HEALTH CARE PROPERTY INVESTORS INC
Form 424B5
November 19, 2003
Table of Contents

PROSPECTUS SUPPLEMENT
(To prospectus dated June 10, 2002)

Filed pursuant to Rule 424(b)(5)
Registration No. 333-86654

$100,000,000

Health Care Property Investors, Inc.

Medium-Term Notes, Series E

Due Nine Months or More from Date of Issue

The Company: Health Care Property Investors, Inc. Our principal executive office is located at 4675 MacArthur Court, 9th Floor, Newport Beach, California 92660 and our telephone number is (949) 221-0600.

Terms: We plan to offer and sell notes with various terms, including the following:

Ranking as senior unsecured, unsubordinated indebtedness

Stated maturities of 9 months or more from date of issue

Redemption and/or repayment provisions, if applicable, whether mandatory or at the option of HCPI or the noteholders

Payments in United States dollars

Minimum denominations of $1,000

Book-entry (through The Depository Trust Company) or certificated form

Interest at fixed or floating rates, or no interest at all. The floating interest rate may be based on one or more of the following indices plus or minus a spread and/or multiplied by a spread multiplier:

º CD rate

º Commercial paper rate

º Eleventh district cost of funds rate

º Federal funds rate

º LIBOR

º Prime rate

º Treasury rate

Interest payments on fixed rate notes on each April 15 and October 15, unless otherwise specified

Interest payments on floating rate notes on a monthly, quarterly, semiannual or annual basis

We will specify the final terms for each note, which may be different from the terms described in this prospectus supplement, in the applicable pricing supplement.

Investing in the notes involves certain risks. See Risk Factors on page S-3 of this prospectus supplement and page 5 of the accompanying prospectus.

	Public Offering Price(1)	Agents Discounts and Commissions		Proceeds to HCPI(2)	
Per note	100%	.125%	.750%	99.875%	99.250%
Total	$100,000,000	$125,000	$750,000	$99,875,000	$99,250,000

(1) Notes will be issued at 100% of their principal amount, unless otherwise specified in the applicable pricing supplement.
(2) Before deducting estimated expenses of $350,000 payable by HCPI.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement, the accompanying prospectus or any pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.

We may sell notes to the agents referred to below as principal for resale at varying or fixed offering prices or through the agents as agent using their reasonable efforts on our behalf. We may also sell notes without the assistance of any agent.

If we sell other securities referred to in the accompanying prospectus, we may be limited in offering and selling the entire amount of notes referred to in this prospectus supplement.

Merrill Lynch & Co.

Credit Suisse First Boston

Deutsche Bank Securities

Goldman, Sachs & Co.

The date of this prospectus supplement is November 19, 2003.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any pricing supplement. Neither we nor any agent has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. Neither we nor any agent is making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any pricing supplement is accurate only as of its date, regardless of the time of delivery of this prospectus, the accompanying prospectus supplement, or any sales of the notes.

References in this prospectus supplement to HCPI, the Company, we, us or our are to Health Care Property Investors, Inc. and its consolidat subsidiaries, unless the context otherwise requires or as otherwise expressly stated.

S-2

Table of Contents

RISK FACTORS

Your investment in the notes involves certain risks. In consultation with your own financial and legal advisers, you should carefully consider, among other matters, the following discussion of risks and the discussion of risks appearing in the accompanying prospectus before deciding whether an investment in the notes is suitable for you. Notes are not an appropriate investment for you if you are unsophisticated with respect to their significant components.

Risks related to the notes

Our indebtedness could adversely affect our financial results and prevent us from fulfilling our obligations under the notes.

At September 30, 2003, our total consolidated indebtedness was approximately $1.3 billion with gross real estate assets of $3.2 billion. We may be able to borrow substantial additional unsecured indebtedness in the future. If new indebtedness is added to our current debt levels, the related risks that we now face could increase.

Our indebtedness could have important consequences for the holders of the notes, including:

- limiting our ability to satisfy our obligations with respect to the notes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;
- requiring a substantial portion of our cash flow from operations for the payment of principal of, and interest on, our indebtedness and reducing our ability to use our cash flow to fund working capital, capital expenditures and general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and
- putting us at a disadvantage compared to competitors with less indebtedness.

