CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 7/25/17

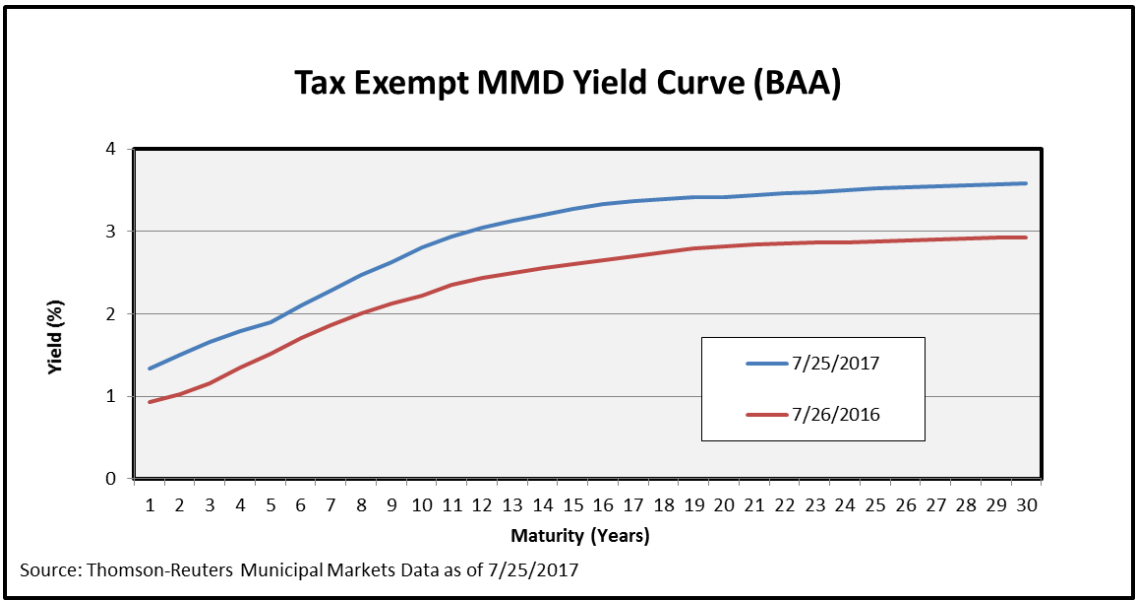
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.310%	1.900%	2.300%	2.70%	2.70-3.30%	3.95-4.45%
10 yr.	NA	2.330%	2.800%	3.100%	3.55%	3.75-4.10%	4.45-4.95%
20 yr.	NA	3.060%	3.650%	3.950%	4.55%	4.375-4.875%	5.25-5.75%
30 yr.	3.460%	3.310%	3.800%	4.050%	4.70%	4.625-5.125%	5.90-6.65%

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

SIFMA Index	LIBOR
0.82%	1.22%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.70%	2.2610%	2.8510%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.06%	1.26%	1.40%	1.55%	1.73%
Weekly LIBOR Swap Rates	1.46%	1.71%	1.89%	2.04%	2.21%



Market Commentary

U.S. home prices have soared to new highs for the sixth straight month, average family health insurance premiums have increased by 140% in the last three years and college tuition increased an average of 6% a year for the past 25 years; but the Federal Reserve Board members meeting this week in Washington are wringing their hands over what they see as a stubborn lack of inflation. The Fed uses the Department of Commerce's Core PCE price index, a measure of personal consumption expenditures prices that excludes food and energy, as its inflation gauge. Its target of 2% has been elusive for six years, and reports of further weakness may block plans for raising rates again this year. Two thousand miles away, Venezuela is having quite the opposite problem. Right now, the price of food there doubles every week, and the International Monetary Fund projects that its inflation rate could reach 720 percent and its unemployment rate 25 percent this year. This South American country with the world's largest proven oil reserves has less than $10 billion of cash, $5 billion of which is needed to pay debt service. With default a possibility, the country's rating has slipped to CCC, and its bond prices have just dropped even further in response to President Trump's threat of sanctions. Venezuelan President Maduro has called for a special vote on July 30 to elect an assembly that would rewrite the country's constitution.

Votes on monetary policy by the Fed were not expected to produce any change on Wednesday. Financial markets are more focused on the dramatic health care votes in the Senate, Saudi Arabia's plan to further cut its oil production, Greece's return to the bond market for the first time in three years and second quarter corporate earnings reports which continue to fuel the stock market rally. Although the likelihood of a U.S. default is miniscule, markets are also keenly attuned to the fact that the U.S. Treasury will run out of money in October. Congress has yet to act on a measure to increase the limit on federal borrowing, and investors are demonstrating that this delay has a cost. Last week, the price paid for a 3-month Treasury bill dipped below that of the 6-month bill, and the auction this week attracted weak bids. Investors are demanding more yield on the shorter maturity, given the additional risk of being repaid on a bond maturing in October when there could be a government shutdown. At this writing, the 3-month bill yields 1.15%, and the 6-month bill yields 1.12%. The 10-year Note, which rallied by 10 basis points last week, lost all that ground by Tuesday and currently yields 2.32%. The 30-year yield at 2.90% is up 10 basis points from where it closed on Friday.

