CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (Authority)

HELP II Loan Program Financial Analysis

Resolution No. 2021-03

July 29, 2021

Executive Summary

At the May 2019 meeting, the Authority approved Resolution No. 2019-02, extending the HELP II Loan Program (Program) programmatic changes that had been in place since Resolution No. 2015-05 was approved in April of 2015. At that time, the Authority directed staff to analyze the Program and develop programmatic adjustments accordingly when Resolution No. 2019-02 was set to expire in May 2021. Accordingly, staff worked with the Authority's financial analyst, TAP International, Inc. (TAP), to analyze the Program, the Program fund balance, and evaluate the following items.

1) Maximum cumulative loan amount
2) Interest rate and maximum loan term
3) Maximum annual gross revenue eligibility requirement to qualify as a small health facility
4) $6 million minimum fund balance floor
5) Loan payment method and schedule for Electronic Payment System (EPS) and non-EPS users[1]

Staff has prepared a summarized history of the Program parameters and analysis on how the most recent programmatic changes that took effect in 2015 have affected the Program. In addition, TAP has prepared the attached presentation (Exhibit A), which provides an analysis of the effects the potential programmatic adjustments would have on the Program fund balance.

[1] This parameter is a staff internal process, thus TAP was not asked to comment on this.

History

The original HELP Loan Program was established in 1988 to assist small and rural health facilities and district hospitals in expanding and improving services to the people of California through low cost loans. However, it soon ran into trouble as CHFFA took no security on the loans and there were no interest or initial fee charges. In 1995, HELP II was created to replace the original HELP loan program with the same intent to assist health facilities but with more financial robustness to improve the longevity of the Program. In order to create this self-sustaining program, CHFFA established provisions to protect its loans, which included requiring collateral, establishing a 3% interest rate, and charging a one-time loan origination fee.

The following chart shows the general progression of some of the programmatic changes through 2014.

Year	Maximum Cumulative Loan Amount	Maximum Annual Gross Revenues [a]	Interest Rate	Maximum Term
1995	$300,000	$10 million	3%	10 years
1997	$500,000	$10 million	3%	15 years
1999	$400,000	$10 million	3%	15 years
2001	$400,000	$20 million	3%	15 years
2005	$500,000	$20 million	3%	15 years
2007	$750,000	$30 million	3%	15 years
2012	$1,000,000	$30 million	3%	15 years

[a] Maximum annual gross revenues eligibility requirement does not apply to rural or frontier health facilities or district hospitals

Current Program Loan Parameters

In April 2015, the Authority approved Resolution No. 2015-05, establishing the below loan parameters for a two-year period. Resolution Nos. 2017-05 and 2019-02 each extended the same loan parameters for an additional two-year period.

	Equipment & Furnishings	Refinance	Purchase, Construct, & Renovate Real Property
Interest Rate	**2%**	**3%**	**2%**
Loan Amount	**$25,000 - $1,500,000**	**$25,000 - $1,000,000**	**$25,000 - $1,500,000**
Loan Term	**5 years**	**15 years**	**20 years**

Analysis

To qualify as an eligible Program borrower, a health facility must be a nonprofit 501(c)(3) organization in existence for at least three years and meet one of the following criteria:

- Have no more than $30 million in annual gross revenues;
- Be located in a rural or frontier Medical Service Study Area (MSSA)[2] as defined by the California Healthcare Workforce Policy Commission; or
- Be a district hospital.

With these eligibility criteria representing the scope of the Program's borrowers, staff used historical data from calendar years 2015 to 2020 to analyze the current Program parameters. Furthermore, staff directed TAP to use the historical data to test the Program fund balance in different scenarios pertaining to the interest rate, maximum loan term, and maximum cumulative loan amount for all loan types except refinancing, and the $6 million minimum fund balance floor, as presented in Exhibit A. Additionally, both staff and TAP compared the Program's current loan parameters to various other loan programs to analyze the overall competitiveness of the Program for the target scope of borrowers. The sections below provide staff's analysis and TAP's conclusions on each of the programmatic items.

MAXIMUM LOAN AMOUNT

Question: Should the maximum loan amount be increased for new money loans?

The current maximum loan amount of $1.5 million for new money loans (acquisition, construction, renovation of real property and equipment acquisition) has been in place since the approval of Resolution No. 2015-05 in April 2015. To answer this question, staff evaluated the current Program loan portfolio to determine the need for larger loans and asked TAP to analyze the Program fund balance.

TAP performed several tests to determine how raising the maximum loan amount would affect the Program fund balance and determine if the Program fund balance could sustain larger loans. The following were some of TAP's findings regarding the Program fund balance:

Number of Loans Closed at the Max Amount Per Year	Years Until Fund Reaches $0 at $1.5 Million Max	Years Until Fund Reaches $0 at $2 Million Max
1[a]	17.5	12.5
2	9.5	6.2
3	6.0	4.0
4	4.2	3.0

[a] Historical average number of loans closed per year at the maximum loan amount is 0.6.

[2] See attached Exhibit B for a map of MSSA designations.

TAP took into account that the Program will continue to have no administrative expenses and a 0% default rate, and the Program fund balance will continue to receive income from loan principal repayments, interest on outstanding loans, fees from new loans, and interest on the idle fund balance. For their performance tests, TAP also assumed a 2% interest rate and a loan term of 20 years. TAP found that the historical average of loans closed at the maximum amount to be 0.6 per year. Rounding up to one loan closed at the maximum amount per year and increasing the maximum loan amount from $1.5 million to $2 million would reduce the time for the fund to reach $0 by 5 years. If the number of loans at the maximum increases, the time for the Program fund balance to reach $0 between $1.5 million and $2 million decreases. TAP's analysis concludes that, based on current average loan volumes, the maximum loan amount can be increased to $2 million while maintaining the 2% interest rate and 20 year loan term without drastically affecting the Program fund balance.

In addition to TAP's analysis of the financial stability of the Program fund balance, staff considered the makeup of cumulative loan amounts that exceeded $1 million and the cumulative loan amounts that reached the maximum $1.5 million from 2015 - 2021. The following were some of the findings:

- From 2015-2021 there were 37 borrowers, 18 of which had cumulative loan amounts exceeding $1 million. Of those 18 borrowers, 50% (9) of them reached the maximum limit of $1.5 million.
  - three out of those nine borrowers were returning borrowers with outstanding loan amounts.
- The type of loan that most frequently required the maximum loan amount was construction/renovation at 56% (5) and acquisition of real property at 33% (3).
- 43% (4) of borrowers that reached the maximum loan amount had rural or frontier MSSA designations.
  - three construction/renovation loans and one working capital loan.

