

LOAN AGREEMENT

between

WESLACO HEALTH FACILITIES DEVELOPMENT CORPORATION

and

KNAPP MEDICAL CENTER

Relating to

\$38,310,000

WESLACO HEALTH FACILITIES
DEVELOPMENT CORPORATION
VARIABLE RATE HOSPITAL REVENUE
REFUNDING AND IMPROVEMENT BONDS
(KNAPP MEDICAL CENTER PROJECT)
SERIES 2008A

Dated as of

December 1, 2008

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LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement" or this "Loan Agreement"), dated as of December 1, 2008, is between the WESLACO HEALTH FACILITIES DEVELOPMENT CORPORATION, a non-profit health facilities development corporation (the "Issuer"), and the KNAPP MEDICAL CENTER, a Texas non-profit corporation (the "Hospital").

WITNESSETH:

WHEREAS, the Health Facilities Development Act, Chapter 221, Texas Health and Safety Code, as amended (the "Act"), authorizes the Issuer to issue revenue bonds on behalf of the City of Weslaco, Texas in accordance with the terms of the Act, to provide funds to finance or refinance all or part of the cost of "health facilities" (as defined in the Act); and

WHEREAS, the Issuer has previously issued its Hospital Revenue Bonds (Knapp Medical Center Project) Series 1994A and Series 1994B (collectively, the "Refunded Bonds"); and

WHEREAS, the Issuer loaned the proceeds of the Refunded Bonds to the Hospital for the purposes of financing or refinancing certain health facilities; and

WHEREAS, the Hospital desires to refinance its obligations with respect to the Refunded Bonds and to finance or refinance certain health facilities; and

WHEREAS, the Issuer now proposes to issue its Variable Rate Hospital Revenue Refunding and Improvement Bonds (Knapp Medical Center Project) Series 2008A (the "Bonds") to (i) refinance the Refunded Bonds; (ii) finance or refinance certain health facilities, and (iii) pay costs of issuance of the Bonds; and

WHEREAS, the Issuer has determined, based upon representations of the Hospital, that the issuance of the Bonds for such purposes will be in furtherance of the public purposes of the Act and will assist in providing, expanding and improving health facilities, which will improve the adequacy, cost and accessibility of health care, research and education within the State of Texas; and

WHEREAS, contemporaneously with the execution and delivery of this Agreement, the Issuer has entered into the Trust Indenture dated as of December 1, 2008 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, National Association, as trustee (in such capacity, the "Trustee"), for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act and securing to the Holders of the Bonds the payment of the Bonds; and

WHEREAS, the Issuer shall issue the Bonds in order to loan the proceeds thereof to the Hospital and the Hospital agrees to repay the loan on the terms set forth herein;

In consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.1. Definitions.

(a) For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(i) "Agreement" or "Loan Agreement" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more agreements supplemental hereto entered into pursuant to the applicable provisions hereof.

(ii) All references in this instrument to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision.

(iii) The terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular. The terms used herein but defined in the Indenture or the Master Indenture and not defined herein have the meanings assigned to them in the Master Indenture. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its permitted successors and assigns.

(iv) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.

(b) The following terms have the meanings assigned to them below whenever they are used in this Agreement:

"Additions" means any and all real or personal property or any interest therein wherever located or used (i) which is desirable in the business of the Hospital; (ii) the cost of construction, acquisition or development of which is properly chargeable to the property accounts of the Hospital, in accordance with generally accepted accounting principles; and (iii) which is deemed for federal income tax purposes to be owned by the Hospital.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract, or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

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“Capital Expenditures” means, as of the date of determination thereof, the aggregate of the costs paid (otherwise than by incurring or acquiring Property subject to purchase money obligations) prior to such date by the Hospital in connection with the construction, acquisition or development of the Project or Additions, as the case may be, and properly chargeable to the property accounts of the owner thereof in accordance with generally accepted accounting principles and so charged, including, without limitation, payments made for labor, salaries, overhead, materials, interest, taxes, engineering, accounting, legal expenses, superintendence, insurance, casualty liabilities, rentals, start-up expenses, financing charges and expenses and all other items (other than operating or maintenance expenses) in connection with such construction, acquisition or development and so properly chargeable and, in the case of Capital Expenditures for Additions consisting of an acquired facility, including the cost of any franchises, rights or property, other than Additions, acquired as a part of such going business for which no separate or distinct consideration shall have been paid or apportioned.

“Claims” shall mean all claims, investigations, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action or impleader) or otherwise involving any Indemnified Party, even if groundless, false, or fraudulent, so long as the claim, lawsuit, cause of action or other legal action or proceeding is alleged or determined, directly or indirectly, to arise out of, to result from, to relate to or to be based upon, in whole or in part: (a) the issuance of the Bonds, (b) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the issuance of the Bonds, the obligations of the various parties arising under the Bond Documents or the administration of any of the Bond Documents, or (c) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the design, construction, installation, operation, use, occupancy, maintenance or ownership of the Project or any part thereof.

“Code” means the Internal Revenue Code of 1986, as amended from time to time and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“Indenture” means the Trust Indenture dated as of the date of this Agreement, between the Issuer and The Bank of New York Mellon Trust Company, National Association, as trustee, securing the Bonds.

“Independent” when used with respect to any specified Person means such a Person who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Hospital or in any other obligor upon the Note or in any Affiliate of the Hospital or of such other obligor, and (3) is not connected with the Hospital or such other obligor or with any Affiliate of the Hospital or of such other obligor as an officer, employee, promoter, underwriter, trustee, partner, director, or person performing similar functions. Whenever it is herein provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Order of the Person making such appointment, and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Indemnified Party” shall mean one or more of the Issuer, the Governing Body of the Issuer, the Sponsoring Entity, and any of their successors, officers, directors or commissioners.

“Issuer” means the Weslaco Health Facilities Development Corporation, a non-profit corporation organized pursuant to the Act.

“Loan Payments” means the amounts described in Sections 4.1(a) and (b) of this Agreement.

“Losses” means losses, costs, damages, expenses, judgments, and liabilities of whatever nature (including, but not limited to, reasonable attorney’s, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other Person under any arrangement providing for indemnification of that Person) directly or indirectly resulting from arising out of or relating to one or more Claims.

“Maturity” when used with respect to any Bond means the date on which the principal of such Bond or any installment thereof becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

“Note” means the promissory note of the Hospital secured by the Master Indenture executed by the Hospital and dated the Issue Date in the principal amount of the Bonds.

“Opinion of Bond Counsel” means an Opinion of Counsel rendered by Bond Counsel addressed to the Issuer and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the relevant documents, that all conditions precedent under the relevant documents have been fulfilled, and that such proposed action will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

“Opinion of Counsel” means a written opinion of counsel, who may (except as otherwise expressly provided) be counsel to any party to a Bond Document, and shall be acceptable to the Trustee.

“Organizational Documents” of any corporation means the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

“Project” means the project described in Exhibit “A” hereto.

“Project Costs” means costs permitted to be paid out of proceeds of the Bonds by the Act and by the Code including other costs related to the Project.

“Refunded Bonds” means the Issuer’s Hospital Revenue Bonds (Knapp Medical Center Project) Series 1994A and Series 1994B.

“Series 2008 Bonds” means the Bonds and the Issuer’s Variable Rate Hospital Revenue Refunding Bonds (Knapp Medical Center Project) Series 2008B.

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(c) Certain terms, used primarily in Sections 2.2, 3.8, 4.5, 4.7 and 5.3, are defined in those Sections.

Section 1.2. Form of Documents Delivered to Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Hospital may be based, in so far as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, in so far as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Hospital stating that the information with respect to such factual matters is in the possession of the Hospital, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments hereunder, they may, but need not, be consolidated and form one instrument.

Section 1.3. Communications. All notices, demands, certificates, requests, consents, submissions or other communications hereunder shall be given as provided in the Indenture.

