February 7, 2017

CAPITAL MARKET UPDATE

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

HJ SIMS FINANCED RIGHT®

Member FINRA/SIPC

Senior Living New Issue Rates as of 2/7/17

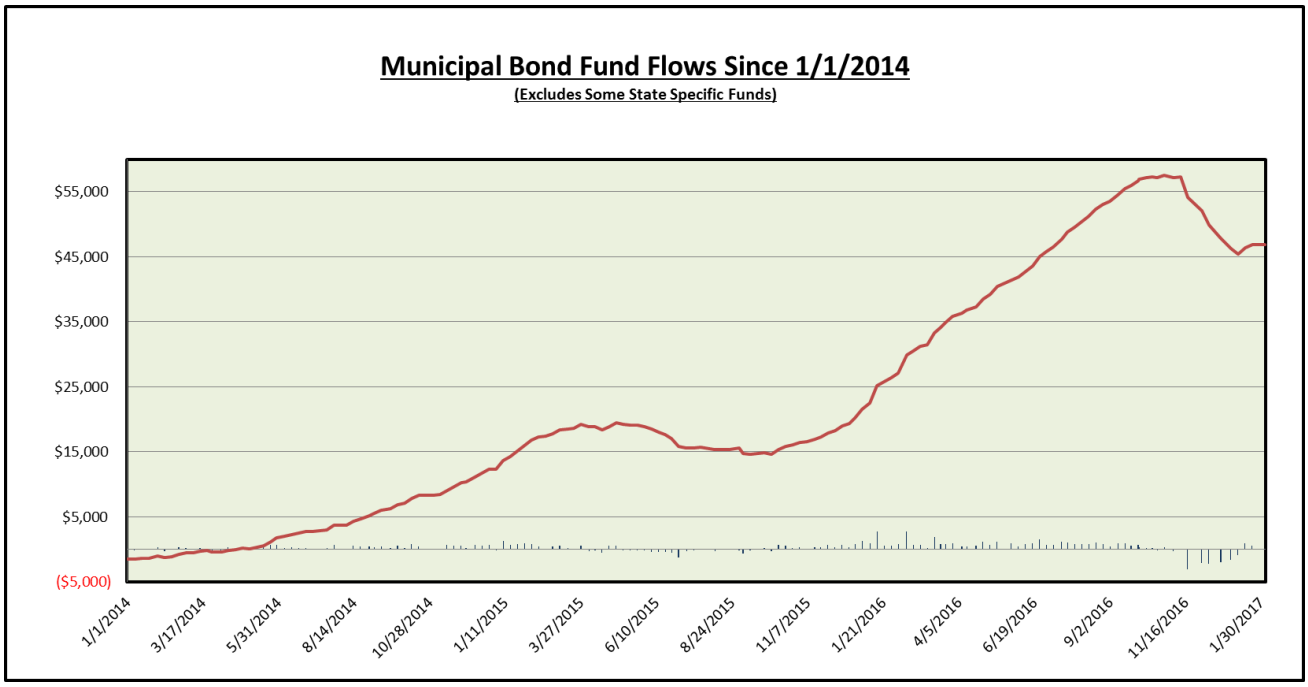
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.890%	2.500%	3.000%	3.30%	3.00-3.60%	4.00-4.50%
10 yr.	NA	2.760%	3.400%	3.800%	4.20%	4.00-4.40%	4.75-5.25%
20 yr.	NA	3.640%	4.300%	4.500%	5.00%	4.75-5.25%	5.50-6.00%
30 yr.	3.610%	3.880%	4.400%	4.700%	5.15%	5.00-5.50%	6.00-6.75%

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

SIFMA Index	LIBOR
0.65%	0.78%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
4.02%	2.3890%	3.0190%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.90%	1.24%	1.46%	1.61%	1.79%
Weekly LIBOR Swap Rates	1.24%	1.68%	1.96%	2.16%	2.36%



