New Issue: Moody's assigns Aa3 rating to Catholic Health Initiatives' (CO) $1.5 billion of Series 2012 taxable bonds; parity debt long-term rating downgraded to Aa3 from Aa2; outlook remains stable at lower rating level

Global Credit Research - 17 Oct 2012

Catholic Health Initiatives to have $6.0 billion of rated debt outstanding post financing

CATHOLIC HEALTH INITIATIVES
Hospitals & Health Service Providers
CO

Moody's Rating

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Fixed Rate Bonds, Series 2012</td>
<td>Aa3</td>
</tr>
<tr>
<td>Sale Amount</td>
<td>$1,500,000,000</td>
</tr>
<tr>
<td>Expected Sale Date</td>
<td>10/30/12</td>
</tr>
<tr>
<td>Rating Description</td>
<td>Revenue: Other</td>
</tr>
</tbody>
</table>

Moody's Outlook STA

Opinion

NEW YORK, October 17, 2012 --Moody's Investors Service has assigned a Aa3 rating to Catholic Health Initiatives’ (CHI) $1.5 billion of Series 2012 taxable fixed rate revenue bonds. At this time we are downgrading to Aa3 and Aa3/VMIG1 from Aa2 and Aa2/VMIG1 the long term rating on all outstanding bonds (see RATED DEBT section of this report). The outlook remains stable at the lower rating level.

SUMMARY RATING RATIONALE

The rating downgrade is attributable to a sizable 32% increase in direct debt that weakens all debt measures. Comprehensive debt measures are stressed further with increases in indirect debt (operating leases and underfunded pension liability) as well. Multiple strategic initiatives will occupy management and demand careful oversight to manage successfully, including acquisitions, divestitures, new joint operating agreements, along with expansion of information technology and continued focus on the revenue cycle and expense controls. Operating cash flow margin, which declined in fiscal year 2012 to 8.0% (Moody's-adjusted), is projected to improve but remains moderate in the near term. Absolute liquidity remains above 200 days and the debt structure continues to move to greater fixed rate debt. Contributing to the stable outlook is the strong geographic diversification across 19 states and 74 acute care hospitals with a mixture of urban and rural hospitals that diversifies cash flow sources.

CHALLENGES

* Sizable 32% increase in debt load with current $1.5 billion issue, with debt load remaining high for a Aa-rated multistate system; pro forma debt-to-operating revenue of 60% and pro forma debt-to-cash flow of 5.23 times on forecasted 2013 numbers

* Decline in operating cash flow margin in fiscal year (FY) 2012 to 8.0% when removing certain non-recurring items; operating cash flow margin projected to increase but remain moderate in the near term

* Moody's-adjusted maximum annual debt service (MADS) coverage projected to decline to 3.76 times in FY 2013, from 5.25 times in FY 2012, with increase in debt load

* Multiple strategic initiatives will occupy management in the near term, including acquisitions and divestures, new
joint venture formations, continued implementation of information technology upgrades, and integration strategies

*Despite immediate growth in liquidity, sizable capital plans in the near term will make demands on the new proceeds

*Sizable increase in indirect debt in FY 2012 ($685 million increase over prior year), including operating leases and pension liability, which results in weak pro forma cash to comprehensive debt of 83%

STRENGTHS

*Strong geographic diversification across 19 states and 31 market based organizations (MBOs), with a strong mix of facilities located in both rural and urban settings, helping to mitigate Medicare changes in rural or urban reimbursement structures; twenty-one hospitals maintain critical access hospital status which benefits reimbursement levels

*Good diversification of operating cash flow across several markets with the five markets generating the largest levels of operating cash flow, representing 65% of total system operating cash flow in FY 2012, located in five different states; no single state represents more than 19% of total system operating cash flow (individual market analysis does not reflect Moody's adjustments to system performance)

*Good liquidity with cash on hand remaining over 200 days as of June 30, 2012 (220 days), with immediate increase by $1.5 billion with current bond financing

*Diversified debt structure of fixed rate debt (70% before the financing, higher post financing), including long-term mode (put bonds) (59% without put bonds), taxable commercial paper (10%), variable rate demand obligations (14%, includes both self-liquidity and third party support), and Windows mode (3%); long-mode put bonds are staggered across the next three years

*Established corporate management team with proven ability to pull back on capital expenditures in times of financial downturn

*Projected improvement in operating performance with divestitures of underperforming assets, continued implementation of revenue enhancement and cost control initiatives, and addition of profitable hospitals

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: The bond proceeds will be used to support several key strategic initiatives, including but not limited to the acquisition of the remaining interest in Alegent Creighton Health, expansion strategies with PeaceHealth, ambulatory care and physician expansion strategies, and technology updates.