Section 1.4. Term of Agreement. This Agreement shall remain in full force and effect from the date of execution and delivery hereof until the Indenture has been discharged in accordance with the provisions thereof; provided, however, that (a) the provisions of this Section and of Section 5.1 of this Agreement shall survive any expiration or termination of this Agreement and (b) in addition, if the Indenture is discharged prior to the final Maturity of the Bonds, the provisions of Sections 3.4, 3.6, 4.1(b), 4.3 and 5.3 of this Agreement shall continue until the final Maturity of the Bonds.

Section 1.5. Hospital's Approval of Bond Documents. The Bond Documents have been submitted to the Hospital for examination, and the Hospital acknowledges that, by execution of this Agreement, it has approved the Bond Documents and will perform the obligations imposed upon it under the Bond Documents to which it is a party.

Section 1.6. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.7. Successors and Assigns. All covenants and agreements in this Agreement by the Issuer and the Hospital shall bind their respective successors and assigns, whether so

expressed or not. No assignment by the Issuer or the Hospital of this Agreement shall relieve them of their obligations hereunder.

Section 1.8. Separability Clause. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.9. Benefits of Agreement. Nothing in this Agreement or in the Bonds, express or implied, shall give to any Person, other than the parties to the Bond Documents and their successors hereunder, the Indemnified Parties and the Holders of Bonds, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Section 1.10. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State.

Section 1.11. Amendments. This Agreement may be amended only as provided in the Indenture.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.1. Representations, Warranties and Covenants of the Issuer. The Issuer represents, warrants and covenants that:

(a) Corporate Existence; Good Standing. The Issuer is a non-profit health facilities development corporation duly incorporated, organized, validly existing and in good standing under the Act and is empowered to act on behalf of the Sponsoring Entity.

(b) Power. The Issuer has full corporate power and authority under the Constitution and laws of the State and its Organizational Documents to adopt the resolution authorizing the issuance of the Bonds, to issue the Bonds, to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under such Bond Documents.

(c) Due Authorization. The Issuer has duly adopted the resolution authorizing the issuance of the Bonds and has duly authorized the execution and delivery of the Bond Documents to be executed and delivered by it. All action required on the part of the Issuer for the authorization of the issuance of the Bonds and the execution and delivery of the Bond Documents to be executed and delivered by it has been duly and effectively taken and has not been rescinded, modified or revoked.

(d) Enforceability. The Bond Documents to which the Issuer is a party and the Bonds constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and (iii) the

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indemnification provisions contained therein may be limited by applicable securities laws and public policy).

(e) Filings. All filings with, or approvals or consents of, governmental authorities (other than approvals or consents required under the Blue Sky or other securities laws of any jurisdiction other than the State) required to be made or obtained by the Issuer for (i) the valid adoption of the resolution authorizing the issuance of the Bonds, (ii) the valid authorization, execution and delivery by the Issuer of the Bond Documents to which it is a party and (iii) the valid issuance, execution and delivery of the Bonds have been duly made or obtained.

(f) No Litigation. To the Issuer's knowledge, there is no action, suit, proceeding or investigation at law or in equity before or by any court, either State or federal, or public board or body pending or threatened calling into question the creation or existence of the Issuer, the validity of the Bond Documents to be executed and delivered by it, the authority of the Issuer to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under the Bond Documents or the title of any Person to the office held by that Person with the Issuer.

(g) Non-Contravention. To the Issuer's knowledge, the execution and delivery by the Issuer of the Bond Documents to be executed and delivered by it, and the performance of its obligations under such Bond Documents, will not violate in any respect any provision of law or regulation, or of any judgment, decree, writ, order or injunction, or of the Organizational Documents of the Issuer, and will not contravene the provisions of, or constitute a default under, or result in the creation of a lien, charge or encumbrance under, any agreement (other than the Indenture) to which the Issuer is a party or by which any of its properties constituting a part of the Trust Estate under the Indenture are bound.

(h) No Default. To the Issuer's knowledge, no event has occurred, and no condition currently exists, which constitutes or may, with the passage of time or the giving of notice, or both, constitute an Event of Default on the part of the Issuer.

(i) Amendments. The Issuer covenants that it will perform each of the covenants set forth in Article V of the Indenture for the benefit of the Hospital, and unless an Event of Default exists, will not join in any amendment of any Bond Document without the consent of the Hospital.

Each of the foregoing representations, warranties and covenants shall be deemed to have been made as of the date of this Agreement and again as of the Closing Date.

Section 2.2. Representations and Warranties of the Hospital. The Hospital represents and warrants as follows:

(a) Corporate Existence: Good Standing: Power. The Hospital is a non-profit corporation duly organized, validly existing and in good standing under the Texas Non-Profit Corporation Act; is duly qualified, authorized and licensed to transact business in each jurisdiction wherein failure to qualify would have a material adverse effect on the conduct of its business or the ownership of its properties; and has full corporate power and authority to own its properties and to conduct its business as now being conducted.

(b) Accuracy of Information; No Misstatements. All of the documents, instruments and written information furnished by or on behalf of the Hospital to the Issuer or the Trustee in connection with the issuance of the Bonds is true and correct in all material respects and does not omit or fail to state any material facts necessary or required to be stated therein to make the information provided not misleading.

(c) No Defaults: Non-Contravention. No event of default or event which, with notice or lapse of time or both, would constitute an event of default or a default under any agreement or instrument to which the Hospital is a party or by which the Hospital is or may be bound or to which any of the property or assets of the Hospital is or may be subject, and which would have a material adverse effect on the Hospital or which would impair its ability to carry out its obligations under the Bond Documents has occurred and is continuing; neither the execution nor the delivery by the Hospital of the Bond Documents to which it is party, nor the consummation of any of the transactions herein and therein contemplated nor the fulfillment of, or compliance with, the terms and provisions hereof or thereof, will contravene the Organizational Documents of the Hospital or will conflict with, in any way which is material to the Hospital, or result in a breach of, any of the terms, conditions or provisions of, or constitute a default under, any corporate or limited partnership restriction or any bond, debenture, note, mortgage, indenture, agreement or other instrument to which the Hospital is a party or by which the Hospital is or may be bound or to which any of the property or assets of the Hospital is or may be subject, or any law or any order, rule or regulation (applicable as of the date hereof to the Hospital) of any court, or regulatory body, administrative agency or other governmental body having jurisdiction over the Hospital or its properties or operations, or will result in the creation or imposition of a prohibited lien, charge or other security interest or encumbrance of any nature upon any property or asset of the Hospital under the terms of any such restriction, bond, debenture, note, mortgage, indenture, agreement, instrument, law, order, rule or regulation.

(d) No Litigation. Except as disclosed in writing in connection with the offering of the Bonds, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened, wherein an adverse decision, ruling or finding (i) would result in any material adverse change in the condition (financial or otherwise), results of operations, business or prospects of the Hospital or which would materially and adversely affect the properties of the Hospital, or (ii) would materially and adversely affect the transactions contemplated by, or the validity or enforceability of, the Bond Documents to which it is a party.

(e) Authority for: Authorization of Transaction. The Hospital has full corporate power and authority to execute and deliver the Bond Documents to be executed by the Hospital and has full power and authority to perform its obligations hereunder and thereunder and engage in the transactions contemplated by the Bond Documents to be executed by it. The Bond Documents to be executed by the Hospital have been duly authorized, executed and delivered by the Hospital and each constitutes a legal, valid and binding obligation of the Hospital, enforceable in accordance with its terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and

(iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).

(f) All Approvals. Except as otherwise disclosed in writing in connection with the offering of the Bonds, no consents, approvals, authorizations or any other actions by any governmental or regulatory authority that have not been obtained or taken are or will be required for the issuance and sale of the Bonds, the execution and delivery of the Bond Documents by the Hospital, the construction, ownership and operation of the Project or the consummation of the other transactions contemplated by the Bond Documents (except for such licenses, certificates, approvals or permits necessary for the construction of the Project for which the Hospital either has applied or shall apply with due diligence and which the Hospital expects to receive).

