AGENDA

TOPIC 1 – TYPICAL NOT-FOR-PROFIT FINANCING STRUCTURES

• OVERVIEW OF DIFFERENT FINANCING STRUCTURES
• DETAILED REVIEW OF UNENHANCED FIXED-RATE BONDS
• BANK DEBT BASICS
• HUD BASICS

TOPIC 2 – APPENDIX

• FINANCING DOCUMENTS & TRANSACTION TIMELINE

QUESTIONS & ANSWERS
TOPIC 1: TYPICAL NOT-FOR-PROFIT FINANCING STRUCTURES

NOT SO DIFFERENT FROM FINANCING A HOME

<table>
<thead>
<tr>
<th>Mortgage</th>
<th>Interest Rate</th>
<th>Points</th>
<th>APR</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Yr</td>
<td>3.125%</td>
<td>1.375%</td>
<td>3.366%</td>
</tr>
<tr>
<td>30 Yr</td>
<td>3.250%</td>
<td>0.625%</td>
<td>3.431%</td>
</tr>
<tr>
<td>30 Yr</td>
<td>3.375%</td>
<td>0.125%</td>
<td>3.496%</td>
</tr>
<tr>
<td>15 Yr</td>
<td>2.500%</td>
<td>0.875%</td>
<td>2.856%</td>
</tr>
<tr>
<td>15 Yr</td>
<td>2.625%</td>
<td>0.375%</td>
<td>2.909%</td>
</tr>
<tr>
<td>15 Yr</td>
<td>2.750%</td>
<td>0.000%</td>
<td>2.945%</td>
</tr>
</tbody>
</table>

Jumbo Fixed Rate Loans: Available on Loans $417,001 and higher

<table>
<thead>
<tr>
<th>Mortgage</th>
<th>Interest Rate</th>
<th>Points</th>
<th>APR</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Yr</td>
<td>3.625%</td>
<td>0.000%</td>
<td>3.655%</td>
</tr>
<tr>
<td>15 Yr</td>
<td>3.000%</td>
<td>0.000%</td>
<td>3.050%</td>
</tr>
</tbody>
</table>

Adjustable Rate Loans

<table>
<thead>
<tr>
<th>Mortgage</th>
<th>Interest Rate</th>
<th>Points</th>
<th>APR</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1</td>
<td>3.125%</td>
<td>0.000%</td>
<td>3.398%</td>
</tr>
<tr>
<td>7/1</td>
<td>2.875%</td>
<td>0.000%</td>
<td>3.374%</td>
</tr>
</tbody>
</table>

Affordable Loans Rates

<table>
<thead>
<tr>
<th>Mortgage</th>
<th>Interest Rate</th>
<th>Points</th>
<th>APR</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Year FHA</td>
<td>3.125%</td>
<td>0.000%</td>
<td>4.210%</td>
</tr>
</tbody>
</table>

Think Bonds
- Fixed Rate
- Unenhanced
- Non-rated
- Investment Grade

Think Bank
- Letter of Credit
- Direct Placement
- Construction Loan
- Term Loan

Source: Ziegler Investment Banking
FINANCING SENIOR LIVING PROJECTS
DECISION TREE

• Three different basic types of debt
  – Taxable debt
  – Tax-exempt debt
  – Alternative capital providers (Government programs/REITs)

• For 501(c)(3) organizations the majority of projects can be financed with tax-exempt debt which generally has a lower cost of capital (or interest rate) because it is tax-exempt

Source: Ziegler Investment Banking
TAX-EXEMPT DEBT BASICS

- **Unenhanced Bonds** – Publicly offered
  - Public securities sold to investors based on the credit of the Borrower
  - Interest Rates typically fixed for a term of 30 to 35 years
  - Terms of deal are structured by an Underwriter and then sold to the investing public

- **Unenhanced Bonds** – Direct Bank Purchase
  - Effectively a tax-exempt bank loan structured as securities and sold to a bank
  - Interest rates can be variable or fixed (naturally or with a swap)
  - Term up to 15 years for stronger credits with 20-25 year amortization
  - Proceeds may be draw down over construction period

- **Enhanced Bonds** (Bank Letter of Credit (“LOC”), Bond Insurance)
  - LOC legacy transactions outstanding but not popular for new issues in current market
  - Bond Insurance not viable after 2008

WHY TAX-EXEMPT DEBT?

