

NIC National Skilled Nursing Investment Forum

March 10, 2011

***When Will the Banks Be Back? And
What Are They Doing Now?***



National Investment Center
For the Seniors Housing & Care Industry

Balance Sheets Weakened



Capital Became Precious



Bank Loan Appetite Declined



Decisions Were Difficult



DEAR GOD ... Please Let There Be Just One More
Real Estate Boom, And I Promise Not To Piss It
All Away This Time!

RED CAPITAL GROUP

SENIORS HOUSING & HEALTH CARE FINANCE

We provide it.[®]

- Nation's Highest Volume FHA Lender
(More than 120 transactions completed per HUD FY2010 Rankings,
Combined MAP and LEAN transactions)
- Nation's Most Active Health Care LEAN Lender since inception of the
program
(More than 60 LEAN transactions completed during HUD FY2009-FY2010)
- Largest Fannie Mae DUS[®] Seniors Housing Lender by loans outstanding
- Over \$2.2 Billion in Capital provided in 2009
Over \$46 Billion in Capital provided since 1990



HUD 232 NURSING/ICF ACTIVITY

<u>FY</u>	<u>#LOANS</u>	<u>MTG \$\$ (mils)</u>
2010	195	\$1,715.1
2009	179	\$1,400.2
2008	122	\$ 835.2
2007	107	\$ 769.7
2006	154	\$ 952.7
2005	128	\$ 820.6
2004	196	\$1,156.1
2003	213	\$1,253.5

- Climate *slowly* improving
- *Some* banks are back on a *selective* and possibly more *conservative* basis than in the past

MODERATOR: Daryl McCombs, Director

RED CAPITAL GROUP

- Sam Chandan, Global Chief Economist & EVP
Real Capital Analytics
- Steve Gilleland, Sr. Director, Healthcare RE
CapitalSource
- Richard A. Sutton, Vice President
California Bank & Trust
- Jeffrey Steele, Managing Director & EVP
The PrivateBank



Senior Housing Investment and Lending Trends

March 2011 | NIC Skilled Nursing Investment Forum

Hyatt Regency | Los Angeles

Sam Chandan PhD FRICS

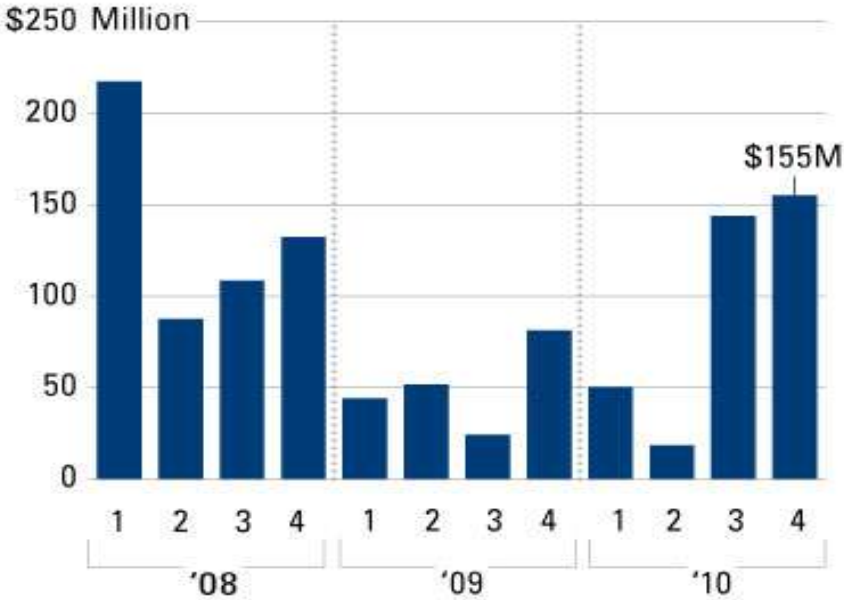
Global Chief Economist | Real Capital Analytics

