CAPITAL MARKET UPDATE

Tel: 800-HJS-1935 www.hjsims.com

HJ SIMS FINANCED RIGHT®

Member FINRA/SIPC

Senior Living New Issue Rates as of 8/1/17

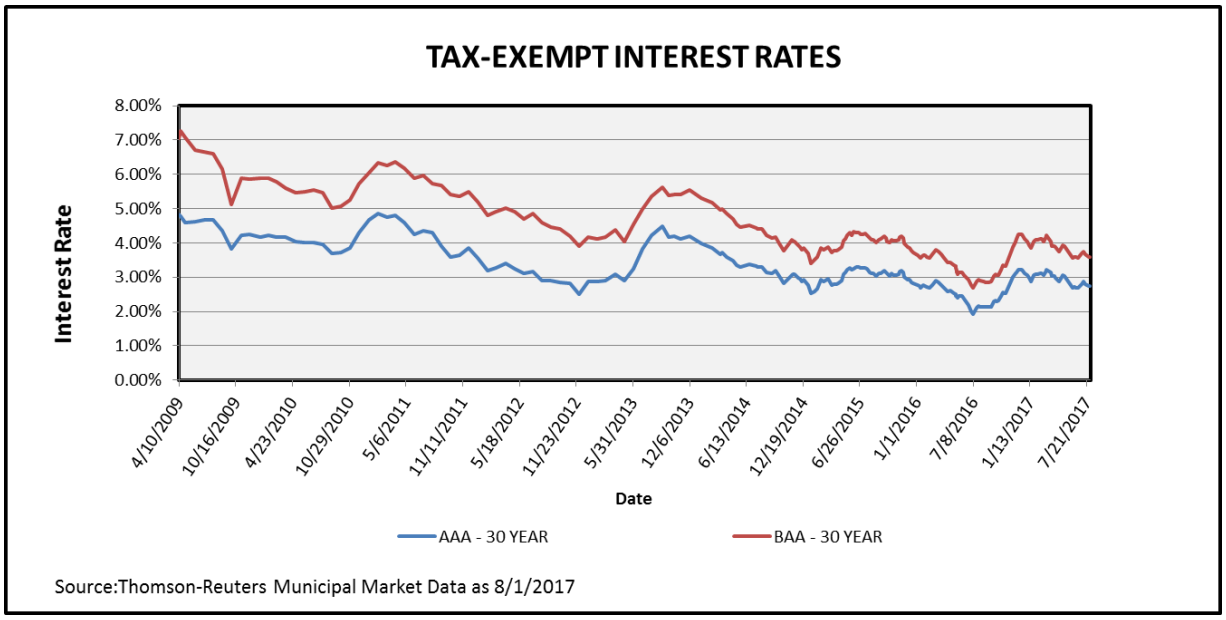
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.310%	1.900%	2.300%	2.60%	2.65-3.20%	3.95-4.45%
10 yr.	NA	2.360%	2.750%	3.050%	3.50%	3.625-4.00%	4.45-4.95%
20 yr.	NA	3.090%	3.600%	3.900%	4.40%	4.25-4.75%	5.25-5.75%
30 yr.	3.490%	3.350%	3.750%	4.050%	4.60%	4.50-5.00%	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%	1.23%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.72%	2.2500%	2.8320%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.06%	1.26%	1.41%	1.55%	1.74%
Weekly LIBOR Swap Rates	1.46%	1.71%	1.90%	2.06%	2.25%



Market Commentary

The Ringling Brothers and Barnum and Bailey Circus closed on May 21 after 146 years of entertaining crowds in the U.S. and Europe, but the Greatest Show on Earth lives on in Washington, D.C. In Ring One last week, the House of Representatives dropped the budget and debt limit balls they were juggling and did a five week disappearing act. Over in the second ring, Senators performed a high wire act on health care and kept the audience breathless until they lost their balance. Under the Big Top, a series of astonishing acts by fire eaters and lion tamers stole most of the spotlight. At the Federal Reserve, the ringmaster announced nothing new but kept the attention of the crowd with reassuring words like gradual, evolving, accommodative and data.

Wall Street is keeping an eye on the four-ring circus in Washington as well as on the North Korean missile threats, the Venezuelan election fallout, Russian sanctions, global oil prices, Treasury's gravity defying accounting maneuvers to stay below the debt cap and the laundry list of things for Congress to do when they return after Labor Day. Encouraging economic data on growth (up 2.6% in the second quarter), pending home sales (up 1.5% in June), unemployment (down to 4.4% in June), new momentum for tax reform and second quarter corporate earnings have all propelled the Dow Jones Industrial Average to new all-time highs -- at this writing, on the cusp of 22,000. Just about the only stocks not doing well are in the tobacco sector. Tobacco settlement bond prices have fallen as well on the announcement that the Food and Drug Administration plans to lower the nicotine levels in cigarettes to non-addictive levels in an effort to reduce tobacco-related disease.