Moreover, staff have received several inquiries over the past few years about additional loans or loan amounts that would surpass the current $1.5 million cumulative loan amount maximum. The following is a brief summary of those inquiries:

Health Facility	Type of Loan Requested	Maximum Amount Requested
Petaluma Health Center, Inc.	Construction	$2,000,000
Mendocino Coast Health Care District	Renovation	$2,000,000
Key Community Housing	Real Property Acquisition	$2,030,000
Hart Community Homes, Inc.	Real Property Acquisition	Up to any new maximum
Home Ownership for Personal Empowerment, Inc.	Real Property Acquisition	Up to any new maximum
Barlow Respiratory Hospital	Construction	$30,000,000
Redwoods Rural Health Center	Construction	$4,400,000
Community Medical Centers, Inc.	Renovation	$2,000,000

From these findings, it appears that larger loan amounts are primarily needed for expansion projects involving either construction/renovation or real property acquisition. In addition, facilities located in rural or frontier MSSA designation areas requested these larger loans just as frequently as they requested HELP II loans in general. This information suggests that the higher loan maximum is still in keeping with the Program's goal of providing small and rural health facilities with financing.

An increase to the maximum loan amount would allow new borrowers access to larger loan amounts, while also providing all existing Program borrowers an opportunity to return for additional funding to meet potential financing needs. Raising the maximum loan amount could also potentially increase the rate at which the fund balance decreases if larger loan amounts are requested and approved. However, this initial decrease would be mitigated by the interest on the loans that would be repaid at a higher rate than the interest earned on the idle fund balance, thus replenishing the funds more quickly. This replenishing reinforces staff's and TAP's recommendation to increase the maximum loan amount to $2 million.

Recommendation: Increase the maximum cumulative loan amount from $1.5 million to $2 million to allow borrowers access to more funds for larger projects involving real property acquisition, construction/renovation, and equipment acquisition.

INTEREST RATE AND MAXIMUM LOAN TERM

Question: Should the interest rate be lowered, and should the maximum loan term be extended for new money loans?

Adjustments made to the Program's interest rate and maximum loan term have differing effects on borrowers and on the Program's fund balance. A decrease in the interest rate results in a corresponding decrease in a borrower's monthly payment and total interest paid over the life of the loan. An increase in the maximum loan term also decreases a borrower's monthly payment; however, it increases a borrower's total interest paid over the life of the loan. Additionally, decreasing the interest rate and/or increasing the maximum loan term slows the rate at which the Program's fund balance replenishes, which may affect the availability of funds for future loans.

The table below shows a sampling of the interest rates, loan terms, and loan amounts available through other lenders similar to CHFFA.

Agency	Interest Rate	Maximum Loan Term	Maximum Loan Amount
Small Business Association (SBA) 7a Loan Program[a]	5.5 - 9.8%	25 years	$5 million
U.S. Department of Agriculture	2.1%	25 years	None
Federal Housing Administration (FHA)	2.6 - 3.5%	40 years	$600 million
Commercial Rates (on average)	4.4%	13.65 years	$10 million

[a] Program only available to for-profit organizations

From the chart above, the Program's interest rate of 2% for all loan types, except refinancing, seems to be one of the lowest available in the market, but the Program's maximum loan terms appear to be shorter than several of its competitors. However, it is important to note that these other offers are specifically available for acquisition or construction projects for the lowest risk borrowers as compared to the Program's loan terms that are typically available to most borrowers. Furthermore, these competitors offer significantly larger maximum loan amounts, for which they would need to accommodate the larger monthly payments. With the Program's maximum loan amount of $1.5 million being several million below the ones listed, thus requiring smaller monthly payments, the Program's maximum loan terms remain competitive.

TAP's analysis of the Program concludes that the interest rate should not be decreased as the current 2% interest rate is already competitive and is better than other lending options. TAP also concluded that the Authority may consider extending the maximum loan term to 25 years as it would not materially affect the fund balance overall. However, with the monthly payments already at a competitive level, extending the loan term would increase the amount of interest borrowers would pay over the life of the loan and decrease the amount that the fund balance is replenished by month to month.

Recommendation: Set the interest rate at 2% for all new money loans. Set the maximum loan term at 20 years for financing real property acquisition and construction/renovation loans.

MAXIMUM ANNUAL GROSS REVENUE TO QUALIFY AS A SMALL HEALTH FACILITY

Question: Should the qualifying annual gross revenue maximum be increased?

In order to determine if the $30 million maximum annual gross revenue requirement to qualify as a small health facility, as set forth by Resolution No. 2007-05 in August 2007, was still appropriate, staff and TAP reviewed comparable programs by lenders such as the SBA, FHA and commercial banks. Out of those programs, only the SBA had clearly defined sizing by specific categories, which is a helpful comparable benchmark of the Program's unique parameter. The following is a list of health facilities and their maximum annual gross revenue to qualify as a small business as defined by the SBA.

Health Care Facility Type	Maximum Annual Gross Revenue (In Millions)
General Medical and Surgical Hospitals	$41.5
Nursing Care Facilities (Skilled Nursing Facilities)	$30
Residential Intellectual and Developmental Disability Facilities	$16.5
Residential Mental Health and Substance Abuse Facilities	$16.5
Services for the Elderly and Persons with Disabilities	$12

Increasing the maximum annual gross revenue eligibility requirement will increase the pool of potential borrowers and, according to the chart above, would appear to better represent the full spectrum of the Program's borrowers. TAP concluded that the Authority may consider increasing the annual gross revenue eligibility maximum, and considering the intent of the Program to serve all kinds of small health facilities, staff believes that increasing the maximum annual gross revenue requirement from $30 million to $40 million would still be appropriate for the Program.

Recommendation: Increase the maximum annual gross revenue eligibility requirement to qualify as a small health facility from $30 million to $40 million.

$6 MILLION MINIMUM FUND BALANCE FLOOR

Question: ***Should the $6 million fund balance floor be removed?***

In 2012, the Authority was concerned that the increased cumulative maximum loan amount of $1 million for any one borrower would increase the risk exposure to the loan portfolio and the Program fund balance. To address this concern, the Authority established a $6 million Program fund balance floor that, when reached, would prevent staff from considering applications that request funds in excess of the $750,000 cumulative loan amount without Authority approval. Resolution No. 2015-05 raised the cumulative loan amount to $1 million.