Adjunct Professor | The Wharton School

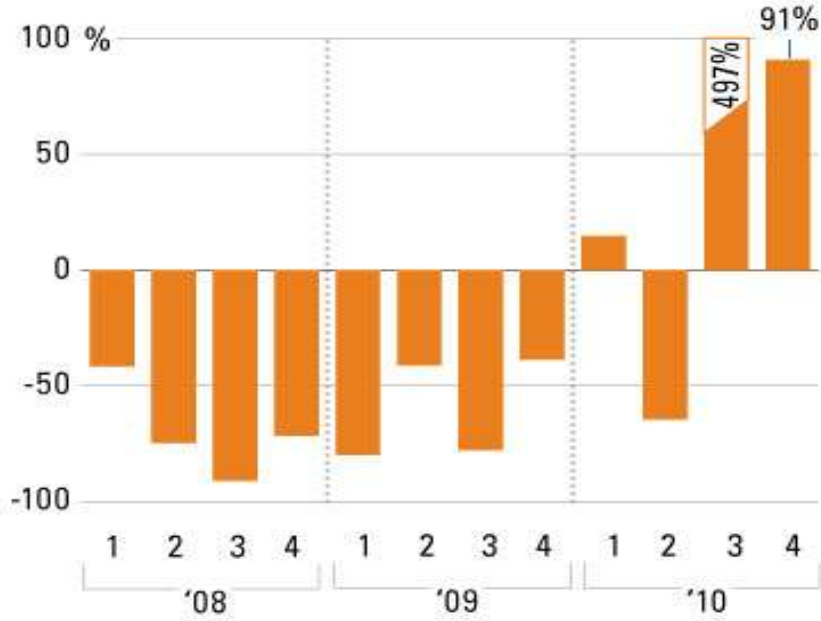
A REBOUND IN SENIOR HOUSING INVESTMENT

SENIOR HOUSING/INDEPENDENT LIVING TRANSACTION SUMMARY

TRANSACTION VOLUME



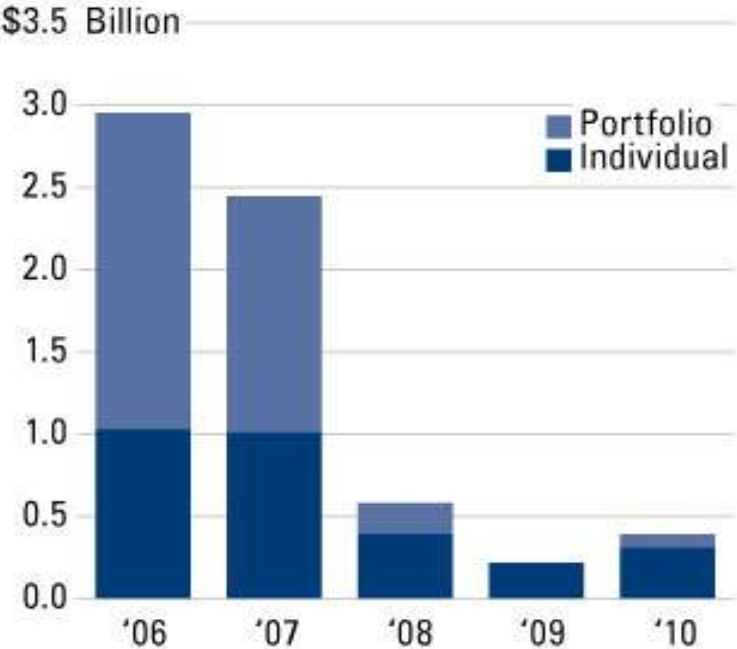
YOY CHANGE IN TRANSACTION VOLUME



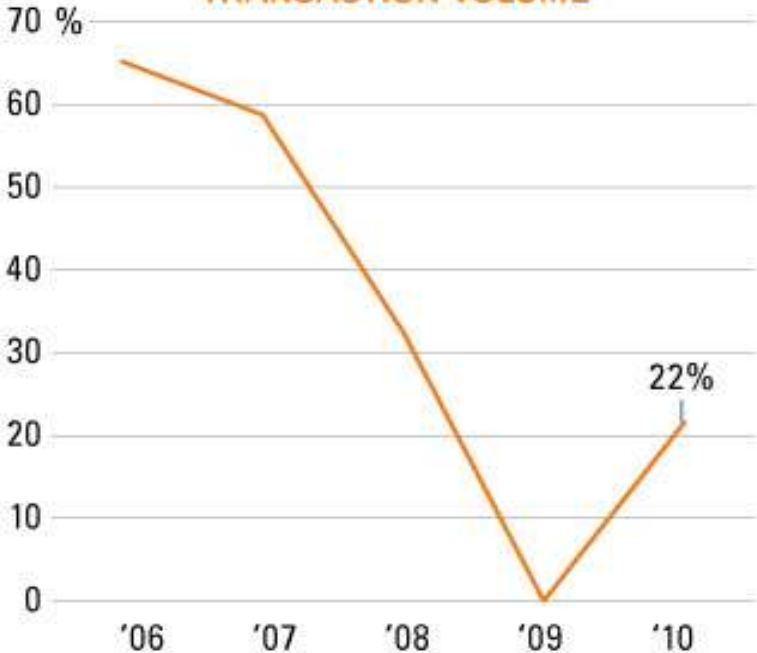
