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Hospitals are Moving to Single Ratings: Here's Why

Through the first six months of 2018, 39 percent of hospital tax exempt fixed rate bond issues came with a single rating, up from 21 percent during the same period in 2017, according to new research from HFA Partners.

In addition, the total number of bonds that carried a rating from all three credit agencies — Fitch Ratings, Moody's Investors Service and S&P Global Ratings — declined from 19 percent in 2017 to 14 percent in 2018. The average number of ratings per bond issue also declined from 1.8 in 2017 to 1.5 in 2018.

This emerging trend of single-rated issuance is most evident in the "BBB" rating space, because it tends to draw more sophisticated investors, according to HFA Partners.

While HFA Partners acknowledged that spotting a move toward single-rated bond issues is difficult because hospitals sold $5 billion worth of bonds in the first half of 2018, compared to $14 billion in 2017, they noted this trend is occurring across multiple sectors and emphasized several reasons why hospitals may move toward single-rated issuance.

Here are four reasons:

1. Cost. Each rating agency charges fees that add cost to the issuance. For example, S&P charges $100,000 for bond issues that range from $100 million to $200 million and a surveillance fee around $20,000. While those fees are small in comparison to the larger bond issue, they can add up over the life of the bonds.

2. Administrative burden. Dealing with multiple credit agencies, especially if reviews are done at different times per year, can take away from day-to-day operations.

3. Bank placements. "Over the last several years, hospitals have moved away from public bonds towards bank placements, which are typically unrated. With less public debt outstanding, borrowers aren't as dependent on rating agencies and are better positioned to pare down on ratings," the report from HFA Partners reads.

4. Worries about updated criteria. Some hospitals worry the more ratings that exist, the more likely the agency will change its criteria and approach to rating the healthcare sector. Both S&P and Fitch ratings already changed their rating criteria and approach in 2018. Worries of credit approach changes. "While this [update] can result in an upgrade, the impact of a downgrade is greater since investors base pricing on the lower of all available ratings," the report states.

"Whatever the rationale is for hospitals to cut back on ratings, it is clear that municipal bond funds, who make up the bulk of buyers, have stepped up their analytical capabilities and are less reliant on rating agencies," the report concluded. "As a result, the pricing penalty from carrying fewer ratings isn't as significant for borrowers as it used to be."

Read the full report here.

Becker’s Hospital CFO Report

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