(g) No Conflict of Interest. No elected or appointed public official, employee, agent or representative of the Sponsoring Entity or any of its official boards, commissions or committees or any member of the Governing Body of the Issuer has any direct or indirect interest of any kind, or any right, agreement or arrangement to acquire such an interest in the Project, as owner, contractor, subcontractor, shareholder, general or limited partner, tenant or otherwise that would violate or require disclosure or other action under any law, regulation, charter or ordinance of the State or the Sponsoring Entity.

(h) Representations Regarding the Project. The Hospital has constructed and intends to operate the Project during the term of this Agreement. In addition, the Project is located in its entirety within the boundaries of the State and the Sponsoring Entity. The principal of the Bonds is based upon the Hospital's most reasonable estimate of the amount required to refund the Refunded Bonds and finance the Project.

(i) Certain Federal Tax Matters. The Hospital makes the following representations:

(A) The Hospital is an organization exempt from federal income taxation as provided in Section 501(a) of the Code by virtue of being described in Section 501(c)(3) of the Code;

(B) The purposes, character, activities and methods of operation of the Hospital have not changed materially since its organization and are not materially different from the purposes, character, activities and methods of operation at the time of its determination by the Internal Revenue Service to be an organization described in Section 501(c)(3) of the Code (the "Determination") or have been disclosed to the Internal Revenue Service, and the Hospital has received confirmation that such purposes, character, activities or methods of operation do not adversely affect the status of the Determination;

(C) The Hospital has not diverted a substantial part of its corpus or income for a purpose or purposes other than the purpose or purposes (i) for which it is organized or operated or (ii) disclosed to the Internal Revenue Service in connection with the Determination;

(D) The Hospital has not operated during its 5 most recent fiscal years or the current fiscal year, as of the date hereof, in a manner that would result in it

being classified as an “action” organization within the meaning of Section 1.501(c)(3)-(1)(c)(3) of the Regulations including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities;

(E) With the exception of the payment of compensation (and the payment or reimbursement of expenses) which is not excessive and is for personal services which are reasonable and necessary to carrying out the purposes of the Hospital, no individual who would be a “foundation manager” within the meaning of Section 4946(b) of the Code with respect to the Hospital, nor any Person controlled by any such individual or individuals or any of their Affiliates, nor any Person having a personal or private interest in the activities of the Hospital has acquired or received, directly or indirectly, any income or assets, regardless of form, of the Hospital during the current fiscal year and the 5 fiscal years preceding the current fiscal year, other than as reported to the Internal Revenue Service by the Hospital;

(F) The Hospital is not a “private foundation” within the meaning of Section 509(a) of the Code;

(G) The Hospital has not received any indication or notice whatsoever to the effect that its exemption under Section 501(a) of the Code by virtue of being an organization described under Section 501(c)(3) of the Code has been revoked or modified, or that the Internal Revenue Service is considering revoking or modifying such exemption, and such exemption is still in full force and effect;

(H) The Hospital has timely filed with the Internal Revenue Service all requests for determination, reports and returns required to be filed by it and such requests for determination, reports and returns have not omitted or misstated any material fact, and the Hospital has notified the Internal Revenue Service of any changes in its organization and operation since the date of the application for the Determination;

(I) The Hospital has not devoted more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose within the meaning of Section 501(c)(3) of the Code;

(J) The Hospital has not taken any action, nor does it know of any action that any other Person has taken, nor does it know of the existence of any condition that would cause the Hospital to lose its exemption from taxation under Section 501(a) of the Code or cause interest on the Bonds to be includable in the income of the recipients thereof for federal income tax purposes;

(K) Taking into account the Issue Price (as defined in Section 5.3(s) hereof) of the Stated Maturity of the Series 2008 Bonds, the average term of the Series 2008 Bonds does not exceed 120% of the average reasonably expected economic life of the assets to be financed or refinanced by the Series 2008 Bonds,

weighted in proportion to the respective cost of each item comprising the property the cost of which has been or will be financed, directly or indirectly, with the Net Proceeds (as defined in Section 5.3(s) hereof) of the Series 2008 Bonds. For purposes of the preceding sentence, the reasonably expected economic life of property shall be determined as of the later of (i) the Issue Date for the Series 2008 Bonds or (ii) the date on which such property is placed in service (or expected to be placed in service). In addition, land shall not be taken into account in determining the reasonably expected economic life of property, except that, in the event 25% or more of the collective Net Proceeds of the Series 2008 Bonds, directly or indirectly, have been expended for land, such land shall be treated as having an economic life of 30 years and shall be taken into account for purposes of determining the reasonably expected economic life of such property;

(L) All of the documents, instruments and written information supplied by or on behalf of the Hospital, which have been reasonably relied upon by Bond Counsel in rendering its opinion with respect to the exclusion from gross income of the interest on the Series 2008 Bonds for federal income tax purposes or Bond Counsel in rendering an opinion with respect to the status of the Hospital under Section 501(c)(3) of the Code, are true and correct in all material respects, do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to be stated therein to make the information provided therein, in light of the circumstances under which such information was provided, not misleading.

(j) Other Representations and Warranties. Any certificate with respect to factual or financial matters signed by an officer of the Hospital and delivered to the Issuer shall be deemed a representation and warranty by the Hospital as to the statements made therein.

Each of the foregoing representations and warranties shall be deemed to have been made as of the date of this Agreement.

ARTICLE III

THE PROJECT

Section 3.1. Acquisition and Construction of the Project. The Hospital agrees to utilize the amounts in the Project Fund to pay Project Costs and to complete the acquisition and construction of the Project and to place in service and operate the Project as health facilities as used in the Act in furtherance of the public purposes of the Act.

Section 3.2. Completion of Project if Bond Proceeds Insufficient. The Hospital agrees to pay all Project Costs which are not, or cannot be, paid or reimbursed from the proceeds of the Bonds. The Hospital agrees that if, after exhaustion of the moneys in the Project Fund, the Hospital should pay any portion of the Project Costs, it shall not be entitled to any reimbursement therefor from the Issuer or from any Holder, nor shall it be entitled, as a consequence of such unreimbursed payment, to any abatement, postponement or diminution of the amounts payable under this Agreement.

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Section 3.3. Completion. Upon completion of the Project, but not later than the end of the fifth Bond Year, the Hospital shall deliver to the Trustee an Officer's Certificate certifying: (i) that as of that date all Project Costs payable with respect to the acquisition of the Project have been paid; (ii) the amount from the Project Fund expended for Project Costs relating to the Project; and (iii) the amount from the Project Fund expended for Project Costs which are not Qualifying Costs (as defined in Section 5.3(s) hereof). If the amount of proceeds disbursed for Project Costs which are not Qualifying Costs exceeds 5% of the Net Proceeds of the Bonds allocable to the Project, the Hospital shall redeposit amounts into the Project Fund such that the amount of proceeds disbursed for Project Costs which are not Qualifying Costs does not exceed the applicable percentage of Net Proceeds (as set forth in the immediately preceding sentence) provided, however, that such redeposit and expenditure shall occur not later than 18 months after the later of (i) the date the expenditure to which the redeposited funds are allocated is paid or (ii) the date the asset to which the redeposited funds are allocated is placed in service, and in no event later than 60 days after the fifth anniversary of the Issue Date.

