

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Discussion and Action on the Minimum Rating Requirements for Bonds that will be Issued to Fund Cal-Mortgage Backed Loans to Asian Health Service of Oakland, California and The Help Group of Sherman Oaks, California

Staff Summary Resolution No. 2009-09 July 30, 2009

At the conclusion of the Authority's June 25, 2009 Board Meeting, the Authority learned via a member of the audience (Diane Potter of Orrick, Herrington and Sutcliffe), that one of the rating agencies downgraded the State's rating during the course of the Authority Meeting. Another rating agency has also downgraded the State since that time.

This was significant news because Agenda Item Numbers 5 and 7 of the Authority's Agenda, Asian Health Services and The Help Group, both tax-exempt bond transactions, are insured by Cal Mortgage. Cal Mortgage Insurance extends the State's credit rating to the insured. In as much as the Authority had approved these transactions subject to a minimum of "A-" rating, the downgrade provoked a question, whether the Board should then permit these transactions to go out to the market with the newly downgraded rating of the State, i.e., below the previously granted "A-" rating.

After a long discussion by the Board, including input from bond counsel, the underwriter, and the borrowers, the Board granted a 45-day window in which to go out to the market, subject to a minimum rating of "BBB+" or higher. This 45-day window was granted by way of a separate resolution which is attached to the original resolution authorizing a minimum "A-" rating.

The expiration of these second resolutions will occur in between Authority meetings set for July 30 and August 27. Since the June 25, 2009 Board Meeting, neither borrower has gone out to the market nor do they anticipate going out to the market before the expiration of these resolutions. Since the Authority's last Board Meeting, the State has been downgraded to a "BBB" rating and it is possible that further downgrades will occur in the foreseeable future. It is also possible that the State may experience an upgrade to its rating, but it is not possible at the present time to anticipate when that might occur.

This agenda item is set for Board discussion without specific recommendations. However, the following questions have been framed for the Boards consideration:

1. Given the supplemental resolution granting the 45-day window to go out to the market with a minimum of a "BBB+" rating is likely to expire, should the Board allow that resolution to expire and default to the original resolution mandating a minimum "A-" rating?
2. If the Board desires to extend the supplemental resolutions what rating should the Board impose?
3. Given the Board's directions concerning question #2, what guidelines should the Board impose on these borrowers?
4. If the Board decides to grant an additional resolution giving an additional window of time, should the Board grant an additional 45-days or some other time period?