November 1, 2016

CAPITAL MARKET UPDATE

Tel: 800-HJS-1935 www.hjsims.com

HJ SIMS FINANCED RIGHT®

Member FINRA/SIPC

Senior Living New Issue Rates as of 11/1/16

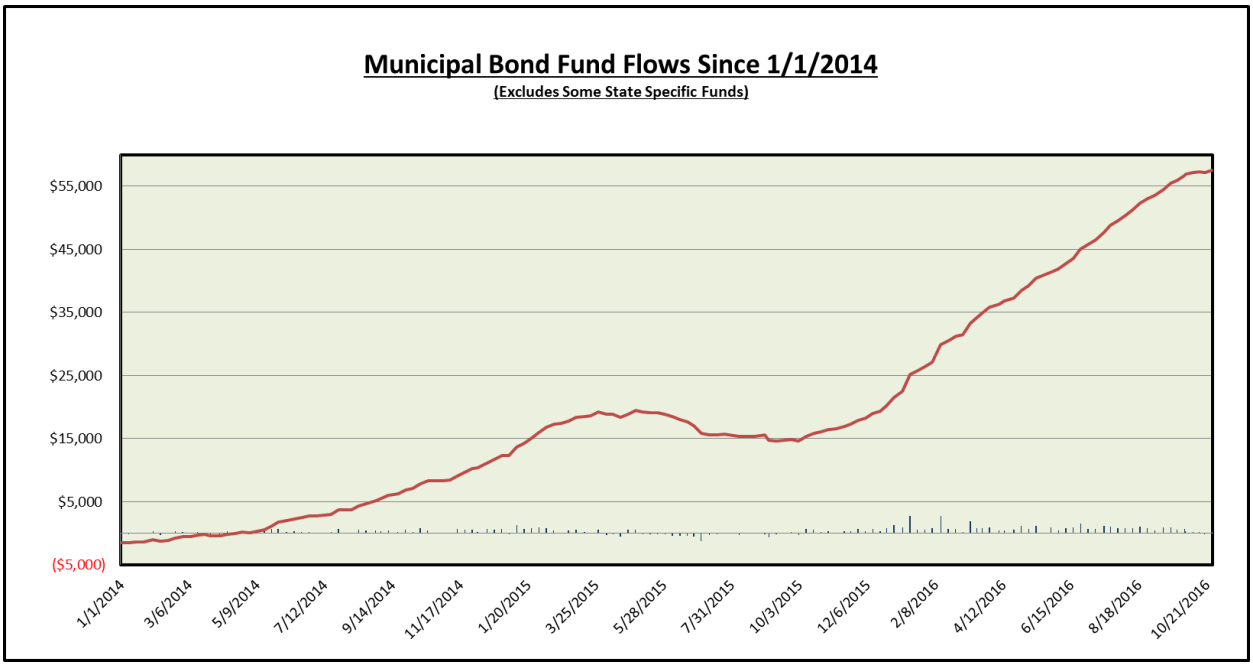
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.220%	2.000%	2.400%	2.75%	2.35-2.90%	3.50-4.00%
10 yr.	NA	2.130%	2.800%	3.200%	3.45%	3.25-3.75%	4.20-4.75%
20 yr.	NA	2.980%	3.550%	3.750%	4.30%	4.00-4.50%	4.75-5.25%
30 yr.	3.250%	3.190%	3.700%	3.900%	4.50%	4.25-4.75%	5.10-5.50%

Senior Living new issue rates for borrowers in specialty states are 20-30 basis points lower in yield.

SIFMA Index	LIBOR
0.63%	0.53%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.53%	1.8290%	2.5810%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.76%	0.88%	0.98%	1.10%	1.23%
Weekly LIBOR Swap Rates	1.02%	1.19%	1.35%	1.50%	1.67%



Market Commentary

In great part due to recent campaign-related developments, the Chicago Board Options Exchange Volatility Index (VIX), a measure of stock market anxiety that is often called the fear gauge, has risen 40% in the past week but at 19.04 currently stands below the historical average of 20. On Election Day in 2012, the VIX stood at 17.58, and in 2008 it was at 47.73. This is not an average year by any means, but going back to the 1972 contest, data show that the bond market is generally not affected by the election of a Republican or Democrat president. The performance of Treasuries, munis and corporates is more often driven by Federal Reserve activity, and Fed Fund futures prices currently indicate the likelihood of a 25 basis point rate increase in December at 72%. The markets have already priced in more than what is anticipated, making the Fed's work easy. The 10-year Treasury yield closed on Friday at 1.84%, up 31 basis points or 20% since Labor Day; the 30-year yield has risen 39 basis points to 2.61%. The 10-year AAA municipal general obligation bond yield closed last week at 1.74%, an increase of 29 basis points since September 2; the 30-year benchmark was up 43 basis points or 20% to 2.57%.

