April 12, 2016

CAPITAL MARKET UPDATE

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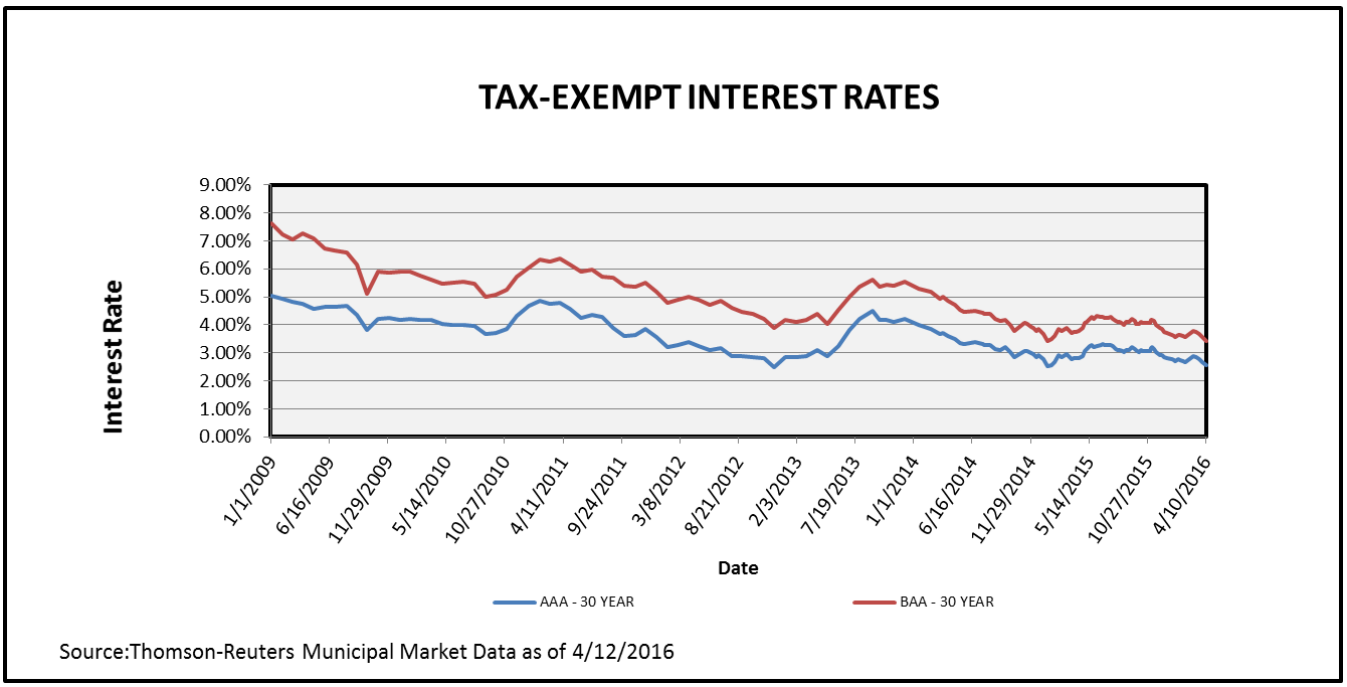
Senior Living New Issue Rates as of 4/12/16

Maturity	Taxable Rates	Tax Free Rates				
	GNMA Taxable	FHA Tax-Exempt	A	BBB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.280%	1.950%	2.300%	2.65-3.25%	3.50-4.20%
10 yr.	NA	2.150%	2.700%	3.050%	3.625-4.00%	4.25-5.10%
20 yr.	NA	3.120%	3.400%	3.750%	4.25-4.65%	5.00-5.85%
30 yr.	3.700%	3.330%	3.600%	3.900%	4.75-5.00%	5.25-5.75%

SIFMA Index	LIBOR
0.39%	0.44%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.69%	1.7730%	2.5950%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.22%	0.49%	0.73%	0.96%	1.21%
Weekly LIBOR Swap Rates	0.79%	0.99%	1.20%	1.41%	1.66%



Source:Thomson-Reuters Municipal Market Data as of 4/12/2016

Market Commentary

This week, the municipal calendar includes a number of financings for universities with endowments ranging from $80 million to $25 billion, including the University of Texas, Kent State University, Nova Southeastern University, Boise State University, the Oklahoma Agricultural and Mechanical Colleges and Drake University. In other sectors, the Industrial Development Authority of Fulton County, Pennsylvania plans a $25.6 million non-rated financing for the Fulton County Medical Center, and the Illinois Finance Authority is in the market with a $107.3 million NRR/BBB+/A- rated issue for Presbyterian Homes.

