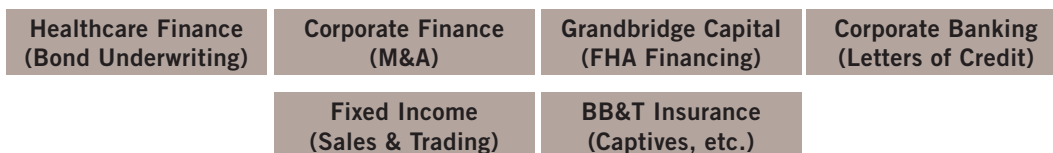


## BB&T Expands Healthcare Finance Platform in 2008



During 2008 BB&T Corporation made significant strides toward its vision of creating the most comprehensive capital markets platform serving the healthcare industry. With a long-term vision, BB&T in recent years has been methodically assembling a group of healthcare service lines that position the firm as a unique player among the leaders in the financial services industry. The uniqueness about BB&T is that it possesses one of the strongest financial profiles and balance sheets in the banking industry, and its healthcare business units are staffed by seasoned professionals with a demonstrated track record of execution and superior client service.

(bond underwriting and financial advisory), Corporate Finance (equity IPOs and M&A), Sales & Trading (primary and secondary market underwriting and trading), Grandbridge Capital (FHA financing), and BB&T Insurance (risk management and captives). Since its formation in 2003, the Healthcare Finance Group has underwritten over \$3.4 billion in par amount. Grandbridge Capital, which specializes in financings that utilize FHA and HUD insurance, completed one of the largest healthcare financings in 2008, with the successful completion of a \$350 million credit facility, financing 2,342 beds/units in 16 states, for one of the nation's largest real estate investment trusts.

**“During 2008 we utilized our resources to expand our business during these challenging economic times. Going forward, we are open for business and expect to be leaders in the market in 2009 and beyond.”**

– Rufus Yates, Executive Vice President and Manager of BB&T Capital Markets

In an effort to enhance the firm's longstanding community banking model, which includes regional corporate bankers in each BB&T region, a healthcare corporate banking effort was launched with the hiring of Greg Oliver and Tad Pierce in June 2008. The addition of the healthcare corporate banking effort should promote consistency across the entire spectrum of client relationships, including client service and underwriting expertise. Oliver and Pierce bring a collective 19 years of experience financing healthcare providers and will work directly with regional corporate bankers to ensure that the firm's healthcare provider clients receive seamless client service delivery and leading industry expertise in areas like loans, deposits, payroll, letters of credit and more.

The addition of the healthcare corporate banking group complements existing teams on the healthcare platform, most of which are already considered leaders within their area of concentration. These groups include Healthcare Finance

Said Rufus Yates, Executive Vice President and Manager of BB&T Capital Markets, “BB&T's executive leadership has established a clear vision to build a national healthcare platform that can provide a variety of financial solutions to the capital and risk management considerations these providers face. The addition of our healthcare corporate banking team and further integration of our various healthcare business units are the latest evidence of such a strategy.

“When you combine the financial strength of BB&T Corporation with the knowledge and expertise of our industry specialists, it is hard to identify another financial services firm that provides as active and deep a platform as does the BB&T organization. During 2008 we utilized our resources to expand our business during these challenging economic times. Going forward, we are open for business and expect to be leaders in the market in 2009 and beyond.” 

