

## Underwriting Approach: Long-term Care

**Introduction** Radian reviews many factors during its evaluation of long-term care providers. 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 long-term care entities. Many of the long-term care providers Radian gets comfortable with are single-site Continuing Care Retirement Centers (CCRCs) located in rural and suburban markets with limited direct competition. Radian also underwrites CCRCs with strong or unique market positions in demographically favorable service areas. Multi-site CCRCs with geographic and financial risk dispersion are also viewed favorably.

**Transaction Size**

- “BBB” category single site long-term care providers: \$20MM to \$75MM
- “BBB” category long-term care systems: \$20MM to \$87MM
- “A” category single site long-term care providers: \$20MM to \$92MM
- “A” category long-term care systems: \$20MM to \$107MM

**Key Credit Factors** • **Organizational structure.** Evaluation of governance and management profile. Evaluation of facility, unit and service mix.

- **Demand trends.** Stable or improving utilization/occupancy trends. Analysis of historic and projected demand, unit turnover trends, waiting lists, lead tracking and other marketing programs.
- **Competition.** Leading or strong market share in clearly defined service area. Review of all competing facilities, direct market niche competitors and any other comparable providers. Radian also views a unique market position or product differentiation strategy 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 (evaluated based on contract type – A, B or C).
  - **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. Evaluation of cash flow from entrance fees.
  - **Balance sheet.** Strong revenue cycle management trends, good liquidity versus operating expenses and long-term debt, and moderate leverage. Level of preferred unrestricted cash (days cash on hand) dependent on contract type.
  - **Debt position and capital plans.** Manageable MADS debt service coverage (including and excluding entrance fees) and debt service as a percent of revenues. Clearly defined and prioritized capital plans, with funding sources identified and routinely monitored. Capital expenses in line with depreciation. Capacity for expansion and facility repositioning.
- **Resident Agreements and SNF payor mix.** Large private pay component viewed favorably. Manageable dependence and adequate financial results from governmental payors. Resident contracts are reviewed in context of marketability (refundable option preferences) and effect on financial performance and position. Analysis of annual rate increases and pricing flexibility for private pay ILU and ALF divisions.

- **Service area demographics** are analyzed to determine the durability of utilization trends. Key data points evaluated include age and income qualified population statistics, general market penetration for senior services and favorable population, employment, wealth and income indicators. Local real estate trends and property values tracked as well.

**Financial Covenants**

- Mortgages on land and facilities
- 1.10–1.20x rate covenant
- 200–400 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, SNF payor mix, and market share data

**Key Contacts**

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