CHEFA Connecticut Health and Educational Facilities Authority

NEW HEALTHCARE TAX-EXEMPT FINANCING OPTIONS

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- CHEFA AND CHA MEET WITH CONNECTICUT'S CONGRESSIONAL DELEGATION TO PUSH FOR THE CREATION OF A FEDERAL MUNICIPAL BOND INSURANCE PROGRAM

We are pleased to provide you with an update on recent changes made by CHEFA relating to its underwriting guidelines, as well as new financing options recently enacted or under consideration by the federal government that could help your institution fund new capital projects or refinance debt outstanding for existing capital projects.

CHEFA MODIFIES ITS HEALTHCARE UNDERWRITING GUIDELINES/CRITERIA

In order to facilitate access to capital for CHEFA healthcare borrowers, the following guidelines for unenhanced offerings 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 CHEFA accepted the above as general guidelines, but will evaluate each proposed bond issue on a case-by-case basis.

Security/Covenant Provisions (Public Offerings)

Will be evaluated in light of industry standards and reviewed on a case-by-case basis.

Security/Covenant Provisions (Private Placements)

With respect to private placement offerings, all financial covenants and security provisions are determined by the institutional or accredited investors purchasing the bonds.

NEW TAX LAW CHANGES BROADEN THE INVESTOR BASE FOR TAX-EXEMPT DEBT

Bank Qualified Debt (For Newly Issued Bonds in 2009 and 2010)

The American Recovery and Reinvestment Act of 2009 (the "Act") has enacted changes which provide banks with enhanced tax incentives to purchase tax-exempt bonds by changing the definition of "bank-qualified" debt. Bank-qualified debt was previously defined to be debt issued by "qualified small issuers" that sold no more than $10 million of debt annually. The definition has now been expanded so that the maximum annual issuance amount is $30 million and for 501(c)(3) bonds, the limit will be applied to the borrower, rather than the issuer, in instances where there is a conduit issuing authority. The Act allows banks to deduct 80% of the carrying costs of purchasing bank-qualified debt under this new definition in 2009 and 2010 (under the Act, the new definition applies only for these years) to the extent that the investment in the bonds does not exceed 2% of the bank's total assets. By expanding the definition of bank-qualified debt, the Act effectively broadens the investor base for bonds that qualify. This may translate into a lower cost of funds for the borrower, making a financing more affordable.

If your institution plans to issue no more than $30.0 million per year in tax-exempt debt through CHEFA in 2009 and 2010, your debt may qualify under this program.

NEW TAX-EXEMPT FINANCING SUPPORT THAT YOUR LOCAL BANK MAY NOW BE ABLE TO PROVIDE

Federal Home Loan Bank Letter of Credit Program

In July 2008, Congress expanded the ability of the Federal Home Loan Banks to guarantee bank letters of credit by including guarantees of letters of credit issued for healthcare facilities and educational institutions. Previously, Federal Home Loan Banks could only support community-level housing and economic development initiatives.

The Federal Home Loan Bank of Boston (FHLBBoston) is a "AAA" confirming letter of credit provider that can provide a "wrap" on a letter of credit issued by its member banks. Many of the local banks in Connecticut are members of the FHLBBoston and can participate in this new initiative. By issuing letter of credit backed bonds that are wrapped by FHLBBoston, your institution may be able to access the debt markets with bonds carrying a "AAA" long-term rating and correspondingly high short-term ratings. This program has some restrictions, but is available to fund new capital projects or to refinance existing debt for capital projects.

CHEFA and CHA Meet with Connecticut's Congressional Delegation to Push for the Creation of a Federal Municipal Bond Insurance Program

CHEFA Executive Director Jeff Asher was invited to join Stephen Frayne, the Senior Vice President, Health Policy for the Connecticut Hospital Association, in a series of meetings with staff of Connecticut's congressional delegation on March 30th and 31st in Washington, D.C. Steve and Jeff made presentations to the staffs of Congressmen Murphy, Larson, Himes, Congresswoman DeLauro, and Senators Dodd and Lieberman. *(A copy of Jeff's presentation is attached.)* They also met with the Senior Counsel to the U.S. Senate Committee on Banking, Housing and Urban Affairs.

The House Financial Services Committee Chair, Congressman Barney Frank, is expected to introduce legislation to create a federal municipal bond insurance program to provide direct guarantees or to re-insure municipal debt issued by municipal and state issuers. This program is needed to replace the private bond insurers that are effectively no longer in this business due to their rating downgrades. The purpose of the meetings in Washington was to advocate for expansion of the program to include not only debt issued by state and local governments, but also tax-exempt debt issued by governmental issuers like CHEFA on behalf of 501(c)(3) institutions.

As a result of the meetings, we believe that we have the support of most members of Connecticut's congressional delegation for a federal municipal bond insurance program that includes debt issued by governmental issuers on behalf of 501(c)(3) institutions. Congressman Himes has personally agreed to co-sponsor legislation that would include our recommendations and the Senior Counsel to the U.S. Senate Committee on Banking provided a copy of a letter authored by Senator Dodd to Treasury Secretary Timothy Geithner urging him to use authority they believe he has under the Troubled Assets Relief Program (TARP) to purchase or offer credit guarantees for certain state and municipal bonds. Steve and Jeff were assured by Dean V. Shahinian, Senior Counsel to the U.S. Senate Committee on Banking, that the intent and interpretation of the TARP legislation is that debt issued by governmental issuers like CHEFA is included in the municipal bonds provision.

