RD Blog
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Sims Monitors the Market and Closes Refinancing

Congrats to all the good people who live and work at the Loomis Communities...and thanks to the Sims team for good timing!

Read article from the HJ Sims website

Sims Monitors the Market and Closes RefinancingBackground

Background

Sims was engaged by Loomis Communities (Massachusetts) earlier this year to refinance its outstanding bonds and bank loan and provide additional funds for annual capital expenditures for the next three years. Loomis' goals for the financing included a) net present value savings, b) level annual debt service payments, c) improved cash flow, d) improved debt capacity and e) eliminate variable and adjustable interest rate risk. Loomis Communities is evaluating future upgrades to the Loomis House nursing center which it may finance with additional debt.

Challenges

Rating Qualification
To achieve its net present value savings target Loomis' obligated group needed to maintain its BBB-investment grade rating. Loomis consists of an obligated group which includes three communities and a fourth community ("Loomis Lakeside at Reeds Landing"), which is not a member of the obligated group. Loomis Lakeside could not qualify for an investment grade rating. The rating agency incorporated Loomis Lakeside in its obligated group credit analysis.

Bond Market Deterioration
Interest rates rose dramatically after the Federal Reserve Bank discussed the possibility of reducing its purchases of fixed income securities. As a result, bond prices fell and investors shifted cash away from tax exempt bonds and into other securities. This increase in interest rates significantly reduced the net present value savings which could be achieved with the refinancing.

Refunding an Advance Refunding
A portion of the outstanding bonds was used to advance refund a prior tax exempt bond issue. Those advance refunding bonds were not eligible for refinancing with new tax exempt bonds.

Solution

Sims and Loomis invited the rating agency representatives to a presentation provided by Sims, Loomis' management team and members of the Loomis Board. The presentation highlighted the obligated group's credit strengths and presented historic pro forma financial ratios both with and without Loomis Lakeside. The presentation highlighted the significant reduction in maximum annual debt service produced by the refinancing and demonstrated that if Loomis Lakeside joined the obligated group, then the obligated group would qualify for an investment grade rating.

After printing the preliminary official statement, Sims monitored the market and adjusted the mix of serial and term bonds to increase the net present value savings. Interest rates fell after the Federal Open Market Committee reported the results of its September 18 meeting, and Sims quickly priced and purchased the Loomis bonds. To ensure Loomis achieved its saving targets, Sims underwrote and held in inventory a significant portion of the bonds. During the weeks after the closing, Sims distributed the inventoried bonds to its retail investors.

The new issue included $2.5 million of short term (one to three year maturity) taxable bonds. The proceeds of the taxable bonds refinanced the outstanding tax exempt bonds which were used to advance refund a prior tax exempt issue. By structuring the taxable bonds with short maturities Sims was able to sell the taxable bonds with relatively low interest rates and achieve Loomis' savings targets.

Result

Sims successfully achieved all of Loomis' objectives. The debt service savings and the funding for the future annual capital expenditures will permit Loomis to allocate future cash flow to the Loomis House nursing center upgrade project. The lower annual debt service improved Loomis' credit profile and enhances its ability to issue additional debt and maintain an investment grade rating. Finally, Loomis moved to an all fixed interest rate structure and eliminated its adjustable and variable rate bond risk.