April Lewis:

Good afternoon everyone, thank you so much for joining us today. This is April Lewis, I am the director of Health Center Operations and HR training at the National Association of Community Health Centers.

April Lewis:

We hope you are in the right place and joining us for part one of our two-part HRSA Loan Guarantee Program. Today we're focusing on explaining the Loan Guarantee Program. Before we go into the presentation I want to take care of a few housekeeping rules and notices.

April Lewis:

If you look to the right of your screen if you're joining via computer we're going to use the chat feature to answer any questions that you may have throughout the session. Leave any comments for the presenter. We also have a poll built into this presentation so within a few slides we'll guide your attention to the right of the screen to respond to the poll.

April Lewis:

Our presenter Allison Coleman, she'll talk through that as we get closer to that portion. I do want to let you know that the full recording of today's session is going to be available on MyMAC within no more than two weeks. We need to give our IT team time to compress it and make it available to you. Once we get the link we'll send it out to everyone who has registered for today's session.

April Lewis:

I am joined by my colleague Phillip Stringfield, you'll see him also to the right of your screen. If you have any questions, any technical questions, can't hear, your slide is showing something different from what we're presenting shoot us a note and we'll be sure to troubleshoot it accordingly.

April Lewis:

I also want to remind you we will be back on for part two Thursday, May 16th at 2:00 p.m. and all of this will be sent out to you in a follow-up email with today's presentation. So without further ado, I will pass it over to our presenter for today, Allison Coleman. She is the CEO of Capital Link and a trusted and well-respected partner of MAC. So, Allison, it's on you.

Allison Coleman:

Good morning everybody. Can you see my screen?

Phillip Stringfield:

Yes, you're all set.

Allison Coleman:

April?

Phillip Stringfield:

You're all set.

Allison Coleman:

Okay great. Thank you. Good afternoon and good morning everybody thank you for joining us today to discuss HRSA's Loan Guarantee Program. As April noted, this is the first of a two-part series and today I'm really going to be reviewing the framework of the HRSA Loan Guarantee Program, it's requirements. Try to help you think through whether or not the Loan Guarantee Program might be a good resource for you.

Allison Coleman:

We will have time toward the end for questions on this session and then the second part, part two which will take place on May 16th, we will have much more time for individualized questions. So please be thinking as I'm going through the presentation today of any questions that you may have about your project and whether or not you should consider the Loan Guarantee Program and if we can't get to them today we will definitely be able to have time to get to them on May 16th.

Allison Coleman:

So just a brief note about Capital Link. We were launched in the mid-1990s. We're a non-profit organization, we have been a HRSA national cooperative agreement partner since the late 1990s. I have staff in six states and to date, we've helped Health Centers raise more than a billion dollars in financing for their building and equipment projects representing about 10% of the current Health Center facility space nationally.

Allison Coleman:

Our major areas of focus are these. We help Health Centers plan for sustainability and growth and that certainly is necessary if you're planning a capital project but there are plenty of the resources that we provide that are helpful for just helping you think about growth whether or not you have a capital project necessarily in mind.

Allison Coleman:

So we do things like market assessments and help Health Centers do scenario modeling for different business scenarios looking at adding different services, plan for collaborations those kinds of things. And I would say many times Health Centers are using that planning assistance to help them access capital for a building and equipment project.

Allison Coleman:

We have a lot of tools and resources and trainings including this one today as well as direct one-on-one assistance to help you leverage the capital resources that you need. Along the way, we also have developed a number of tools and resources about improving and optimizing your operations and your financial management. We have a very large database of Health Center audited financial statements and UDS data. We provide a lot of comparative benchmark data to help you understand your financial and operating strengths and weaknesses.

Allison Coleman:

And lastly, we do a fair amount of work with Health Centers helping them articulate their value. We do a lot of economic impact analysis and modeling that health centers use for a variety of purposes. But today our focus is really on her HRSA's Loan Guarantee Program and as I and my staff have been

traveling around the country talking with health centers about their projects we're really seeing a range of capital needs that health centers have at the current time.

Allison Coleman:

We certainly hear a fair amount about needing to repair and replace health center facilities. Right now health centers collectively have about 20 billion in gross fixed assets on their balance sheets. That's 20 billion with a B and each year we can see that the depreciation expense collectively across health centers is in excess of half a billion dollars annually in depreciation expense which basically means that assets are depreciating at a rate of a half a billion dollars at least per year.

Allison Coleman:

So that means many health centers have ongoing capital needs just to maintain their current infrastructure, not necessarily to accommodate growth but just to maintain what they already have. Another area that we still see a fair amount of need in is expanded access.

Allison Coleman:

So health centers that are looking at adding or expanding sites and we can see that patients at health centers have been growing at the rate of about five to six percent per year and to accommodate that growth health centers are adding to their physical footprint.

Allison Coleman:

We are also seeing a number of capital projects that are really focused around integrated services. A number of health centers are renovating in some cases relatively new facilities to better accommodate care integration.

Allison Coleman:

So rather than for example, having dental services co-located on the third floor of a facility, health centers are renovating space to allow dental to be more integrated with primary care and sometimes that requires space reconfiguration.

Allison Coleman:

Certainly, team-based care and the movement toward value-based reimbursement is creating some need for taking a look at your space increasingly health centers are augmenting their teams, adding care coordinators, data analysts and in a typical primary care pod you may not really have room for the teams that you now need and want to provide care to your patients.

Allison Coleman:

Certainly, a fair number of centers are looking at new types of contracts, value-based care contracts that require sometimes new staff, new space needs, new programmatic development that causes you to need either more space or reconfigured space to function adequately.

Allison Coleman:

A fair number of you are also adding new services, particularly we're seeing a lot in the behavioral health domain as well as substance use disorder treatment, telehealth. All of these new services may require new or expanded space or equipment.

Allison Coleman:

And finally, we are seeing some health centers particularly I would say health centers that focus on care to homeless populations are looking more and more at collaborations to address social determinants of health. So they may be for example developing housing for using a house first model for their patients.

Allison Coleman:

Either themselves or in collaboration with another community-based provider. And a lot of health center are considering co-located services with other health and social service organizations to better address community needs. And these kinds of projects also require space.

