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ON BEHALF OF A COALITION OF NATIONAL HEALTHCARE AND BANKING ASSOCIATIONS

*American Association of Homes and Services for the Aging
American Health Care Association
American Hospital Association
American Seniors Housing Association
Assisted Living Federation of America
Coalition for Senior Healthcare Reform
Committee on Healthcare Financing
Greater New York Hospital Association
Mortgage Bankers Association of America
National Rural Health Association*

February 5, 2009

Via Hand Delivery

The Honorable Shaun Donovan, Secretary
United States Department of Housing and Urban Development
451 Seventh Street S.W. – Room 10000
Washington, D.C. 20410

Dear Secretary Donovan:

We are writing on behalf of a Coalition of national healthcare and banking associations to congratulate you on your confirmation by the United States Senate. Our Coalition, as you may recall from your earlier days in Washington, has been meeting with the Department since the early 1990s to discuss the role that its Section 232 skilled nursing and assisted living and Section 242 hospital finance programs have had in supporting American communities. We believe that it would be worthwhile to continue that dialogue and would hope to be able to meet with you at your earliest convenience to discuss the impact these programs and their potential expansion may have not only in assuring quality healthcare and residential care for seniors and the ailing, but for neighborhood preservation, job growth and broad economic stimulation.

Background

As you know, the Federal Housing Administrations' Sections 232 and 242 programs support the construction, renovation, replacement and refinancing health care

facilities. Both are expected to provide desperately-needed capital access for healthcare sponsors in markets where other financing alternatives are becoming inaccessible. In fact, FHA programs increasingly represent the only feasible vehicle for these purposes, and absent their efficient operation, access to affordable healthcare capital is expected to be difficult to obtain and when available, having onerous terms and often unnecessarily high interest rates.

What should also be important in today's difficult economic circumstances is that healthcare sponsors are often the largest employers in American communities and vital to the preservation of neighborhoods, as well as construction and permanent job opportunities. Effective access to FHA programs can greatly facilitate these benefits, and as both are credit subsidy negative, may be implemented without cost to taxpayers. Of course, these programs will also have the capacity to generate mortgage insurance revenues at the very time the Congress is carefully monitoring the strength of FHA's insurance funds.

Section 232 Program

To improve the operating effectiveness of the Section 232 program from the perspective of loan origination, asset management and policy development, FHA is in the process of completing the program's transfer from the Office of Multifamily Programs to the Office of Insured Health Care Facilities, which administers the Department's Section 242 program. As a result, for the first time in the memory of this Coalition FHA healthcare functions will be administered in a single office staffed with experienced healthcare personnel. This transfer had and has the strong support of this Coalition. Our concern, however, is that assuring the availability of staffing levels from within the Department to achieve the benefits of this progressive transfer will be difficult.

To ameliorate this concern, our Coalition has approached the two Congressional Appropriations Committees, which are working to finalize the Department's FY 2009 budget to assure that the Salaries and Expenses component will provide sufficient funds for staffing this transfer and to implement a new LEAN approach intended to improve the operating efficiency of the program's origination and asset management functions. Any erosion of the program's transfer as a result of staffing concerns will in our view seriously impact the availability of the Section 232 mortgage program to preserve neighborhoods, create jobs and provide appropriate quality healthcare for a growing senior population.

Section 242 Program

We share an identical concern with respect to the Section 242 program, which as in the case of its sister healthcare program, is not currently staffed at levels to permit it to deal with a rapidly increasing number of sponsors which are finding this program to be the only source of affordable financing for needed facility upgrades and replacements of outdated facilities. This is particularly true in the country's rural critical access and urban communities. A survey recently released by the American Hospital Association indicates that the shortage of capital is forcing a large number of hospitals to postpone "shovel ready" capital projects, the very type of project that President Obama and the Congress are focusing on in the Stimulus Legislation. For the reasons noted, this is critically important to an economic recovery. More importantly, patient care and the health of the community as a whole are impacted when access to health care facilities is curtailed and

needed expansions postponed. Nearly half of hospitals surveyed by AHA have postponed projects set to begin within six months.

Support for Increased Appropriations

Finally, we would hope that you might consider calling upon House and Senate Appropriators to include sufficient funds in the Office of Housing account to increase the FTE's dedicated to properly support both FHA housing programs and the Section 232 and 242 programs. We understand that the Senate mark takes a major step in the right direction, and it is our hope that with your help, the Conference Committee will adopt that position. But please know that we also believe that the Senate level, while helpful, still does not provide an appropriate level of funding for the long term, and we would ask that as the Department works to finalize its 2010 budget request, that you seek additional budget authority to provide additional healthcare staffing.

We would be more than pleased to provide you and your staff with any information or assistance needed for these purposes and look forward to working with you to improve access to affordable, quality healthcare. Please know that you or your staff may contact our Coalition by calling Michael Mazer, Counsel to the Committee on Healthcare Financing, at (202) 293-8227.

Thank you for your attention and ongoing support for the health and well-being of American families.

On Behalf of the Coalition

Committee on Healthcare Financing

By the Committee on Healthcare Financing