CHEFA
Connecticut Health and Educational Facilities Authority
Investments that build a brighter future

capital ideas

Fall 2009

Welcome to our first edition of **capital ideas**.

Our goal is to inform our clients and contacts in Connecticut nonprofits of important news and events in the tax-exempt financing industry that may help more effectively manage resources and strategic plans.

We welcome your feedback on this endeavor and future editions.

We, at CHEFA, wish you and your family a happy, healthy and safe holiday season.

Jeffrey A. Asher

JEFFREY A. ASHER
Executive Director

New Capital Financing Products

The federal government recently unveiled new capital-financing programs to assist nonprofit borrowers in meeting their capital financing needs.

Up to $30.0 Million in Tax-Exempt Financing Available Through Local Banks - Bank Qualified Debt

Thanks to the American Recovery and Reinvestment Act of 2009 (the "ARRA"), during 2009 and 2010, non-profits can borrow up to $30.0 million through CHEFA on a tax-exempt basis using tax incentives that make it attractive for banks to buy your bonds. This translates into a lower cost of funds for your institution. This financing program is only available to those nonprofit borrowers that issue no more than $30.0 million in tax-exempt bonds per year.

Since bank-qualified debt is privately placed with your local bank, the financing process can be much simpler and the transaction costs are lower than a traditional public offering.

Hospitals Can Now Access Federal Mortgage Insurance to Refinance High-Interest Debt

HUD/FHA Section 242 Hospital Debt Re-financing Program

FHA recently announced a tax-exempt refinancing program for hospitals, which provides a means to refinance high interest; tax-exempt bonds with a fixed rate, FHA mortgage insured bond issue. The FHA insurance program can provide the bonds with a "AAA" rating from Standard & Poor's and a "Aa2" rating from Moody's, thereby reducing your interest cost. (continued)...

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In order to qualify your facility must be an acute care or chronic disease hospital. The operating margin for the last three fiscal years must have been .33% or higher, the debt service coverage ratio for the past three fiscal years must have been 1.80 times or higher and you must be able to demonstrate an interest rate savings of at least 1%. FHA recognizes that these underwriting criteria will disqualify many prospective borrowers and they are currently considering their revision.

New Federal Program Provides More Options for Financing on a Variable Interest Rate Basis

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

If your institution is interested in issuing variable interest rate tax-exempt bonds backed by an LOC to provide funding for capital projects, and an LOC from a national or regional bank does not appear to be an option for you, you may want to consider obtaining a letter-of-credit issued by your local bank. Many smaller local banks do not have a short-term rating high enough to meet the tax-exempt bond market requirements. However, due to recent Congressional action, the FHLB LOC program may now be able to provide a "confirming" LOC on an LOC issued by your local bank, which would bring the rating up to the required level.

The lending authority of the FHLB system was expanded to include projects for health and educational facilities. The Federal Home Loan Bank of Boston (FHLBBoston) is a "AAA" confirming letter of credit provider and it provides a "wrap" on a letter of credit issued by your local bank. Many of the local banks in Connecticut are members of the FHLBBoston and can participate in this new lending initiative. This program is available to fund new capital projects or to re-finance existing debt for capital projects.

Please contact Michael Morris at 860-761-8424 or mmorris@chefa.com for more information or to arrange a meeting to review these loan programs.

CHEFA Modifies Healthcare Underwriting Guidelines Criteria

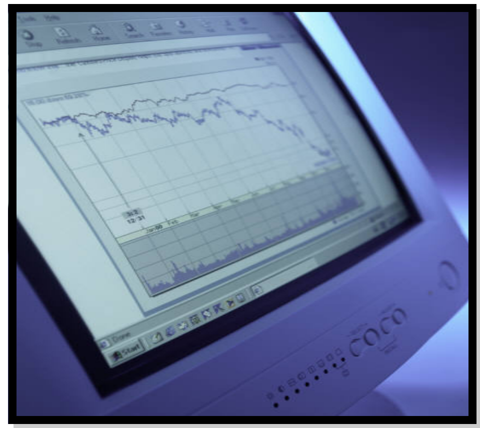
In response to the lack of credit enhancement options for our borrowers and in order to provide continued access to capital, the Authority has modified its underwriting guidelines to enable borrowers to issue bonds based on the institution's own credit rating. The following guidelines now apply:

- *Public Offering*: Minimum rating of "Baa2/BBB/BBB" from at least two of the three nationally recognized rating agencies (Moody's, Standard & Poor's, or Fitch) with no negative indications; $5,000 denominations permitted;
- *Limited Public Offering*: Issues rated "Baa3/BBB-/BBB-" by any one of the three nationally recognized rating agencies, with no negative indications with minimum $100,000 denominations; and
- *Private Placement*: Required for a rating below "Baa3/BBB-/BBB-" by any one of the three nationally recognized rating agencies or any unrated issue. May be sold only to accredited investors or qualified institutional buyers with an initial investor letter acceptable to the Authority or with credit enhancement acceptable to the Authority.

The Board of Directors of the Authority accepted the preceding as general guidelines, but will evaluate each bond offering on a case-by-case basis.

Expert Panel Provides Market Update to CHEFA Board

At its monthly meeting on October 27, CHEFA's Board of Directors heard an update on market conditions from three financial advisory firms. The three firms - Acacia Financial Group, Lamont Financial Services, and Public Financial Management - serve as financial advisors to CHEFA and are assigned as needed to assist with CHEFA bond transactions.



Discussion focused on how the general improvement in the municipal market over the past few months has affected the health and education sectors. While access to capital has improved significantly for health care and educational institutions rated "A" or better by one of the three major rating agencies, access has remained challenging throughout most of this year for credits in the "Baa/BBB" categories. Recent bond sales, however, indicate some improvement even for those weaker credits.

The three transactions profiled by the panel were:

- The Ethel Walker School, $8,220,000 Series B Revenue Bonds, rated "BBB-". The bonds priced on September 22 in four term maturities marketed to institutional investors in $100,000 denominations (as required by CHEFA's underwriting guidelines). The 2039 maturity achieved a yield of 6.185%.

- Whitworth University, $63,720,000 Revenue and Refunding Bonds Series 2009, rated "Baa1." The bonds, issued through the State of Washington Higher Education Facilities Authority, were marketed to institutional investors on October 22 in $5,000 denominations. The 2040 maturity achieved a yield of 5.72%.

- Southcoast Health System, $56,030,000 Revenue Bonds Series D, rated "A2/A." The bonds were sold in $5,000 denominations through the Massachusetts Health and Educational Facilities Authority on September 25. Approximately 20% of the issue was sold to retail investors. The 2039 maturity achieved a yield of 5.08%.

The panel noted that breaking through a 6% yield for borrowers in this sector rated in the "BBB" category (as with the Whitworth University issue) is a milestone in the current market. The panel provided insight on the role of retail buyers in the health and education sectors, noting that retail is generally not going to participate below the "A" rating level. Retail participation can be a significant factor in bond pricing, as evidenced by the success of the Southcoast Health System transaction.

The overall conclusion of the discussion was that the market has improved substantially over the course of this year for health and education borrowers, although those at the lower end of the investment grade credit spectrum (e.g.; "BBB-" or "BBB") will continue to be somewhat challenged in accessing capital. The Ethel Walker transaction, however, shows that a successful financing can be achieved even by those lower rated credits.