

# ZIEGLER INVESTMENT BANKING

## SENIOR LIVING FINANCE Z-NEWS

### FEATURED ARTICLE

## EDUCATING SENIOR LIVING PROFESSIONALS ON FORTHCOMING LIBOR CHANGES

The recent news regarding the potential elimination of the LIBOR benchmark by the end of 2021 has grabbed the attention of many financial market participants. The following article is designed to be the first in a series of informative updates on the LIBOR topic for our weekly readers.

### What is LIBOR?

LIBOR, which stands for the London Interbank Offered Rate, is a short-term interest rate benchmark which is calculated daily and based on the funding costs of major banks. LIBOR rates are produced by contributor banks estimating the cost at which they can borrow funds from each other. The polling process requires that the rates submitted by the contributor banks are “transaction based” (based on actual inter-bank lending) but the process does allow banks to use “expert judgment” in the event transacted data is insufficiently available. The LIBOR benchmark has a global reach into various financial products ranging from direct loans, mortgages, bonds to interest rate derivatives. It is estimated that LIBOR based financial products have a total par/notional amount in excess of \$350 trillion.

### LIBOR in the Tax-Exempt Municipal Market

The short-term benchmark is utilized in several tax-exempt (and taxable) financing products including variable rate direct placement loans with banks, publicly issued floating rate notes, various interest rate derivative products, and potentially the utilization of investment products. Ziegler can represent that it has been involved in the placement of over \$5 billion in total par amount of direct placement loans with banks on behalf of our senior living provider clients since 2012.

A very common financing strategy that has been utilized by tax-exempt borrowers over the last few years, including by many senior living providers, is financing debt through the issuance of a LIBOR based variable-rate, direct placement loan with a bank. Under the terms of the direct placement loan, the interest rate would be based on LIBOR (typically One Month LIBOR) and would then be multiplied by a percentage (e.g. 70%) to reflect the tax-exempt status of the borrower (plus a fixed spread that reflects the borrower’s credit risk). In addition to this common bank placement structure, borrowers will often manage the interest rate risk related to the variable rate loan by entering into a pay-fixed interest rate swap with a financial institution whereby the borrower will pay a fixed rate and in return receive a floating rate based on LIBOR. This hedging strategy allows a borrower to efficiently convert the floating interest rate exposure (70% of One Month LIBOR) to a fixed-rate mode.

### Why Eliminate LIBOR?

The challenges that face LIBOR today are not necessarily new. The underlying market of inter-bank lending has been limited since LIBOR-based reform and regulation went into place following the financial crisis. While reform, regulation and monetary policy were for good intentions, it seems to have contributed to insufficient short-term bank lending activity resulting in a lack of the desired ‘transaction based’ data and resulting in more ‘expert judgment’ or opinion based data to calculate the LIBOR benchmark index. The U.K. Financial Conduct Authority (FCA) which regulates LIBOR and requires the contributor banks to submit data for the calculation of LIBOR recently announced that they will no longer compel the banks to submit their borrowing data after December of 2021.

The life expectancy of LIBOR is unknown at this point. Anticipating this event, several years ago the Federal Reserve Board established a committee to explore alternative benchmarks. A number of scenarios could play out, but we believe that any conclusion and final outcome on this subject will result in an orderly transition given the depth of the LIBOR-based market.

### Considerations for Senior Living Borrowers

Given the use of the LIBOR benchmark throughout the municipal market, it will be important that tax-exempt borrowers are aware of which aspects of their capital structure utilize the benchmark. Underlying agreements (loans, debt, swaps) will include replacement index language that will need to be reviewed and evaluated by borrowers, their legal counsel and advisors to determine the potential impact. Precisely measuring the event risk and potential basis/additional cost risk at this point as a result of a replacement index will be difficult, but preparing and educating yourself on your agreements would be prudent. Internally, Ziegler is reviewing provider agreements to assess impact on its clients. Additional LIBOR updates will be provided over the coming months as the changes and recommendations unfold. In the meantime, please feel free to contact Ziegler for assistance on this topic.

ZIEGLER INVESTMENT BANKING  
ZIEGLER CAPITAL MARKETS

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## NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AUGUST 8-16, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Retirement Housing Foundation (CA)	Fitch	A- Stable	Assigned Rating	8/10/17
Cypress Cove (FL)	Fitch	BB+ Negative	Affirmed Rating Revised Outlook	8/14/17
Duncaster, Inc. (CT)	Fitch	BBB- Positive	Affirmed Rating Revised Outlook	8/16/17
Kendal at Lexington (VA)	Fitch	BBB- Stable	Affirmed Rating	8/16/17

*This ratings table represents review of the reports released by Fitch Ratings, Standard & Poor's, and Moody's Investors Service and has been compiled by Ziegler Investment Banking.*

## INTEREST RATES

FOR THE WEEK ENDING AUGUST 11, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.73%	2.71%	2.82%
Senior Living 30-Yr "A"	3.63%	3.61%	3.88%
Senior Living 30-Yr "BBB"	4.13%	4.11%	4.29%
Senior Living Unrated	4.73%	4.71%	4.92%
Senior Living New Campus	6.75%	6.75%	6.62%
SIFMA Muni Swap Index	0.79%	0.79%	0.73%

