



# Guidelines:

## Kentucky Rural Hospital Loan Program (KRHLP)

September 2021

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During the 2020 Regular Session of the General Assembly, KRS 154.20-190 was enacted to establish a revolving loan fund program for rural hospital operations and facilities. The Cabinet for Economic Development and KEDFA administer the program and funds for the purposes of providing needed direct health care services for the citizens of the Commonwealth by:

1. Maintaining or upgrading the hospital's facilities;
2. Maintaining or increasing the current staff of the rural hospital; or
3. Providing health care services that are not currently available to citizens.

### Rural Hospital Eligibility

An eligible Rural Hospital is a hospital located within a county of the Commonwealth having a population of less than 50,000 according to the most recent annual estimates of the resident population issued by the United States Census Bureau. "Hospital" means a facility licensed by the Cabinet for Health and Family Services under KRS Chapter 216B for the operation of a hospital and the basic services provided by a hospital.

Provided is a link from the Cabinet for Health and Family Services of the [Kentucky Hospital Directory by County](#).

The following counties meet the population requirement based on the [2020 States Census Bureau data](#).

Eligible Rural Hospitals must be registered and in good standing with the Kentucky Secretary of State's Office and in good standing with the Kentucky Cabinet for Health and Family Services.

### Loan Terms

The loan terms to be considered by KEDFA may require the following:

- To qualify for financing, a Rural Hospital must request funds for any of the following projects:
  - To maintain or upgrade the existing Rural Hospital's facilities
  - To maintain or increase the current staff of the Rural Hospital
  - To provide health care services that are not currently available to citizens
- Participation in projects for up to 100% of the projected eligible costs, matching obligations may be imposed
  - Eligible costs include building improvements, equipment, furniture, fixtures, other fixed asset costs, working capital
  - Loan amount for working capital may not exceed 10% of the hospital's annual operating expenses
  - Refinancing is not eligible
  - Costs incurred prior to approval of the loan by KEDFA are not eligible.
- Loan amount ranging from \$25,000 to \$1,000,000 per hospital facility
- Term of up to twenty (20) years, subject to the life of the collateral
  - Working capital – up to 5 year term
  - Medical equipment – up to 10 year term
  - Building and improvements – up to 20 year term

- Principal and interest payments will be required monthly starting no later than the following:
  - Final disbursement of loan funds, or
  - One year from KEDFA approval, maximum repayment of 19 years
- Interest rate may be fixed and equal to 1%
  - Interest will begin accruing no later than the following:
    - Final disbursement of loan funds, or
    - One year from KEDFA approval
- Security/collateral will be required
  - Corporate and/or personal guarantees may be required
  - Types of collateral include:
    - Letter of credit / certification of deposit
    - Mortgage
    - Lien on equipment
- 100% of the project costs must be incurred within one year of the loan approval
- Covenants may require retaining at least 85% of the full-time employees as of the loan approval date annually throughout the term of the loan agreement. “Full-time employee” means an individual employed by the Rural Hospital for a minimum of thirty-five (35) hours per week. This does not include temporary, temp-to-hire, part-time workers, or travel medical professionals.

KEDFA may extend a loan to a Rural Hospital provided the underwriting and financial analysis is satisfactory to KEDFA. In addition, the Rural Hospital may be subject to other underwriting and financial measurements and annual monitoring as deemed acceptable to KEDFA. A Rural Hospital Loan may not be combined with any other incentive programs offered by the Cabinet and approved by KEDFA.

## Process

- Applicant should contact its bank/financial institution to discuss any other financing needed to fund the project.
- Cabinet staff is contacted to discuss project eligibility, proposed financing structure, collateral requirements and any other terms of the project.
- If the project is eligible, Cabinet staff will share an application with the project for completion.
- Applicant completes and submits application with required attachments to Cabinet staff.
  - Application fee of \$1,000 is required at the time of submission and may be paid online.
- Cabinet staff will review applications for eligibility, completeness and accuracy and verify the underwriting calculations.
- Upon completion of staff’s review and subject to fund availability, a draft KEDFA Board Report indicating the amount of loan, terms and conditions to be extended and any other requirements will be sent to the company for review and acceptance.
- Once the draft KEDFA Board Report is accepted, the Cabinet’s legal counsel will be engaged to draft the loan documents, including the promissory note and loan agreement.
  - Loan documents will be provided to applicant for review.
  - The borrower will pay all closing fees, legal fees, including expenses of counsel to KEDFA, necessary for the preparation of the loan documents.
- Upon receipt of the executed loan documents from the applicant, the project will be presented to KEDFA at its monthly board meeting.
- After KEDFA approval, KEDFA staff will sign the loan documents and provide copies of the agreement and documents to the applicant.
  - A commitment/closing fee of one percent (1%), with a minimum of \$1,000, is due prior to KEDFA approval.
  - Eligible spending may begin after approval of the loan by KEDFA.

- Upon completion of the loan documents, requests for disbursement of the loan funds may be submitted no more than one per month. Each request will be reviewed for required supporting documentation, including invoices and proof of payment.
- The Rural Hospital will be required to provide financials and status reports annually to the Cabinet to monitor for compliance.
- The Cabinet will provide an annual report of all outstanding loans to the Interim Joint Committee on Appropriations and Revenue.

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