

Wall St. Looters Spark D.C., National Health-Care Crisis

by Edward Spannaus

A Wall Street-sponsored financial scam which has been looting hospitals and health-care institutions for years, has now reached the end of the line, and is triggering bankruptcies of health-care providers nationwide, and endangering the lives of thousands of patients across the country.

The collapse of National Century Financial Enterprises, the now-insolvent front for Crédit Suisse and J.P. Morgan, which has been looting hospitals by buying up their accounts-receivable, is also sending tremors through financial markets, since some of the world's largest banks are involved in the now-collapsing bond swindle.

This scandal erupting around National Century and its partner Doctors Community Healthcare Corp. (DCHC), came to the surface already a year and one-half ago, amid the battle to save the only public hospital in the nation's capital—District of Columbia General Hospital. Spokesmen for *EIR* and for Lyndon LaRouche warned last year that DCHC and National Century had been investigated and sued for fraud and racketeering in a number of jurisdictions, and that they had been charged with looting hospitals and health-care institutions after capturing the income-stream of those institutions. (See “Alleged Racketeers in D.C. General Takeover,” *EIR*, March 16, 2001.) D.C. Council member David Catania also published an dossier on the shabby record of DCHC and National Century at the time.

Despite the exposure, under pressure from Wall Street banks and real estate developers, Mayor Anthony Williams and the D.C. Financial Control Board rammed through a privatization scheme which handed the District's public health system over to DCHC and its financial backer National Century.

The whole sordid matter was taken to Congress—which has ultimate responsibility for the District of Columbia—but Congress failed in its moral duty to protect the health and

welfare of the residents and visitors to the nation's capital. Senate Majority Leader Tom Daschle, operating under the corrupt influence of the District's Congressional Delegate Eleanor Holmes Norton, and her aide Donna Brazile, withdrew his support for the campaign to save D.C. General, and Congress then capitulated to the corrupt DCHC privatization scheme and to the shutdown of D.C. General—including its top-flight Level I Trauma Center and a state-of-the-art microbiology laboratory.

Now, the hospital which was designated to replace the public hospital—the DCHC-owned and National Century-financed Greater Southeast Community Hospital—is itself on the verge of closing! It has been unable to pay nursing contractors and other vendors (reportedly owing \$4 million to one firm that provides nurses to the facility), and it was forced to shut its emergency room on the evening of Nov. 13 for lack of personnel to run it. District officials say they are closely monitoring the situation, and they are reportedly preparing for a health-care emergency, in the likely event that the entire hospital is shut down.

Health-Care Loan-Sharking

National Century—politely described as the nation's largest financier of health-care receivables—makes loans to hospitals and other institutions at high interest rates, and buys up their claims for payments by “health maintenance organizations” (HMOs), and for Medicare and Medicaid reimbursements from the government, so that those institutions can obtain quick cash to operate. (The method is reminiscent of the operations of a New York City garment center “factor,” who provides cash to sweat-shop operators in return for shipping invoices which can be turned into receivables.) National Century then “bundles” these receivables and issues bonds to finance its ongoing operations. The bonds are of the type

known as “asset-based securities.”

In the Summer of 2000, NCFE dumped Deutsche Bank as its lead underwriter, after Deutsche Bank insisted on a more thorough audit of NCFE and its capital commitments; and replaced it with Crédit Suisse First Boston.

Since May of this year, National Century has been unable to issue new bonds, because its accountants, Deloitte & Touche, have refused to certify NCFE’s 2001 financial statements. Unable to borrow more money, it has dipped into the reserve funds which it is obligated to maintain for its various bond funds. Sources now say that at least \$500 million have been diverted and are missing from NCFE’s bond reserve accounts. NCFE has apparently diverted \$300 million from one fund, to meet payments to the Dutch bank ING, which has apparently declared NCFE in default and accelerated its payments.

One source says that NCFE has been running a Ponzi-type scheme, using reserves from one fund to pay off the bondholders from another fund. He also said that a big question is: Where is Lance Poulsen, the CEO of National Century who resigned on Nov. 8? Poulsen is a major contributor to the Republican Party in Florida.

Vultures Get ‘Excellent Rating’

“Red flags prophesying National Century’s troubles—from legal woes to management issues—were in plain view for years,” the *New York Times* reported on Nov. 13. Yet, the *Times* noted, Moody’s kept giving National Century bonds its highest, AAA rating—at least, until recently, when it finally downgraded them to junk status. Why? “The company’s bond sales,” the *Times* explains, “had the imprimatur of three of the nation’s largest financial institutions: Crédit Suisse First Boston underwrote the bond sales, while J.P. Morgan and Bank One served as trustees. In addition, two J.P. Morgan bankers sit on National Century’s board, and one, Hal Pote, heads the audit committee.”