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 is currently the only member of the Obligated Group and liable on the principal and interest payments to bondholders. All entities that are consolidated with CHI are Participants. Current Designated Affiliates include Bethesda Hospital, Inc. (Bethesda) and Alegent Creighton Health and Alegent Creighton Health-Immanuel Medical Center (jointly Alegent). Bethesda and Alegent participate in joint operating agreements with CHI and have agreed to comply with provisions of the COD though they are not legally liable for debt issued under the COD. Each organization represents less than 7% of the Reporting Group's net assets and total operating revenues.

INTEREST RATE DERIVATIVES: CHI has seven floating-to-fixed interest rate swap agreements outstanding with a total notional amount of $931.8 million. Under CHI's policy, as a general rule, counterparties will have a Aa rating or better. Under the 2004 interest rate swap agreement with UBS, CHI pays a fixed rate of 3.765% and receives 70% of one-month Libor. Under the 2005 agreement with Bayerische Landesbank, CHI pays a fixed rate of 3.275% and receives 70% of one-month Libor. CHI entered into additional interest rate swap agreements with UBS and JPMorgan under which CHI pays a fixed rate of 3.57% and receives 64.5% of one-month Libor plus 14.5 basis points. The swap agreements were entered to synthetically convert a portion of the Series 2004, 2006 and 2007 variable rate bonds to fixed rate. The swaps are marked to market and, as of June 30, 2012, had a liability value of $238.5 million. As of that date, CHI posted $140.7 million of collateral against the swaps.
MARKET POSITION/COMPETITIVE STRATEGY: SIZABLE MULTI-STATE HEALTH CARE SYSTEM WITH STRONG GEOGRAPHIC DIVERSIFICATION; MULTIPLE SIMULTANEOUS REGIONAL STRATEGIES WILL CONSUME MANAGEMENT’S RESOURCES

Moody’s believes that one of CHI's primary credit strengths is its large and diversified portfolio of hospitals. CHI is the third largest Moody's rated multi-state health care system in the U.S., generating over $9.6 billion in annual adjusted operating revenues in FY 2012 and operating 74 acute care hospitals, 40 other facilities including long-term care and residential care sites, and other health related services in 19 states. The acute care facilities are diversified among small rural providers and large stand-alone or multi-facility regional systems in urban markets. Most of the rural hospitals are the only acute care facility in the town if not the county, with 21 holding critical access hospital status for improved Medicare reimbursement. CHI maintains leading or near leading market positions in several of its urban markets, including leading market positions in Dayton (OH), Omaha (NE), Lexington (KY), Des Moines (IA) and Tacoma (WA) and near leading market positions in Denver (CO), Lincoln (NE), Cincinnati (OH) and Chattanooga (TN). Notwithstanding the favorable market shares, most of these markets remain highly competitive. CHI has a history of adding facilities to enhance existing markets or increase geographic diversification, as well as exiting markets where there has been long-standing financial struggles or where health care can be better served by another organization.

Effective January 2012, CHI completed a merger in Kentucky to create a state-wide network, KentuckyOne Health. The network includes Jewish Hospital & St. Mary's HealthCare (JHSMH) based in Louisville and Saint Joseph Health System (SJHS) based in Lexington and owned by CHI. CHI holds an 83% interest in the new organization, and has committed to providing $249.0 million in capital investments to KentuckyOne Health and $71.0 million to JHSMH in support of the overall mission and health care services in Louisville and Lexington, as well as throughout Kentucky. The new network provides a large footprint across the state, and provides access to two-thirds of Kentucky’s population. The merger is expected to add over $980 million in annual revenue.

