

CAPITAL MARKET UPDATE



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Senior Living New Issue Rates as of 7/26/16

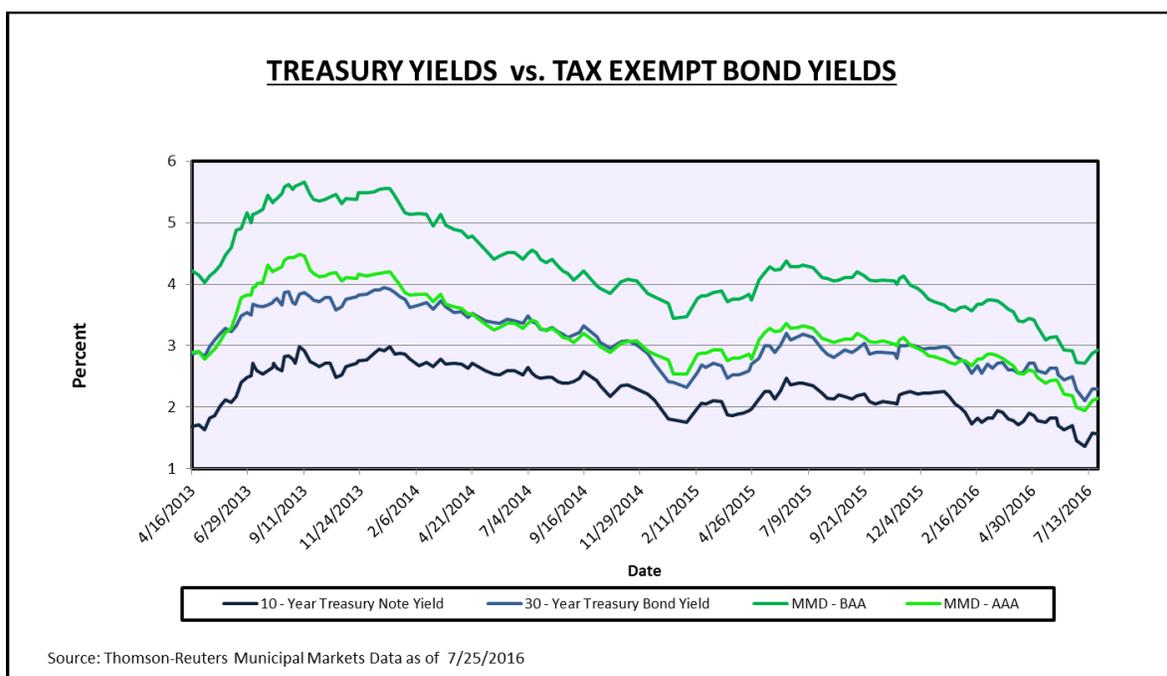
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.100%	1.600%	2.100%	2.50%	2.50-3.00%	3.50-4.00%
10 yr.	NA	1.950%	2.250%	2.700%	3.10%	3.40-3.65%	4.20-4.75%
20 yr.	NA	2.650%	2.900%	3.300%	3.75%	4.125-4.40%	4.75-5.25%
30 yr.	3.640%	2.830%	3.000%	3.450%	3.95%	4.375-4.625%	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
0.42%	0.49%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.06%	1.5530%	2.2770%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.24%	0.55%	0.72%	0.88%	1.08%
Weekly LIBOR Swap Rates	0.89%	1.12%	1.19%	1.32%	1.49%



Market Commentary

The Group of Twenty (G-20) is an economic clique comprised of heads of state from 19 industrialized and developing countries plus the European Union, together representing about 66% of the world's population and 85% of the gross world product. Meetings on troubling global economic and financial system matters are held behind closed doors, and not just anyone can attend. Argentina and Saudi Arabia are in, for instance, but Spain and Egypt are not. Principals will meet for the 11th time in September in the host city of Hangzhou, Zhejiang Province, China. There is very little remedial action that these leaders have not already tried. In the meantime, it is the job of their central bank officials and finance ministers to come up with new options and implement monetary policies, and they just met in Chengdu in Sichuan Province to question, blame and commiserate with each other. They are operating in never-before-seen conditions, some of which they are responsible for creating. Conditions of negative interest rates. Massive quantitative easing. Fiscal stimulus. Austerity measures. Currency devaluation. Major trade imbalances. Unprecedented mounds of debt. Sluggish to non-existent growth. Massive refugee movements. And terrorist attacks every week in improbable venues. Members of these international organizations typically wrap up their meetings with broad statements denouncing terror and pledging all available policy tools, individually and collectively, to reduce uncertainty and spur growth, while citizens of the world try to figure out how to get by and hope for their leaders' success.

