CAPITAL MARKET UPDATE

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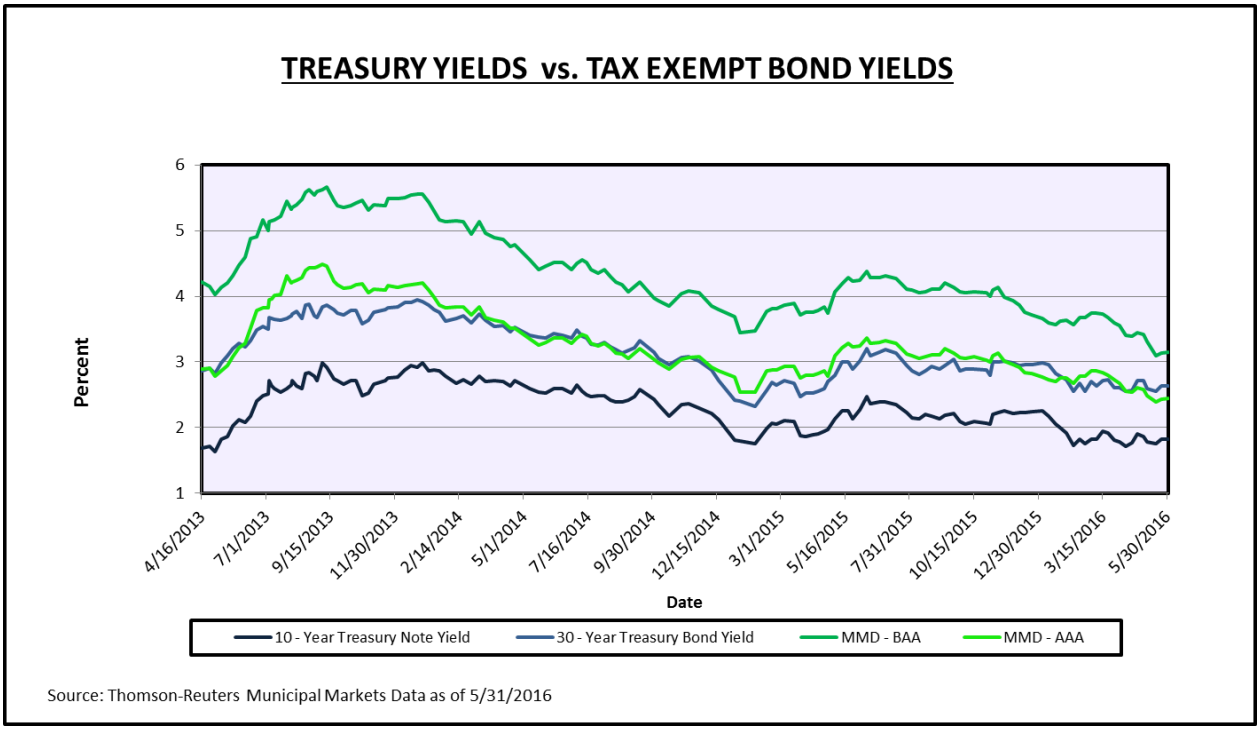
Senior Living New Issue Rates as of 5/31/16

Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.300%	1.750%	2.100%	2.45%	2.50-3.00%	3.25-4.00%
10 yr.	NA	2.180%	2.500%	2.800%	3.15%	3.40-3.65%	4.05-4.90%
20 yr.	NA	2.880%	3.150%	3.450%	3.80%	4.00-4.375%	4.75-5.65%
30 yr.	3.710%	3.110%	3.350%	3.600%	4.00%	4.50-4.75%	5.05-5.50%

SIFMA Index	LIBOR
0.40%	0.45%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.48%	1.8480%	2.6490%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.24%	0.59%	0.82%	1.04%	1.26%
Weekly LIBOR Swap Rates	0.89%	1.18%	1.37%	1.52%	1.74%



Market Commentary

For sports fans, this is like a week-long Las Vegas buffet. A rookie driver just pulled off a stunning upset in the 100th running of the Indianapolis 500. The 100th Copa America international soccer tournament begins in multiple U.S. venues on Friday. The Pittsburgh Penguins are playing the San Jose Sharks in the Stanley Cup finals and the Cleveland Cavaliers face the Golden State Warriors once again for the NBA Championship. The NCAA golf championships are underway in Eugene, Oregon, and there are French Open tennis matches through Sunday. Major League Baseball is about a third of the way through its season, and NFL teams will start their mandatory minicamps on June 7.

Political gluttons will argue that the only events to watch begin next week with the presidential primaries in California, Montana, New Jersey, New Mexico and the Dakotas. Financial whiners and diviners are on the edges of their seats waiting for the next courses from Federal Reserve Board officials. Late last week, Fed Chair Janet Yellen once again described the economy as "continuing to improve" and commented that a U.S. rate hike in the coming months would probably be appropriate. Previously, the presidents of the Boston Fed and San Francisco Fed talked from the same menu in an effort to adjust market expectations and promote the possibility of a policy change in June or July. On Monday, the St. Louis Fed President went even further and argued that global markets appear to be "well-prepared" for a rate increase. Investors are picking over the same economic data with a different fork and looking at a full plate that includes the British referendum on its European Union membership this month, $50 oil, the Republican and Democratic party conventions in July and negative interest rates abroad, and still only place the odds of a rate increase at 21% in June and 58% in July.