Upon review of this program feature, TAP and staff concur that the $6 million floor does not actually safeguard the Program fund balance. In fact, a zero fund balance does not endanger the Program since the Program has no expenses, continues to maintain a 0% default rate, and earns a steady monthly income. A zero fund balance actually means all available loan funds are being used for their intended purposes. Even if the fund balance reaches $0 in any given month, the Program could continue making loans in subsequent months as the Program receives approximately $250,000 per month ($3 million per year) in principal and interest payments based on the outstanding loans in 2020. As the Program fund balance replenishes, it also will earn interest from the Surplus Money Investment Fund, which has a return rate of 0.349% as of March 31, 2021.

The $6 million floor was put in place to safeguard the fund balance and to allow smaller borrowers the opportunity to receive a Program loan should larger loans reduce the fund balance. However, it should be noted that the floor has never been remotely approached since it was put in place. An otherwise eligible applicant requesting a loan in excess of $1 million to meet their capital project needs should not be short-changed, when funds are presently available, due to the anticipation of a hypothetical future applicant requesting a loan. Lastly, the Board already has the authority to approve or reject loans of any size, and the minimum floor adds an unnecessary step that could potentially delay necessary projects.

Recommendation: Remove the $6 million fund balance floor to prevent unnecessary delays for otherwise acceptable loan requests that exceed $1 million but are received after the floor is reached.

LOAN PAYMENT METHOD AND SCHEDULE FOR EPS AND NON-EPS USERS

Question: Should the mandatory EPS enrollment be removed?

In August 2007, when Resolution No. 2017-05 was approved, the Authority wanted to encourage borrowers to use the new EPS. Thus, the Authority approved certain incentives for only EPS enrollment, including a choice of two payment dates, a ten-day grace period, and a one-time late payment waiver. Non-EPS users would still be subject to the 1st of the month for the payment date with no grace period or late payment waiver. Of the borrowers that have had the EPS option upon closing, 82% of them use the EPS, which supports the notion that the policy succeeded. However, considering the small percentage of borrowers that declined the EPS, staff would like to streamline the repayment policy and remove the disparity between the two payment options. This parameter change is a staff internal process, thus TAP was not asked to comment on this.

Recommendation: Give all borrowers the choice between two payment date options with a ten-day grace period and the option to request a one-time late payment waiver, regardless of which method of payment they choose. This change would streamline the repayment policy and avoid penalizing borrowers that prefer not to use the EPS.

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Recommendations

Staff recommends the following:

1) Increase the maximum cumulative loan amount from $1.5 million to $2 million to allow borrowers access to more funds for larger projects involving real property acquisition, construction/renovation, and equipment acquisition.
2) Set the interest rate at 2% for all new money loans. Set the maximum loan term at 20 years for financing real property acquisition and construction/renovation loans.
3) Increase the maximum annual gross revenue eligibility requirement to qualify as a small health facility from $30 million to $40 million.
4) Remove the $6 million fund balance floor to prevent unnecessary delays for otherwise acceptable loan requests that exceed $1 million but are received after the floor is reached.
5) Give all borrowers the choice between two payment date options with a ten-day grace period and the option to request a one-time late payment waiver, regardless of which method of payment they choose. This change would streamline the repayment policy and avoid penalizing borrowers that prefer not to use the EPS.

Exhibits

- Exhibit A – TAP International, Inc. HELP II Loan Parameter Review slideshow
- Exhibit B – MSSA designation map

RESOLUTION NO. 2021-03

**RESOLUTION OF THE
CAIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
APPROVING PROGRAMMATIC CHANGES FOR
THE HELP II LOAN PROGRAM**

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the "Act") to provide secured or unsecured loans to participating health institutions to finance or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the "Program") to issue loans to participating health institutions that meet the eligibility guidelines of the Program; and

WHEREAS, the Authority desires to adjust aspects of the existing Program with the purpose of enhancing access under the Program;

NOW, THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority as follows:

<u>Section 1.</u> The Authority hereby approves the Program's maximum cumulative loan amount of $2 million to finance real property acquisition, construction or renovation, and equipment or furnishing acquisition loans.

<u>Section 2.</u> The Authority hereby approves the Program's interest rate of 2% to finance real property purchase, construction or renovation, and equipment or furnishing acquisition loans.

<u>Section 3.</u> The Authority hereby approves the Program's maximum loan term of 20 years to finance property purchase, construction, or renovation loans.

<u>Section 4.</u> The Authority hereby approves the annual gross revenue limitation of $40 million or less for small facilities.

<u>Section 5.</u> The Authority hereby removes the minimum floor of $6,000,000 for the Program fund balance.

<u>Section 6.</u> The Authority hereby removes the requirement that all borrowers with new Program loans must be automatically enrolled in the Electronic Payment System to manage and pay their loans unless the borrower elects to opt out. All borrowers with new Program loans may choose either the 1st or the 15th of the month as the borrower's payment due date with a ten-day grace period and the option to request a one-time late payment waiver.

<u>Section 7.</u> All other aspects of the Program remain unchanged.

Date Approved: ____________________________

California Health Facilities Financing Authority

HELP II Loan Parameter Review

July 2021

Exhibit A

Objectives of the Work

1. What is the feasibility of raising the maximum loan amount from $1.5M?
2. How would changes to the loan parameters affect the HELP II fund balance?
3. Is there a need to change the interest rate?
4. Is there a need to change the loan term?
5. Should the eligibility requirement for a small health facility's gross revenue be raised from $30M?
6. Should the current $6M fund balance threshold be removed?*

*If the fund balance reaches $6M or below, the maximum HELP II loan amount is reduced to $1M unless the CHFFA board reviews and approves a higher amount.

Analysis Assumptions

- Future HELP II loan volume is based on averages from 2015 to 2019 for the different types of loans.
- For refinancing loans, there will be no changes to loan maximums, interest, or terms.
- The one loan granted for Working Capital is not included in the analysis as it was an outlier and due to special circumstances and approvals.
- Estimates of future payments received for principal and interest from the loan portfolio are based on calendar year 2020 amounts received. These estimates address the absence of data on each outstanding loan or loans that were repaid early.
- Projections for future principal and interest received per year does not include the early repayment of full loan amounts.
- The HELP II Loan Program will continue to have no loan defaults and no administrative expenses.
- The HELP II fund balance will continue to receive income of approximately $3M per year from principal repaid and interest paid on outstanding loans, fees from new loans, and interest on the idle balance from the Surplus Money Investment Fund (approximately 0.349%*).
- A current fund balance of approximately $20.8M is used as the Year 0 amount.