For those studying the tax-exempt market, conditions remain extremely favorable for borrowers. Demand remains robust: investors have poured $22.9 billion into municipal bond funds during the past 6 months. Supply cannot keep up: volume in the past six months at $183 billion is down 15% or $31 billion from the same period a year ago. And, during this time, rates have fallen to near record lows: the 10-year AAA general obligation benchmark yield dropped 21% from 2.02% to 1.59%, and the 30-year benchmark is down 17% from 3.06% to 2.54%.

Issuance last week totaled $8.4 billion and among the borrowers taking advantage of the market were several college preparatory charter schools. Arizona's Maricopa County Industrial Development Authority issued $25.3 million of BBB-minus rated refunding bonds for the Horizon Community Learning Center and sold the 20-year term bonds with a coupon of 5.00% to yield 4.00%. The Philadelphia Industrial Development Authority had a $15.7 million BB+ rated deal for KIPP Philadelphia Charter School and priced term bonds maturing in 2046 at 5.00% to yield 4.30%. The Industrial Development Authority of Phoenix, Arizona sold $6.1 million of BB rated bonds for Freedom Academy and priced the 30 year term bonds at par to yield 5.50%. And the City of St. Cloud, Minnesota borrowed $16.6 million for BB-minus rated Stride Academy in a lease revenue bond financing with a 2046 maturity priced at par to yield 5.00%. In other sectors, the Connecticut Health and Educational Facilities Authority brought a $77.5 million BB rated transaction for Church Home of Hartford with 2053 term bonds priced at 5.00% to yield 4.67%. The New Hampshire Health and Education Facilities Authority issued $18.3 million of BBB+ rated bonds for Kendal at Hanover with 30 year term bonds priced at 5.00% to yield 3.56%. And the Upper San Juan Health Service District had an $11.1 million non-rated refunding with a final maturity in 2046 priced at 6.125% to yield 5.75%.

SEC Municipal Advisor Rule

Last year, the SEC adopted a rule relating to municipal advisors (the "MA Rule"). The MA Rule generally requires any entity that is providing advice to either a municipal entity or "obligated person" on the issuance of municipal securities to become registered as a Municipal Advisor. An "obligated person" includes entities such as 501(c)(3) organizations or private parties that are "issuing" tax exempt bonds through a conduit authority. "Advice" includes advising a client on issuing municipal bonds, investing the proceeds of municipal bonds or entering into a derivative in connection with a bond deal. In addition to the requirement that a Municipal Advisor be registered, the MA Rule imposes a fiduciary duty on Municipal Advisors to provide fair and impartial advice. Sims is a registered municipal advisor with the SEC.

There has been some confusion caused by this new rule. It appears that some Financial Advisors are trying to use the MA Rule to tell "obligated persons" (i.e. 501(c)(3) organizations) that they must hire a Financial Advisor every time that they issue tax-exempt bonds. We do not believe this is the case. This and several other substantive issues have recently emerged that we would like to address.

1. Several financial advisory firms are telling potential clients that the MA Rule requires them to hire a Financial Advisor along with an underwriter every time they issue bonds. This is not accurate. While hiring a Financial Advisor may or may not be appropriate, the MA Rule does not impose such a duty. Some Financial Advisors are citing an entirely separate rule that says that an investment bank may not be both an underwriter and Financial Advisor to a "municipal entity" as the basis for this claim. We have discussed this matter with the regulators and have clarified that that rule applies only to municipal "issuers" (i.e. government agencies issuing bonds) and not to "obligated persons" (such as non-profits).

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SEC Municipal Advisor Rule

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2. Some investment banking firms are telling clients that they must sign an engagement letter before any substantive discussions about a financing can occur. We do not believe that this is the case because the MA Rule has exemptions that cover this situation. While this action could be from an "abundance of caution", we are concerned that this could result in a client feeling pressured into making a pre-mature decision. We do not believe the new law requires such "preliminary engagement" letters to be signed in most cases, and the regulations certainly are not designed to limit a client's decision on hiring the right investment bank to provide it services.

3. Under an exemption in the MA Rule, a non-registered Financial Advisor can provide municipal advisory services provided the client has already retained an Independent Registered Municipal Advisor ("IRMA"). In order to qualify for this exemption, the non-registered Financial Advisor must get a letter from the client confirming that it has engaged an IRMA (an "IRMA Letter"). Many banks for example have chosen not to be registered as a Municipal Advisor but still want to provide advice on investing the proceeds of municipal bonds. Sims, with its vast experience in municipal bonds, is a qualified IRMA and has been engaged by several clients to fill the IRMA role.

As a registered Municipal Advisor, a qualified IRMA and experienced investment banking firm, we at Sims look forward to continuing to meet our clients' needs.

For more information, please contact an HJ Sims banker.

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