Section 3.4. Modification of the Project. The Project may be altered or added to by the Hospital; provided, however, that the Hospital shall make no revision to the Project that results in the Project ceasing to (i) constitute health facilities, as such term is used in the Act, or (ii) be substantially similar to the Project as approved by the Issuer; provided, further, that no revision to the Project may be made which would affect adversely the validity of the Bonds or the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Section 3.5. Casualty and Condemnation. The occurrence of a casualty to or condemnation of the Project or any portion thereof shall not entitle the Hospital to any abatement, postponement or reduction in the amount of the Loan Payments or other amounts payable under this Agreement and the Hospital hereby waives, to the extent permitted by law, the benefits and provisions of all laws and rights which, by reason of such casualty or condemnation, might relieve the Hospital from any of such obligations.

Section 3.6. No Establishment and No Impairment of Religion. The Hospital agrees that it will not use the Project or any substantial part thereof primarily for sectarian instruction or primarily as a place of religious worship or as a facility primarily used in connection with any part of a program (i) of a school or department of divinity for any religious denomination, or (ii) for the training of priests, ministers, rabbis, or other similar persons in the field of religion. The foregoing restrictions shall not apply to any properties or facilities of the Hospital not financed from the proceeds of the Bonds.

Section 3.7. Issuer Relieved From Responsibility With Respect to Project. The Hospital and the Issuer hereby expressly acknowledge and agree that the Issuer is under no responsibility to insure, maintain, operate or repair the Project or to pay taxes with respect thereto, and the Hospital expressly relieves the Issuer from any such responsibility.

Section 3.8. Force Majeure. If by reason of Force Majeure the Hospital shall be rendered unable wholly or in part to carry out its obligations under this Article (other than its obligations to pay money contained in Article IV of this Agreement), and if the Hospital gives notice and full particulars of such Force Majeure in writing to the Issuer and to the Trustee within a reasonable time after failure to carry out such obligations, then the obligations of the

Hospital under this Article, so far as they are affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, including a reasonable time for removal of the effect thereof. The requirement that any Force Majeure shall be reasonably beyond the control of the Hospital shall be deemed to be fulfilled even though any existing or impending strike, lockout or other industrial disturbance may not be settled but could have been settled by acceding to the demand of the opposing Person. The occurrence of any Force Majeure shall not suspend or otherwise abate, and the Hospital shall not be relieved from, the obligation to pay the Bond Obligations and to pay any other payments required to be made by it under this Agreement at the times required. For purposes of this Section, "Force Majeure" means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, acts or orders of any kind of the government of the United States of America, or of any state or locality thereof, or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, tornadoes, storms, floods, washouts, droughts, arrests, restraining of government and people, civil disturbances, explosions, nuclear accidents, wars, breakage or accidents to machinery, transmission pipes or canals, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other cause not reasonably within the control of the party claiming such inability.

ARTICLE IV

PAYMENTS

Section 4.1. Loan Payments; Purchase Price.

(a) To repay the loan of the proceeds of the Bonds evidenced by the Note, the Hospital shall, subject to the limitations of Section 4.5 of this Agreement, make or cause to be made (either directly by the Hospital to the Debt Service Fund or through the availability of draws on the Credit Facility deposited in the Credit Facility Fund while a Credit Facility is in place) Loan Payments in immediately available funds directly to the Trustee on or prior to each day on which any payment of principal (premium, if any) and interest on the Bonds and any other amounts due in accordance with the Indenture or the Bonds shall become due (whether at Stated Maturity or upon redemption or acceleration or otherwise) in an amount which, together with other money held by the Trustee under the Indenture and available therefor, will enable the Trustee to make such payment in full when due. If the Credit Enhancer fails to honor any drawing, the Trustee will immediately notify the Hospital of the amount it must transmit to the Trustee for payment of principal (premium, if any) and interest on the Bonds and the Hospital shall pay such amounts to the Trustee by 3:00 p.m. New York City time on the same date payment is due.

(b) If, subsequent to a date on which the Hospital is not obligated to pay the Loan Payments (as a result of defeasance of the Bonds pursuant to Section 1002 of the Indenture), losses (net of gains) shall be incurred in respect of any investments, or any other event or circumstance has occurred causing the amounts in the Debt Service Fund, together with any other amounts then held by the Trustee and available for the purpose, to be less than the amount sufficient at the time of such occurrence or other event or circumstance to pay, in accordance with the provisions of the Indenture, all principal (premium, if any) and interest on the Bonds due and payable or to become due and payable, the Trustee shall notify the Hospital of such fact

and thereafter the Hospital, as and when required for purposes of such Debt Service Fund, but subject to the limitations of Section 4.5 of this Agreement, shall pay to the Trustee for deposit in the Debt Service Fund the amount of any such deficiency below such sufficient amount.

(c) Prior to 3:00 p.m. New York City time on each date on which the Tender Agent is required to disburse the Purchase Price for any Bond, the Hospital will pay or cause to be paid to the Tender Agent (either directly by the Hospital to the Purchase Fund or through the availability of draws on the Liquidity Facility while a Liquidity Facility is in place), in immediately available funds, money in trust for the benefit of the tendering Bondholders in an amount which, together with any amounts available to the Tender Agent for the purpose under Section 219(b)(i) or (ii) of the Indenture, will be sufficient to pay the Purchase Price for all Bonds which are to be purchased on such date. If the Liquidity Provider fails to honor any drawing, the Trustee will immediately notify the Hospital of the amount it must transmit to the Trustee for payment of Purchase Price of tendered bonds and the Hospital shall pay such amounts to the Trustee by 3:00 p.m. New York City time on the same date payment is due. Payments pursuant to this subsection shall not be deemed to be Loan Payments or to reduce the Hospital's obligations pursuant to Section 4.1(a) or (b).

Section 4.2. Prepayment of Loan; Redemption of Bonds. The Hospital may at any time deliver money or Defeasance Obligations to the Trustee with instructions to the Trustee to hold such money or Defeasance Obligations pursuant to the Indenture in connection with a deemed payment of Bonds. The Issuer agrees that, at the request at any time of the Hospital, it will notify the Trustee in writing, exercise its rights and otherwise cooperate with the Hospital to cause the Bonds or any portion thereof to be redeemed to the extent permitted by the Indenture. Except to the extent of any reduction in payments due pursuant to Section 4.1 as a result of any such deemed payment or any redemption of the Bonds in whole or in part, neither the loan made hereunder nor the Note shall be prepayable. Any excess or unclaimed money held by the Trustee under the Indenture shall be paid by the Trustee to the Hospital as required by Article X of the Indenture.

Section 4.3. Security Interests.

(a) As security for repayment of the Note and performance of the Hospital's obligations under this Agreement, the Hospital hereby pledges, sets over, assigns and grants a security interest to the Issuer in all of the Hospital's right, title and interest in and to all amounts at any time deposited in the funds established pursuant to the Indenture (except the Rebate Fund and the Purchase Fund), including all investments and reinvestments made with such amounts and the proceeds thereof, and in all of its rights to and interests in such amounts, investments, reinvestments and proceeds. The Hospital hereby authorizes and directs the Trustee to hold such amounts, investments, reinvestments and proceeds as bailee and custodian for the Issuer in accordance with the provisions of the Texas Business and Commerce Code, as amended, and to invest and disburse such amounts and proceeds in accordance with the Indenture and this Agreement.

(b) The Hospital will (i) upon the execution and delivery of the Bond Documents and thereafter, from time to time, at the request of the Trustee, cause any Bond Document and each amendment and supplement thereto (or a memorandum with respect thereto or to such

amendment or supplement) to be filed, registered and recorded and to be refiled, reregistered and rerecorded in such manner and in such places as may be required in order to publish notice of and fully to protect the liens, or to perfect or continue the perfection of the security interests, created thereby and (ii) perform or cause to be performed from time to time any other act as required by law, and execute or cause to be executed any and all instruments of further assurance that may be necessary for such publication, perfection, continuation and protection. The Hospital will not change or relocate its place of business (or its chief executive office if it has more than one place of business) unless it has taken all actions, and made all filings necessary to continue the effectiveness and perfection of all security interests created by the Bond Documents to which it is a party.