- Lower cost of capital (interest rate) than taxable debt
- Public securities can be structured with a final maturity 30 to 35 years from the date of issuance with flexible covenants
- Direct bank purchase provides a draw-down structure allowing the borrower to draw funds as needed
WHY NOT TAX-EXEMPT DEBT?

• Not all project or financing expenses can be financed with tax-exempt debt

• Cost of issuance and timing to complete a financing

• Must utilize a conduit issuing authority
  • Local/State issuers may have a Prevailing Wage requirement that impacts construction costs (can often be mitigated by using alternative issuers)

• On public securities borrowers face negative arbitrage that results from fully funding at closing which may result in a mismatch on the interest earning on project funds compared to the cost of capital on the bonds

Source: Ziegler Investment Banking

TAXABLE DEBT BASICS

• Bank Loans
  – Bank provides money directly to the provider
  – Interest rate can either be fixed or variable
  – Terms of the debt are dictated/negotiated with Bank
  – These are not public securities

• Taxable Bonds
  – Public securities sold to investors
  – Interest rates can either be fixed or variable
  – Terms of deal are structured by an Underwriter and then sold to the investing public
  – Challenging to access institutional investors

Source: Ziegler Investment Banking
WHY TAXABLE DEBT

• Not all projects are eligible for tax-exempt debt (i.e., chapel, 3rd party vendor space, working capital, cost of issuance over the 2% federal tax limit, etc.)

• Small Projects (typically under $10 million) may be more cost effective if financed with a bank loan as opposed to issuing bonds (taxable or tax-exempt)

• No issuing authority and lower cost of issuance

• Leveraging an existing banking relationship

• Short-term financing (i.e., construction loan)

Source: Ziegler Investment Banking

WHY NOT TAXABLE DEBT

• Higher cost of capital than tax-exempt debt
  – No utilization of the Borrower’s tax-exempt status

• There is a lack of institutional buyers for municipal taxable debt

• Bank debt typically has short amortization periods resulting in higher debt service (typically up to 20-25 years) and short commitment periods (Up to 15 years for stronger credits)

Source: Ziegler Investment Banking
ALTERNATIVE CAPITAL SOURCES

- Governmental Programs
  - Multiple programs which are either funded by or supported by the full faith and credit of the government
  - Other programs which offer incentives to individuals to invest in projects

- REITs
  - Large investment funds focused on acquiring or owning assets
  - Senior living provider would lease the property back from the REITs and provide management services to the community
  - Downside is that REITs have control with a covenant violation, management can be replaced (loss of mission?)

Source: Ziegler Investment Banking

GOVERNMENTAL PROGRAMS

- Typical Types of Governmental Programs:
  - FHA/HUD – 232, 223(f) – Loans can be issued for for-profit or non-profit providers; focus is on skilled nursing & assisted living projects with limited use for independent living
  - USDA – Rural loan program which insures up to $10 million of a loan from a bank for qualified projects
  - Fannie / Freddie – similar to HUD/FHA except can be used for rental independent living units
  - Low-Income Tax Credits – Loan program in which tax credits are sold to investors. Sale proceeds are use to finance a qualified project.
  - EB(5) Visa Program – Visas granted to foreign investors who invest in projects and create permanent jobs for US residents

Source: Ziegler Investment Banking
WHY GOVERNMENT PROGRAMS?

• Why Government Programs
  – “AA+” cost of capital
  – 40-year amortization schedules (excludes EB5 Transactions)
  – Typically lower Debt Service Coverage requirement

• Why NOT Government Programs
  – Asset must be a separate corporation and stand-alone from other operating entities in order to provide security
  – Very restrictive transfer & security requirements
  – Most independent living is difficult to finance
  – Unpredictable/long processing times

SUMMARY OF FINANCING OPTIONS

<table>
<thead>
<tr>
<th>Entry Fee CCRCs</th>
<th>Independent Living</th>
<th>Assisted Living</th>
<th>Skilled Nursing</th>
<th>Rental Affordable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Bonds</td>
<td>Traditional Bonds</td>
<td>Traditional Bonds</td>
<td>Traditional Bonds</td>
<td>Traditional Bonds</td>
</tr>
<tr>
<td>Bank Debt</td>
<td>Bank Debt</td>
<td>Bank Debt</td>
<td>Bank Debt</td>
<td>Bank Debt</td>
</tr>
<tr>
<td>REITs</td>
<td>REITs</td>
<td>REITs</td>
<td>REITs</td>
<td>REITs</td>
</tr>
<tr>
<td>HUD Programs</td>
<td>HUD Programs</td>
<td>HUD Programs</td>
<td>HUD Programs</td>
<td>HUD/SONYM A Programs</td>
</tr>
<tr>
<td>Rental only</td>
<td>Rental only</td>
<td>Rental only</td>
<td>Rental only</td>
<td>Rental only</td>
</tr>
<tr>
<td>Fannie/ Freddie</td>
<td>Fannie/ Freddie</td>
<td>Fannie/ Freddie</td>
<td>Fannie/ Freddie</td>
<td>Fannie/ Freddie</td>
</tr>
<tr>
<td>No entrance fees</td>
<td>No entrance fees</td>
<td>May be combined with SNF</td>
<td>May be combined with AL</td>
<td>(LIHTC deals)</td>
</tr>
<tr>
<td>5+ projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ziegler Investment Banking
OVERVIEW OF FIXED RATE BONDS

