American Hospital Association™
Advancing Health in America

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Mr. Rob Nichols
President and CEO
American Bankers Association
1120 Connecticut Avenue, NW
Washington, D.C. 20036

Dear Rob:

On behalf of our nearly 5,000 member hospitals, health systems and other health care organizations, our clinician partners — including more than 270,000 affiliated physicians, 2 million nurses and other caregivers — and the 43,000 health care leaders who belong to our professional membership groups, the American Hospital Association (AHA) **urges the American Bankers Association (ABA) to encourage its member financial institutions to commit to working expeditiously with hospital and health system borrowers in the event they are unable to meet financial and operating covenants because of the impact of the COVID-19 pandemic, and to support relief from regulatory or other requirements that serve to limit the lenders' ability to provide much-needed liquidity to hospitals and health care organizations during this crisis.**

Your member financial institutions have played a key and commendable role in ensuring that America's businesses can remain viable in the face of economic hardship caused by the pandemic. Hospitals and their communities will necessarily continue to rely on your members' support to meet present needs and prepare for the future.

Hospitals, health systems and other health care providers are on the front lines of the pandemic, experiencing significant hardships as they care for patients and their own employees. Hospitals face catastrophic financial challenges in light of the COVID-19 pandemic. **The AHA estimates a total four-month financial impact of $202.6 billion in losses for America's hospitals and health systems, or an average of $50.7 billion per month. This impact is detailed in the attached report.** Non-urgent medical and surgical procedures and other patient care appointments are being deferred and individuals are avoiding medical treatment unrelated to COVID-19, resulting in significantly reduced patient volumes and operating revenues.

These providers also are incurring additional costs for staffing during an outbreak, including overtime wages, premium pay and wages paid to employees who are unable to work due to quarantine. The COVID-19 pandemic also has disrupted the production and availability in some locations of medical supplies and medical equipment necessary to safely treat affected patients, and materially increased the cost to obtain these items when available.

The COVID-19 pandemic also has resulted in substantial volatility in the global financial markets, and the value of hospitals' and health systems' investment portfolios has fluctuated along with this general market volatility, resulting in significant realized and unrealized losses in those investment portfolios.

COVID-19's unprecedented impact on hospital borrowers – drastic decreases in revenues, significant increases in expenses, and large losses in investment portfolios as they care for a nation's struggling population – could, at some point, result in noncompliance with operating and financial covenants in financing documents.

Borrowers need to maintain their focus on managing the COVID-19 crisis, and need their lenders to provide prompt waivers of any technical defaults, rather than "forbearance" or other agreements that leave borrowers, as well as their many stakeholders, in an uncertain position. Lenders' waivers are crucial to avoid unintended cross-defaults under other agreements (such as bond indentures, leases, and supplier agreements), and to permit the borrower's auditors to deliver unqualified audits.

We urge the ABA to provide global guidance applicable to its member organizations, acknowledging the unique situation of COVID-19, and providing support for lenders to grant waivers of noncompliance with covenants like those described below, should they be needed, without fear of undue criticism of their portfolio risk-management.

- <u>Debt Service Coverage Ratios</u>. Borrowers commonly agree with their lenders that they will maintain a certain level of debt service coverage, which measures the borrower's ability to pay debt service from its current year revenues, after adjusting for certain expenses. Many borrowers may be unable to satisfy these coverage ratio requirements given the dramatic curtailment of operating revenues in the wake of the COVID-19 pandemic, the significant increase in related operating expenses, as well as realized and unrealized losses recognized in investment income that typically factor into this calculation.

- <u>Liquidity Covenants</u>. Borrowers often agree to maintain a certain level of liquid assets, intended to measure their ability to pay current operating expenses. Many borrowers will experience a steep decline in current operating income due to the deferral of non-COVID-19 related treatment, which coupled with the increased COVID-19 related expenses, could result in failures to meet these liquidity thresholds.

- Material Adverse Change. Lenders often include provisions in their agreements that permit them to trigger a default, or to restrict additional draws, if there has been a "material adverse change" in the borrower's financial condition or operations. **We urge the ABA to provide clear guidance that lenders should exclude any changes in financial condition or operations of a hospital borrower's operations or financial condition attributable to the current COVID-19 crisis from "material adverse change" clauses, and should assure those borrowers that they can comfortably draw on existing liquidity lines without a concern that doing so will be a breach of the agreement**.

- Other Covenants. Lenders frequently include requirements for the delivery of certain regulatory and other information and notices in loan agreements with borrowers. Hospital borrowers could have difficulty fully complying with these provisions in a timely manner due to the impact of the COVID-19, and **we urge lenders to provide relief to borrowers as needed to avoid the concerns about these causing technical defaults under their agreements**.

It is crucial that lenders work with hospitals proactively to modify or waive compliance with these requirements, as opposed to simply forbearing from taking adverse action as a result thereof. Otherwise, there is a significant risk that innumerable mission-critical supplier and other operational agreements, as well as other debt instruments, to which hospitals are parties, could be inadvertently defaulted and even terminated. This could significantly impair the ability of hospitals to operate their businesses and increase the costs of doing so, resulting in a material loss of value for hospitals and their many stakeholders (including lenders and other participants in the capital markets). By proactively modifying or waiving these requirements in light of the COVID-19 crisis, lenders would be helping to avoid an unintended "domino effect" for hospital borrowers, thereby protecting the value of the businesses in which they have invested.

Hospitals' debt documents may include covenants that restrict or prohibit the incurrence of additional debt, or require that the hospital's overall level of debt be limited to a certain percentage of its overall capitalization. Hospitals and health care providers may not be able to meet these requirements, despite a need to boost their current liquidity through additional short-term and long-term debt borrowings to ensure that they have funds available to continue to manage the COVID-19 crisis. As our member hospitals and health systems and the front-line providers who work in them are working to fulfill their commitment to their patients and their communities, **we also are urging lenders to quickly and efficiently make *additional* loans available to their borrowers when needed. We also urge the ABA to provide its critical support for any temporary suspensions of loan-to-value requirements, reserve requirements, capital ratios, and similar regulations that could hamper lenders' ability to contribute their resources to combat this crisis**.

We appreciate your leadership and we look forward to continuing to work with you during this critical time to protect the health of our nation. For more information, please contact Mike Rock, senior associate director, at mrock@aha.org or 202-626-2325.

Sincerely,

/s/

Richard J. Pollack
President and Chief Executive Officer

Attachment