* As of 3/31/2021

Question 1: What is the feasibility of raising the maximum loan amount from $1.5M?

Answer: The HELP II Loan Program maximum loan amount can reasonably be raised to $2.0M at 2% interest and 20-year term without drastically affecting the fund balance if current average loan volume is experienced.

Based on historical averages, less than one HELP II loan is closed per year for the maximum amount of $1.5M. The table below provides estimates of how the fund balance would be affected if one loan at the maximum amount of $1.5M or $2.0M is closed per year.

One Loan per Year Closed at Maximum Amount	Years Until $6M Threshold Reached	Years Until Fund Reaches $0
Current Loan Parameters: $1.5M maximum, 2.0% Interest, 20-Year Term	12.5	17.5
Potential Loan Parameters: $2.0M maximum, 2.0% Interest, 20-Year Term	9	12.5

If the maximum loan amount were raised from $1.5M to $2.0M, the estimated projections show that if one HELP II loan per year were closed for the maximum amount and an average number of other types of HELP II loans* also were closed, the timeframe to reduce the fund balance to $6M would be reduced from 12.5 years to 9 years.

It would reduce the time for the fund to reach $0 from 17.5 years to 12.5 years.

* See Appendix slide 15 for number of closed loans per year by type..

Question 2: How would changes to the loan parameters affect the HELP II fund balance?

Answer: Changes to the maximum loan amount would affect the HELP II program fund balance depending on how many loans were closed per year at the maximum amount.

$1.5M Loan, 2.0% Interest, 20-Year Term

	Years Until $6M Threshold Reached	Years Until Fund Reaches $0
1 Loan/Yr.	12.5	17.5
2 Loans/Yr.	6.2	9.5
3 Loans/Yr.	4	6
4 Loans/Yr.	3	4.2

$2.0M Loan, 2.0% Interest, 20-Year Term

	Years Until $6M Threshold Reached	Years Until Fund Reaches $0
1 Loan/Yr.	9	12.5
2 Loans/Yr.	4.5	6.5
3 Loans/Yr.	2.8	4.2
4 Loans/Yr.	2.1	3

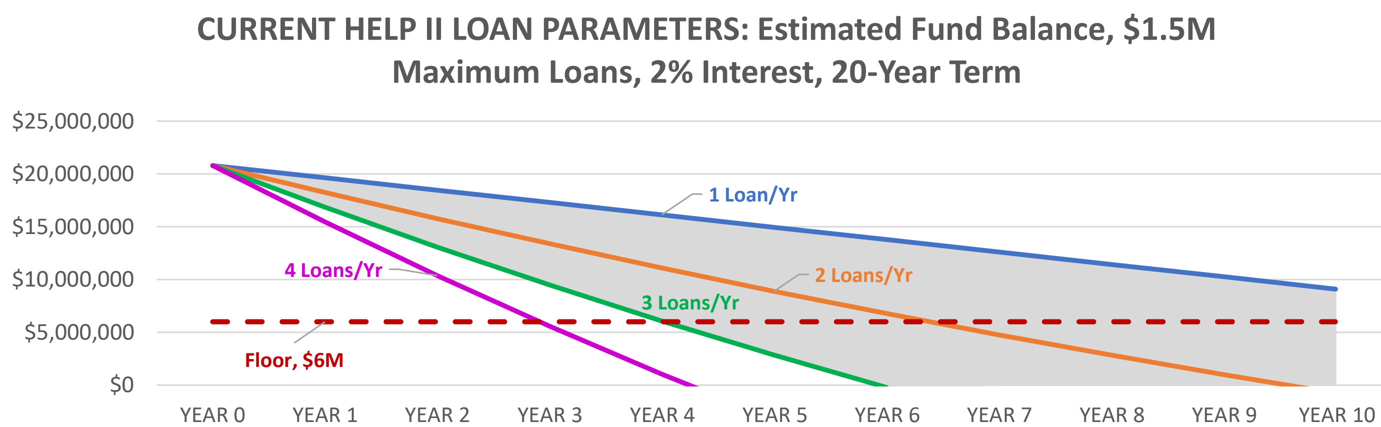
The estimated projections show that as the number of loans per year closed for the maximum amount increases, the number of years needed to reach the $6M threshold or a $0 fund balance decreases.

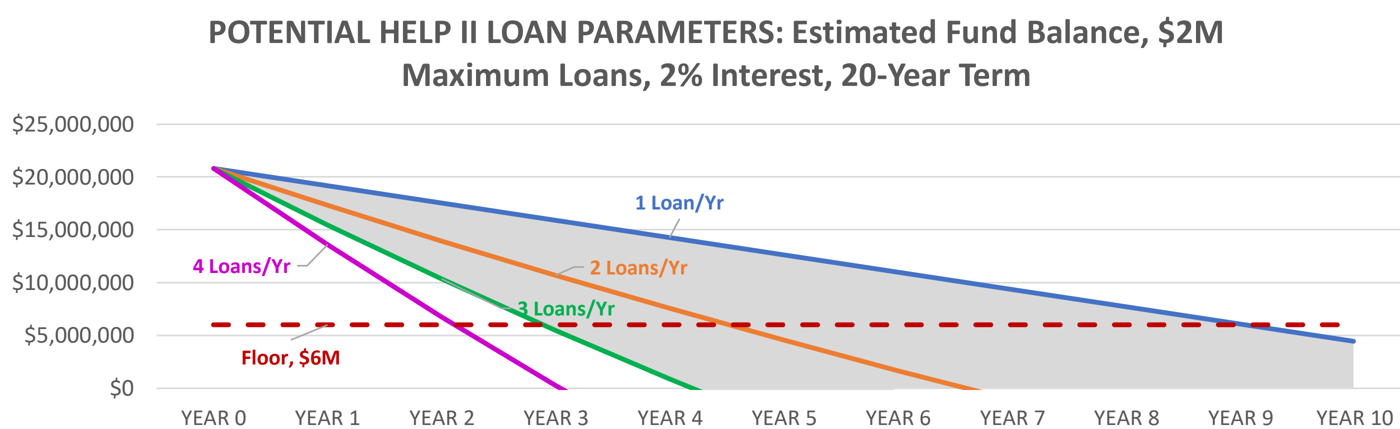
Given that less than one HELP II loan has been closed per year at the maximum amount for the past 5 years, a reasonable projection is that between 1 and 3 loans may be closed per year at the maximum amount.

