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www.reachmd.com  
info@reachmd.com  
(866) 423-7849

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### How the Credit Crunch Is Affecting the Healthcare Industry

How is the current credit crunch crisis affecting the healthcare industry? You are listening to ReachMD XM160, The Channel For Medical Professionals. Everyone's been focusing on the while swings in the stock market, but for the healthcare industry, the more important index is the liquidity of the credit markets. This is the business of medicine. I am Dr. Larry Kaskel, your host. My guest today is Craig Standen, senior Vice President within the healthcare finance group of Ziegler Capital Markets.

#### DR. LARRY KASKEL:

Craig, welcome to the show.

#### CRAIG STANDEN:

Thanks very much for having me.

#### DR. LARRY KASKEL:

Well, can you help us because we are physicians and supposedly we are not very good with finance and business and the stock market. Whats the credit market, what's the debit market, how does that even affect me as a physician?

#### CRAIG STANDEN:

Well, right now, the credit markets, shall we say, tad bit dysfunctional and by that I mean in that there's a lot more sellers than there are buyers and how that might directly affect you and your fellow physicians is that many work at hospitals and those hospitals need to access capital to fund the project, adding new wings, buying expensive equipments, and the like and right now, there really is very little if any access to capital for the broader range of hospitals that would look to those markets to access that required capital, and the vast majority of hospitals in the country are non-profit healthcare organizations who predominantly issue tax against bonds, either floating or fixed rat or various other structures, but right now, there is lot of issuers or borrowers who are looking to access capital and there's very few outlets for that capital right now.

#### DR. LARRY KASKEL:

So, as an example, lets say I am radiology department and I want to buy a new CAT scan and I go to GE and I want to finance it and what happens, as I say sorry, you cant finance this anymore because you know, you would think the hospital would have good credit.

**CRAIG STANDEN:**

True, probably the median credit quality for hospitals in the country and I am looking at really the hospitals that are rated by the 3 main municipal rating agencies - Standard and Poor's, Moody's Investor Service, and Fitch is probably in the mid A category, so there's a lot of larger systems and single-side facilities that are rated higher, but there is also a large number that are rated lower investor and graded in many cases, some invest from graded or non-rated, so when they go to provider such as a GE or if the finance department at the hospital looks to access tax exempt bonds, really that decision of investors to provide that capital either directly in the case of GE or through the investors like you and me when we invest our money with bond fund, its really based on the credit quality of the hospital and as those hospital, many hospitals have seen their financial profiles deteriorate at least most recently because of a couple of different dynamics that are occurring, interest costs are going up, investment returns on their investment portfolios are going down, more patients are presenting at the hospital who might have less insurance or no insurance because of what's happening in the broader economy and so as the financial profile of these hospitals looks less strong to potential investors or credit providers, there's a hesitancy and it seems to be all pervasive at this point to provide capital to the hospitals that need that hospital in a very intensive sector.

**DR. LARRY KASKEL:**

But what has to change for the first company that say, "Okay, you know what, I am going to start lending, I am not going to wait for everyone else to start." What unfreeze is this?

**CRAIG STANDEN:**

That is the quintessential question because right now, there are a couple of things that are occurring as you and I as investors and bond fund see the decimal returns in those funds, a lot of us are saying, "Well, I want to pull my money out." So right now, we are in a situation where there are net sellers in the market meaning bond funds have to raise cash so that you and I can pull our money out, so what we have got right now is the huge supply and demand in balance, loss of people wanting credit and wanting capital and there are no net buyers or I should say fewer net buyers than there are for the available supply, but right now, there is also just a general, I guess, fear. Fear is the term we could use on what the future holds for the broader economy and looking specifically at the healthcare sector, just the strength of the sector in general.

**DR. LARRY KASKEL:**

Well, we both know that these 2 emotions drive this, the other one being greed, so when will we get greedy again?

**CRAIG STANDEN:**

(Laughs), we were in a period probably for the last 24 months where rates were very low and credit was very cheap from the standpoint of where interest rate levels were and where deals were able to get done and at what levels capitals could be accessed and may be we were into a new paradigm, new world, a brave new world and may be people don't like what the brave new world has to offer. Rates have gone up dramatically and dramatically by probably 2, 3 and 4% higher than they might have been, just say 8 months ago even for stronger credits, stronger hospitals, larger systems, and that obviously crimps budgets, it crimps the ability to you know, fund these large capital projects and do the things that hospitals need to do to provide access to care for the broader population.

**DR. LARRY KASKEL:**

Well, I don't think its so terrible if a hospital doesn't go out and you know, buy more toys or more CAT scans, how else are they being affected, is their ability to meet payroll even being affected?

**CRAIG STANDEN:**

Can be sure there are those hospitals out there that are either finding themselves or may soon find themselves in much dire circumstances, I mean, you think of kind of the big circular loop as unemployment grows, state and local governments are getting less in tax revenues, but looking specifically at the hospital sector, more people are going to the hospitals because they got to get treated if they are sick and that's just a fact. There is more people who are presenting at hospitals with either no insurance or they are deferring the payment of their co-pays and so that affects the hospital finances and really its starting to affect the broader healthcare sector in terms of just the financial profile, which really drives investors to indecisions of whether or not they are going to buy bonds issued by those hospitals or provide credit in the case of say, GE that's looking to do a capital lease on a new CAT scan, so hospitals, it's a very competitive market, but more importantly, it's a very capital intensive market because if the hospital down the street has the newest, latest, and greatest then the hospital that doesn't sees themselves at a competitive disadvantage and wants to find a way to write that differential between where they are and where their competitors are.