Allison Coleman:

So I want to open the poll now to see whether any of these needs are resonating with you and it would be helpful for me to hear from you which of these kinds of projects you are considering so that I can speak to that. So you should see on the right of your screen a poll that will be open for I think 45 seconds. If you just take a minute to respond to which of these types of projects are you considering.

Allison Coleman:

Phillip you'll need to let me know I can't see how much time we still have on the poor or the results of it so let me know when it's closed.

Phillip Stringfield:

All right, it is closed.

Allison Coleman:

And will everyone be able to see the results?

Phillip Stringfield:

Yes. Showing now.

Allison Coleman:

Okay. So what we see there is a lot of you are looking at expanded access to care, integrated care. Newer expanded programs. Great, okay that's helpful to see what's on your mind, thank you. And now do I have... Okay, here I do have control back. Okay great. So a bit of background on the HRSA Loan Guarantee Program. It was originally authorized by Congress in the late 1990s. It was never widely used for a number of reasons.

Allison Coleman:

But I'm really excited actually about the way HRSA has been working very hard to basically update the program to make it work better for health center needs today. So in I believe it was March 2018, the program basically ran out of money at the end of 2017 and when the health center cliff fix was approved there was also a piece of funding in that appropriation that provided a subsidy for the program so that it could basically have a new life and there was sufficient subsidy that was approved to allow HRSA to provide guarantees totaling almost 900 million dollars in guarantees on new loans to health centers.

Allison Coleman:

So this right now is the major current capital development resource that HRSA has available. They really no longer have the large capital grant funds that they had a few years ago. I don't know whether those will ever come back but given the federal budget deficit I'm not betting on it and I think that this is really the major resource that HRSA has now to support health center capital support needs. So the guarantee covers up to about 80% of the principal amount of loans made to health centers.

Allison Coleman:

So the purpose of the guarantee is really to mitigate risk to lenders which is intended to allow them to make loans that they otherwise might not be able to make or to improve the terms and conditions of loans that they can offer to health centers. So a word about eligibility. You must be a Section 330 funded health center to apply to the Loan Guarantee Program and unfortunately look-alikes are not eligible. But all Section 330-funded centers are.

Allison Coleman:

The program can really be used quite broadly to provide guarantees for loans made to health centers for medical facilities operated by a health center. Now that's the terminology in the legislation however HRSA is interpreting medical facilities quite broadly. So basically any facility that's consistent with the health center scope of project could qualify. So whether it's medical or dental or substance use disorder or pharmacy or enabling, admin offices, call centers, wellness centers, PACE centers. Basically if it's in your scope of project it's very likely an eligible project.

Allison Coleman:

Further, most costs associated with a capital project are also eligible. So including purchase of buildings and land renovations and new construction equipment and leasehold improvements. You can also refinance at least to a limited extent existing debt. You can also finance pre-development costs, so costs of say, for example, hiring your architect or doing engineering studies. Hiring consultants to help you manage the project et cetera.

Allison Coleman:

If you paid for them up-front you can include them as part of your project costs and you're financing if you wish to. Financing and consultant fees can be included. Capitalized interest during construction, so that basically means you can set aside some funds in your financing to pay interest while the building is being built or renovated so you're not immediately having to go out of pocket paying debt service on a facility that's not yet up and running.

Allison Coleman:

You can also include working capital. Many health centers have some start-up costs or start-up phase before you're really fully operational in a new site that you could include some working capital to help you get through that transition period. And in general, the land and equipment are both eligible. HRSA really would like to see those costs as part of a larger project in order to be eligible for the loan guarantee. Importantly there's no maximum or minimum size of the loan that you can utilize the guarantee for.

Allison Coleman:

So I want to walk you through how the loan guarantee might benefit your health center because there's really a range of ways that you may find benefit. So first and foremost it may get you a thumbs up from a lender as opposed to a thumbs down. That's sort of like the classic use of the guarantee. If you just get a yes from a lender versus a no. Another important benefit could be that the guarantee could get you potentially a little bit lower interest rate an obviously the less cash that you are paying to a lender in the form of interest expense the more cash you have available to support your program.

Allison Coleman:

But note that everybody wants a lower interest rate and that's an important consideration but it really shouldn't be your only consideration because there are a lot of other terms and conditions of a loan that can have as great if not greater impact as interest rate and the guarantee can help with those as well. So for example, having a longer fixed-rate term can be of great benefit to a health center and with a guarantee you're more likely to get a longer fixed-rate term.

Allison Coleman:

And that's especially important in a rising interest rate environment where we're kind of in a stable interest rate environment right now but we've been in a very low-interest rate environment for a long time and at a certain point interest rates have already started creeping up and they may go up faster and so having a longer fixed-rate term can be really great for health centers. A guarantee can really help with getting a yes from a lender and having them be willing to accept a higher loan to value ration.

Allison Coleman:

I'm going to show you an example of that in a couple of slides. I won't go into a lot right now but it basically helps you lower your up-front cash contribution to the project. Also, related to the loan to value ratio issue with a guarantee it might lower the collateral requirements.

Allison Coleman:

Sometimes lenders will want to basically take a lean on most or all of your assets to secure a loan and if you've got a loan guarantee it helps to basically add some collateral value so that you hopefully don't have to pledge all of your assets for a single loan.

Allison Coleman:

A loan guarantee might get you more lenient covenants which can be really helpful. Sometimes lenders will want profitability covenant or a day of cash on hand covenant or a debt service coverage requirement covenant that might be higher than you feel comfortable with and a guarantee might help with that.

Allison Coleman:

And then finally one of the really fabulous things about the HRSA loan guarantee is that there's no cost to you for it. Or to a lender. It's essentially a free federal guarantee. I'm not aware of any other federal guarantee across the federal government that is actually free.

Allison Coleman:

So that's a great benefit, it's, in essence, a free insurance policy. So the critical question of deciding whether or not it's worth it to you to seek a guarantee. I'm going to ask you as we go through a couple

of scenarios now to put on your banker hat because really what we're talking about here is how do you assess risk?