Our business operations may not generate the cash needed to service our indebtedness.

Our ability to make payments on our indebtedness, including the notes, and to fund planned capital expenditures will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs.

Although the notes will rank equally with all our other unsecured, unsubordinated debt, they will be effectively subordinated to our secured indebtedness and all liabilities of our subsidiaries.

The notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we may incur to the extent of the value of the assets securing such indebtedness. In the event of a bankruptcy or similar proceeding involving us, our assets which serve as collateral will be available to satisfy the obligations under any secured indebtedness before any payments are made on the notes. In addition, our subsidiaries and general and limited partnerships will not guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries or partnerships, creditors of our subsidiaries and partnerships will generally be entitled to payment of their claims from the assets of those subsidiaries and partnerships before any assets are made available for distribution to us, except to the extent we may also have a claim as a creditor. At September 30, 2003, the notes would effectively be junior to approximately $166 million of indebtedness.

Table of Contents

An active trading market may not develop for the notes.

Upon issuance, your notes will not have an established trading market. We cannot assure you that a trading market for your notes will ever develop or be maintained if developed. In addition to our creditworthiness, many factors affect the trading market for, and trading value of, your notes. These factors include:

- the complexity and volatility of the index or formula applicable to your notes;
- the method of calculating the principal, premium and interest in respect of your notes;
- the time remaining to the maturity of your notes;
- the amount of total notes outstanding related to your notes;
- any redemption features of your notes;
- the amount of other debt securities linked to the index or formula applicable to your notes; and
- the level, direction and volatility of market interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all. In addition, notes that are designed for specific investment objectives or strategies often experience a more limited trading market and more price volatility than those not so designed. You should not purchase notes unless you understand and know you can bear all of the investment risks involving your notes.

Our credit ratings may not reflect all risks of an investment in the notes.

The credit ratings of our medium-term note program may not reflect the potential impact of all risks related to structure and other factors on any trading market for, or trading value of, your notes. In addition, real or anticipated changes in our credit ratings will generally affect any trading market for, or trading value of, your notes.

Redemption may adversely affect your return on the notes.

If your notes are redeemable at our option, we may choose to redeem your notes at times when prevailing interest rates are relatively low. In addition, if your notes are subject to mandatory redemption, we may also be required to redeem your notes at times when prevailing interest rates are relatively low. As a result, you generally will not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your notes being redeemed.

Notes indexed to interest rates, or other indices or formulas may have risks not associated with conventional fixed debt securities.

If you invest in notes indexed to one or more interest rates, or other indices or formulas, you will be subject to significant risks not associated with a conventional fixed rate debt security. These risks include fluctuation of the particular indices or formulas and the possibility that you will receive a lower, or no, amount of principal, premium or interest and at different times than you expected. We have no control over a number of matters, including economic, financial and political events, that are important in determining the existence, magnitude and longevity of these risks and their results. In addition, if an index or formula used to determine any amounts payable in respect of your notes contains a multiplier or leverage factor, the effect of any change in the particular index or formula will be magnified. In recent years, values of certain indices and formulas have been volatile and volatility in those and other indices and formulas may be expected in the future. However, past experience is not necessarily indicative of what may occur in the future.

Table of Contents

Risks related to our business

Decline in the assisted living sector and the long-term care industry may have significant adverse consequences to us.

Assisted Living Industry. The assisted living industry has been challenged by overbuilding, slow fill-up rates, rising insurance costs and higher operating costs associated with increased acuity of residents. These challenges have had, and are expected to continue to have, an adverse effect on our assisted living facilities and operators. However, some occupancies, resident monthly payment rates and bottom line performance have been improving.

