Plunder, sell, repeat

How wealthy investors keep bankrupting needy hospitals.

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When Steward Health Care — once America's largest private for-profit hospital system — declared bankruptcy last year, it seemed to mark the end of a long and catastrophic decline. Over the previous decade, eight of Steward's hospitals had been shuttered, some of them in communities with few other medical providers. The loss of critical care was devastating. "It's a public health hazard," a patient advocate told reporters when Steward closed its medical center in Phoenix.

As I reported before the collapse, Steward's demise was precipitated by a deal it had cut with a company called Medical Properties Trust. The hospital chain agreed to sell its facilities to MPT — and then to lease them back at exorbitant rates. The sales left Steward saddled with some $350 million in annual rent for its own hospitals, forcing it to close facilities and cut corners on care. Upon its bankruptcy, Steward still owed MPT a stunning $6.6 billion.

Meanwhile, as patients and providers suffered, the deals enriched top officers at Steward, who are now the focus of a federal corruption investigation. And they enabled the company to pay dividends of $800 million to its owner, the private equity firm Cerberus, even while its hospitals were being starved of the resources needed to treat patients.

Critics blasted Steward's deal with MPT as a thinly disguised form of corporate looting, and lamented the consequences. "This has just been an ongoing multiyear degradation of our healthcare system," said Jamie Eldridge, a Massachusetts state senator whose district lost a hospital in the financial debacle. Sen. Edward Markey, meanwhile, released a 26-page report on Steward's collapse, blasting private equity for treating hospitals as no different from a chain of fast-food restaurants. "Where people saw vital pillars of communities in their hospitals," the report found, "Steward, Cerberus, and MPT saw only dollar signs." (In a statement to Business Insider, Cerberus said Steward's hospitals thrived under its ownership. MPT did not respond to a request for comment.)

Today, as Steward sells off its remaining 31 hospitals, underserved communities are hoping the new owners will focus less on extracting profits from the facilities and more on elevating the quality of care. But even under new ownership, it doesn't look as though much will change. For starters, MPT will still be collecting rent on at least 15 of the hospitals, most of which are already losing money. And 12 of the facilities have ended up in the hands of operators with track records of running hospitals into the ground — often through deals with none other than MPT. All of which means that, barring a financial miracle, it's likely the hospitals will soon be bankrupt again. "I do not think these hospitals can maintain any reasonable level of operation for more than nine to 12 months without permanent financial support," says Justin Simon, the managing director of the hedge fund Jaspar Capital, who has studied the industry for years.

Even more disturbing, the fate of Steward's facilities reveals a deeper flaw in America's healthcare infrastructure. Many distressed hospitals, it appears, are now locked in a self-perpetuating cycle of looting: Facilities that have already been plundered can only be sold to others who will continue the plundering. "The only people who will buy them are people who are using them as an asset to be bought and sold and stripped," says Rosemary Batt, a professor in the Industrial and Labor Relations School at Cornell University. Steward's hospitals are in such dire financial straits, in fact, that MPT is supplying the new owners with nearly $100 million in loans, along with temporary rent relief, to purchase the facilities that MPT itself helped decimate — and that MPT will continue to collect rent on.
As America's dying hospitals struggle to survive, the treatment being prescribed is often more of what's killing them.

Eight of Steward's hospitals — more than a fourth of those it was still operating — have ended up in the hands of a company called American Healthcare Systems. AHS and a related company, Healthcare Systems of America, are run by Michael Sarian, whose career echoes the approach to hospital management employed by Steward — including deals with MPT.

Before founding AHS, Sarian served for eight years as president of another hospital company, Prime Healthcare Services. Prime touts itself as being in the business of shoring up distressed community hospitals — "saving hospitals, saving jobs, saving lives," as it declared on its website. But the Justice Department has accused the system of a different motivation: inflating its profit through fraud. In 2018, Prime and its CEO agreed to pay $65 million to settle allegations that it had knowingly submitted false claims to Medicare, including for care that patients didn't need. Like Steward, the company has a history of extracting money from its hospitals: In 2007, Prime's financial statements disclosed that a family trust run by its founder received a distribution of over $35 million — almost all of it from MPT. And as with Steward, critics say the profits have come at the expense of patients. Last October, the National Nurses United, America's largest organization of registered nurses, blasted the company for closing maternity wards across the country. "Prime's focus on boosting profits," the group said, had resulted in "drastic cuts" to care, "particularly impacting some of the most vulnerable communities."

Glenwood Regional in Louisiana is one of eight Steward hospitals that were taken over by AHS, which has come under fire for siphoning money out of medical centers it operates. Boston Globe/ Getty Images

In a statement to Business Insider, Prime defended the quality of its care and said it settled the Medicare charges "with no findings of fault" and completed a government-mandated "corporate integrity agreement." It also said it had allocated more than $1.4 billion to buy back its real estate from MPT, which it said would result in "even greater stability and security for its community hospitals and the vulnerable populations they are honored to serve." But Prime has also issued $1.5 billion in new debt, meaning its hospitals are still taking on obligations that they'll have to repay.