Allison Coleman:

So many of you face financial or programmatic risks that keep you up at night. I know you do because you tell me about them sometimes and lenders are also concerned about these risks and sometimes they are not willing to make loans to health centers as a result of the risks that they feel that health centers are facing.

Allison Coleman:

Or even if they are willing to make a loan they will offer really less than ideal loan terms to compensate for the risk. For example, lenders are concerned when they see uneven operating financial performance. So if your kind of often operating in the red or very close to just barely above break-even that will be a concern to a lot of lenders. Health centers often operate with fairly tight financial margins and not a lot in the way of cash reserves, that can be a concern to a lender.

Allison Coleman:

Also, a fair number of health centers have very little if any experience with debt. And so the health centers themselves are debt-averse and don't really have a lot of experience with that and some lenders take that as a sign of potential concern if you don't... If they can't count on you, if they can't look back at your history and say, "Oh they've repaid a loan in the past."

Allison Coleman:

Lenders can be concerned about high dependence on risky funding sources. So for example right now risks to 340B is becoming more and more of a concern of lenders and some health centers especially health centers that may serve a lot of patients with HIV or AIDS or have high 340B costs or high dependence on 340B as a revenue source, that may become more of a concern to lenders with 340B on certain days.

Allison Coleman:

Certainly, if you are facing competition in your market that will be of some concern to lenders. Also, to the extent that reimbursement structures are changing, so changes to Medicaid and who's eligible for Medicaid. The extent to which value-based contracts are beginning to take hold in your market place and if you're taking on risk associated with any of those contracts, those kinds of things are sort of by definition risky and lenders could be concerned about that.

Allison Coleman:

Certainly a little over a year ago when there were real risks to health center federal funding and when in fact health centers basically went over the federal funding cliff for a few months that certainly was eye-opening to lenders and we saw a fair amount of concern about that from them. Also, if you are opening say new programs or treating new populations, if you're really starting substance use disorder treatment or adding programs like PACE for example that is new to you that may make a lender pause before being eager to make a loan to you.

Allison Coleman:

And also I would say finally one of the typical risk scenarios that we see lenders being concerned about is if you are taking on a larger capital project than you ever have before. The scale of the project as compared to your current operations. In particularly, if you are assuming that your provider productivity is going to increase significantly those are all realms of risk that lenders might be concerned about and you might be concerned about. And I'll be giving some examples of a number of these risk scenarios over the next couple of slides.

Allison Coleman:

So I'd like to quickly open up a poll right now to have you give me some feedback on the types of risk that you think are most important for you and that may help me know which of the scenarios to focus on more in-depth as we go through these slides.

Phillip Stringfield:

All right the poll is open. You have about 30 more seconds to answer the question. All right, three more seconds and the poll is closed. Thank you all. And here are the results.

Allison Coleman:

Okay. It looks like challenges with recruiting that's a big one. Provider productivity, uneven operating results, concern about uncertain funding streams. It's interesting a lot of you are not that concerned about the appraised value issue though I have to tell you that that is something that we see in almost every single capital project but okay this helps me. I will focus on a couple of these scenarios that are of most importance to you, thank you.

Allison Coleman:

Okay so let's look at some examples. Some of you it looked like had this concern which is if you've experienced some kind of financial ups and downs in your recent past many health centers operate with fairly narrow operating margins so this type of result is not that uncommon. So in this example, you see here in the net operating income line that this health center has kind of gone every other year between being in the red, as indicated in the negative parenthesis there or in the black.

Allison Coleman:

And you see in the bottom line there the impact on days cash on hand. So I probably don't have to tell you but operating losses drain cash and that creates potential vulnerabilities particularly if you're taking on a major capital project because what we see very typically even in very successful capital projects that health centers days cash on hand goes down during that time period just because of the disruption of the capital project and the ramp-up time and hiring new staff before they're entirely productive et cetera.

Allison Coleman:

So the danger here is really the way operating losses as they sort of yo-yo back and forth really have drained this health center's cash. Now when a lender looks at this kind of uneven operating performance and the low cash reserves they might certainly think that a HRSA loan guarantee might help them get to yes on this loan that might otherwise not pass muster with a loan committee. So they would still be betting on your improved performance that you would certainly be wanting to make the

case to them that you would be able to operate in a more stable way in a new facility. They would certainly need to believe that that was the case. That you would be able to do that.

Allison Coleman:

But having the guarantee behind you just provides a little bit of an insurance policy in case things don't go as expected. So this is an example that a number of you said you had some concerns about. In this example, if you look at the column that says now, this is a health center that's basically currently operating at a level of provider productivity that equals the median nationally. So the median in 2017 of annual patient visits per provider was just over 2400.

Allison Coleman:

This health center had 19 providers and had average revenue per visit of $247. So you see in the new building that they are projecting, they want to add providers to go up to 25 providers. They're not really assuming that they're revenue per visit is going to change very much. What they're really assuming is that the provider productivity is going to go up significantly and in fact, this 3003 number is about the 75th percentile nationally.

Allison Coleman:

Now, this may be really feasible for this health center. Perhaps the project will allow them to have more exam rooms per provider and they have a well-developed team-based care model to manage a higher number of patients but they really don't have the space to do that. So it's not that this isn't a feasible scenario it's just that in this health center's case their success really requires that level of provider productivity increases. So that's what's really driving the fairly substantial increase in revenue that they are projecting after they get into their new building.

Allison Coleman:

Their expenses go up as well because they're adding staff but it's really the higher provider productivity that I driving the higher operating margin going from four percent now to six percent in the new facility and if you add back depreciation and interest expense basically you're adding back the cash that then would be available for debt service and with this health center if they can hit this productivity level they can also meet a debt service coverage ratio of 1.2 times.

Allison Coleman:

Now a debt service coverage ratio of 1.2 is not atypical for health centers we usually see it a little bit higher, about 1.25 times so this health center theoretically could meet these projections but this is a large project for this health center it's about a 25 million dollar project and they'd be taking on a 20 million dollar loan and really being able to meet this 1.2 times debt coverage ratio requirement will depend really almost entirely on being able to hit these much higher productivity targets.