# Top 25 Banks in the United States

3rd Quarter Standings • Ranked by 2008 3rd Quarter Asset Size

Company Name	Tier 1 Ratio (%) 2008Q3	Total Capital Ratio (%) 2008Q3	Core EPS 2008Q3	Net Income before Extraordinary (\$000) 2008Q3	Total Net Loans (\$000) 2008Q3	Total Deposits (\$000) 2008Q3	Moody's LT Issuer Rating 2008Q3	Fitch Inc. LT Credit Rating 2008Q3	S&P LT Issuer Credit Rating MRQ
Bank of America Corporation	7.55	11.54	0.23	1,177,000	949,744,000	874,051,000	Aa2	A+	AA-
JPMorgan Chase & Co.	8.85	12.62	-0.09	-54,000	742,329,000	969,783,000	Aa2	AA-	AA-
Citigroup Inc.	8.19	11.68	-0.33	-3,423,000	719,416,000	780,343,000	Aa3	AA-	AA-
Wells Fargo & Company	8.59	11.51	0.57	1,637,000	422,558,000	353,574,000	Aa1	AA	AA+
PNC Financial Services Group, Inc.	8.20	11.90	0.90	248,000	76,053,000	84,984,000	A1	A+	A+
State Street Corporation	15.95	17.19	0.62	477,000	17,430,000	150,869,000	Aa3	AA-	AA-
Bank of New York Mellon Corporation	9.34	12.84	0.41	305,000	58,677,000	174,168,000	Aa2	AA-	AA-
U.S. Bancorp	8.48	12.31	0.47	576,000	170,212,000	139,504,000	Aa2	AA-	AA
SunTrust Banks, Inc.	8.15	11.16	0.44	312,444	129,537,156	115,911,881	A1	A+	A+
Capital One Financial Corporation	11.96	14.85	1.06	385,789	94,544,641	98,912,974	A3	A-	BBB+
Regions Financial Corporation	7.47	11.70	0.15	90,358	98,293,646	89,220,548	A2	A+	A
<b>BB&amp;T Corporation</b>	<b>9.43</b>	<b>14.44</b>	<b>0.64</b>	<b>358,000</b>	<b>95,305,000</b>	<b>88,387,000</b>	<b>Aa3</b>	<b>AA-</b>	<b>A+</b>
Fifth Third Bancorp	8.57	12.30	-0.09	-56,000	84,440,000	77,460,000	A1	A+	A+
KeyCorp	8.55	12.40	-0.07	-36,000	76,626,000	64,678,000	A2	A	A-
Northern Trust Corporation	9.17	11.44	-0.53	-148,300	29,675,500	62,439,100	A1	AA-	AA-
M&T Bank Corporation	7.89	11.98	1.71	91,185	47,912,860	42,501,293	A2	A-	A-
Comerica Incorporated	7.32	11.19	0.06	27,000	50,843,000	39,545,000	A2	A+	A
Marshall & Ilsley Corporation	7.94	11.76	0.32	83,138	49,385,748	40,039,602	A3	A+	A-
Huntington Bancshares Incorporated	8.80	12.03	0.22	75,063	40,757,736	37,569,056	A3	A-	BBB+
Zions Bancorporation	8.07	12.30	0.42	37,760	41,278,260	38,590,901	A3	A-	BBB+
Popular, Inc.	9.09	10.35	-0.77	-211,173	25,854,689	27,911,397	A3	A-	BBB+
Synovus Financial Corp.	8.81	12.20	-0.09	-40,121	27,302,769	27,848,863	Baa1	A-	A-
First Horizon National Corporation	11.10	16.07	-0.47	-125,095	21,559,471	13,778,235	Baa1	BBB+	BBB
Colonial BancGroup, Inc.	10.00	14.18	-0.31	-71,210	16,944,065	18,492,933	Baa2	BBB	BBB
Associated Banc-Corp	9.22	11.08	0.37	37,769	16,067,210	14,245,667	A3	BBB+	BBB+

BB&T, Member FDIC.

## 2008 Year in Review

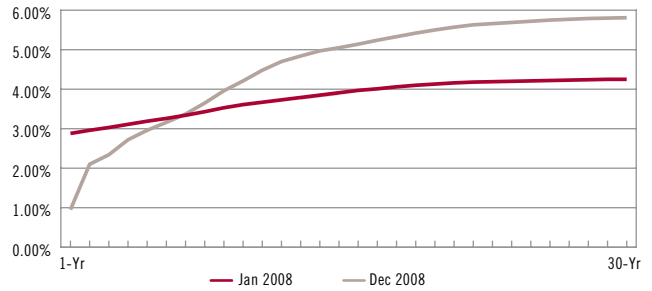
Prior to 2008 the healthcare sector enjoyed a period of relative ease in the financial markets – benefiting from a flat yield curve and strong investor demand at low credit spreads. However, the events of 2008 have precipitated a major shift in the capital markets. The yield curve has evolved from relatively flat to very steep (see graphic to the right), creditors are less willing to assume risk in the transactions they participate in and the cost of the capital they extend has increased substantially.


In hindsight, it appears that reckless lending practices to the residential and commercial real estate sector have deflated housing markets and made it difficult to sell homes nationally. In the banking and bond insurance sectors, impaired balance sheets have led to emergency capital raises, dividend cuts, asset sales, credit rating downgrades, plummeting stock prices, tightening of lending practices and more. The economy is officially in a recession and the stock market is down 30-40%.

