

Growth in Healthcare Factoring: Harry Nelson Quoted on Changing Healthcare Finance Models



[Harry Nelson](#)

was quoted in a November 16th San Fernando

Valley Business Journal article by journalist Stephanie Henkel, "[Shot in the Arm for Plaintiffs.](#)" detailing the success of Westlake Village-based healthcare factor Key Health's [business model of "factoring" accounts receivable in personal injury cases.](#)

When a person suffers a personal injury, there is often a need for medical care, sometime surgery, but a time lag until the insurance company of the financially responsible party pays out to settle that claim. The process takes months and sometimes years. What often happens is that an injured person engages a personal injury lawyer, who agrees to handle the case in exchanged for a percentage of the settlement – a contingency fee, commonly 33-40% or more of the amount recovered. Although personal injury lawyers secure large lines of credit to finance their cases, thus enabling their practices to wait as long as it takes to get paid, the patient often needs various types of medical care to evaluate and treat the injury, and the doctors, surgery centers, and other healthcare providers (e.g. imaging centers or laboratories) who provide that care operate on a more traditional model and expect to be paid their fees promptly. Most healthcare providers are not able or willing to delay payment. In fact, just the opposite – healthcare providers are so in need of the cash flow that they will sometimes agree to accept a discounted amount today over the chance of a larger payment next year.

Healthcare factors like Key Health function as the lenders that bridges the time period between payment of providers and settlement of the patient's case. The factoring entity pays the doctor on behalf of the injured person, and typically receives an assignment of the claims as an account receivable from the doctor, and earns a return when the case is settled. Healthcare factoring lenders are financing a higher risk loan, because there is no guarantee the case will be won, and in exchange are earning an attractive return. Factoring is especially attractive to smaller practices competing against managed-care and hospital-affiliated physician organizations as it offers alternative revenue streams with quick payment, allowing practices to facilitate their cash flow and offset the risk inherent in these liens.

According to the [article](#), Key Health has been successful, doubling its business in the last four years. Nelson Hardiman does not advise Key Health, but advises a number of other healthcare lenders and factors. Nelson was quoted on the effect of the broader impact of changes in the healthcare industry on the factoring business: "Obamacare has not directly addressed factoring, but there have been indirect consequences. The Affordable Care Act accelerated a long-term migration of physicians out of smaller private practices into larger managed-care, hospital-affiliated physician organizations." Nelson also described the pressure on the minority of doctors remaining in private practice to become more entrepreneurial to respond to the pressure resulting from the downward trend in insurance reimbursement, and looking to personal injury work in particular and new healthcare financing models as opportunities that are "off the traditional fee-for-service grid." From a patient perspective, the broader societal issue that factoring addresses is the fact that most Americans are "under-insured" with respect to healthcare costs in general, which leads to all sorts of financial pain for patients and providers.

While healthcare factoring solves a real problem for patients and doctors by facilitating the ability to give and get needed treatment, there are important issues for lenders, providers, and patients to consider. The model has some advantages in offering patients autonomy to choose where to get care, but is sometimes subject to criticism for



inflating costs in comparison to insurance company-negotiated rates. Medical lien funding also raises regulatory issues. While factoring is not permitted in the Medicare and Medicaid systems, more growth is expected ahead based on consumer, attorney, and physician-driven demand in the universe of private insurance, workers compensation, and personal injury medicine.

Nelson Hardiman has extensive experience in health care financing, including medical lien funding and structuring factoring agreements for health care providers and factoring companies. For more information regarding health care financing, please contact us at info@nelsonhardiman.com or call 310.203.2800.