- Interest Rates are set and “fixed” for the life of the bonds at the time of pricing.

- Interest paid semi-annually and principal paid annually (monthly sinking fund payments may be required to be made to the Trustee).

- Final maturity often 30 or 35 years from issue date.

- Issuer will determine denomination but typically issued in $5,000 denominations.

- Sold to Institutional and Retail Investors based on the credit of the Borrower.

Source: Ziegler Investment Banking

FIXED RATE BONDS
PARTIES INVOLVED IN THE FINANCING

- Borrower: A not-for-profit corporation.

- Borrower’s Counsel: Represents Borrower.

- Issuer: Local Municipality or State-wide Authority (Issuer “issues” bonds).

- Bond Counsel: Provides tax-exemption opinion & prepares bond documents.

- Underwriter: Structures the deal and sells the bonds.


- Trustee: Administers bonds after issuance.

- Rating Agency (depending on credit).

- Feasibility Consultant: 3rd party accounting firm reviews management’s forecast and completes a detailed market study (mainly for start-ups and expansions).

- Auditor: Allows historic financial statements to be published in the Official Statement.

Source: Ziegler Investment Banking
FIXED RATE BONDS

KEY PARTIES AND DOCUMENTS

- Borrower
- Municipal Issuer/Authority
- Bond Trustee
- Underwriter (Ziegler) Is Initial Purchaser
- Bond Buyers (Institutional & Retail Holders)

FLOW OF FUNDS

- Bond Proceeds - $
- Principal and Interest Payments - $

Source: Ziegler Investment Banking
WHO PURCHASES FIXED RATE BONDS?

Retail Buyer Preferences:
- Purchase shorter maturities (serials and intermediate terms)
- EXTRAS\textsuperscript{SM} / ARROS\textsuperscript{SM}
- Typically prefer unrated bonds for yield
- $5,000 minimum denominations
- Prefer 5-year optional redemption
- Finite capacity to purchase bonds

Institutional Buyer Preferences:
- Purchase all types of bonds but prefer longer maturities
- TEMPS\textsuperscript{SM} / EXTRAS\textsuperscript{SM} / ARROS\textsuperscript{SM}
- Different buyers for unrated, rated, and enhanced bonds
- Prefer $5,000 denominations, can do $100,000
- Typically purchase in multi-million dollar blocks
- Prefer 10-year optional redemption
- Supply/demand driven

Source: Ziegler Investment Banking

FIXED RATE BONDS
SECURITY PROVISIONS AND COVENANTS

Security Provisions
- First Mortgage
- Revenue Pledge
- Debt Service Reserve Fund
  - Funded with bond proceeds

Covenants
- Debt Service Coverage Ratio
- Liquidity Covenant
- Permitted Additional Debt
- Transfer of Asset Limitations
- Continuing Disclosure
- Others

How flexible can my covenants be?
- Fixed-rate, retail buyers are the most flexible
- Fixed-rate, institutional buyers are generally flexible
- Bond insurers and banks were/are generally restrictive

Source: Ziegler Investment Banking
NOT-FOR-PROFIT SENIOR LIVING FINANCINGS

VOLUME BY PURPOSE

- Trends for refinancings follow borrowing cost movement (ex. 50% of volume in 2007)
- Average new money per year for last five years was approximately $1.5 billion
- New money average for 5 most recent years far below 5-year average “pre-crash” of $2.8 billion

SOURCE: Thomson Financial Securities Data; and Ziegler Investment Banking, 6/30/17

HISTORICAL INTEREST RATES

Senior Living Credit Spreads (2000 YTD - Weekly)

“Bubbles and Pops”

