

Underwriting Approach: Healthcare

Introduction Radian reviews many factors during its evaluation of healthcare credits. No single factor is examined in isolation. Though a provider may fall short in certain criteria, strengths in other areas may mitigate a concern. The following should be used as general guidelines.

Target Market Radian provides credit enhancement for a wide range of healthcare entities. Many of the healthcare providers Radian gets comfortable with are community hospitals located in rural and exurban markets with limited competition. Radian also underwrites hospitals with strong or unique market positions in demographically favorable service areas. Multi-hospital systems with geographic and financial risk dispersion are also viewed favorably.

Transaction Size

- “BBB” category single site hospitals: \$20MM to \$75MM
- “BBB” category hospital systems: \$20MM to \$87MM
- “A” category single site hospitals: \$20MM to \$92MM
- “A” category hospital systems: \$20MM to \$107MM

Key Credit Factors

- **Market and business position.** Stable or improving utilization trends. Leading or strong market share in clearly defined service area. Radian also views a unique market niche favorably.
- **Financial performance and position.** Many financial ratios are calculated and examined over time and against industry and Radian portfolio norms.
 - **Income statement.** Stable or improving operating and net margins.
 - **Cash flow analysis.** Adequate EBIDA to support debt service obligations and favorable free operating cash flow to provide funds for capital projects and cash accumulation.
 - **Balance sheet.** Strong revenue cycle management trends, good liquidity versus operating expenses and long-term debt, and moderate leverage.
 - **Debt position and capital plans.** Manageable debt service as a percent of revenues. Clearly defined and prioritized capital plans, with funding sources identified and routinely monitored.
- **Payor mix.** Manageable dependence and adequate financial results from governmental payors. Reasonable contracting strategy and pricing flexibility with health plans.
- **Service area demographics** are analyzed to determine the durability of utilization trends, as well as depth of commercial insurance coverage. Key data points evaluated include population, employment, and wealth and income indicators.

Security Structure and Financial Covenants

- Security interest in gross revenues
- Mortgages for “BBB” category credits, negative pledge for “A” category credits
- 1.10–1.20x rate covenant
- 60–90 days cash on hand
- Additional bonds test set above rate covenant
- Transfers of assets, merger, consolidation, additions and withdrawals to obligated group are permitted subject to meeting additional debt test, days cash on hand test, and coverage haircut test.
- Fully funded debt service reserve account

Documentation Requirements

- Draft POS including Appendix A
- Most recent Official Statement
- Five years of audited financial statements
- Five years of utilization, payor mix, and market share data

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