In holiday-shortened trading last week, the U.S. Treasury auction of two-year notes was met with surprisingly strong buy-side demand, but 10- and 30-year yields were largely unchanged at 1.85% and 2.64%, respectively. Mutual fund investors yanked another $4.8 billion out of equity funds while the Dow Jones Industrial Average gained 373 points and the S&P 500 Index was up 46. Investors added another $951 million to muni funds and yields inched up slightly; the 10-year AAA general obligation bond closed at 1.66% and the 30-year yield ended at 2.45%. On the $8.2 billion new issue slate, the Wisconsin Public Finance Authority issued $22 million of taxable revenue bonds for The Orchard, a continuing care retirement community in Ridgeland, Mississippi, with a single 2019 maturity priced at 2.875% to yield 2.00%. The Michigan Strategic Fund priced $10.1 million of non-rated limited obligation revenue subordinate capital appreciation bonds for Detroit Renewable Energy LLC Power at 0% to yield 9.00% in 2025. The North East Texas Regional Mobility Authority sold $181.3 million of BBB rated senior lien revenue bonds with the final 2046 maturity priced at 5.00% to yield 3.18%. And the Arkansas Development Finance Authority issued $22.7 million of revenue refunding bonds for Pulaski Academy in Little Rock; the non-rated 2039 term bonds priced at 4.00% to yield 4.11%.

This week, the European Central Bank meets, as does the Organization of Petroleum Exporting Countries. In the U.S. municipal market during this first week of June, there is not much of a smorgasbord. The new issue calendar totals only $4.5 billion and is led by two New York University deals totaling $837 million. The Industrial Development Authority of Pima County, Arizona plans a $30.9 million BB rated revenue bond deal for Edkey Charter Schools, and the Industrial Development Authority of Maricopa County has a $21.7 million Baa3 rated charter school financing for Reid Traditional Schools in Phoenix. The Hospital Facilities Authority of Multnomah County in Oregon is in the market with a $13.6 million BBB rated refunding for the Terwiliger Plaza retirement community in Portland, and the City of Wichita, Kansas plans a $33 million non-rated financing for Kansas Masonic Home. The 30-day visible supply of municipal bonds totals $14.3 billion.

Big Improvements in HUD Health Care Financing – Here Comes the New LEAN Handbook

Regular readers of the *Capital Market Update* might have noticed that recent articles on HUD were about improvements to the multifamily mortgage insurance programs, such as lower mortgage insurance premiums for affordable and energy-efficient market rate projects, and more favorable debt service and loan-to-cost ratios for market rate deals.

Not so with this edition, as HUD's healthcare programs are back in the spotlight. HUD recently released a draft of its long-awaited update to the LEAN Section 232 Handbook, which was first issued in May 2014. Release of the draft is the first step towards the finalization of the Handbook: a public comment period ends on June 1. HUD then will assess the comments, publish a final version and announce an effective date. However, HUD has indicated that it will consider on a case-by-case basis waivers of the current Handbook policy in favor of the draft before it becomes final. This gives borrowers the best of the new Handbook while awaiting its formal implementation.

Nowhere is this more evident than with HUD's new guidelines on refinancing existing debt. Prior loans whose proceeds included equity take-outs previously had to be seasoned for two years. HUD now will allow such loans to be *immediately* eligible for refinancing, depending upon the amount of the loan used for equity and the HUD-insured loan-to-value. For example:

- If less than 50% of the prior loan was used for equity and the HUD-insured loan does not exceed 70% of value, then no seasoning is necessary.
- If 50% or more of the prior loan was used for equity and the HUD-insured loan does not exceed 60% of value, then no seasoning is necessary.
- If 50% or more of the prior loan was used for equity and the HUD-insured loan is 61% or more of value, then two years of seasoning is necessary.
- The seasoning period for prior loans – regardless of the use of proceeds – will remain two years if the HUD-insured loan is at least 71% or more of value.

HUD also has relaxed debt seasoning requirements for related-party purchase transactions. It will now allow debt associated with these purchases to be refinanced with a HUD-insured loan immediately instead of after a two-year seasoning period provided three conditions related to the sale are met:

- The seller has no residual rights to control the project;
- The seller has no residual rights to reacquire the project until not less than five years after the HUD-insured loan closing; and,
- The purchase must have occurred prior to the date the application for HUD mortgage insurance was filed.

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Big Improvements in HUD Health Care Financing

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Operator debt, formerly prohibited, will now be considered eligible, provided that it is tied directly to the project. Examples include costs related to the purchase of additional furniture, fixtures and equipment, working capital related to lease-up and stabilization of the project and other capital expenditures.

The updated Handbook also should make it easier for non-profit sponsors to refinance existing debt. Many of these mission-driven organizations have operating profiles with higher expenses, programs and services, and staffing ratios that are asymmetrical to the general market. This has caused lower than market project valuations for non-profits, resulting in loan sizings with insufficient proceeds. However, HUD now has made it easier for appraisals of non-profit projects to be adjusted for market conditions that will result in higher market valuations – and insured loans.

For additional information about the LEAN Section 232 program changes, please contact Anthony Luzzi at 201-315-1242 or aluzzi@simsmortgage.com. Anthony has been in the middle of the industry review of the Handbook through his position on the Executive Committee of the Committee on Healthcare Financing (COHF) and as a member of the Mortgage Bankers Association (MBA) Section 232 Working Group.

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
