March 7, 2017

CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 3/7/17

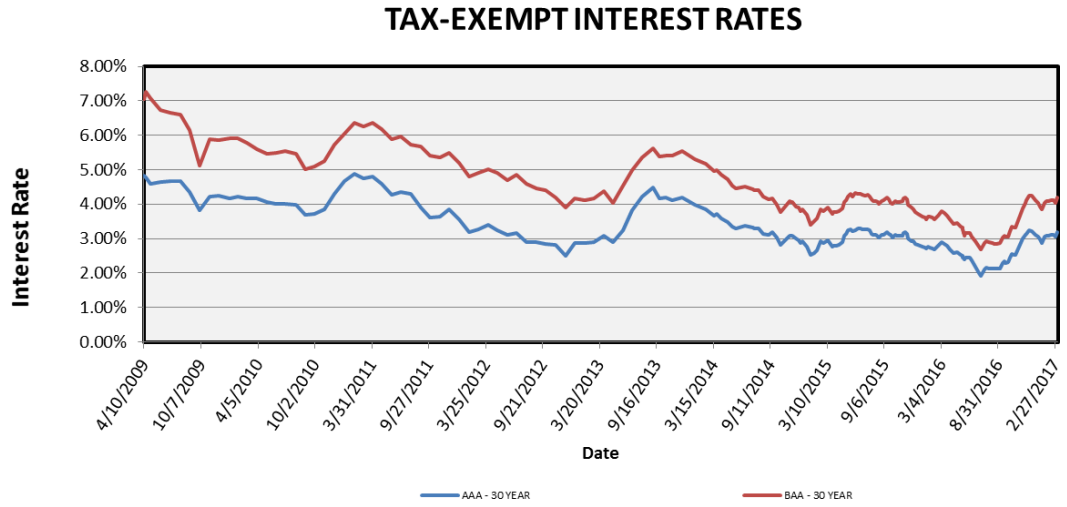
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.760%	2.550%	3.000%	3.30%	3.00-3.60%	4.00-4.50%
10 yr.	NA	2.700%	3.500%	3.850%	4.20%	4.00-4.40%	4.75-5.25%
20 yr.	NA	3.510%	4.350%	4.550%	5.00%	4.75-5.25%	5.50-6.00%
30 yr.	3.550%	3.750%	4.450%	4.750%	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
0.62%	0.78%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
4.11%	2.5140%	3.1150%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.98%	1.37%	1.58%	1.76%	1.90%
Weekly LIBOR Swap Rates	1.38%	1.87%	2.13%	2.30%	2.47%



Source:Thomson-Reuters Municipal Market Data as of 3/7/2017

Market Commentary

Texas won its independence from Mexico in 1836, and residents across the Lone Star State commemorate the anniversary in grand style every year. HJ Sims was proud to be in Austin last week for the 181st celebration, and we thank all of our clients, colleagues, friends, employees and guests who joined us there for our Late Winter Conference. We had what one participant described as a "master class" on senior living financing methods and operating strategies and enjoyed more than two days of informational sessions, exchanges, networking and tours. Our bankers, underwriters, sales, trading, research and asset management professionals look forward to having you join us for our next conference in Orlando at the Omni Resort at ChampionsGate. Save the dates: February 28 – March 2, 2018.

As many of us gathered in Austin for the Conference, February's trading sessions came to a close. Looking back, last month's municipal bond market lacked direction, volume and price transparency. We saw some volatility, but conditions were mostly unremarkable. This was in stark contrast to the stock market, which saw 12 consecutive days of record high after record high, closing out the month at over 20,812. Muni issuance sank to $20.6 billion, 35% below last February's level as borrowers worried about the implications of new proposals out of Washington, while U.S. equities rode high on the belief that major reforms will be achieved. Muni funds lost a net of $118 million across the board, although high yield funds had net investments of $276 million. An average of $10.7 billion of par value in munis traded per day, 6% below January's daily at $11.4 billion. Benchmark tax-exempt yields dipped by 3 basis points: the 10-year AAA tax-exempt general obligation bond rose as high as 2.43% before closing at 2.29%, while the 30-year yield hit 3.17% and later fell to 3.05% by month end.

Among the high yield deals recently in the market, the City of Cambridge, Minnesota issued $13.2 million of non-rated revenue bonds for Walker Methodist Levande's assisted living and memory care facility, including a 2052 term maturity priced at 5.25% to yield 5.375%. The Public Finance Authority of Wisconsin issued $110.7 million of non-rated revenue bonds for the Westin convention center hotel project in Irving, Texas featuring non-rated, non-callable 40-year term bonds privately placed at par to yield 11%. World Compass Academy in Castle Rock, Colorado had a one-year, non-rated note with par amount of $12.6 million priced at 5.00% to yield 5.742%. The Oklahoma Development Finance Authority sold $251.6 million of BBB-minus rated revenue bonds for student housing at the University of Oklahoma, including 40-year term bonds priced at 5.25% to yield 4.81%. Southern Arkansas University sold $8 million of non-rated improvement bonds that had 30-year terms priced at par to yield 4.25%. A $24.6 million non-rated Louisiana issue for Westside Habilitation Center in Alexandria priced at par to yield 6.25% in 2047, and a $14.6 million non-rated Florida community development district issue came with a coupon of 5.625% to yield 5.85% in 2046. Non-rated sales tax special obligation revenue bonds in Kansas priced at par to yield 5.00% in 2037, and non-rated pooled tax increment revenue bonds in Williston, North Dakota due in 2035 priced at par to yield 6.00%, and non-rated special tax bonds in California priced in the range of 5.00% to 6.25% in 30 years to yield between 4.43% to 6.25%.

