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## ODS, Moda financial ratings are downgraded due to capital decline

By [Elizabeth Hayes](#) Staff Reporter, Portland Business Journal (10-11-21)

The insurance ratings firm AM Best slightly downgraded Oregon Dental Service and Moda Health Plan, due to Moda Holding's [recent buy-back](#) of a large equity stake it had sold two years ago.

The firm downgraded the companies' financial strength and long-term issuer credit ratings, but the new ratings still translate to "good." It also placed both Portland-based insurance companies ratings "under review with negative implications" but said their balance sheets were adequate, AM Best announced Friday.

ODS offers plans under Delta Dental of Oregon and is the parent company of Moda Health, one of the state's largest health insurers. They declined to comment on the ratings actions.

The ratings downgrades stem from "the deterioration in ODS' risk-adjusted capitalization" to a projected "very weak level of 2021 from a very strong level in 2020," driven by "a sizable reduction in capital as a result of partially funding the transaction with cash."

On Sept. 27, Moda Holdings Group bought back an equity stake it had sold to Delta Dental of California in 2019 for \$152.4 million. The companies did not disclose how much Moda paid to repurchase the 49.5% stake.

The original transaction followed a rough financial patch for Moda that had stalled its growth, after the federal government failed to make good on promised funding from the Affordable Care Act's "risk corridors" program. The company has since bounced back and last year, the U.S. Supreme Court [awarded it](#) a \$250 million judgment against the government.

AM Best said Moda financed the recent acquisition with a combination of cash and debt issued to Delta Dental of California. The debt, along with two external surplus notes totaling \$60 million issued by Moda Health, could significantly increase ODS' leverage, the ratings firm said.

"Moda Health is unaffected financially and operationally by the transaction," AM Best said. "However, the company received lift to its ratings based upon the strategic important and implicit capital support from the owners of Moda Partners Inc., ODS and DDC."

AM Best said the ratings will remain under review until ODS has a "clear plan to improve its capital position."

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