Phillip Stringfield:

Good afternoon, everyone. Thank you for joining part two of our webinar series, Demystifying HRSA's Loan Guarantee Program. My name is Phillip Stringfield, Specialist, Health Center Operations with NACHC, joined by my colleague April Lewis, who serves as the Director of Health Center Operations in HR training. Today, we are joined by Allison Coleman, executive director with Capital Inc., who will provide a brief overview of part one's webinar, in addition to providing details on acquiring and utilizing capital funds, in addition to answering your specific questions on the program.

Phillip Stringfield:

Before we get started, I wanted to remind everyone of a few general housekeeping rules. If you have a question or comment related to today's presentation, please use the chat in our Q&A function to the right of your screen, and we will make sure to get the question answered for you. If you would like to have direct engagement with today's presenter, and have a more specific question you'd like to address, please raise your hand using the Q&A functions as well. We will make sure to have you unmuted, so that you can have your questions answered. Just please make sure your audio is connected in order to do this.

Phillip Stringfield:

So today's webinar will be recorded and sent to those who have registered within two weeks of the close of today. And at the conclusion of today's webinar, you will also receive a link to a survey. So we'll just ask for you to please take a few moments to complete that. It'll come directly from WebEx.

Phillip Stringfield:

So without further ado, I'm going to go ahead and hand it over to Allison to get us started with today's webinar. Allison?

Allison Coleman:

Thanks, Phillip, and good afternoon and good morning, everyone. Thanks for joining today's call. This is, as Phil mentioned, this is part two of a two-part webinar training on the HRSA loan guarantee program. I am going to, at the beginning of this session, do a very quick recap of part one, just to remind people about what the loan guarantee program is, and how you apply. Just take about 10 minutes to remind everyone on the call and if there are people on the call who weren't able to come to the first session, it will just help to orient us.

Allison Coleman:

But really, the majority of today's webinar is meant to be questions and answers. I have received various questions from health centers and PCAs across the country that I can use to fill in, if those on the call take a while to put your questions in. But I invite you to think about the questions that you have, as we quickly go through an overview of the program. I'm delighted to answer your questions that you put in either written via the chat or as Phillip noted, you can certainly, we can have an actual conversation. You can be unmuted and we can discuss your specific project questions.

Allison Coleman:

Without further ado, just quickly to make sure that you know who we are, as Phillip said, I'm the CEO at Capital Inc. We are a nonprofit organization, we're celebrating our 25th anniversary this year. And for most of that time, we have been a HRSA cooperative agreements partner, working specifically with health centers nationally, helping them to plan and obtain financing for building and equipment projects.

Allison Coleman:

We have staff in six states and we've helped health centers leverage more than $1 billion in financing, representing the physical facilities of about 10% of current health center facility space nationally. We have four main areas of our business. The first is planning, helping health centers basically plan for sustainability and growth. Very often, that planning is associated with moving ahead to access capital for a building and equipment project. That's the main area where we also receive HRSA support.

Allison Coleman:

We also have a large database of health center audited financial statements and UDS data, so we do a fair amount of work with health centers, helping them providing analytics and tools and trainings around using comparative data to improve financial and operating performance. We also do a fair amount of work with health centers, helping them to articulate their value, through value and impact analyses that they use to help leverage funds from a number of sources.

Allison Coleman:

Today's topic is the HRSA loan guarantee program, and quickly, the recap that I want to provide you with to just remind you of the parameters of this program. It is not a brand new program. It was originally authorized by Congress back in the late 1990s.

Allison Coleman:

However, it's really getting a new lease on life, as a result of a new appropriation that Congress provided to HRSA in 2018, which has allowed HRSA to both update and modernize the program, and now has capacity to provide guarantees on almost 900 million in new loans to health centers.

Allison Coleman:

The guarantee covers up to 80% of the principal amount of loans made by what are known as non-federal lenders. Now, a non-federal lender is basically any kind of bank or community development finance institution known as CDFIs. Basically, a very broad range of lenders are eligible.

Allison Coleman:

The one major exception to this is the guarantee cannot be used with tax exempt bonds. So, tax exempt bond issuers are not eligible lenders under the program. But I want to emphasize that this is a guarantee. HRSA is providing a guarantee, not a grant and not a direct loan itself. So it requires you to basically go out and get a loan from a bank and then HRSA guarantees the loan.

Allison Coleman:

And what that does is it mitigates the risk to lenders. So what it's doing is it's allowing lenders to either make a loan that they otherwise couldn't make, because if you don't meet their minimum underwriting standards. Or, even if they would make a loan to you, it allows with the guarantee, it allows them potentially to provide improved terms and conditions that they can offer to you because of the presence of the guarantee.