The turmoil in the housing and credit markets has had numerous effects on the capital available for the healthcare industry:

- General concerns about credit and liquidity continue to negatively impact market pricing;
- Long-term tax-exempt rates have increased substantially over the past several months due to lack of liquidity;
- Credit spreads continue to widen (increasing as much as 200 basis points); and
- Credit enhancement fees (letters of credit) have increased – banks that are still adequately capitalized are demanding higher letter of credit fees and becoming more selective. Letter of credit proposals vary widely in the current market as a result of the credit profile and capital adequacy of the bank itself; the credit profile of the healthcare provider; and alternative credit opportunities for the banks.

### “AAA” MMD Yield Curve



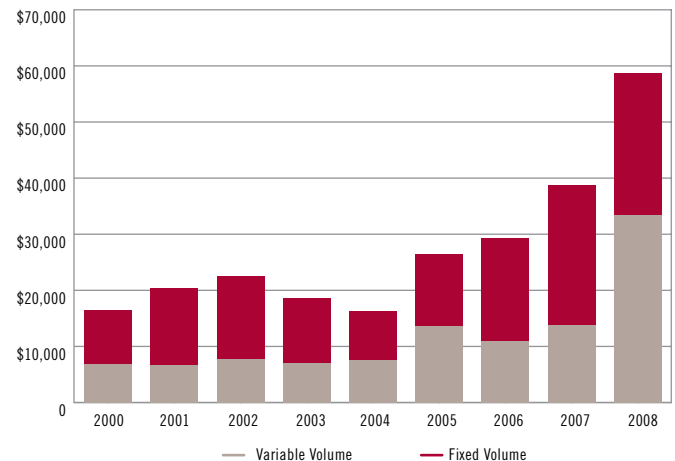
Given market conditions, many borrowers have delayed financings or pursued alternative structures. The issuance data for 2008 indicates a shift from traditional fixed rate transactions to VRDB transactions, which have almost doubled previous levels (see chart below). The attractiveness of variable rate debt has increased as the differential between short and long-term fixed interest rates has increased. The current difference between the one-year fixed rate and the 30-year fixed rate is nearly 5.00%. This is an unusually large relationship that is being driven by the Federal Reserve’s efforts to keep short-term rates low to stimulate the economy. The rating agencies have taken notice and recently expressed concern regarding the increase in variable rate exposure many borrowers are undertaking. Variable rate debt carries with it certain characteristics that pose inherent risk to an institution. A number of borrowers are hedging variable interest rate risk via the swap market (i.e. derivatives); however, there are additional elements of risk including bank counterparty credit risk, letter of credit bank renewal risk and “put” risk. Given that, it is important for borrowers to maintain an appropriate balance in their fixed and variable rate debt exposure. A sensible approach is to structure variable rate exposure similar to a borrower’s exposure to fixed income investments on the asset side of the balance sheet. 

### Healthcare Issuance: Number of Transactions



Source: Securities Data Corporation

### Healthcare Issuance: Dollar Volume



Source: Securities Data Corporation

# SEC Modifies Rule Governing Municipal Securities Continuing Disclosure

The Securities and Exchange Commission (the "Commission") has recently issued two releases which significantly change the scope and format for issuers and obligated persons subject to the continuing disclosure requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934 (the "Act"). The practical effect of these releases is to provide for the Municipal Securities Rulemaking Board (the "MSRB"), through its Electronic Municipal Market Access ("EMMA") system, to serve as the single centralized repository for the electronic collection and availability of information about municipal securities, effective as of July 1, 2009.

## Changes Incorporated by the Rule

Under paragraph (b)(5) of the current Rule, an underwriter is prohibited from purchasing or selling municipal securities covered by the Rule in a primary offering unless the underwriter has determined, in its reasonable judgment, that the issuer of the municipal securities or an obligated person for whom financial information or operating data is provided in a final official statement has undertaken, in writing, to provide i) annual financial information filings to each of the (currently four) nationally recognized municipal securities information repositories (each, a "NRMSIR"), ii) notices of certain events, if material, and failure to provide annual financial information on or before the date specified in the written undertaking either to each NRMSIR or to the MSRB, and iii) in the case of states that have established state information depositories (each, a "SID"), all annual financial information filings and notices (which are generally referred to as "continuing disclosure documents") to the appropriate SID.