Section 4.4. Nature of Obligations of the Hospital. The Hospital agrees that its obligations to make payments hereunder shall be absolute and unconditional, irrespective of any rights of set-off, diminution, abatement, recoupment or counterclaim the Hospital might otherwise have against any Person, and except in connection with a discharge of the Indenture the Hospital will perform and observe all its payment obligations and covenants, representations and warranties hereunder without suspension and will not terminate the Bond Documents to which it is a party for any cause. The Hospital covenants not to seek and hereby waives, to the extent permitted by applicable law, the benefits of any rights which it may have at any time to any stay or extension of time for performance or to terminate, cancel or limit its liability under the Bond Documents to which it is a party except through payment or deemed payment of the Bond Obligations as provided in such Bond Documents. The Holders of the Bonds shall be entitled to rely upon the agreements and covenants in this Section regardless of the validity or enforceability of the remainder of this Agreement or any other Bond Document or agreement.

The preceding paragraph shall not be construed to release the Issuer from the performance of any of its agreements contained in this Agreement, or except to the extent provided in this Section and Section 5.1, prevent or restrict the Hospital from asserting any rights which it may have against the Issuer, the Trustee or any other Person under this Agreement or any of the other Bond Documents to which it is a party or under any provision of law or prevent or restrict the Hospital, at its own cost and expense, from prosecuting or defending any action or proceeding against or by third parties or taking any other action to secure or protect its rights in connection with the acquisition, construction, improvement, possession and use of the Project and its rights under such Bond Documents.

Section 4.5. Limitation on Interest. Notwithstanding any provision of the Bond Documents to the contrary, it is hereby agreed that in no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with any loan made hereunder exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Bond Documents or otherwise contracted for, charged, reserved, received or taken in connection with any loan made hereunder, or if the Trustee's exercise of the right to accelerate the Maturity of any loan made hereunder or if any prepayment of any such loan by the Hospital results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Bond Documents, all excess amounts theretofore paid or received shall be credited on the principal balance of such

loan (or, if such loan has been or would thereby be paid in full, refunded), and the provisions of this Agreement and the related Note shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder. All sums paid or agreed to be paid for the use, forbearance or detention of the indebtedness evidenced by any such loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding (it being understood that the foregoing provisions permit the rate of interest on such loan to exceed the Highest Lawful Rate for any day as long as the total amount of interest paid on such loan from the date of initial delivery of the Bonds to the date of calculation does not exceed the amount of interest which would have been paid on such loan to the date of calculation if such loan had borne interest for such period at the Highest Lawful Rate). For purposes of this Section, "Highest Lawful Rate" means the maximum rate of nonusurious interest (determined as provided in this Agreement) applicable to each loan made to the Hospital under this Agreement allowed from time to time by applicable law as is now in effect or, to the extent allowed by applicable law, such higher rate as may hereafter be in effect.

Section 4.6. Credit Facility and Liquidity Facility.

(a) The Hospital covenants and agrees to maintain a Credit Facility and Liquidity Facility in full force and effect so long as any Bonds remain Outstanding. The Hospital further covenants and agrees that the amount available under the Credit Facility and Liquidity Facility for the purpose of satisfying the obligations of the Hospital under Section 4.1(c) shall at all times be equal to at least (i) 100% of the principal component of the aggregate Purchase Price of all Bonds Outstanding under the Indenture, plus (ii) 100% of the accrued interest component of the aggregate Purchase Price of all Bonds Outstanding under the Indenture (the "Interest Component"), but not exceeding as to the Interest Component, an amount equal to 35 days accrued interest calculated as if interest on the Bonds were calculated at the Maximum Rate; provided the Liquidity Bank shall not be required to purchase Bonds held by or for the account of the Hospital or the Issuer, or any Affiliate of the Hospital or the Issuer. So long as any Bonds are Outstanding the Hospital will take no action or permit any action to be taken which would result in the amount available under the Credit Facility and Liquidity Facility being reduced below said amount.

(b) The Hospital may, at its option, obtain an Alternate Credit Facility or Alternate Liquidity Facility upon notice to the Bondholders (given in accordance with the provisions of the Indenture) at least 30 days prior to the effective date of such replacement Alternate Credit Facility or Alternate Liquidity Facility, as appropriate. The existing Credit Facility or Liquidity Facility may be extended from time to time pursuant to the terms thereof without the necessity of complying with this subsection (b).

(c) The Hospital covenants and agrees that it shall not consent to any amendment to the Credit Facility or Liquidity Facility adversely affecting the availability of amounts under the Credit Facility and Liquidity Facility set forth in Section 4.6(a) hereof. The Hospital will not

take any action otherwise adversely affecting the Holders unless the written consent of the Holders of a majority in principal amount of all Bonds then Outstanding shall have been filed with the Trustee. The Hospital further covenants and agrees to give written notice of all amendments to the Credit Facility and Liquidity Facility to the Issuer, the Trustee and each Rating Service. A conversion of the Bonds from one Interest Rate Mode to another shall not require such consent.

Section 4.7. Fees and Expenses.

(a) Issuer. The Hospital agrees to pay promptly upon demand therefor all fees and costs paid, incurred or charged by the Issuer in connection with the Bonds, including without limitation, (i) all out-of-pocket expenses and costs of issuance (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the issuance of the Bonds and the administration of the Bond Documents, (ii) all payments required to be paid by the Issuer with respect to the Bonds, and (iii) out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the enforcement of any of its rights or remedies or the performance of its duties under the Bond Documents to which it is a party.

(b) Trustee, Tender Agent, Paying Agent and Remarketing Agent. The Hospital agrees to pay all costs paid, incurred or charged by the Trustee, the Tender Agent, the Paying Agent or the Remarketing Agent including, without limitation, (i) all fees and out-of-pocket expenses incurred with respect to services rendered under any of the Bond Documents, (ii) all amounts payable to the Trustee and the Paying Agent (or the Tender Agent) pursuant to Section 807 of the Indenture, and (iii) all out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Tender Agent, the Paying Agent or the Remarketing Agent) incurred in connection with the enforcement of any rights or remedies or the performance of duties under the Bond Documents. The Hospital agrees to pay all amounts due the Trustee under Section 807 of the Indenture.

(c) Liquidity Bank. The Hospital agrees to pay all fees and out-of-pocket expenses of the Liquidity Bank as provided in the Liquidity Agreement.

(d) Credit Enhancer. The Hospital agrees to pay all fees and out-of-pocket expenses of the Credit Enhancer as provided in the Credit Agreement.

ARTICLE V

COVENANTS OF THE HOSPITAL

Section 5.1. Indemnification.

(a) Agreements to Indemnify. The Hospital agrees that it will at all times indemnify and hold harmless each of the Indemnified Parties against any and all Losses other than Losses resulting from fraud, willful misconduct or theft on the part of the Indemnified Party claiming indemnification. IT IS THE EXPRESS INTENTION AND AGREEMENT OF THE PARTIES THAT THE HOSPITAL WILL INDEMNIFY THE INDEMNIFIED PARTIES AGAINST LOSSES WHICH ARISE FROM THE NEGLIGENCE OF ANY INDEMNIFIED PARTY.

(b) Release. None of the Indemnified Parties shall be liable to the Hospital for, and the Hospital hereby releases each of them from, all liability to the Hospital for, all injuries, damages or destruction to all or any part of any property owned or claimed by the Hospital that directly or indirectly result from, arise out of or relate to the design, construction, operation, use, occupancy, maintenance or ownership of the Project or any part thereof, even if such injuries, damages or destruction directly or indirectly result from, arise out of or relate to, in whole or in part, one or more acts or omissions of the Indemnified Parties (other than fraud, willful misconduct or theft on the part of the Indemnified Party claiming release) in connection with the issuance of the Bonds or in connection with the Project.

