

Current Skilled Nursing Financing Environment

Pennsylvania Health Care Association
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Introduction

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- Vice President of Healthcare Banking at BOK Financial covering Pennsylvania and the Northeastern United States.
- Over 10 years in banking & lending
- Over 6 years of healthcare industry experience

Jason Almiro, CPA, CFA

- Director of Healthcare Research at BOK Financial
- Over 15 years of healthcare finance and financial advisory experience
- Certified Public Accountant and Chartered Financial Analyst

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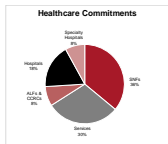
BOK Financial

- One of the largest U.S. bank holding companies (NASDAQ: BOKF)
- Leading energy and healthcare lender nationwide

Healthcare Banking

- \$2.1 billion of commitments
- 18.4% 5-year CAGR
- National SNF and acute-care expertise

BOK Financial	6/30/16:
Assets	\$32 bil
Loans	\$17 bil
Deposits	\$21 bil
ALM & Custody	\$73 bil



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Sector Update

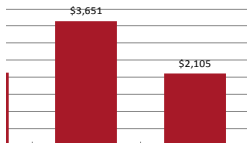
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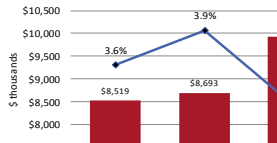
2013	2014	2015
\$376	\$410	\$323
\$2,138	\$3,651	\$2,105
\$3,903	\$394	\$405
\$6,489	\$4,455	\$2,829
\$11,426	\$3,428	\$4,410
\$8,519	\$8,693	\$9,929
\$7,477	\$7,168	\$7,779
\$7,963	\$8,771	\$9,504
3.6%	3.9%	3.4%

Government Payers Dominate

Commitments (Section 223(f))

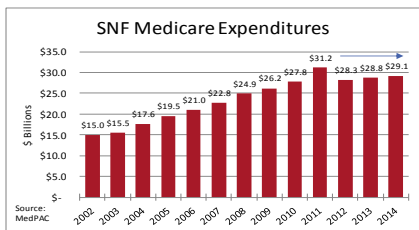


Average Mortgage & Interest (Section 223(f))





Stagnant Medicare Payments

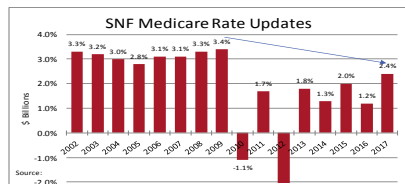


Source: MedPAC

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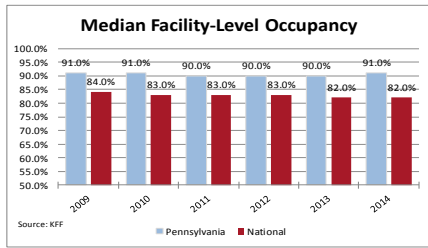
Reduced Medicare Rates



Source:

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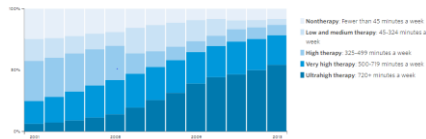
But...Flat Occupancy



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Scrutinized Therapy Payments

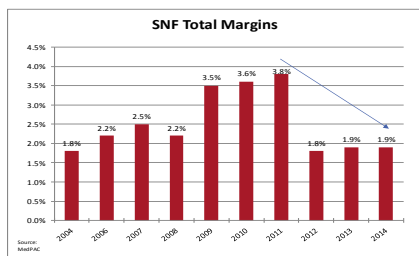
Proportion of days billed at ultrahigh therapy amounts rose from 6% in 2001 to 54% in 2013



"Changes in the frailty of beneficiaries to a SNF do not explain the increase in [intensive] therapy." - MedPAC
 "SNFs have increased their billing for the highest levels of therapy even though benefiting characteristics remain unchanged." - OIG
 "Dozens of nursing-home therapists told the [Wall Street] Journal that administrators pressured them to provide intensive services even when patients were unable to participate or declined treatments." - WSJ

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Reduced Profitability



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Dynamic Outlook

- Enacted
 - 2016
 - Final Fiscal 2016 Medicare rate update of 1.2% (net)
 - Final Fiscal 2017 Medicare rate update of 2.4% (net)
 - Comprehensive Care for Joint Replacement bundled payment program began in April 2016
 - Quality reporting covering Fiscal 2016 performance begins (but not submitted until Fiscal 2018).
 - 2017 and Beyond
 - Sustainable Growth Rate resolution limits SNF (and other post-acute providers) rate updates to 1% beginning Fiscal 2018
 - VBP program beginning Fiscal 2019 that will reduce SNF reimbursement by 2%
 - Cardiac and hip fracture bundled payment program begins July 2017 in select markets (phased-in over 5 years)