The SEC Releases will change this framework in three major ways by requiring that

1. Continuing disclosure documents (including other disclosure documents specified in written undertakings but not specifically described in the Rule, such as quarterly financial statements) must be sent to the MSRB instead of to each NRMSIR and the appropriate SID;
2. Continuing disclosure documents must be submitted in PDF format (which, as of January 1, 2010, also must be word-searchable); and
3. All continuing disclosure document filings must be submitted with identifying information as prescribed by the MSRB, including:
  - a. the category of information being provided,
  - b. if a financial information filing, the period of time covered by such filing,

- c. the issues or specific securities to which the document is related (including CUSIP number, name of issuer, state, name of security or description of issue, dated date, maturity date, and/or coupon rate),
- d. the name of any obligated person other than the issuer,
- e. the name and date of the document, and
- f. contact information for the submitter of the document.


## Changes to the Small Issuer Exemption

Another significant change to the Rule is the amendment of the "small issuer" exemption set forth in paragraph (d)(2). Under the current Rule, issuers or obligated persons which have \$10 million or less in outstanding debt are exempt from the requirements of paragraph (b)(5) if they enter into a written undertaking which requires them to provide a) upon request to any person or to the appropriate SID, if any, annual financial information filings and b) to each NRMSIR and to the appropriate SID, if any, notices of material events. The revised Rule effectively eliminates the exemption from preparing annual information filings if not requested, by requiring issuers to regularly submit such annual data to the MSRB.

## Transition to the Rule

Continuing disclosure agreements entered into by issuers prior to the effective date of the Rule will continue to remain in effect. However, the Commission will withdraw all "no action" letters recognizing existing NRMSIRs and will designate the MSRB as the sole NRMSIR as of the effective date of the Rule. Consequently, beginning on July 1, 2009, all continuing disclosure documents that, under the provisions of existing written undertakings, would be provided to the existing NRMSIRs should be provided instead to the MSRB in its capacity as the sole NRMSIR.

The Commission's designation of the MSRB as the sole NRMSIR will not affect the capacity of the various SIDs. Any provision in written undertakings that requires continuing disclosure documents to be provided to the appropriate SID, will remain in effect, and continuing disclosure documents will need to be submitted to both the MSRB and that SID.

The MSRB has indicated plans for an extensive outreach program to educate issuers and other obligated persons regarding the use of its EMMA system's continuing disclosure service. 

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*About Parker, Poe, Adams & Bernstein LLP*

*Parker Poe's Public Finance Group consists of nationally known and recognized practitioners with experience in virtually every type of public financing. They have helped borrowers in financings totaling in the billions of dollars, serving as bond counsel, borrower's counsel and underwriter's counsel. They regularly advise clients in audits before the IRS and have obtained numerous private letter rulings on behalf of clients.*

## Secondary Market Activity Brisk and Panicked – Structure of Securities Placement Changing Rapidly

While typically the majority of a borrower's interaction with its investment banker is focused on new projects and refinancings, which involve the issuance of new bonds in what is called the primary market, there exists a large and active secondary market for the trading of bonds that were previously issued. Similarly in the equity markets for stocks, the primary market would be an initial public offering (IPO) and the secondary market is what most people refer to as the stock market – the daily trading of stocks that were issued previously.

Over the past several months, amid record volatility in the capital markets, activity in the secondary market for previously issued high yield tax-exempt bonds has been brisk. In the 12 month period ending August 30, 2008, the markets had gradually deteriorated, but since then the investor side (buy side) of the high yield sector has experienced structural challenges amid massive portfolio sales and bond liquidation that have resulted in rapidly rising credit spreads and very limited liquidity.

In December the trends intensified, as it was not uncommon to be aware of high profile institutional investors making groups of bonds available for sale on a few hours notice. There are specific examples of investors asking for bids on as much as \$500 million of tax-exempt bonds (mainly healthcare) mid-morning with the bonds sold by mid-afternoon to the highest bidder.


During December, many reputable lower credit healthcare providers saw their bonds trade at more than 10% in the secondary market. The securities that are experiencing the most rapid deterioration in value were those that were issued in the 2004 to 2007 time frame – often with very low coupons in the 4% and 5% ranges. As yields increased, the low coupons on these bonds were very undesirable for investors. Many borrowers with adequate liquidity who issued bonds during this time frame were actively purchasing their own debt at ½ of its par value.

