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Fitch Rtgs: Investment Portfolios Key for Not-for-Profit Hospital Credit

Fitch Ratings-New York-16 October 2019: A hospital's cash and investment portfolio and investment policy can have a significant bearing on creditworthiness given the importance of financial reserves to the ongoing operations of the hospital, says Fitch Ratings. Higher-rated not-fo--profit (NFP) hospitals' large investment portfolios and cash help mitigate the volatility of certain alternative investments. Lower-rated hospitals typically have weaker balance sheets and therefore are less able to weather the volatility of more risky investments, potentially compromising their ability to fund operations through the cycle.

The not-for-profit sector's strong liquidity, relative to debt repayment obligations and business risk, is a key element distinguishing it from for-profit acute healthcare entities. The accumulation of retained earnings including earnings on cash and investment holdings allows many NFP hospitals and health systems to build up substantial unrestricted liquidity. This provides a financial cushion to absorb unforeseen operating challenges that may lead to potential compression in operating margins. In Fitch's view ratings should not change due to normal cyclical variations. Therefore, Fitch reviews the size and allocation of a NFP hospital's combined cash and investment portfolio to provide broad order of magnitude guidance of how public hospitals' liquidity positions might be affected in relation to normal economic expansions and contractions.

Larger systems often have a larger financial cushion and may have qualitative advantages, such as better operating efficiencies and economies of scale, or enhanced competitive positioning, that temper balance sheet compression if, for example, investment holding performance weakens or is volatile. While not as common, smaller organizations may have a large financial cushion in line with metrics indicative of high-investment-grade ratings that may give them more flexibility to hold more volatile assets in their investment portfolio.

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