

The Latest on USDA Lending

By Kelly Arduino, Director of Financial Advisory Services
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As part of the continuing series on capital access for health care organizations, this month's spotlight is on United States Department of Agriculture (USDA) loans. The USDA has certainly filled a void in the credit market this past year with the disappearance of the tax-exempt bond market for nonrated organizations. In this article, we will review the relevant programs and some statistics on amount of available dollars and then discuss key features of these loans.

USDA Rural Development Loan Programs for Health Care Organizations

There are two types of USDA financing that are most applicable to nonprofit health care organizations. These loans are administered through Rural Development's Community Facilities Program and are:

- 1) the Direct Loan Program, which is a loan made by the USDA and paid directly to the borrower; the current loan rate is 4.25% fixed for up to 40 years
- 2) the Guaranteed Loan Program, which is essentially insurance (i.e., the "guarantee") applied to 90% of a taxable bank loan or bond issue after construction is complete; rate varies by lender and terms

To qualify for a Community Facilities USDA loan, the project must be owned by a nonprofit entity located in a rural area or town with up to 20,000 in population. *Note: The USDA Business & Industry Loan Program, which can be utilized by for-profit entities, is not discussed in this article.* The categories of project types and specific examples funded by community facility loans include:

- Health Care (e.g., nursing home, assisted living center, critical access & acute care hospital building & equipment, physicians clinic, medical office building, home health care, etc.)
- Fire, Rescue, & Public Safety (e.g., ambulance service equipment & building, mobile communications center, police station, police car, fire trucks & protection equipment, etc.)
- Cultural & Educational (e.g., public school distance learning, charter schools, college dorms, libraries, museums, child care center, etc.)
- Recreational Activities (e.g., football stadium, campgrounds, ballpark, community park, beach area, swimming pool, etc.)
- Energy Transmission & Distribution (e.g., electrical

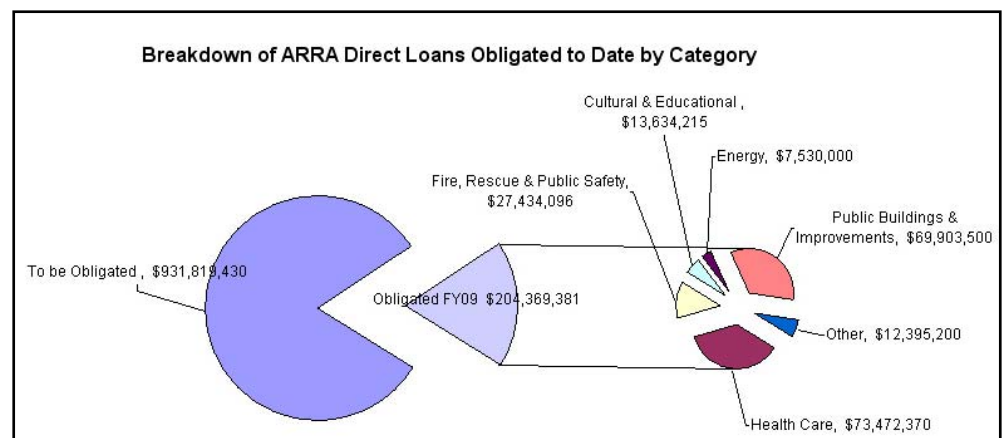
service, electrical equipment, hydroelectric, natural gas distribution)

- Public Building & Improvements (e.g., health department building, city hall, county courthouse, street maintenance equipment, youth center, school buses, etc.)
- Industrial Development (e.g., water & sewer improvements, drainage & levee districts, industrial parks, etc.)
- Other – Changes yearly (e.g., farmer's market, animal shelter, agricultural fairgrounds, cemetery)

The American Recovery and Reinvestment Act (ARRA) allocated money to the USDA Direct Loan and Grant programs; specifically, \$1.136 billion in direct loans and \$32.836 million in grants. The \$1.45 billion in ARRA funds is in addition to the annual allocations these programs typically receive. The Guaranteed Loan Program, which did not receive ARRA funds, is another \$700 million. In short, that's a lot of capital to be distributed.

As of the end of FY 2009, \$204.3 million, or 18%, of the Direct Loan ARRA money had been obligated to 230 projects. Health care received 36%, or \$73.472 million, of the obligations, which funded 35 separate projects. In terms of grants, 60 health care projects received \$3.685 million, or 12%, of the ARRA USDA grant money spent to date, with the average grant just over \$60,000. Grant money is available, in part on the basis of income in the area.

This means that another approximately \$932 million in ARRA Direct Loan funds are left to be obligated by the end of FY 2010. If the percentage of dollars allotted to health care holds true, then 36% of the total approximately \$335 million in capital at the current rate of 4.25% fixed for up to 40 years is still available. Again, this is over and above the amounts available through the Guaranteed Loan Program.



Although there is opportunity to obtain a direct loan from the USDA, for larger projects, there is usually a need to pair the direct loan with a guaranteed loan, and for that you need a bank. The bank will serve as the "lender of record" on the guaranteed loan and generally sets the terms and covenants for both the direct and guaranteed loans. Finding a bank that is comfortable with larger USDA borrowings and the construction risk, as well as getting your architect/construction manager to fill out the required forms and comply with USDA regulations, can be a challenge. The ARRA money requirements to "buy American" and pay prevailing wages further complicate planning, but the bottom line is that in today's market with few alternatives available, who can turn down the opportunity to lock in 40-year money at such a low rate?

In working across the country, we have seen organizations considering the USDA loan program for financing struggle with the logistics of applying for these loans, especially for larger projects. Also, there are a number of ways to structure the combined direct and guaranteed loans to minimize capitalized interest that accrues during construction, of which the borrower or even local USDA representatives are not aware.

We can help you navigate through the USDA loan process and offer services in USDA feasibility studies and financial advisory services.

News Update: Jamestown Hospital, a 25-bed CAH in Jamestown, ND, just received notification from the USDA of a Direct Loan for \$31 million and a Guaranteed Loan for \$15 million to finance their replacement facility. This is the largest Direct Loan for a hospital in the history of USDA. Wipfli's healthcare consultants were involved throughout the financing process. Kelly Arduino acted as the Financial Advisor to the hospital and directly negotiated the loan terms with the Lender of Record. Wipfli also provided the feasibility study for the project in accordance with the National Office of USDA's standards for CAH feasibility studies. This feasibility study is one of many that Wipfli has performed for USDA financings across the country. For more information see this link: http://www.ksjbam.com/artman/publish/article_1944.shtml

About the Author

Kelly Arduino has over 15 years of experience in health care, with an emphasis in health care finance and strategy. As an unbiased financial advisor for clients that include critical access hospitals, independent community hospitals, and senior living facilities, her work centers on planning for and securing capital to finance large renovation/replacement projects. She also works with clients on an "as needed" basis to evaluate financing proposals and to provide advice on debt-related decisions. To learn more, please contact Kelly at karduino@wipfli.com

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