CAPITAL MARKET UPDATE

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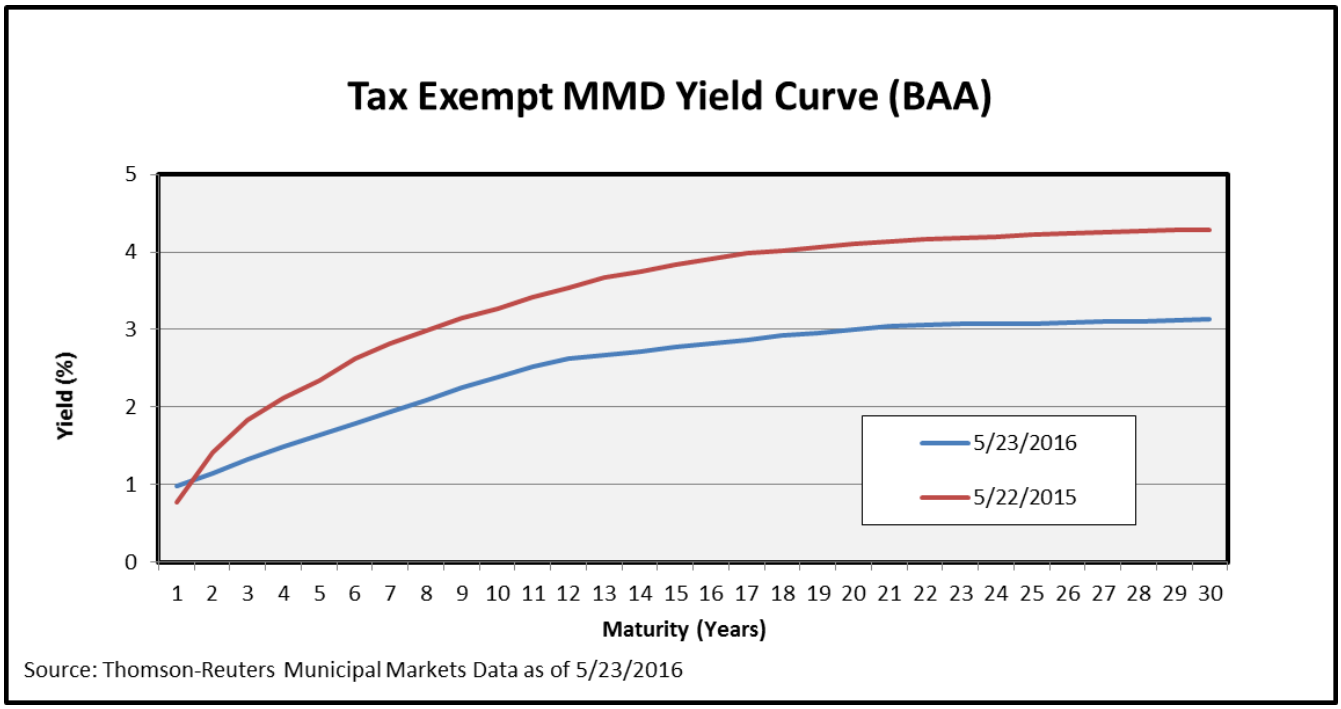
Senior Living New Issue Rates as of 5/24/16

Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.260%	1.750%	2.100%	2.45%	2.50-3.00%	3.25-4.00%
10 yr.	NA	2.170%	2.500%	2.800%	3.15%	3.40-3.65%	4.05-4.90%
20 yr.	NA	2.920%	3.150%	3.450%	3.80%	4.00-4.375%	4.75-5.65%
30 yr.	3.670%	3.150%	3.350%	3.600%	4.00%	4.50-4.75%	5.05-5.50%

SIFMA Index	LIBOR
0.40%	0.44%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.48%	1.8580%	2.6430%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.25%	0.59%	0.82%	1.03%	1.26%
Weekly LIBOR Swap Rates	0.89%	1.18%	1.37%	1.54%	1.74%



Market Commentary

Thirty times a day in ceremony after ceremony on the scenic and hallowed grounds of Arlington National Cemetery, visitors hear a three rifle volley salute followed by the 24 mournful notes of "Taps" from a bugler honoring the service, sacrifice and valor of a fallen hero. Since 1864, Arlington has been the final resting place for more than 400,000 active duty service members, veterans and their families. Among those buried are several unidentified soldiers from World War I, World War II, and the Korea War. They are honored around the clock by guards from the elite 3rd U.S. Infantry Regiment and there, at the Tomb of the Unknown Soldier, on Monday, a Presidential Armed Forces Full Honor Wreath-Laying Ceremony will mark the 148th National Memorial Day Observance.

In Arlington, Texas and several other communities last week, there was a focus on financing alternative schools to educate young students on American history and other core subjects. Among the $12.5 billion of new municipal bond issues in the market, the Higher Education Finance Corporation sold $16.6 million of BB+ rated charter school revenue bonds for Wayside Schools, pricing the 30-year term bonds at par to yield 4.625%. The Delaware County Industrial Development Authority in Pennsylvania issued $23.4 million of BB+ rated revenue bonds for Chester Charter School for the Arts and sold its 2046 term bonds at 5.125% to yield 5.375%. And the City of Ham Lake, Minnesota had a $25.4 million non-rated charter school deal for DaVinci Academy of Arts and Science that came with a coupon of 5.00% to yield 4.70% in 2047. In the sector financing life care for seniors, including veterans, Minnesota's Moorhead Economic Development Authority issued $5 million of non-rated revenue bonds for Eventide Fargo, and the 2040 term bonds priced at par to yield 6.50%. Arizona's Maricopa County Development Authority sold $15.2 million of non-rated revenue bonds for Mariposa Point of Mesa; the term bonds in 2046 priced at par to yield 5.00%. Pennsylvania's Lehigh County General Purpose Authority financed a $43.4 million A rated project for Good Shepherd, featuring 30-year term bonds priced at 4.00% to yield 3.24%. The City of Reedley, California came to market with $12.3 million of insured certificates of participation for Sierra View Homes; the final maturity in 2040 priced with a coupon of 3.00% to yield 3.16%. And the City of St. Louis Park in Minnesota issued $26.2 million of non-rated revenue bonds for Mount Olivet Careview Home; 2.00% bonds maturing in 2049 were priced step to 4.90% in December of 2017.