The Federal Open Market Committee met this week and, as expected, quietly left the target U.S. rate unchanged and then went on a two-month vacation. When they return in September, 30-Day Fed Fund future traders price the odds of their hiking rates, even a smidgen, at 25%. In Philadelphia, delegates to the Democratic National Convention are meeting not so quietly to produce the expected nominee. We will see the first estimates of second quarter Gross Domestic Product on Friday and received data on home prices, new and pending home sales, consumer confidence and durable goods earlier in the week. The municipal new issue calendar is expected to total \$6 billion including a \$43.8 million non-rated Yamhill County Hospital Authority refunding for Friendsview Retirement Community in Newberg, Oregon. The 10-year AAA general obligation benchmark currently stands at 1.45%, while the 10-year Treasury note yields 1.58%. The 30-year tax-exempt muni yields 2.15%, and its Treasury counterpart yields 2.29%.

Last week, several hedge funds sued the Governor of Puerto Rico for recently spending hundreds of millions of dollars on "purposes that apparently enjoy political favor" such as public pensions, the University of Puerto Rico, and the Office of the First Lady, rather than for constitutionally prioritized general obligation debt service. Recently passed legislation placed a stay on litigation, but some exceptions were permitted; we will see if these fit the bill. Stock and bond prices moved sideways last week, but investors around the world, starved for yield, continued to press the high yield corporate and municipal markets. Municipal bond funds took in a total of \$1 billion last week, and portfolio managers had to buy lower yielding bonds. Among new issue sales, the North Carolina Medical Care Commission sold \$40 million of A-minus rated bonds for Deerfield Episcopal Retirement Community and priced the two tranches of 2037 term bonds at par to yield 3.25% and at 5% to yield 2.70%. The Washington State Housing Finance Commission issued \$57.4 million of non-rated refunding bonds for Bayview Manor Homes, and its 2051 term bonds priced at 5.00% to yield 4.35%. The California Municipal Finance Agency refunded \$34.8 million of BBB-minus rated bonds for NorthBay Healthcare Group, featuring 2028 serial bonds priced at 5.00% to yield 2.83%. The Pennsylvania Higher Educational Facilities Authority came with an \$11 million Baa3 rated student housing financing for East Stroudsburg University that had 2035 term bonds priced with a 5% coupon to yield 3.11%. The Florida Development Finance Corporation brought a \$50.7 million non-rated financing for Florida Charter Foundation that featured 2046 term bonds priced at 5.00% to yield 4.95% and privately placed \$14.1 million of non-rated senior and subordinate bonds for Palm Bay Academy including a 2036 maturity priced at par to yield 6.375%. Two charter schools came to market with the backing of their respective states: the Colorado Educational and Cultural Facilities Authority brought a \$5.5 million financing for Excel Academy, rated A with the state's moral obligation, that priced with a coupon of 3.00% to yield 3.16% in 2033. And the Arlington Higher Education Finance Corporation in Texas issued \$23.8 million of state-guaranteed bonds for the A.W. Brown Fellowship Leadership Academy that priced at 3.00% to yield 3.11% in 2042.

Refinancing Provides Savings, Covenant Relief for Life Plan Community in Texas



CARILLON

“The July 2016 refinance of Carillon bonds, as planned, resulted in significant capital investment and a stronger financial position. For this third financing, Sims performed! Our experience was good communication, responsiveness and professionalism; it matched completely our expectation.”

