FITCH AFFIRMS PRESBYTERIAN VILLAGES OF MICHIGAN SERIES 2005 REVS AT 'BB+'; OUTLOOK STABLE

Fitch Ratings-New York-14 December 2012: Fitch Ratings has affirmed the 'BB+' rating on the following bonds:

--$30.68 million Michigan State Hospital Finance Authority revenue and refunding bonds series 2005 (Presbyterian Villages of Michigan Obligated Group).

The Rating Outlook is Stable.

SECURITY

The series 2005 bonds are secured by a pledge of the obligated group's (OG) gross revenues, a first mortgage on the OG's facilities, and a debt service reserve fund.

KEY RATING DRIVERS

DEBT SERVICE STABLE: Debt service coverage is 1.4 times (x) in the nine month interim period, which is consistent year over year (YOY), and PVM expects to make its year end budget of 1.5x coverage.

LIQUIDITY ADEQUATE FOR RATING LEVEL: PVM had 96.6 days cash on hand (DCOH), a 4.1x cushion ratio, and 28.9% cash to debt as of Sept. 30, 2012, all lower YOY, but adequate for the rating level. The lower liquidity was driven by a $2.9 million rise for amounts due from PVM affiliates and facility advancement projects. PVM has consistently supported projects outside the OG.

OCCUPANCY CONSISTENT YOY: Overall occupancy is good at 87.2% as of September 2012, which is stable YOY. Management initiatives, including the reconfiguration of units and services and enhanced marketing efforts, have supported stable occupancy.

YTD FINANCIAL PERFORMANCE STABLE: PVM continues to manage expenses well and an increase in philanthropy produced a slightly stronger financial performance in the nine month interim period.

CREDIT SUMMARY

The 'BB+' rating affirmation and Stable Outlook reflect PVM's stable financial profile at the current rating level characterized by adequate liquidity, consistent debt service coverage, tight expense control, and improving occupancy.

At Sept. 30, 2012, PVM's level of unrestricted cash and investments was $9.5 million, which equates to 96.6 DCOH, a cushion ratio of 4.1x and cash to debt of 28.3%. Liquidity is slightly lower YOY, but remains adequate for the rating level. Lower liquidity was driven by a $2 million contribution to seed the Center for Senior Independence, a joint venture PACE program with the Henry Ford Health System. PVM regularly provides advances for programs and capital projects outside the obligated group and as of Sept. 30, 2012, PVM had $9.2 million of advancements and receivables, which continues to suppress liquidity. While these advancements and receivables are a credit concern, PVM has a formal written policy in place and Fitch believes the advances and commitments are manageable at the current rating level.

PVM management expects to end the year with maximum annual debt service coverage of 1.5x, which is what PVM budgeted. Through the nine-month 2012 interim period, PVM reduced its operating loss to $1.2 million from $1.7 million due largely to a YOY increase of philanthropic funds released for operations. Without that increase in released funds operation remained fairly stable as PVM continued to flex staff depending on the levels of occupancy across the system and controlled other costs.

PVM has implemented a number of initiatives to help increase occupancy. The Village of Westland campus has been a particular challenge, and PVM initiated a program on that campus to provide additional services in independent living units for a fee, which has helped occupancy. The program has been successful and PVM is replicating it on other campuses. Overall in the nine month interim period IL occupancy was at 87.2%, consistent with the prior year figures but it remains an improvement over September 2010 when occupancy was at 83.5%.

PVM is in the middle of a state-wide fundraising campaign which has increased donations (system-wide the campaign has netted a strong $9 million in unrestricted, temporarily restricted, and permanently restricted donations as of Sept. 30, 2012).

Headquartered in Southfield, MI, the PVM Obligated Group consists of PVM Corporate, a foundation, and three rental continuing care retirement communities located in Redford, Westland and Chesterfield Township, MI. PVM OG had approximately $35.4 million in operating revenue in 2011. Currently, the Obligated Group's three campuses total 326 independent rental apartments (of which 313 are operational), 236 assisted living units (of which 234 are operational), and 178 skilled nursing beds. In addition, PVM owns or manages approximately 1,250 independent living and 28 assisted living units through non-obligated entities.

PVM has covenanted to provide annual audited financial statements and quarterly unaudited financials to the to the Municipal Securities Rulemaking Board's EMMA system. Fitch notes that PVM's disclosure practices have been excellent.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', dated June 12, 2012;
--'Rating Criteria for Not-for-Profit Continuing Care Retirement Communities', dated July 23, 2012.

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Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015
Not-for-Profit Continuing Care Retirement Communities Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682258