

SIMS ASSISTS MULTI-FACILITY SENIOR LIVING PROVIDER IN COMPLEX DEBT MODIFICATION TO MINIMIZE THE IMPACT OF CORPORATE TAX RATE CHANGES



PARTNERED RIGHT®

In early 2018, United Methodist Homes (“UMH”) approached Sims regarding three series of outstanding debt that had been issued in 2013 as a Direct Placement with Citizens Bank (together, the “Series 2013 Debt”). This was prompted by the recent passage of the Tax Cuts & Jobs Act of 2017, and a reduction in the Corporate Tax Rate, which triggered an increase in the interest rate on the Series 2013 Debt. UMH sought Sims’ assistance in evaluating options for addressing the interest rate increase on this debt along with interest rate swaps underlying the debt.

The Series 2013 Debt had been issued for multiple purposes, including: i) refinancing several series of outstanding debt and ii) financing various renovations, additions and/or improvements, including acquisition of capital equipment, to the facilities and infrastructure of UMH. The Series 2013 Debt was issued in three separate series (A, B & C) and was privately-placed with Citizens Bank. The Series 2013 Debt was issued at a variable rate and UMH entered into multiple swap agreements to synthetically fix the interest rates on the debt. Beyond the existing Series 2013 Debt, UMH was also planning expansion/renovation projects at two campuses that would have to be considered in conjunction with addressing the interest rate adjustment on the existing debt.

United Methodist Homes At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> » UMH sought Sims’ assistance in evaluating options for addressing interest rate increases on bank debt due to changes in the Corporate Tax Rate. » Sims also analyzed the impact of changes to related interest rate swaps. » UMH engaged Sims to explore the specifics of this multi-faceted financing need with the goal of minimizing the impact of any interest rate adjustments. 	<ul style="list-style-type: none"> » Considered multiple financing and structuring options and addressed multiple financing scenarios and how these scenarios would impact outstanding swaps on the existing bank debt. » Pursued a debt modification to reduce the impact of increased interest rates and maintain the current structure of the outstanding bank debt. » Sought to capture interest rates during favorable market conditions and maintain the length of the existing bank commitment. 	<ul style="list-style-type: none"> » Analyzed multiple financing options that would reflect the impact of the reduced corporate taxes, as well as maintaining compliance with federal tax regulations to preserve certain conditions of the outstanding debt. » UMH sought the continued use of fixed (vs. floating) interest rates, given the historically low level of interest rates and an aversion to any significant increase in variable rates. » UMH ultimately chose to pursue a debt modification (including a “technical reissuance” for federal tax purposes) and keep the existing swaps in place. 	<ul style="list-style-type: none"> » Successfully completed the financing in May 2018, securing a bank commitment that matched the existing outstanding debt and avoided the need to pay significant swap termination penalties. » Provided UMH with clarity on its existing capital structure and allowed it to advance preparations for its anticipated expansion/renovation projects.

UMH engaged Sims to explore the specifics of this multi-faceted financing need with the goal of minimizing the impact of any interest rate adjustments and any required changes in the Series 2013 Debt, as a result of the corporate tax change, and doing so as quickly as possible to achieve clarity on the adjusted cost of outstanding debt and allow further planning on the planned capital projects.

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Sims quickly established contact with representatives of Citizens Bank to clarify the proposed increase in interest rates and discuss the various options for implementation. Based on the continuing successful operation of UMH and the strong partnering relationship, Citizens expressed willingness to offer several options to address the interest rate increase; this included modification of the existing debt as well as refinancing (with LOC-backed, variable-rate demand bonds).

There were multiple issues to be assessed and successfully addressed in the financing preparation process. These included: 1) the most efficient means to implement the transaction, both in terms of the adjustment to the current interest rate structure and how to appropriately address the outstanding swaps, 2) optimum structuring of the transaction given a number of factors, including a) the desire to minimize the impact of any interest rate adjustments and conform as closely as possible to the terms of the existing debt, b) matching differing terms of remaining loan tenor/ credit commitment and termination dates of the existing interest rate swaps and c) achieving UMH's desired interest rate mix, focused primarily on fixed-rate financing, and most cost effectively managing the extension or termination of the existing interest rate swaps, 3) considering how any changes would impact UMH's access to new capital and 4) completing the financing in a timely fashion while enabling maximum flexibility for UMH.



Caring. Connecting. *Community.*

EXECUTED RIGHT®

Acting as Structuring Agent, HJ Sims served in a coordinating role in assessing the various issues and advancing the financing process and worked effectively with UMH Management, Citizens Bank and representative legal counsel to successfully complete the financing on a timely basis.

Sims conducted extensive analysis to assess the financing structuring options, including multiple financing options that would reflect the impact of the reduced corporate taxes, as well as maintaining compliance with federal tax regulations to preserve certain conditions of the 2013 Debt and achieve the lowest interest rate possible. This included preparing several iterations of financing sizings in order to analyze whether refinancing, debt modification, or an alternative financing method was in the best interest of UMH. Once UMH selected its preferred financing option, Sims also assisted in coordinating the process with UMH and the full Working Group, including Citizens Bank and Bank Counsel, Bond and UMH Corporate Counsel along with two issuers and counsel.

UMH sought the continued use of fixed (vs. floating) interest rates on the Series 2013 Debt, given the historically low level of interest rates and an aversion to any significant increase in variable rates. Accordingly, a key component of financing structuring and implementation involved an assessment of interest rate risk management and hedging strategies, as well as avoiding any significant swap termination penalties. This focused on the most cost effective approach to addressing the existing interest rate swaps on the Series 2013 Bank Financing.

CASE STUDY

UNITED METHODIST HOMES *continued*



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UMH ultimately chose to pursue a debt modification (including a “technical reissuance” for federal tax purposes) and keep the existing swaps in place. The result was an increase in the tax-exempt multiplier on the underlying variable rate interest rate on the Debt, but without an equal adjustment on the variable rate portion of the interest rate swaps – a difference that UMH was comfortable in absorbing. Debt modification represented the most efficient means of achieving UMH’s transaction goals, in particular, maintaining most of the components of existing debt, including the existing principal amortization structure, along with providing a credit commitment (tenor) that mirrored the Series 2013 Debt through 2023 (providing UMH flexibility for future financing options). Debt modification also enabled savings in financing costs, through the avoidance of a sizeable swap termination penalty, and a reduction in legal fees and other financing costs due to the simplified nature of the transaction. Finally, debt modification (vs. refinancing) also significantly shortened the time required to complete the financing.

“We are very excited to have the opportunity to work with the professional team from HJ Sims. The team has assisted us with analysis, and successful negotiations, associated with changes in the terms, and cost, of our current debt structure. Additionally, as we pursue expansion of market rate independent housing options on our senior living campuses, the professionals at Sims have proven very effective in providing insights and analysis of our financing needs. They continue to assist us through the processes which we are confident will lead to a successful near-term closing. We are appreciative of the expertise, and experience, that the Sims team continues to provide to our organization.”

— Gary Gardner, Senior Vice President/CFO,
United Methodist Homes

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With Sims’ leadership, the cooperation of UMH and constructive work of Citizens Bank and the full Working Group, the transaction was fully documented and completed on an expedited basis in mid-May 2018. This provided UMH with clarity on its existing capital structure and allowed it to advance preparations for its anticipated expansion/renovation projects, the first of which is anticipated to be undertaken in summer-early fall 2018. Jim Bodine and Mack Welch represented Sims on this transaction.

**For more detailed information
on how United Methodist Homes
was Financed Right® by HJ Sims,
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