CHI (through Alegent Creighton Heath - Bergan Mercy Health System and Affiliates) currently participates in a joint operating agreement with Alegent Creighton Health - Immanuel Medical Center and Affiliates (Immanuel) as sole corporate members of Alegent Health, a multi-hospital system headquartered in Omaha, Nebraska. Alegent Health is a $1.1 billion (FY 2012) revenue organization. CHI currently reports its share of operating revenues ($467 million net patient service revenue in FY 2012) in its financial statements. CHI anticipates closing on full sponsorship of Alegent Creighton Health by November 1, 2012, at which time additional annual revenues of about $883 million will be added. Included in the additional annual revenues of Alegent Creighton Health are the recently acquired $193 million revenue Creighton University Medical Center, a teaching hospital affiliated with the Medical School at Creighton University and $108 million revenue Creighton Medical Associates. Combined, Alegent Creighton Health will have over 51,000 admissions. It will continue to compete directly with 26,000 admission Nebraska Medical Center.

CHI has signed a nonbinding letter of intent with PeaceHealth to create a new regional health care system in the northwest U.S. The new entity would create a regional integrated health system that combines seven CHI hospitals in Washington and Oregon with nine PeaceHealth hospitals in Washington, Oregon and Alaska, along with other health related services. Combined, the new entity would have total operating revenues of nearly $4 billion. CHI anticipates this new joint arrangement would be recorded as an equity interest. As such, $1.7 billion in total operating revenues of FHS (including Roseburg OR and Pendleton OR) would be deconsolidated from CHI's statement of operations. CHI's ownership in the partnership is expected to approximate $1.6 billion and will be recorded as an investment in unconsolidated subsidiaries on the balance sheet. This transaction is expected to close by FYE 2013.

After several years of attempting to improve operating performance or strengthen market position, CHI has decided to divest of its operations in Pierre (SD), Towson (MD) and Denville (NJ). As such, these operations have been reclassified to discontinued operations in the FY 2012 income statement. CHI is looking to complete the three transactions by the end of fiscal year 2013. Please see further discussion under Operating Performance section of this report.

CHI continues to evaluate opportunities to right size or expand its organization where opportunities present themselves and presently there are several concomitant regional market strategies occurring that will require senior and regional management's resources. Since CHI was created in 1996, the multiple strategies now ongoing represent a peak of regional market activity at a time of lower financial performance and higher leverage. We
anticipate additional market enhancements in the near term as CHI strengthens its local market presence and further prepares for healthcare reform.

OPERATING PERFORMANCE: DECLINE IN FY 2012 OPERATING PERFORMANCE PROJECTED TO IMPROVE IN FY 2013

CHI's diversified portfolio provides credit strength in that the system does not rely on any single facility for the majority of its operating cash flow. No single state provides greater than 19% and no single market based organization (MBO) provides greater than 19% of total system operating cash flow (based upon FY 2012 results before Moody's adjustments). The five largest MBO contributors to operating cash flow in FY 2012 (totaling 66% of system total) are located in five different states.

All following financial performance discussion reflects the following analytical adjustments: the removal of investment income, including for the insurance company FILL, from operating revenues; reclassification of donations to non-operating from operating; increase in interest expense by capitalized interest; normalization of investment returns at 6%, including for FILL; exclusion of non-recurring and non-cash restructuring, impairment and other losses charges, removal of other non-recurring or non-cash items as detailed in the KEY INDICATORS section of this report.

Total operating revenues grew 10.3% in FY 2012 over restated FY 2011 to exceed $9.65 billion. Operating expenses, however, increased 11.4% and resulted in a decline in operating profit to $156.3 million from $228.2 million, dropping the operating margin to 1.6% from 2.6% the prior year. Correspondingly, operating cash flow declined $50.4 million and, with the increase in the revenue base, drove a decline in the operating cash flow margin to 8.0% from the higher 9.1% on restated FY 2011 results. Nonetheless, Moody's-adjusted maximum annual debt service coverage remained good at 5.25 times. Contributing to the decline in performance in FY 2012 were increased investments in information technology (OneCare) and strategic growth (including Nebraska Heart Hospital and KentuckyOne), including use of consultants and other professional fees. Management continues improvement initiatives around Medicare profitability, revenue cycle management, managed care, supply chain and clinical process improvement which are targeted to provide $100 million in savings in FY 2013.