The graphs on the following slide show the effects on the fund balance with different amounts of closed loans for the two different maximum amounts.

Question 1: What is the feasibility of raising the maximum loan amount from $1.5M?

Question 2: How would changes to the loan parameters affect the HELP II fund balance?





The shaded portion of the charts represents the most likely scenario of between 1 and 3 loans being closed for the maximum allowable amount each year.

Exhibit A

Question 1: What is the feasibility of raising the maximum loan amount from $1.5M?

Question 2: How would changes to the loan parameters affect the HELP II fund balance?

CURRENT LOAN PARAMETERS: $1.5 Maximum, 2% Interest, 20-Year Term

Ending Year Balances	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	# of Years to Reach $6M Floor	# of Years to Reach $0 Fund Balance
1 Loan/Yr at $1.5M	20.8M	19.6M	18.5M	17.3M	16.1M	14.9M	**12.5**	**17.5**
2 Loans/Yr at $1.5M	20.8M	18.2M	15.8M	13.4M	11.1M	8.9M	6.2	9.5
3 Loans/Yr at $1.5M	20.8M	16.8M	13.1M	9.5M	6.1M	2.8M	4	6
4 Loans/Yr at $1.5M	20.8M	15.5M	10.4M	5.6M	1.0M		3	4.2

$2.0 Maximum, 2% Interest, 20-Year Term

Ending Year Balances	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	# of Years to Reach $6M Floor	# of Years to Reach $0 Fund Balance
1 Loan/Yr at $2M	20.8M	19.1M	17.5M	15.9M	14.3M	12.6M	**9.0**	**12.5**
2 Loans/Yr at $2M	20.8M	17.3M	13.9M	10.7M	7.6M	4.5M	4.5	6.5
3 Loans/Yr at $2M	20.8M	15.5M	10.3M	5.5M	0.9M		2.8	4.2
4 Loans/Yr at $2M	20.8M	13.6M	6.8M	0.3M			2.1	3

$2.0 Maximum, 2% Interest, 25-Year Term

Ending Year Balances	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	# of Years to Reach $6M Floor	# of Years to Reach $0 Fund Balance
1 Loan/Yr at $2M	20.8M	19.1M	17.5M	15.8M	14.1M	12.4M	8.8	12.4
2 Loans/Yr at $2M	20.8M	17.2M	13.8M	10.5M	7.2M	4.1M	4.3	6.3
3 Loans/Yr at $2M	20.8M	15.4M	10.1M	5.1M	0.3M		2.8	4.1
4 Loans/Yr at $2M	20.8M	13.5M	6.5M				2.1	2.9

Question 3: Is there a need to change the interest rate?

Answer: No. Comparisons of other lending instruments show that the HELP II rate is very competitive.

Question 4: Is there a need to change the loan term?

Answer: Can be considered. Other lending opportunities offer terms of up to 40 years. The HELP II term could be increased to 25 years without materially affecting the fund balance.

Question 5: Should the eligibility requirement for a small health facility's gross revenue be raised from $30M?

Answer: Can be considered. One other lender has a gross revenue maximum of $38.5M.

Question 6: Should the current $6M fund balance threshold be removed?

Answer: Can be considered. The $6M floor has never been reached and was put in place to allow smaller borrowers the opportunity to receive loans should larger loans reduce the fund balance. If the $6M floor were removed, more funds would be readily available for larger loans and could also allow additional smaller loans for existing borrowers. CHFFA staff would still provide oversight over the fund balance and would still have the ability to recommend lower loan amounts.

Comparable Loan Programs

Agency / Loan Program	Eligibility	Interest Rates	Maximum Loan Amount	Term of Loan
CHFFA HELP II - Purchase, Construction, Renovate Real Property	Health Facility 501(c)(3), District Hospital, or <$30M in Revenue, Loan-to-Value up to 95% for Real Property, First Lien Position	2%	$1.5M	20 Years
CHFFA HELP II - Equipment Purchases		2%	$1.5M	5 Years
CHFFA HELP II - Refinance		3%	$1.0M	15 Years
SBA - 7a, (Equipment & Furnishings; Refinance; Purchase, Construction & Renovate, Real Property)	**For-Profit** <$38.5M Revenue, <1,500 Employees, Personal Assets Invested Demonstration of Need	Daily Prime Rate, plus lender spread (5.5 - 9.75%*)	$5M (SBA insures up to $3.75M)	20 Years for Real Estate, 10 Years for Equipment
SBA - 504, Long term, fixed rate for major fixed assets	**For-Profit** Tangible net worth <$15M, Average Net Income <$5M, Loan-to-Value up to 90%	Pegged to increment above market rate (2.231 - 2.399%*)	$5M	Up to 25 Years
USDA - Community Facilities Direct Loan and Grant Program (purchase real property, facility, equipment)	Facilities serve rural communities where located	2.125%	No established maximum	Typical maximum is 25 Years
USDA - Business & Industry Loan Guarantees	Various	3.25 - 6.25%*	Loan guarantee percentages updated annually	Not to exceed 40 Years

* Estimates per ValuePenguin.com

Exhibit A

Comparable Loan Programs

Agency / Loan Program	Eligibility	Interest Rates	Maximum Loan Amount	Term of Loan
iBANK	Various	2.5% for disaster relief in 2020	Up to $30M	Not defined
FHA - Section 232 Mortgage Insurance for Residential Care Facilities. Must work with approved lender.	Residential Care Facility	2.6 - 3.45%*	No Defined Maximum, Loan-to-Value up to 75-85%	40 Years
FHA - Section 242 Mortgage Insurance for Hospitals Program. Must work with approved lender.	Hospital Facilities	2.6 - 3.45%*	Up to $600M, Loan-to-Value up to 90%	40 Years
Freddie Mac - Small Business Loan	Various	Various	Up to $7.5M, Loan-to-Value up to 80%	ARM: 20 Years Fixed: 10 Years
Fannie Mae - Senior Housing	Sr. Housing	Various	No Defined Maximum, Loan to Value up to 75-80%	30 Years
Commercial Rates (average for investment property, Health Care, Sr. Housing)	Various	4.43%*	No Defined Maximum, Loan to Value of 71%	13.65 Years (average)