Allison Coleman:

In terms of eligibility, you must be a Section 330 funded health center. Unfortunately, look alikes are not eligible for this program. Many types of projects are eligible. The legislation specifically talks about medical facilities operated by a health center but HRSA has a very broad definition of medical facility, and basically is interpreting it as any facility that's consistent with the health center scope of projects.

Allison Coleman:

So, it could be a medical or a dental, behavioral health, substance use, it could be a PACE center, pharmacy, enabling services, administrative offices, call centers. Basically, any piece of your operation that is part and parcel of your scope of project would be eligible.

Allison Coleman:

In addition, most capital related costs are eligible. So that would include purchasing of land or buildings, renovations and new construction costs, equipment and fit out costs. But there are some limitations. HRSA is fine with allowing equipment costs to be included as part of a larger project. But the guarantee cannot be used for equipment only projects.

Allison Coleman:

HRSA is also willing to allow a limited amount of refinancing of existing debt. They're still developing their policy on this. My general sense is that they do not expect to use the guarantee program for projects that are only refinancing of existing debt. Although I guess there might be extenuating circumstances which they might even consider that, but in general, I think that the desire is to... if you do need to refinance an existing debt, that you also have new project costs that you are financing.

Allison Coleman:

You can include capitalizable pre-development costs, such as architectural fees or consultant fees that you need to hire as part of your capital project. You can also finance, include in the loan capitalized interest during construction, so that you don't have to basically make interest payments on your loan before you're in your new facility. There's also a limited amount of working capital that can be used and that can be added to the financing, to help you carry the capital costs during a startup phase.

Allison Coleman:

Another feature of the program is that there's no maximum or minimum size of loan that is eligible for the guarantee. And importantly, there is no fee for this guarantee and that's really an excellent and unique part of this program. All other federal guarantees of which I am aware do carry a fee with it, this one does not. And that's a real value to health centers.

Allison Coleman:

There's a four step process for applying to the loan guarantee program and I'm going to quickly run through them. The pre-application process is optional, not required, but still highly recommended. It basically is the opportunity for you to have a conversation with the folks at HRSA who are running the loan guarantee program, that gives them a heads up about your project and your intention to be moving towards an application. And it allows you to hear directly from HRSA, whether there are any concerns, initial concerns that your project raises for them.

Allison Coleman:

And there may be special issues, perhaps environmental issues or other things like that that need to be discussed and thought through. Just to make sure that there aren't snafus down the line as you... and trying to basically smooth the process going forward.

Allison Coleman:

So the process for requesting the pre-application consultation is included on this slide, and you'll see that it's some pretty basic information about your project, but it does require you to have done some planning on the project to date. In particular, it's pretty difficult for you to have a very good idea of total project costs until you have at least begun your architectural planning processes, until you really know what you're going to build. It's hard for you to know exactly what it's going to cost and it's hard for you to begin thinking about your financing options, without again having at least a ballpark idea of the overall size and cost of the project and its basic scope. But once you have that basic thing information together, you can put in a request to HRSA. And then they will be back in touch with you to schedule the pre-application consultation.

Allison Coleman:

For the application development and submission, there are really a lot of this portion of the quote application process, is really the planning process that you need to do, regardless of the source of funding for your capital project, and not necessarily specific to the loan guarantee program. So all of the typical things that you would do when planning a project, you would probably look at your market to make sure that there was a market need there. You would select a site, you would develop a project team, including both folks from inside the health center who were helping to manage the project as well as outside consultants, like architects and engineers and project managers, et cetera.

Allison Coleman:

You would have conducted your internal program staff and space planning, so that you really had a good sense of what is it that you wanted to build or renovate within your current space. You would have, be well along in your architectural and engineering work. So you knew exactly what you wanted to build. You would have a project budget, you would have a business plan. If you're seeking a loan, you would most certainly need financial projections to help make the case to the lender that you would be able to repay the loan. And so then you really need to be identifying lenders and negotiating with those lenders.

Allison Coleman:

The first bullet point here, I've gotten a couple of questions about. I am going to address it more specifically in the Q&A section, but a component, a key component of the actual application that you will submit to HRSA is you need to have a loan commitment from a lender. I'm going to come back to that a couple times in this conversation, but that is a formal part of the application.