Bond prices weakened across the board during the last trading week in July, and performance was mixed on the month. The 10-year Treasury yield rose by 5 basis points last week to 2.28% but closed the month nearly flat. The 30-year Treasury yield increased 6 basis points to 2.89% in July after a jump of 9 basis points last week. Municipal bonds followed the path of governments but outperformed their taxable counterparts over the course of the month. The 10-year AAA general obligation bond weakened by 5 basis points last week but finished the month better by 4 basis points at 2.75%. The 30-year benchmark also weakened by 5 basis points in the week ended July 28 but closed the month at a yield of 2.74%, stronger by 5 basis points. Municipal bond funds took in more than $1 billion of new money last month, including $323 million during the last week. Trading averaged $9.5 billion per day in July, below the 2017 average of $10.7 billion, primarily due to the drop in refundings, which came in 52% below last year's level.

The $4.17 billion municipal slate last week featured the $129.5 million financing for Ingleside at Rock Creek underwritten by HJ Sims. Non-rated bonds issued through the District of Columbia included a term maturity in 2052 priced at 5.00% to yield 5.25%. Among other high yield transactions, the Washington Economic Development Finance Authority sold $133.6 million of non-rated bonds subject to the alternative minimum tax for the Columbia Pulp I project that priced at 7.50% to yield 7.75% in 2032. The City of Minneapolis issued $17.9 million of non-rated charter school lease revenue bonds for non-rated Spero Academy featuring 2048 term bonds priced at par to yield 6.50%. And, also in Minnesota, the St. Paul Housing and Redevelopment Authority had a $16 million non-rated financing for Great River School, including a 2052 maturity priced at par to yield 5.50%.

This week's municipal calendar is expected to total $7.16 billion, and there is enough cash coming in from redemptions, calls and maturing bonds that many new issues are oversubscribed and being re-priced at lower interest rates, prime conditions for borrowers. The Philadelphia Authority for Industrial Development plans a $126.6 million BB rated financing for Wesley Enhanced Living. The Allentown Commercial and Industrial Development Authority has a $44.1 million non-rated transaction for Executive Education Academy Charter School. And The Florida Development Finance Corporation is in the market with a $50 million non-rated solid waste disposal deal for Waste Pro USA. This week, the July jobs report will be released, as will data on personal income, consumer spending, manufacturing and durable goods orders.

Sims Works with Banks to Maximize Savings for the Lutheran Community at Telford

HJ Sims successfully completes combined $32.1 million debt refinancing and modification generating interest expense savings, extended bank credit commitments and supplementary new project financing.

Lutheran Community at Telford

Jim Bodine, Aaron Rulnick and Patrick Mallen represented HJ Sims on this transaction.

"Jim Bodine, Patrick Mallen and the rest of the HJ Sims team did a wonderful job guiding us though the financing process. Their extensive network of lenders produced a competitive bidding process that will ultimately result in meaningful interest expense savings and their technical knowledge related to our financing options made the difficult decisions easy. Sims' professionalism and expertise produced benefits that Lutheran Community at Telford will enjoy for years to come."

- Vince Gulotti – VP Finance, Lutheran Community at Telford

Partnered Right	• LCT is a not-for-profit life plan community with 417 total units/beds across the continuum of care serving residents in suburban Philadelphia. • Recently affiliated with the Community at Rockhill with LCT and Rockhill continuing to operate as separate entities. • Multiple series of outstanding debt including Fixed and Variable Rate Bonds and Adjustable Rate Bank Debt with three Bank partners. • New capital needs for future independent living expansion project.
Structured Right	• Fixed Rate Bonds subject to optional call and Variable Rate Bonds subject to pending LOC renewal and Interest Rate Swap Termination. • Sought to capture interest rates at/near historic lows and maximize length of bank credit commitment while minimizing all-in cost of financing and maintaining desired covenant flexibility. • Sought to supplement proposed refinancing with additional financing for new capital needs to achieve additional cost savings.
Executed Right	• Pursued Direct Bank Financing for total refinancing/financing needs. • Undertook full bank financing solicitation with strong bank interest and multiple financing proposals. • Combined modification of one series of outstanding Bank debt (with existing bank partner) with refinancing of two series of Bonds together with funding new capital (with new bank partner).
Financed Right®	• Combined debt modification and refinancing coupled with new project financing in efficient two-step transaction. • Achieved goals of attractive all-in cost of financing and extended bank credit commitment including interest rate hedge on refinancing and new capital financing components. • Well-positioned for future operating, financial and strategic flexibility and growth including campus expansion and future collaboration.

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Sims Works with Banks

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Partnered Right

Founded in 1962, Lutheran Community at Telford ("LCT") operates a life plan community on a 56 acre campus in Telford Borough, PA and West Rockhill Township, PA (the "Community"). The Community is comprised of 245 Independent Living Unit Apartments & Cottages, 125 Assisted Living Beds (97 Units) and 75 Skilled Nursing Beds.

In January 2017, Lutheran Community at Telford entered into an affiliation agreement with the Community at Rockhill and its affiliate, RM Home Services (together "Rockhill"), a non-profit life plan community located in nearby Sellersville, PA. Rockhill is comprised of 213 independent living units, 53/74 personal care units/beds and 90 skilled nursing beds on a 44 acre campus. LCT and Rockhill will each retain its individual identity, while the newly-created parent company, Grace Inspired Ministries, will strengthen and support the mission of both communities. Together, they serve close to 800 residents and employ over 600 team members serving residents and the local community.

