



**American Hospital
Association**

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The Honorable Jeb Hensarling
Chairman
The Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling:

On behalf of our nearly 5,000 member hospitals, health systems and other health care organizations, and our 43,000 individual members, the American Hospital Association (AHA) appreciates this opportunity to provide comments on the discussion draft of the *Protecting American Taxpayers and Homeowners Act of 2013*. The AHA opposes Section 292(a)(2) of the proposal, which would repeal, two years after date of enactment, the Federal Housing Administration's (FHA) Hospital Mortgage Insurance Program (Section 242).

Since the inception of the Section 242 program in 1968, 400 mortgage insurance commitments totaling more than \$15 billion have been issued for hospital projects in 43 states and Puerto Rico, ranging from small, rural and critical access facilities to some of the nation's top urban teaching hospitals. The 242 program is often a last resort for communities seeking to maintain access to urgently needed hospital services when no other source of affordable financing is available.

The Section 242 program maintains one of the best claim records in the FHA mortgage insurance portfolio, and because program revenues historically have significantly exceeded program insurance claims, the program's federal credit scoring remains "negative," meaning that annual appropriations for insurance claim payments are not required. In fact, due to strong underwriting and diligent asset management, the program operates at no cost to the taxpayers and consistently maintained a cumulative net claim rate of less than 1 percent.

CAPITAL INVESTMENT AND ACCESS TO HEALTH SERVICES

Meeting the health care demands of the future will require significant capital investment. Raising capital at a reasonable cost is more difficult than ever for the majority of America's hospitals. Capital markets for non-profit hospitals still have not fully recovered from the 2008 recession. Moreover, three temporary federal financing options that helped ease the credit crunch expired in 2010.



The Section 242 program has been the key to keeping vital hospital services available to many communities. State and local governments otherwise would be called upon to provide these necessary services. If that were the only alternative, the resulting increased borrowing cost to state and local governments would be borne by taxpayers and ratepayers in every local jurisdiction through the imposition of increased taxes and fees (e.g., ad valorem property taxes, special assessments, sales taxes, toll charges and utility rates) or through service cuts. These taxes or fees, including sales taxes, tolls or user fees, would fall disproportionately on lower- and middle-income households, as would service cuts.

If hospital access to the mortgage guarantees under the 242 program is eliminated entirely, the result could be devastating for both patients and their communities. The financial unraveling of a hospital has the potential to impact a community more profoundly than the unplanned closure of nearly any other institution. Patients will suffer as hospitals struggle to survive. Prices will rise, equipment will wear down without being replaced, and physicians will leave the service area. Ultimately, the health of the entire community will suffer. Furthermore, closure may result in reduced specialty services and overcrowding in other hospital emergency departments, while patients may delay treatment if services are not readily available.

Americans rely heavily on hospitals to provide 24/7 access to care for all types of patients, to serve as a safety-net provider for vulnerable populations and to have the resources and skills needed to respond to disasters. Emergency department visit volume has increased by nearly 26 percent since 2000, and will continue to grow.

Aging baby boomers and an increasingly diverse population create demand for new and different services. The promise of expanded health insurance coverage will add to demand. Clinical procedures continue to evolve, as do diagnostic techniques and communication technologies.

Over the past 15 years, market, economic and regulatory forces have led hospitals and physicians to explore new ways to better align their interests and achieve greater integration in order to both reduce costs and improve the quality of care. With an eye on the future, hospitals across the country are in a constant state of renovation and improvement in order to provide the latest treatments and services to meet the increasing and changing needs of their communities. Access to the Section 242 program for these needed upgrades is crucial for hospitals with sound track records that are unable to secure capital to operate a financially stable facility at reasonable interest rates.

Building a continuum of care is the future. The forces that make it imperative include the need for hospitals to respond to powerful financial incentives for meeting performance objectives and avoiding penalties for failing to do so. According to a recent Moody's report, "[t]he ability to demonstrate lower costs while providing higher quality will be the key driver in government and commercial reimbursement going forward." One estimate is that 6 percent of hospital revenue could be at risk from penalties from government and commercial payers for lack of coordination.

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Hospitals are faced with unprecedented demands for capital to invest in new technology such as electronic health records – as much as \$50 million for a mid-size hospital – implement new modes of delivering care such as telemedicine, and build new and improved facilities. Hospitals with current Section 242 commitments that need to invest in new technology and equipment that benefits patients would no longer be able to avail themselves of its refinancing and supplemental loan programs. To fund such expenditures outside the program will result in far higher costs, which in some cases, may be prohibitive. Without needed upgrades and renovation, hospitals also may find it more difficult to recruit top physicians and other staff.

At a time when hospital revenues are already strained, hospitals must respond to rapidly changing market and government forces, including: (1) reimbursement reductions and changes; (2) an increasing necessity to provide access to a broad range of health services to a growing population; and (3) limited access to capital. These market forces are driving an urgent need for hospitals to make significant capital investments while reducing costs, both of which require continued access to low-cost capital through the hospital mortgage insurance program. As you work to reform the nation's housing finance system, the AHA strongly recommends retention of the FHA's 242 program.

Sincerely,

Rick Pollack
Executive Vice President