Allison Coleman:

HRSA is still finalizing its guidance to put out to the field, but from conversations that we've had, working closely with the loan guarantee team at HRSA, at least our current understanding that the health center will very likely need to initiate the application. I believe there is work being done to set up a process whereby you can initiate an application through EHB. And so that your application is that you basically are initiating it, you're requesting that HRSA consider a guarantee for you. You would most likely need to submit your loan commitment letter outlining the terms and conditions of the proposed loan which may be subject to the guarantee. But HRSA wants to know, what is the loan that you're asking them to guarantee?

Allison Coleman:

And then there also are likely going to be documents that the lender itself will be submitting as part of the application, including HRSA wants to see the lender's credit memorandum. Basically, their writeup about the loan and their underwriting, your business plan that they've used to underwrite the loan. So that HRSA can see how they have underwritten you as a credit.

Allison Coleman:

They will also require from the lender a statement that outlines the better terms and conditions that the lender would be able to provide you, as a result of the guarantee. And that actually offers you a key opportunity to negotiate the terms and conditions of the loan and again, I'm going to get back to that in the Q&A section because that's an important feature that you need to understand. But that's basically the application. Some information from you and information from the lender.

Allison Coleman:

Then, when it's complete and goes to HRSA for review, one of the key ways that HRSA in my opinion is working very diligently to improve the program, is that they expect to rely heavily on the lender's due diligence process to streamline their review process. So rather than having your lender conduct a separate due diligence and having HRSA conduct its own separate due diligence, HRSA has asked to see the lender's due diligence, so that they do not have to replicate the same due diligence. That should streamline the process.

Allison Coleman:

And HRSA will essentially be reviewing the lender's credit memo and acting similarly to a senior credit officer, just reviewing what's already been done. Certainly, they may have thoughts and opinions on that, but they're not redoing work that's already been done by the lender. HRSA has committed to generally making a determination of approval or disapproval on the application once it's complete within 60 to 90 days.

Allison Coleman:

Once HRSA's approval, hopefully, approval is granted, then the process moves to loan closing. And this is another area where I think the new and improved program will be much more streamlined than the original program was. The lender will be managing the loan closing using the lender's standard loan documents and security agreements. That is much to the liking of individual lenders, and was one of the main areas of kind of challenging negotiations in the old program. There were set documents that lenders had to use and that created some challenges.

Allison Coleman:

As there would be really literally for any loan closing, there will likely be appraisals and environmental reports that will be required that, again, that's not unique to the loan guarantee program. That's just unique to loans in general. And the actual documents that HRSA will be signing, we expect will be quite limited in number and in standard form. So that should also streamline the process.

Allison Coleman:

And essentially the lender will manage the loan closing process and then will proceed to manage the loan itself as it would any other loan in its portfolio. It is the expectation that the lender will need to report periodically to HRSA regarding its status, but that your back and forth and relationship is essentially with the lender. And hopefully, the loan guarantee is never called upon. So your back and forth with HRSA is likely to be quite limited once the loan is closed.

Allison Coleman:

In terms of available technical assistance for the program, excuse me, as HRSA's national cooperative agreement partner Capital Inc. has been tasked with working to both educate health centers and lenders about the program, and also providing assistance to individual health centers regarding applying to the program. So they're really two forms of direct one-on-one assistance that we can provide to you. We have a bucket that we call short duration assistance, which is basically anything under four hours, we can provide you with general advice and assistance and help you think through your project and get going in the right direction. And that's all paid for through our HRSA cooperative agreement.

Allison Coleman:

Some health centers may have more complex projects or need more assistance. Excuse me, Capital Inc. is available for that. But really, that's sort of individually negotiated, excuse me, based on the needs of individual projects.

Allison Coleman:

My apologies, I'm recovering from a cold. Excuse me. So sorry. I'm going to step out and get one of my colleagues to get me some water. Sorry. So sorry.

Allison Coleman:

In any case, I did want to say that as part of our HRSA cooperative agreement, Capital Inc. does have, excuse me, a pool of resources that, excuse me, that we can apply to certain technical assistance projects for individual health centers That are applying to the guarantee program. Excuse me. It's a limited pool and I encourage you to contact me or Jonathan Chapman at the end of this call, if you're interested in being considered for that.

Allison Coleman:

There are, excuse me, a number of free resources on Capital Inc.'s website, cover a range of topics that many health centers need assistance with, as they are moving ahead with capital projects. I invite you to check these out. They're all free. You can download them on our website.

Allison Coleman:

And now we will move ahead to the Q&A part of the session. I'm going to take a few sips of water, so I can talk a little better than I can right now, as you are adding your questions to the chat box.

Phillip Stringfield:

All right, everyone. So we'll give you all a few moments to put your questions in the Q&A. And as we stated before, if you'd like to have more direct engagement with Allison, feel free to raise your hand and we will make sure to unmute you. Just make sure your audio is connected, so that way we can hear you. So far, we have one question out there, so just let us know once you are ready.