Allison Coleman:

So this is a scenario in which again the lender is going to be looking and scrubbing the health center to make sure that they think that they have the leadership and the wherewithal and the capacity to achieve these better results but having a loan guarantee might very well get this health center a yes versus I don't know.

Allison Coleman:

So in this third example, I think if I'm recalling from the poll a couple of you may be in this scenario that you are concerned about the ability to recruit and retain providers. So provider recruitment is a national issue, not just in rural areas for sure but what we've seen in our experience is that providers in rural areas especially have this challenge.

Allison Coleman:

So in this example, a health center in a rural area wants to take out about an $800,000 loan to help them add about a 3,000 square foot addition to their facility that will allow them to add two more providers and they feel quite comfortable that they could support the additional 66,000 in debt service that they would add to their operating costs assuming about a five percent interest rate and a 20-year amortization.

Allison Coleman:

So they think that it's affordable but it's really, your only going to generate the additional revenue to support this debt if they can recruit and retain these two new providers. And it could create some risks to the health center if the recruitment process is slower than they had expected. So this is another scenario in which a guarantee might allow a lender to give a health center a little bit more leeway.

Allison Coleman:

It also might allow you to finance a little bit of working capital to help get you through and include that as part of the financing to help you hedge your bets in terms of the length of the recruitment period where you may need to carry this loan before you either have somebody onboard or if they come on board a little bit later than you had hoped.

Allison Coleman:

This is an example of a health center that's taking on a project that is pretty large as compared to their current operation. I want to talk through how lenders generally look at a health center's historic debt capacity. And the basic concept is that the more you can show a lender that you could have supported a sizable loan in the past the more confident the lender will be that you can support a sizable loan in the future.

Allison Coleman:

So it's basically if you don't need a loan that much the lender's always willing to give it to you have been able to show that your creditworthy for many years, they're going to be a lot more comfortable with making a loan to you today. So the way lenders think about this issue of debt capacity is that they take your net income and there's an error on this slide, it should say net income and then they add back depreciation and interest expense.

Allison Coleman:

And in their minds, they think, "Okay that's the amount of cash that the health center has available for debt service." And then they will not want a health center to spend every last dime of available cash flow on debt service. They will want you to have a little cushion in there so that, that's that debt service coverage requirement of around 1.25.

Allison Coleman:

So in the 2016 year for example, you'd take your $563,611 and you'd divide it by 1.25 and that that $450,889 is what the lender would assume you could have afforded to pay them. So then they will basically back into the amount of debt that that payment could support at various interest rates and at various amortization periods. This example shows at four, five and six percent interest and a 20-year amortization.

Allison Coleman:

And then they would look at that over say the historical three year period and if you were a lender you would say, "Well this example basically shows that a loan of around somewhere between four and a half million and maybe seven and a half million depending on the interest rate environment may be within the reach of this health center without a guarantee.

Allison Coleman:

But if this health center is seeking a loan of say $10 million, so significantly higher than what they could have supported in the past most lenders would be more comfortable in making a loan of that size with a guarantee just simply because the history of the health center's operations would not have supported a loan of the size of $10 million.

Allison Coleman:

A number of you had some concerns about operating in an uncertain revenue market and if we think about it, health centers are always operating in an uncertain revenue environment but I think that there are some specific risks now that are certainly cause for prudent concern. The shift to value-based care and reimbursement is just a major shift in how health centers are increasingly being paid or at least the thinking is that you will be increasingly paid on a value-based care model and that people are talking about taking both upside and downside risk and so the more risk you're taking on in managing your patient panels, the more that puts your revenue at risk, the more a lender will be concerned about that.

Allison Coleman:

In certain volatile operating environments, if there are very uncertain funding streams, some of the things going on in different states of Medicaid work requirements and things like that, that could cause a decline in your Medicaid eligible population that might disrupt some of your funding as I already stated to the extent that there are concerns about federal operating grants, all of those things create a more volatile operating environment.

Allison Coleman:

What we really saw during the bit downturn at the end of 2009 and big uncertainties just across the board we certainly saw lenders pulling back from whole sectors. So a lender might decide well we're too exposed in the health care sector so it might have actually nothing to do with risks to you, the health center but just to the entire sector, the health care sector can create that uncertainty so that a lender would just kind of step back because their risk profile across their portfolio is getting to be too high.

Allison Coleman:

So sometimes we see that happening. And certainly uncertainties about adding new sites or programs, state policy environment that may not be that friendly to health centers. All of those risks may make

lenders less than excited about making a sizable loan to you however that's exactly where a loan guarantee could be very useful to you in getting to yes.

Allison Coleman:

And finally, not many of you said this was of that much concern to you but I actually have to tell you that from our experience at Capital Link, this problem crops up in almost every single capital project that we work with, with health centers and this issue of the appraised value of your project.

Allison Coleman:

The appraisal value comes in at lower than the cost to build your building. So in this example on the left with the total project cost of six million, it's very often that it could cost you six million to build a facility but the appraisal is going to come in at say four and a half million and that's because you're located in low-income communities where real estate values may be depressed.

Allison Coleman:

You're creating special use facilities with a lot of sinks and special layout that is not easily converted to other uses. So for all those reasons the appraisals often come in low and if you're working with a commercial bank or a regulated banking institution they have regulations or regulators that basically say you can't make loans that are more than 80% loan to value.

Allison Coleman:

So 80% of an appraisal of $4.5 million is $3.6 million so the difference between your six million dollar project costs and your $3.6 million 80% loan to value is $2.4 million. Now, most health centers do not have $2.4 million hanging out on their balance sheet just being ready to put into a project.

Allison Coleman:

So what often happens in this scenario is that the lender, sometimes they can go a little higher than 80% loan to value but what they'll often do is take a lean on all of your assets or other assets beyond just the facility that your financing. Or they will require you to put more cash into the deal which you may not have.

Allison Coleman:

So the scenario with the loan guarantee is that the guarantee basically is adding collateral value to your project. So rather than only being able to make a loan of 80% loan to value, the lender may be able to make a loan of 95% or sometimes even 100% loan to value. Which greatly decreases the cash required from the health center and/or the other collateral that they will want you to pledge.

