





New Mountains of Healthcare Receivables to Climb

by Danny Frank

Four years ago, retired CFA executive director, Leonard Machlis, questioned the efficacy of CFA members in financing healthcare and medicine. In Mr. Machlis' skepticism, medical receivables and what they represent are much different compared with the receivables in the factoring and asset-based lending industry.

Then, two financial enterprises focused on healthcare. Now there are about ten, and more seem to be on the horizon, to capture opportunities in this burgeoning \$1.5-trillion dollar revenue pool. Yet healthcare poses a variety of complex issues. Many hospitals suffer from ballooning debt. Pricing on drugs and prescription medicines are soaring, and dynamic advances in medical technology are increasing consumer patient demand enormously. These challenges translate into an expanding role for CFA members.

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Oz K. Lindley



Linda Walker



Henry Adamsky

Oz K. Lindley, regional vice president of the Healthcare Finance Group, Inc., (Atlanta), explained: "Healthcare costs are expected to continue increasing for the foreseeable future due to the aging 'baby boom' generation, longer life expectancy, increased per capita consumption of healthcare services by the elderly, and rising prescription drug costs. Rising costs have put restraints on traditional public and private payer sources, which have led to a reduction of benefits and increased cost sharing by the end consumer. Ultimately, I see individuals paying a larger share of healthcare costs, but having more choices."

According to Mr. Lindley, Healthcare Finance Group, Inc. concentrates on the middle tier that generates \$50,000,000 or more in annual revenues through third-party receivables. Sources include hospitals, skilled nursing, staffing companies, ambulatory agencies and more.

Similarly, it appears that each of the corporate entries in this emerging field are finding their niche.

Mark O'Brien, regional manager of Healthcare Business Credit Corporation (Marietta, Georgia) feels that the home healthcare market presents lots of opportunity. "This market was suffering for a few years, but through the PPS (Prospective Payment System) payment format, the industry has been performing well. More money is flowing into home healthcare and there is more investment money from equity groups."

Matt Feller, national sales manager with Medical Capital Corporation (Anaheim, California), finds that staying in close contact with banks and asset-based lenders offers a lot of potential business. "Many of them will not touch healthcare facilities at this point, or they want to restrict and limit their exposure with a particular portfolio. So they make referrals." Medical Capital Corporation concentrates on the insurance, Medicare and Medicaid receivables. "We focus on the small- and mid-market organizations and specialty hospitals," Mr. Feller said.

He also said that with a growing number of people uninsured, they become eligible for Medicaid, with the state programs paying the bill. And this is a good receivable.

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Linda Walker, vice president, GE Capital Healthcare Financial Services (Boca Raton, Florida) held a similar viewpoint. "Banks have become very cautious because they do not want to overfund their financing (at a hospital or

medical institution). Hospitals are an important focus of our business because many of them have weak balance sheets — an automatic taboo for bankers," she explained. Ms. Walker said that the increasing spread in the length of time required to collect healthcare receivables means abundant business potential for GE. "It's a game where insurance companies take longer to pay, the government takes longer to pay, everyone takes longer to pay. We are comfortable with that game because eventually everyone gets paid in the end," she described. "It's a matter of understanding the mechanisms of the industry and being committed to it."

GE sees itself with a built-in advantage because its other divisions are major manufacturers of medical equipment and technology. Ms. Walker said that recently hospitals are more receptive to having GE finance the individual asset they buy from the same company.

Northern Healthcare Capital, L.L.C., (New York City), is a direct source of funds providing alternative financing to the healthcare industry. NHC specializes in the one-time purchasing of medical accounts receivables (one-time funding deals) from medical providers. "When a provider has significant receivables that are outside of the asset-based lenders borrowing base, we will come in and offer to purchase them at a discount," said principal Henry Adamsky. In some cases, Northern Healthcare will take out the existing asset-based lender and purchase the whole portfolio and immediately give a hospital (or healthcare facility) a check. Like the other companies, Northern Healthcare wants to capture the third-party payer receivables. Northern Healthcare purchases aged and charged off debt up to two years old.

None of the industry players have an interest in acquiring medical receivables generated by private individual payments. Everyone felt there was too much risk of bad debt from this source.

There is a consensus that many doctors realize their fees and rates of compensation are often proportionately not what they were years ago. And, doctors have come to accept that they are not going to be paid by their patient up front, or at the time of professional service. Mr. Adamsky said: "The prevalence of the HMO system has made many doctors work a lot harder in order to maintain their income."

In response, many doctors have become entrepreneurs and business executives to generate extra income

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beyond their general medical practice. They may own a piece of an MRI, a CAT Scan, a lithotripter or some diagnostic-testing facility.

The growth of this industry segment has meant growing pains. The National Century Financial Enterprises debacle of 2002 remains fresh on everyone's mind. One player pointed out: "There are \$3.5 billion in loans at risk, and the loss here appears to be \$3 billion of that." This has dampened many institutional investors' appetites for healthcare.

All agree that this specialty class of healthcare lenders and financiers, which now account for between 10-20 percent of the total receivables, is entrenched and here to stay. ▲

Danny Frank, CFA's public relations consultant, interviewed the industry leaders in this article.

