

FITCH AFFIRMS UNITED METHODIST RETIREMENT COMMUNITIES (MI) 1998 REVS AT 'BBB'; OUTLOOK POSITIVE

Fitch Ratings-New York-21 May 2012: Fitch Ratings has affirmed the 'BBB' rating on the following outstanding debt issued on behalf of United Methodist Retirement Communities (UMRC):

--\$13,075,000 Economic Development Authority of the Village of Chelsea Revenue and Refunding Bonds, Series 1998

The rating Outlook is revised to Positive from Stable.

SECURITY

The bonds are secured by a gross revenue pledge and a debt service reserve fund.

KEY RATING DRIVERS

SOLID FINANCIAL PROFILE: UMRC's liquidity, capital, and operating ratios have been consistent through the historical period and compare well to Fitch's 'BBB' category medians.

IMPROVED OCCUPANCY AT CRC: Independent living unit (ILU) occupancy at Chelsea Retirement Community (CRC), which had dipped below 90% in fiscal 2008, improved to 91.6% at March 31, 2012; UMRC management hired a new marketing person for CRC, refocused current staff, and combined smaller studios into larger one bedrooms, which helped improve ILU occupancy levels.

CEDARS CONTINUES TO FILL: Cedars of Dexter (Cedars), UMRC's start-up entrance fee campus in Dexter, MI, is expected to fill 57 of its 60 units by year end. At March 31, 2012, 44 of the units were occupied, with six more reserved.

MANAGEABLE DEBT BURDEN: UMRC's maximum annual debt service (MADS) as a percent of revenue of 5.9% and its revenue only MADS coverage of 3.4x at year end 2011 are strong for the rating level.

WHAT COULD TRIGGER A RATING ACTION

Should UMRC produce continued solid operational performance, maintain ILU occupancy at CRC of approximately 90%, and complete fill up on the new campus in Dexter, an upgrade would be likely.

CREDIT PROFILE

The 'BBB' rating is supported by UMRC's overall financial profile which is solid for the rating level. UMRC finished fiscal 2011 with an 87.8% operating ratio, consistent with the prior four years performance, and favorable to Fitch's 2011 'BBB' category median of 97.4%. The operating performance supported debt service coverage by revenue only of 3.4x, which is much stronger than the category median of 0.8x and reflects the solid revenue generation from its main facility, Chelsea Retirement Community (CRC), which is a rental community.

Liquidity remained good for the 'BBB' category as well with cash and unrestricted investments of \$20.1 million as of March 31, 2012, equating to 292.7 days cash on hand, a 11% cushion ratio, and cash to debt of 81.8%, all better than their respective category medians.

Independent living occupancy at CRC only (not including Cedars) had been down in recent years but improved to 91.6% as of March 31, 2012. This is a marked improvement over the 83.6% in

March 2011. Assisted living occupancy remained near 90% and skilled nursing occupancy was above 90% over the last 15 months. UMRC has a good skilled nursing payor mix with a manageable Medicaid census at approximately 30% and a high Medicare percentage of approximately 50%, of gross revenue, which contributes to the consistent operating performance.

Cedar's, UMRC's 60-unit refundable entrance fee facility (Type C) located about eight miles east of CRC and ten miles northwest of Ann Arbor, MI, is in the process of filling up. While fill-up has been behind schedule it has progressed and as of April 30, 44 units have been filled with six more in the process of closing. UMRC expects to reach 95% occupancy by the end of the year. Monthly service fees have already positively affected Cedar's financial profile and once Cedar's reaches stabilization and begins to generate turnover entrance fee receipts in a few years, debt service coverage should further strengthen.

A credit concern is that UMRC will refund entrance fees prior to reoccupancy of the unit, which is a concern, given the potential impact on liquidity. Of Cedar's contracts, the most popular are the 90% and 50% refundable plans, which account for approximately 80% of Cedar's sales. Fitch believes UMRC has sufficient financial cushion to mitigate this risk.

Total outstanding debt is \$25.3 million and includes \$13.1 million of fixed rate debt (series 1998) and \$12.2 million variable rate direct bank loan. The direct bank loan is with Huntington Bank and has an initial put date of December 7, 2015. UMRC has a floating to fixed rate swap outstanding for a notional amount of \$6.3 million, which terminates in 2015. Huntington Bank is the counterparty and there are no collateral posting requirements.

Fitch expects UMRC's capital needs to remain manageable over the next two to three years, including finishing its installation of an electronic medical record. Capital spending is expected to be approximately \$1.4 million a year over the next two years. UMRC is in the early stages of contemplating renovations of its existing assisted living units to address the smaller size of its current units.

The Positive Outlook reflects Fitch's expectation that UMRC will maintain its good financial performance and fill its Cedar's campus by year end, which should lead to upward rating movement over the near term.

United Methodist Retirement Communities consists of two facilities, Chelsea Retirement Community and Cedars of Dexter. CRC is a rental-only CCRC (type C), with 113 ILUs, 49 ALUs, 102 Alzheimers and Related Dementia Facility (RDF) beds, and 85 SNF beds located in Chelsea, MI, about 15 miles west of Ann Arbor. Cedars is a 60 unit, type C, entrance fee (Life Lease) ILU facility in Dexter, MI. Total revenue in fiscal 2011 was \$29.5 million. UMRC provides annual and quarterly disclosure on EMMA.

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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' (June 20, 2011);

--'Rating Criteria for Not-for-Profit Continuing Care Retirement Communities' (July 26, 2011).

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130

Rating Criteria for Not-for-Profit Continuing Care Retirement Communities

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=644895

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