

CASE STUDY

UNITED METHODIST HOMES

\$17,500,000 | September 14, 2018 | Pennsylvania/New York (Multi-Site)



FINANCED RIGHT®

SIMS ASSISTS MULTI-FACILITY SENIOR LIVING PROVIDER FINANCING CAMPUS EXPANSION AND RENOVATION



PARTNERED RIGHT®

In early 2018, as a precursor to its campus expansion project, United Methodist Homes (“UMH”) approached HJ Sims regarding three series of outstanding debt issued in 2013 as a Direct Placement with Citizens Bank (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. Sims successfully assisted UMH in the evaluation of options to address the interest rate increase, culminating in successful completion of a debt modification with Citizens Bank on an expedited basis in mid-May 2018. With this completed, UMH and HJ Sims, along with Citizens, turned to advancing preparations for UMH’s anticipated expansion project and additional capital needs to be included within the anticipated Series 2018 Financing.

STRUCTURED RIGHT®

With the recently completed debt modification, UMH’s continuing successful operation, and the strong partnering relationship, Citizens expressed willingness to provide additional financing for the project and offered a number of structuring alternatives to address specific requirements of the project and UMH’s objectives.

United Methodist Homes At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none">» UMH sought HJ Sims’ assistance in evaluating options for an Independent Living Unit expansion and campus renovation project» UMH and HJ Sims focused on bank financing, combining construction and permanent financing, with the goal of completing the financing in mid-late Summer 2018	<ul style="list-style-type: none">» Pursued a draw-down bank financing to reduce the amount of funded interest and impact on total debt and debt service» Structured financing to incorporate a significant equity contribution coupled with retention of first generation entrance fees to rebuild balance sheet liquidity» Addressed multiple financing scenarios and their impact on total debt, long-term debt service and future debt capacity	<ul style="list-style-type: none">» UMH sought a combination of unhedged floating interest rates and synthetic fixed rates given the current attractive level of fixed rates and limited risk tolerance for potential increases in floating rates» UMH ultimately chose to pursue a blend of floating and fixed (swapped) rate debt with the swap structured using a current start and an accreting principal amortization	<ul style="list-style-type: none">» Successfully completed the financing in September 2018, which complemented the existing Series 2013 Debt, as modified earlier in 2018» Reduced total debt and debt service by combining the draw-down financing structure with UMH equity contribution together with efficiencies in financing costs following the recently completed debt Series 2013 Debt modification» Allowed UMH to undertake an important expansion/renovation project to more favorably position the community to serve current and future residents

Multiple issues needed 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 timing, which was to be expedited, and the ultimate financing method, 2) optimum structuring of the transaction given a number of factors, including a) UMH's plans to commit a sizeable amount of equity to the project to supplement debt financing, b) UMH's desire to retain all/majority of first generation entrance fees from the sale of units once completed, c) determination of loan tenor/credit commitment, put and termination dates in order to maximize flexibility, and d) achieving UMH's desired interest rate mix, focused primarily on fixed-rate financing, and 3) consideration of UMH's debt capacity, both for the proposed project as well as for future capital needs.

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, Citizens Bank and representative legal counsel to complete the financing on a timely basis.

HJ Sims assisted UMH and Citizens in assessing the financing structuring options, including net financing needs, the timing of the application of UMH's equity contribution relative to bank financing, amortization structures and related annual debt service and assuming the use of fixed rate financing. This included preparing several iterations of financing sizings in order to analyze the impact of the project and related financing impact on UMH.

UMH opted to use a combination of unhedged floating interest rates and synthetic fixed interest rates, given attractive fixed interest rate levels and an aversion to any significant increase in variable rates. The result was direct bank financing from Citizens with a draw-down feature with debt proceeds being drawn following application of UMH's equity contribution. The draw-down structure allowed significant funded interest savings during construction and the blended interest rate structure allowed UMH to continue to realize low floating rate debt as well as hedge some of the risk with a fixed swap. To secure the lowest synthetic fixed interest rates, the swap was structured using a current start and an accreting principal amortization – this was an alternative to a more commonly used combination of floating rate during construction paired with a forward starting swap upon anticipated project completion.

Finally, with HJ Sims' assistance, the existing bank relationship and coordinated working group efforts UMH was able to close the financing on expedited timeline, as desired. This allowed UMH to avoid further increases in interest rates, given the rising rate environment, and commence construction on a timely basis to reduce potential delays from adverse winter weather.



Caring. Connecting. *Community.*

FINANCED RIGHT®

With HJ Sims' leadership, the cooperation of UMH and constructive work of Citizens Bank and the full Working Group, UMH successfully completed the \$17.5 million in financing in September 2018. The financing was completed in a timely fashion and allows UMH to begin project development, as scheduled, and finance at what remain attractive intermediate term interest rates. Jim Bodine represented HJ Sims on this transaction.

"HJ Sims was instrumental in helping the United Methodist Homes secure over \$17 million in financing for our Brooks Estates independent senior living expansion project located at the Wesley Village Campus. Their assistance in analysis and negotiation of financing terms, in conjunction with coordinating meetings and discussions among involved parties, was invaluable to us in obtaining the financing needed to make this project a reality. The HJ Sims team was professional, skilled, knowledgeable and responsive to our needs."

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

For more detailed information
on how **United Methodist Homes**
was **Financed Right®** by HJ Sims,
please call or email:

Jim Bodine

267.360.6245

jbodine@hjsims.com

hjsims.com