Securing financing for SNFs in the current economic environment

How to make your facility attractive to lenders

The pandemic upended nearly all sectors of healthcare, but none as much as skilled nursing. Some facilities shuttered. Others still struggle with low occupancy rates and a shortage of workers.

A significant problem complicating both of those issues: lack of financing. About 40-80% of SNFs need to add staff, depending on the facility type, according to the June 2023 Center for Medicare & Medicaid Services **Nursing Home Staffing Study**, which notes that the total cost of meeting minimum staffing requirements for total nurse hours, licensed nurse hours and RN hours ranges from $1.5 to $5.3 billion.

For a SNF struggling to secure financing, those expenses can submarine their operations. Yet the market has also shown promising signs for SNFs, provided operators know how to maneuver this new economic environment.

THIS WHITE PAPER WILL SHOW SNF OPERATORS:

- **Why securing new financing is tough but definitely achievable.**
- **Five strategies for gaining lender attractiveness.**
- **Why 2024 in skilled care could be "the year of opportunity."**
- **Five considerations when choosing a lender.**

ECONOMIC OUTLOOK FOR 2024

Because the Federal Reserve raised interest rates so aggressively in 2023, many financial service professionals expected a negative impact on the economy last year. Instead, they were pleasantly surprised.

"The Fed remains focused on inflation as it considers any changes to policy going forward," said Steve Wyett, chief investment strategist for BOK Financial®, a $50 billion regional financial services company with more than $100 billion in assets under management and administration. "The good news is inflation pressures have been subsiding, and while labor markets remain firm, recent data indicates less wage pressure as opposed to last year. Turnover rates within many industries, including healthcare, have declined as competition for workers slows and the number of open jobs declines."

> "BOK Financial just got it. We didn't have to explain why we do staffing this way or why payroll is the way it is—they just understand the senior living space."
>
> Francis LeGasse Jr.
> **President and CEO of Assured Assisted Living**

Banks, especially larger ones, don't like surprises. But despite its size, BOK Financial simply gets the skilled nursing facility space, said Francis LeGasse Jr., president and CEO of Denver-based Assured Assisted Living, which offers both memory care and traumatic brain injury supportive living.

"We looked at everything from huge banks to small credit unions. We struggled to find a lender who really understood long-term care. Most places couldn't understand what we did, how to value it or how to look at the risk profile," LeGasse said.

FIVE STRATEGIES FOR LENDER ATTRACTIVENESS IN 2024

The skilled nursing lending landscape has changed drastically since 2016, when Assured Assisted Living began working with BOK Financial. Securing financing in today's economy in 2024 demands that borrowers remain as attractive as possible to lenders. To do so, SNFs can employ five strategies.

1. Build up your operating history

The first step to securing funding, LeGasse said, is showing lenders that you have a good track record for positive cash flow and making sound economic decisions.

Lenders want to see that a SNF doesn't solely focus on its margins, but also its ability to provide quality care to residents and patients. In short, they must show a strong operational history.

"If you don't have a good track record, whether it's from the state or federal surveys or anything to do with your Medicaid or Medicare compliance, that's going to hurt you," he said.

Jessica Johnson, senior director, national senior housing and care at BOK Financial, agrees. "I think lenders now lean less on just looking at historical financial statements and really want to drill into the quality of the operator," Johnson said. "What is their history in this space? What does their existing portfolio look like?"

2. Maintain quality financial reporting

Borrowers must also have quality financial reporting, Johnson said. Not just financial statements but being able to confidently demonstrate how their whole portfolio is performing.

3. Maintain accurate census data

Lenders are increasingly interested in the patient makeup at a facility and understanding the Medicare and Medicaid mix, so potential borrowers should keep detailed census data.

4. Embrace liquidity

Borrowers should build a healthy balance sheet with meaningful liquidity or access to liquidity, whether that's cash investments or a revolving line of credit.

"Borrowers need to be prepared and save a little bit of cash for the down times, because there will be some," LeGasse said. "It's important to be prepared for a roller coaster ride especially now with the uncertainty in the industry and interest rates."

5. Manage your reputation

Yet, none of this matters if a borrower has a negative reputation. "It's so important now to be a provider that other people speak highly of, whether that's other financing partners, staff members or peers in the industry," Johnson said. "Lenders want to know that you're providing quality care, are adept at managing operations and have a reputation for being a good business partner."

WHAT TO EXPECT IN 2024—AND HOW TO SUCCEED

"We expect 2024 might be a year of opportunity," Johnson said. Due to increasing interest rates in 2023, loans may no longer be appropriately sized, which could require debt resizing in the form of pay-downs.

Some providers might put their facilities on the market because they can't afford the rates. This will create opportunities for borrowers who are well capitalized, have strong balance sheets or equity partners in place to take advantage of buying property they were previously priced out of, Johnson said.

While opportunities exist, Wyett has concerns about the skilled labor shortage continuing next year.

"Our aging population is firmly in place, and they are going to create more demand for senior living services," he said. "The key will be how the labor force unfolds from here: Are providers going to be able to get enough skilled labor to handle the increase in demand?"

Success in 2024 will mean maintaining a core business acumen, controlling expenses and providing great care to residents, LeGasse said. It will also be about knowing your competition.

"You have to know your market view and what your competition is and isn't doing so you can figure out how to be the leader in the market," he said. "Don't rely on third-party data, do your homework and get your competitors on the phone to ask questions."

To learn more about how BOK Financial can help your organization secure financing in 2024, visit us at bokfinancial.com/SNN or contact Jessica Johnson at jessica.johnson@bokf.com or 303.863.4277.

Five considerations to make when choosing a financial partner

Choosing the right financial partner for your business takes careful consideration. Jessica Johnson, senior director, national senior housing and care at BOK Financial, believes that before making a decision, SNFs must evaluate five areas:

1. **The lender's industry experience.**
   How well does your financing partner understand the industry? Do they have a history of working with similar type operators?
2. **The lender's balance sheet.**
   What does the lender's balance sheet look like? Are they stable from a liquidity perspective?
3. **The lender's revenue stream.**
   Do they have a diversified revenue stream? Borrowers should be cautious of lenders who solely depend on interest revenue as their income.
4. **The lender's breadth of clients.**
   Do they lend to other parts of the industry or completely different industries?
5. **The lender's ability to pivot.**
   In challenging times, do they have the ability to lean into other areas as well?

BOK FINANCIAL