Source: Ziegler Capital Markets

### IN YOUR CORNER

#### LEADINGAGE NEW YORK 2017 FINANCIAL PROFESSIONAL'S ANNUAL CONFERENCE

The Saratoga Hilton  
Saratoga Springs, New York  
August 29-31, 2017

#### *Capital Financing Options for New York Providers*

Wednesday, August 30, 2017 | 1:30 pm - 3:00 pm  
Ziegler Participant: *Chad Himel*

### FEATURED FINANCING



**\$13,000,000**

New Money/Refunding  
Taxable Term Loan

#### **UNITED METHODIST HOMES OF CONNECTICUT**

Shelton, Connecticut

## MARKET REVIEW

## MONEY MARKET RATES

	8/11/17	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.25	4.25	4.25	3.50
Federal Funds (weekly average)	1.16	1.14	1.16	0.40
90 Day T-Bills	1.03	1.07	1.01	0.28
30-Day Commercial Paper (taxable)	1.11	1.12	1.12	0.33
Libor (30-day)	1.22	1.23	1.22	0.50
7 Day Tax-Exempt VRDB	0.78	0.79	0.83	0.46
Daily Rate Average	0.63	0.65	0.71	0.36

## COMPARATIVE YIELDS

TAXABLE REVENUE				TAX-EXEMPT REVENUE							
	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.20	2.00	1.80	1 Year	0.78	2.28	2.19	2.18	1.58	1.23	1.03
5 Year	1.74	4.25	2.74	5 Year	1.13	2.88	3.06	2.63	2.13	1.78	1.53
7 Year	1.99	4.75	3.34	7 Year	1.43	3.33	3.50	3.18	2.73	2.23	2.03
10 Year	2.18	5.00	3.58	10 Year	1.88	3.88	4.12	3.73	3.28	2.78	2.48
30 Year	2.79	6.25	4.44	30 Year	2.73	4.73	4.85	4.58	4.13	3.63	3.33
				5 year ADJ RATE			4.25				

(\* Representative of recent non-rated issues underwritten by Ziegler retail sales); (\*\* Representative of institutional sales.)

## TAX-EXEMPT MARKET INDICATORS

	THIS WEEK	LAST WEEK	CHANGE	2017 HIGH	LOW
Bond Buyer					
20 Bond Index	3.52	3.50	+02	4.02	3.50
11 Bond Index	3.03	3.01	+02	3.53	3.01
Revenue Bond Index	3.73	3.70	+03	4.17	3.70
30 Year MMD	2.73	2.71	+02	3.24	2.71
Weekly Tax-Exempt Volume (Bil)	4.76	5.24	-48	7.93	0.46
30 Day T/E Visible Supply (Bil)	4.71	5.32	-61	13.37	4.13
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	129.64	126.66	+2.98	147.05%	120.39%

## INTEREST RATE COMPARISON

DATE	7-DAY T/E VRDB	PRIME RATE	FED FUNDS WEEKLY AVG.	13-WEEK		LIBOR (30-DAY)	30-YEAR		
				T-BILL RATE	C.P.RATE TAXABLE		T/E BONDS (A-AAA)		
08/11/17	0.78	4.25	1.16	1.03	1.11	1.22	3.63	-	3.33
08/04/17	0.79	4.25	1.14	1.07	1.12	1.23	3.61	-	3.31
07/28/17	0.82	4.25	1.16	1.08	1.09	1.23	3.64	-	3.34
07/21/17	0.82	4.25	1.16	1.15	1.10	1.22	3.71	-	3.31
07/14/17	0.83	4.25	1.16	1.01	1.12	1.22	3.83	-	3.43
07/07/17	0.86	4.25	1.16	1.03	1.08	1.22	3.82	-	3.42
06/30/17	0.91	4.25	1.13	0.99	0.90	1.22	3.79	-	3.39
06/23/17	0.87	4.25	1.16	0.96	1.09	1.21	3.69	-	3.29
06/16/17	0.81	4.25	1.01	1.01	1.11	1.17	3.70	-	3.30
06/09/17	0.74	4.00	0.91	1.00	1.01	1.09	3.69	-	3.29
06/02/17	0.76	4.00	0.89	0.95	0.86	1.08	3.75	-	3.35
05/26/17	0.78	4.00	0.91	0.91	0.86	1.03	3.87	-	3.42
05/05/17	0.85	4.00	0.91	0.88	0.83	0.99	4.08	-	3.63
04/07/17	0.88	4.00	0.90	0.81	0.86	0.98	4.09	-	3.59
03/03/17	0.62	3.75	0.64	0.69	0.65	0.83	4.26	-	3.76
02/03/17	0.65	3.75	0.64	0.49	0.61	0.78	4.35	-	3.55
01/06/17	0.68	3.75	0.62	0.51	0.62	0.76	4.40	-	3.55
12/02/16	0.56	3.50	0.38	0.47	0.50	0.62	4.80	-	3.85
11/04/16	0.56	3.50	0.38	0.37	0.40	0.53	3.55	-	2.85
10/07/16	0.87	3.50	0.40	0.31	0.39	0.52	3.30	-	2.75
09/02/16	0.56	3.50	0.38	0.32	0.39	0.52	2.75	-	2.40
08/05/16	0.44	3.50	0.40	0.26	0.36	0.49	2.90	-	2.45

Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.