Lender Requirements
- Financing and Funding a Capital Project
- Health Center Experiences (Tentative)
- Direct Guidance from HRSA (Tentative)

What are we going to talk about?



- Register at <https://www.surveymonkey.com/r/LGPfall2022> by **October 12**
- **No Cost**
- Request 1 to 3 representatives per health center
- We will email each listed health center contact webinar registration information
 - Tentatively scheduled for
 - Thursday, October 20
 - Thursday, November 3
 - Thursday, November 10
 - Thursday, November 17
- Sessions will be recorded – they along with slides and resources will be saved on a shared drive to allow on-demand access



hey! I GOT
A QUESTION



- Business Plan Manual
 - Scenario Worksheets
 - Benchmarking Toolkit
 - Debt Capacity Estimates
 - Capital Project Work Plan Manual
 - National Trends Reports
 - Cost of Care Bulletin
 - Learning Collaboratives
 - Recorded/Upcoming Webinars
-
- Resources for LGP applicants will be posted here:
<https://www.caplink.org/advisory-services/financing-assistance/hrsa-loan-guarantee-program>



...and so much more...

Jonathan Chapman

Chief Project Officer

(970) 833-8513

jchapman@caplink.org

Visit us online: www.caplink.org

- Learn more about our products and services
- Download our free publications and resources
- Register for upcoming webinars
- Sign up for our newsletter and email updates
- Check out our blog

