

Case Study: Hopedale Medical Complex

Hospital Type:

Critical Access Hospital

Location:

Hopedale, IL

Project Objective:

Refinance

Financing Amount:

\$5.5 million

Source of Funding:

Tax-exempt variable-rate bonds enhanced by a local bank letter of credit and backed by a Federal Home Loan Bank letter of credit.

Background and Challenges

Hopedale Medical Complex is a 25-bed Critical Access Hospital just outside Peoria, Ill. With a major construction and expansion project on the horizon, hospital leadership was not looking to change its existing debt structure until it needed to. But when a miscommunication occurred between the hospital's letter of credit bank and its trustee, Hopedale's variable-rate bonds were converted to bank bonds. The bank refused to restructure or renew the letter of credit, and Hopedale was forced to refinance the \$4.5 million in outstanding debt.

With a \$20 million expansion project approximately one year away and the need for approximately \$1 million in capital to fund pre-project costs, Hopedale needed a solution that could be implemented quickly, and that would also provide the flexibility to exit the structure penalty-free after a short 15-month period.

Financial Solution

Two options arose. A local bank stepped up and offered to provide a direct loan. Lancaster Pollard, which was already working with Hopedale to remarket its variable-rate debt, suggested a second option: Issue bonds enhanced by a letter of credit from the same local bank, and support the issuance with a Federal Home Loan Bank letter of credit to access the Chicago FHLB's AA+ credit rating.

Lancaster Pollard's analysis indicated that the cost of issuance associated with the FHLB option would cost approximately \$50,000 more than the direct loan, but that its lower interest rate would make it the less expensive option just five months into the term, saving the hospital a total of \$105,000 over 15 months. Further, the FHLB option provides a more permanent financing option in the event the major capital project fell through; the bank loan would have to be refinanced at the end of its short term, with no guarantee that the hospital would be able to secure permanent financing.

Outcome

Hopedale issued variable-rate tax-exempt bonds, and the hospital's FHLB letter of credit transaction closed in 75 days. There is no prepayment penalty, and the all-in interest rate resets weekly at about 2 percent. Hopedale is one of the nation's first hospitals to use this FHLB letter of credit structure, which became available to hospitals in 2008 and expires after 2010.

Financing Progress

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