Allison Coleman:

And ideally, you don't really want to pledge all of your assets if you've got a number of sites and you want to leave as much of your assets unencumbered as possible because you never know when you may want to expand another facility or take on additional debt and you want to have assets to pledge to other creditors potentially in the future.

Allison Coleman:

So that's another example of where the loan guarantee can add a lot of value to your project. So now I want to shift more to talking about the process for applying for a loan guarantee. So it's basically a four-step process. Pre-application, application, application review and loan closing and I want to go through each of these specifically.

Allison Coleman:

So the pre-application consultation is not required but we do highly recommend that you take advantage of this. It's basically an early conversation between you and HRSA. It gives them an opportunity to understand what your plans are and to surface or identify any potential issues that may slow the approval process down.

Allison Coleman:

So they'll probably review with you any environmental issues that you may need to resolve. They will certainly look at just general eligibility. They will want to know your time frame so that they are making sure that they can be responsive when you do actually submit an application. So it's a good idea for you to have this conversation with them.

Allison Coleman:

So the way you initiate the process is outlined here in the slide, you would send an email to LGProgram@HRSA.gov and you'd provide this information of your name, the project scope, what type of construction activity, i.e is it new construction or renovation and is it a new site or a placement facility. Total project cost, how much you are intending to borrow and your potential lenders if you know them at that point. And then the overall timeline and status of your project planning.

Allison Coleman:

So you would send that via email, that would give HRSA a heads up that you want to talk to them and then they would set up an opportunity to meet with you probably by phone to go over your project. And so the link here is to the HRSA website, the part of the HRSA website that has this information on it.

Allison Coleman:

Now, notice that this is actually if you look at it, you need to be at least partway through your project planning process in order to really be prepared to have this conversation with HRSA and that really kind of gets to this slide which is the application development.

Allison Coleman:

So really even before you have the preliminary discussion with HRSA you need to have done some amount of project planning. And importantly in order to submit a complete application, you have to have a loan commitment from a lender. So as you prepare your application it really means completing the basic project planning processes that you would normally go through for any capital project and certainly the steps you would go through if you were going to seek a loan from a lender.

Allison Coleman:

This is clearly the longest segment of the process but the good news is is this is entirely within your control. And the goal in this step is really to do all of the things you need to do to get a commitment

from a lender. So that could include the following steps. A market assessment or at least having a good sense of who you're serving, what level of market penetration you have now if it's a new market.

Allison Coleman:

How large is this market? Is there competition in the market, et cetera. Certainly, you need to have site that's been selected. You need to have a project team which should include at a minimum some external partners including an architect and project manager and also there's an internal project team. Who within the health center is really going to be spearheading the project and it usually includes a couple of folks in the clinical side, folks on the finance side who really are spearheading the project internally?

Allison Coleman:

You need to have done significant work to really understand what is the new program that you're going to be offering in the space, what staff will need to be accommodated and from that you are basically doing space planning so that what you ultimately build or renovate will actually meet your needs. That initial work gets memorialized in architectural plans and engineering work.

Allison Coleman:

That's really when you start to have a sense of what will this project cost us. You need to have ultimately a well-developed budget including contingency line items to deal with any unforeseen circumstances. Ultimately you really need all of these aspects we've just gone through really are components of a business plan that really kind of lays out the rationale for the project.

Allison Coleman:

Who you're going to be serving, the details of the project as well as the plan of finance and the financial projections that are part of the business plan that show your seeking a loan from a lender how you plan to pay for it and to the extent you're taking on debt, provides enough information so that the lender can see that there's a good chance that you'll be able to repay that debt.

Allison Coleman:

And finally in order to submit a complete application to HRSA you need to have a lender identified and to have negotiated a commitment letter from that lender and it's really in order to then submit the application, these details are still being finalized by HRSA but this is what we understand will be the process at this point.

Allison Coleman:

Certainly, the health center that will initiate the application but the lender will also be required to submit information to HRSA. So typically you as the health center would request that HRSA consider a loan guarantee for you, you would submit your loan commitment letter that you've negotiated and signed with your lender that would outline the terms and conditions of the proposed loan.

Allison Coleman:

That letter can certainly be subject to approval of the guarantee but HRSA wants to see what will the loan look like that the lender would be willing to provide. And likewise, the lender will need to submit their credit review memorandum together with your business plan and the financial projections they

used for underwriting the loan. And then they also will need to submit to HRSA a statement that outlines the better terms and conditions that they are able to offer you as a result of obtaining the guarantee.

Allison Coleman:

So while there's still details to be worked out into exactly what gets submitted through EHB versus gets sent to different folks at HRSA directly, this is what we think the basic process will be. When it comes to HRSA's review HRSA has I think one of the major changes from if you will the old guarantee program that kind of fund set is that in the new program HRSA is really working to greatly streamline their review process.

Allison Coleman:

And they're doing that by relying heavily on the lender's due diligence. So HRSA's lender coordinator working with staff at HRSA will essentially act like a senior credit officer at a bank. They will review and approve the underlying due diligence that's been conducted by the lender but they will not start over from scratch. So they're really trying to avoid the double underwriting process that sometimes occurs with guaranteed programs.

Allison Coleman:

So they are working hard to ensure at least a maximum 60 to 90-day review process. They hope they might be able to get it down to be on the very short end of that but that certainly will assume the receipt of a complete application from you. But the goal is to give you either an approval or a disapproval within 60 to 90-days at the outside.

Allison Coleman:

And then with respect to loan closing, the lender will entirely manage the loan closing. They will use their own loan documents which is a change from the prior program that should cut downtime and legal costs associated with negotiating documents with HRSA. The required HRSA documents will be very limited in number and they will be in standard form.

Allison Coleman:

And as with really any loan there's very likely to be appraisals and environmental reports that will generally be required. And then once the loan closes the lender will basically manage the loan as it would any other loan in its portfolio. Your back and forth relationship is really with that lender and not necessarily with HRSA and the lender will be responsible for reporting periodically to HRSA regarding the status of the loan.

Allison Coleman:

So available technical assistance. HRSA has charged Capital Link through our national cooperative agreement with HRSA with helping to develop a robust pipeline of health centers that are applying to the Loan Guarantee Program. And certainly NACHC is assisting with this effort by offering this webinar training today and by supporting some individualized assistance to health centers that are interested in participating on this webinar and the next one coming up.

