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Fitch Ratings Publishes Exposure Draft for U.S. Life Plan Communities Rating Criteria.

Fitch Ratings-New York-04 March 2024: Fitch Ratings has published an exposure draft detailing proposed revisions to its rating criteria for U.S. NPF life plan communities.

“The proposed revisions to criteria are intended to better reflect the unique risks of LPCs and their typically very limited market draw and high industry concentration risk, which limit their rating potential,” said Fitch Senior Director Margaret Johnson. “The proposed revisions also acknowledge LPCs’ propensity for large-scale capital plans relative to their revenue size and provide better transparency on when and how these plans will be factored into ratings.”

Among Fitch’s proposed changes include:

- Limitation of ratings of LPCs that do not carry a third party guarantee to the ‘A’ category;
- Added Revenue Defensibility sub-assessments to better differentiate risks of multi-site vs. single-site LPCs;
- Additional ‘B’ category to Ratings Positioning Table and added enhanced guidance for ratings below ‘B’ category; and;
- Further guidance on potential rating action based on probability and rating impact of capital project.

Regarding revenue defensibility, Johnson says that LPCs with more SNF units than ILUs are more vulnerable to revenue pressures, as they typically have very little pricing flexibility due to their high exposure to governmental payors. Among the asymmetric additional risk considerations Fitch considers, expansion projects help determine an LPC’s revenue defensibility. “While expansion projects can be of strategic benefit to LPCs, they very often lead to increased leverage and represent a relatively high degree of risk associated with the fill-up of expansion units,” said Johnson.

Fitch anticipates approximately 10% of LPC ratings to be affected by these changes, with most rating changes, if any, not to exceed one-notch downgrades. Fitch is actively soliciting market feedback on the proposed criteria. Send comments to criteria.feedback@fitchratings.com by April 18, 2024.

In addition to the exposure draft, Fitch has also published Exposure Draft: U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria: Frequently Asked Questions (FAQs).

Fitch’s “Exposure Draft: U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria” and the FAQs are available at www.fitchratings.com.

Contact:

Margaret Johnson
Senior Director
+1-212-908-0545

Fitch Ratings, Inc.
300 W. 57th St.
New York, N.Y. 10019

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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