In the $3.8 trillion municipal bond market, the 10-year AAA general obligation benchmark is yielding only 84% of the 10-year Treasury, a 14 month low. This is a reflection of the higher prices being commanded by tax-exempt bonds in a low supply/high demand environment. 10-year and 30-year muni yields fell 10 basis points to 1.90% and 2.69% last week, and borrowers continued to benefit from these low rates. The Buffalo and Erie Industrial Land Development Corporation sold $33.9 million of BB+ rated revenue bonds for Tapestry Charter School in Buffalo, New York, structured with 2052 term bonds priced at 5.00% to yield 4.70% (199 basis points over the AAA muni general obligation bond). The Florida Development Finance Corporation issued $6.3 million of non-rated revenue bonds for the Downtown Doral Charter Elementary School that included a 2044 maturity priced at par to yield 5.75% (+307). The City of Searcy, Arkansas brought a $6 million refunding revenue bond deal for student housing at Harding University that had a non-rated maturity in 2029 priced at 3.00% to yield 2.90% (+77). The City of St. Paul Park, Minnesota brought a $5.4 million non-rated variable rate financing for Norris Square in Cottage Grove. The Industrial Development Authority of Clinton County, Missouri sold $10 million of non-rated revenue bonds for Cameron Regional Medical Center with serial bonds that priced at par to yield 4.30% in 2033 (+181). The Bucks County Industrial Development Authority was in the market with a $25.1 million non-rated issue for the Chandler Hall assisted living facility in Newtown, Pennsylvania with bonds priced at par to yield 6.17% in 2033 (+373), and the Quakertown General Authority sold $48.9 million of non-rated USDA Loan Anticipation Notes for LifeQuest Nursing Center that had a single four-year maturity priced at par to yield 3.125% (+197).

This week, HJ Sims is in the market with a $191,375,000 financing for the expansion of Ingleside at Rock Creek, a Type C life plan community that has roots in the nation's capital dating back to 1906. Non-rated bonds are being issued through the District of Columbia.

FHA Insurance – What Has Sims Mortgage Funding Been Up To?

Over the past few months, the SMF team has racked up thousands of frequent flyer miles and hundreds of hotel points traveling to the lender's conferences and HUD training sessions. It's a great opportunity to network with senior HUD officials, obtain first-hand updates on policies and programs and commiserate, sometimes over adult beverages, with our colleagues in the industry about life dealing with HUD!

- In February, Kerrie Tomasiewicz and Andrew Patykula attended the Eastern Lenders Association annual meeting in Baltimore, MD. The ELA is a group of lenders and consultants active in HUD's Northeast Region, which extends from Maine to Virginia. We've closed almost $1.2 billion in HUD-insured loans in the Northeast Region, most recently for two affordable housing projects in Maryland and New Jersey.
- Kerrie was on the road again in May, this time with Anthony Luzzi, attending the Southwest Mortgagee Advisory Council annual meeting in Fort Worth, TX. SMF has closed $460 million in loans in the Southwest Region, primarily for new construction of market-rate housing and affordable housing preservation.
- In early June, Andrew Patykula represented SMF at the LEAN Lender Dialogue and Underwriter Training in Seattle, WA. This interactive meeting provided a frank two-way exchange of ideas on how to make HUD's healthcare mortgage insurance programs work better and is emblematic of the LEAN program's goal of continuous improvement.
- In mid-June, Anthony participated in HUD's Section 242 Hospital Training program in Washington, DC. SMF has recently increased its presence in the Section 242 mortgage insurance program – in March, we closed a $30 million loan for Parkview Community Hospital in Riverside, CA and are currently developing a $98 million application for a major expansion project for the Baton Rouge General Medical Center in Louisiana.

Here are four take-aways from the SMF team's recent travels.

- With the creation of the Western Region, the makeover of HUD's multifamily lending platform is complete. HUD now has five fully functioning regional offices and seven "satellite" offices handling multifamily mortgage insurance applications, which are fully standardized as to form and content and are reviewed by a single underwriter.
- Processing timeframes for multifamily deals have been consistently improving: preliminary applications at 45 days, firm commitment applications from 45 to 60 days and streamlined refinance applications at 30 days. We recently obtained two such multifamily approvals in 16 and 32 days!
- Prevailing wage ("Davis – Bacon") decisions continue to pose challenges for new construction loans, as they are increasing costs at a time when developers are seeing an overall escalation in project budgets. Higher labor rates largely stem from outdated surveys of wage data and the issuance of multiple decisions for a *single* project. The Department of Labor, not HUD, is the source of these challenges - the involvement of our elected officials will most likely be needed to resolve matters.
- The new LEAN guidelines make it easier to refinance existing debt that included an equity take-out, in some cases eliminating the prior 2-year seasoning requirement. However, to take advantage of this opportunity, there must be close cooperation and communication between the bridge and HUD lenders. SMF has the expertise to coordinate this process, as we have closed over $190 million in HUD-insured loans that have refinanced bridge and REIT debt. Moreover, we are expanding our contacts with a variety of bridge lenders active in the healthcare space, enabling you to "cross the bridge" to HUD that much easier.

Please contact any member of the SMF team listed below if you would like additional information on how you can benefit from a HUD-insured loan, or if you need a restaurant recommendation in Baltimore, Fort Worth, Seattle or Washington, DC.

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