So far, March has started out on a sour note for municipal bonds. 10- and 30-year benchmark yields have climbed 13 basis points on increasing expectations for higher rates and lower tax brackets. Federal Reserve Chair Janet Yellen appeared to give the thumbs-up for an interest rate increase later this month, and she set the stage for more frequent hikes to follow. 30-day Fed Funds futures prices currently reflect an 89% likelihood of an increase to the target range of 75-100 basis points on March 15, and a 42% likelihood of another small bump in June. Wall Street has a laser-like focus on the daily goings-on in Washington, where backroom negotiations on health care, tax and regulatory reforms cannot proceed fast enough, and the mere whiff of business-friendly legislation continues to fuel the stock market rally.

At this writing, the Chicago Board Options Exchange 10-year Treasury Note Volatility Index (TYVIX) currently stands at 4.79 after reaching a high this year of 6.12 earlier this year. The popular measure of the implied volatility of S&P 500

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Market Commentary

Cont. from Page 2

index options (VIX) is at 11.31, below its 2017 high of 12.92. Oil is at $53.30, about average for the year. The 10-year Treasury yield and 10-year AAA muni yields are right around their highs for the year at 2.51% and 2.42%, respectively. Same for the 30-year Treasury and muni benchmarks at 3.11% and 3.18%. This week's municipal bond calendar looks to be the highest of the year at $10.4 billion and includes a $26.4 million California Statewide Communities Development Authority non-rated financing for Guidance Charter School, a $5.7 million California School Finance Authority BBB-minus rated deal for Granada Hills Charter School and a $21.2 million BBB-minus Tarrant County Cultural Education Facilities Finance Corporation transaction for Northwest Senior Housing Corporation and Edgemere in Dallas.

Sims Mortgage Funding Closes Elderly Affordable Housing Loan

"The Sims team provided strong leadership and technical expertise in assisting Diakon with very complex re-financing of Frostburg Heights, an older property in our affordable housing portfolio. Despite numerous obstacles along the way, Sims was able to positively influence efforts of various stakeholders in the process in order to keep us moving forward. We were quite pleased to see the process reach a successful completion, which has positioned Frostburg to access much needed funding for capital improvements and provided for a modest equity cash-out to Diakon as sponsor."

Jarrod Leo, Senior VP Finance, Diakon Lutheran Social Ministries

DIAKON
LUTHERAN SOCIAL MINISTRIES

Partnered Right	• Diakon Lutheran Social Ministries (DLSM) needed financing for the Frostburg Heights Apartments, an existing 110-unit elderly project.
Structured Right	• Sims Mortgage Funding ("SMF") obtained a key waiver that shortened the financing timeframe and underwrote the loan to maximize an equity take-out to DLSM.
Executed Right	• The timeframe from submission of the mortgage insurance application to closing was slightly over 7 months.
Financed Right®	• SMF has closed 4 HUD-insured loans, all for affordable housing projects totaling approximately $15.2 million, for DLSM since 2011.

PARTNERED RIGHT

Diakon Lutheran Social Ministries (DLSM), one of the largest Lutheran affiliated social service organizations in the U.S., owns and manages Frostburg Heights Apartments, a 110-unit elderly housing project with Section 8 rental subsidies. The Project was built in the early 1980s and needed an infusion of capital. DLSM, passing on conventional financing options, turned to Sims Mortgage Funding ("SMF") to obtain HUD-insured financing.

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Sims Mortgage Funding Closes

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STRUCTURED RIGHT

SMF obtained a key waiver that enabled DLSM to bypass HUD's layered real estate owned analysis, shortening the financing timeframe. By underwriting the loan based on market value instead of cost to refinance, SMF maximized the equity cash-out to DLSM. The Project also was approved for a 20-year renewal of its Section 8 contract, ensuring a stable revenue platform well into the future.

EXECUTED RIGHT

The $3,440,000 loan was insured under the Section 223(f) program and was underwritten at 80% of market value. The loan features a 35-year amortization commencing 2 months after closing and a fixed interest rate that was considerably below projections. The debt service coverage ratio is approximately 1.27. In addition to the cash-out, approximately $2 million in loan proceeds funded a repair escrow and an initial deposit to the reserve fund for replacements.

FINANCED RIGHT®

SMF successfully obtained financing for a recapitalization of an existing, affordable project at a competitive, fixed, long-term interest rate. The recapitalization enabled Diakon to make much-needed improvements that could not be financed from operations and existing reserves. SMF has closed 4 HUD-insured loans, all for affordable housing projects totaling approximately $15.2 million, for DLSM since 2011.

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For more information, please contact an HJ Sims banker.

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