May 3, 2016

CAPITAL MARKET UPDATE

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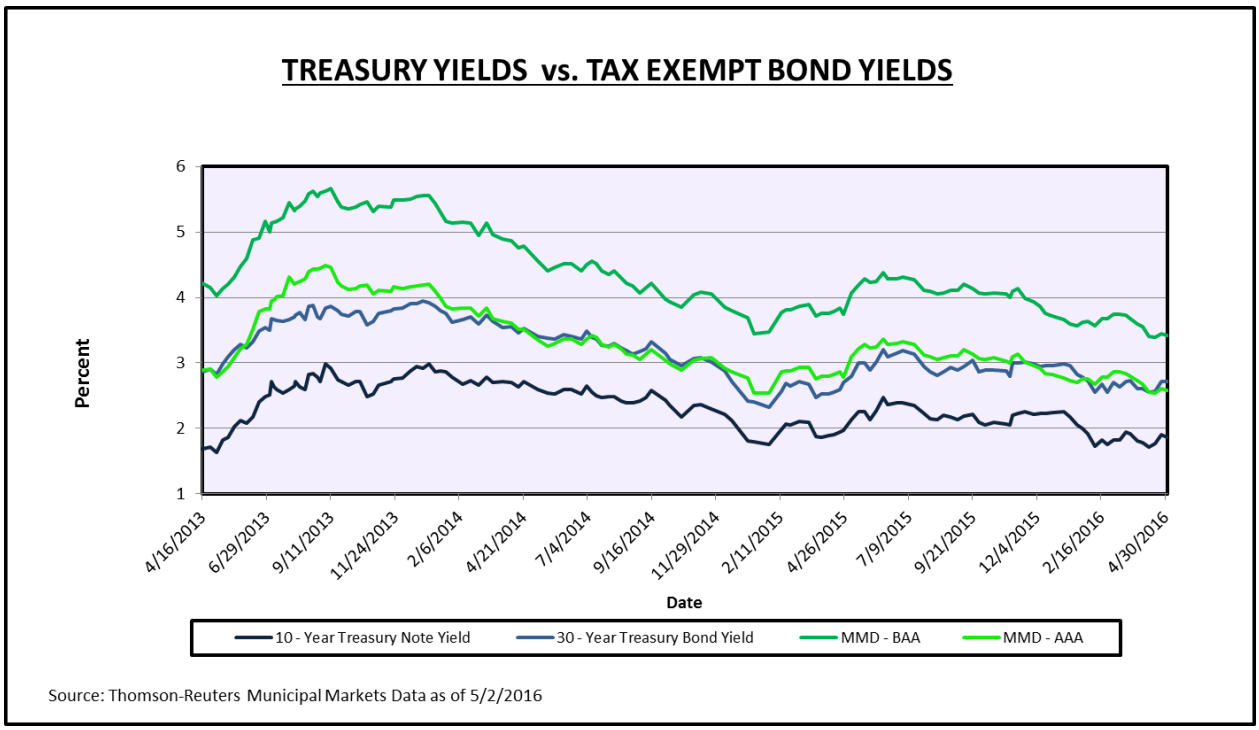
Senior Living New Issue Rates as of 5/3/16

Maturity	Taxable Rates	Tax Free Rates				
	GNMA Taxable	FHA Tax-Exempt	A	BBB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.290%	1.750%	2.150%	2.55-3.125%	3.375-4.10%
10 yr.	NA	2.170%	2.550%	2.900%	3.50-3.875%	4.125-5.00%
20 yr.	NA	3.150%	3.200%	3.600%	4.125-4.55%	4.875-5.75%
30 yr.	3.740%	3.370%	3.400%	3.750%	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
3.71%	1.8100%	2.6680%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.23%	0.53%	0.80%	1.03%	1.27%
Weekly LIBOR Swap Rates	0.81%	1.08%	1.32%	1.52%	1.75%



Market Commentary

A normal adult heart weighs between 7 and 15 ounces and is just about the size of your fist. The human brain tips the scale at about 3 pounds and is usually double the size of a fist. These two organs occasionally find themselves at odds, and one eventually comes to outweigh the other in situations that may involve altars, careers, or voting booths. Today, well-reasoned and compassionate people are struggling to come up with solutions for fellow Americans in financially troubled places like Detroit, Atlantic City, San Bernadino, and San Juan. After months of intense efforts to win the hearts and minds of U.S. Members of Congress while simultaneously pressing their largest creditors to help voluntarily restructure its debt, Puerto Rico failed to make most of a $422 million Government Development Bank principal debt payment that was due on May 1. The markets were braced for this and viewed it as the third in what may be a string of payment defaults by the Commonwealth. Investors coldly view the U.S. territory, along with a handful of other cities, as fairly isolated concerns in a diverse $3.7 trillion municipal bond market; but many individuals and institutions still hold this debt, and just about everyone is keeping a careful eye on developments there as well as in other state and local governments strained by major debt and pension burdens.

Fixed income finished the month with a fist pump after the Federal Open Market Committee left rates unchanged again, but performance was mixed on the month overall. The 10-year Treasury strengthened by 5 basis points to close on Friday at a yield of 1.83%, and the 30-year Treasury gained 3 basis points to finish the week at a yield of 2.67%. Municipal prices rose in tandem. The 10-year AAA general obligation bond was up 4 basis points to yield 1.61% and 30-year munis rose by 2 basis points to close at 2.58%. During the month, munis outperformed their taxable counterparts; the 10- and 30-year benchmarks strengthened by 9 and 11 basis points respectively in April, while 10- and 30-year Treasuries lost 7 and 6 basis points, respectively. Both municipal and government bonds are up year-to-date.

