

## Case Study: Hilty Memorial Home

### Property Type:

Continuing Care Retirement Community

### Location:

Pandora, Ohio

### Project Objective:

Replace Letter of Credit and Finance Expansion

### Financing Amount:

\$4.16 million

### Source of Funding:

Tax-exempt bonds enhanced by a local bank letter of credit that is wrapped by the Federal Home Loan Bank.

*"Lancaster Pollard guided us in using a new credit enhancement that let us keep a local banking relationship strong and bring new revenue-generating units on line without increasing our cost of capital. They clearly worked hard to get it done for us in just two months and keep us on our tight schedule."*

*Joy Reichenbach, Administrator  
Hilty Memorial Home*

### Background and Challenges

Hilty Memorial Home is run by the Missionary Church East Central District. Its 80 units offer a range of services from skilled nursing to memory care to independent and assisted living. The rural provider issued bonds in 2004 to renovate and add new units, reducing the interest rate on the bonds by wrapping a local bank's letter of credit (LOC) with a highly-rated corresponding bank's credit enhancement.

In late 2009, Hilty faced a dramatic increase in the corresponding bank's credit enhancement fee. Hilty maintained a strong desire to keep its local bank, First Federal of the Midwest, involved in the project, and it also sought financing to respond to demand for additional assisted living units.

### Financial Solution

As a small provider with limited liquidity, Hilty would have faced challenges in accessing capital via conventional channels. Lancaster Pollard recognized an opportunity to replace the bank credit enhancement by utilizing a new Federal Home Loan Bank (FHLB) credit enhancement option made available as part of the 2008 Housing and Economic Recovery Act. The little-known structure had been used only once before in Ohio. It expires after 2010, and many local banks and providers remain unaware of it.

The FHLB credit enhancement serves as a standby letter of credit to that provided by non-rated or lower-rated banks. The borrower ultimately issues its debt on the credit strength of its regional FHLB, of which there are 12 nationwide, all rated AAA or AA.

### Outcome

Hilty replaced the larger bank's LOC wrap with an FHLB LOC wrap and retained its local bank as the primary credit supporter. It also financed a small assisted living expansion project. Further, the FHLB enhancement carries an evergreen renewal period at FHLB's discretion, helping to mitigate future renewal risk for the 20-year bond issue. By using the FHLB enhancement, Hilty was able to capitalize on strong local bank relationships, refinance, and add new revenue-generating units without increasing its cost of capital.

This is the first senior living project in Ohio supported by the Federal Home Loan Bank of Cincinnati, and the fifth non-housing project it has supported in its three-state jurisdiction.

### Financing Progress

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