CHI has reclassified to discontinued operations in the income statement the operating performance for Pierre (SD), Towson (MD) and Denville (NJ). Combined, these MBOs represented $678 million in net patient service revenue, $43.9 million in operating losses and only $10.9 million in operating cash flow. For the Pierre operations, CHI has a letter of intent with Avera Health that is projected to close by calendar yearend 2012. For the Towson operations, CHI has a letter of intent with University of Maryland Medical System, with a projected closing by October 31, 2012. For the Denville operations, CHI has a letter of intent with Ascension Health Care Network to acquire the medical surgical facilities in the first quarter of calendar year 2013. CHI does not have any other acute care presence in these markets, and removal of them from the portfolio will enable a redirection of efforts in enhancing existing markets with stronger market share.

Future operating revenues will be impacted by several transactions, including: the removal of $1.7 billion annually upon the consummation of the joint operating agreement with PeaceHealth as CHI would take an equity interest in the new organization; full year of operations for KentuckyOne, which included only 6 months of full consolidation; and inclusion of the remaining 50% interest in Alegent Health along with the addition of Creighton University Medical Center with the full owner ownership of this system. Additional acquisitions are possible as CHI evaluates its various market positions.

BALANCE SHEET POSITION: SIZABLE INCREASE IN DEBT LOAD WEAKENS BALANCE SHEET AND DEBT METRICS; UNRESTRICTED LIQUIDITY REMAINS OVER 200 DAYS

Unrestricted liquidity was flat between FYE 2011 and FYE 2012 at $5.4 billion, with cash on hand declining to 220 days from 246 days with sizable growth in revenues. Liquidity growth was stymied by very low investment income, the $131 million acquisition of Nebraska Heart Hospital and Nebraska Heart Institute, a $58.6 million cash defeasance of debt in the second quarter of FY 2012, and costs associated with the formation of KentuckyOne and increase in controlling interest to 83%. CHI's long-term unrestricted investments ($5 billion) are invested approximately 43% in equities, 37% in fixed income, and 20% in hedge funds, private equity and real estate. Additionally, CHI has $404 million of short-term cash and investments at FYE 2012. Unrestricted liquidity will increase $1.5 billion with the Series 2012 taxable bond funds, which will be used for capital projects over the next two-three years, increasing liquidity 28% to $6.9 billion. Management is projecting cash on hand to improve to about 258 days by FYE 2013 (bad debt reflected as a revenue reduction), and grow only 2% in FY 2014 with the sizable spending for capital.
The current bond issue will increase the direct debt load by a sizable 32% over FYE 2012. The Series 2012 bonds are being issued to support several key strategic initiatives, including but not limited to the acquisition of the remaining interest in Alegent Creighton Health, expansion strategies with PeaceHealth, ambulatory care and physician expansion strategies, and technology updates. As a result of this sizable debt increase, already stressed debt metrics weaken. Debt to operating revenues of 48%, debt-to-cash flow of 4.54 times and Moody’s-adjusted MADS coverage of 5.25 times in FY 2012 weaken in projected FY 2013 to 60%, 5.23 times and 3.76 times.

Management continues to strengthen the debt structure by focusing on increasing the percentage of fixed rate debt. The Series 2012 bonds will be issued as fixed rate debt, with the pro forma debt portfolio consisting of approximately 77% fixed rate bonds (including long-mode bonds), 15% variable rate bonds, and 8% commercial paper. Pro forma cash-to-demand debt (including variable rate bonds, long-mode put bonds and commercial paper) remains strong at xx%. The long-mode put bonds have mandatory tenders across the next three years (2013-2015). CHI will be reoffering the Series 2009B-1 bonds with a mandatory tender of November 17, 2012 as fixed rate bonds.

The current commercial paper (CP) program, with a total program amount of $881 million, had $475.6 million outstanding at FYE 2012. Management anticipates quarterly reductions. The CP program is currently managed through two dealers, each with directions to have no more than $100 million come due within any five business days. Management maintains the option, and has deviated from this directive in the past when market conditions were more volatile.

Indirect debt increased in FY 2012 also, growing 54% to $1.94 billion from $1.26 billion at the end of FY 2011. Contributing to the growth were increases in both operating leases ($30 million increase in annual expense which increased comprehensive debt $180 million) and the defined benefit pension plan ($831 million increase in the underfunded liability with declines in both the discount rate and rate of return on assets). As a result, direct cash to debt of 118% at FYE 2012 weakens to 83% comprehensive cash to debt at FYE 2012. The defined benefit pension plan is a church plan and not subject to ERISA funding rules, which provides flexibility in making contributions. CHI has, however, made contributions in excess of pension expense over the past several years to work toward closing the underfunded gap.