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Dynamic Outlook

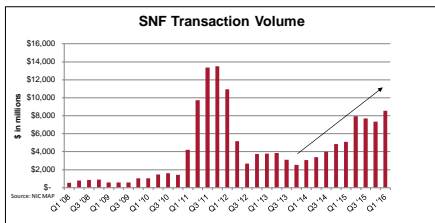
- Proposed
 - Additional VBP program that would be funded with an 8% payment reduction as recommended by the House Ways and Means Committee
 - Additional bundled payment programs as recommended by MedPAC
 - Therapy payment reform as recommended by the OIG and MedPAC
 - Reduced Medicare payment updates as recommended by MedPAC

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Financing Environment

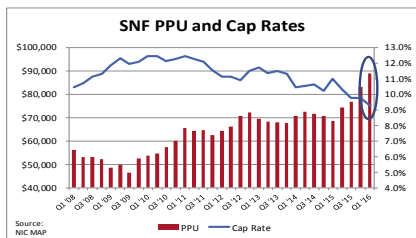
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Strong M&A Activity



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Record Valuations and Cap Rates



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Active Capital Markets

- Robust demand
 - Strong institutional REIT interest
 - Significant operator consolidation

- Healthy lending environment
 - Commercial banks
 - FHA
 - Commercial finance companies
 - Life companies and CMBS

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Attractive Rates & Structures

- Variable structures
 - Increasing loan to values
 - Longer term and amortization periods
 - Tiered capital structures
- Flexible terms and conditions
 - Adaptable covenant packages
 - Negotiable guarantees
- Negotiable eligibility standards
 - Stabilized properties and occupancy levels
- Attractive interest rates

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Financing Options

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Commercial Bank Loans	Construction	Bridge/Term Loan
Property type	Licensed skilled nursing and assisted living facilities	Licensed skilled nursing and assisted living facilities
Purpose	New construction or substantial rehabilitation	Purchase or refinance, minor repairs/improvements, and cash-out equity
Max loan amount	Negotiable; typically lesser of 65% of stabilized value or 75% of cost	Negotiable; typically up to 85% of appraised value
Debt service coverage covenant	Negotiable; typically around 1.25x	Negotiable; typically around 1.25x before distributions or 1.00x after distributions
Interest rate	Fixed or variable	Fixed or variable
Max term / amortization	Negotiable; typically up to 7 years term and up to 25 years amortization	Negotiable; typically up to 7 years term and up to 25 years amortization
Guaranty	Recourse	Negotiable; recourse preferred
Eligibility	Negotiable; preference to multi-unit owner/operators	Negotiable; preferences to multi-unit owner/operators
Assumability	Negotiable	Negotiable
Prepayment	Not required	Not required
Escrows	Not required	Not required, but available to maximize any future FHA refinancing
Fees & expenses	Negotiable; borrower typically responsible for third-party reports and legal fees	Negotiable; borrower typically responsible for third party reports and legal fees
Timing	Closings: in less than 30 days	Closings: in less than 30 days