SOURCE: Ziegler Investment Banking, as of 8/11/17
HISTORICAL INTEREST RATES
UNIQUE MARKET OPPORTUNITY

30-yr “AAA” MMD Histogram
1990 - 2017 (Frequency “Weekly”)

Source: Thomson Financial Municipal Market Monitor, as of 8/23/17

CURRENT INTEREST RATES (SENIOR LIVING)

Senior Living Interest Rate Ranges
Tax-Exempt Revenue Bonds (1)

<table>
<thead>
<tr>
<th>SENIOR LIVING FINANCING STRUCTURES (1) (Insurers Ratings: Fitch/S&amp;P/Moody’s)</th>
<th>AVERAGE LONG-TERM INTEREST RATE RANGES (2)</th>
<th>CREDIT ENHANCEMENT</th>
<th>ALL-IN INTEREST COST</th>
<th>AVERAGE RATE</th>
<th>SPREAD TO “AAA” MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrated - Start-Up Communities</td>
<td>6.500% - 6.750%</td>
<td>--</td>
<td>6.500% - 6.750%</td>
<td>+ 377 to + 402</td>
<td>+ 277 to + 302</td>
</tr>
<tr>
<td>Unrated - Existing Stable Communities</td>
<td>5.070% - 5.320%</td>
<td>--</td>
<td>5.070% - 5.320%</td>
<td>+ 234 to + 259</td>
<td>+ 134 to + 159</td>
</tr>
<tr>
<td>Unrated - Ziegler Retail</td>
<td>5.070% - 5.320%</td>
<td>--</td>
<td>5.070% - 5.320%</td>
<td>+ 234 to + 259</td>
<td>+ 134 to + 159</td>
</tr>
<tr>
<td>&quot;BBB&quot; Rated (Fitch, S&amp;P or Moody’s)</td>
<td>4.520% - 4.670%</td>
<td>--</td>
<td>4.520% - 4.670%</td>
<td>+ 179 to + 194</td>
<td>+ 79 to + 94</td>
</tr>
<tr>
<td>“A” Rated (Fitch, S&amp;P or Moody’s)</td>
<td>4.120% - 4.270%</td>
<td>--</td>
<td>4.120% - 4.270%</td>
<td>+ 139 to + 154</td>
<td>+ 39 to + 44</td>
</tr>
<tr>
<td>“AA” Rated (FHA)</td>
<td>3.120% - 3.270%</td>
<td>0.50%</td>
<td>3.620% - 3.770%</td>
<td>+ 89 to + 104</td>
<td>+ 19 to + 24</td>
</tr>
<tr>
<td>“AA” Rated (Fitch, S&amp;P, Moody’s)</td>
<td>3.820% - 3.970%</td>
<td>--</td>
<td>3.820% - 3.970%</td>
<td>+ 109 to + 124</td>
<td>+ 9 to + 24</td>
</tr>
<tr>
<td>“AAA” Rated (FHA)</td>
<td>3.970% - 3.120%</td>
<td>0.65%</td>
<td>3.620% - 3.770%</td>
<td>+ 89 to + 104</td>
<td>+ 19 to + 24</td>
</tr>
</tbody>
</table>

1) Non-state specific
2) Long-term (25-30 Yr), fixed rate

SOURCE: Ziegler Investment Banking, as of 8/11/17
BANK CREDIT A RAPIDLY GROWING PART OF MARKET

- Letters of credit backing tax-exempt VRDB’s predominated through 2008
- Financial crisis in 2009 significantly reduced LOC volume (BASEL III/regulatory issues, bank credit allocation considerations, rating downgrades, etc.)
- Since 2009, direct bank purchases of tax-exempt debt, taxable construction loans have replaced VRDB’s

NOT-FOR-PROFIT SENIOR LIVING FINANCINGS

- Very few financings completed in the 12 months from July 2008 to July 2009
- 2010 & 2009 volume focused on relieving pent-up demand created during the crisis
OVERVIEW OF DIRECT PURCHASE BANK BONDS

• Bond sold directly to the Bank

• Interest rates are typically variable although some banks offer a fixed rate (naturally or with a swap)

• Interest paid monthly and principal can be paid monthly, quarterly or annually but typically paid monthly

• Term typically 5-15 years with 20-25 year amortization

• More restrictive covenants and conditions precedent to closing that a fixed rate offering
  – Loan to Value Requirement, Appraisal, Consent to future borrowing requirement

