

Navigating in a New World: Expiring and Evolving Financing Options



**A Webinar for
Hospital Leaders**

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Today's Presenters



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Baraga County Memorial Hospital

\$28,715,000 FHA 242/Build America Bonds

- County affiliated Michigan hospital
- Building a 15-bed replacement hospital
- Hospital is not investment grade (below BBB)

Two series of taxable bonds issued Jan. 2010	\$25.1 million BAB eligible	\$3.6 million Not BAB eligible
Gross Coupon	6.5%	6.5%
BAB subsidy	(2.275%)	0%
Rate after subsidy	4.23%	6.5%
Net interest rate including servicing/insurance	5.27%	
Debt service reserve fund?	No	
Ongoing financial covenants?	No	

Another Michigan Governmental Hospital \$35,215,000 Tax-exempt Revenue Bonds

- Eligible for the same debt structure as Baraga
- Underlying ratings: Ba1/BB+ Moodys / Fitch
- They will pay an estimated \$19.5 Million in unnecessary additional interest over 30 years (\$2.5 M in the first 3 years)

Single series of tax-exempt bonds issued March 2010	\$35.2 million – No BAB subsidy nor FHA mortgage insurance
All-in true cost of capital	7.625%
Debt service reserve fund?	\$3.5 million
Ongoing financial covenants?	Yes

Topics for Discussion

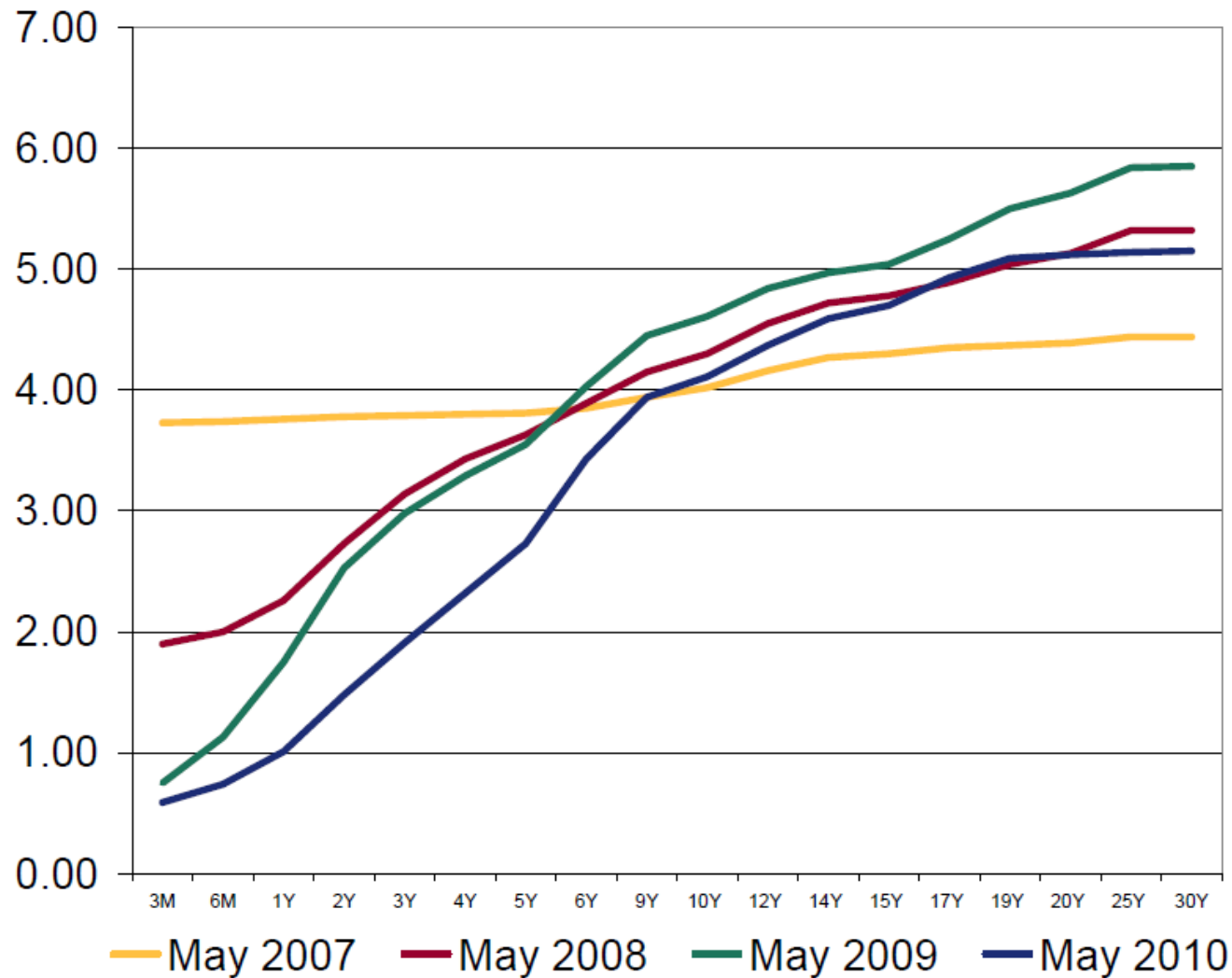
- ❖ **Changing Wind Conditions**
 - Capital Markets Update
- ❖ **Plotting The Course**
 - The Development Process
- ❖ **Tacking Through your Options**
 - The New Financing Options
- ❖ **Arriving at the Final Destination**
 - Questions