Long-Term Care Industry. Certain of our long-term care operators and facilities continue to experience operating problems in part due to a national nursing shortage, increased liability insurance costs, and low levels of Medicaid reimbursement in certain states. Certain temporary Medicare add-on payments expired in October 2002 causing a decline in Medicare reimbursement to nursing homes of approximately 9% as of October 1, 2002. A planned limitation on Medicare Part B rehabilitation therapy procedures went into effect September 1, 2003 and further reduced Medicare reimbursement. However, the annual market basket increase to Medicare rates for long-term care facilities took effect October 1, 2003, partially offsetting the forgoing, and resulting in an aggregate 6% increase in Medicare rates. In addition, most state Medicaid rates were increased slightly providing further revenue and sector stabilization.

Certain operators of our assisted living and long-term care facilities have filed for protection under bankruptcy laws, which results in uncertainties in our ability to continue to realize the full benefit of such operators leases. We cannot assure you that the challenges faced by our assisted living operators and long-term care operators will not have an adverse effect on our operating results or the value of the notes.

The health care industry is heavily regulated by the government, which may adversely affect our rental and debt payment revenues and the value of the notes.

The health care industry is heavily regulated by federal, state and local laws. This government regulation of the health care industry affects us because:

- the financial ability of lessees to make rent and debt payments to us may be affected by governmental regulations such as licensure, certification for participation in government programs, and government reimbursement; and
- our additional rents are based on our lessees gross revenue from operations in many instances, which in turn are affected by the amount of reimbursement such lessees receive from the government.

The failure of any borrower of funds from us or lessee of any of our properties to comply with such laws and regulations could affect its ability to operate its facility or facilities and could adversely affect such borrower s or lessee s ability to make debt or lease payments to us.

Fraud and Abuse. Various federal and state governments have considered or passed laws that attempt to eliminate fraud and abuse by prohibiting payment arrangements that include compensation for patient referrals. We cannot assure you that our operators are in compliance or will remain in compliance in the future with these laws.

Licensure Risks. Most health care facilities must obtain a license to operate. Failure to obtain licensure or loss of licensure would prevent a facility from operating which could adversely affect the facility operator s ability to make rent and debt payments.

Table of Contents

Environmental Matters. A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect health care facility operations. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender (such as us) may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner s ability to sell or rent such property or to borrow using such property as collateral which, in turn, would reduce our revenue.

Medicare and Medicaid Programs. Sources of revenue for lessees and mortgagors may include the federal Medicare program, state Medicaid programs, private insurance carriers, health care service plans and health maintenance organizations, among others. Efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by some of our operators. In addition, the failure of any of our operators to comply with various laws and regulations could jeopardize their ability to continue participating in the Medicare and Medicaid programs.

Cost Control. The health care industry has continually faced various challenges, including increased government and private payor pressure on health care providers to control costs, the migration of patients from acute care facilities into extended care and home care settings and the vertical and horizontal consolidation of health care providers. Changes in the law, new interpretations of existing laws, and changes in payment methodology may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement furnished by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of legislative efforts cannot be predicted and may impact us in different ways.

Loss of our tax status as a real estate investment trust would have significant adverse consequences to us.

We currently operate and have operated commencing with our taxable year ended December 31, 1985 in a manner that is intended to allow us to qualify as a real estate investment trust for federal income tax purposes under the Internal Revenue Code of 1986, as amended.

Qualification as a real estate investment trust, or REIT, involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a real estate investment trust. For example, in order to qualify as a real estate investment trust, at least 95% of our gross income in any year must be derived from qualifying sources, and we must satisfy a number of requirements regarding the composition of our assets. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains. In addition, new legislation, regulations, administrative interpretations or court decisions may adversely affect our investors or our ability to qualify as a REIT for tax purposes. Although we believe that we have been organized and have operated in such manner, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes.

If we lose our tax status as a real estate investment trust, we will face serious tax consequences that will substantially reduce the funds available to make payments of principal and interest on the debt securities we issue and to make distributions to our stockholders. If we fail to qualify as a real estate investment trust:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

Table of Contents

unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a real estate investment trust for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a real estate investment trust, all distributions to stockholders would be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits and we would not be required to make distributions to stockholders.

As a result of all these factors, our failure to qualify as a real estate investment trust also could impair our ability to expand our business and raise capital and may adversely affect the value of the notes.