Outlook

The stable outlook reflects our expectation that operating cash flow generation will improve in FY 2013 and steadily thereafter as CHI implements additional revenue enhancement and cost control initiatives as well as absorbs the structural changes across the MBOs.

WHAT COULD MOVE THE RATING UP

Notable and sustainable growth in operating profits and operating cash flow to materially improve debt-to-cash flow along with sizable strengthening of liquidity to grow days cash and strengthen cash-to-debt

WHAT COULD MOVE THE RATING DOWN

Inability to improve operating cash flow generation; increase in debt load without commensurate increase in cash flow; weakening of liquidity measures

KEY INDICATORS

Assumptions & Adjustments:

- Based on financial statements for Catholic Health Initiatives
- First number reflects audit year ended June 30, 2011, as restated in 2012
- Second number reflects audit year ended June 30, 2012 (bad debt reflected as an expense)
- Excludes from operating revenues investment income of $30.5 million and $37.2 million in FY 2011 and FY 2012, respectively; FILL investment returns normalized in non-operating
- Excludes from operating revenues and reclassifies to non-operating donations of $23.4 million and $28.0 million in FY 2011 and FY 2012, respectively
- Excludes from fiscal year 2012 operating revenues non-recurring $76.7 million rural floor wage index settlement;
non-recurring $19.8 million insurance premium settlement; $45.0 million gain on KentuckyOne transaction; $13 million non-recurring non-cash adjustment to prior year accounts receivable

- Includes in operating expenses capitalized interest of $14.7 million and $14.6 million in FY 2011 and FY 2012, respectively

- Excludes from operating expenses non-cash restructuring, impairment and other losses of $8.5 million and $16.0 million in FY 2011 and FY 2012, respectively, and non-recurring cash items of $19.5 million (costs associated with rural floor settlement) and $15.0 million (excess malpractice tail coverage catch up) FY 2012

- Investment returns normalized at 6%

- Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable

*Inpatient admissions (CHI only): 362,875; 371,770

*Observation stays: not available

*Medicare % of gross revenues: 38.3%; 39.2%

*Medicaid % of gross revenues: 10.4%; 10.2%

*Total operating revenues ($): $8.75 billion; $9.65 billion

*Revenue growth rate (%) (3 yr CAGR): 1.9%; 3.6% (based on restated FY 2011 results)

*Operating margin (%): 2.6%; 1.6%

*Operating cash flow margin (%): 9.1%; 8.0%

*Debt-to-cash flow (x): 3.84 times; 4.54 times

*Days cash on hand: 246 days; 220 days

*Maximum annual debt service (MADS) ($): $221.1 million; $221.1 million

*MADS coverage with reported investment income (x): 6.34 times; 3.17 times

*Moody's-adjusted MADS Coverage with normalized investment income (x): 5.46 times; 5.25 times

*Direct debt ($): $4.12 billion; $4.62 billion

*Cash-to-direct debt (%): 132%; 118%

*Comprehensive debt: $5.38 billion; $6.56 billion

*Cash-to-comprehensive debt (%): 101%; 83%

*Monthly liquidity to demand debt (%): 406%; 318%

RATED DEBT (debt outstanding as of June 30, 2012)

- Series 2012A Louisville & Jefferson County Metropolitan Government, KY fixed rate bonds ($271.26 million outstanding), rated Aa3

- Series 2011A Colorado Health Facilities Authority fixed rate bonds ($416.99 million outstanding), rated Aa3

- Series 2011A Washington Health Care Facilities Authority fixed rate bonds ($109.1 million outstanding), rated Aa3

- Series 2011B Kentucky Economic Development Finance Authority Windows variable rate bonds ($158.155 million outstanding), rated Aa3/P-1 (includes Series 2011B-1, B-2 and B-3)

- Series 2009A Colorado Health Facilities Authority fixed rate bonds ($484.28 million outstanding), rated Aa3 (portion of bonds expected to be refinanced)

- Series 2009A County of Montgomery, OH fixed rate bonds ($225.84 million outstanding), rated Aa3
-Series 2009A Kentucky Economic Development Finance Authority fixed rate bonds ($61.99 million outstanding), rated Aa3

-Series 2009B County of Montgomery, OH long mode put bonds ($27.14 million outstanding), rated Aa3, mandatory tender November 11, 2013