Changing Wind Conditions: Consequences of the Credit Crunch

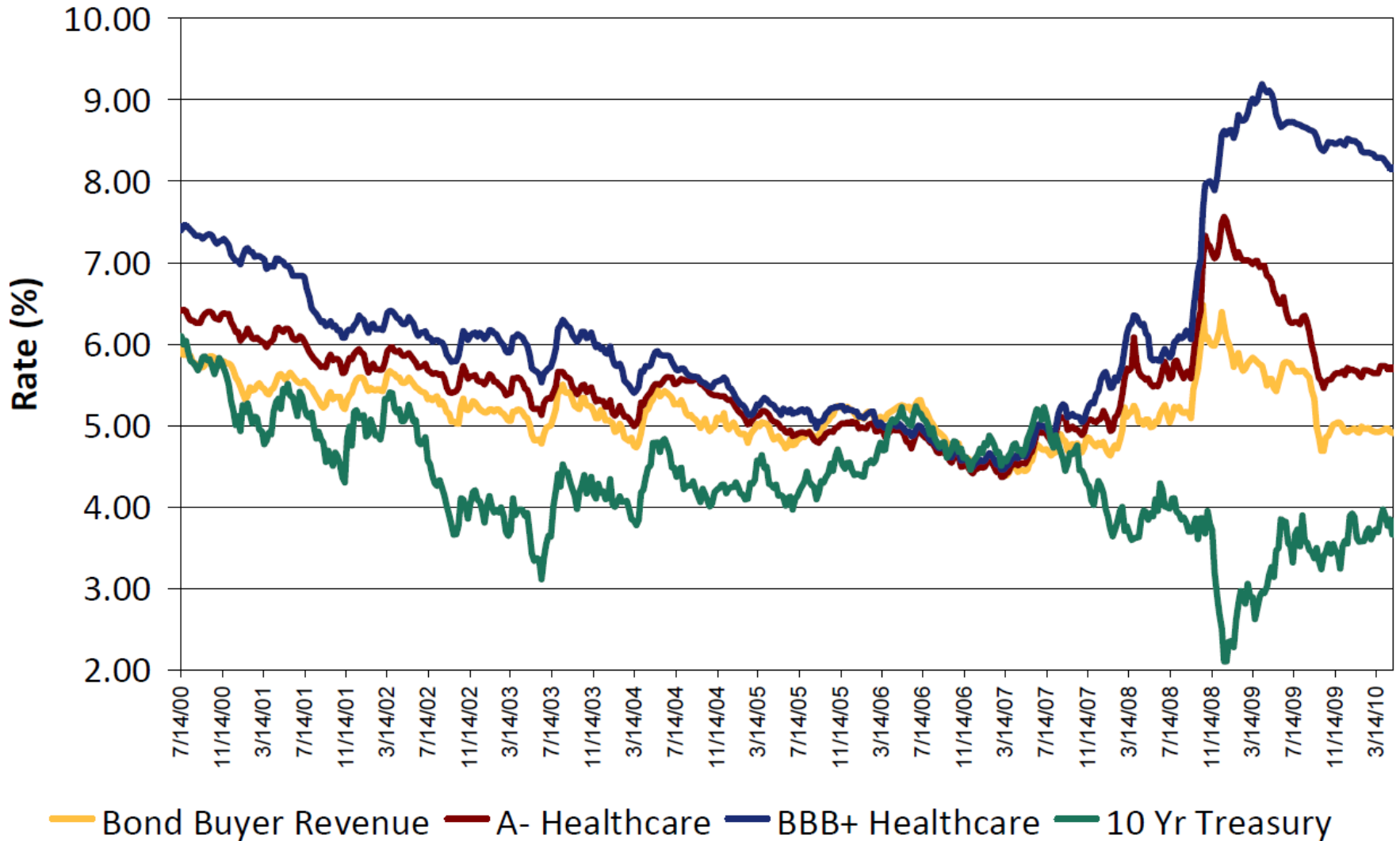
- Failure of Auction Rate Market
- AAA, AA and A Bond Insurance options are virtually gone
- Bond investors' appetites for risk are changing
- Swap Counterparty Defaults
- Availability/Pricing LOCs changed significantly
- Banks downgraded – failed remarketings



