MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Catholic Health Initiatives (CO) to A2; Outlook negative

Global Credit Research - 26 Jan 2015

P-1 ratings affirmed; $8.3B debt outstanding

New York, January 26, 2015 -- Moody's Investors Service has downgraded Catholic Health Initiatives (CHI) fixed rate and variable rate revenue bonds (supported by standby bond purchase agreements, and self-liquidity) to A2 and A2 / VMIG 1, from A1 and A1/VMIG 1. The P-1 rating on CHI's self-liquidity backed commercial paper has been affirmed. CHI has a total of $8.3 billion of debt outstanding. The rating outlook remains negative at the lower rating level.

SUMMARY RATING RATIONALE

The downgrade to A2 follows a fourth year of declining operating performance, and a second year of very poor consolidated results. This is CHI's third one-notch downgrade in three years. Other factors driving the weaker credit profile include high leverage (which has more than doubled since 2011), declining liquidity, rapid expansion, high capital spending, and poor same-store utilization and revenue growth. Strengths of the organization include good geographic diversification (entailing significant operations in 19 states), a diversity of operating entities (consisting of 105 hospitals, including large tertiary referral centers, significant community hospitals, and approximately 30 critical access hospitals), and good market concentration (including the leading or near-leading market position in nine different markets).

The VMIG 1 and P-1 ratings on the self-liquidity backed variable rate demand bonds and commercial paper are based on CHI's ability to provide liquidity on a timely basis. CHI maintains dedicated lines of credit that - in combination with adequate daily liquidity and a sizable investment portfolio of weekly investments - gives security to meet unremarketed tenders. CHI's self-liquidity procedures are well defined, including sources of liquidity, liquidation procedures, and persons responsible for asset liquidation. Liquidity challenges include swap collateral posting requirements and an underfunded defined benefit pension plan. Were CHI's long-term rating to fall below A2, the self-liquidity-backed short term ratings would be downgraded as well.

OUTLOOK

The negative rating outlook reflects ongoing operating pressure, concerns over weakening liquidity, and modest debt measures. Failure to make timely improvement to consolidated performance measures, and to protect the balance sheet from further weakening, would likely result in a downgrade.

WHAT COULD MAKE THE RATING GO UP

• Material and sustained improvement in operating measures to levels consistent with A1 medians

• Significant strengthening of balance sheet and debt measures

WHAT COULD MAKE THE RATING GO DOWN

• Failure to improve operating results

• A further drop in liquidity

• Increased debt (including additional material increase of CP under current authorization)

OBLIGOR PROFILE

CHI was formed in 1996 upon the merger of four national Catholic health care systems. Today it is a faith based, not-for-profit integrated delivery system operating in 19 states and includes 105 hospitals, long-term care, assisted-and residential-living facilities, and over 3,400 employed physicians. In FY 2014, it generated $13.4 billion in operating revenue, making it the third largest not for profit hospital system rated by Moody's. CHI's largest

operations (as measured by revenue) are in Kentucky, Nebraska, Washington, Colorado, Texas, Ohio, and Iowa.

LEGAL SECURITY

The bonds are secured through the restricted affiliate legal structure with CHI the only primary obligor, which Moody's views as riskier than a joint and several obligation of all operating entities, providing incremental risk to bondholders. CHI is the parent company of organizations that own and operate health care facilities (primarily the Participants). CHI has formed the CHI Credit Group consisting of an Obligated Group, Participants, and Designated affiliates under a Capital Obligation Document (COD). CHI has agreed in the COD that it will cause each member of the Credit Group (subject to contractual and organizational limitations) to pay or otherwise transfer to CHI such amounts as are necessary to duly and punctually to meet debt service on all outstanding obligations under the COD. The only Current Designated Affiliate is Bethesda Hospital, Inc. (Bethesda)). Bethesda participates in a joint operating agreement with CHI and has agreed to comply with provisions of the COD though they are not legally liable for debt issued under the COD. Bethesda represents less than 4% of the Reporting Group's net assets and total operating revenues.

USE OF PROCEEDS

Not Applicable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. Additional methodologies used in this rating were Variable Rate Instruments Supported by Conditional Liquidity Facilities published in May 2013 and Rating Methodology for Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity published in January 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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