Crisis Spreads From Health Looter's Blowout

by Edward Spannaus

As the FBI, Securities and Exchange Commission, and other agencies step up their investigation of the fraudulent operations of National Century Financial Enterprises (NCFE), the number of bankruptcies growing out of its collapse is rising, imperiling a significant section of the U.S. health-care sector. The insane HMO system, and the increasing privatization of health-care, created the circumstances under which NCFE and its cronies could loot the health-care system nigh unto death.

NCFE operated as a front for some of America's, and the world's, largest financial institutions—including J.P. Morgan Chase, Bank One, Crédit Suisse First Boston, and European giants Allianz AG and ING (see *EIR,* Nov. 29). NCFE bought up the accounts receivable of hospitals and other institutions, "bundled," them into what are called "asset-backed securities" and sold them on the bond market. Now, the bondholders, the banks, and National Century's partners and clients are all at each other's throats, claiming fraud and scrambling for what's left of the assets. Known bankruptcy cases filed so far include:

- NCFE and 13 related entities and bond funds;
- Doctors Community Healthcare Corporation (DCHC) and five hospitals: Greater Southeast and Hadley in Washington, D.C.; Michael Reese in Chicago; and Pine Grove and Pacifica of the Valley in California.
- Med Diversified, a provider of home health-care services and medical equipment, and at least six of its subsidiaries, including Tender Loving Care Health Care Services and Chartwell Diversified Services.
- Life Care Solutions, a home health-care company operating in California and other Western states.
- PhyAmerica Physicians Group, which provides 2,200 doctors to emergency rooms in 30 states, who care for over 3 million patients a year; plus affiliated firms.

Fighting Over the Spoils

While hospitals and other health-care providers are going under, the big push in the investigations and bankruptcy proceedings around National Century is to try to protect the bondholders and investors. Various reports indicate that the FBI investigation was opened at the behest of bondholders, and that the FBI is investigating whether former NCFE head Lance Poulsen, his wife, and two other founders of the company, funnelled money to health-care companies they own, as part of a scheme to defraud investors. Attorneys for bondholders are searching for hundreds of millions unaccounted for, and it is reported by the *Wall Street Journal* that a committee of bondholders, including Allianz AG's Pimco, has retained the Wall Street law firm Milbank Tweed Hadley & McCloy. In court papers, Bank One is accusing NCFE of engaging in "systematic financial trickery" and "manipulation of books and records," including financing "future receivables," for services not yet rendered.

In the DCHC bankruptcy proceedings in Washington, attorneys for that hospital are arguing that they need whatever money is coming in from insurance payments to keep their hospitals open, but NCFE says the money is pledged to them. "It's not theirs," an NCFE lawyer said on a teleconference with the Washington courtroom on Nov. 21. "Just because it's a hospital doesn't given them a right to come in and steal our money."

However, in a second hearing on Nov. 26, a Federal bankruptcy judge allowed the five hospitals run by DCHC to use their incoming accounts receivable, to keep their hospital doors open, at least through the first two weeks of December. The judge did not rule on the actual ownership of the receivables, and NCFE did not press the matter, apparently fearing they might lose.

According to a source familiar with the thinking of the NCFE attorneys, their attitude is that they are under "new management," (presumably the J.P. Morgan-led board of directors), and that the "old management," i.e., Poulsen and company, is now a matter for the FBI to deal with.

Crédit Suisse First Boston, which underwrote most of the NCFE bonds, announced that it was taking a $214 million write-down on NCFE bonds it holds, stating the losses are the result of "what appears to be a massive fraud at NCFE," and adding: "It is increasingly apparent that NCFE and its officers deliberately misled CSFB and other investors." However, the *Wall Street Journal* reports that the financial problems at NCFE began to surface internally as long as three years ago, and that this "could raise uncomfortable questions for Crédit Suisse First Boston, which pitched the bond offering to investors without any mention of National Century's existing financial trouble." And Med Diversified filed a civil suit on Nov. 15 against NCFE, bond fund trustees J.P. Morgan Chase and Bank One, and Hal Pote, a J.P. Morgan executive who is also a director of NCFE, charging *them* with fraud. The trustees will likely also be targetted by bondholders.

D.C. Crisis Getting Worse

It is in Washington, where the impact of the NCFE/DCHC bankruptcies is being most sharply felt. Last year, there was opposition from the District Council, and a pattern of fraud and racketeering by National Century and its partner DCHC, was documented by *EIR* and the LaRouche movement-led Coalition to Save D.C. General Hospital. but the Mayor and the Financial Control Board shut down the only full-service public hospital in the city, and turned the District's public health-care system to a private consortium called the D.C. Healthcare Alliance, led by DCHC.

Even before the DCHC bankruptcy, other hospitals in the city were being overwhelmed by the rising workload as a result of the D.C. General shutdown. Now, with DCHC's Greater Southeast Hospital cutting back services, the situation is truly disastrous. Not only are the other hospitals treating more patients, but they are rarely reimbursed by the Alliance for their services. Washington Hospital Center is dropping out of the Alliance, saying it is owed $9.5 million. "This was an ill-conceived plan that has been mismanaged throughout the process," says an official of George Washington University Hospital's parent corporation. "The burden on us has become overwhelming and we can't continue to play this game. The whole thing is a tragedy."

"We have been hugely impacted by the closure of D.C. General and the slowdown at Greater Southeast," Sister Carol Keehan, CEO of Providence Hospital, told the *Washington*

Times. "It is very difficult to deliver the level of care we want, when the ambulances are coming in so hot and heavy."

Meanwhile, the D.C. General outpatient clinics, which provide such services as ambulatory surgery and cancer treatments, are overwhelmed, waiting times have doubled and tripled, supplies are short, and the pharmacy is outdated. And at Greater Southeast, machines are often broken, because maintenance contract or repair bills haven't been paid. "We are operating in a 1970s mode," a doctor says. "People aren't dying yet, but they will."

In the face of this, there is increased discussion in the D.C. Council of the need for a new public hospital. And Council member David Catania has revived his proposal for an Urban Health Care Campus, including a new public hospital, in partnership with the National Institutes of Health, to be built on the D.C. General site. Catania says this "would marshal the resources of the Federal government and allow for cutting-edge treatment of our most pressing health-care needs."

Catania's proposal is clearly a step in the right direction, and would properly—although he doesn't say it explicitly—put the onus on Congress to provide for the health and welfare of the nation's capital. It is consistent with, but more limited than, Lyndon LaRouche's proposal, issued in May, for restoring D.C. General as the centerpiece of a national health-care security program, under the supervision of the U.S. Surgeon General.