

CAPITAL MARKET UPDATE



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Senior Living New Issue Rates as of 4/26/16

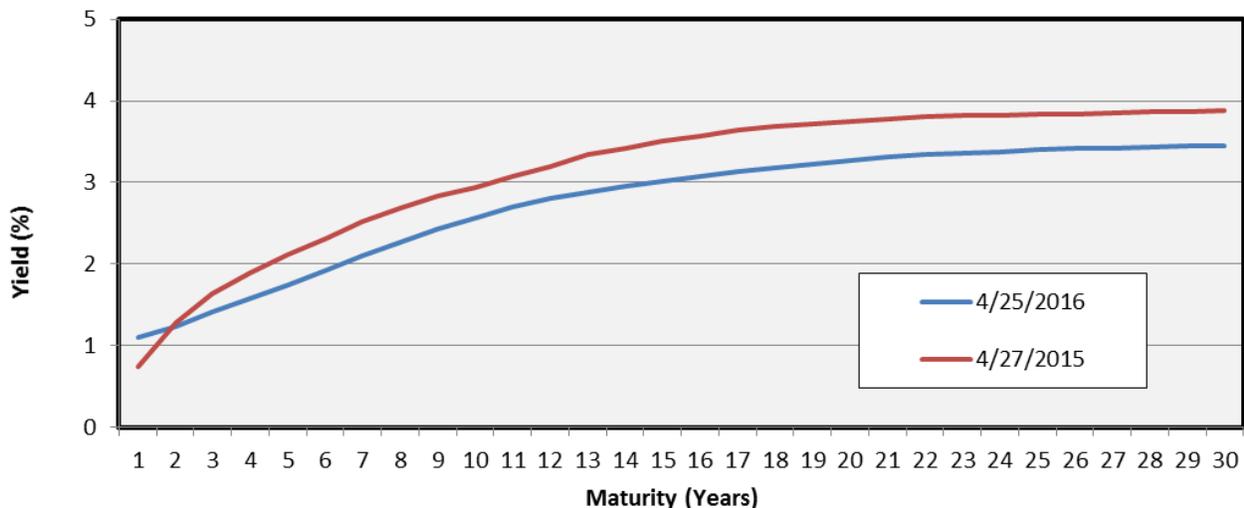
Maturity	Taxable Rates	Tax Free Rates				
	GNMA Taxable	FHA Tax-Exempt	A	BBB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.300%	1.800%	2.200%	2.55-3.125%	3.375-4.10%
10 yr.	NA	2.190%	2.600%	2.950%	3.50-3.875%	4.125-5.00%
20 yr.	NA	3.160%	3.250%	3.650%	4.125-4.55%	4.875-5.75%
30 yr.	3.750%	3.370%	3.450%	3.800%	4.625-4.875%	5.125-5.625%

SIFMA Index	LIBOR
0.41%	0.44%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.68%	1.9130%	2.7440%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.25%	0.55%	0.80%	1.06%	1.29%
Weekly LIBOR Swap Rates	0.84%	1.11%	1.35%	1.55%	1.78%

Tax Exempt MMD Yield Curve (BAA)



Source: Thomson-Reuters Municipal Markets Data as of 4/25/2016

Market Commentary

Presidential candidates along with college seniors have been hard at work interviewing for jobs this month, and they all face challenging environments. On average, a job search takes 43 days with approximately 59 people applying for every opening, but the process and competition vary widely by industry, level of skill, and thickness of skin. Wages have remained stagnant since the turn of the millennium for young workers as well as for the president, who has been paid the same annual salary of \$400,000 since 2001. Last month, average hourly earnings rose by 0.3% or seven cents to \$25.43, but the number of temporary workers declined for the third straight month, manufacturing jobs continued to drop and the unemployment rate rose to 5.0%. Initial jobless claims dropped to the lowest level in more than 40 years, and the labor force participation rate inched up to 63%; but the Bureau of Labor Statistics reported that there are 16.06 million families in which no one has a job, roughly 20% of the 81.4 million family households in the United States. The number of employed broadly includes individuals who did any work at all, while those actively seeking work in the past four weeks, retirees and others out of the labor force count as unemployed.

The Federal Open Market Committee met this week and eyeballed all the recent data on jobs, inflation and corporate earnings while watching crude oil futures climb, housing starts and building permits fall and inventories hover at levels below normal. The European Central Bank left rates unchanged during its meeting last week, and the Fed did the same on Wednesday, all in line with market expectations. With the status quo on rates maintained and oil prices up 14% or \$5.39 from the start of the month, investors sold their pricey Treasuries and looked to riskier markets. The Dow Jones Industrial Average gained 106 points on the week and closed over 18,000 for the first time since last July. The 10-year Treasury lost 13 basis points to finish the week at a yield of 1.88%, and the 30-year was off 15 basis points to close at 2.70%. Municipal bonds lost a little less ground, outperforming Treasuries across the curve. The 10-year AAA general obligation bond dipped 4 basis points to yield 1.65%, and the 30-year muni benchmark finished down 6 basis points to yield 2.60%. Investors added another \$586 million to municipal bond funds, bringing the 29-week streak of inflows to \$26.3 billion.

