NEWS FROM THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

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For Release: March 18, 2009

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Date: March 18, 2009

ECONOMIC STIMULUS PACKAGE MAY REDUCE AUTHORITY'S BOND INTEREST COSTS FOR BANKS AND BORROWERS

The economic stimulus package signed into law by President Obama on February 17, 2009 may benefit borrowers and banks associated with the issuance of Authority bonds.

In an effort to aid in the issuance of tax-exempt bonds, the stimulus package expands the ability of financial institutions to deduct the interest costs associated with tax-exempt bonds. Allowing banks these additional deductions can reduce the interest cost on a bond issue by 1) reducing the banks' costs to invest in bonds, thereby potentially lowering the rates they charge to borrowers, and 2) broadening the pool of banks willing to purchase tax-exempt bond debt.

One way in which the stimulus package reduces investment costs for banks is by broadening the definition of Bank Qualified Bonds. A Bank Qualified Bond is a tax-exempt bond for which a financial institution can deduct the associated purchasing or carrying interest costs. Previously, Bank Qualification could only be met by issuers that did not anticipate issuing more than $10 million in bonds per calendar year. In the past, the term "Issuers" was interpreted to include conduit financing authorities. As such, the NJHCFFA could not issue Bank Qualified Bonds due to its annual volume of issuance.

Under the new law, "Issuers" is defined as the entity actually using the proceeds of the bonds, (i.e. the borrower). Further, the limit has been raised from $10 million to $30 million. Therefore, if a hospital or health care organization does not issue more than $30 million in a year, the Authority can issue Bank Qualified Bonds on its behalf. Such deductions may increase the banks' margins enough to allow them to purchase bonds at lower interest rates, thereby saving the borrower some interest expense.

Also, under the prior regulations, aside from Bank Qualified Bonds, financial institutions could only deduct interest expenses associated with certain state and local tax-exempt bonds purchased on or before August 7, 1986. The new law allows a financial institution to deduct its interest costs allocable to tax-exempt obligations issued in 2009 and 2010, so long as the financial institution's municipal holdings are less than 2% of their total assets. The change aims to reinstate banks as purchasers of all bonds adding some liquidity to the bond market and increasing investor demand for larger issuances.

The stimulus package also alters the Alternative Minimum Tax ("AMT") regulations for bonds issued during 2009 and 2010. Under previous tax laws, interest on tax-exempt "private activity bonds," such as those issued by the NJHCFFA, was considered a tax-preference item when calculating an investor's AMT. As a result, even though the bonds may be tax-exempt, they could still be subject to taxation if the holder of the bonds had to pay the AMT. Thus, those bonds were typically issued at somewhat higher interest rates than those that are purely tax-exempt.

Under the new stimulus laws, all tax-exempt private activity bonds issued during 2009 and 2010 are excluded from the AMT calculation. Authority borrowers who need to issue bonds that fall into the AMT category over the next two years will benefit from the lower interest rates provided by this repeal. Further, bonds issued between the years 2004 and 2008 that are refunded in 2009 and 2010 are also excluded from the AMT calculation, as will be any refundings of bonds issued in 2009 and 2010.

All of the provisions noted apply to bonds issued after December 31, 2008.

The Authority looks forward to working with its banks and borrowers to maximize the savings provided by these provisions. If you are interested in pursuing a financing with the Authority, contact the Project Management team at (609) 292-8585.

The Authority was created in 1972 by an act of the Legislature to provide not-for-profit health care providers with access to low-cost capital. It is the primary issuer of municipal bonds for New Jersey's health care organizations. During its 35+ year history, the Authority has issued over $15 billion in bonds on behalf of over 140 health care organizations throughout the state.

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