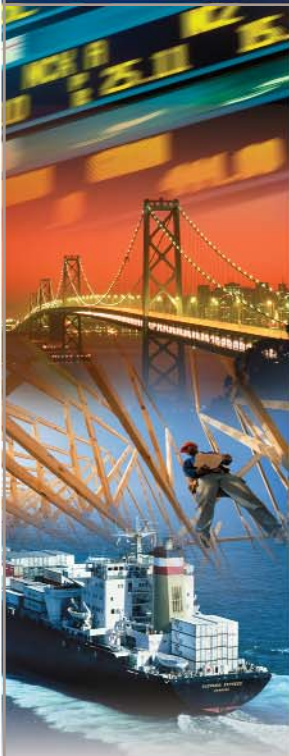


**Ambac**

Complex Financing Separates University of Pennsylvania Health System from Parent University Guarantee

\$337,000,000

Pennsylvania Higher Educational Facilities Authority
Refunding Revenue Bonds, Series A & C



The University of Pennsylvania, one of the largest private universities in the U.S., enjoys a strong market position, with undergraduate and professional programs consistently ranked in the top ten nationally. Its affiliated University of Pennsylvania Health System (UPHS), with three hospitals located in center city Philadelphia, maintains a close, interdependent relationship with the University - the Health System medical staff includes the academic faculty of the prestigious medical school. This symbiotic relationship extends to finances: the Health System's variable rate debt had been backed by a guarantee from the University since the mid-1990s due to several years of UPHS' financial difficulty. Recently, under the oversight of a strengthened management team, UPHS has generated markedly improved operating and financial performance. As a result, late in 2004 the senior management team decided to pursue a major debt restructuring and refunding program to refinance existing higher-coupon debt and capture substantial savings, while eliminating the University's guarantee backing any UPHS bonds. In order to execute a successful bond offering in the auction rate market, UPHS needed the support of a triple-A-rated financial guarantee company. Ambac quickly assessed UPHS' improving underlying credit trend while simultaneously appreciating the University's long-term objectives, and agreed to work with the underwriting team to structure and market the major refinancing package.

The \$557 million multi-series offering included \$361 million of fixed rate bonds and \$196 million of auction rate bonds; \$337 million were backed by the Ambac guarantee. A novel set of springing covenants and other unique provisions enabled Ambac to bring its triple-A credit strength to the deal and successfully eliminate the University's debt guarantee, which was the overall objective of the financing. In addition, the offering enabled the Health System to diversify its investor base to include the auction rate market, and diversify UPHS credit risk by exchanging short-term, lower-rated bank enhancement risk for long-term, Ambac triple-A credit risk. In addition, the transaction produced debt service savings of more than \$6 million annually.

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