The \$7.8 billion new issue calendar last week included a \$27.3 million start-up rental and non-rated Florida Development Finance Corporation senior living draw-down issue priced by HJ Sims at par to yield 7.25% in 2046 for Cypress Point in Fort Myers. Among other deals with 30-year maturities: an \$18.3 million non-rated Arlington Higher Education Finance Corporation of Texas issue for Newman International Academy priced at a maximum yield of 5.625%, and a \$13 million Alaska Industrial Development and Export Authority non-rated non-callable issue for the J.R. Cannone project yielding 6.00%. The Colorado Educational and Cultural Facilities Authority had a \$25.1 million refunding for The Vanguard School which, with the moral obligation of the state, came with a 31-year term bond priced at 3.75% to yield 3.86%. The California School Finance Authority issued \$36.4 million of non-rated bonds for Downtown College Prep with 35-year term bonds priced at 5.00% to yield 4.77%. Geauga County, Ohio sold \$6.4 million of non-rated revenue bonds for the South Franklin Circle project, including a subordinate series maturing in 2047 priced at 10.00%. The Industrial Development Authority of Pima County, Arizona had a \$4.6 million non-rated issue for San Tan Montessori School which sold at par to yield 6.50% in 2048. Among the deals with shorter maturities, the City of St. Louis Park, Minnesota brought a \$4.3 million non-rated deal for Mount Olivet Home that had ten years of serial bonds with a maximum yield of 2.60%. The City of Vincennes, Indiana privately placed \$11.3 of refunding bonds at 6.25% in 2029 for the Southwest Indiana Regional Youth Village treatment center. The Mission Economic Development Corporation of Texas had \$248 million of senior lien revenue bonds for the BB-minus rated Natgasoline project, including 2031 term bonds subject to the alternative minimum tax priced at 6.00% to yield 6.50%. The North Carolina Medical Care Commission sold \$34.4 million of BBB rated refunding bonds for United Methodist Retirement Homes with 2035 term bonds priced at 5.00% to yield 3.18%. A \$17.1 million Town of Merrillville, Indiana financing for Belvedere Housing sold with non-rated 2036 term bonds priced at par to yield 5.75%. And the Tarrant County Cultural Education Facilities Finance Corporation of Texas issued \$89.2 million of A rated bonds for Buckner Retirement Services featuring 2037 term bonds structured in two tranches priced at 3.50% to yield 3.625% and 5.00% to yield 3.15%.

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We await first quarter Gross Domestic Product growth data this week along with core inflation and consumer spending data. Municipal issuance is expected to total \$9.1 billion, dominated by hospital deals including the \$883 million BB rated Loma Linda University Medical Center financing, \$1.92 billion of AA+ rated financings for Ascension Health, \$140 million for A rated Baylor College of Medicine and a \$25.6 million non-rated Fulton County Industrial Development Authority refunding for Fulton County Medical Center. The Texas Private Activity Bond Surface Transportation Corporation is in the market with a \$272 million Baa3 rated senior lien revenue bond deal for the 288 Toll Lanes project, the California Statewide Communities Development Authority is scheduled to bring a \$14.4 million non-rated infrastructure program transaction, and there is an \$11 million non-rated charter school refunding issue for King-Chavez Academy of Excellence in San Diego, California. The 30-day visible supply of municipal bonds totals \$12.3 billion.

Cyber Security Threats: How is Your Organization at Risk?

At its Late Winter Conference this year, HJ Sims was fortunate to welcome Randall Romes, a Principal at CliftonLarsonAllen, as the featured speaker for its general session titled “Cyber Security for Your Organization”. With such recent and well-publicized cyber attacks as those on Sony, Target, the U.S. Office of Personnel Management and Hollywood Presbyterian Medical Center, the need for improved Cyber Security has become a major focal point for organizations, large and small, around the world. How are senior living organizations at risk and what can be done to mitigate these risks?

Randy specifically detailed the four most common cyber fraud scenarios present today and gave examples of these scenarios. Highlights include:

- Theft of PII (personal identifiable information) and PFI (personal financial information), as seen with Target, Home Depot, Blue Cross Primera, the Office of Personnel Management and Community Health Systems.
- Theft of credit card information, whether via internet or in-person transactions, which can then be sold on a fairly simplistic black market for credit card data.
- Corporate account takeovers: when someone posing as an officer of an organization gives fraudulent instructions to the organization’s bank to wire money to an unrelated account.
- Ransomware: when hackers take control of an organization’s system, hold its files and information for ransom and demand payment, as seen in Hollywood Presbyterian Medical Center.

So what makes it easy for hackers and fraudsters to actually break in? Well in 2014, weak passwords opened the door for the initial intrusion in 31% of companies, while weak remote access applications also accounted for much of the initial access. Other organizational shortcomings that allow for hacking include giving users local administration privileges, domain administrators don’t have separate user accounts or log-into workstations, poor patching, unnecessary ports and services, weak or no encryption, reliance on vendor systems and lack of general security awareness by employees.

After laying the foundation for what executives need to be on the defensive about, Randy emphasized that each organization should have an information security strategy that aims to have users who are more aware and savvy, networks that are resistant to malware, and should be prepared through monitoring, incident response and forensic capabilities. More specifically, Randy left the audience with calls to action that included strengthening policies and the vulnerability management process, centralizing logging, analysis and alerting capabilities, and seeking independent validation that controls in place actually work.

This session on Cyber Security was just one of the many educational presentations that helped sculpt a great conference. Please mark your calendars for February 28 – March 2, 2017, when we bring the 14th Annual Sims Late Winter Conference to Austin, TX!



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