

AHP in the News

U.S. nonprofit hospitals face mounting pressures: reports

Reuters

reporting by Karen Pierog

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CHICAGO (Reuters) - U.S. nonprofit hospitals face mounting pressures that could adversely affect their bottomlines, according to reports released on Monday by Moody's Investors Service and Standard & Poor's Ratings Services.

The rating agencies cited various factors affecting the hospitals, including a weaker economy, increased debt issuance for capital projects, and higher costs associated with the collapse of the auction-rate securities market.

"We expect the number of downgrades to exceed upgrades for the rest of 2008 and probably in 2009, as business and financial challenges squeeze operating margins and weaken balance sheets," said S&P credit analyst Martin Arrick in a statement.

The S&P report said that recent negative rating actions for lower-rated hospitals were generally due to their large capital projects and additional debt issuance "despite the issuers' operating strength."

Hospitals were also heavy users of the auction-rate market, which collapsed early this year, forcing many health care providers to pay steep interest rates when auctions on their debt failed, S&P reported. These hospitals also faced expensive restructurings of the debt, as well as swap termination costs.

Restructuring of the debt into variable-rate demand obligations with a put feature also "adds a layer of risk to these credits," S&P said, noting that the price of liquidity facilities could escalate for hospitals.

Moody's meanwhile, said the weak economy will pressure patient volume growth in many markets, while increasing the amount of charity care and uncollectable patient debts.

"Much of the operating pressure on the industry that we first observed in the (fiscal year) 2006 medians has continued into 2007, and we expect these pressures to continue in the next fiscal year, especially given the materially weaker economy," said Moody's Assistant Vice President/Analyst Mark Pascaris, who authored the report.

"There is also greater pressure from commercial insurers to limit rate increases," he added.