Credit FAQ:
An Overview of Standard & Poor’s Updated Methodology For Rating U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals

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Standard & Poor’s Ratings Services today published its updated criteria for rating U.S. not-for-profit acute-care stand-alone hospitals. The update is part of our regular criteria review process, and its goal is to clarify and enhance certain parts of our methodology. This article addresses some of the questions investors and other market participants might have about our updated criteria.

For the full criteria article, see "U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals -- Methodology And Assumptions", and watch the related CreditMatters TV segment titled "U.S. Not-For-Profit Acute-Care Stand-Alone Hospital Revised Criteria Published", also dated Dec. 15, 2014.

Frequently Asked Questions

Why is Standard & Poor’s updating its acute-care stand-alone hospital criteria?
The criteria aim to provide additional transparency and comparability to help market participants better understand our approach in assigning ratings to acute-care stand-alone health care providers, to enhance the forward-looking nature of these ratings, and to enable better comparisons between the sector’s ratings and all other ratings. We also review and update criteria periodically as part of our normal course of business.

What is the framework for the updated criteria?
The criteria establishes a formal framework for performing credit analysis using the same elements that have long been a part of our analysis and that are routinely discussed in our rating committees. The framework is organized into enterprise and financial profiles. Enterprise risk factors are analyzed through a review of industry risk, economic fundamentals, market position, and management and governance. Financial risk factors are analyzed through a review of financial policies, financial performance, liquidity and financial flexibility, and debt and contingent liabilities. The enterprise and financial assessments combine to arrive at an initial indicative rating. To enhance transparency, we added clarity about the weightings of various credit factors and information about possible overrides and adjustments that could be used to determine the final rating (see chart).
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Chart 1
Analytical Framework For Stand-Alone Hospital Ratings

Enterprise Profile
- Industry Risk
- Economic Fundamentals
- Market Position
- Management & Governance

Financial Profile
- Financial Policies
- Financial Performance
- Liquidity & Financial Flexibility
- Debt & Contingent Liabilities

Initial Indicative Rating

Positive Overriding Factors
- Extraordinarily high reserves (one-notch adjustment)
- Academic medical center with closely related higher-rated university (one-notch adjustment)
- Tax-supported hospital (up to two-notch adjustment)

Negative Overriding Factors
- Lack of willingness or potential bankruptcy (caps rating)
- Credit emerging from financial crisis (caps rating)
- Weak management (up to three-notch adjustment)
- Extraordinarily low reserves (caps rating)
- Limited revenue base (one-notch adjustment)
- Specialty hospital (one-notch adjustment)

Indicative Rating

Peer Comparisons (one-notch adjustment)

Final Rating

The final rating can be an SACP, GCP, IRC, or issue credit rating. The final criteria are also governed by related criteria, including “Ratings Above The Sovereign – Corporate & Government Ratings: Methodology And Assumptions”; and “Rating Government-Related Entities: Methodology And Assumptions”, both of which could result in a different final rating than indicated in table 1. The final rating could also be affected by structural enhancements or other security features.

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Did Standard & Poor's make adjustments to the RFC published last December?
Yes. For a summary of how our criteria were updated after our Request for Comment period, please refer to the article "RFC Process Summary: Rating Methodology And Assumptions For U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals", published Dec. 15, 2014.

How did Standard & Poor's determine the factors, adjustments, and weighting?
These criteria use the same major elements as our criteria for other municipal enterprise sectors and cover aspects of a hospital's enterprise and financial profile that have long been a part of our analysis. We calibrate our hospital rating criteria based on our analysis of the history of defaults, the impact of changes in medical care delivery patterns over time, our view of the industry's essentiality, the industry's sensitivity to economic cycles, and the credit strength of the not-for-profit health care sector compared with that of other sectors. We have verified that our framework appropriately reflects our view of the sector's credit fundamentals through robust testing.

Will the criteria for health care systems be affected?
Multihospital systems would not be rated under these criteria. As a part of our updated stand-alone criteria, we included a more transparent definition of what qualifies as a multihospital system in appendix 2 of the criteria. If an organization meets this definition, it will continue to be rated under the relevant multihospital system sections of the "Not-For-Profit Health Care" criteria published June 14, 2007. If an organization does not meet this definition, it will be rated under the revised stand-alone hospital methodology.

What will the rating impact be? Will existing hospital ratings change?
Since the criteria refine and clarify our existing criteria, we do not expect material changes to the ratings. Based on testing, we expect that ratings on one-quarter or fewer of the hospitals rated under these criteria would change. More specifically, the majority of rating changes are likely to be one notch, with up to 15% of the ratings lowered and up to 10% raised. To address specific questions, please contact your primary analyst for more information.

How will Standard & Poor's implement the updated criteria?
Please see the article, "How Standard & Poor's Intends To Implement Its U.S. Not-For-Profit Acute-Care Stand-Alone Hospital Criteria And Apply Them To Ratings", published Dec. 15, 2014.

Will individual assessments be published?
As part of our commitment to increased transparency, we will publish each hospital's enterprise and financial profile assessment. In addition, the rating report will identify any overrides or caps applied to the initial indicative rating. During the first year, we will evaluate the feasibility and usefulness of publishing certain select additional assessments.

Where can I go to get more information?
Please visit www.SPRAatings.com/nfphealthcare for all published articles and videos. In addition, through December 2015 we also plan to publish a monthly update detailing all our rating actions for the prior month including upgrades, downgrades, and affirmations, which will be available on RatingsDirect. As we complete our reviews, we will also publish a research update on RatingsDirect for each hospital that will include our opinion about the enterprise and financial profiles.
Related Criteria And Research

Related Criteria

• U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals -- Methodology And Assumptions, Dec. 15, 2014
• Proposed Changes In U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals Methodology And Assumptions, Dec. 5, 2013
• Advance Notice Of Proposed Criteria Change: U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals, Nov. 13, 2013

Related Research

• RFC Process Summary: Rating Methodology And Assumptions For U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals, Dec. 15, 2014
• How Standard & Poor's Intends To Implement Its U.S. Not-For-Profit Acute-Care Stand-Alone Hospital Criteria And Apply Them To Ratings, Dec. 15, 2014
• Video: U.S. Not-For-Profit Acute-Care Stand-Alone Hospital Revised Criteria Published, Dec. 15, 2014

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.