Bond Case Briefs

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What's New In Retirement Facility Defaults.

The biggest source of municipal bond defaults for at least the last 40years have been bonds issued for retirement and congregate care facilities. Some 737 bond issues totaling $11.7 billion dollars have been involved in defaults,. Unique among such defaults is that many facilities have defaulted , been sold and defaulted again. Most of these defaults are due to dishonest developers, corrupt bond underwriters or just plain incompetence in managing an extremely demanding business. Nevertheless, new bond offerings appear monthly since there are few better places to obtain funding for what is by definition a high risk business with limitless demand and much of the business is funded by a single payer, Medicare.

Getting an underwriter and bond issuing authority approval for a new facility is relatively easy as long as you know you will have to pay an interest rate 50% or more than investment grade paper. Too many issues have to achieve a trouble free startup to avoid default. Since this is unlikely, the projects usually end up in the hands of a successor manager, but with a much smaller debt service cost. Unfortunately, the successor owner is frequently operating a multiple of projects and will co-mingle funds from different bond issues if not outright steal them.

Covid-19 promises a surge of new defaults and two new and one old developments promise a rich harvest of more default abuses.. A new bond issuing authority has arisen in Texas which allows a private non-profit entity authority to issue tax free municipal bonds. The authority is described as follows in a recent offering statement – "Woodloch Health Facilities Development Corporation is a nonprofit corporation created and existing under the laws of the State and is authorized to issue the Bonds pursuant Chapter 221 of the Texas Health and Safety Code, as amended." There is no identification as to who formed Woodloch nor is there any proof that such an entity received authorization under this law. Perhaps none is needed? We also note that no such named corporation was incorporated in the state of Texas. This should be mandatory as a means for stopping just anyone from abusing this privilege. We make an issue of who authorized Woodloch because it has so far authorized 4 bond issues since 2016. Two are in default, one is in distress and the third is unknown since no documentation has been filed with the MSRB. Details for the three known issues are described in this issue. We suspect Piper Jaffray may have had a hand in forming Woodloch; since they are the underwriter on the two defaulted issues.

My second "What's New" topic is that there is a rising star in the retirement community bad actors category named Mark Bouldin. He is a Florida based retirement community developer who has ventured into Texas via the two Woodloch defaulted issues. We guess we will be hearing more about him given that his difficulties pre-date Covid-19.

My third "What's New" observation is that some of the defaults occurring today seem to follow a confusing sequence of events with little clarification as to objective. This is leading to many bondholders selling out at 50 to 65 cents on the dollar. The question that arises should always be, who would buy such bonds when events are so unclear. The answer is usually, the party who has a major stake and knows what he intends to do once he has bought out all the weak players. Meanwhile, the lack of information only makes the buyout of bonds cheaper. This strategy is currently most apparent in the Proton Center bond issues, as discussed in our October issue, but has been standard fare for years in the retirement and nursing home arena.

It’s time the MSRB got some backbone.

Forbes

by Richard Lehmann

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