Allison Coleman:

Sure, go ahead Phillip.

Phillip Stringfield:

The first question is, can you discuss the use of the guarantee program for an in NMTC refinance? In parentheses, it won't be until 2021.

Allison Coleman:

Sure, that's a good question. I think that this is one that you will definitely want to address with HRSA through the pre-application process.

Allison Coleman:

For folks on the phone who may not be aware, a new markets program has, and what we call an unwind, at the end of seven years where the new markets structure basically goes away. And very often, there is a need for refinancing debt at the end of that seven year period. It's not clear to me at this point whether HRSA will consider that a straight refinancing and then hence might not be open to that.

Allison Coleman:

It's a little bit different than a typical refinancing in a number of ways. My sense is that it may be something HRSA is willing to consider, but I think you'd need to deal with it directly through a conversation with them. It theoretically would be eligible, but I know that it's HRSA's desire to mainly use the program for new capital needs, as opposed to simply refinancing.

Allison Coleman:

You might think about whether you have other capital needs that would coincide with that new markets unwind. Because it might be that the project would be better received if there was at least some new capital need that was being addressed beyond simply the refinancing. Did I get the... excuse me.

Phillip Stringfield:

Yup. So the next question that came in, looking for a little bit of clarity on, it says it appears that HRSA health center loans are very similar to USDA loan guarantee direct or guarantee/direct question mark?

Allison Coleman:

Well, it is actually, HRSA has been going through an internal process, reviewing the loan guarantee program and making changes to it. I know one of the programs that they've looked at very carefully as a model for the new and improved HRSA loan guarantee program is the USDA guarantee program. I do think that there will be similarities between the two programs.

Allison Coleman:

I would say that I think one of the differences and probably an important difference is that HRSA really knows health centers and this is a program specifically for health centers. Depending on your relationship with your USDA office and each state basically has its own USDA office, you may find it easier to work with HRSA on a loan guarantee than USDA. But I can't say that across the board. There may be, if you've got an ongoing relationship that's positive with your local, your statewide USDA program, it could be that that guarantee program would be a good fit for you.

Allison Coleman:

Actually I think that the USDA guarantee program has a fee attached to it. So that might be one specific thing that would be a little bit more favorable than the HRSA loan guarantee. But I do think that there will be, part of HRSA's goal in reviewing the program process is to make it more similar to other federal guarantees. Because they really found that the market acceptance is better with lenders, if the guarantee is more similar to other guarantees.

Phillip Stringfield:

All right. This one says I've done a CAH loan guarantee. So transactionally, I'm looking for similarities. Our project is not USDA eligible. That was a follow-up to the question.

Allison Coleman:

Yeah, so this would be, and for those of you on the call who don't know, the USDA guarantee program is called the Community Facilities Program, and it's typically available to health centers in rural communities with populations of 20,000 or under. So there are certainly health centers that are in those locations, but you may be either just outside or just over the population limit. Or you may be in an urban area. And obviously, USDA is not going to work for you, if you're not in population areas under 20,000.

Allison Coleman:

Is there other questions, Phillip?

Phillip Stringfield:

As of right now, that's all the questions we have from the field. So everyone just keep your questions coming in. We do have some ready for answer, but definitely keep your questions coming in and we'll make sure to get them answered for you.

Allison Coleman:

Yeah, I wanted to address a question that I know a number of health centers have had and a PCA contacted me quite recently with this question. And it really revolves around this aspect that I mentioned earlier that in submitting an application to loan guarantee program, that you need to have a commitment letter from a lender. And the concern was, does that really create enough incentive for the lender to modify the terms of the guarantee, if you basically, if you've got to go to them first for the guarantee commitment, I'm sorry, the loan commitment, basically the question is, wouldn't it better to first get the guarantee commitment from HRSA and then take that to the lender?

Allison Coleman:

I think people are really trying to understand the process by which you, the sequence of how to basically get the most benefit out of the guarantee. And this is what I would recommend to health centers. Again, one of the main reasons for HRSA requiring a loan commitment from the lender as part of your application is that they want to avoid this double underwriting process. That that really cuts up a lot of time from the process and that's of real value to you.

Allison Coleman:

But what I would suggest that you would want to do, basically what you want to do is use the possibility of the loan guarantee as a negotiating point, as you are out talking with lenders. I would recommend that you really go out and seek multiple proposals from lenders. And you can say to them, look, I'm planning on applying to the HRSA loan guarantee program. I would like you to propose your best terms and conditions, based on the assumption that I will apply and be approved for this guarantee.