Dramatically Steepened Yield Curve



Have/Have-Not Gap Remains Wide



Plotting Your Course

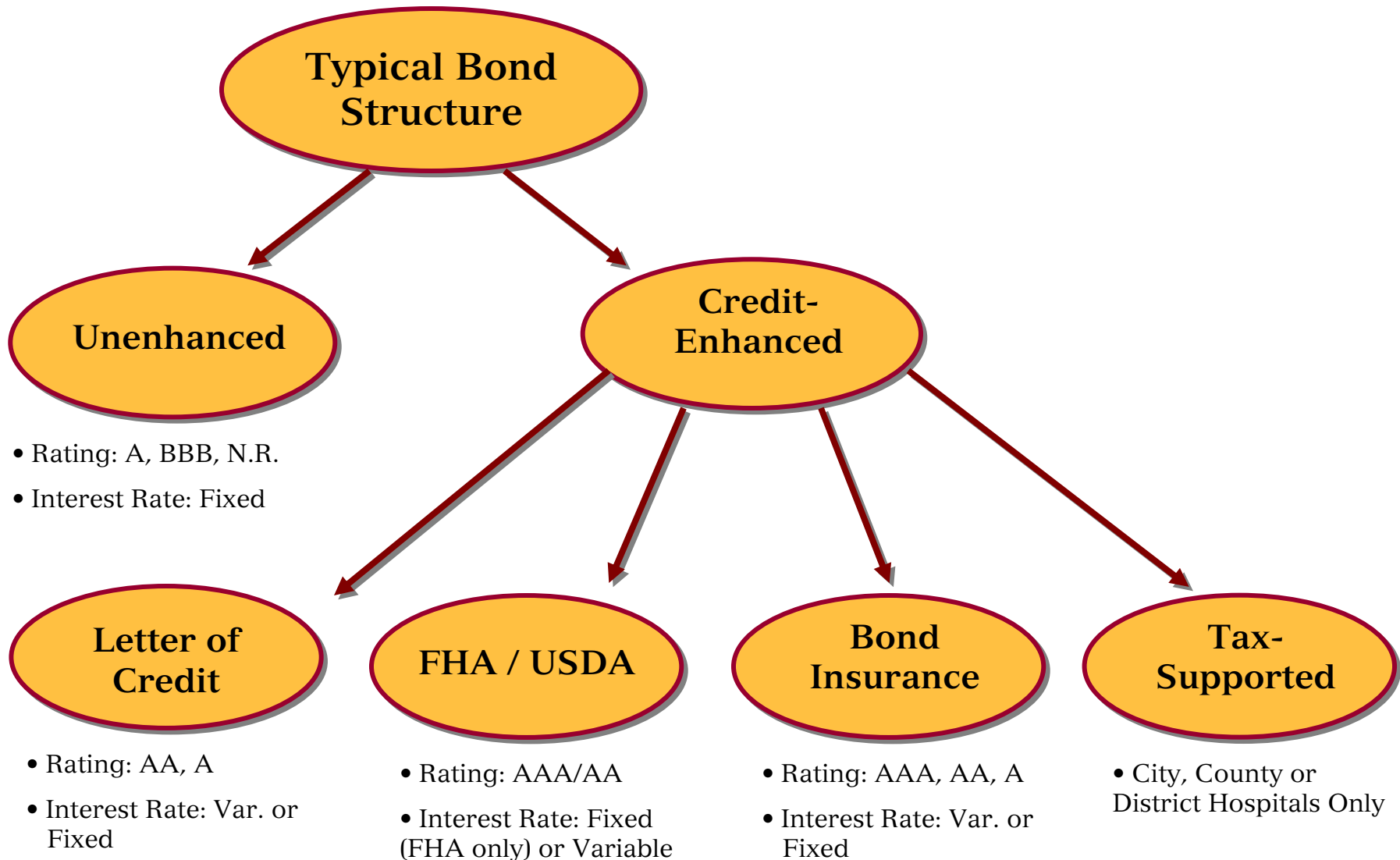
- **Select** the Right Development Team Members
- **Identify & Prioritize** Strategic Opportunities & Other Capital Needs
- **Quantify** Available Capital Resources
- **Calculate** Debt Capacity
- **Integrate** the Balance Sheet
- **Evaluate** Overall Credit Profile and other debt considerations





Tacking Through The Financing Options

Existing Debt Structuring Options



(New) Build America Bonds (BABs)

What's New?

Created in 2009 ARRA for public hospitals

Deadline?