(c) Subrogation. Each Indemnified Party, as appropriate, shall reimburse the Hospital for payments made by the Hospital pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any other source (but not from the proceeds of any claim against any other Indemnified Party) with respect to any Loss to the extent necessary to prevent a multiple recovery by such Indemnified Party with respect to such Loss. At the request and expense of the Hospital, each Indemnified Party shall claim or prosecute any such rights of recovery from other sources (other than any claim against another Indemnified Party) and such Indemnified Party shall assign its rights to such rights of recovery from other sources (other than any claim against another Indemnified Party), to the extent of such required reimbursement, to the Hospital.

(d) Notice. In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the Hospital, such Indemnified Party promptly shall notify the Hospital in writing; provided, however, that any failure so to notify shall not relieve the Hospital of its obligations under this Section.

(e) Defense. The Hospital shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the Hospital, in writing, (ii) the Hospital has failed after receipt of notice of such Claim to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the Hospital, and the Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the Hospital (in which case, if such Indemnified Party notifies the Hospital in writing that it elects to employ separate counsel at the Hospital's expense, the Hospital shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the Hospital shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by the Indemnified Parties).

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(f) Cooperation; Settlement. Each Indemnified Party shall cooperate with the Hospital in the defense of any action or Claim. The Hospital shall not be liable for any settlement of any action or Claim without the Hospital's consent but, if any such action or Claim is settled with the consent of the Hospital or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the Hospital shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment to the extent provided in Subsection (a).

(g) Survival; Right to Enforce. The provisions of this Section shall survive the termination of this Agreement, and the obligations of the Hospital hereunder shall apply to Losses or Claims under Subsection (a) whether asserted prior to or after the termination of this Agreement. In the event of failure by the Hospital to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Hospital under this Section. The obligations of the Hospital under this Section shall not be affected by any assignment or other transfer by the Issuer of its rights, titles or interests under this Agreement to the Trustee pursuant to the Indenture and will continue to inure to the benefit of the Indemnified Parties after any such transfer. The provisions of this Section shall be cumulative with and in addition to any other agreement by the Hospital to indemnify any Indemnified Party.

(h) Trustee and Tender Agent. The Hospital also agrees to indemnify the Trustee and Tender Agent, and any of their officers, directors, employees, agents or successors, for, and to defend and hold them harmless against, any loss, liability or expenses incurred without negligence or bad faith on their part, arising out of or in connection with the acceptance or administration of the trust imposed by the Indenture, including the costs and expenses of defending against any claim or liability in connection with the exercise or performance of any of their powers or duties under the Indenture and the other Bond Documents.

Section 5.2. Removal of Liens. If any lien, encumbrance or charge of any kind based on any claim of any kind (including, without limitation, any claim for income, franchise or other taxes, whether federal, state or otherwise) shall be asserted or filed against the Trust Estate, or any Loan Payment paid or payable by the Hospital under or pursuant to this Agreement, or any order (whether or not valid) of any court shall be entered with respect to the Trust Estate, or any such Loan Payment by virtue of any claim of any kind, in any case so as to:

(a) interfere with the due payment of such amount to the Trustee or the due application of such amount by the Trustee or any Paying Agent pursuant to the applicable provisions of the Indenture,

(b) subject the Bondholders to any obligation to refund any money applied to payment of principal (premium, if any) and interest on any Bond. or

(c) result in the refusal of the Trustee or any Paying Agent to make such due application because of its reasonable determination that liability might be incurred if such due application were to be made,

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then the Hospital will promptly take such action (including, but not limited to, the payment of money) as may be necessary to prevent, or to nullify the cause or result of, such interference, obligation or refusal, as the case may be.

Section 5.3. Tax Covenants. The Hospital will not take, or omit to take, directly or indirectly, any action that will adversely affect the exclusion from gross income for federal income tax purposes of interest paid or payable on the Bonds, and, in the event of such action or omission, it will use all reasonable efforts to cure the effect of such action or omission. Certain terms used in this Section are defined in Section 5.3(s) below. With the intent not to limit the generality of the foregoing, the Hospital covenants and agrees that prior to the final Maturity of the Bonds, unless it has received and filed with the Issuer and the Trustee an opinion of Bond Counsel to the effect that failure to comply with any such covenant or agreement, in whole or in part, will not adversely affect the exclusion from gross income for federal income tax purposes of interest paid or payable on the Bonds:

(a) Maintenance of Exempt Status. The Hospital will (i) conduct its operations in a manner that will result in its continued qualification as an organization described in Section 501(c)(3) of the Code as represented in Section 2.2(i) of this Agreement, and (ii) timely file or cause to be filed all materials, returns, reports and other documents which are required to be filed with the Internal Revenue Service.

(b) Diversion of Funds for Unrelated Purposes. The Hospital will not divert any substantial part of its corpus or income for a purpose or purposes other than those for which it is organized and operated as represented in Section 2.2(i) of this Agreement.

(c) Ownership of Project. All of the property financed or refinanced with the Net Proceeds of the Series 2008 Bonds, including for this purpose Transferred Proceeds, will, at all times prior to final Maturity of the Series 2008 Bonds, be owned for federal income tax purposes by the Hospital or by another Exempt Person.

(d) Limit on Costs of Issuance. The Sale Proceeds of the Series 2008 Bonds will be expended for the purposes set forth in this Agreement and in the Indenture and no portion thereof in excess of 2% of the Sale Proceeds of the Series 2008 Bonds, within the meaning of Section 147(g) of the Code, will be expended to pay Costs of Issuance with respect to the Series 2008 Bonds.

(e) Use of Net Proceeds. The Hospital will not use or permit to be used, directly or indirectly, in any trade or business carried on by any Person who is not an Exempt Person more than the lesser of (i) 5 percent of the Net Proceeds of the Series 2008 Bonds or (ii) \$15,000,000. For purposes of the preceding sentence, (A) use of Net Proceeds by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a use by an Exempt Person; (B) use of any property financed with the Net Proceeds constitutes use of such Net Proceeds to the extent of the cost of such property financed with such Net Proceeds; (C) any use of the Net Proceeds in any manner contrary to the guidelines set forth in Revenue Procedure 97-13, 1997-1 C.B. 632 (as modified by Revenue Procedure 2001-39, 2001-2 C.B. 38), Revenue Procedure 2007-47, 2007-29 I.R.B. 08, and the Regulations promulgated under Section 141 of the Code shall

constitute the use of such proceeds in the trade or business of a Person who is not an Exempt Person; and (D) any use of the Net Proceeds to pay Costs of Issuance shall constitute the use of such proceeds in the trade or business of a Person who is not an Exempt Person.

(f) Loans of Sale Proceeds. The Hospital will not use or permit the use of any portion of the Sale Proceeds of the Series 2008 Bonds, directly or indirectly, to make or finance loans to persons who are not Exempt Persons. For purposes of the preceding sentence, (i) a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a loan to an Exempt Person and (ii) any transaction which constructively transfers ownership of property financed with Sale Proceeds of the Series 2008 Bonds for federal income tax purposes constitutes a loan of such Sale Proceeds.

(g) Rebate. The Hospital agrees to take all steps necessary to compute and pay any rebatable arbitrage in accordance with Section 148(f) of the Code, including:

(i) Delivery of Documents and Money on Computation Dates. The Hospital shall deliver to the Trustee, within 55 days after each Computation Date for the Series 2008 Bonds,

(A) a statement, signed by an officer of the Hospital, stating the Rebate Amount as of such Computation Date; and

(B) (1) if such Computation Date is an Installment Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund, is equal to at least 90% of the Rebate Amount in respect of the Series 2008 Bonds as of such Installment Computation Date, less any prior payments made to the United States for rebatable arbitrage in respect of the Series 2008 Bonds, (2) if such Computation Date is the Final Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2008 Bonds, is equal to the Rebate Amount as of such Final Computation Date, less any prior payments made to the United States for rebatable arbitrage in respect of the Series 2008 Bonds, or (3) if such Computation Date is an Expenditure Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2008 Bonds, is equal to the Rebate Amount in respect of the Series 2008 Bonds as of such Expenditure Date; and

(C) an Internal Revenue Service Form 8038-T completed as of such Computation Date.