The municipal bond market marked a new record when the 30-year AAA municipal general obligation bond yield fell to an all-time low of 2.39% last Tuesday. The historic muni yields are a bugle call for borrowers, and the heavy calendar reflects the level of interest in low-cost financings for infrastructure projects from coast to coast. Investors seeking income and relative safety have not been deterred by these low rates; lacking alternatives in this environment, they continue to pour cash into bonds and bond funds. Muni funds have seen net inflows averaging $1 billion a week for the past 33 weeks and have lately been outperforming Treasuries across the curve. Remarks by central bank officials have driven up government yields lately; the presidents of the Federal Reserve Bank of San Francisco, Boston, and Philadelphia, as if perturbed by futures trading reflecting a low likelihood of a June rate increase, took to the microphones on Monday to remind markets who is in charge. Treasuries always bear the brunt of market beatings when Fed officials start talking about how anxious they are about inflation and how many rate hikes the economy can withstand. The 10-year yield currently stands at 1.85%, off from the low of 1.70% this month, and the 30-year is at 2.64%, 10 basis points off the low. The 10-year AAA muni yield at this writing is 1.63% and the 30-year is at 2.43%.

The Fed's policy committee does not meet for three more weeks, and markets still only price in a 34% chance of a rate increase in June, but traders will keep a close eye on key economic data releases in the run up to the June 15 meeting. For now, the markets are in somewhat of a holiday mode. The $9 billion muni calendar this week is dominated by investment grade deals including financings for Midway and Richmond airports, water system transactions for San Diego and Los Angeles, and hospitals in Texas and New Jersey. Bond markets close early on Friday, and all U.S. markets are closed on Monday. We at HJ Sims will join Americans across the country in taking time from graduation celebrations and barbecues marking the start of summer to observe the National Moment of Remembrance and reflect on those in uniform who gave their lives to make our opportunities possible.

Bank Loan Disclosure Discussion Heats Up

This week, as the 110th annual Government Finance Officers Association (GFOA) conference takes place in Toronto, thousands of public finance professionals are gathering to "share solutions and strategies" for an array of municipal finance topics. One of the key topics for discussion is improving the regularity and detail of disclosure of direct purchases and bank loans entered into by issuers and borrowers. Since first identifying the need for voluntary disclosure nearly five years ago, the Municipal Securities Rules Board (MSRB) has been disappointed with what it regards as limited disclosure. However, issuers and borrowers are using the conference as a forum to voice frustrations over the obscurity of the current system.

The crux of the issue

As an alternative to publicly distributed municipal bonds, bank loans and direct placements have seen increasing use over the last several years. In some cases, MSRB has argued that these financing vehicles may be considered securities subject to MSRB rules, and as such the MSRB has encouraged issuers to voluntarily disclose key information to Electronic Municipal Market Access (EMMA). In a recent regulatory notice, the MSRB noted that without disclosure of key information, "investors may not be able to fully appreciate the overall amount of indebtedness of an issuer… and they may also lack knowledge of key terms of any undisclosed indebtedness, which could be material to their investment decisions." One example, for instance, is that bank loans may have provisions that, in an event of default, make the bank senior to the bondholders or provide the bank with more favorable remedies. This transparency concern has become so pertinent that some of the largest municipal bond investors have adopted policies where they will not buy bonds when information about the issuer's bank loans is not readily available.

Given the limited response of voluntary disclosure by issuers, the MSRB circulated a concept release on March 28 that asked for market participants' opinions about a rule to require municipal advisors to disclose information about the bank loans of their clients to EMMA. The market has until May 27 to file comment letters on the concept release.

Current Best Practices

So what voluntary disclosure best practices should municipal market participants follow in order to promote transparency and further market efficiency when executing a bank loan? As outlined in an MSRB regulatory notice dated January 29, 2015, generally, municipal market participants have taken the following steps to foster greater municipal bank loan transparency:

- Develop voluntary disclosure policies and procedures related to the execution of bank loans;
- Understand the characterizations of bank loans for legal and accounting purposes;
- Determine the priority of payments for the bank loan relative to existing bonds;
- Highlight any debt acceleration provisions within the bank loan;
- Highlight any events that could cause the interest rate on the bank loan to change;
- Understand the treatment of bank loans in financial statements;
- Review the implications of structures, terms and pricing of bank loans; and
- Disclose bank loan information to EMMA using the voluntary disclosure mechanism.

And while issuers who have taken the initiative to comply with these best practices contest that the process for actually disclosing information on bank loans to EMMA is hardly straightforward, the MSRB asserts that it recognizes the challenges and is committed to making the system more user friendly.

If you'd like to discuss what steps your organization should be taking to ensure proper disclosure of a direct placement or bank loan, please contact a Sims Banker.

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
Elizabeth Sims	512-519-5002	esims@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