Table of Contents

CAUTIONARY LANGUAGE REGARDING FORWARD LOOKING STATEMENTS

Statements in this prospectus supplement, the accompanying prospectus and the information incorporated by reference in this prospectus supplement and the accompanying prospectus that are not historical factual statements are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this section for purposes of complying with these safe harbor provisions. The statements include, among other things, statements regarding the intent, belief or expectations of HCPI and its officers and can be identified by the use of terminology such as may, will, expect, believe, intend, plan, estimate, sho other comparable terms or the negative thereof. In addition, we, through our senior management, from time to time make forward looking oral and written public statements concerning our expected future operations and other developments. You are cautioned that, while forward looking statements reflect our good faith belief and best judgment based upon current information, they are not guarantees of future performance and are subject to known and unknown risks and uncertainties. Actual results may differ materially from the expectations contained in the forward looking statements as a result of various factors. In addition to the factors set forth in this prospectus supplement, the accompanying prospectus and our annual report on Form 10-K for the fiscal year ended December 31, 2002, you should consider the following:

Legislative, regulatory, or other changes in the health care industry at the local, state or federal level which increase the costs of or otherwise affect the operations of our lessees or mortgagors;

Changes in the reimbursement available to our lessees and mortgagors by governmental or private payors, including changes in Medicare and Medicaid payment levels and the availability and cost of third party insurance coverage;

Competition for lessees and mortgagors, including with respect to new leases and mortgages and the renewal or rollover of existing leases;

Availability of suitable health care facilities to acquire at a favorable cost of capital and the competition for such acquisition and financing of health care facilities;

The ability of our lessees and mortgagors to operate our properties in a manner sufficient to maintain or increase revenues and to generate sufficient income to make rent and loan payments;

The financial weakness of operators in the long-term care and assisted living sectors, including the bankruptcies of certain of our operators, which results in uncertainties in our ability to continue to realize the full benefit of such operators leases;

Changes in national or regional economic conditions, including changes in interest rates and the availability and cost of capital for HCPI;

The risk that we will not be able to sell or lease facilities that are currently vacant; and

Changes in tax laws or regulations.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events discussed in this prospectus supplement or discussed in or incorporated by reference in the accompanying prospectus may not occur.

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratios of earnings to fixed charges for the periods indicated. In computing the ratios of earnings to fixed charges, earnings have been based on consolidated income from continuing operations before fixed charges (exclusive of capitalized interest). Fixed charges consist of interest on debt, including amounts capitalized, rental expense, and the pro rata share of the fixed charges of the partnerships and limited liability companies in which we hold an interest.

	Year Ended December 31,					For the Nine Months Ended September 30,
	1998	1999	2000	2001	2002	2003
Ratio of Earnings to Fixed Charges(1)	2.73	2.35	2.33	2.54	2.82	2.75
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends(1)	2.26	1.82	1.82	1.94	2.15	1.85

(1) Our ratio of earnings to fixed charges and ratio of earnings to combined fixed charges and preferred stock dividends have been revised from those presented in the accompanying prospectus to reflect the impact of the implementation of the Statement of Financial Accounting Standard No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144). See Selected Consolidated Financial Data.

USE OF PROCEEDS

We expect that the net proceeds from the sale of the notes will be between approximately $99,525,000 and $98,900,000 after deducting agents discounts and commissions and our expenses. We intend to use these net proceeds for the repayment of outstanding borrowings made under our revolving lines of credit and for general corporate and business purposes, which may include the acquisition of additional properties. As of November 18, 2003, our revolving lines of credit had a balance of approximately $359 million, with a weighted average annual interest rate of 2.0%.

Table of Contents

DESCRIPTION OF NOTES

The following information concerning the notes supplements, and should be read in conjunction with, the statements under the heading Description of the Debt Securities in the accompanying prospectus. Certain terms used but not defined in this prospectus supplement have the meanings given to them in the accompanying prospectus, the notes or the indenture, as the case may be.