This might explain why the D.C. Financial Control Board said, when challenged about DCHC and National Century’s *bona fides* in the Spring of 2001, said that they have “checked out DCHC, and Wall Street gives them an excellent rating.” When *EIR* tried to check out these Wall Street ratings for DCHC and National Century, the rating houses all claimed that the information was “confidential.”

But now, Wall Street is getting nervous. “A Jolt for the Asset-Backed Bond Market,” said a *Wall Street Journal* headline on Nov. 5. “National Century’s Woes Prompt Bond-Loss



The LaRouche movement led the fight to save D.C. General Hospital last year. The top-rated public hospital was shut down. The District’s health-care system was privatized, under Greater Southeast Community Hospital, bought by Doctors Community Healthcare in 2000 with financing from DCHC’s financial partner, National Century Financial Enterprises. Now, Greater Southeast is unable to pay its doctors, nurses, or vendors, and is on the verge of shutting down, leaving the entire Anacostia, east-of-the-river area of the nation’s capital without a hospital or emergency room.

Fears,” said the *Wall Street Journal* on Nov. 11.

Bloomberg and Forbes both have reported that National Century’s problems are sending tremors through the asset-backed securities (ABS) market, which they estimate to be a \$1.2 trillion market. Investors in the ABS market are steering away from weaker borrowers, and sticking with top-tier names to avoid credit blow-ups such as that of NCFE, Forbes reported, and Bloomberg said that the market may be shut to companies without publicly-traded shares and credit ratings.

“It’s pretty scary” for the portion of the market made up of bonds backed by “off the run” assets such as health-care receivables, said one analyst. “At this point, I would have expected to have heard that the [National Century] receivables are okay,” he said. “It’s been two weeks now.”

The *Wall Street Journal* said that “the episode is one of the biggest black eyes in years for the booming \$1.4 trillion asset-backed securities market, and raises questions about this unorthodox slice of the market, in which companies sell bonds backed by such things as credit-card and car-loan payments.”

Some of the biggest investors in NCFE-sponsored bonds are Alliance AG’s Pacific Investment Management Co. (PIMCO), Alliance Capital Management, ING, and the Highland Financial Group hedge fund.

Health-Care Companies Bankrupted

In recent weeks, National Century has stopped making the payments to health-care providers, which it is required to make in return for having scooped up their claims and

receivables. Two of National Century's largest clients have already filed for Chapter 11 bankruptcy protection, and many others are expected to do so imminently.

On Friday, Nov. 8, Tender Loving Care Health Services, which provides home health-care services to over 60,000 patients, filed Chapter 11 bankruptcy in Brooklyn, saying that it is owed \$6.8 million in medical bills purchased by National Century. "This has been a catastrophe for many health-care companies," said a consultant to Tender Loving Care. "We're not sure if we can meet our next payroll." Complicating matters, is that the company is a unit of Med Diversified of Andover, Massachusetts, which itself is 33% owned by National Century. Med Diversified has now filed suit against National Century, J.P. Morgan Chase and Morgan officer Hal Pote, and against Bank One, charging them with fraud.

Then on Nov. 12, PhyAmerican Physician Group of Durham, North Carolina, which manages 2,200 doctors who care for 3.5 million patients in 30 states, filed for bankruptcy protection in Baltimore. PhyAmerica and NCFE were both sued by PhyAmerica shareholders in 2000, who accused PhyAmerica's head and NCFE of "systematically looting" the company. PhyAmerica and NCFE paid \$4.7 million to settle the lawsuit.

Another court action has been under way in Baltimore, where the U.S. Attorney has said that NCFE was improperly taking on receivables from the BluePoint Nursing and Rehabilitation Center.

Legal actions are also under way in Ohio, where 68 health-care companies which staff nursing homes and hospital emergency rooms, and who are owed money by National Century, obtained a court order directing that health insurers and the Federal government pay them directly, instead of sending the funds into a National Century "lockbox" as had been the practice. But National Century then won a restraining order to reverse the first court order.

The Nov. 13 *New York Times* quoted an executive at another health-care receivables company, saying, "There's going to be enormous disruption in the market." Noting that many health-care companies already face long delays in collecting claims, he added: "Take away any kind of liquidity and a lot of companies will go out of business."

As of Nov. 15, National Century itself was reported to be on the verge of filing for bankruptcy protection. "Any company in this situation would consider bankruptcy as an option," a company spokesman said.

The tragedy is that much of this could have been prevented, had Congress taken up the issue of D.C. General in the Summer of 2001, instead of ducking the issue. Had it done so, the Financial Control Board's cover-up of the already-documented financial scandals surrounding National Century and DCHC would have been exposed, and its Wall Street sponsors would have had to run for cover then, instead of now.