Municipal bond funds took in $1.2 billion during the week ended April 27, bringing the month-to-date total to $5.1 billion. Investors have been pouring more money into municipal funds than any other sector this year. A net of $19.6 billion has been invested so far, exceeding the $18.6 billion that has gone into taxable fixed income funds while equity funds have seen net outflows of $27.5 billion in 2016. Long-term municipal bond volume dropped for the eighth month in a row. Primarily due to a continued slowdown in refundings, issuance was off by 21% from last year's level and came in at $32.4 billion. This week, the $8.2 billion calendar is expected to include a $34.4 million BBB-minus rated California Municipal Finance Authority financing for American Heritage Foundation, a $12.1 million non-rated Delaware Economic Development Authority transaction for Newark Charter School and an $11.4 million non-rated Wisconsin Public Finance Authority issue for Envision Science Academy in Raleigh, North Carolina.

Last week, the market absorbed some hefty-sized higher yielding transactions. The California Statewide Communities Development Authority issued $947.6 million of BB rated revenue bonds for Loma Linda University Medical Center and priced the final maturity in 2056 at 5.25% to yield 4.70%. The Industrial Development Authority of Fulton County, Pennsylvania was in the market with a $25.6 million non-rated hospital revenue bond issue for the county medical center; the 2040 term bonds were priced with a coupon of 5.00% to yield 4.30%. The Texas Private Activity Bond Surface Transportation Corporation sold $272.6 million of Baa3 rated senior lien revenue bonds subject to the alternative minimum tax for the State Highway 288 Toll Lanes project; the deal was structured with four term bonds including a 2055 maturity priced at 5.00% to yield 3.93%. The Industrial Development Authority of the County of La Paz, Arizona sold $43.2 million of BBB rated education facility lease revenue bonds for the Charter Solutions-Harmony Public Schools project, and its 30-year term bonds sold at a rate of 5.00% to yield 4.15%. The California Municipal Finance Authority had a $10.9 million BB+ rated charter school refunding and improvement revenue bond issue for King/Chavez Academy of Excellence that had a 30-year maturity priced at 5.00% to yield 4.41%. And the City of Vincennes, Indiana, less than an hour away from the nation's best bellwether county of presidential prediction, Vigo County, priced $11.3 million of non-rated economic development revenue refunding bonds for Southwest Indiana Regional Youth Village at par to yield 6.25% in 2029.

HUD and Sims Mortgage Funding Continue Their Respective Transformations

The HUD Multifamily Transformation continues to sweep the nation. Over the past several years, HUD has been slowly and steadily reorganizing its multifamily housing mortgage insurance programs. Its goals are to improve processing timeframes, create a uniform application and review process and approve loans with an underwriting framework that focuses on a project's "big picture" as presented in a standard lender narrative. With the Transformation, HUD is looking to follow its highly-successful Lean program that has been in effect since March 2009 and has contributed to a dramatic increase in the appeal of HUD mortgage insurance for healthcare facilities.

Central to the Multifamily Transformation is the consolidation of 51 HUD field offices that historically have approved deals into 5 regional offices and 7 satellite offices. The Transformation has been completed in three of the five newly-established regions – Southwest (Forth Worth with a satellite office in Kansas City); Midwest (Chicago with satellite offices in Detroit and Minneapolis); and Southeast (Atlanta with a satellite office in Jacksonville). The transformation in the Northeast (New York with satellite offices in Boston and Baltimore) is well underway and should be completed by the summer. The Western regional transformation (San Francisco with a satellite office in Denver) is expected to get started later this year. As part of the Western reorganization, HUD multifamily staff in the Seattle and Portland field offices will be transferred to the Lean healthcare program to accommodate an anticipated increase in production once the new Lean Handbook is issued. The Handbook will contain a more favorable treatment of existing debt and bridge loans than current policy. More on the Handbook will be forthcoming soon in a future edition of *Capital Market Update*.

Under the Transformation, the timing on approvals for multifamily housing deals has been dramatically improved. HUD targets 60 days for approval of new construction/substantial rehabilitation applications and 45 days for acquisition or refinance transactions. In the Southwest Region, which was the first to complete its transformation, they have met these timeframes 100% of the time for the current fiscal year, which started last October. Moreover, the average processing timeframe for new construction loans has been 51 days, down four days from last year. We anticipate similar timeframes across the nation once each Region's transformation has been fully implemented.

The Transformation, along with the recent reductions in mortgage insurance premiums and more favorable loan-to-cost and debt service coverage ratios, have made HUD-insured loans for multifamily construction an extremely competitive capital source. And did we mention the loans are non-recourse and have 40 year amortizations?

Sims Mortgage Funding is also continuing with its own transformation. Last year we completely overhauled our corporate branding to align it more closely with the look of HJ Sims. In addition, our website had a "substantial rehabilitation" and now has a look that is in synch with our new branding. We encourage you to visit at www.simsmortgage.com. We also have established a constant presence with Constant Contact by publishing a monthly newsletter covering our loan closings and developments with HUD.

Our transformation continues in 2016. We recently entered into an agreement with Lending Standard, a Midwest-based mortgage consulting firm, which will transform our application development, loan processing and underwriting capabilities. Our new platform for these activities will be Web-based and allow for on-line collaboration, easier document collection and standardization of data across a number of formats and HUD templates. Our new model will create a single-point of entry for information that will be used to prepare loan and underwriting calculations and complete the many HUD forms that are part of the application.

Sims Mortgage Funding will be among the first HUD lenders in the country to participate in the Lending Standard model. With this new platform, we anticipate that it will take us less time to complete an application and get it submitted to HUD. We have started staff training with Lending Standard and expect to roll out our first application using the new platform by the third quarter of the year.

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For more information, please contact an HJ Sims banker.

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