* Estimates per ValuePenguin.com

APPENDIX – Program Averages Used in Analysis Projections

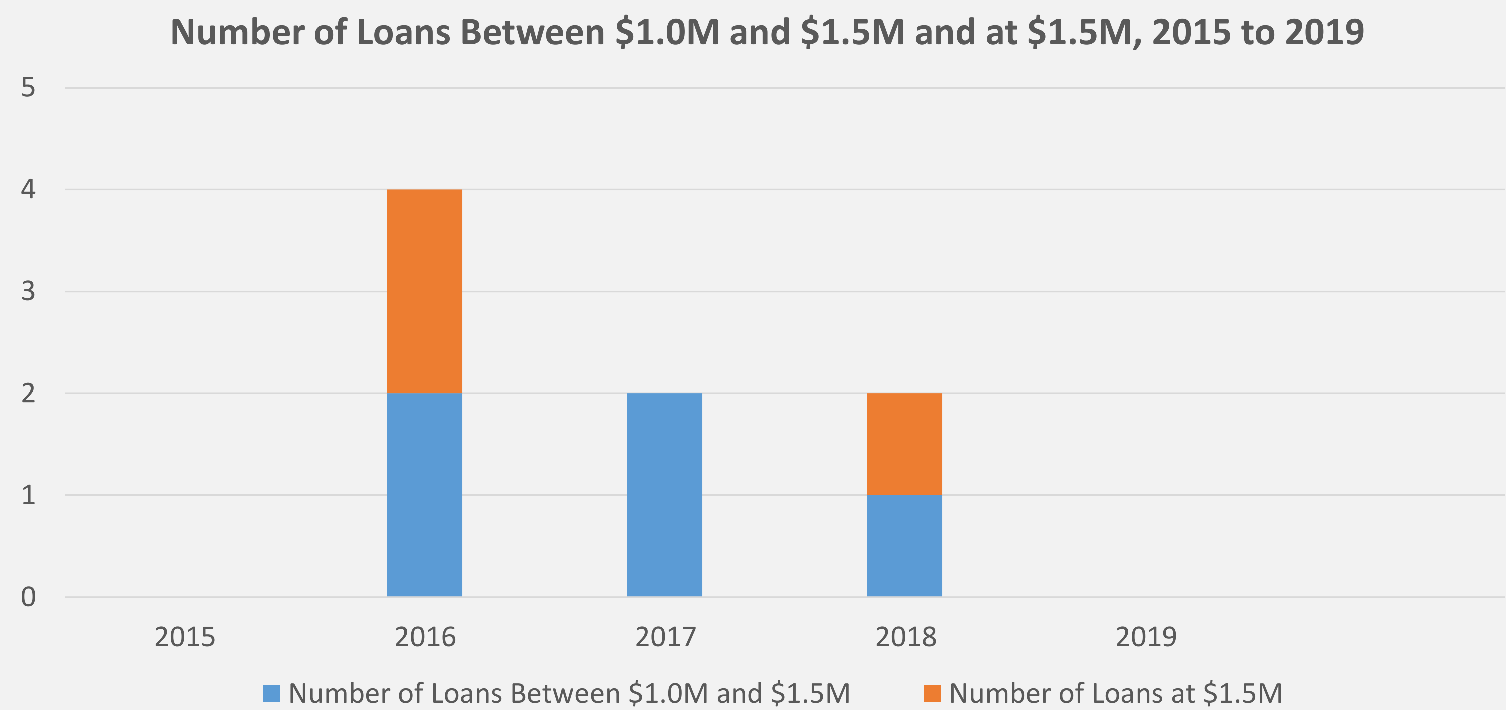
Between 2015 and 2019, only 3 loans were closed for the maximum loan amount. The average loan amount was $614K.

HELP II Closed Loans – Overall Performance and Averages, 2015 to 2019

2015-2019*	Construction/ Renovation	Real Property Acquisition	Equipment/ Furnishings	Refinancing	Total 2015 to 2019
Total Number of Closed Loans, 2015 to 2019	8	8	3	12	**31**
Average Number of Closed Loans per Year	1.6	1.6	0.6	2.4	**6.2**
Number of Closed Loans for $1.5M	2	1			**3**
Average Number of Closed Loans per Year at the Maximum Amount of $1.5M					**0.6**
Average Amount of Each Closed Loan	$806,250	$714,374	$363,018	$480,975	**$613,734**

* 2020 is considered an outlier year and is not being included in the analysis of closed loan averages. Additionally, one loan was approved for use as working capital due to special circumstances and approvals in 2016 with a term of 1.3 years. The working capital loan is also considered an outlier and is not included in the analysis of closed loan averages.

APPENDIX – HELP II Program Loans at and over $1M Used in Analysis Projections



While 3 loans were closed for the maximum loan amount, 5 other loans were closed between $1.0M and $1.5M

Exhibit A

APPENDIX – Current Program Performance

Current HELP II loan program parameters

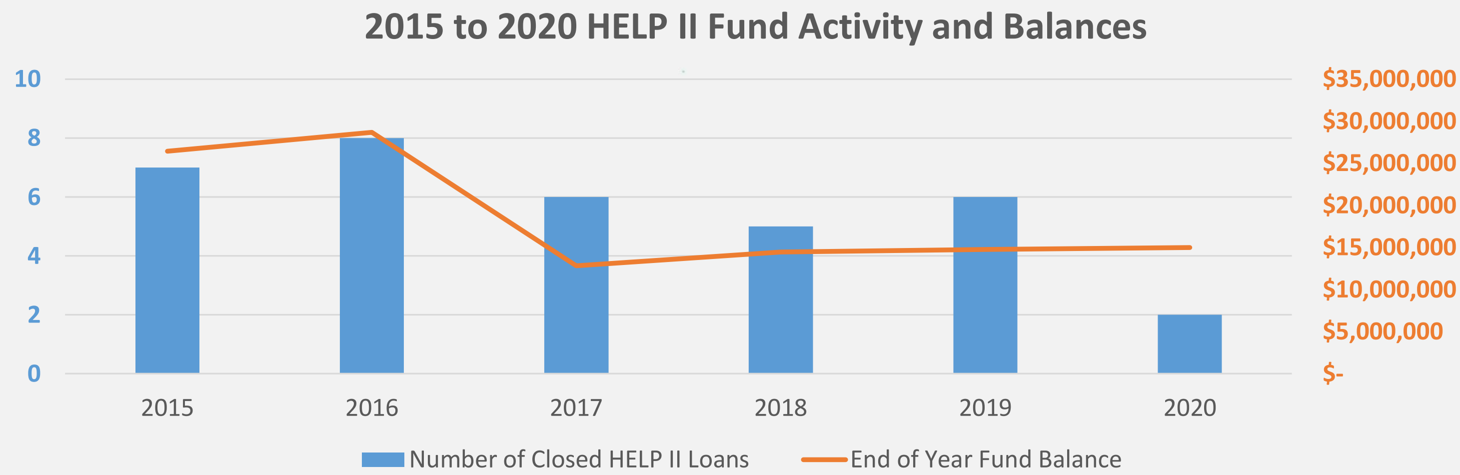
Between April 2012 and April 2015, the maximum loan amount was $1M at 3.0% for 15 years for all loans except equipment/furnishings, which had a term of 5 years.