(ii) Correction of Underpayment. If the Hospital shall discover or be notified as of any date that any payment paid to the United States Treasury pursuant to Section 407 of the Indenture of an amount described in Section 5.3(g)(i)(B) above shall have failed to satisfy any requirement of Section 1.148-3 of the Regulations (whether or not such failure shall be due to any default by the Hospital, the Issuer, or the Trustee), the Hospital shall (1) pay to the Trustee (for deposit to the Rebate Fund) and cause the

Trustee to pay to the United States Treasury from the Rebate Fund the Rebate Amount, together with any penalty and/or interest due, as specified in Section 1.148-3(h) of the Regulations, within 175 days after any discovery or notice and (2) deliver to the Trustee an Internal Revenue Service Form 8038-T completed as of such date. If such Rebate Amount, together with any penalty and/or interest due, is not paid to the United States Treasury in the amount and manner and by the time specified in the Regulations the Hospital shall take such steps as are necessary to prevent the Series 2008 Bonds from becoming arbitrage bonds, within the meaning of Section 148 of the Code.

(iii) Records. The Hospital shall retain all of its accounting records relating to the Proceeds Fund, the Debt Service Fund, the Project Fund and the Rebate Fund and all calculations made in preparing the statements described in this Section 5.3(g) for at least six years after the later of the final Maturity of the Series 2008 Bonds or the first date on which no Series 2008 Bonds are Outstanding.

(iv) Fees and Expenses. The Hospital agrees to pay all of the fees and expenses of a nationally-recognized bond counsel, a certified public accountant and any other necessary consultant employed by the Hospital, the Trustee or the Issuer in connection with computing the Rebate Amount.

(v) No Diversion of Rebatable Arbitrage. The Hospital will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the Gross Proceeds of the Series 2008 Bonds that is not purchased at fair market value or includes terms that the Hospital would not have included if the Series 2008 Bonds were not subject to Section 148(f) of the Code.

(vi) Modification of Requirements. If at any time during the term of this Agreement the Issuer, the Trustee, or the Hospital desires to take any action which would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein an opinion of Bond Counsel to the effect that the action proposed to be taken is authorized or permitted by the Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2008 Bonds.

Notwithstanding the foregoing, the Hospital will not be required to perform the obligations set forth in Section 5.3(g) (except for the obligation to retain accounting records as described in Section 5.3(g)(iii)) if the Hospital has not earned any rebatable arbitrage and, therefore, is not subject to the rebate obligation set forth in Section 148(f) of the Code.

(h) "Federally Guaranteed" Obligations. The Hospital will not cause the Series 2008 Bonds to be treated as "federally guaranteed" obligations for purposes of Section 149(b) of the Code.

(i) Prohibited Facilities. None of the Proceeds of the Series 2008 Bonds will be used to provide any airplane, sky-box or other private luxury box, facility primarily used for gambling

or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(j) Information Reporting Requirements. The Hospital will cause the Issuer to comply with the information reporting requirements of Section 149(e)(2) of the Code requiring certain information regarding the Series 2008 Bonds to be filed with the Internal Revenue Service within prescribed time limits.

(k) Yield on Investment of Gross Proceeds. The Hospital will restrict the cumulative, blended Yield on the investment of the Gross Proceeds of the Series 2008 Bonds, to the Yield of such issue, other than amounts (i) not subject to yield restriction due to any applicable temporary period under Section 148(b) of the Code, deposit in a Reasonably Required Reserve or Replacement Fund, the Rebate Fund, a bona fide debt service fund (including the Debt Service Fund), or as a minor portion, or (ii) invested at a restricted yield by virtue of being invested in obligations described in Section 103(a) of the Code that are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code to the extent required by the Code or the Regulations.

(l) Notification of the Internal Revenue Service. The Hospital will timely notify the Internal Revenue Service of any changes in its organizational documents or method of operations to the extent that the Internal Revenue Service does not already have knowledge of any such changes.

(m) No Arbitrage. The Hospital will not use or invest the Proceeds of the Series 2008 Bonds such that the Series 2008 Bonds become arbitrage bonds within the meaning of Section 148 of the Code, and as evidence of this intent, a representative of the Hospital has reviewed the No-Arbitrage Certificate prepared in connection with the Series 2008 Bonds and the Hospital understands, and will take (or request the Trustee or the Issuer to take), the actions described therein.

(n) Bonds are Not Hedge Bonds. The Hospital covenants and agrees that not more than 50% of the Proceeds of the Series 2008 Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for four years or more within the meaning of Section 149(g)(3)(A)(ii) of the Code, and the Hospital reasonably expects that at least 85% of the spendable proceeds the Series 2008 Bonds, within the meaning of Section 149(g)(3)(A)(i) of the Code, will be used to carry out the governmental purposes of the Bonds within the three-year period beginning on the Issue Date.

(o) Limit on Nonhospital Bonds. The Hospital will not take any action or fail to take any action that would cause the aggregate authorized face amount of the Series 2008 Bonds which are or become allocated, pursuant to Section 145(b)(2) of the Code, (i) to the Hospital, (ii) to any person who is or becomes an owner or a principal user of the facilities being financed by the Series 2008 Bonds within the meaning of section 144(a)(2), (iii) to any person under common management or control with any person described in (i) or (ii) above, pursuant to section 145(b)(3) of the Code, or (iv) to any person which is a related person. within the meaning of section 144(a)(3) of the Code, to any person described in (i), (ii) or (iii) above, during the three-year period beginning on the later of the date the facilities were placed in service or the

date of issue, to exceed the \$150,000,000 limitation imposed under section 145(b) of the Code. Tax-exempt bonds issued after August 5, 1997, at least 95 percent of the net proceeds of which are used to finance capital expenditures incurred after August 5, 1997, shall not be taken into account.

(p) Public Approval. The Hospital will not use the Proceeds of the Series 2008 Bonds in a manner that deviates in any substantial degree from the Project or assets refinanced by the Bonds described in the written notice of a public hearing regarding the Series 2008 Bonds published by the Issuer on October 23, 2008, in The Monitor.

(q) Limitation on Maturity. The Hospital will not make any changes to the Project or assets refinanced by the Bonds that would, at the time made, cause the Hospital to violate the covenant set forth in Section 2.2(i)(K).

(r) Limitation of Project Expenditures. Other than to the extent of preliminary expenditures (i.e. architectural, engineering, surveying, soil testing, bond issuance, and similar costs that are incurred prior to commencement of acquisition, construction or rehabilitation of the Project (other than land acquisition, site preparation and similar costs incident to commencement of construction)), no portion of the Proceeds of the Series 2008 Bonds will be disbursed to reimburse the Issuer, the Hospital or any "related person" (within the meaning of section 144(a)(3) of the Code) for any expenditures paid or incurred prior to the date that is 60 days before the Issue Date or the date the Hospital entered into a reimbursement resolution described in Section 1.150-2 of the Regulations.

(s) Definitions. The following terms have the meanings assigned to them below whenever they are used in this Agreement:

"Available Construction Proceeds" has the meaning set forth in Section 148(f)(4)(C)(vi) of the Code.

"Bond Year" means, with respect to the Series 2008 Bonds, each one-year period (or shorter period from the Issue Date) that ends at the close of business on the day selected by the Hospital. The first and last Bond Years may be short periods. If no day is selected by the Hospital before the earlier of the final Maturity of the Series 2008 Bonds or the date that is five years after the Issue Date, Bond Years end on each anniversary of the Issue Date and on the date of final Maturity.