Allison Coleman:

So that means that every health center attending today's webinar is eligible to receive a half-hour free consultation supported by NACHC. In addition, for those that need more than a half an hour of talking through your project Capital Link can also offer another four hours of assistance through our national cooperative agreement with HRSA without charge to you.

Allison Coleman:

So the point of that is to really give you general advice and assistance regarding your eligibility, your readiness, looking at your debt capacity, your financial trends. Looking at sort of the risk evaluation that I've just kind of walked you through helping you understand whether it would make sense for you to apply and basically helping to point you in the right direction to get started on your loan guarantee application.

Allison Coleman:

For a longer duration of assistance beyond basically the four actually, really four and a half hours with the additional half-hour that NACHC is supporting. While our funds from HRSA last Capital Link does have a limited pool of resources to support longer duration assistance beyond four hours. So for example, several centers we're working with now have taken on pretty complex projects involving new markets, tax credit financing and they need substantial guidance through this process.

Allison Coleman:

They are also planning to apply to the HRSA Loan Guarantee Program. So while a portion of the assistance that we're providing to these health centers is fee based right now in a window of time, I don't know how long that window will be open. We do have sufficient resources to basically allocate a portion of our HRSA cooperative agreement to support certain aspects of your planning process that may be as part of a larger engagement based on your health center needs.

Allison Coleman:

So for example, we might be able to support the cost of doing financial projections or helping you develop your preliminary program and staff and space plan or help you look at your market. Things like that. Discrete pieces that are required as part of the application that we may be able to support through our cooperative agreement essentially as long as funds last.

Allison Coleman:

These resources will be allocated according to a variety of factors but most importantly including your interest in moving ahead rapidly with a loan guarantee application. So they'll be some contact information at the end of this presentation, you can get in touch with us if you're interested in either a shorter or longer duration of assistance. We will ongoingly be posting new resources for loan guarantee applicants at the link here on our website.

Allison Coleman:

And also while you are there please check out the range of free resources that we have available on our website. They're quite extensive covering really most aspects of planning for a capital project, how to develop a project team, developing a business plan for a capital project. Looking at facility aspects of meeting PCMH requirements, how to build your capital needs within your strategic planning processes.

Allison Coleman:

How to engage your community in supporting your capital project. All kinds of things like that. Lots of information on the new market's tax program. I meant to say earlier and I don't think I did. One of the really positive things about the HRSA Loan Guarantee Program is that it can be used with the new market's tax credit program and in fact, the old HRSA Loan Guarantee Program was used pretty extensively for that purpose.

Allison Coleman:

So for those of you who are thinking about new market's tax credit financing, you could pair it with a loan guarantee and then they will go together quite well. Unfortunately, I would also like to just mention that the HRSA Loan Guarantee Program cannot be used within conjunction with tax-exempt bonds but it can be used with respect to virtually any other kind of loan that you might get from a commercial bank or from a community development finance institution.

Allison Coleman:

It needs to be technically a non-federal lender which basically translates into it can't be tax-exempt bond financing. So check out those resources and feel free to avail yourselves of them and they are downloadable free on our website. So now, I think Phillip and April want to open the floor for questions. We can take questions now and again as I mentioned earlier also on May 16th. I don't know whether we've got questions queued up through the chat or not?

Phillip Stringfield:

Yes, it does look like we do have a few questions. So the first one was many of us have short term cash needs pending cost settlement for example. Are there any guarantees for non-capital short terms lines of credit?

Allison Coleman:

I think the answer to that unfortunately, is no. If you have a broader capital project, as I mentioned you can include some amount, at least a sort of unspecified amount but it can't be the major component of your project I wouldn't say. But you can include some working capital as part of an overall facility financing and that could help with some of these cash flow issues but if it's really just a guarantee on a line of credit that I think would not be eligible.

Allison Coleman:

However, if you want to talk with a Capital Link project consultant about ideas about how you might either get a better line of credit or an extended line of credit et cetera, not related to the HRSA loan guarantee we're happy to talk with you about that. Not as a loan guarantee project but just in general as a capital access question. We'd be happy to give you our thoughts on that.

Phillip Stringfield:

All right, thank you so much for that. The second question is what are normal interest rates or range of rates for LGP loans?

Allison Coleman:

Well, the answer to that is it really depends and that's going to be the negotiation between you and the lender. I think part of what HRSA, you may have noticed as part of the requirements for the complete application submission is the lender has to make a statement to HRSA basically outlining what the improved terms and conditions are that they are able to offer you as a result of having the guarantee.

Allison Coleman:

So I would say the way you really want to play this is as part of your negotiation with your lender. So you would be saying to them, "Look I have the possibility of applying for a guarantee from HRSA." And provide them with details of what that actually means to them in terms of the 80% guarantee and they will want to have information on how that guarantee can be called et cetera. But then you basically say to them, "Look what can you give me as a result of me giving you this 80% federal guarantee on this loan?" And then that's really a negotiation that they will have to disclose to HRSA.

Allison Coleman:

You know are they able to give you a lower interest rate. I mean it's not a... You know this is whereas I was talking earlier about every individual lender is going to assess your particular risk issue. Or your particular project and evaluate the risk that they see in that project. So really every health center is going to be situated a little bit differently in that negotiation but I think every health center that is applying for the Loan Guarantee Program should use it.

Allison Coleman:

I mean it's a great benefit to a bank to have basically an 80% guarantee that they will get their money repaid is a lot better than not having a guarantee so you should be able to get something from it. So I'm not really able to say it should reduce your interest rate by x percent because that's really very dependent on what the issues are.

Allison Coleman:

And for some of you, I want to just... Some of you may be able to negotiate a lower interest rate because of your reasonably good credit but if you've had operating losses or some of the riskier scenarios that I kind of walked you through it really maybe it's not really your interest rate that gets better it's the fact that you get a loan at all or that you have much better terms and conditions on that loan or lower collateral requirements or things like that. So it really is going to be an individual negotiation.