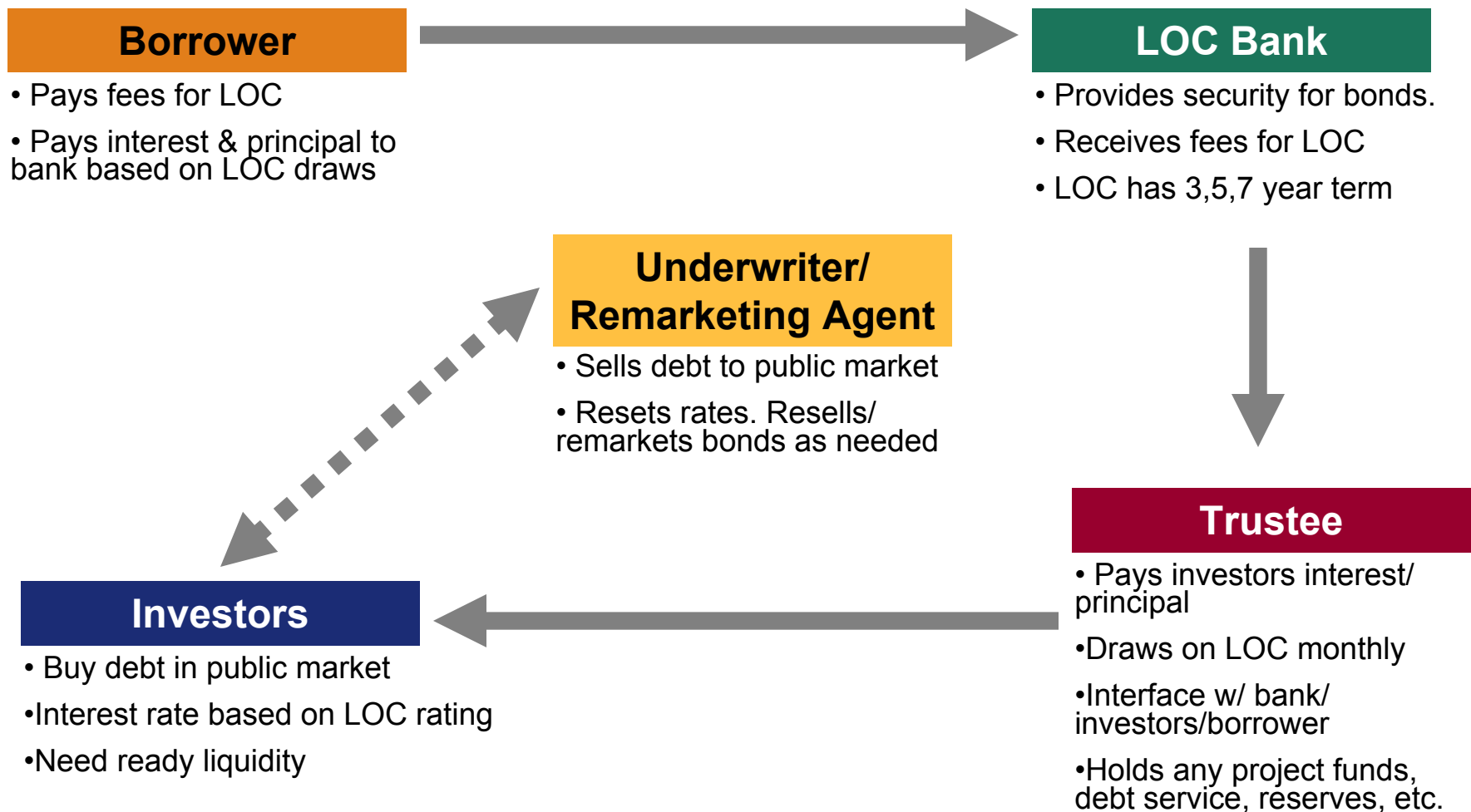
Expire after 2010 unless extended.

What's Special?