**DR. LARRY KASKEL:**

If you have just joined us, you are listening to the Business of Medicine on ReachMD, XM160, The Channel For Medical Professionals. I am Dr. Larry Kaskel, your host and I am talking today with Craig Standen, Senior Vice President within the Healthcare Finance Group of Ziegler Capital Markets and we are talking about how the current credit crisis is affecting our industry, the healthcare industry.

**DR. LARRY KASKEL:**

Craig, have there been any hospital failures, are we going to see a string of them or does that not ever happen?

**CRAIG STANDEN:**

No, hospital failures, you know, do occur and it is kind of rare when you see a hospital closure or an outright bankruptcy, but as I indicated earlier, I do think that in the near term, we will start to see more hospitals fund themselves in a less favorable financial situation, but what I think also will bring about is another cycle of consolidation within the healthcare sector, so hospitals of whatever size that find themselves not having access to capital might be in a situation where they need to partner up with another stronger entity that would provide them the access to capital, again to provide care to the population that they serve.

**DR. LARRY KASKEL:**

If you are a CEO of a local hospital that perhaps was not part of a huge organization, what could you do to manage this, you know, manage this crisis to stay afloat and wait for it to end?

**CRAIG STANDEN:**

Well, I am sure there are a lot of CEOs that are having that very same thought, probably at all different times in the evening, there's

definitely probably pressure that we ought to bear as it relates to payroll, you may see hospitals, in fact, we are already starting to see hospitals that are laying off to meet budgets or just to stem the financial declines that they might be experiencing, it comes down to really being able to effectively manage the care that they provide for the patients that present treating them in a cost efficient manner, being able to manage your capital structure in terms of, you know, what's your cost of debt that you currently have and also looking very hard at the projects that you might want to fund or finance in the near term and whether or not those can be adequately funded either through philanthropy or cash flow or may be after having to make that hard decision of deferring projects until the market figures out which direction its going to go.

**DR. LARRY KASKEL:**

It sounds like the CEOs may be faced to develop a leaner, smarter organization, so it may not be so bad.

**CRAIG STANDEN:**

Ya, I think you are right. Certainly the healthcare area or the healthcare sector has been moving solely in the direction of employing more efficient modes of treating patients, you know, using more technology, engaging physicians to find ways to treat patients in a more cost effective manner, at the same time providing the highest quality of care, but certainly I think this market dynamic in will require that CEOs look at their organizations from top to bottom and find ways that they can ring out extra costs and just find ways that they can just say run leaner and smarter and quite frankly faster.

**DR. LARRY KASKEL:**

Craig, are there any sweet spots in the medical field? I was reading in one of the newspapers that medical reaps are still an okay place to put your money. Is that even true anymore?

**CRAIG STANDEN:**

Well, we have all heard about the asset bubble in terms of real estate values as it relates to residential real estate values and some of those declines have been precipitous in certain areas of the country, but there does appear to still be a strong area of demands as well as pricing evaluation levels for medical real estate. There's been a big focus of a number of large as well as smaller reaps in this particular area, but there does seem to be at least fairly good support for the evaluation levels for medical real estate in particular.

**DR. LARRY KASKEL:**

And if we look at just the general average doctor out there such as myself, I have not seen anything yet through the month of October, November, and early December. I am waiting for something terrible to happen, but I have been able to access my line of credit, its intact, they haven't asked me to, you know, give a note on my home, so how are general physicians affected by this or is it really just the big organizations?

**CRAIG STANDEN:**

You know, I do believe that physicians on the ground

**DR. LARRY KASKEL:**

In the trenches?

**CRAIG STANDEN:**

Exactly, in the trenches. The first point of contact for a patient that presents to the hospital or the office will probably start to see that. We have heard and seen indications where you know, banks are taken back, committed, but untapped lines of credit and that's, you know, both personal as well as those lines of credit that would be extended to, you know, larger organizations, but I think one of the areas where there may or may not be pressures is really on the reimbursement side at the federal and the state level and you know, I think its, as we see potentially lower tax revenues given what's happening in the broader economy, there's obviously pressures on the federal budget and reimbursement both the hospitals as well as to physicians, its certainly something that is seen while swings in at least in the near term.

**DR. LARRY KASKEL:**

Speaking of federal impact, Craig, what do you think the president elect can do when he gets into office to unfreeze this and help the medical field at the same time as there's something he could do that would magically solve both problems?

**CRAIG STANDEN:**

That's a very tough question to answer. I think he is really starting to one formulate his cabinet, he has appointed Tom Daschle to be his secretary of health and human services and I think while at least seen as someone who really understands the healthcare sector and really kind of some of the challenges that it is facing, but we haven't really seen anything in gross detail in terms of what his plans are for the near term for the broader healthcare area. Obviously the key thing for a lot of these hospitals is just finding the way to access capital, I mean, the tax exempt hospitals that issue bonds to finance these projects really big, I mean, they don't have any equity that they can issue out to the public and so really their way to fund these projects and continue to deliver quality care is through a tax exempt bond market or the credit markets in general and until we find a way to unfreeze and I guess get some confidence back in the credit market, there will be some challenges at least in the near term, I mean, our sense is that it probably is going to get a little bit worse before it starts to get a little bit better.

**DR. LARRY KASKEL:**

I would like to thank our guest, Craig Standen for joining us today.

**CRAIG STANDEN:**

Thanks very much for having me, I appreciate it.

DR. LARRY KASKEL:

Craig Standen is the senior Vice President within the healthcare finance group of Ziegler Capital Markets and we were talking today about trying to understand how the credit markets are directly impacting the welfare of the healthcare industry. You have been listening to the Business of Medicine on ReachMD XM, The Channel For Medical Professionals. Please visit our website at [www.reachmd.com](http://www.reachmd.com), which now features our entire library through on-demand podcasts and if you would like to reach us by phone with comments or suggestions, please call us at 888MD XM160 and thanks for listening.