Source: Reuters

The massive liquidation in the secondary market has made new bond issues for projects and refinancings almost impossible. For those few investors who are actively buying right now, they have their choice of some of the industry's best providers at yields twice what borrowers paid for new issue bonds in the past several years. Additionally, one of the industry's largest, most stable investment funds has shifted to buying hospital bonds over CCRCs, as many A rated hospital bonds are now for sale at more than 8% - which has allowed the investors to get significantly more return than in recent years with significantly less risk.

In addition to the return of the risk premium to the market, perhaps the most prominent theme of late has been the reemergence of retail investors as a major force in the provision of capital to healthcare providers. Phil Fisher, a muni strategist at Merrill Lynch & Co., said in the second half of 2008 he realized that problems in the muni market were not isolated events, but part of a fundamental shift in how tax-exempt bonds are bought and sold.

**“This is about as radical a change in the municipal bond market as we’ve seen.”**

In recent years most institutional investors were active buyers of healthcare bonds at interest rates near or lower than retail investors. With institutions battling redemptions and credit concerns, individual retail investors are the biggest source of demand at today's unusually high yields. BB&T was recently involved in a \$169 million bond financing for an A1/AA- rated healthcare system that was sold entirely to retail investors. The transaction involved a syndicate of five firms to ensure broad distribution. 


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## Scrutinize Covenant Compliance

As borrowers whose fiscal year ends December 31st move from year-end closing of their financial books to preparation of their annual audits, now more than ever is the time to ensure that covenants are calculated correctly and exceed minimum thresholds. Weak investment returns, decreased utilization, swap markdowns and payor mix changes are all factors that could negatively impact the standard bond covenants such as debt service coverage ratio, days' cash on hand and liquidity covenants.

This is a good time to contact your banker or legal counsel and, in conjunction with your auditor, double check your interpretation of the calculation for each covenant and the results for the

relevant period. Adhering to the covenants is the safest approach to preventing a bondholder, bank or trustee disruption to your business strategy. However, in the event that a borrower does miss covenants, the best approach is to identify the violations as quickly as possible, develop a strategy within the provisions of your bond documents to remedy the violation, and provide regular communication to interested parties such as letter of credit providers bondholders, rating agencies, etc.

Please contact us if we can be of any help with compliance strategies during these uncertain times. 

# Not-for-Profit Hospital Industry – Current Observations by Industry Experts

Not-for-profit hospitals are currently facing an increasingly difficult operating environment due to the depth and severity of the economic downturn. The recession has caused unemployment to rise above 7% for the first time since 1993, which has intensified the challenges for not-for-profit hospitals. Industry experts anticipate that the negative trends that surfaced in 2008 will continue for the next 18-36 months. During this period it will be important for hospital management to make decisions that will position their organizations for long-term success.


## Softer Volume, Increased Bad Debt and Charity Care

As people across the country lose their jobs they also lose their healthcare benefits provided by their employer. In many cases these unemployed people are turning down the benefits under the rules of the Consolidated Omnibus Budget Reconciliation Act ("COBRA") due to the expense of the benefits. In addition, more employers are scaling back their healthcare benefit programs and putting more of the expense on their employees, causing some of the employees to drop their coverage. Therefore, more of the population is uninsured, causing volume to decrease and bad debts and charity care to increase. Volume has also been impacted by people holding off on getting non-urgent procedures performed due to economic uncertainty. Ultimately hospitals need to ensure they are taking the appropriate actions to keep their organizations as profitable as possible through this turbulent period.

## Investment Portfolios Diminished

Investment portfolios are significant to the operation of a hospital because they provide the organization a financial cushion as well as provide investment income. In the second half of 2008 there was an intense decline in the stock market which caused investment portfolios to lose significant value, thus reducing most hospitals financial cushion. In addition, it is expected that the investment, income generated from these portfolios will decrease, which will reduce the operating profitability of the hospital. Hospitals will need to increase their vigilance over their portfolios to ensure they are properly managing their risk.

## Access to Capital Increasingly Difficult

Due to the credit market disruptions of 2008 capital has become difficult to access. In 2008 the auction rate market essentially disappeared, interest rates on variable rate demand bonds ("VRDBs") spiked and interest rates on fixed rate debt increased substantially. In addition, bank enhancement (specifically through letters of credit) has become expensive and difficult to find. These factors have caused the cost of capital across the borrowing spectrum to increase significantly. The increased cost of capital has caused some hospitals to delay capital improvement plans due to the expense. Hospitals that made major improvements to their facility prior to the credit market disruptions will have a competitive advantage over hospitals that will have to raise capital in the current market environment. 