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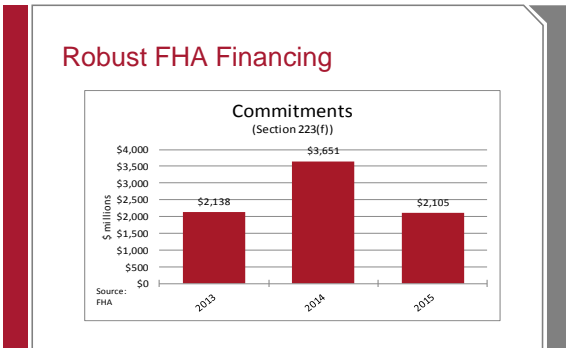
FHA Loans	Section 232	Section 223(f)	Section 223(a)(7)
Property type	Licensed skilled nursing and assisted living facilities	Licensed skilled nursing and assisted living facilities	Affordable multifamily housing, elderly housing, nursing homes and assisted living facilities
Purpose	New construction or substantial rehabilitation only	Purchase, refinance and minor repairs/improvements only	Refinance of an existing FHA mortgage only
Max loan amount	Fixed: up to 90% of appraised value for new construction, and up to 90% of appraised value plus up to 100% of rehabilitation costs for substantial rehabilitation	Fixed: lesser of 85% of acquisition price or appraised value for purchases, and lesser of 200% of financing costs or 85% of appraised value for refinancing	Fixed: lesser of original FHA mortgage amount, or unpaid principal balance of existing loan plus transaction costs
Debt service coverage covenant	Fixed: Minimum of 1.11x required	Fixed: Minimum of 1.17x required	Fixed: Minimum of 1.11x required
Interest rate	Fixed	Fixed	Fixed
Max term / amortization	Fixed: lesser of 40 years or 75% of remaining useful life	Fixed: lesser of 35 years or 75% of remaining useful life	Fixed: may not exceed remaining term of existing mortgage
Guaranty	Non-recourse	Non-recourse	Non-recourse
Eligibility	Fixed: Specific cost and wage standards must be met for new construction and substantial rehabilitation purposes	Fixed: Facility must be completed or substantially rehabilitated for at least 3 years prior to closing	See existing FHA eligibility requirements
Assumability	Yes with FHA approval	Yes with FHA approval	Yes with FHA approval
Prepayment	Mandatory: typically either (a) 5-year lockout followed by a 5% prepayment penalty in year 6 with 1% annual step-down, or (b) similar combination of lockout and penalties over 10-year period	Mandatory: typically either (a) 5-year lockout followed by a 5% prepayment penalty in year 6 with 1% annual step-down, (b) similar combination of lockout and penalties over 10-year period	Mandatory: typically either (a) 5-year lockout followed by a 5% prepayment penalty in year 6 with 1% annual step-down, (b) similar combination of lockout and penalties over 10-year period
Escrows	Mandatory: monthly escrows for insurance, taxes and reserves required	Mandatory: monthly escrows for insurance, taxes and reserves required	Mandatory: monthly escrows for insurance, taxes and reserves required
Fees & expenses	30 bps FHA application fee, 3.5% maximum lender fee and other fees	30 bps FHA application fee, 3.5% maximum lender fee and other fees	30 bps FHA application fee, 3.5% maximum lender fee and other fees
Timing	Typically 6 months minimum underwriting	Typically 5 month minimum underwriting	Typically 5 month minimum underwriting

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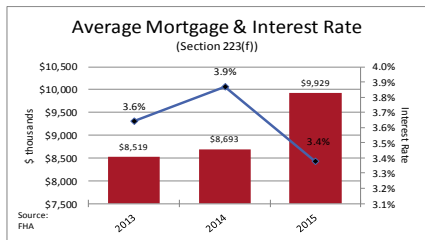
Fannie Mae	Section 232
Property type	Independent, assisted living and memory care facilities. No skilled nursing facilities
Purpose	Purchase or refinance of stabilized properties
Max loan amount	Fixed: up to 75% of appraised value
Debt service coverage covenant	Fixed: Minimum of 1.30x for IL, 1.40x for AL and 1.45x for MC required
Interest rate	Fixed or variable
Max term / amortization	Fixed: 5 to 30 years term with up to 30 years amortization
Guaranty	Non-recourse
Eligibility	Fixed: Stabilized properties with average occupancy of at least 90% over previous 12 months for IL or 15 months for AL and MC. Sponsor/Principal must have a minimum of 5 years experience in comparable properties and ownership of at least 5 senior housing properties
Assumability	Fannie Mae approval required
Prepayment	Mandatory: typically declining or fixed percentage prepayment penalty schedule
Escrows	Mandatory: monthly escrows for insurance, taxes and reserves required
Fees & expenses	Mandatory: borrower typically responsible for \$20-\$30k per facility due diligence fees
Timing	Typically 5 months minimum underwriting

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Reflects Sector Trends



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Commercial Bank Financing Activity

- Rapidly growing loan volume
 - 18.4% 5-year CAGR in healthcare commitments (through 12/31/15) for BOK Financial
- Competitive rates
 - Typically lower than other types of lenders
- Favorable terms and conditions
- Extremely low defaults

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Commercial Bank Advantage

- Flexibility
 - Creative capital structures including cross-pledging of existing assets for equity
 - Liberal use of proceeds including cash-out financing
 - Flexible loan amounts
 - Negotiable terms and conditions including covenants, guarantee, eligibility and escrow requirements
- Competitive rates
- Minimal fees
- Quick closings
- Ancillary banking services

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FHA Advantage

- Long-term fixed rate financing
- Non-recourse

Considerations

- Rigid terms and conditions
- No cross-pledging or cash-out refinancing
- Fixed covenants, eligibility and escrow requirements
- Extensive upfront fees
- Lengthy underwriting and closing process

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Conclusion

- Demand for skilled nursing facilities is outpacing supply
- Near record high valuations with stable cap rates is producing favorable lending conditions
- Attractive financing is fueling merger and acquisition activity
- Near-term outlook remains positive given strong demand, limited new supply, favorable demographic trends and active capital markets

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