Municipal bond fund investors like the higher yields and added another $335 million last week to mutual funds while U.S. and global equity funds suffered $16.6 billion of withdrawals. State and local borrowers brought $11.6 billion of deals to market, raising issuance totals for October to a 30-year high of $53.1 billion. HJ Sims underwrote a $19.1 million issue for The Hickman Friends Senior Community of West Chester, Pennsylvania; the non-rated bonds issued by the Industrial Development Authority of Chester County were priced at 5.50% to yield 5.25% in 2052. A number of high-yield deals were structured with 2046 term bonds priced with 5.00% coupons: the Industrial Development Authority of Phoenix sold Ba1 rated bonds for Legacy Traditional Schools at a 4.70% yield; John Knox Village sold BB+ rated bonds yielding 4.57% through the Industrial Development Authority of Lee's Summit; the Kentucky Economic Development Finance Authority issued bonds for the Masonic Home at a 4.50% yield. The Hospital Authority of Crawford County, Pennsylvania issued $74.9 million of non-rated bonds for Meadville Medical Center including 2051 term bonds priced at 6.00% to yield 6.125%. The Economic Development Authority of Chesterton, Indiana borrowed $35.1 million for StoryPoint Chesterton and featured non-rated 2051 term bonds priced at par to yield 6.375%, and the Port Authority of Toledo-Lucas County, Ohio issued $35.3 million of non-rated bonds for StoryPoint Waterville with the same structure, price and yield.

HJ Sims is proud to be a major sponsor of the LeadingAge annual meeting and expo which convenes this week in Indianapolis. We are also in the market with a $160.5 million financing for Westminster Communities of Florida, the largest group of continuing care retirement communities in the state. Our A-minus rated transaction is being issued by the Orange County Health Facilities Authority. This week, the Federal Open Market Committee meets in Washington, the World Series continues in Cleveland, and candidates make their last campaign whistle stops in just some of the many neighborhoods across the country where every vote matters.

Random Thoughts on HUD from Sims Mortgage Funding

We are pleased to introduce a new segment to our *Capital Market Update* contributions.

Random Thoughts will cover diverse, often unconnected developments with HUD's multifamily and healthcare mortgage insurance programs. These thoughts, presented singularly, are likely not to rise to the level of a complete article. But, they do warrant sharing with you, and when presented together, may present a coherent – if not always obvious – theme.

Happy New Year!

We have not jumped the gun with this salutation. October 1 started the new Federal Fiscal Year (FY), and now that FY 2017 is underway, let's take a reflective look at HUD's performance in FY 2016. It was a positive and productive year for HUD's housing and healthcare mortgage insurance programs. Under the Multifamily Accelerated Processing (MAP) program, HUD closed approximately $9.822 billion in insured loans for 786 projects under its Section 221(d)(4), 223(f)

Cont. on Page 3

Random Thoughts on HUD from Sims Mortgage Funding

Cont. from Page 2

and 223(a)(7) programs for construction, acquisition/refinance and refinance of already-insured loans. This production is better than FY 2015, when HUD insured approximately $9.54 billion of loans under the same three programs and is close to their FY 2014 performance, when they closed $9.941 billion.

On the healthcare side, the LEAN program closed approximately $2.836 billion of insured loans for 287 projects in FY 2016. Almost 90% of the loans were insured under the popular Section 232/223(f) program for acquisition/refinance; new construction and other related loans insured under Section 232 and 241(a) comprised 8% of FY 2016 production. LEAN performance in FY2016 exceeded FY 2015, when $2.701 billion in healthcare loans were insured, but it lagged FY 2014, when $4.205 billion in loans closed.