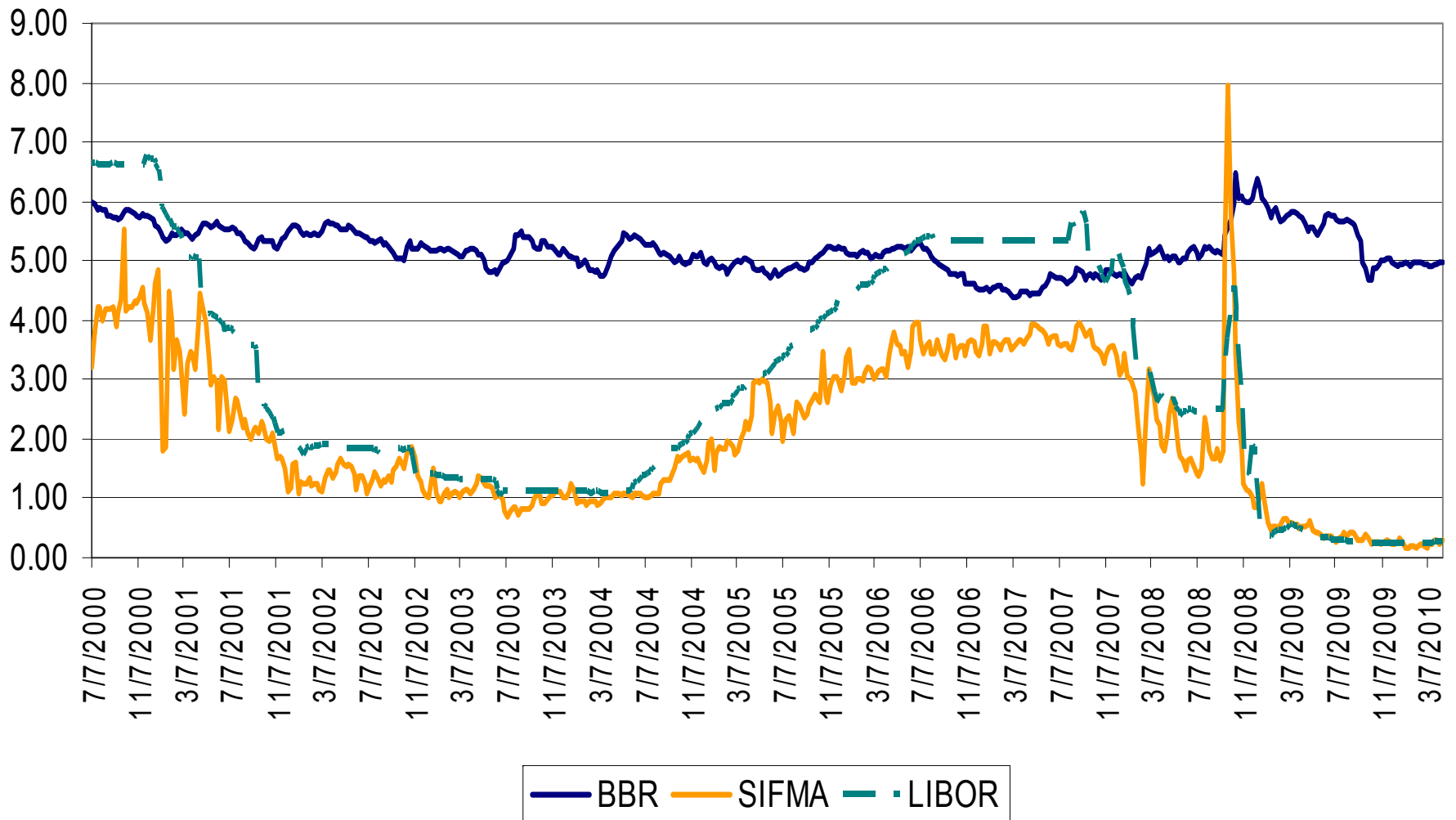
Reimburses 35% of interest coupon cost

- Reimburses hospital for 35% of interest coupon costs, 45% for Recovery Zone Economic Development Bonds
- Restricted to county, city, or district-owned hospitals
- BAB subsidy cannot be applied to tax-exempt bonds – only taxable
- New construction or substantial rehab only; no refinance
- Fiscal 2011 budget proposes extending to nonprofits in 2011 and reducing subsidy to 28%. House bill passed in March would extend BABs to 2013 & reduce subsidy but not extend BABs to nonprofits.

(Revisit) Generic Letter of Credit Structure



Attractive Rates for LOC/Bank Structures!



(New) Federal Home Loan Bank Letter of Credit (FHLB LOC)

What's New?

Non-housing tax-exempt bonds are eligible as of July 2008

Deadline?

Eligibility expires after 2010

- Provides access to LOC backed VRDB market for non-rated or low-rated community banks through 12 FHLB's
- Local bank LOC is backed by AA or AAA FHLB
- Hospitals eligible through 2008 Housing & Economic Recovery Act
- Variable interest rate can be synthetically fixed
- Projects must be small enough for local banks to handle
- Enhancement costs 15 to 45 basis points

(New) Federal Home Loan Bank Letter of Credit (FHLB LOC)

What's New?