HELP II Loan Maximum Amounts, Rates and Terms as of April 2015

Type	Maximum Loan Amount	Rate	Term
Construction/Renovation	$1,500,000	2.0%	20 Years
Real Property Acquisition	$1,500,000	2.0%	20 Years
Refinance	$1,000,000	3.0%	15 Years
Equipment/Furnishings	$1,500,000	2.0%	5 Years

APPENDIX – Current Program Performance

HELP II fund activity and balances have varied over the past 6 years.



At current average closed loan volumes, the program could accommodate 5.5 times the loan volume in one year before the fund reaches $0. This would amount to the following number of loans in one year, based on historical averages:

Real Property Acquisition and Construction/Renovation:	17
Equipment:	3
Refinancing:	13

Because of principal and interest payments received on outstanding loans, the HELP II fund balance is being continually replenished. In 2020, the HELP II fund received approximately $3M in principal and interest payments on loans, or about $250,000 per month.

The amount received per year for principal and interest and early loan repayments has varied between $3M in 2020 to $8M in 2016.

The year 2020 is shown for comparative purposes only on slides 14 through 17 and is considered an outlier due to the extremely low volume and economic shutdown. 2020 is not included in the calculations of HELP II closed loan averages and volumes when estimating projections for future loans.

Exhibit A

APPENDIX – Current Program Performance

The number of HELP II closed loans per year has fluctuated between 2 and 8 between 2015 and 2020.

Number of HELP II Closed Loans by Type, 2015 to 2020

HELP II Loan Type	2015	2016	2017	2018	2019	2020	Total
Construction/Renovation	1	3	2	1	1	1	9
Real Property Acquisition		1	3	3	1	1	9
Equipment/Furnishings	1		1		1		3
Refinance	5	3		1	3		12
Working Capital		1					1
Grand Total	**7**	**8**	**6**	**5**	**6**	**2**	**34**

Exhibit A

APPENDIX – Current Program Performance

The total amount of HELP II closed loans each year has ranged from $2.8M to $6.1M between 2015 and 2020.

Total HELP II Closed Loan Amounts by Calendar Year

Type	2015	2016	2017	2018	2019	2020	Period Total
Construction/ Renovation	$400,000	$1,500,000	$2,300,000	$1,500,000	$750,000	$1,500,000	$7,950,000
Real Property Acquisition		1,500,000	1,518,494	2,216,500	480,000	1,330,000	7,044,994
Equipment/ Furnishings	550,000		10,000		529,054		1,089,054
Refinance	2,112,700	1,620,000		385,000	1,654,000		5,771,700
Working Capital		1,500,000					1,500,000
Total per Year	**$3,062,700**	**$6,120,000**	**$3,828,494**	**$4,101,500**	**$3,413,054**	**$2,830,000**	**$23,355,748**

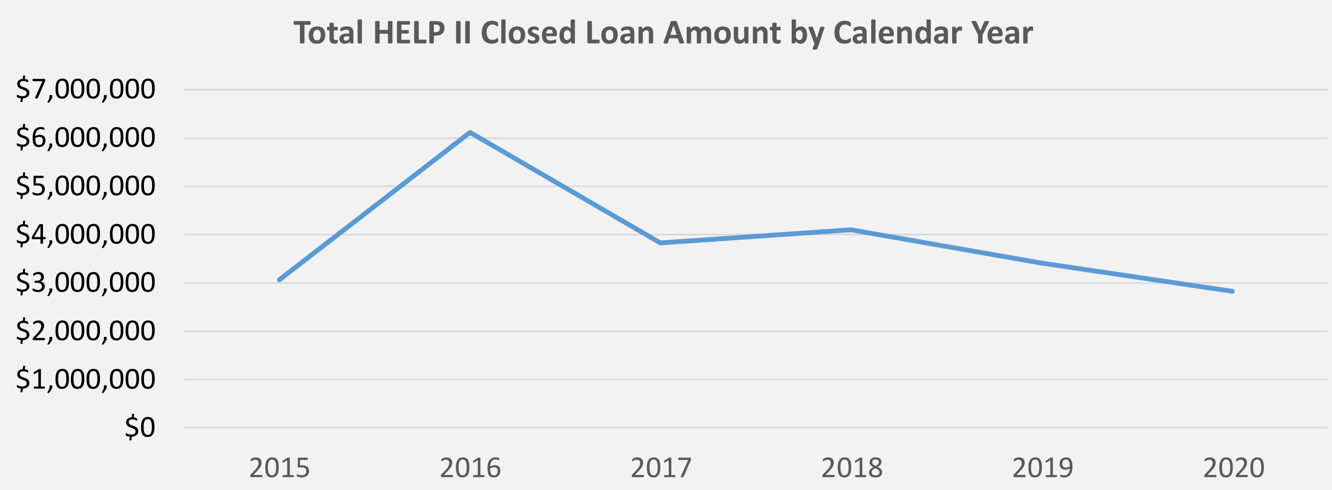


Exhibit A

APPENDIX – Current Program Performance

The average HELP II closed loan amount per year has ranged from $440,000 to $1.4M between 2015 and 2020.

