BLUE SKIES AHEAD
NEW FUNDING OPTIONS OPEN DOORS.
While the skies aren’t exactly raining money, funding options for post-acute and long term care facilities of all sizes are greater and more varied than ever. Three trends in particular can open doors, especially for those who may not have been considered viable loan candidates in the past. These trends create new opportunities and expand existing ones for facilities of all sizes.

EVALUATING ENGAGEMENT
Increasingly, some lenders are looking beyond finances to proof of an organization’s health, as measured by workforce stability. Their rationale is that a highly engaged, well-trained workforce will provide better care and outcomes for patients, thus resulting in a more stable business over time.

“From a broad basis and a qualitative standpoint, this is important,” says Imran Javaid, managing director, Capital One Bank. “If your residents and the workforce are happy, you are usually driving a strong bottom line.”

To assess workforce stability, Javaid and his team start with a site visit. “When we walk into a building, we want to see if everyone is smiling, happy, and greeting people as they enter. This may seem like a small, simple thing, but it’s important. This kind of atmosphere makes family members feel confident about the facility and the care their loved ones are receiving,” he says. “Ultimately, we want to see that everyone in the workforce, from the laundry to the executive offices, is interested and engaged in what is going on around them.”

Sometimes the little things tell a big story. For instance, Javaid says, “We went to one facility that posted pictures of residents and descriptions of their food preferences for the kitchen staff. This was a nice personal touch. It was a smaller facility, and I was impressed with their ingenuity and attention to detail.”

THE OVERALL PICTURE
In addition to site visits, Javaid looks at data such as turnover ratios, overtime hours, and use of agency staffing. Low
turnover rates, he suggests, not only demonstrate that the organization has happy, satisfied staff. It also means that they spend less money on new staff training and can focus on inservices and ongoing education opportunities for existing staff, thereby maximizing their knowledge and their ability to do their jobs well.

“We also look at quality-of-care data,” says Javaid. “We have an RN [registered nurse] who looks at survey results over time—how they’ve changed and improved. She engages with facility staff to understand what is going on when they have citations. We think this is an important measure of quality of care.” Capital One also looks at data such as 30-day hospital readmission rates.

Javaid stresses that perfection on the center’s part isn’t necessary. Instead, he wants to see that when there is a problem or error, the team does what it takes to correct it and ensures that it doesn’t happen again. If the loan is for an acquisition, he wants to see that the new team has a “clear vision” of what it will do to correct problems once it takes charge.

Javaid says Capital One looks at the center’s Five-Star Quality rating, but that is not the main consideration. He says, “We understand that people get low ratings for a variety of reasons. We are an informed lender. We want to understand underlying data. Information such as the Five-Star rating is just part of the mosaic that creates an accurate picture of what is going on at the facility.”

Of course, Javaid and his team watch for red flags that they cannot overlook. For example, “If I see a room alarm going off and no one answers, that is a serious concern, especially if I point it out and staff shrug it off or make excuses,” he says. Additionally, he says that loan approval is unlikely if what he observes doesn’t match what the center is telling him.

In preparation to interact with lenders such as Capital One, Javaid suggests, “Treat our visit like a survey without the stress, and prepare accordingly. If you’re providing quality, person-centered care and have a strong team, it doesn’t have to be nerve-wracking.”
CASH FLOW OVER COLLATERAL
Have little collateral but still bringing in the dollars? There are lenders available. Rebecca Fatica, vice president and senior care lending specialist at Yadkin Small Business Lending in Pittsburgh, says, “This can be a great tool for many businesses that don’t have fixed assets to borrow against.”

This type of loan is a good option for organizations such as adult day care centers that don’t have property or real estate holdings but bring in more money than they put out. It also is useful for partner buyouts or instances where a facility owner has sold off real estate but still owns the operating company, she says.

Applicants for this kind of loan should be prepared to submit business and personal tax returns and financial statements. Depending on the loan’s purpose, candidates may need to submit a variety of other documents and materials.

For example, says Fatica, a letter of intent is required for a business acquisition loan. For refinancing, applicants will need to submit any existing loan documents. Projections will be necessary for startup or expansion loans.

These loans are very much connected to the individual, that is, the owner/operator. Therefore, the lender will be scrutinizing the person’s character; this includes a thorough background check. Further, says Fatica, “The owner needs to be actively involved in business, and not absent or passive.” These lenders also will be looking at the accuracy and level of detail in financial data. Fatica says, “Sometimes people will say that the business is doing one thing, but tax returns or financial statements say something else. This is a problem. You need to make sure financial data are accurately representative of what is happening with your business.”

If applicants get turned down for a loan, Fatica urges them not to get discouraged. Instead, she suggests that they do some “financial spring cleaning.” She advises, “Take inventory of your business and personal financial situation. An up-to-date business plan will help you determine if you are on track and, if not, what you need to improve or change.” Business financial statements are “like snapshots,” telling a story in numbers, she says.

MATCH LENDER TO LENDEE
One key to a successful loan application, says Fatica, is “finding a lender with the right appetite for the type of loan you are seeking.”

She uses an analogy: “Some people don’t like seafood, and there is nothing you can do or say to get them to like or eat it. The same is true of loans.” If a lender makes decisions solely or mainly on equity or collateral and the operator is seeking a loan based on cash flow, for example, that lender isn’t going to be interested in the application. “Not every lender will handle every type of loan. It’s up to you to understand what lenders are seeking and find one that has the appetite for your type of loan,”
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Fatica says. Remember that a loan is a two-way street, she says. “While lenders are evaluating you, you need to interview them as well and make sure your needs, vision, and ideals are in tune with theirs.” She recommends, “Do your homework. Find out who the credible and experienced lenders are, how they will communicate with you, and how knowledgeable they are about their product and your business or industry.”

NEW RULES, NEW OPPORTUNITIES
Late in 2013, the Securities and Exchange Commission published rules to change its Regulation A exemption, enabling companies to raise up to $50 million in public offerings. Simply put, it increases small businesses’ access to capital, thereby enabling them to seek and utilize the necessary investment capital to grow. This is especially significant for start-ups and large expansion or acquisition projects.

“What this really means to small chains or mom and pop facilities is that they can now access the same capital as Wall Street investors without the cost,” says Clinton Lovell, president of Houston-based Rainmaker Underwriting. “They can tap into a larger audience—beyond ‘angel’ investors or family and friends—and get the capital they need. They can go into market with direct mail pieces or email blasts to reach potential investors.”

As a result of this change, Lovell says, “We will see more mom and pops entering the field and small chains growing faster. It also will create a

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downward pressure on investment bankers who will have to be more competitive.”

How to start? Go through the usual due diligence, says Lovell, including a feasibility study, negotiating architecture and construction contracts, acquiring a property management, securing civil engineering studies, and completing a detailed marketing plan.

“You want to have everything necessary to show that the deal is ready to go tomorrow. Cost estimates and projections must be close to reality. If it’s an attractive deal, it will attract good offers,” he says.

This could be a huge game changer for facilities, Lovell says. “It has the potential to lock down costs and ensure more certain outcomes so that projects are attractive to early-stage investors.”

At the same time, he says, “You can get the money you need with favorable rates and still control the lion’s share of the project’s economics.”

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