Source: Ziegler Investment Banking

BANK DIRECT PURCHASE BONDS
PARTIES INVOLVED IN THE FINANCING

• Borrower: A non-profit corporation

• Borrower’s Counsel: Represents Borrower

• Issuer: Local Municipality or State-wide Authority (Issuer “issues” bonds)

• Bond Counsel: Provides tax-exemption opinion & prepares bond documents

• Placement Agent: Runs bank solicitation process and negotiates with bank on behalf of borrower

• Bank: Provide the capital

• Bank Counsel: Prepares Bank related documents

• Trustee: Administers bonds after issuance (depending on structure)

Source: Ziegler Investment Banking
BANK DIRECT PURCHASE BONDS

**KEY DOCUMENTS**

- Loan Agreement
- Bond Purchase Agreement
- Covenant Agreement
- Master Trust Indenture
- Indenture
- Bond Trustee

Please see Appendix for additional details on the key documents.

Source: Ziegler Investment Banking

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**FLOW OF FUNDS**

- Bank Proceeds - $
- Principal and Interest Payments - $
- Often, the Borrower will make monthly principal and interest payments directly to the bank.

Source: Ziegler Investment Banking
LOC ENHANCED VARIABLE RATE DEMAND BONDS
FLOW OF FUNDS

- Municipal Issuer/Authority
- Bond Trustee
- LOC Bank (Ensures Liquidity)
- Bond Buyers (Institutional Holders)

Underwriter/Remarketing Agent (Ziegler) is Initial Purchaser & Market Maker

- Letter of credit fees - $
- Bond Proceeds - $
- Principal and Interest Payments - $

Source: Ziegler Investment Banking

BANK BOND STRUCTURES
SECURITY PROVISIONS AND COVENANTS

Security Provisions
- First Mortgage
- Revenue Pledge
- No Debt Service Reserve Fund

Covenants
- Loan-to-Value Requirement
- Debt Service Coverage Ratio
- Liquidity Covenant
- Permitted Additional Debt
- Transfer of Asset Limitations
- Reporting Requirements
- Others

How flexible can my covenants be?
- Banks are generally more restrictive than retail or institutional buyers of fixed-rate bonds (particularly today)

Source: Ziegler Investment Banking
BANK BONDS: MANAGING INTEREST RATE RISK

- Bank Bonds are typically issued with a variable interest rate (e.g. 70% of 1M LIBOR) which presents interest rate risk to borrowers.
- Interest rate risk can be effectively managed by utilizing an interest rate swap (or cap).
  - Interest Rate Swaps allow an organization to exchange its variable rate payments for known, fixed cash flows, effectively converting a floating rate funding mechanism to fixed-rate debt.
  - Interest Rate Caps assures an organization will realize no more than a maximum interest expense, with the prospect of allowing for lower interest cost if interest rates stay below a critical level defined by the cap’s strike rate.
- Benefits: Cost effective, flexibility to customize terms, standardized documentation, minimal out-of-pocket expenses.
- Considerations: Counterparty risk, early termination risk, basis risk.
- Borrowers should consult with a qualified hedge advisor and their legal counsel to determine the appropriateness of any hedging transaction and to fully evaluate the merits and risks of such transaction.

General Interest Rate Swap Mechanics

<table>
<thead>
<tr>
<th>Swap Provider</th>
<th>Floating Interest Rate</th>
<th>Fixed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Living Provider</td>
<td>Floating Interest Rate</td>
<td>Bond Issue (LOC, Direct Purchase)</td>
</tr>
</tbody>
</table>

SUMMARY OF FINANCING OPTIONS – FHA/HUD

- Apartments
  - HUD 202
  - FHA 207
  - FHA 221d4
- CCRC
  - EF (currently) not recognized
  - Promise of care (Type A) problematic
  - Some creative application in the works
- Independent Living
  - Up to 25% IL under FHA 232
  - Program expansion under review
- Assisted Living
  - FHA 232 (licensed units)
- Skilled Nursing
  - FHA 232 (licensed units)
- Hospitals
  - FHA 242