Allison Coleman:

And you need to know that as part of the application, you will need to submit what the terms and conditions are, that you are able to offer me if you have a guarantee, versus you don't have a guarantee. So there's going to be incentive and a need for the lender to basically put in writing to HRSA what the benefit that they can provide you with the... how are they making the terms and conditions of the loan better for you as a result of the guarantee?

Allison Coleman:

Now, depending on your specific situation, the benefit that you may get from that guarantee may vary a lot from one health center to another. In some health centers, it could be that the lender is able to lower the interest rate. In other circumstances, the lender may be able to make the loan with less stringent loan covenants than it might otherwise require. They might be able to offer you a lower loan to value ratio.

Allison Coleman:

That actually is one of the big concerns that a lot of lenders have in lending to health centers, is that very often when you go out to get your new facility appraised, the appraisal comes in lower than the cost to build. And the lenders, at least lenders that are regulated, have to meet certain loan to value requirements.

Allison Coleman:

So with the presence of the guarantee, the lender may be able to provide you with a better loan to value requirement. Meaning, that you don't need to put as much of your cash into the project or you don't have to pledge as much other collateral to make the loan work for your project.

Allison Coleman:

So suffice to say there are a range of ways that the guarantee might benefit you. But as part of your negotiation with the lender, you're basically asking them to put their best foot forward and tell you what the best deal is that they can put on the table, based on the idea that you will have this valuable 80% federal guarantee as part of the deal. And you can use that as a negotiating point with your local lender. You can and probably should do an RFP and seek a couple of different proposals from various lenders, so that you can be sure that you are getting the best terms and conditions that you can. And that the guarantee is actually getting you terms and conditions that you couldn't get otherwise.

Allison Coleman:

I see being able to tell lenders about the guarantee program as a potential real advantage as you are negotiating the terms of your loan. Now, the lender then can put in a proposal to you that's then subject to you receiving approval from HRSA. That's okay. The loan commitment can be contingent upon the guarantee ultimately being approved.

Allison Coleman:

So that's perfectly fine if you were to for some reason, apply to the program and not be approved by HRSA, then the lender would not be obligated to provide you with those better terms and conditions. But hopefully you would be approved and that you would be able to say very specifically what the benefit was to you of applying for the program.

Allison Coleman:

Have there been any other questions that have come in Phillip?

Phillip Stringfield:

None as of right now.

Allison Coleman:

Well, I'm happy to go through-

Phillip Stringfield:

I have one that just came in, sorry. So what is the specific eligibility to apply? When can the application be submitted?

Allison Coleman:

Well, in the slides and I think you'll get these slides after this call as well, remind you that there's a four step application process. I would say that the initial pre-conference, pre-application conference call is a good idea. But really, HRSA will not consider your application complete until you submit, probably through EHB, though this is still being determined by HRSA, a formal request to HRSA. So that they consider your application, very likely, along with the actual signed commitment letter from the lender, which basically says that the lender will provide you with these terms and conditions on this loan if HRSA approves it.

Allison Coleman:

Then, the lender itself will also provide material, some of which you would have provided to the lender, including your business plan and financial projections and their underwriting of your loan. And by underwriting I mean usually, lenders when they're considering a loan to you will meet with you a number of times, will ask you for all kinds of information. And then they will have to take the loan request to their credit committee. And they will write up a memo to the credit committee, outlining who you are, what you do, what the project will accomplish for you. And will go into great detail on how they view your financial situation and basically making the argument to their credit committee that you will be able to repay the loan. That's known as a credit writeup.

Allison Coleman:

And so HRSA will want the lender to send HRSA the credit writeup and the statement from the lender that says we're willing to make this loan, the terms and conditions that we're able to offer as a result of the guarantee. The better terms and conditions are these, and then the lender will basically say to HRSA, whatever it is that it's able to do for you, as a result of the guarantee that they couldn't do without the guarantee.

Allison Coleman:

So that's basically a complete application. So really, if you think about it, it's a business plan with financial projections that you need to put together. And the business plan is basically the culmination of all of the planning work that you've done to help you understand what it is you want to build, how much it's going to cost, who your project team is, the financial projections related to it.

Allison Coleman:

The loan, underwriting credit memo that the lender has put together and the commitment letter from the lender, that basically says we will make the loan to you under the following terms and conditions if HRSA approves the guarantee. And those are the main... that is the application. When all those pieces are assembled, then you would have a complete application. And from that point, HRSA would take it, review it and would have committed to turning around and telling you whether or not they can provide the guarantee within 60 to 90 days of getting the complete application.

