

HRSA LOAN GUARANTEE PROGRAM OVERVIEW

The Health Centers Consolidation Act of 1996 established two new guarantee programs to be managed by the Health Resources and Services Administration (HRSA). The first, is the Loan Guarantee Program for Health Center Managed Care Networks and Plans. The Program will guarantee loans made by non-Federal lenders to health centers as defined under §330 of the Public Health Service Act, to finance the costs of developing and operating managed care networks or plans. The loan guarantee will provide applicants with a guarantee of up to 90 percent of the outstanding loan principal amount for networks and 85% for plans. (For more information please refer to the Policy Information Notice 97-25 published by the Bureau of Primary Health Care.)

The second, is the Loan Guarantee Program for Health Center Facility Projects. The Program makes guarantees available for loans made by non-Federal lenders for the construction, renovation, and modernization of medical facilities that are owned and operated by §330 health centers. The loan guarantee provided through this Program will provide applicants a guarantee of up to 80% of the outstanding loan principal amount. (For more information please refer to the Policy Information Notice 97-20 published by the Bureau of Primary Health Care.)

The following is an overview of significant items related to both Programs.

Loan Terms

Loan amount, term, amortization, fees, interest rate etc. as agreed to between Lender and Borrower subject to the conditions described below. Terms must be consistent with Borrower's historical and projected operating performance and must reflect current market conditions.

Eligible Purpose

- Facility Guarantee - For the construction, renovation, and modernization of medical facilities that are "owned and operated" by §330 health centers. Eligible costs associated with such projects include land and building purchases, renovation and new construction costs, equipment and "fit out" costs, pre-development costs that may be capitalized, financing and consultant fees (but not health center staff costs), capitalized interest during construction and limited working capital during a start-up phase. While land and equipment purchases are eligible costs, they will be allowed only as part of a construction, renovation, or modernization project. Leasehold improvements are ineligible under this Program. Further, guarantees may not be used in conjunction with tax-exempt bonds.
- Plan/Network Guarantee - In general, loan proceeds potentially may be used for any capital needs of a developing or operational network or plan, including resources for providing managed care services. The plan/network must be owned and controlled by §330 health centers.

Loan Documents

All loan documents are prepared by the guarantee program's legal counsel based on standard form loan documents that have been approved by the Office of General Counsel. Form documents are available upon request from the Lender Coordinator. Form documents are subject to change without notice at the discretion of HRSA.

Loan Closing Checklist

Prepared by program's legal counsel; receipt and review of all items on checklist is responsibility of Lender's counsel. HRSA retains the right to review and approve any and all documents in its sole discretion.

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Covenants/ Reporting Requirements

All loans must include reporting requirements and financial covenants. Borrower and lender should agree to reasonable financial performance covenants appropriate for the type of loan being proposed. These might include

- ◆ Minimum Net Assets (increasing annually by a portion of the Change in Net Assets without deduction for loss)
- ◆ Minimum Liquidity (e.g. Current Assets/Current Liabilities)
- ◆ Maximum Leverage (e.g. Total Liabilities/Total Net Assets)
- ◆ Minimum Cash Flow Coverage (e.g. change in net assets plus depreciation plus interest expense divided by debt due within one year plus interest expense)

- Additional for plans and networks:

- ◆ Maximum Medical Loss Ratio (Total medical expenses divided by medical revenue)
- ◆ Utilization (e.g. hospital days per thousand) etc.

At a minimum, borrower should provide lender, who in turn will provide to HRSA, quarterly financial statements (within 45 days of quarter close) and annual audited financial statements (within 120 days of year end) prepared in accordance with GAAP. In addition, lender will be required to submit to HRSA a quarterly status report in a format to be provided by HRSA. (See Exhibit A attached)

Interest Rate

To be negotiated between Lender and Borrower. Terms may not provide for the interest rate to be determined using the lender's "Base Rate." Interest rate calculations must be based on publicly available/published indices such as the Prime Rate as published in the Wall Street Journal for variable rates or the one, five, ten year Treasury Note for fixed rates.

Execution of Documents

All documents must be executed by each and every named borrower.

Authorized Signers

The authority to sign loan documents on behalf of a given borrower will be determined by provisions in the borrower's Articles of Incorporation and By-laws stating who has authority to sign loan documents. Most, if not all, will require board approval.

Corporate Documents

At a minimum, all borrowers will be required to provide (i) approved board resolutions; (ii) Good Standing Certificates issued by the state of residence of the Borrower within the 30 day period prior to closing; (iii) copy of certificate/articles of incorporation certified by the Secretary of State within the 30 day period prior to closing; (iv) copy of by-laws.

