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# CAPITAL MARKET UPDATE

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## Senior Living New Issue Rates as of 6/21/16

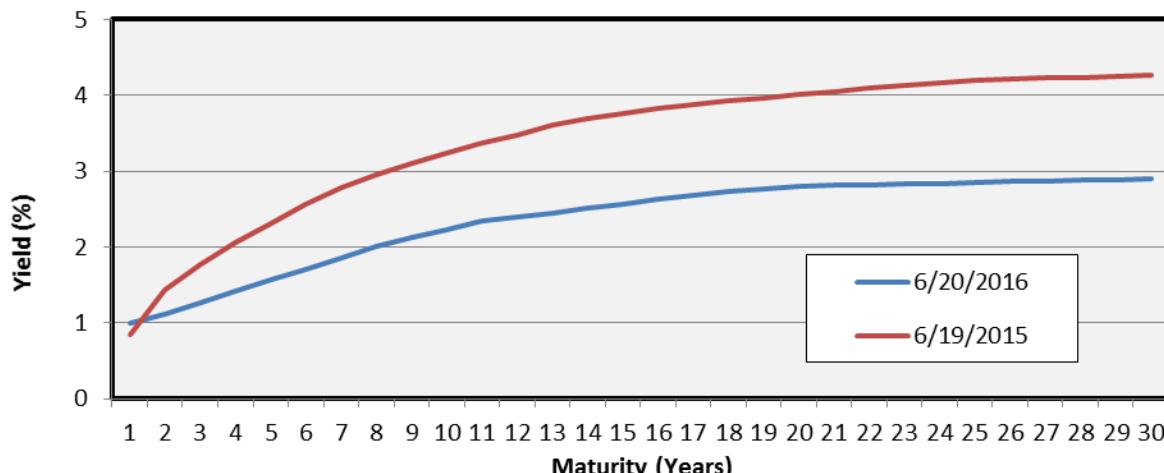
Maturity	Taxable Rates	Tax Free Rates					
		GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion
5 yr.	NA	1.200%	1.650%	2.050%	2.45%	2.50-3.00%	3.50-4.00%
10 yr.	NA	2.010%	2.350%	2.750%	3.15%	3.40-3.65%	4.20-4.75%
20 yr.	NA	2.690%	3.000%	3.400%	3.80%	4.125-4.40%	4.75-5.25%
30 yr.	3.560%	2.880%	3.150%	3.550%	4.00%	4.50-4.75%	5.10-5.50%

Senior Living new issue rates for borrowers in specialty states are 20-30 basis points lower in yield.

SIFMA Index	LIBOR	Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
0.41%	0.44%	3.38%	1.7080%	2.5110%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.21%	0.47%	0.69%	0.88%	1.11%
Weekly LIBOR Swap Rates	0.78%	0.97%	1.14%	1.31%	1.53%

### Tax Exempt MMD Yield Curve (BAA)



Source: Thomson-Reuters Municipal Markets Data as of 6/20/2016

## Market Commentary

Polls open on Thursday at 7am BST (2am EDT) for all properly registered British, Irish and Commonwealth citizens aged 18 or over who reside in the United Kingdom or Gibraltar, Maltese and Cypriot residents of the UK, and expats who have lived overseas for less than 15 years. Voters will mark white paper ballots with an "x" in the box next to their choice: "Remain a Member of the European Union" or "Leave the European Union", and the hand counting begins after 10pm local time. 382 local authorities will report their tallies to 12 regional centers, and it is expected that nationwide results will be announced by the Chief Counting Officer at Manchester Town Hall sometime after 2am EDT on Friday. Some hedge funds have reportedly commissioned private exit polls to get an early edge on trading the outcome, but many pollsters believe this is a waste of money as the margin of error at exit appears too high. At this writing, bookmakers give a 76% probability that Brits will elect to stay as older, working class and countryside voters favoring an exit look to be outnumbered by those in major cities and university towns. Global markets have rallied this week on the apparent momentum to retain the status quo. The UK never adopted the euro as its currency, so it is not part of the Eurozone; but it has been part of the EU for 43 years and contributed a net of £8.5 billion to the EU budget last year. However, if voters choose Brexit in the non-binding referendum, the Prime Minister said he will trigger Article 50, the formal mechanism for leaving the 28-nation union, and initiate negotiations which will necessitate agreement from 72% of continuing members as well as consent from the European Parliament.