Allison Coleman:

Other questions that have come in?

Phillip Stringfield:

All right, we do have a couple more questions that... Yup. The first one is how much is typically, I guess how much as far as an amount, how much is typically the average amount given in a loan guarantee?

Allison Coleman:

I have to go back and look at the loans that have been done under the program. I would say it's really ranged quite broadly. I know there have been some smaller deals that have been done that I think there have been some as small as 750,000, maybe 500,000, 750,000 at the small end.

Allison Coleman:

At the large end, there have been a number of, in particular new market tax credit transactions that have been fairly large, that have been guaranteed under the program, I think in excess of, in the range of 10-20 million. So it's actually one of the great things about the program is it really doesn't matter what size... a loan that's big to a small health center might be 500,000 to 1 million. A loan that's big to a much larger health center might be a much larger loan. And at either end of the spectrum, you are able to apply to this program.

Phillip Stringfield:

All right, so the next question looks like there is more clarity needed on the application process and availability. It says when will the program be available? You mentioned [inaudible 00:42:04].

Allison Coleman:

Phillip, you broke up a little bit, but I think what you were asking, tell me if I'm wrong, but I think what you're asking is basically is the program available now or is there a timeline when it will be available? The program is currently active, so that you as the health center, could today put in a request to HRSA to have a pre-application conference call, if you wanted.

Allison Coleman:

The slight caveat to that is that it is true that HRSA is still in the process of getting internal approval for its more streamlined documents. They're expecting that they will be finalized internally and have the blessing of all of the folks that HRSA and OMB to finalize those documents in the near term.

Allison Coleman:

So I think that if you were to, for example, put in a complete application tomorrow, and HRSA took 60 to 90 days to review it, the likelihood is that at the end of that time, HRSA would have its documents prepared to be able to move ahead to close a deal under the new and improved documents. I guess technically, if you needed something done sooner than they had the new documents available, there are existing older documents that could still be used. But I believe it's HRSA's desire, they would like to shift to the new documents if they possibly can.

Allison Coleman:

So I would say the program is up and running for most health centers. There's your internal process of getting your application ready that will take a little bit of time. I don't think any health center should be thinking that they should wait on that part. That part can happen immediately. I feel confident that by the time you submit your application and HRSA does its review, that it will do everything that it can to have the new documents available and ready, so that they can immediately move into the new and improved documentation process.

Phillip Stringfield:

I do have one more question coming from Kendra, it says are there known projects that include residency programs as a part of their project. Would tax assistance be available to advise us to ensure we plan accordingly? We launched in July 2020. And we'll need the facility by 2022.

Allison Coleman:

We're definitely hearing from more health centers that are establishing residency programs. I can't say for sure whether there has been one in the past that's been financed using the loan guarantee program. But there's absolutely no reason why that would not be an eligible project. And that is something that Capital Inc. has actually worked with a number of health centers who are planning residency programs and need to finance a facility related to that.

Allison Coleman:

So yeah, we'd be happy to talk with you specifically about your project planning needs and see if we can help out.

Phillip Stringfield:

Thank you, Allison. I'll give it a second. But that looks like that is the last question for the moment right now.

Allison Coleman:

Okay. Looking quickly at some of the questions that I've gotten over the last few weeks to see what I haven't already covered, we have gotten a couple of questions from health centers about whether the guarantee can only be used for loans that have a facility component or whether it could be used at all for basically working capital or a line of credit.

Allison Coleman:

I think the answer to that is essentially, this is a facilities guarantee program. However, you might have noticed in the eligible project costs, there is a little bit of capacity within a larger facility project. You could include some costs related to basically working capital through a startup phase, as a component of the project costs.

Allison Coleman:

But this guarantee is not meant to be a guarantee, for example, of your working capital line. There does need to be a connection to a physical facility project, even if that project might also include some component of working capital. So that's one question that I've got, a couple of those questions.

Phillip Stringfield:

All right, we do have another one that came. It says, if you are interested in utilizing this program, who do you contact to do step one, pre-application meeting?

Allison Coleman:

I'm going to go back to the slide, if folks can still see the slides, so you can pick up that email. So, you would send an email to lgprogram@hersa.gov. And you'll see in the slide that's showing on the screen now, the pieces of information that you should put in that email. And that's the first step.

Allison Coleman:

And a number of health centers have contacted us, wanting to talk through the information that they were putting together that they wanted to send to HRSA for that pre-application consultation. So that is fine as well. And in that case, you could reach out to... I'll go back to that contact info at the slide for me and also my colleague, Jonathan Chapman, who heads up our project consulting team.