-Series 2009B-1 Colorado Health Facilities Authority long mode put bonds ($100.0 million outstanding), rated Aa3, mandatory tender November 7, 2012 (bonds to be converted to fixed rate mode)

-Series 2009B-2 Colorado Health Facilities Authority long mode put bonds ($33.855 million outstanding), rated Aa3, mandatory tender November 11, 2013

-Series 2009B-3 Colorado Health Facilities Authority long mode put bonds ($40.0 million outstanding), rated Aa3, mandatory tender November 10, 2014

-Series 2009B Kentucky Economic Development Finance Authority long mode put bonds ($60.0 million outstanding), rated Aa3, mandatory tender November 10, 2014

-Series 2008A-4 Washington Health Care Facilities Authority variable rate revenue bonds ($50.235 million outstanding), rated Aa3, 100% held by Wells Fargo Bank, N.A. through July 29, 2013

-Series 2008A-5 Washington Health Care Facilities Authority variable rate revenue bonds ($50.235 million outstanding), rated Aa3, 100% held by Wells Fargo Bank, N.A. through July 29, 2013

-Series 2008A-6 Washington Health Care Facilities Authority variable rate revenue bonds ($19.79 million outstanding), rated Aa3, 100% held by Wells Fargo Bank, N.A. through July 29, 2013

-Series 2008C-2 Colorado Health Facilities Authority mandatory tender bonds ($27.5 million outstanding), rated Aa3, mandatory tender November 12, 2015

-Series 2008C-4 Colorado Health Facilities Authority mandatory tender bonds ($27.5 million outstanding), rated Aa3, mandatory tender November 12, 2015

-Series 2008C-2 County of Montgomery, Ohio mandatory tender bonds ($50.0 million outstanding), rated Aa3/VMIG1, short-term rating supported by SBPA with US Bank NA expiring November 10, 2014

-Series 2008D-1 Colorado Health Facilities Authority fixed rate bonds ($140.755 million outstanding), rated Aa3

-Series 2008D The Health, Educational and Housing Facility Board of the City of Chattanooga, Tennessee fixed rate bonds ($24.54 million outstanding), rated Aa3

-Series 2008D-1 County of Montgomery, Ohio fixed rate bonds ($34.705 million outstanding), rated Aa3

-Series 2008D Washington Health Care Facilities Authority fixed rate bonds ($177.105 million outstanding), rated Aa3

-Series 2008D-2 Colorado Health Facilities Authority mandatory tender bonds ($21.845 million outstanding), rated Aa3, mandatory tender November 11, 2013

-Series 2008D-3 Colorado Health Facilities Authority mandatory tender bonds ($50.0 million outstanding), rated Aa3, mandatory tender November 11, 2015

-Series 2008D-2 County of Montgomery, Ohio mandatory tender bonds ($25.0 million outstanding), rated Aa3, mandatory tender November 11, 2013

-Series 2006A Baltimore County, Maryland fixed rate revenue bonds ($113.5 million outstanding), rated Aa3

-Series 2006A Colorado Health Facilities Authority fixed rate revenue bonds ($270.635 million outstanding), rated Aa3

-Series 2006C-1 Colorado Health Facilities Authority fixed rate revenue bonds ($60.0 million outstanding), insured by Assured Guaranty Corporation (formerly FSA), Aa3 unenhanced rating

-Series 2006C-3 Colorado Health Facilities Authority fixed rate revenue bonds ($60.0 million outstanding), insured
by Assured Guaranty Corporation (formerly FSA), Aa3 unenhanced rating

- Series 2006C-5 Colorado Health Facilities Authority fixed rate revenue bonds ($65.0 million outstanding), insured by Assured Guaranty Corporation (formerly FSA), Aa3 unenhanced rating

- Series 2006C-7 Colorado Health Facilities Authority fixed rate revenue bonds ($65.0 million outstanding), insured by Assured Guaranty Corporation (formerly FSA), Aa3 unenhanced rating

- Series 2006C-1 Montgomery County, OH fixed rate revenue bonds ($50.0 million outstanding), insured by Assured Guaranty Corporation (formerly FSA), Aa3 unenhanced rating

- Series 2004A City of Breckenridge, Minnesota fixed rate revenue bonds ($30.735 million outstanding), rated Aa3

- Series 2004A Hospital Facility Authority of Umatilla County, Oregon fixed rate revenue bonds ($44.445 million outstanding), rated Aa3