Scott Wynn – Executive Director, Carillon

Partnered Right	<ul style="list-style-type: none"> • Carillon: 441 unit Life Plan Community located in Lubbock, Texas • HJ Sims underwrote Series 1999 and Series 2005 bonds for Carillon • Carillon invested heavily in capital projects, negative impact on cash position
Structured Right	<ul style="list-style-type: none"> • Reduce debt burden and improve operating cash flow • Fund needed capital improvements
Executed Right	<ul style="list-style-type: none"> • Annual debt service savings of \$1,060,000 • Reduced Days Cash on Hand covenant to 100 days in first year, stepping up to 120 days • Provided \$5,000,000 to fund capital improvements
Financed Right	<ul style="list-style-type: none"> • Net Present Value Savings of \$7.98 million, or approximately 14.6% of the refunded debt • Strong position to improve cash flow and improve liquidity

Partnered Right

Carillon is a non-profit Life Plan Community located in Lubbock, Texas. The community is located on 25 acres adjacent to Texas Tech University and consists of 256 independent residential units, 45 assisted living units, and 140 skilled nursing beds (including 39 operated as memory care units).



Refinancing Provides Savings, Covenant Relief

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Carillon commenced operations as a retirement community in 1975. In 1999, HJ Sims underwrote a bond issue to fund the construction of 84 additional independent living units and a healthcare center. In 2005, HJ Sims completed a subsequent tax-exempt bond issue to refinance Carillon's Series 1999 bonds and fund certain renovations and improvements throughout the campus. Carillon has been managed by Life Care Services since 2003 and has experienced average occupancy over 90% in the independent and assisted living units over the past five years.

Despite maintaining high occupancy at the community, Carillon has struggled to maintain liquidity and fell out of compliance with its liquidity covenant in 2014. As the campus aged, Carillon invested heavily in capital projects, including the addition of 13 new independent living villas and the renovation of space previously leased to a third party hospice provider into a new 20 unit post-surgical rehab center.

Structured Right

Engaged by Carillon to refinance its outstanding debt, HJ Sims worked with the Board and Management to:

- Reduce Carillon's overall cost of capital
- Reduce annual debt burden and improve operating cash flow
- Fund needed capital improvements
- Provide covenant relief and flexibility

Executed Right

HJ Sims sold the 2016 bonds to a wide range of investors, including 19 different institutions and more than \$7,000,000 sold by HJ Sims' Income Advisors to HJ Sims' Private Client Group customers. The outcome of the refinancing accomplished the following in keeping with the original objectives:

- Arbitrage Yield of 4.41%, down from an average cost of capital of 6.61% on the prior bonds
- Reduction in annual debt service by approximately \$1,060,000
- Provided \$5,000,000 to fund capital improvements from proceeds of the bond issue, allowing Carillon to improve its liquidity position by funding costs that would have been paid out of operating cash
- New bond documents have more flexible covenants, including lowering the liquidity requirement from 150 days to 100 days in the first fiscal year, increasing to 120 days thereafter
- Released over \$2,700,000 from Trustee-held funds under the 2005 bond issue to unrestricted cash.

Financed Right®

HJ Sims closed on the \$58,870,000 tax-exempt bond issue on July 22nd, 2016. On a Net Present Value basis, the refunding saves Carillon approximately \$7.98 million, or 14.6% of the par amount of the refunded bonds. On an annual basis, the refinancing saves Carillon over \$1 million per year and also provides \$5 million to fund capital improvements, which puts Carillon in a strong position to improve cash flow and generate liquidity over the near future.

For more information, please contact James Rester at jrester@hjsims.com (512-519-5006) or Brett Edwards at bedwards@hjsims.com (512-519-5001).



Senior Bond Trader Joins HJ Sims as Vice President of Fixed Income Trading

HJ Sims is pleased to announce that Lance Badorf has joined the firm as Vice President of Fixed Income Trading, bringing with him 15 years of industry experience. Lance specializes in taxable and bank qualified municipal bond trading. He has experience with retail and institutional sales covering middle market banks, insurance companies, investment advisors and municipalities. "Lance's knowledge will strengthen our banking capability through the creation of new taxable municipal bond issues, as well as the ability to pursue municipal cash management business," says Arthur J. Wunder, Executive Vice President and Managing Director, HJ Sims.

Lance was most recently with Oppenheimer as Director of Trading. Prior to that, he held positions at Southwest Securities and TD Securities. His expertise will enhance HJ Sims' ability to service its retirement account business and further access the institutional area.

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