Allison Coleman:

But part of I think how Capital Link may be able to help you think about what's your strongest negotiating position with your lender, that is certainly part of the technical assistance that we can offer you both either through the short term assistance or the longer-term assistance that I went through a couple of minutes ago.

Phillip Stringfield:

All right. So we do have quite a few questions. So the next question is, how does the loan guarantee with HRSA differ from USDA's?

Allison Coleman:

It's actually I would say interestingly increasingly similar and part of how HRSA updated its Loan Guarantee Program is to look at the structure of the USDA Loan Guarantee Program. Their specific technical issues, the way the USDA guarantees a structure that allows the loan to be participated more easily to multiple lenders so it's more liquid so it adds some value to lenders.

Allison Coleman:

So there's some technical things that they are taking a look at in finalizing the revamped HRSA loan guarantee documents. I would say probably the major difference is just that HRSA knows health centers better than USDA does. So I think you will probably be doing less explaining to USDA what is a health center.

Allison Coleman:

And the other thing I would say about USDA, not to knock USDA, I think they're a fabulous resource and certainly their direct loan program if you are in a rural area and are eligible for their direct loan program that program is really hard to beat nationally. It's very low-interest rates, a very long term fixed rate money but it's not always available.

Allison Coleman:

The other challenge with USDA is that there really are 50 USDA's. I mean there's basically a USDA office in every state. Each of them is, I mean they sort of have common programs but in many cases, our experience with them is that they operate pretty differently and I think some health centers have had a great experience working with USDA in their states and it's a pretty streamlined fashion and I will say that other health centers in other states have found it a much more bureaucratic process that can be quite lengthy and not as helpful as has been the case in other states.

Allison Coleman:

So I would say the biggest benefit of a HRSA guarantee is you are a known quantity to HRSA so they know health centers and also HRSA is really in revamping and redoing its internal processes it's really working very hard to streamline their processes and the 60 to 90-day process for a federal approval is quite short and I'm not sure you would find that as much the case with at least some of the USDA offices that I have been familiar with.

Phillip Stringfield:

All right. So the next question we have is if we are refinancing an existing debt with the funding for this project is the whole amount eligible for loan guarantee or only the new funding?

Allison Coleman:

This is something that would be definitely worth talking about with HRSA in the pre-application phase. Refinancing is technically an eligible use of the Loan Guarantee Program. My understanding is that HRSA does not want to do just straight refinancing.

Allison Coleman:

But it's important for you to be able to refinance existing debt on a facility so that you can, let's say you're adding on a site, I'm sorry adding an addition on to an existing facility so you're going to increase capacity, you're going to have new project costs in addition to needing to refinance the loan because

you need to be able to pledge the collateral to a lender and often a lender will essentially require you to refinance an existing loan on the facility in order for them to provide you with financing.

Allison Coleman:

I think that that is something that HRSA would probably be more open to but right now my understanding is that they have not put a hard and fast percentage that refinancing can't exceed x percent of your total project cost but I'm quite sure they do not want to do 100% refinancing deals.

Allison Coleman:

The Loan Guarantee Program is supposed to make new capital available to health centers to enhance their capacity going forward and so I think that they would want to see some new capacity built as a result of the financing that they would be guaranteeing.

Allison Coleman:

But HRSA may come out with more firm guidance on exactly the maximum proportion that they'll allow to be refinanced but at this point, I think it's open for discussion and I think the more that you have new project costs in addition to refinancing probably the better your prospects of getting an approval for that.

Phillip Stringfield:

Okay so is there any restriction on use with a project that includes brownfields remediation?

Allison Coleman:

I do not believe... There would almost certainly be the requirement that the site be remediated of the environmental issue but I'm not aware of any exclusion and in fact, my sense would be precisely the opposite. If you project was in the process of building your health center you are going to be cleaning up an environmental problem using their brownfields tax credits.

Allison Coleman:

There are different brownfields resources to assist with the costs of doing that. I do not think that that would be an issue though I do think and I would assume that you would want this as well as the health center that as part of the project the site would probably need to be fully remediated.

Phillip Stringfield:

Okay. Is a subsidiary company of an SQHD eligible to apply for the LGP?

Allison Coleman:

So a section 330 health center has to be the borrower. This might be a good example if you're able to attend the May 16th call and can provide us with a little more detail on the nature of this subsidiary et cetera that would be useful to know. Then I think we'd be able to answer your question more specifically. In new markets tax credit structures, there are typically special purpose entities that are set up as part of the new market's tax credit structure that can have... Basically that the health center owns a special purpose entity.

Allison Coleman:

So there are ways and we have used the Loan Guarantee Program with new markets successfully and these special purpose entities can be incorporated into the structure but I would really need to know more specifically the nature of the subsidiary but in general, it really needs to be a health center sponsored project. So the more the subsidiary is not the section 330 health center I think the less likely it would be to be eligible.

Phillip Stringfield:

All right, thank you. Is there a minimum amount that needs to be met to qualify for a loan guarantee?

Allison Coleman:

No there is not. It's actually one of the great things about the guarantee makes it quite flexible. There is not a minimum loan size that's a requirement. Minimum or a maximum for the program. It really is designed to try to meet you where your needs are. Whether it's a relatively small need or a larger need.

Phillip Stringfield:

All righty. Is there a loan term requirement for the LGP? Could we do a 30-year loan under the LGP?

Allison Coleman:

There is not written into the statute a limit on the length of the guarantee. I know in the old guarantee program there were guarantees that went out as long as 20 years. I don't know whether HRSA would approve a 30-year guarantee. It might theoretically be possible. I think it would depend on the asset you're financing, you'd probably have to make the case that the useful life of the facility was at least 30 years.

Allison Coleman:

Lots of lenders frankly aren't that thrilled about a 30-year amortization they'd be more comfortable with say a 20-year amortization. But I do think the term of the guarantee can match the term of the loan in general. I think it's really just a question of whether 30 years would be too long from HRSA's perspective but I know for a fact that they have done 20-year term guarantees for sure. And again, this would be something that I think you would want to raise with HRSA at a pre-application conference call.

Phillip Stringfield:

All right. So this next question for additional clarification. So just to confirm that LGP is not tangible funds but are promised to cover us if we should default?

