

FITCH RATES CATHOLIC HEALTH EAST'S (PENNSYLVANIA) 2010 REVS 'A+'; OUTLOOK STABLE

Fitch Ratings-New York-25 February 2010: Fitch Ratings assigns an 'A+' rating to Catholic Health East's (CHE) composite issue series 2010 bonds, which are expected to total up to \$398 million. In addition, Fitch affirms the 'A+' rating on CHE's outstanding parity debt. The Rating Outlook is Stable.

Bonds are expected to be issued by:

- City of Tampa, Florida
- Massachusetts Health & Educational Facilities Authority
- Development Authority of Fulton County (GA)
- North Carolina Medical Care Commission
- New Jersey Health Care Facilities Financing Authority
- Connecticut Health & Educational Facilities Authority
- Saint Mary Hospital Authority (PA)

Proceeds from the series 2010 bonds will be used to refinance various 1998, 1999, and 2007 bonds series, fund \$50 million in projects, and pay the cost of issuance.

RATING RATIONALE:

--Catholic Health East is a large, geographically diversified system. CHE has a strong centralized governance structure characterized by a strong patient centric mission statement.

--Driven by reduced collateral posting on swaps, which now stands at '0', liquidity has stabilized and shown improvement year over year, but liquidity indicators, as indicated by days cash on hand (DCOH) and cash to debt, remain below category medians.

--Debt burden is relatively manageable.

--CHE reduced its capital spending in 2009 and is initiating other cost savings and efficiency measures.

Operating margins remain below historical levels, as CHE had a slight negative operating margin in 2009 (unaudited results), essentially matching its 2008 performance (excluding the effects of joint operating agreements).

KEY RATING DRIVERS:

--CHE is able to return to consistently positive operating margins by reducing the operating volatility in its core group of directly-managed hospitals.

--CHE meets 1% operating margin target for 2010.

--CHE completes restructuring of underperforming assets, the results of which begin to positively affect operating margins.

--New CEO executes on quality and efficiency strategic plan, with the goal of \$100 million in annualized improvement.

SECURITY:

The bonds are secured by a pledge of gross revenues of the obligated group.

CREDIT SUMMARY:

The 'A+' rating is supported by CHE's geographic diversification, manageable debt burden, continuing implementation of standardized business practices and systems throughout the organization, and ongoing evaluation and restructuring of underperforming assets. Unaudited results for 2009 show CHE with a slight negative operating margin, matching 2008's operating

performance (excluding the effects of joint operating agreements). The operating results missed budgeted targets and were negatively affected by a \$26 million unbudgeted pension expense above CHE's usual expense, ongoing losses at three hospitals that CHE is in the process of restructuring, and a \$34 million loss at Our Lady of Lourdes Hospital (Lourdes) in New Jersey.

The losses at Lourdes were significantly off budget and reflect the operating volatility within CHE's directly managed hospitals that has hampered overall system operating margins in recent years and remains a major credit concern. Operations at Lourdes were affected by changes to payor contracts and a shift to outpatient cardiac services both of which contributed to below budget levels of reimbursement and by higher than budgeted levels of bad debt, self-pay, and charity care. CHE has addressed management issues at Lourdes and is budgeting for operations to turnaround at Lourdes in 2010. Systemwide, CHE is committed to the restructuring of underperforming assets, and, over the next 12 to 18 months, these restructurings should begin to positively affect CHE's margins.

CHE's liquidity position remains a primary credit concern. Historically light for 'A' category Fitch-rated hospitals, CHE liquidity deteriorated in 2008 due to investment losses and swap collateral postings. Although unrestricted liquidity stabilized in 2009 due to strong cash collections, the recovery in the financial markets, and reduced collateral posting requirements, the financial cushion for CHE is thin at its current rating level. However, this concern is offset by several credit strengths, including CHE's size and geographic diversification, the expectation of stronger operating cash flow based on management's improvement initiatives, portfolio restructuring and divestiture activities and CHE's ability to resize its significant capital spending plans to preserve cash. CHE cut its capital spending in 2009 by approximately \$50 million from 2008. Over the long term, Fitch believes that CHE's vision, as expressed in its 10-year strategic clinical transformation initiative, is consistent with the broad themes of U.S. health care reform and access imperatives, and provides a viable platform for financial strength and stability.

The Stable Outlook reflects this belief as well as Fitch's expectation that CHE will resume its consistent operating performance, that its liquidity will remain stable, and that the new CEO will be able to execute on CHE's key transformational initiatives. Should CHE not meet its 2010 budget or liquidity decline, negative rating pressure may occur. Fitch will be meeting with CHE management toward the middle of the year for an update on year-to-date operations and longer term strategic plans; additionally, by then, the 2009 audit should be available. Depending on the outcome of that meeting further rating action may be taken.

Headquartered in Newton Square, PA, CHE is a large Catholic integrated health care system with 35 acute-care hospitals, 36 freestanding and hospital-based long-term care facilities, 12 assisted-living facilities, five continuing care retirement communities, eight behavioral health and rehabilitation facilities, 32 home health/hospice agencies and numerous ambulatory and community-based health services operating across 11 states. In 2009, based on unaudited internal statements, CHE reported total operating revenues of \$4.6 billion. CHE covenants to supply bondholders with annual and quarterly disclosure, which includes management discussion, utilization statistics and full financial statements. Disclosure information is posted to EMMA.

Applicable criteria available on Fitch's web site at 'www.fitchratings.com' include:

- 'Nonprofit Hospitals and Health Systems Rating Criteria' (Dec. 29, 2009);
- 'Revenue-Supported Rating Criteria' (Dec. 29, 2009).

Contacts: Carolyn Tain +1-800-953-4824, San Francisco; or Gary Sokolow +1-212-908-9186, New York.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY

FOLLOWING THIS LINK:
HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION,
RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE
ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED
RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT
ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF
INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES
AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION
OF THIS SITE.