Board Resolutions

HRSA will provide standard form resolution(s).

Contact List

Lender Coordinator will develop a contact list based on information provided by all parties. Lender Coordinator should be provided with a list of parties to be included in all communications by the Lender and Borrower. These may include the project manager and Executive Director for Borrower, Loan officer for lender, counsel for borrower and counsel for lender. Please provide LC with the Name, company name, mailing

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Borrower

address, phone, fax and e-mail address for all parties.

If the applicant is a managed care plan or network (“Plan/Network”) and is owned and controlled by one or more health centers (“Constituent Health Centers”) funded under §330 of the Public Health Services Act, the Constituent Health Centers and the Plan/Network are required to be co-borrowers of the Loan, and the Constituent Health Centers will be required to execute the Loan documents.

Collateral

For Facility Loans: Collateral will at a minimum include a first priority lien on the real property benefiting from the loan that is the subject of the guarantee (Maximum Loan to Value not to exceed 90%; exceptions for certain regions approved by the Secretary per legislation). For Plan/Network Loans: The Plan/Network will grant to the Lender a first priority lien on all assets of the borrower. The Constituent Health Centers will grant to the Lender a first priority lien on 100 percent of the issued and outstanding stock, membership interests or other equity interests of the Plan owned by the Constituent Health Centers, and a first priority lien on any assets owned by any Health Center that **DO NOT** qualify as a Health Service Delivery asset as defined below.

Health Service Delivery Asset

- ◆ Any asset subject to a federal reversionary interest prior to receipt of a loan guaranteed by the Health Resources and Services Administration (“HRSA”).
- ◆ Any asset taken as security by a federal or non-Federal lender or guarantor.
- ◆ Any asset acquired subsequent to receipt of a loan guaranteed by HRSA that meets the definition of a Health Service Delivery Asset, as herein provided.
- ◆ Any asset used in the scope of any section 330 project (as hereinafter defined).
- ◆ Any asset used for the provision of Health Services (as hereinafter defined) outside the scope of any section 330 project.
- ◆ Any asset which is used in whole or in part for, or is strategically or operationally planned to be used in whole or in part for, the provision of Health Services in and/or outside the scope of any section 330 project.
- ◆ Any revenue generated from any asset when such asset is used for, or is strategically or operationally planned to be used for, the provision of Health Services in and/or outside the scope of any section 330 project.
- ◆ Any revenue (regardless of its source) used for, or strategically or operationally planned to be used for, the provision of Health Services in and/or outside the scope of any section 330 project.

For purposes hereof, (i) the term “Health Services” means any service authorized under section 330 of the Public Health Service Act, including but not limited to any service the Corporation is currently providing, or any other service the Corporation is providing or is strategically or operationally planning to provide that meets a common definition of the

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Constituent Health Center's Liability

term "Health Services;" and (ii) the term "section 330 project" means a project that is authorized by and undertaken pursuant to section 330 of the Public Health Service Act, to carry out specified health related activities.

The Plan will have liability for repayment of any and all amounts payable to the Lender in connection with the Loan, and this liability shall be with full recourse to the Plan and its assets. Each Health Center's liability for repayment of the Loan shall be several and be limited to a percentage of the total Loan that is equal to the percentage of each Health Center's ownership interest in the Plan. However, the Lender shall have recourse only to the equity Interests owned by each Health Center and to **Non-Health Service Delivery Assets** for repayment of that portion of the Loan allocable to each Health Center. No Health Center shall be individually liable for the repayment of any deficiency, loss, damage or expense (including reasonable attorney's fees) suffered or incurred by the Lender and remaining after foreclosure of a Health Center's Equity Interests and Non-Health Service Delivery Assets.

Guarantee

Guarantee is made by the Health Resources and Services Administration ("HRSA") an agency within the United States Department of Health and Human Services, an executive branch department of the government of the United States. The guarantee is a legal, valid and binding obligation of the guarantor and is enforceable against the guarantor.

Disbursements

Disbursements on construction loans may not be made more often than monthly. The Lender has full responsibility for monitoring and approving construction draws.

