

# CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (“Authority”)

## HELP II Loan Program – Parameters for Marginal Borrowers

### Agenda Item 7 - Information Item

June 25, 2015

#### Executive Summary

At the April 30, 2015 meeting, the Authority’s financial advisor, Sperry Capital, presented an analysis of the HELP II Loan Program’s (“Program”) fund balance and evaluated the potential effects of implementing certain programmatic changes . One of the evaluated changes is an expansion of the Program to take on riskier or marginal borrowers and allow for a 1% default rate. The Program has a 0% default rate since its inception, and allowing for a 1% default rate enables the Authority to further its Program objective of helping small and rural health facilities obtain adequate financing for their capital needs. The Authority directed staff to develop parameters for a program within the Program that may assist struggling health facilities that do not meet the Program’s current financial eligibility guidelines. The Authority uses the debt service coverage ratio (“DSCR”) as the main determinant of financial viability as the DSCR demonstrates a borrower’s ability to repay its outstanding debt. While a borrower with a DSCR of 1.0x is considered operating at break-even, a creditworthy health facility would ideally have a ratio of at least 1.1x and even 1.25x in some cases.

The following parameters for loans to marginal borrowers are provided for the Authority’s consideration (all other requirements of the Program would remain the same):

#### Program Parameters

- Marginal borrower
  - Pro-forma DSCR  $> 0.5x$  and  $\leq 1.0x$ 
    - Borrower is removed from marginal borrower pool when DSCR  $> 1.0x$
    - Loan amount returns to pool and is available to other marginal borrowers
- Amount of marginal borrower pool
- Maximum loan amount
  - Tiered Maximum
    - Prior HELP II borrowers – maximum loan of \$500,000
    - New HELP II borrowers – maximum loan of \$250,000
  - Flat Maximum
    - All HELP II borrowers – maximum loan of \$500,000

With input from the Authority, staff will evaluate all suggestions and provide recommendations for a Marginal Borrowers Program within the Program at the next Authority meeting. Staff anticipates a program for marginal borrowers could be implemented within thirty days of Authority approval.