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U.S. Not-For-Profit Acute Health Care Ends 2015 With Positive Ratings Trends Due To Revised Stand-Alone Hospital Criteria And Credit Quality.

Upgrades dramatically exceeded downgrades in 2015 for the acute care sector including stand-alone hospitals and health systems. This is the first time upgrades have exceeded downgrades since 2012 and largely reflects rating actions associated with the revised stand-alone criteria implemented in late 2014 (see chart 1). Rating changes for stand-alone hospitals due solely to credit quality were roughly equally distributed between upgrades and downgrades which alone represents improvement over prior years. Despite the high number of rating changes in 2015, the ratings distribution remains largely unchanged because a majority of the changes were just one notch and within the same rating category. Also contributing to the above-average number of rating changes were credit shifts into and out of the stand-alone classification due to publication of our revised system definition. Health systems in general continue to have higher ratings due to geographic and financial dispersion, as well as size and scale benefits associated with system membership.

Although we expect fewer rating changes in 2016 as the criteria implementation period is now over, the 2015 rating actions that were driven by credit quality and not the criteria revision, support our view of a more stable sector (see “U.S. Not-For-Profit Health Care Sector Outlook Revised To Stable From Negative, Though Uncertainties Persist” published Sept. 9, 2015, and “U.S. Not-for-Profit Health Care Outlook Remains Stable In 2016 On Sector Recovery” published Feb. 25, 2016). Benefits from Medicaid expansion, mergers and acquisitions, and our criteria on group rating methodology also continue to improve the sector’s credit profile, although we believe positive rating actions associated with these factors have started to wane. Weak year-to-date investment markets and the potential for rising interest rates could also be tempering factors in 2016. The presidential race could also slow progress toward greater adoption of Medicaid expansion in 2016, which has proven to have a positive credit impact over the past 18 months. Although there was increased rating action in 2015 due to the stand-alone criteria revision, a vast majority of our ratings were still affirmed, which is consistent with historical trends (see chart 2).

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