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## **Fitch: Rating Normalcy Awaits U.S. NFP Hospitals After Rating Criteria Rollout.**

**Link to Fitch Ratings' Report(s):** [U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update: Implementation Complete](#)

Fitch Ratings-Austin-07 August 2018: The 'Rating Watch' is officially over for Fitch-rated U.S. not-for-hospitals and health systems with most systems performing as expected and upgrades outpacing downgrades, as detailed by Fitch Ratings in a new report.

Fitch completed its hospitals and health systems criteria rollout mid-July. Of the 16 issuers placed on Rating Watch Negative at the start of its rating review, Fitch affirmed six and downgraded 10. Conversely, Fitch affirmed five and upgraded nine issuers of the 14 it placed on Rating Watch Positive. That said, the overarching theme of the rating review is the majority of hospitals are performing up to par as Fitch had initially projected (52% ratings affirmed, another 28% upgraded). Still, that upgrades occurred more frequently than downgrades was somewhat of a surprise according to Senior Director Kevin Holloran.

"Upgrades generally came from long-time consistent performers that benefited from a 'new look' through the lens of our updated criteria," said Holloran. "Conversely, downgrades were more varied with balance sheet strength an overarching need over size or market share, asserting our view that balance sheet strength translates into more predictable credit stability."

While more than 93% of Fitch's rating changes were subtle in scope (one to two notches), there were two extreme outliers. The first was a provider, Lexington Medical Center, which Fitch downgraded six notches due to a GASB 68 pension liability factored into its analysis. On the opposite end of the rating spectrum was a seven-notch upgrade Fitch took on Presence Health Network, due to an MTI substitution.

So the logical question now is 'What does the future rating trajectory look like for NFP hospitals going forward?' With Fitch's criteria implementation resulting in what it called a 'normalized distribution curve', the short answer appears to be 'normalcy'. 'The short term volatility that criteria change often brings, will result in longer term rating stability,' said Holloran. The sector, however, is dealing with various operational challenges so far this year, some of which could persist into 2019. As a result, Holloran concluded that 'numerous external factors could dictate how frequently Fitch takes future rating actions on select hospitals and health systems.'

Fitch's 'U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update' is available at 'www.fitchratings.com' or by clicking on the above link.

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