Average HELP II Closed Loan Amounts by Calendar Year

Type	2015	2016	2017	2018	2019	2020	Period Average
Construction/ Renovation	$400,000	$500,000	$1,150,000	$1,500,000	$750,000	$1,500,000	$883,333
Real Property Acquisition		1,500,000	506,165	738,833	480,000	1,330,000	782,777
Equipment/ Furnishings	550,000		10,000		529,054		363,018
Refinance	422,540	540,000		385,000	551,333		480,975
Working Capital		1,500,000					1,500,000
Average per Year	**$437,529**	**$765,000**	**$638,082**	**$820,300**	**$568,842**	**$1,415,000**	**$686,934**

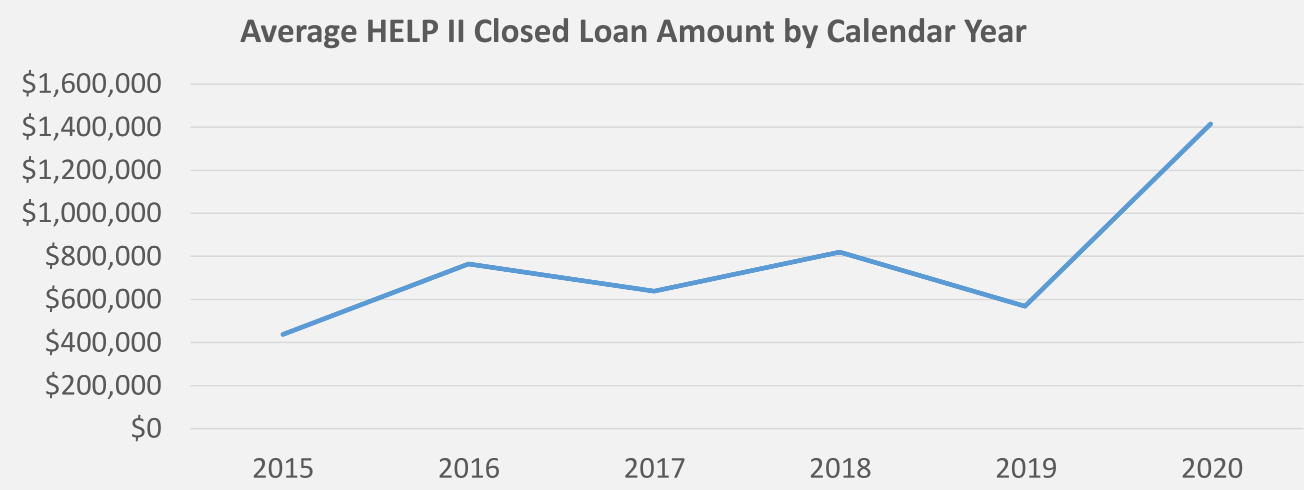
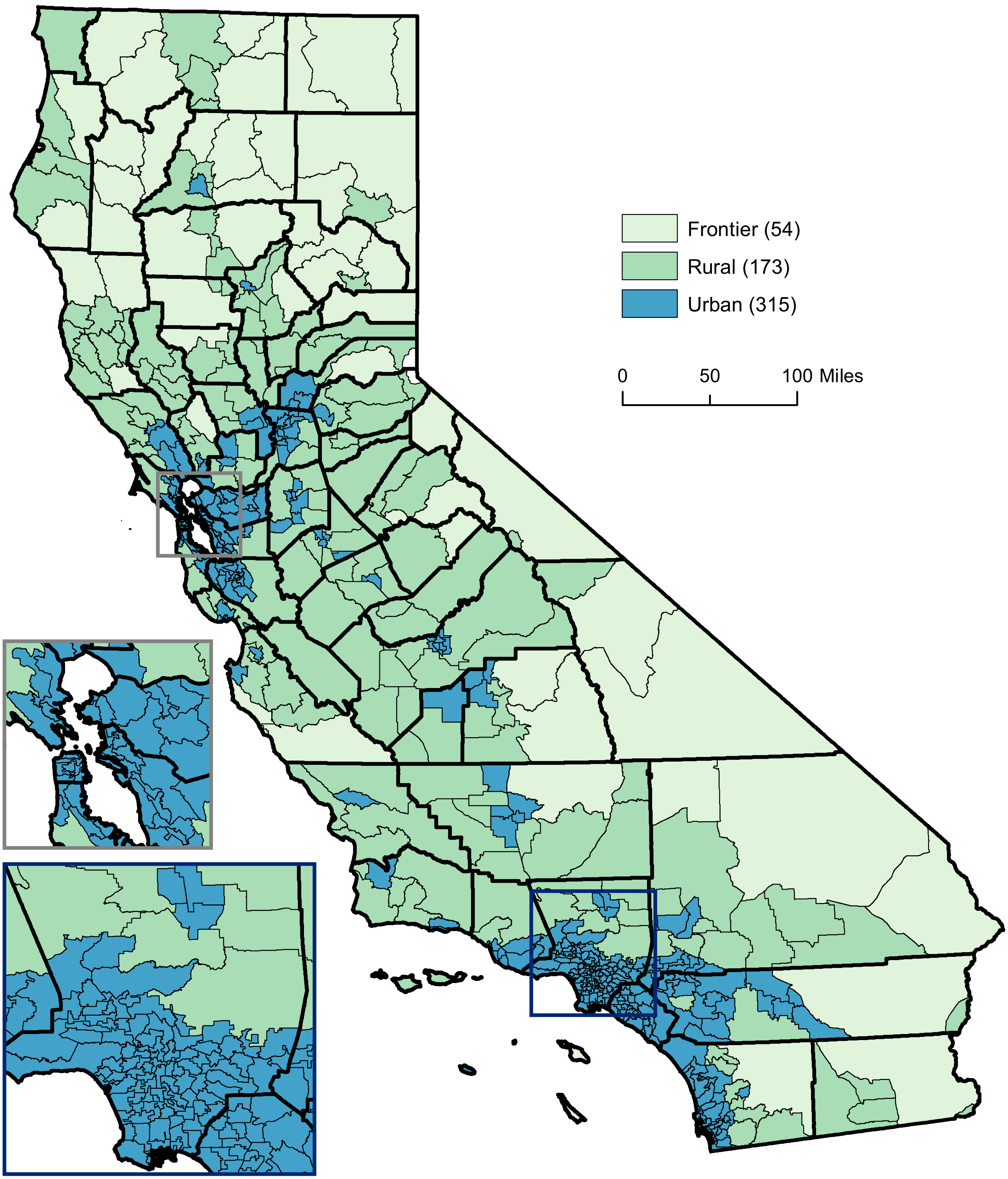


Exhibit A

TAPInternational

Exhibit A

Medical Service Study Areas (MSSA)



For more information about MSSAs, see
https://oshpd.ca.gov/workforce-capacity/california-primary-care-office/

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