Allison Coleman:

So, if you're thinking about putting together a request and you want to talk it through and get some advice on process and how to proceed, you can always reach out to me or Jonathan. You can also put in a request for help through Capital Inc.'s website, www.capitalinc.org. So there are a number of ways that you can get connected up with the program. But the most direct route to HRSA is through lgprogram@hersa.gov.

Phillip Stringfield:

Thank you, Allison. That looks to be it for now.

Allison Coleman:

Okay. I'm looking through my list here. One of the questions that we've gotten might be of interest to people is, is there a minimum underwriting criteria that health centers must meet in order to qualify for the loan guarantee program? And the answer to that is HRSA has not established specific maximums or minimums, in terms of credit quality that they'll accept.

Allison Coleman:

What their expectation is, is that you will be in dialogue with your individual lender or with several lenders to negotiate the best deal. I think it's fair to say every lender is going to want to have reasonable expectation that you will be able to repay the loan. I.e. no lender wants to make you a loan knowing right at the start or believing at the start that you will not be able to repay it, for really a couple reasons.

Allison Coleman:

First and foremost, they stand to lose, even if they were to draw on the HRSA guarantee, it's not 100% guaranteed, 80% guarantee. So they won't want to lose their 20% that's not covered by the guarantee. But also, because lenders are in the business of wanting to make good loans, it's a lot of time and energy and trouble to deal with a loan in default. So they will want to have pretty good confidence that they think that you really will be able to carry out the business plan that you have presented to them.

Allison Coleman:

That said, many times when you're going in, especially projects that are fairly large, there's risk that the project might not turn out or you might not be able to manage the project in the way that you and they hoped that you would. So for example, a lot of health centers struggle with recruiting and retaining physicians or providers in general. And the ability to see more patients and generate the revenue that will be necessary to repay a loan is very closely connected to your ability to recruit and retain providers.

Allison Coleman:

So your best assumptions going into a project might be that you'd be able to recruit and retain a certain number of providers. It's possible that that process could be slower than you had anticipated, and that might cause financial difficulties for you.

Allison Coleman:

So that's the kind of situation in which even though the lender would need to basically believe that you can accomplish the goals that you set out for yourself, the guarantee provides basically an extra assurance that if things don't quite go as they thought, that the lender has some protection through the guarantee. So that's a long way of saying, while there isn't a minimum underwriting criteria that lenders will consider, it is very important that you put your best foot forward when you're talking to your lender, and that you're putting together realistic business assumptions that you as the health center really believe in and that you think that you can meet.

Allison Coleman:

And that said, none of us foresees the future. So, things can happen and for that reason, the guarantee helps kind of hedge... it doesn't eliminate risk, but it helps hedge risk. And so I would not recommend that you go in to... if you go into a lender and you show them financial projections that shows that you cannot possibly repay the loan, they are not going to agree to make the loan to you, even if you do have a HRSA guarantee. Very likely, HRSA wouldn't approve that either. There has to be reasonable expectation that you will be able to perform as expected.

Allison Coleman:

But that's all to say that whether you get a loan commitment for a lender and the terms and conditions of that loan commitment is really a matter of negotiation. And it starts right at the outset of putting together a good business plan and a good story for what it is that you want to accomplish through the project. And having a good confidence in yourself that the numbers hang together and that you're going to be able to succeed in your effort.

Allison Coleman:

Any other questions, Phillip, that have come in since then?

Phillip Stringfield:

Yes. So the next question is, are there any geographic limitations for a site to qualify for a loan guarantee?

Allison Coleman:

I don't believe so. With the caveat that the project needs to be, basically needs to be sponsored by a Section 330 health center, I don't believe there is necessarily a requirement that the site be included within the health center's scope. Though it would be rational that it would, but that's also, if for some reason you are thinking about wanting financing for a site that will be owned or occupied by you as the Section 330 health center, but for some reason, you don't intend or expect to bring that site within your scope, then I think that that would be something that you would want to raise with HRSA in the pre-application conference call, to make sure that they were comfortable with that.

Phillip Stringfield:

Thank you, Allison, that looks like that is the last question we have for now.

Allison Coleman:

Okay, I'm looking quickly at my list here. Had a couple of questions about the term of the guarantee. So one question I got was, we may be able to get a 30 year loan commitment. Can the guarantee cover the loan for 30 years?

Allison Coleman:

I will say I think that's another thing that you should raise with HRSA at an initial call. I would say it's very unusual to have any lender be willing to offer you a 30 year loan. But if they are, that's fabulous. And if the guarantee would help you get that, it might well be something that HRSA would look favorably on. There's certainly nothing in the legislation, per se, that would preclude HRSA from approving a guarantee.

