Fitch: NFP Hospitals' Liquidity Supports Ability to Repay CARES Act Loans

Fitch Ratings-New York/Austin-15 September 2020: Repayment of loans provided under the Coronavirus Aid, Relief and Economic Security (CARES) Act through the Centers for Medicare & Medicaid Services (CMS), is expected to begin soon. This will not, however, materially affect the financial profiles of our rated not-for-profit (NFP) healthcare providers, Fitch Ratings says. Providers' ratings are supported by ample liquidity and Fitch's expectations are for a long-term volume recovery due to the essential nature of services. Liquidity will gradually decline as advances are repaid but full and timely repayment is part of our rating assumptions for all issuers and we anticipate most providers will ultimately maintain liquidity profiles consistent with current rating levels based on our expectations for continued volume recovery in the hospital sector.

The coronavirus pandemic resulted in significantly lower volumes and associated top-line revenue, as the most profitable elective procedures were cancelled in an effort to preserve personal protective equipment (PPE) and increase bed capacity to care for patients infected with the coronavirus. While not anticipated, loan repayments in the form of reductions in Medicare payments would only pressure ratings if volume recovery is markedly slower than expected or if there is a significant rise in infections that results in another round of elective procedure curtailment.

NFP hospitals are already showing a strong recovery in elective patient volumes. Fitch-rated issuers in states that reopened in late April or early May are seeing overall volumes at approximately 80% to 90% of pre-coronavirus levels for most services, with further recovery expected. While there is still some patient hesitancy to seek non-coronavirus medical care, particularly visits to the emergency department, we believe that a return to near pre-coronavirus levels are possible by year's end, however downside risks remain given the volatile nature of the coronavirus itself.

While stimulus funds do not need to be repaid if certain terms and conditions are met, the Medicare Accelerated and Advance Payment Programs (AAP) administered by the CMS that were expanded to provide up to six months of advance Medicare payments as temporary emergency loans to stabilize provider cash flow, will be repaid. The AAP impact had more of an effect for those hospitals that receive the largest amount of Medicare payments and for those hospitals that had a lower absolute level of liquidity prior to the coronavirus. The initial timeline for repayment of the Medicare advances was extended and may be extended again. Some members of Congress proposed forgiving the loans and having them converted into grants as part of a new federal coronavirus aid package. Congress does not yet seem to be close to an agreement and, in the meantime, loan repayments are expected to begin soon.

The amounts provided under the AAP account for as little as 10% of unrestricted liquidity for some of Fitch-rated issuers, although this increases to almost 30% for some issuers with lower levels of liquidity. In terms of total revenues, funds under the AAP range from a low of around 5% of total revenues to around 15%, depending on a hospital's commensurate amount of Medicare revenue.

Fitch excludes AAP funds from unrestricted liquidity and, hence, all of our key rating metrics. Fitch assumes the sector does not gain relief on the AAP repayment terms and providers will generally be subject to the repayment schedule.

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