HJ Sims was engaged by LCT in September 2016 to explore options for refinancing all or a portion of its existing debt (with approximately $35.4 million total outstanding) along with funding for additional capital needs associated with a future independent living unit expansion project.

Structured Right

Of its $35.4 million of total debt, LCT had approximately $19.3 million of outstanding fixed rate and variable rate bonds (the "Series 2007 Bonds") which had funded major improvements to LCT's existing facilities together with refinancing outstanding debt. LCT's Series 2007A fixed rate bonds were approaching an optional redemption date in early 2017, and the letter of credit (and associated swap) underlying LCT's Series 2007B variable rate bonds were scheduled to renew/terminate in fall 2017. With these upcoming milestones and interest rates approaching multi-decade lows, HJ Sims analyzed refunding this debt together with the potential benefits of refinancing or modifying LCT's other outstanding debt, comprised of bank loans with two regional community banks (the "Series 2010 Bank Debt" and "Series 2015 Bank Debt") to finance facilities' expansion, reconfiguration and renovation.

LCT enjoyed favorable relationships with its bank partners, particularly Penn Community and Univest but sought to explore a range of financing opportunities. These included bank financing from LCT's existing banks, as well as other banks active in the sector and region, together with the potential issuance of fixed rate bonds, including the prospects for a public credit rating.

There were multiple issues to explore in structuring the financing and refinancing including (1) identifying the portions of the existing debt to be refinanced; (2) the most efficient means to implement the refinancing/financing (i.e. bank or bond financing) and whether to accomplish via refinancing or via modification of the existing debt; (3) optimum structuring of the transaction including (a) maximizing the length of the credit commitment(s) for the new/modified bank debt while weighing the cost and other economic and qualitative considerations, (b) achieving LCT's desired interest rate mix, focused primarily on fixed-rate financing, including conversion of its existing LOC-backed variable rate debt to a fixed-rate, and (c) maintaining sufficient future operating, financing and strategic flexibility, not only for future initiatives at LCT, including further campus growth, but also for further potential collaboration between LCT and Rockhill.

Executed Right

Following extensive analysis by Sims and assessment by LCT Management and Board, LCT opted to pursue bank financing for the refinancing and financing. HJ Sims led a bank financing solicitation which included LCT's existing

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Sims Works with Banks

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banks together with banks active in senior living in the Pennsylvania/mid-Atlantic region (14 total banks solicited). There was strong bank interest with multiple proposals received from LCT's existing banks as well as a number of other banks. Based on the responses and comparison to LCT's existing debt, LCT decided to: 1) modify the terms of the Series 2010 Bank Debt to reduce the interest rate (remaining fixed) and extend the tenor (put date) while maintaining the relationship with the existing lender; and 2) refinance the Series 2007 Bonds and fund $2 million for new capital expenditures with a new commercial bank partner (SunTrust Bank). The refinancing replaced the LOC-backed structure of the variable rate Series 2007B Bonds, together with the fixed rate Series 2007A Bonds, with direct bank debt offering a significantly reduced cost of financing (and debt service savings) and longer tenor (13 years). For its fixed rate options, LCT evaluated both a bank-held fixed rate as well as fixed rate via interest rate swap, weighing the relative interest rates as well as varied optional redemption/swap termination provisions (and cost). LCT ultimately elected to fix the rate via a floating-to-fixed interest rate swap with a term matching the 13 year loan tenor. Finally, LCT opted to retain its Series 2015 Bank Debt without modification or refinancing.

Financed Right®

The financing was completed in two steps led by the modification of the Series 2010 Bank Debt which was completed on an expedited basis in April 2017 - the interest rate was reduced from 3.15% to 2.80% and the tenor extended from 2024 to 2027. The refinancing of the Series 2007 Bonds and new capital funding, to be drawn as funds are required, was completed in June 2017 with a synthetic fixed rate (via swap) of 2.74% and 13 year tenor (2027 put date).

With Sims leadership and collaborative work of LCT Management, Bank partners and the working group, LCT leveraged its successful operating and financial performance and organizational stewardship to successfully complete the financing and achieve its goals. These included: 1) realizing a significant reduction in interest rates and debt service, enhancing its future financial position; 2) extending the duration of the credit commitment on its bank financing for 13 additional years (and matching it with the term of its interest rate swap); 3) raising additional capital, on a cost-effective basis, to provided initial funding for its upcoming expansion project; and 4) retaining desired flexibility for its future operation and growth alone and in combination with Rockhill.

For more information on how Lutheran Community at Telford was Financed Right® by HJ Sims, please contact Jim Bodine at (215) 854-6428, jbodine@hjsims.com.

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
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

Orlando, FL

Robert Gall	407-313-1701	rgall@hjsims.com
Kerry Moynihan	407-313-1702	kmoynihan@hjsims.com
Brian Paolo	407-313-1707	bpaolo@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

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