We will keep you apprised of further developments with regard to this initiative.

If you have an interest in receiving additional information or in arranging a meeting to discuss any of these issues further, please contact Jeff Asher, Jeanette Weldon, or Michael Morris as indicated below.

Sincerely,

Jeff Asher (dp)

Jeffrey A. Asher
Executive Director
860-761-8414
jasher@chefa.com

Jeanette W. Weldon
Managing Director
860-761-8453
jweldon@chefa.com

Michael F. Morris
Assistant Director
860-761-8424
mmorris@chefa.com

Attachment

PROPOSAL FOR A FEDERAL MUNICIPAL BOND INSURANCE PROGRAM

BY THE CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY (CHEFA)

WHAT WILL WORK

The nation's hospitals need access to bond insurance for fixed rate bond issues that the current mono-line bond insurers can no longer provide because of the lowering of their ratings by Moody's, S&P and FITCH.

HOW YOU CAN HELP

- The nation's hospitals need you and other members of Congress to support the creation of a federal municipal bond insurance program to provide direct credit enhancement for municipal bonds.

- We need your help to make sure that any federal municipal bond insurance program includes debt issued by governmental issuers on behalf of 501 (c)(3) entities (such as non-profit hospitals) in addition to municipal debt sold by state and local issuers.

WE NEED YOUR HELP TO CREATE A FEDERAL MUNICIPAL BOND INSURANCE PROGRAM

- This program should provide insurance for new debt issuance and re-insurance of insured bonds currently outstanding.
- This program is needed to stimulate investments in municipal bonds for capital improvements by Connecticut hospitals to upgrade aging physical plants and to purchase new technologies.
- This program is needed to help Connecticut hospitals maintain their financial viability, to grow their workforce and contribute to Connecticut's economy. Many Connecticut hospitals are the largest employers in their communities.

THERE IS A CRISIS IN THE HEALTHCARE TAX-EXEMPT CAPITAL MARKETS THAT YOU CAN HELP FIX

- Fixed-Rate Insured – As of today, Assured Guaranty is the only option in Connecticut but the premiums are expensive and only available to the strongest credits.
- Variable Rate – Letters of credit (LOC) are difficult to obtain, pricing is expensive and some LOC banks require the hospital to purchase an interest rate SWAP in order to convert the rate to a synthetic fixed rate to protect the hospital from interest rate variability.
- Fixed-Rate Unenhanced Issue – Healthcare is considered risky, credit spreads are wide, and many hospitals are rated below investment grade. Their only option is a private placement or to issue with credit enhancement.

THERE IS A CRISIS IN CONFIDENCE AND IN ACCESS TO BOND INSURANCE

- Assured Guaranty and Berkshire Hathaway (currently not insuring healthcare credits) are the only highly rated municipal bond insurers. Many bond insurers are now marginally investment grade.
- Connecticut hospitals have $888.9 million in insured debt outstanding. At least $200 to $300 million in new projects have been scaled back or put on hold because of market conditions and lack of credit enhancement.
- Investors may be faced with holding an insured bond and the bond insurer might not be able to honor its insurance commitment.
- It will take a long time before investors and borrowers have confidence in any "new" municipal bond insurer created as affiliates of current municipal bond insurers (MBIA and Ambac).

THERE ARE LETTERS OF CREDIT/VARIABLE RATE BONDS CONCERNS

- Many banks are not issuing new letters of credit.
- Pricing is getting very expensive with rates climbing from 45 basis points to as high as 250 basis points.
- Connecticut hospitals have $875.9 million in variable rate letter of credit enhanced bonds outstanding. Hospitals with at least $200 million of these bonds want to convert to fixed but can't.
- Banks have indicated that they may not renew the letters of credit or they may renew but at very high rates.
- Many LOC providers have required Hospitals to enter into synthetic fixed-rate SWAP agreements.
- Because of the current interest rate environment, hospitals now must fund significant cash collateral for the swaps. Some hospitals are faced with reducing staff and cutting pay to fund this collateral.
- Variable rate debt has its place in a debt management strategy for those hospitals that can manage the risk; however, it shouldn't be used just because an LOC is the only credit enhancement available.

PROPOSAL FOR A FEDERAL MUNICIPAL BOND INSURANCE PROGRAM

BY THE CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY (CHEFA)

WE NEED YOUR HELP IN ADDRESSING INVESTOR RISK ISSUES

- Investors have lost confidence in the healthcare municipal debt market.
- Investors are holding insured bonds that are losing value and if they can get someone to buy them, it is at a deep discount.
- Investors view healthcare as risky investment and they are demanding very high yields.
- Investor demand for unenhanced transactions is limited and credit enhancement provides a way to diversify the investor base so that more deals get done.
- Many small investors are at risk of significant losses if bond insurers can no longer honor their insurance commitments.

QUESTIONS?

- Please call or email: Jeffrey A. Asher, Executive Director, Connecticut Health and Educational Facilities Authority, 10 Columbus Boulevard, Seventh Floor, Hartford, CT 06106-1978; 860-761-8414; jasher@chefa.com