HCPI will issue the notes as a separate series of senior debt securities under an indenture dated as of September 1, 1993, as amended, with The Bank of New York, as trustee. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act.

The following description is a summary of certain provisions of the notes and the indenture and is qualified in its entirety by reference to the actual provisions of the notes and the indenture. It does not restate the terms of the notes or the indenture in their entirety. We urge you to read the indenture because it, and not this description, defines your rights as holder of these notes. We have filed a copy of the indenture as an exhibit to the registration statement to which this prospectus supplement and the accompanying prospectus are a part.

General

The notes will be unsecured general obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness outstanding from time to time. The indenture does not limit the aggregate amount of debt securities that we may issue under it. Accordingly, we may issue debt securities from time to time in one or more series up to the aggregate initial offering price authorized by us for the particular series. We may, from time to time, without the consent of the registered holders of the notes, issue medium-term notes that are part of the same series as the notes or other debt securities under the indenture in addition to the $100,000,000 aggregate initial offering price of notes offered in this prospectus supplement. In addition, we may, from time to time, without the consent of the registered holders of the notes, issue additional notes or other debt securities having the same terms as previously issued notes (other than the date of issuance, the first interest payment date, if any, the date interest, if any, begins to accrue and the offering price, which may vary) that will form a single issue with the previously issued notes.

HCPI plans to issue the notes on a continuing basis. The notes will mature on any Business Day nine months or more from the date of issue, as specified in an applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, HCPI will issue interest bearing notes at either fixed rates of interest, referred to as fixed rate notes, or with changing rates of interest, referred to as floating rate notes. Notes may also be issued at a significant discount from the principal amount payable at the maturity date stated on the note, and some notes may not bear interest. The notes will be denominated in United States dollars and payments of principal and premium, if any, and interest, if any, on the notes will also be made in United States dollars.

Except as described under Description of the Debt Securities Certain Covenants of the Company Limitation on Borrowing Money in the accompanying prospectus, the indenture does not contain any other provisions that would allow holders of the notes protection in the event of a highly leveraged transaction, reorganization, restructuring, change in control, merger or similar transaction involving HCPI that may adversely affect holders of the notes.

Business Day means, unless otherwise specified in the applicable pricing supplement, any day, other than Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law, regulation or executive order to close in the City of New York.

Table of Contents

Methods of Receiving Payments on the Notes

Each note will be issued in fully registered form as a book-entry note or as a certificated note, referred to as a definitive note , in denominations of $1,000 and integral multiples of $1,000, unless the pricing supplement states otherwise.

Interest rates offered by HCPI with respect to the notes may differ depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered concurrently to different investors.

Interest rates, interest rate formulae and other variable terms of the notes are subject to change by the Company from time to time, but no such change will affect any note already issued or as to which an offer to purchase has been accepted by HCPI.

Book-Entry Notes

HCPI will make all payments of principal of, and premium and interest, if any, on book-entry notes through the trustee to the depositary. See Book-Entry Notes.

Definitive Notes

HCPI will make payment of principal or premium, if any, at the maturity of each definitive note upon presentation and surrender of the note at the office or agency of the paying agent and registrar for the notes in the City of New York, or at such other place as HCPI may designate (or, in the case of any repayment on an optional repayment date, upon presentation of the note in accordance with the provisions thereon as described below). Payment of interest due on definitive notes at maturity will be made to the person to whom payment of the principal of the definitive note is made.

Payment of interest, if any, due on definitive notes on any interest payment date other than at maturity will be made at the office or agency of the paying agent and registrar maintained for such purpose in the City of New York or, at our option by check mailed to the address of the person entitled thereto as it appears in HCPI s registry books. Notwithstanding the foregoing, a holder of $10,000,000 or more in aggregate principal amount of definitive notes having the same interest payment dates will, at HCPI s option, be entitled to receive interest payments, if any, other than at the maturity of the note, by wire transfer of immediately available funds if appropriate wire transfer instructions have been received in writing by the trustee not less than 15 days prior to the applicable interest payment date. Such wire instructions, upon receipt by the Trustee, will remain in effect until revoked by the holder.