- Series 2004A County of Montgomery, Ohio fixed rate revenue bonds ($71.425 million outstanding), rated Aa3

- Series 2004B-1 Montgomery County, Ohio Variable Rate Revenue Bonds ($40.0 million outstanding), rated Aa3/VMIG1 supported by SBPA with Bank of New York Mellon expiring December 15, 2012, Aa3 unenhanced rating

- Series 2004B-2 Montgomery County, Ohio Variable Rate Revenue Bonds ($33.7 million outstanding), rated Aa3/VMIG1 supported by SBPA with US Bank NA expiring November 1, 2014

- Series 2004B Saint Mary Hospital Authority Variable Rate Revenue Bonds ($33.7 million outstanding), rated Aa3/VMIG1 supported by SBPA with Landesbank Hessen-Thuringen Girozentrale expiring November 30, 2015 (SBPA may be cancelled by bank in November 2012) (under review for SBPA substitution)

- Series 2004B-6 Colorado Health Facilities Authority Variable Rate Revenue Bonds ($54.2 million outstanding), rated Aa3/VMIG1 supported by SBPA with JPMorgan Chase Bank, NA expiring November 17, 2013

- Series 2004C Kentucky Economic Development Finance Authority Variable Rate Revenue Bonds ($37.8 million outstanding), rated Aa3/VMIG1, short-term rating secured by CHF's own liquidity

- Series 2004C Saint Mary Hospital Authority Variable Rate Revenue Bonds ($66.6 million outstanding), rated Aa3/VMIG1, short-term rating secured by CHF's own liquidity

- Series 2004C The Health, Educational and Housing Facility Board of the City of Chattanooga, Tennessee Variable Rate Revenue Bonds ($58.9 million outstanding), rated Aa3/VMIG1, short-term rating secured by CHF's own liquidity

- Series 2002A Hospital Facility Authority of Umatilla County, Oregon fixed rate revenue bonds ($4.14 million outstanding), rated Aa3

- Series 2002B Colorado Health Facilities Authority variable rate bonds ($46.8 million outstanding), rated Aa3/VMIG1 supported by SBPA with JPMorgan Chase Bank NA expiring November 17, 2012 (under review for SBPA substitution)

- Series 2002B Washington Health Care Facilities Authority ($56.5 million outstanding), rated Aa3/VMIG1 based on SBPA with JPMorgan Chase Bank NA expiring August 19, 2014

- Series 2002B Pulaski County, AR Health Fac. Board variable rate bonds ($27.3 million outstanding), rated Aa3/VMIG1 supported by SBPA with JPMorgan Chase Bank NA expiring November 17, 2012 (under review for SBPA substitution)

- Series 1997B Maryland Health & Higher Educational Facilities Auth. Variable Rate Bonds ($8.3 million outstanding), rated Aa3/VMIG1 supported by SBPA with Bayerische Landesbank expiring November 17, 2015

- Series 1997B Umatilla County Hospital Facility Authority, OR Variable Rate Bonds ($4.1 million outstanding), rated Aa3/VMIG1 supported by SBPA with Bayerische Landesbank expiring November 17, 2015

- Series 1997B Saint Mary Hospital Authority, PA Variable Rate Bonds ($6.5 million outstanding), rated Aa3/VMIG1 supported by SBPA with Bayerische Landesbank expiring November 17, 2015
Taxable Commercial Paper program ($475.625 million outstanding) rated P-1, supported by CHI's own liquidity

CONTACTS

Obligor: Linda L. MacDonald, Vice President - Treasury Services, Catholic Health Initiatives (720) 874-1672; Diane Albrecht, Director - Capital Finance, Catholic Health Initiatives (720) 874-1689

Underwriter: Joan Marron, Executive Director, Morgan Stanley 212.762.8297; Kimberly Allen, Executive Director, JPMorgan Securities (415) 315-5795

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant 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 relevant 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 relevant 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.

Information sources used to prepare the rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service's information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized.
and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody’s legal entity that has issued the rating.

Analysts

Kay Sifferman
Lead Analyst
Public Finance Group
Moody’s Investors Service

Lisa Goldstein
Backup Analyst
Public Finance Group
Moody’s Investors Service

Beth I. Wexler
Additional Contact
Public Finance Group
Moody’s Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

© 2012 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, “MOODY’S”). All rights reserved.
any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.