## 2008 Healthcare Credit Enhancement Rankings

National Letter of Credit Enhancement Rankings January 2008 Through December 2008				
Firm	Par Amount (US \$ mil)	Rank	Market Share	Number of Issues
JPMorgan Securities	6,948.7	1	11.4	68
Bank of America	6,868.6	2	11.3	76
Assured Guaranty	4,961.0	3	8.2	50
Wells Fargo	4,878.5	4	8.0	58
FSA	2,986.4	5	4.9	21
US Bank	2,559.6	6	4.2	32
Landesbank Baden-Wuerttemberg	1,268.0	7	2.1	13
<b>BB&amp;T Bank</b>	<b>1,267.8</b>	<b>8</b>	<b>2.1</b>	<b>23</b>
Northern Trust Company	1,184.9	9	2.0	11
Compass Bank	846.2	10	1.4	8
Allied Irish Bank	835.5	11	1.4	13
SunTrust Bank	762.1	12	1.3	9
Regions Bank	736.7	13	1.2	13
The Bank of New York Mellon	691.3	14	1.1	14
Dexia Group	615.9	15	1.0	4
TD Banknorth NA	599.9	16	1.0	13
UBS Warburg	542.3	17	0.9	8
Bank of Nova Scotia	537.9	18	0.9	5
PNC Bank	442.2	19	0.7	10
PHA	440.3	20	0.7	4

Source: Securities Data Corporation

## 2008 Healthcare Underwriter Rankings

National Healthcare Underwriter Rankings January 2008 Through December 2008				
Firm	Par Amount (US \$ mil)	Rank	Market Share	Number of Issues
Citi	12,370.3	1	20.6	110
Bank of America	9,776.4	2	16.3	101
Morgan Stanley	7,612.5	3	12.7	67
JPMorgan Securities	7,231.7	4	12.1	54
Goldman Sachs	5,800.0	5	9.7	54
Wells Fargo	1,934.4	6	3.2	42
Barclays Capital	1,835.4	7	3.1	14
Piper Jaffray & Co.	1,627.7	8	2.7	47
RBC Capital Markets	1,595.9	9	2.7	21
UBS Securities	1,416.2	10	2.4	19
<b>BB&amp;T Capital Markets</b>	<b>1,131.7</b>	<b>11</b>	<b>1.9</b>	<b>25</b>
Morgan Keegan & Co.	1,080.7	12	1.8	18
Cain Brothers	857.0	13	1.4	15
Ziegler Capital Markets	766.6	14	1.3	20
PNC Financial Services	713.6	15	1.2	12
SunTrust Capital Markets	610.0	16	1.0	11
Raymond James & Associates	594.4	17	1.0	11
Herbert J. Sims & Co.	558.2	18	0.9	15
Mellon Financial Markets, Inc.	490.8	19	0.8	1
Edward D. Jones & Co. LP	252.8	20	0.4	3

Source: Securities Data Corporation

# BB&T Capital Markets Healthcare Fiance Group

## 2008 Hospital Underwritings

Date	Borrower	Par Amount (US\$ mil)	Interest Rate Mode	Role	State
01/03/08	Virginia Commonwealth University Health System	\$35,000	Variable	Sole Manager	VA
02/13/08	Fauquier Hospital	23,400	Fixed	Sole Manager	VA
07/09/08	Frederick Memorial Hospital	72,160	Variable	Sole Manager	MD
08/08/08	Upper Chesapeake Medical Center Inc	60,190	Variable	Sole Manager	MD
08/19/08	Novant Health Inc	50,870	Variable	Sole Manager	NC
09/09/08	Southeast Georgia Health System	106,865	Fixed	Senior Manager	GA
09/09/08	Southeast Georgia Health System	40,570	Variable	Senior Manager	GA
09/11/08	Clarian Health Partners	45,000	Variable	Senior Manager	IN
09/19/08	Baptist Medical Center	57,980	Variable	Senior Manager	FL
09/23/08	Cape Fear Valley Medical Center	152,000	Variable	Sole Manager	NC
10/16/08	Wake Forest University Health System	94,285	Variable	Senior Manager	NC
10/16/08	Cabell Huntington Hospital	96,955	Variable	Senior Manager	WV
10/30/08	Martha Jefferson Hospital	80,000	Variable	Senior Manager	VA
12/09/08	FirstHealth of the Carolinas Inc	31,830	Variable	Senior Manager	NC
<b>TOTAL</b>		<b>\$947,105</b>			

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