Pricing Supplement

The notes will be offered on a continuous basis and each note will have a stated maturity date that is at least nine months from the date of issue, as selected by the purchaser and agreed to by us and as specified in the applicable pricing supplement.

The pricing supplement relating to a note will describe the following terms:

- the principal amount;
- whether the note is a fixed rate note or a floating rate note;
- the issue price;
- the original issue date;

Table of Contents

the maturity date;

for a fixed rate note, the interest rate or rates per annum applicable to it, and the date on which interest will be payable, if other than April 15 and October 15;

for a floating rate note, the initial interest rate, the base rate, the LIBOR reporting service, if any, the designated LIBOR currency, if any, the designated LIBOR page, if any, the maximum interest rate, if any, the minimum interest rate, if any, the interest payment period, the interest payment dates, the interest reset period, the interest reset dates, the index maturity, the spread and/or spread multiplier, if any, and any other terms relating to the determination of the interest rate of the note;

the regular record dates for the notes, if other than April 1 and October 1;

whether the note is an original issue discount note;

for an indexed note, the manner in which interest payments and the principal amount payable at maturity will be determined;

if a note is an amortizing note, an amortization schedule;

whether the notes may be redeemed at our option, or repaid at the holder s option, prior to the stated maturity date as described further under Redemption at the Option of HCPI; No Sinking Fund and Repayment at the Option of the Holder below, and if so, the terms of the redemption or repayment;

whether the notes are a reopening of notes previously issued; and

any other terms that do not conflict with the provisions of the indenture.

Redemption at the Option of HCPI; No Sinking Fund

Unless otherwise stated in the applicable pricing supplement, the notes will not be subject to any sinking fund. If an initial redemption date is specified in the applicable pricing supplement, we may redeem the particular notes prior to their stated maturity date at our option on any date on or after that initial redemption date in whole, or from time to time in part, in increments of $1,000, or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least $1,000 or other minimum authorized denomination applicable thereto), at the applicable redemption price (as defined below), together with unpaid interest accrued thereon to the date of redemption. We may exercise our redemption option by causing the trustee to mail written notice of such redemption to registered holders of the particular notes to be redeemed not less than 30 nor more than 60 calendar days prior to the date of redemption.

In the event of redemption of a note in part only, we will execute and the trustee shall authenticate and deliver to its holder, without service charge, a new note or notes of any authorized denomination as requested by the holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the note surrendered.

The term redemption price with respect to a note means an amount equal to the initial redemption percentage specified in the applicable pricing supplement, as adjusted by the annual redemption percentage reduction, if applicable, multiplied by the unpaid principal amount thereof to be redeemed. The initial redemption percentage, if any, applicable to a note shall decline at each anniversary of the initial redemption date by an amount equal to the applicable annual redemption percentage reduction, if any, until the redemption price is equal to 100% of the unpaid principal amount thereof to be redeemed.

Table of Contents

Repayment at the Option of the Holder

If one or more optional repayment dates are specified in the applicable pricing supplement, we may be required to repay those notes prior to their stated maturity date on any optional repayment date. Payment may be made in whole, or from time to time in part in increments of $1,000, or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least $1,000 or other minimum authorized denomination applicable thereto). Unless otherwise provided in the applicable pricing supplement, the repayment price for any note will equal to 100% of the unpaid principal amount to be repaid, together with unpaid interest, if any, accrued thereon to the date of repayment. A registered holder s exercise of the repayment option will be irrevocable.

For any note to be repaid, the trustee must receive, at its corporate trust office, not more than 60 nor less than 30 calendar days prior to the optional repayment date, the particular notes to be repaid and:

in the case of a certificated note, the form entitled Option to Elect Repayment duly completed; or

in the case of a book-entry note, repayment instructions from the applicable beneficial owner to the depository and forwarded by the depository.

All questions as to the validity, eligibility (including time of receipt) and acceptance of any global security for repayment will be determined by us and our determination will be final and binding. Upon any partial repayment, a global security will be cancelled and a new global security or securities for the remaining principal amount will be issued in the name of the holder of the global security.