Source: Ziegler Investment Banking
### FHA/HUD TRANSACTION TYPES

<table>
<thead>
<tr>
<th>Project Type / Borrower</th>
<th>New Construction / Substantial Rehabilitation</th>
<th>Refinance of Conventional Loan</th>
<th>Refinance of HUD Loan</th>
<th>Additional Repairs/Improvements to facility with a HUD loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisted Living or Skilled Nursing</td>
<td>232 LEAN</td>
<td>232/223(f) LEAN</td>
<td>232/223(a)(7) LEAN</td>
<td>241(a)</td>
</tr>
<tr>
<td>Hospitals</td>
<td>242</td>
<td>242/223(f)</td>
<td>242/223(a)(7)</td>
<td>241(a)</td>
</tr>
<tr>
<td>Rental Housing/Apartments</td>
<td>221(d)(4)</td>
<td>207/223(f)</td>
<td>207/223(a)(7)</td>
<td>241(a)</td>
</tr>
<tr>
<td>Supportive Housing for Low-Income Elderly (Section 202)</td>
<td>221(d)(4) if debt service savings is negative</td>
<td>207/223(f) if debt service is positive (includes repairs and developer fees)</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Ziegler Investment Banking

### HUD SUMMARY

- **Mission to support affordable housing and needed senior healthcare projects by reducing cost of capital through credit enhancements**

- **HUD programs are forms of Mortgage Insurance; not actual loans from the government**

- **Basic Financing is a GNMA Security that is highly coveted in the current market**

- **GNMAs are backed by a FHA insured mortgage loan between a HUD approved lender (Ziegler) and a borrower (You) and “issued” by a HUD approved issuer (Ziegler)**

- **GNMA rates are at historical lows (low 3%’s for 30+ years)**

- **No Risk Based Pricing -- All GNMA Securities are equal**

- **Office of Residential Care Facilities (ORCF) knows what they are doing**

- **As of August 31, 2016, HUD had 3,288 active nursing, assisted living, and board and care property loans totaling an unpaid principal balance of $25.0 billion**

Source: HUD Multifamily Database as of August 31, 2016
FHA FINANCING STRUCTURE – FLOW OF FUNDS

Traditionally offer:

- Financing for nursing homes, intermediate care facilities, board and care homes, and assisted-living facilities (and potentially independent living units)

- High Loan-to-Value (LTV): technically up to 85% (90% for non-profit’s), although HUD prefers a maximum LTV of 80% (for-profit’s), 85% (non-profit’s)

- Low DSCR requirement of 1.45, at time of application

- Lock in rates for up to 35 years at historically low interest rates

- Non-recourse (with carve-outs for fraud and misrepresentation)

- No covenant requirements

Source: HUD Multifamily Database as of August 31, 2016
HUD 232/223(F) LOANS

- Maximum mortgage term is the lesser of:
  - 75% of the Remaining Economic Life (as determined by the appraisal and PCNA)
  - 35 years

- Repairs up to 15% of the value, as determined by the appraisal, can be included within the mortgage

- Reserve for Replacement
  - Annual deposit as determined by PCNA
  - Reserves can be used to make repairs at the facility, with HUD approval

- Annual Requirements
  - Payment of Principal, Interest, and MIP
  - Deposit to Replacement Reserve
  - Annual Audit

Source: HUD Multifamily Database as of August 31, 2016

POTENTIAL NFP HUD APPLICATIONS

- Take out financing for 100% LOC-backed debt for stand-alone Skilled Nursing Facilities (SNF) and/or Assisted Living (AL) or "licensed" rental Independent Living (IL)

- Refinance all or part of Obligated Group debt (if assets qualify)

- Refinance existing short-term or long-term bank project notes

- Refinance Existing HUD Debt [223(a)7 transactions and loan modifications]

- Acquisition financing for acquiring stand-alone SNF or Assisted Living

- Take out financing for rental senior apartments

Source: HUD Multifamily Database as of August 31, 2016
INDEPENDENT LIVING AND HUD ELIGIBILITY?

• Acknowledges lines are blurring between AL and IL

• Section 232 limits IL units to 25% of the total units

• Entry fees or “founders fees” will still be a “non-starter” for HUD

• May be able to qualify as “Board and Care” and can be financed under the Section 232 LEAN program, if certain criteria are met (see next slide)

BOARD AND CARE FACILITIES

• May be able to qualify as “Board and Care” and can be financed under the Section 232 LEAN program, if the following criteria are met:
  – Owned by a private, nonprofit corporation or association
  – Freestanding structure or a separate portion of a project with at least 20 units with a maximum of 4 persons for each unit, each with a full bath
  – Must provide areas for central dining, kitchen (or preparation area where food is supplied from an offsite location), lounges, recreation, and other multipurpose rooms.
  – Must offer three meals per day to each resident
  – Must provide room, board, and continuous protective oversight that includes awareness by management and staff of the residents’ condition and location, as well as the ability to intervene in a crisis on a 24-hour basis.
  – State must be compliant with Section 1616(e) of the Social Security Act (“Keys Amendment”) and meet the State’s eligibility requirements.

