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Stress Tests for Hospital Lenders Mean More Pain for Patients.

- **Affected facilities boost revenues but are less attentive**
- **NBER study says readmission rates rise at affected hospitals**

When hospitals' leaders come under scrutiny, their patients feel the pain, too.

Facilities whose lenders underwent regulatory stress tests were more likely to readmit patients and forgo some timely or needed treatments, according to a new paper dramatically titled "Merchants of Death: The Effect of Credit Supply Shocks on Hospital Outcomes."

The study, part of a National Bureau of Economic Research working paper series, highlights how tighter credit to hospitals may be an unintended consequence of the stress tests, which were created to prevent another runaway bout of bank failures and bailouts. It also shows how precarious hospital financing can be.

These facilities carry "a substantial amount of debt," the authors wrote, and are "particularly risky borrowers" with greater-than-average yields and higher municipal-bond defaults. That means they're a logical place for lenders to cut back if they're seeking to improve their credit profile.

"Affected hospitals exhibit significantly lower attentiveness in providing timely and effective treatment and procedures, and are rated substantially lower in patient satisfaction," according to the report. Hospitals in that group had a "significant increase" in readmitting patients within a month after discharge, considered a key quality gauge, and in deaths from pneumonia, heart attacks and heart failure.

AHA Balks

The study examined 3,658 hospitals from 2010 to 2016. Of those, 537 hospitals had lenders undergoing stress tests in the period. They held loans worth an average of $737 million, with maturities of just under five years.

The American Hospital Association called the study "dramatically oversimplified" and "riddled with wild assumptions" that don't reflect the complexity of hospital financing and operations.

"Hospitals have continued to provide increasing amounts of uncompensated and unreimbursed care as well as billions of dollars in community benefits over the study period," Aaron Wesolowski, AHA's vice president of policy research, analytics and strategy, said in an emailed statement, "showing that despite the existence of financial stress tests, hospitals and health systems have continued to invest heavily in caring for the communities and patients they serve."

"We don't really have a theoretical model" around hospital financing or profit maximizing, said Pinar Karaca-Mandic of the University of Minnesota, who wrote the study with Minnesota colleagues Cyrus Aghamolla and Richard Thakor and Xuelin Li of the University of South Carolina.

The stress tests on hospital lenders "are associated with these changes in the type of care that hospitals deliver," Karaca-Mandic said in an interview with her co-authors.

Hospitals in the study responded to lenders curtailing or raising rates on debt by working to boost revenue while scaling back less-profitable services such as intensive care. That translated into an additional 367 patients per year, on average, and an average revenue increase of about $1,701 per patient from either increased fees or higher collections.

The study's conclusions rang true to Martin McGahan, managing director for Alvarez & Marsal's healthcare industry group.

"Health care is a business," McGahan said. "There is no doubt quality of care is impacted by how you spend your money, what your access to capital is, what your cost of capital is."

The 2010 Dodd-Frank Act required banks to undergo regular examinations to ensure they have enough access to capital to withstand shocks like the mortgage meltdown that led to the Great Recession.

U.S. hospitals are emerging from the cataclysm of the pandemic dealing with higher safety expenses and fatigued workers.

"Hospitals are facing even smaller profit margins now and are getting more and more financially constrained," Thakor said. "Our view is that these credit market shocks would be even stronger and more relevant for the hospitals in the post pandemic period."

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