Summer has arrived, and a vote for Brexit is just one on a long list of possible scorchers. Other major event risks range from terrorist attacks to the collapse of the government in Brazil before the start of the Olympics, to a major slowdown in the Chinese economy, unexpected monetary policy changes by one or more central banks, a crude oil selloff or upheaval at the conventions in Cleveland or Philadelphia, to name just a few. Amid all these unsettling possibilities, bonds rally on. The 10- and 30-year U.S. Treasury yields dropped four basis points last week to close at 1.60% and 2.41%, respectively. Municipal bonds once again outperformed governments. The 10-year AAA tax-exempt general obligation bond yield fell 9 basis points to close at 1.43%, and the 30-year benchmark yield sank 8 basis points to finish the week at 2.14%. Investors added a net of \$1.2 billion into municipal bond funds while pulling \$4.3 billion from taxable fixed income funds and withdrawing \$7.8 billion from equity funds. In the high yield new issue muni market, the Kentucky Economic Development Finance Authority sold \$64.4 million of non-rated revenue and refunding bonds for Baptist Life Communities and priced the 2051 term bonds at par to yield 6.375%. The New Hope Cultural Education Facilities Finance Corporation in Texas issued \$35.3 million of Baa3 rated student housing revenue bonds for Texas A&M at Corpus Christi with a 2048 maturity priced at 5.00% to yield 3.42%. The Colorado Educational and Cultural Facilities Authority sold \$21.8 million of A rated moral obligation revenue refunding bonds for Frontier Academy with 30-year term bonds priced at 3.25% to yield 3.40%. The City of Las Vegas had a \$24.8 million non-rated sales tax increment revenue bond issue featuring 2035 term bonds priced with a coupon of 4.375% to yield 4.45%. And Iowa's Davis County Hospital was in the market with a \$7.9 million non-rated refunding bond issue with a final maturity in 2025 priced at par to yield 2.85%

This week, as markets await the outcome of the big vote across the pond and semi-annual testimony by Federal Reserve Chair Janet Yellen before House and Senate Banking Committees, the muni calendar totals \$8 billion. The Arlington Higher Education Finance Corporation of Texas is bringing a \$43.6 million BBB-minus rated issue for Uplift Education. The City of Wichita, Kansas plans a \$33.2 million non-rated revenue bond issue for Kansas Masonic Home in Wichita. The New Hope Cultural Education Facilities Finance Corporation is in the market with a \$21.7 million student housing revenue bond issue for Texas A&M at San Antonio. And the Astoria Hospital Facilities Authority of Oregon has an \$18.1 million BBB-minus rated deal for Columbia Memorial Hospital. The 30-day visible supply of municipal bonds totals \$13.8 billion.

## Sims Uses “HUD Plus” to Refinance 7-Property Portfolio

<b>Partnered Right</b>	<ul style="list-style-type: none"> <li>Affiliates of Affinity Living Group successfully refinanced a seven property portfolio</li> </ul>
<b>Structured Right</b>	<ul style="list-style-type: none"> <li>Sims used its HUD Plus Program to help provide 100% of the funds needed to refinance the debt, renew the facilities and pay an equity dividend</li> </ul>
<b>Executed Right</b>	<ul style="list-style-type: none"> <li>A new entity was formed to issue taxable bonds to fund the subordinate loan to Affinity</li> </ul>
<b>Financed Right</b>	<ul style="list-style-type: none"> <li>Sims privately placed \$6,050,000 of corporate taxable bonds to fund subordinate loan to complete the refinancing</li> </ul>

### **Partnered Right**

Sims was approached by an affiliate of Affinity Living Group (“Affinity”), a spin-off of Meridian Senior Living, to assist in refinancing various forms of existing subordinate debt that remained on a portfolio of seven senior living properties after it had been refinanced with HUD. Using its “HUD Plus” program, Sims successfully provided a mezzanine loan totaling \$6.05 million to Affinity to complete the refinancing.

### **Structured Right**

There were a number of challenges associated with this financing:

- The debt needed to be structured in a way that was flexible and met the requirements of four recently completed HUD financings.
- The terms of Sims’ mezzanine financing had to allow for the financing of some further capital improvements and the potential sale of one of the portfolio properties.
- Affinity was under time constraints to complete the financing.

This Sims HUD Plus financing met both HUD’s and Affinity’s requirements and allowed the transaction to be closed on an expedited basis.

### **Executed Right**

A new entity, Affinity Portfolio Funding, LLC (the “Sims Issuer”), was formed to issue one series of bonds. The bonds were successfully sold to Sims’ high net worth accredited investors. Proceeds from the bonds were used by the Sims Issuer to fund the subordinate loan to Affinity. Sims was able to close the subordinate financing in less than 30 days after mailing its placement memo.

### **Financed Right®**

The ability of Sims to quickly underwrite and then implement a subordinate debt structure met the needs of Affinity as well as HUD. Sims’ ability to be flexible and close quickly allowed the owners to refinance higher cost debt and avoid making an additional equity contribution to the transaction. The creativity of Sims’ bankers resulted in both short and long-term cost savings for Affinity.

A creative financing solution for increasing the proceeds of a refinancing is an example of Sims using its extensive investor base to provide powerful financing to senior housing providers.

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