Non-housing tax-exempt bonds are eligible as of July 2008

Deadline?

Eligibility expires after 2010

What's Special?

Use local banks for smaller projects. Borrow at AAA, AA+ or AA- rate.



- Existing LOC provider forced a refinance before end of term.
- Interim debt structure needed to be flexible because of near-term expansion project.
- Commercial banking sector generally not lending at the time
- Options: Local bank direct loan vs. FHLB
- FHLB savings: \$105,000 over 15 months.
- All-in 2% weekly reset with flexibility to pre-pay when new project comes on line

(New) Bank Qualified (BQ) Bonds

What's New?

- 2009 ARRA raised limit from \$10M to \$30M & applied limit to borrower instead of issuer

Deadline?

- Limit reverts to \$10M after 2010 and will again pertain to the issuer

- Banks may not deduct the carrying cost of tax-exempt bonds unless the bonds are designated “bank-qualified.”
- Banks can deduct 80% of the carrying cost of BQ bonds.
- Allows non-rated (or non-investment grade) banks to participate via a direct purchase of bonds

(New) Bank Qualified (BQ) Bonds

What's New?

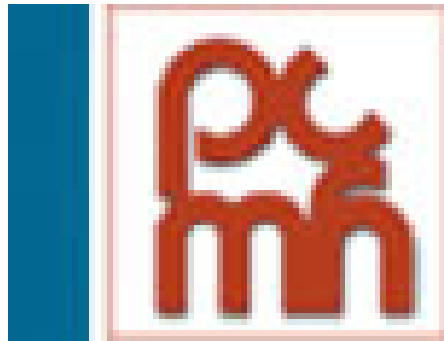
- 2009 ARRA raised limit from \$10M to \$30M & applied limit to borrower instead of issuer

Deadline?

- Limit reverts to \$10M after 2010 and will again pertain to the issuer

What's Special?

Use local or smaller banks to achieve affordable rates



- \$16 million renovation
- Local banks interested in participating
- Interest rate lower than conventional tax-exempt bonds
- Prepayment flexibility
- No debt service reserve fund needed

(Revisit) Federal Housing Administration (“FHA”)

What’s New?

Refinancing now allowed

Deadline?

No expiration

What’s Special?

Mortgage insurance cost is not risk based

- 100% refinance now permitted
- .50% annual insurance premium – not risk-based
- “AAA” debt rating if taxable; “AA” if tax-exempt
- No financial guarantees or covenants; non-recourse
- Up to 25-year amortization with fixed interest rate
- Must provide real estate mortgage

(Revisit) U.S. Dept. of Agriculture: Community Facilities

Direct Loans

- Fixed rate up to 40 years
- Limited funding available
- Often combined w/ guaranteed loan

Guaranteed Loans

- One-time 1.00% guarantee fee covers up to 90% of the debt
- Up to 40-year amortization
- Fixed or variable interest rates

- Direct loan rates reset quarterly, currently 4.125%
- Guaranteed loans are taxable, negotiable rates
- Loans are not publicly traded – held by banks
- Increased direct loans with ARRA, prevailing wages required
- Grants available for smaller needs
- Phased projects can be funded over time
- Must demonstrate you cannot get funding by other means



Chippewa War Memorial Hospital

- Need to refinance existing bonds & bank debt
- Series of phased equipment & capital projects
- Total financing needs of \$40 million
- Resulting structure:
 - \$20 million direct debt:
 - new LTC unit & other LT assets over 3 year period
 - \$20 million guaranteed debt:
 - refinance primarily & ST assets
 - 20 year amortization
 - Parity debt between direct & guaranteed loans

Arriving at the Destination

- Some funding options expire this year
- Exploring multiple options provides flexibility
- Integrating the balance sheet is critical
- Timely addressing expiring bank renewals
- Proactively managing your Hospital & its credit profile ensures access to capital!



Thanks for Your Participation!

Questions?

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