Allison Coleman:

Can you say that... you sort of broke up. Say that again Phillip.

Phillip Stringfield:

Just to confirm, the LGP is not tangible funds but a promise to cover us if we should default?

Allison Coleman:

That's correct. So this is not a direct loan program nor is it a grant. What it basically says is it says to a lender you make a loan to a health center and if the health center defaults and can't pay that loan you

can turn to us, HRSA and we will repay you 80% of the amount that you lent to the health center. Now, very likely the lender is going to go after the health center for the remaining 20% because they ideally want to be made whole but it is not a direct loan. It's not HRSA making a loan to you, nor is it HRSA making a grant to you. It really is a guarantee on a loan that's made by a third party lender to your health center.

Phillip Stringfield:

Thank you for clearing that up. So the second part to that question, are the centers still responsible for any accrued interest in the LGP?

Allison Coleman:

Is the health center responsible did you say?

Phillip Stringfield:

Yes for any accrued interest.

Allison Coleman:

So if you think about your project costs as sort of the bucket of costs that you would be financing starting out, lots of times if you are construction a project there will be basically a reserve set aside that's called something like interest reserve during construction or sometimes called capitalized interest.

Allison Coleman:

It means that you basically borrow funds that you set aside and during your construction period those funds pay the debt service, that usually in a construction period interest only during the construction period. So that is quite typical for construction loans to have a capitalized interest piece and yes you can include that as part of a loan that you would have a loan guarantee on. I think that's what the questioner was asking about and if not put in another question.

Phillip Stringfield:

Thank you. So this next question I believe is a follow-up to the brownfield remediation question but it's a little choppy so bear with me. It says what if the project included the brownfield remediation, tax credits, no good for non-profit SQAC?

Allison Coleman:

If you're asking about brownfields tax credits we've certainly worked with health centers that have used brownfields tax credits. Non-profit health centers that have used brownfields. You have to structure any of the tax credits whether its brownfields or new market tax credits or historic tax credits have very specific and often fairly complex structures that basically are sort of the mechanism by which you deliver the tax credit benefit to the health center.

Allison Coleman:

But there are definitely ways of getting tax credit proceeds and benefits to non-profits because it's not the non-profit that's taking advantage of the tax benefit as a non-taxable entity. Basically what these tax credits are doing is providing an incentive to investors to put money into either your project or to

remediate brownfields environmental issue and they get repaid at least in part through tax credits that they take.

Allison Coleman:

So they put money into the project, they get a tax benefit out of it. So the non-profit can benefit from these tax credits even though you are not a taxpayer per se. And again this may be a pretty specific question that if this health center wants to talk through their specific project you can either ask some more questions on May 16th at the second part two of this or you can shoot me an email and I will get you set up with one of our project consultants who can help you think through what type of structure might work for you to take advantage of these various federal and sometimes state benefits that are available through tax credit programs.

Phillip Stringfield:

Awesome thank you so much, Allison. So the last question that we have, does the LGP result in a notice of federal interest on the guaranteed project?

Allison Coleman:

That's a really good question. I think that I have a question for HRSA to clarify into HRSA to clarify this as well. I think that it does not because if you think back to when HRSA had capital grants available and they would basically give you a grant and require you to file a notice of federal interest that was because HRSA was putting cash into your capital project.

Allison Coleman:

The loan guarantee is not cash into your capital project. It is simply a guarantee. So I believe that the... I'm still waiting for HRSA's response on this but I believe that it would not trigger a notice of federal interest if you used a guarantee. Now you may be using a guarantee on a facility that has a notice of federal interest on it because in the past there has been federal capital dollars invested in that facility but I don't believe the guarantee per se would trigger a notice of federal interest.

Phillip Stringfield:

Thank you and I don't believe I see any other questions.

Allison Coleman:

If not then I will just move ahead to maybe the next or the final slide before contact information is to just remind you of part two of this HRSA Loan Guarantee Program will be, and we'll probably do a really quick high-level summary again of the HRSA Loan Guarantee Program if there are other staff members at your health centers that you would like to have attend this, we'll probably give just a thumbnail sketch of the program, not anywhere near the length that I did today but just to orient us again to what the guarantee program is and really this is meant as basically office hours.

Allison Coleman:

Bring your questions, your specific questions. I'm hoping though I guess Phillip may have to tell me if it's possible, I'm hoping that we might be able to open people's lines so that we could actually have a dialog back and forth about specific project questions that you might have and we'll be addressing specific questions but I think other health centers even if you're not asking that question you may be able to

learn quite a lot just from hearing how other health centers are thinking about their projects and hearing the response to the questions.

Allison Coleman:

So I really invite you to bring your questions on May 16th, your specific questions about your project. Try to answer them in real-time and before we get off today, I did have a final poll question here which is open-ended. Which if there are specific questions that you would like us to address on May 16th, I will be on the call as well as some of my other Capital Link colleagues.

Allison Coleman:

We will be there to answer your questions. So feel free to let us know what topics you would be interested in us addressing in more depth on May 16th and you can do that as we're getting ready to close up this call through answering this poll. It's open there on the right. And I don't know Phillip whether you're able to just kind of leave that open for a little bit or whether that's going to close also in 45 seconds but the very last slide I have here is contact information.

Allison Coleman:

You're also welcome to shoot me an email, there will also be an email for Capital Link's director of advisory services, Johnathan Chapman who manages our project consultants at Capital Link located in six states and either you can ping him or me and we will get you follow up from one of our staff and we will attempt to also gather questions and answer them on May 16th from 2:00 p.m. to 3:30 p.m. Eastern.

April Lewis:

Allison thank you so much for the great presentation. To our participants thank you for your engagement. We will leave the webinar open for a few moments so feel free to respond to either the poll or put it inside the chat or Q and A box and we'll make a copy of it as we prepare for the May 16th segment.

April Lewis:

Again as Allison said, I'd like to echo, reach out if you have any questions about the program or any questions that we can answer in general or to schedule your consultation. Allison if you want to advance to your next slide, the email addresses will be on your screen and we look forward to you all joining us on Thursday, May 16th at 2:00 p.m. Eastern Standard time. Have a wonderful rest of your day and thanks for everything that you do.