The pattern of plundering continued at American Healthcare Systems, which Sarian created in 2021 after purchasing a bankrupt hospital in North Carolina. Lawsuits from vendors began to pile up almost immediately, along with reports from employees of short staffing. Regulators slapped AHS hospitals with notices of "immediate jeopardy" — meaning its services were so shoddy that they could result in serious harm to patients. Before long, the company closed one of its hospitals and shuttered one of its emergency rooms. When AHS sought a waiver on a state loan it had used to buy the hospital in North Carolina, regulators learned that the company had transferred some $11 million out of the facility.

AHS also siphoned money out of Vista Medical Center East, another hospital it operates. Vista, which serves a low-income community in Illinois, recently furloughed 8.6% of its workforce because of financial difficulties. At the same time, care at the facility has suffered: On January 23, a patient with hypothermia died after being found on the hospital's roof wearing only a hospital gown. Meanwhile, according to bankruptcy filings, Vista — which has applied for government support — has extracted millions of dollars from the hospital. "Money should not be given to private equity entities at the taxpayer's expense," a local coroner said after the patient's death, "especially to a company with such a poor track record." Some of the money AHS took from Vista has gone to support another of its hospitals — one of which owes rent to MPT. (AHS did not respond to requests for comment.)

Yet none of this — the lawsuits from vendors, the substandard care, the sketchy deals — has prevented AHS from being permitted to take over eight of Steward's hospitals. Even though the company's dubious track record was well-documented, the bankruptcy court and government regulators have allowed the sale to go forward. "AHS has a history of terrible hospital operations, including accusations of looting," says Simon, the hedge fund director. Given the players involved, he warns, the cycle of collapse is almost certain to repeat itself.

Other companies that bought parts of Steward also have ties to MPT. Two of Steward's hospitals in West Texas are being purchased by Quorum, the majority of which is owned by a private equity firm that is a big investor in MPT's securities. In the past, Quorum has actually been on the other end of the hospital merry-go-round: It sold distressed facilities to both AHS and Steward, as well as to a private equity firm that sold off the underlying property to MPT. Now, according to Moody's, Quorum's debt is in "limited default," which means it has missed or delayed a payment. It's unclear how Quorum will be able to pay its debt while funding any operating losses and capital expenditures needed at the two hospitals it's buying from Steward — along with the rent on the facilities it will owe to MPT. "This sale demonstrates the failure of the current legal and regulatory system in protecting US healthcare infrastructure and access to quality care for patients," wrote the Private Equity Stakeholder Project, a watchdog group that tracks investment deals in healthcare.

The deals underscore a vicious cycle: The only winners are the investors who extract money from dying hospitals — and MPT, which continues to collect rent.

Two of Steward's hospitals in Ohio have been sold to Insight Health, another company with a checkered track record. In a civil racketeering lawsuit, the insurance giant Allstate accused a hospital owned by the company of billing for patients who weren't really injured, and for procedures that were never performed. Insight denied the claims, and a settlement is pending. Although Insight purports to run some hospitals as nonprofits, filings show it has extracted exorbitant management fees — more than 12% of the revenue in one case.

(In a statement to BI, Insight said the fees "include executive services, software, legal, revenue cycle management, nursing, and clinical personnel and were provided at fair market value.") Initially, the company tried to take over Steward's hospitals in Massachusetts, only to be rebuffed by state regulators. Now, according to a form filed as part of the purchase in Ohio, Insight has received a loan from MPT using assets of the two hospitals it's acquiring from Steward as collateral. That means MPT will not only continue to collect rent on the facilities, albeit reduced for a time, but it will be owed a slice of the business if the hospitals go bankrupt.

Indeed, the Insight deal underscores what has become a vicious cycle: A hospital sells its real estate to MPT, pockets the proceeds, slashes care, and spirals into financial distress. At that point, the property is so troubled that MPT has to pay a buyer, sometimes one with few scruples, to take over the hospital and continue paying rent — which will, in turn, drive the new buyer out of business as well. The only winners are the investors who figure out ways to extract money from dying hospitals — and MPT, which gets to continue collecting rent. "This is the dirty end game of private equity failures," says Simon, the hedge fund director. "When the deal goes poorly, there's only one way to get your money out, which is selling the real estate. And once you separate the ownership of the real estate from the operating hospital, there's no way for the bankruptcy court to give the hospital back to the community. They can't."

like the Securities and Exchange Commission might be looking into MPT's deals on behalf of investors. But for all the political fury sparked by Steward's bankruptcy, no one appears to be ensuring that the new owners will provide for the needs of the communities their hospitals are meant to serve. "Politicians keep railing against Steward and asking how this was allowed to happen," says Richard Mortell, a real estate investor who has studied the industry. "Meanwhile, they are turning a blind eye to the scam repeating itself."

Without additional oversight, patient advocates warn, the looting of America's hospitals will continue unabated. "It speaks to the failures of our regulatory system," says Mary Bugbee, who oversees healthcare research at the Private Equity Stakeholder Project. "The system is not designed to ensure the hospitals are going to have the most reputable buyers — or even buyers who will keep hospitals open. It's possible the SEC is stepping in to protect investors and uphold the rules for public markets. But who is going to hold these entities accountable to patients? I don't see that happening right now."