Allison Coleman:

And typically on the guarantees that have been approved so far, the guarantee has been good for as long as the term of the loan. And actually, even there's some deals that have been guaranteed that very often a lender will do say a five year term with say a 20 year amortization. And at the end of five years, there's an opportunity for the lender to adjust the interest rate. That's very typical of loans.

Allison Coleman:

In the past, I believe it's been the practice that if the lender is willing to extend the term beyond the initial five year term, and assuming the health center is still happy with the interest rate, that the guarantee has not been disturbed, the guarantee has been maintained, as long as that loan that was originally guaranteed remains in place.

Allison Coleman:

Had another question from someone, first part was, can the loan guarantee program be used with new markets tax credits? The answer to that is yes, it can. And then the second part was, in our new markets deal we are expecting to have loans from more than one lender. Would the loan guarantee still be a fit for two co-lenders?

Allison Coleman:

I think the answer to that is yes, probably. Though I would recommend that it would be easier and more streamlined for the health center if you could work it out with your let's say there are two lenders on this new markets transaction. What would be a little more streamlined would be to have one lender act as the lead lender, and then participate or sell a portion of the loan to the second lender. So that has a couple of...

Allison Coleman:

And then if you did that, the guarantee could apply to the loan made by the lead lender, and then through the documentation process, the lead lender could pass on the benefit of the guarantee, or could share the benefit of the guarantee with the participant. And if you structured it that way, it would very likely make it easier for the health center, because then if you have one lead lender, then your main relationship is with one lender. You got reporting to one lender, and doing the back and forth with one lender as opposed to having two separate lenders.

Allison Coleman:

And if you've got one lead lender, the lead lender is then responsible for passing along any reporting information, et cetera, with the participating lender. So you as the health center usually don't deal with the participating lender. You're just dealing with the lead lender. So my recommendation would be try to structure... even though the guarantee could probably cover both of the loans, if you for some reason had to have two separate lenders, there's no particular reason why HRSA couldn't approve that, it would be more streamlined to have one lender, with the second lender participating in the loan from the first lender.

Allison Coleman:

Let's see. Another question that I've had that might be of interest to folks is, do we need to file a notice of federal interest if we use the loan guarantee program? And the answer to that is no, you do not. And just a reminder that you're only required to file a notice of federal interest if you are using federal grant funds as part of your project budget. Basically, if you're using grant funds to pay for part of the project, but a loan guarantee is not a grant. So, there is not the requirement that you file a notice of federal interest if you have a loan guarantee.

Allison Coleman:

Phillip, any other questions come in?

Phillip Stringfield:

No, nothing has come in at the moment. No.

Allison Coleman:

Okay, I'm looking at my list of questions and I think I have gone through, looking quickly once more, see if there's anything that I haven't answered. I think that that's it, in terms of the questions that I've gotten. Phillip, unless folks have additional questions, I think we can probably... I don't know if you see that on my attendee list, I'm seeing from Barbara Willis I'm seeing a hand raised. Does that mean that she wants to ask a question?

Phillip Stringfield:

She had asked her question earlier, her audio wasn't connected, so she wasn't able to unmute. But everyone has had their questions answered at this time. I'll just give everyone a few more moments, if you have any more questions for Allison before we wrap up today's call, just go ahead and either raise your hand or go ahead and use the Q&A or chat functions on the right of your screen. And we will go ahead and get those questions in for you.

Allison Coleman:

And while you're doing that, I'll just also let you know that several folks on the last call, contacted me after the fact and said there are other people at my health center that I would like you talk to about the loan guarantee program. Can we set up a conference call? And just to let you know where happy to do that. Lots of times you may have a couple of folks who weren't able to be on these calls that would be interested in talking or you want to really talk through very specific project questions that you've got.

Allison Coleman:

So either Jonathan or I would be happy to set up some individual time to talk with you or other folks on your team at the health center, if we can help you answer questions.

Phillip Stringfield:

All right, thank you, Allison and thank you everyone for joining. It doesn't look like we have any more questions for today. So Allison's information is on the screen if you would like to take that down, if you do have any questions that come up or would like to receive any direct VA. And then I would just like to thank Allison Coleman with Capital Inc. again, for helping us with this two part webinar.

Phillip Stringfield:

Like I said, if there's any more questions, you can go ahead and send them over to Allison Coleman. And then there's also going to be a survey that will follow this webinar as well. So if you could please take a few moments to complete that for us, we would greatly appreciate it. So thank you again, everyone, and have a good rest of your day.