Market Commentary

In the municipal bond market last week there was a light $4.3 billion calendar and more sideways trading in response to Labor Department data, the two-day Federal Open Market Committee meeting and the small trickle of inflows into bond funds. As expected, the Fed kept its rates unchanged, and the markets do not anticipate any increases until June. But some analysts are all aflutter over Footnote #17 in Federal Reserve Chair Yellen's January 19 speech at the Stanford Institute for Economic Policy Research, which appears to indicate that higher yields are in store even without formal adjustments to the target range. She pointed out that the sheer size of the Federal Reserve's $4.4 trillion bond portfolio has been placing considerable downward pressure on longer-term interest rates, but that this pressure will "ease" as the average maturity of the holdings declines and the "end-date" for reinvestment draws closer. On February 1, the Fed's balance sheet included about $2.5 trillion of Treasuries and $1.7 trillion of mortgage-backed securities (one-third of the market). The relatively small amount of cash generated by maturing shorter-term debt has so far been reinvested in new Treasury and MBS debt. But this year, an estimated $195 billion in the portfolio will mature. Over the course of 2017, she estimated that this could increase the yield on the 10-year Treasury note by about 15 basis points, all else being equal, and that the change in longer-term yields would be similar to what has historically accompanied two 25 basis point rate hikes.

The City of Anoka, Minnesota took advantage of low prevailing rates last week to refund $40.5 million of non-rated revenue bonds for The Homestead at Anoka and, as noted in last week's Update, HJ Sims underwrote the financing with a structure that included 2046 term bonds priced with a coupon of 5.00% to yield 5.20%. In other non-rated financings, the Triple Creek Community Development District in Florida issued $22.6 million of bonds structured with a 2046 maturity priced at 6.125% to yield 6.379%, and the Lakewood Ranch Stewardship District in Florida sold $49.4 million of special assessment revenue bonds for the Lakewood National and Polo Run projects that included 2047 term bonds priced at 5.375% to yield 5.40%. This week, the $7.5 billion slate includes a $242.8 million New York Dormitory Authority transaction for BB+ rated Orange Regional Medical Center, a $26.6 million non-rated California School Finance Authority charter school financing for Rocketship Education and a $7.3 million non-rated Cold Spring, Minnesota refunding for Assumption Home. At this writing, the 10- and 30-year Treasury yields are 2.39% and 3.02%, respectively, and the 10- and 30-year AAA municipal general obligation benchmark yields stand at 2.28% and 3.06%.

New LEAN Handbook Finalized: Less Seasoning for Refinancings and Higher Potential Appraisals for Non-Profits

The new LEAN Healthcare Handbook became effective January 19th. HUD issued a draft last May, finalized it in December, but then quickly pulled it back from official use until three weeks ago. The good news is that many of the favorable provisions that were included in the draft Handbook – which we first reported in June and recap below – are now official.

Prior loans whose proceeds included equity take-outs previously had to be seasoned for two years. HUD now will allow such loans to be immediately eligible for refinancing, depending upon the amount of the loan used for equity and the HUD-insured loan-to-value. For example:

- If less than 50% of the prior loan was used for equity and the HUD-insured loan does not exceed 70% of value, then no seasoning is necessary.
- If 50% or more of the prior loan was used for equity and the HUD-insured loan does not exceed 60% of value, then no seasoning is necessary.
- If 50% or more of the prior loan was used for equity and the HUD-insured loan is 61% or more of value, then two years of seasoning is necessary.
- The seasoning period for prior loans – regardless of the use of proceeds – will remain two years if the HUD-insured loan is at least 71% or more of value.

Cont. on Page 3

New LEAN Handbook Finalized

Cont. from Page 2

HUD also has relaxed debt seasoning requirements for related-party purchase transactions. They will now allow debt associated with these purchases to be refinanced with a HUD-insured loan immediately instead of after a two-year seasoning period provided three conditions related to the sale are met:

- The seller has no residual rights to control the project;
- The seller has no residual rights to reacquire the project until not less than five years after the HUD-insured loan closing; and,
- The purchase must have occurred prior to the date the application for HUD mortgage insurance was filed.

Operator debt, formerly prohibited, will now be considered eligible, provided it is tied directly to the project. Examples include costs related to the purchase of additional furniture fixtures and equipment, working capital related to lease-up and stabilization of the project and other capital expenditures.

The new Handbook also should make it easier for non-profit sponsors to refinance existing debt. Many of these mission-driven organizations have operating profiles with higher expenses, programs and services and staffing ratios that are asymmetrical to the general market. This has caused lower than market project valuations for non-profits, resulting in loan sizings with insufficient proceeds. However, HUD now has made it easier for appraisals of non-profit projects to be adjusted for market conditions that will result in higher market valuations – and insured loans.

For additional information, please contact Anthony Luzzi at 201-315-1242 or 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