The big change in production between 2014 and the last two years has been largely attributable to the success of the LEAN interest rate reduction (IRR) program, which is a streamlined way to refinance through a modification of the existing mortgage note. Under a note modification, HUD does not receive any production credit for the origination of a new insured loan. Regardless of who gets credit, note modifications can be an excellent way to quickly lower debt service at minimal expense. We have obtained note modification approvals in as little as 10 days. If you have a HUD-insured loan with an interest rate at 3.75% or higher, give us a call, and we'll be happy to evaluate whether a note modification – or a new loan - is a viable refinancing option.

Exit the REITs, Enter HUD?

An October 12 article in *The Wall Street Journal* about Real Estate Investment Trusts (REITs) indicated that some REIT managers are making changes to their portfolios by removing some skilled nursing facilities and adding more medical office buildings and other healthcare-related real estate. One of the drivers of this asset reallocation is the concern that skilled nursing home operators may have difficulty making lease payments because of increasing third-party and governmental constraints on reimbursement. HUD has traditionally been comfortable underwriting deals with significant government support, as can be evidenced by the success of the LEAN healthcare program. The takeaway? Operators who are looking to acquire skilled nursing homes from landlords eager to sell should look closely at the Section 232/223(f) mortgage insurance program as a financing option, either in a direct-to-HUD scenario or via a bridge to HUD. Sims Mortgage Funding has had considerable success under both structures and would be pleased to help you evaluate options.

Sims Submits Its First Applications under New Platform; Good Times Follow

We previously wrote about our partnership with *Lending Standard*, a Midwestern-based technology company, to develop a web-based, automated loan processing and underwriting platform. We are pleased to tell you that we have successfully used the platform to prepare and underwrite a $6.4 million Section 223 (f) refinancing application for Margate Terrace, an elderly housing project located in New Jersey. Andrew Patykula, a Senior Vice President of Sims who served as the MAP Underwriter for the financing, piloted the Margate application through the new automated platform. Said Andrew, *"The platform really simplified the collection of the HUD required data and organized it for a uniform completion of the Application. Interactions with HUD were much more efficient, and they reviewed the application and approved the deal in 45 days."*

Over the past several years, HUD has been steadily standardizing its underwriting and processing protocols, resulting in greater efficiency and speed in approving deals. The new platform represents our "next generation" effort to continue to provide our clients with even-better service and a great customer experience. We recently filed a second 223(f) refinance application, for an elderly housing project in Minnesota through the new platform, and we're looking forward to another fast review by HUD.

For additional information on HUD financing and any of these topics, please contact Anthony Luzzi at aluzzi@simsmortgage.com.

For more information, please contact an HJ Sims banker.

Fairfield, CT

William Sims	203-418-9001	wsims@hjsims.com
Jeff Sands	203-418-9002	jsands@hjsims.com
Andrew Nesi	551-427-5135	anesi@hjsims.com
Mackenzie Welch	203-418-9024	mwelch@hjsims.com
Krystal Murphy	203-418-9028	kmurphy@hjsims.com

Rockville, MD

Aaron Rulnick	301-424-9135	arulnick@hjsims.com
Kyrle Turton	203-418-9038	kturton@hjsims.com
Patrick Mallen	203-418-9009	pmallen@hjsims.com

Bloomington, MN

Mark Landreville	952-683-7509	mlandreville@hjsims.com
Jay Hromatka	952-683-7506	jhromatka@hjsims.com
Christina Rappl	952-683-7507	crappl@hjsims.com

Philadelphia, PA

James Bodine	215-854-6428	jbodine@hjsims.com

Austin, TX

Curtis King	512-519-5003	cking@hjsims.com
James Rester	901-652-7378	jrester@hjsims.com
Brett Edwards	512-519-5001	bedwards@hjsims.com

Orlando, FL

Robert Gall	407-313-1701	rgall@hjsims.com
Kerry Moynihan	407-313-1702	kmoynihan@hjsims.com

Montvale, NJ -Sims Mortgage Funding - 201-307-9383

Anthony Luzzi	aluzzi@simsmortgage.com
Kerrie Tomasiewicz	ktomasiewicz@simsmortgage.com
Andrew Patykula	apatykula@simsmortgage.com
