

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Pooled Loan Program 1985 Series B
Amendment to Indenture

Staff Summary of
Resolution No. 2003-02

July 31, 2003

ISSUE: The existing Liquidity Agreement for the Authority's Pooled Loan Program 1985 Series B is scheduled to expire on October 3, 2003. FGIC Securities Purchase, Inc., (the "Existing Liquidity Facility") has declined to extend the terms of its Agreement. A commitment has been secured from Société Générale, New York Branch (the "Alternate Liquidity Facility") in substitution for the Existing Liquidity Facility. This substitution of an Alternate Liquidity Facility requires an amendment to the Indenture and Loan Agreements for the 1985 Series B Pooled Loan Program.

BACKGROUND: The Authority issued its California Health Facilities Financing Authority Floating Rate Weekly Demand Revenue Bonds (Pooled Loan Program), 1985 Series B (the "Bonds") in the original aggregate amount of \$100,000,000. The Bonds were issued pursuant to an Indenture between the Authority and First Interstate Bank of California, predecessor trustee to BNY Western Trust Company of California, as trustee (the "Trustee"), and were insured by Financial Guaranty Investment Company ("FGIC").

In addition, due to the variable rate structure of the issue, the Authority entered into a Standby Bond Purchase Agreement with Morgan Guaranty Trust Company of New York, to provide liquidity (the "Liquidity Facility") for the Bonds. The original structure of the liquidity for the Bonds was a 10-year term, with a provision for annual extensions to preserve the program. Original loans under the program were both short-term (10 years or less) and long-term (over 10 years). New loans are limited to the short-term, now seven years or less as the Bonds mature in 2010. In 1993, the Liquidity Facility determined it no longer desired to participate as liquidity provider and was replaced by the Existing Liquidity Facility under an agreement scheduled to expire on October 3, 2003. The Existing Liquidity Facility has declined to extend the terms of its existing agreement.

This pooled loan program is unique to the Authority in that it is the only current bond financed program where loan principal payments can be recycled to new borrowers. While one of the most successful of the Authority's pooled loan financing opportunities, the program has wound down to having only six loans outstanding totaling approximately \$9.6 million with \$6.8 million available for additional loans under the program.

Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, has provided guidance to the Authority on requirements as to replacing the Existing Liquidity Facility and notification of participating health institutions and others as to the changes in the program, and has prepared the majority of the documents necessary for the replacement of the Existing Liquidity Facility. Following a Request for Proposal process, a commitment has been secured for a replacement of the Existing

Liquidity Facility from the Alternate Liquidity Facility to provide liquidity for a term of seven years, or until the Bonds mature in 2010.

In order to preserve the existing loans under the Bonds and continue to process new applications for financing for qualified borrowers, it is necessary for the Authority and the Trustee to enter into a Standby Bond Purchase Agreement with the Alternate Liquidity Facility. In addition, it will be necessary for the Authority to amend the Indenture and enter into a Supplemental Indenture with the Trustee in order to make such modifications as are necessary or appropriate in order to provide for and accommodate the Alternate Liquidity Facility. Furthermore, it is necessary for the Authority to amend separate project loan agreements with each participating borrower in order to accommodate the Alternate Liquidity Facility and enter into Supplemental Loan Agreements with each of the borrowers.

STAFF RECOMMENDATION: Staff recommends the Authority approve a resolution authorizing an Alternate Liquidity Facility and related document amendments for the Pooled Loan Program 1985 Series B.