"Computation Date" means, with respect to the Series 2008 Bonds, each Installment Computation Date and the Final Computation Date, and in addition, if the Series 2008 Bonds are a Construction Bond Issue and with respect to which the penalty set forth in Section 148(f) of the Code has been elected, each Expenditure Date.

"Construction Bond Issue" means the Series 2008 Bonds (or any portions thereof elected by the Issuer in accordance with Section 148(f) of the Code) if at least 75 percent of the Available Construction Proceeds are to be used for construction expenditures (including expenditures for reconstruction and rehabilitation) with respect to property that is or will be owned by an Exempt Person.

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“Costs of Issuance” means issuance costs with respect to the Series 2008 Bonds within the meaning of Section 147(g) of the Code, as further described in Section 1.150-1(b) of the Regulations.

“Exempt Person” means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

“Expenditure Date” means, with respect to any portion of the Bonds that is a Construction Bond Issue, each 6-month anniversary of the Issue Date.

“Expenditure Delay Penalty” means, with respect to any portion of the Series 2008 Bonds that is a Construction Bond Issue, an amount equal to (i) the amount calculated under Section 1.148-3 of the Regulations (i.e., the Rebate Amount calculated as if no part of the Series 2008 Bonds is a Construction Bond Issue), or (ii) with respect to a Construction Bond Issue for which an election has been made to pay the penalty in lieu of rebate, one and one half percent of the Unexpended Required Amount on each Expenditure Date, all in accordance with Section 148(f)(4)(C)(vii) of the Code.

“Final Computation Date” means the final Maturity of the Series 2008 Bonds.

“Gross Proceeds” means any Proceeds and Replacement Proceeds of the Series 2008 Bonds.

“Installment Computation Date” means the last day of the fifth and each succeeding fifth Bond Year.

“Investment Proceeds” means any amounts actually or constructively received from investing Proceeds.

“Investment Property” means (i) any security (within the meaning of Section 165(g)(2)(A) or (B) of the Code), (ii) any obligation, (iii) any annuity contract, (iv) any investment-type property, or (v) in the case of a bond other than a private activity bond, any residential rental property for family units which is not located within the jurisdiction of the issuer and which is not acquired to implement a court ordered or approved housing desegregation plan.

“Issue Price” means “issue price” as defined in Sections 1273 and 1274 of the Code, unless otherwise provided in Sections 1.148-0 through 1.148-11 of the Regulations and, generally, is the aggregate initial offering price to the public (excluding bond houses, brokers and other intermediaries acting in the capacity of wholesalers or underwriters), at which a substantial number of each respective Maturity of the Series 2008 Bonds is sold.

“Net Proceeds” means any Sale Proceeds (less any Sale Proceeds deposited in a Reasonably Required Reserve or Replacement Fund), Investment Proceeds and Transferred Proceeds of the Series 2008 Bonds.

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“Nonpurpose Investments” means, any means any Investment Property acquired with the Gross Proceeds of the Series 2008 Bonds “Proceeds” means, any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2008 Bonds.

“Qualifying Costs” means, with respect to the Series 2008 Bonds, the Project Costs that will be used, directly or indirectly in any trade or business carried on by any Person who is an Exempt Person. For purposes of the preceding sentence, (i) use by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute use by an Exempt Person, and (ii) any use in any manner contrary to the guidelines set forth in Revenue Procedures 97-13, 1997-1 C.B. 632 (as modified by Revenue Procedure 2001-39, 2001-2 C.B. 38), Revenue Procedure 2007-47, 2007-29 I.R.B. 08, and the Regulations promulgated under Section 141 of the Code) shall constitute use in the trade or business of one who is not an Exempt Person.

“Reasonably Required Reserve or Replacement Fund” means any fund described in Section 148(d) of the Code provided that the amount thereof allocable to the Series 2008 Bonds invested at a Yield materially higher than the Yield on the Series 2008 Bonds does not exceed the lesser of (1) 10% of the stated principal amount of the Series 2008 Bonds, (2) the maximum annual debt service on the Series 2008 Bonds, or (3) 125% of the average annual debt service on the Series 2008 Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations.

“Rebate Amount” has the meaning ascribed in Section 1.148-3 of the Regulations and generally means the excess as of any date of the future value of all receipts on Nonpurpose Investments over the future value of all payments on Nonpurpose Investments, all as determined in accordance with Section 1.148-3 of the Regulations. In the case of any Temporary Period Issue, the “Rebate Amount” as of any Computation Date shall be limited to the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund. For any Construction Bond Issue, the “Rebate Amount” as of any Computation Date shall be the Expenditure Delay Penalty plus (in the case of a Computation Date other than an Expenditure Date) the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund.

“Replacement Proceeds” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“Required Amount” means, with respect to the Series 2008 Bonds (or portion thereof) that is a Construction Bond Issue, (i) 10% of the Available Construction Proceeds on the Expenditure Date that falls on the 6-month anniversary of the Issue Date, (ii) 45% of the Available Construction Proceeds on the Expenditure Date that falls on the 1-year anniversary of the Issue Date, (iii) 75% of the Available Construction Proceeds on the Expenditure Date that falls on the 18-month anniversary of the Issue Date, and (iv) 100% of the Available Construction Proceeds within the meaning of Section 148(f) of the Code, on any Expenditure Date that falls on or after the 2-year anniversary of the Issue Date.

“Sale Proceeds” means, any amounts actually or constructively received from the sale (or other disposition) of any Series 2008 Bond, including amounts used to pay underwriters’ discount or compensation and accrued interest other than pre-issuance accrued interest. Sale

Proceeds also include certain amounts derived from the sale of a right that is associated with any Series 2008 Bond, as described in Section 1.148-4(b)(4) of the Regulations, and certain amounts received upon termination of certain hedges, as described in Section 1.148-4(h)(5) of the Regulations.

“Temporary Period Issue” means any portion of the Series 2008 Bonds that meets either the 6-month exception or the 18-month exception set forth in Section 1.148-7 of the Regulations.

“Transferred Proceeds” means, with respect to any portion of the Series 2008 Bonds that is a refunding issue, proceeds that have ceased to be proceeds of a refunded issue and are transferred proceeds of the refunding issue by reason of section 1.148-9 of the Regulations.

“Unexpended Required Amount” means, for a Construction Bond Issue, the Required Amount on any Expenditure Date less the percentage of Available Construction Proceeds actually expended on and prior to such Expenditure Date; provided, however, that in the case of any Expenditure Date that falls on or after the 2-year anniversary of the Issue Date, Available Construction Proceeds actually expended shall include a reasonable retainage (not in excess of 5 percent of Available Construction Proceeds) if such retainage is expended prior to the 3-year anniversary of the IssueDate.

“Yield” of (1) the Bonds has the meaning set forth in Section 1.148-4 of the Regulations and of (2) any investment has the meaning set forth in Section 1.148-5 of the Regulations.

To the extent that published rulings of the Internal Revenue Service, or amendments to the Code or the Regulations modify the covenants of the Hospital which are set forth in this Section or which are necessary to preserve the excludability from gross income of interest on the Series 2008 Bonds for federal income tax purposes, the Hospital and the Issuer will comply with such modifications.

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IN WITNESS WHEREOF, the Issuer and the Hospital have caused this Agreement to be signed in their behalf by their duly authorized representatives as of the date set forth above.

WESLACO HEALTH FACILITIES
DEVELOPMENT CORPORATION

By: Carlos Arreola
President

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KNAPP MEDICAL CENTER

By:  _____
President CEO

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EXHIBIT A
TO
LOAN AGREEMENT

Description of Project

The Project consists of the acquisition, construction and equipping of health facilities at Knapp Medical Center. The key areas include miscellaneous computer systems, radiology equipment, a cath lab, a 64-slice CT scanner, and the refurbishment of the post partum unit.