Only the depositary may exercise the repayment option in respect of global securities representing book-entry notes. Therefore, beneficial owners of global securities that desire to have all or any portion of the book-entry notes represented thereby repaid must instruct the participant through which they own their interest to direct the depository to exercise the repayment option on their behalf by forwarding the repayment instructions to the trustee. In order to ensure that these instructions are received by the trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before that participant s deadline for accepting instructions for that day. Different firms may have different deadlines for accepting instructions from their customers. Accordingly, beneficial owners should consult their participants for the respective deadlines. All instructions given to participants from beneficial owners of global securities relating to the option to elect repayment shall be irrevocable. In addition, at the time repayment instructions are given, each beneficial owner shall cause the participant through which it owns its interest to transfer the beneficial owner s interest in the global security representing the related book-entry notes, on the depository s records, to the trustee.

If applicable, we will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes purchased by us in this manner may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

Interest

General

Unless otherwise specified in the applicable pricing supplement, each interest-bearing note will bear interest from its date of issue at the rate per annum, in the case of a fixed rate note, or pursuant to the interest rate formula, in the case of a floating rate note, specified in the applicable pricing supplement, until the principal on

S-13

Table of Contents

the note is paid. Unless otherwise specified in the applicable pricing supplement, we will make interest payments in respect of fixed rate notes and floating rate notes in an amount equal to the interest accrued from and including the immediately preceding interest payment date in respect of which interest has been paid or provided for or from and including the date of issue, if no interest has been paid, to but excluding the applicable interest payment date or the maturity date, as the case may be. Each of these periods of time are referred to as interest periods.

Unless otherwise specified in the applicable pricing supplement, interest on notes will be payable semi-annually, in the case of fixed rate notes, and monthly, quarterly, semi-annually or annually, as specified in the applicable pricing supplement, in the case of floating rate notes, in arrears on each interest payment date, commencing with the interest payment date next succeeding the date of issue, and on the maturity date. However, if a note is originally issued after a regular record date and before the corresponding interest payment date, the interest payable for the period from and including the date of original issuance to but excluding the interest payment date will be paid on the next succeeding interest payment date to the registered holder of the note on the related regular record date.

Fixed Rate Notes

Interest on fixed rate notes will be payable in arrears on April 15 and October 15 of each year or on any other date(s) specified in the applicable pricing supplement, which are referred to as interest payment dates, and on the maturity date. Interest on fixed rate notes will be computed on the basis of a 360-day year comprised of twelve 30-day months unless otherwise specified in the applicable pricing supplement.

Unless specified otherwise in the applicable pricing supplement, the regular record date for a fixed rate note shall be April 1 for a April 15 interest payment date and October 1 for a October 15 interest payment date and the date that is 15 calendar days immediately preceding any other interest payment date, whether or not such date shall be a Business Day.

If any interest payment date, redemption date or the maturity date of a fixed rate note falls on a day that is not a Business Day, we will make the required payment of principal, premium, if any, and/or interest on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

Floating Rate Notes

Interest on floating rate notes will be determined by reference to the applicable interest rate basis or interest rate bases, which may, as described below, include:

- the CD Rate;
- the Commercial Paper Rate;
- the Eleventh District Cost of Funds Rate;

the Federal Funds Rate;

LIBOR;

the Prime Rate;

the Treasury Rate; or

any other interest rate basis or interest rate formula as may be specified in the applicable pricing supplement.

Table of Contents

Each of these rates is discussed in greater detail below.

The applicable pricing supplement will specify the terms of floating rate notes, including:

- whether the floating rate note is:
  - a regular floating rate note;
  - a floating rate/fixed rate note; or
  - an inverse floating rate note;
- the fixed rate commencement date, if applicable;
- the fixed interest rate, if applicable;
- the interest rate basis or bases;
- the initial interest rate, if any;
- the interest reset dates;
- the optional reset date, if any;
- the interest payment dates;
- the index maturity;
- the maximum interest rate and/or minimum interest rate, if any;
- the spread and/or spread multiplier, if any; or