Process

- ◆ The borrower submits Final Application including Commitment Letter from Lender to Bureau of Primary Health Care ("BPHC," bureau within HRSA)
- ◆ BPHC initiates due diligence review of applicant
- ◆ Lender Coordinator is available to respond to all questions from Lender.
- ◆ Upon completion of review, BPHC submits recommendation to Loan Guarantee Review Committee.
- ◆ Review Committee submits final recommendation to Bureau Director.
- ◆ Upon approval from the Director, BPHC issues Guarantee Commitment Letter including any conditions required by Review Committee.
- ◆ Upon receipt of executed Loan Guarantee Commitment Letter, Counsel to the program prepares legal documents including: Loan Closing Documentation Checklist and forwards to borrower, borrower's counsel, lender and lender's counsel for review and comment.
- ◆ Lender and borrower negotiate final deal terms and submit comments on the documents to Lender Coordinator and Counsel to program.
- ◆ Final documents are prepared for execution and loan closing.
- ◆ Lender Coordinator and Program Counsel will coordinate closing

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process with lender, lender's counsel and borrower.

Partial List of Closing Documents

- ◆ Loan and Security Agreement
- ◆ Promissory Note
- ◆ UCC-1 Financing Statement
- ◆ Opinion of Borrower's Counsel
- ◆ General Certificate
- ◆ Certified copy of Articles of Incorporation
- ◆ Bylaws
- ◆ Certificate of Good Standing from the Secretary of State
- ◆ Corporate Borrowing Resolution
- ◆ Applicable construction related documents
- ◆ Mortgage and other applicable documents for loans secured by real estate
- ◆ Most current financial statements for borrower
- ◆ Evidence of no material adverse change since latest available financial statements

Guarantee Amount ("Guarantee Percentage")

- ◆ For Facility Loans: Eighty percent of the principal amount of the loan
- ◆ For Plan Loans: Eighty-five percent of the principal amount of the loan.
- ◆ For Network Loans: Ninety percent of the principal amount of the loan.

Guarantee Collection

Upon satisfaction of the terms and conditions of the Loan Guarantee Agreement between Lender and HRSA, the Lender has the following collection options:

1. Submit a demand for payment under the guarantee to HRSA. HRSA makes a payment to the Lender equal to the Guarantee Percentage multiplied by the loan principal outstanding and the lender assigns the loan documents and all of its rights thereunder to HRSA. HRSA retains sole discretion for collection. The lender retains its *pro rata* percentage interest in the loan. Any proceeds collected by HRSA or its designee are applied first to all associated costs of collection and then are split *pro rata* between HRSA and the lender according to their respective percentage interest in the loan; or
2. Lender proceeds with liquidation of borrower's assets. If proceeds from liquidation are insufficient to repay the loan in full, the lender may submit a demand for payment under the guarantee. HRSA will make a payment to the lender equal to the Guarantee Percentage multiplied by the remaining loan principal outstanding (the amount of the loan balance remaining after deduction of liquidation proceeds).

NOTE: ALL OF THE ABOVE REPRESENTS A SUMMARY OF THE PROGRAM(S) AND IS SUBJECT TO THE TERMS AND CONDITIONS OF THE LOAN GUARANTEE AGREEMENT. IN THE CASE OF CONFLICT, THE LOAN GUARANTEE AGREEMENT CONTROLS.

Available Documents @

- ◆ Policy Information Notice for Facility Loans

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www.ncbdc.org

- ◆ Policy Information Notice for Plans and Networks
- ◆ Standard Form Plan Guarantee Agreement
- ◆ Standard Form Facilities Guarantee Agreement
- ◆ Standard Form Facilities Loan Agreement
- ◆ Standard Form Plan Loan Agreement
- ◆ Plan/Network Guarantee; Co-Borrower Requirements

Lender Coordinator

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Exhibit A

BORROWER NAME

Loan Agreement dated _____
Report for the period ending: _____

Fiscal Year End _____

Original Loan Balance _____

Current Loan Balance _____

Is Borrower current on all required loan payments and have payments been made in a timely manner?

Yes

No

If no, please explain:

Is Borrower in Compliance with Financial Covenants ?

Yes

No

If no, please (i) state which covenant was violated; (ii) provide the calculation of the covenant as required by the Loan Agreement; (iii) provide the calculation of the covenant using the current financial statements; (iv) provide a statement explaining why the covenant was violated; and (v) provide a statement describing what action Lender has/will take.

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To the best of your knowledge, is Borrower in compliance with all other terms and conditions of the Loan Agreement ?

Yes

No

If no, please explain:

Name of Lender

By: _____

Name: _____

Title: _____

IN ADDITION TO THIS STATUS REPORT, PLEASE PROVIDE THE FOLLOWING:

- 1. A COPY OF THE BORROWER'S MOST RECENT FINANCIAL STATEMENTS.**
- 2. A COPY OF THE COVENANT COMPLIANCE CERTIFICATE SIGNED BY THE BORROWER'S CFO AS REQUIRED BY THE LOAN AGREEMENT.**