Source: HUD Multifamily Database as of August 31, 2016
HUD CONSIDERATIONS

- Single Asset/Single Purpose Entities
- Single Purpose Operators
- Permissibility of Independent Living
- Equity Take-out Prohibition – Section 232 Only
- Regulatory Agreement – Residual Receipts vs. Surplus Cash
- Eligible Transaction Costs
- Application Process
- Portfolio Issues
- Accounts Receivable Financing

Source: HUD Multifamily Database as of August 31, 2016

ELIGIBLE EXISTING INDEBTEDNESS

- Outstanding mortgage(s)
- Delinquent Real Estate taxes
- Other recorded indebtedness:
  - Mechanic’s liens
- Unrecorded debt in connection with the project:
  - Debt incurred with property improvements
- Other eligible costs associated with existing debt:
  - Delinquent and accrued interest
  - Prepayment penalties on the mortgage
  - Legal, organizational, title, and recording expenses
## NON-RATED TAX-EXEMPT FINANCING VS. HUD FINANCING

<table>
<thead>
<tr>
<th></th>
<th>Non-Rated – Institutional Tax-Exempt Bonds</th>
<th>HUD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rates</td>
<td>Higher</td>
<td>Lower</td>
</tr>
<tr>
<td>LTV Limitation</td>
<td>None</td>
<td>Yes</td>
</tr>
<tr>
<td>Valuation</td>
<td>More Generous</td>
<td>Less Generous</td>
</tr>
<tr>
<td>Amortization</td>
<td>Long</td>
<td>Longer</td>
</tr>
<tr>
<td>Timing</td>
<td>Shorter</td>
<td>Longer</td>
</tr>
<tr>
<td>Restriction on Cash Distributions</td>
<td>Less</td>
<td>More</td>
</tr>
<tr>
<td>Covenants</td>
<td>More</td>
<td>Much Less</td>
</tr>
<tr>
<td>Ongoing Compliance</td>
<td>More</td>
<td>Less</td>
</tr>
<tr>
<td>DSR Fund</td>
<td>Yes</td>
<td>Probably Not</td>
</tr>
<tr>
<td>Liquidity Requirement</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Ziegler Investment banking

## CURRENT LENDING ENVIRONMENT

![Chart showing current lending environment]

* Estimated market rate as of the week of August 21, 2017
** Before MP

Source: HUD Multifamily Database as of 7/31/2017
MAJOR IMPROVEMENT TO REFINANCING OF HUD 202 PROJECTS

- HUD 202 projects can become a source of capital for other capital needs
- 5 years to deploy capital (in a range of potential projects) from HUD 202 refinancing
- No prevailing wage requirement
- Liberal development fee terms (15% on broad cost definition)
- Coupled w/ 20-year HAP contract (requires additional 20 years of affordability restrictions)
- Requires underwriting of 80% LTV and to market rents for financings contemplating ‘cash-out’ scenarios
- Allows the ability to request use of segregated repair funds outside of the projects MSA

Memorandum Updated June 26, 2013

BENEFITS AND CONSTRAINTS OF REFINANCING SECTION 202 LOANS

**Benefits**
- Flexibility on how capital is deployed
- 5 years to deploy
- Prevailing wages not required
- Developer fee
- Supplemental services

**Constraints**
- Resident benefit
- Same geographic area, waivers allowed for good cause
- Re-refinancings require mark-to-market
  - Loan modifications available
- Use agreement extension

*When interest cost can be reduced, high degree of flexibility in use of loan proceeds*

Source: Ziegler Investment banking
TOPIC 2 – APPENDIX:
FINANCING DOCUMENTS AND TRANSACTION TIMELINES

FINANCING TIMELINE – KEY PHASES

• Phase 1 – Organization Phase
  – Decide on a Plan of Finance & Assemble Legal Team

• Phase 2 – Documentation Phase
  – Prepare Bond & Offering Documents

• Phase 3 – Marketing Phase
  – Position the Bonds to be sold to investors

• Phase 4 – Closing Phase
  – Finalizing all documents & Funding of Project
FINANCING TIMELINE

PHASE 1: ORGANIZATION PHASE

- Organization Phase:
  - Preliminary Plan of Finance is selected
  - If a bank is to be involved - Bank Solicitation Package sent out and banking partner selected
  - Other finance team members selected (Attorneys, Feasibility Consultants, Trustee, etc.)
  - Transaction “Kicks-Off”

