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Not-for-Profit Hospital Borrowing Rebounds in 2015.

Hospitals borrowed 50% more from long-term investors this year than in 2014, as potential savings from refinancing drew not-for-profit hospitals into the market, new data show.

Hospitals sold investors $18 billion in fixed-rate municipal bonds this year, according to healthcare financial advisers HFA Partners. That's compared with 2014, when hospitals borrowed $12 billion.

Rates were also low in 2014, but hospitals had additional incentives to capitalize on cheap debt this year—including the much-anticipated action by the Federal Reserve to raise interest rates. The nation's central bank announced earlier this month it would finally raise rates from zero after years of halting economic recovery from the Great Recession. In fact, more rate hikes are expected.

Interest rates were also further depressed this year by the small number of hospitals looking to borrow in 2014. Hospital debt entering the market dropped to a 10-year low in 2014. Investors had fewer hospital bonds to buy, which held down the interest rates that hospitals had to pay.

Rates were so low entering 2015 that some hospitals sought to refinance bonds, despite terms that prohibit them from doing so for a few more years.

Hospitals often agree not to refinance, or call, bonds for a few years after borrowing money. Borrowers can get around that agreement with "advance refunding," but that can be costly.

Still, some hospitals found they could save money regardless of advance refunding costs this year. "If rates are low enough, it works," said Pierre Bogacz, managing director at HFA Partners.

Not all hospitals benefit equally from low rates. Borrowers with higher interest rates on existing debt stand to gain the most, Bogacz said. Advanced refunding is often most attractive to hospitals that are close to the date—one or two years—when their bonds can be refinanced.

Reid Health in Richmond, Ind., will save $1 million a year on interest after refinancing $92 million in February, said Christopher Knight, vice president and chief financial officer for the central Indiana hospital.

In 2005, Reid Health went to municipal bond markets to finance construction of a replacement hospital, which opened three years later. The financial crisis that erupted that year forced Reid Health and other not-for-profits into costly refinancing deals. Reid ended up with an average coupon rate of 6.5% and agreed not to refinance the bonds again until 2019.

Now, newly issued 30-year bonds will save the hospital money even after the $25 million cost of an advanced refunding. "I think everybody was surprised," by the amount, Knight said. Reid rushed to enter the market in February to refinance before the Federal Reserve boosted borrowing costs. "That's why we got in as early as possible," Knight said.

Hospital leaders have also sought to capitalize on the large supply of investors and the small number of borrowers in the industry. Hospitals have borrowed less in recent years, despite low rates, as they scale back on construction and invest in more information technology. Demand for Reid Health's bonds was so high that not all investors could buy bonds.

Refinancing surged in the first months of the year when Reid Health entered the market, accounting for three-quarters of the $5.8 billion in first-quarter bonds issued by hospitals, an HFA Partners analysis shows. That's compared with 20% of the $1.4 billion hospitals borrowed in 2014.

Interest rates are more favorable now than in 2009, when "the market was anything but normal," Bogacz said. Hospitals also save from an advance refunding with debt that must be paid back more quickly, or when hospitals' credit rating has improved, both of which typically lower interest rates, he said.

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