- Timing – Typically 1 to 4 weeks depending on the Plan of Finance selected
  - Longer timeframe for bank transactions due to the solicitation process (an additional 6 to 8 weeks)

FINANCING TIMELINE

PHASE 2: DOCUMENTATION PHASE

- Documentation Phase:
  - Bond Documents & Loan Agreement Prepared
  - Offering Document Prepared (if needed)
  - Feasibility Study Completed (if needed)
  - Credit Rating Obtained (if eligible)
  - Blue Sky Obtained (for Retail Distribution)
  - Legal Due Diligence completed
  - Interact with Municipal Issuer
  - Secure corporate approvals
  - Zoning & Other Approvals (i.e., Certificate of Need) in hand
  - Construction Contract Finalized (Guaranteed Maximum Price Contract “GMP”)

- Timing – 6 to 10 weeks
FINANCING TIMELINE

PHASE 3: MARKETING PHASE

• Marketing Phase
  – Printing of the Preliminary Official Statement
  – Institutional Investor Conference Call
  – Institutional Investor Site Visits
  – Local Sale for Retail Investors
  – Pricing of the Bonds & Signing of the Bond Purchase Agreement

• Bank direct purchases do not require a marketing phase

• Timing – 2 to 4 weeks
  – New campus start-up and significant expansion projects may require additional time

FINANCING TIMELINE

PHASE 4: CLOSING PHASE

• Closing Phase
  – Finalizing of Bond Documents
  – Printing of the Official Statement (if needed)
  – Pre-Closing – Signing of all documents
  – Closing – Funding of the Bond Proceeds (Money wired to the Trustee for deposit into the Project accounts)

• Timing – 1 to 2 weeks
OVERVIEW OF KEY BOND DOCUMENTS

Prepared by Bond Counsel:

• **Master Trust Indenture** – Document outlining a set of terms and conditions under which the Borrower may offer multiple types of debt obligations. Collateral is held centrally on behalf of all creditors by the Master Trustee, facilitating parity shared liens by multiple creditors/credit groups.

• **Bond Indenture/Mortgage** – Documents which outline the structure of the bond being issued, the security provisions, amortization schedule, call provisions, and covenant requirements of the Borrower.

• **Loan Agreement** – Agreement between the Issuing Authority and the Borrower in which the Issuing Authority lends the bond proceeds to the Borrower and the Borrower agrees to repay the bonds based on the terms outlined within the Bond Indenture.

• **Tax-Exempt Opinion/Tax Certificates** – Opinion and certificates provided by Bond Counsel which state that the bonds are tax-exempt eligible securities.

OVERVIEW OF KEY UNDERWRITING DOCUMENTS

Prepared by Underwriter’s Counsel

• **Preliminary Official Statement** – Summary of bond documents, security package and covenant structure used to market the bonds, includes Appendix A and other financial information regarding the Borrower; also known as a “red herring”; It is the primary document investors utilize in making a purchase decision.

• **Final Official Statement** – Summary of bond documents, security package and covenant structure finalized after the “Pricing” of the bonds and printed prior to Closing

• **Bond Purchase Agreement** – Document in which the Borrower agrees to the terms and purchase price of the bonds with the Underwriter. The Underwriter purchases the bonds at the agreed upon pricing and resells them to the investors.

• **Remarketing Agreement** – Used for bonds in which the interest rate resets in the future. Agreement between the Borrower and the Remarketing Agent detailing the services to be provided by the Remarketing Agent and the fees which are to be paid for those services.
OVERVIEW OF KEY OTHER DOCUMENTS

Prepared by Underwriter’s Counsel

• **Blue Sky Filings** – Registration at the state level required for retail distribution of bonds

Prepared by Bank Counsel

• **Reimbursement /Put/Continuing Covenant Agreement** – Agreement between the Bank and the Borrower outlining the structure of the bond being issued, the security provisions, amortization schedule, call provisions, and covenant requirements of the Borrower

Prepared by Rating Agency

• **Rating Letter** – Public report issued by the rating agency which provides an overview of the Borrower and assigns a public rating to the Bonds

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• Ziegler is a privately-held investment bank, capital markets, wealth management and proprietary investments firm

• A registered broker dealer with SIPC & FINRA

• Ziegler provides its clients with capital raising, strategic advisory services, equity & fixed-income trading, wealth management and research

• Founded in 1902, Ziegler specializes in the healthcare, senior living, educational and religious sectors as well as general municipal finance
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