LIMITED PORTFOLIO SALES ACTIVITY

SENIOR HOUSING/INDEPENDENT LIVING TRANSACTION SUMMARY

TRANSACTION VOLUME



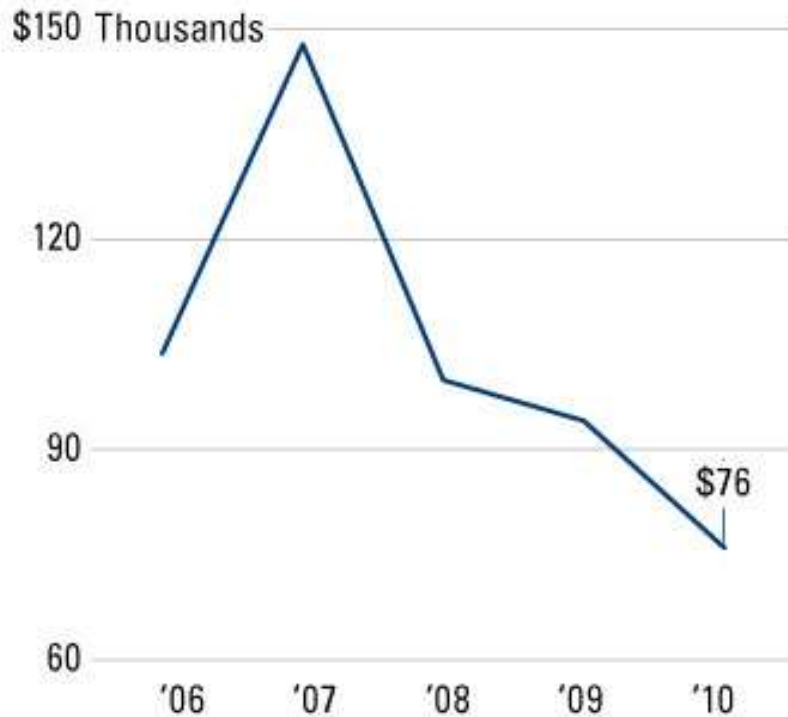
PORTFOLIO SALES AS A SHARE OF ANNUAL TRANSACTION VOLUME



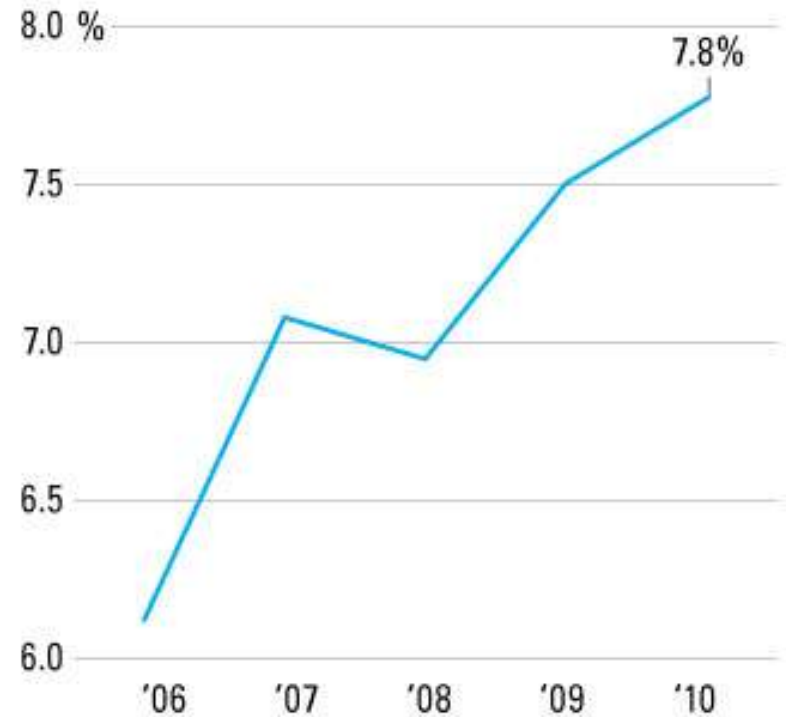
PRICING REMAINS WEAK

SENIOR HOUSING/INDEPENDENT LIVING PRICING TRENDS

AVERAGE PRICE PER UNIT

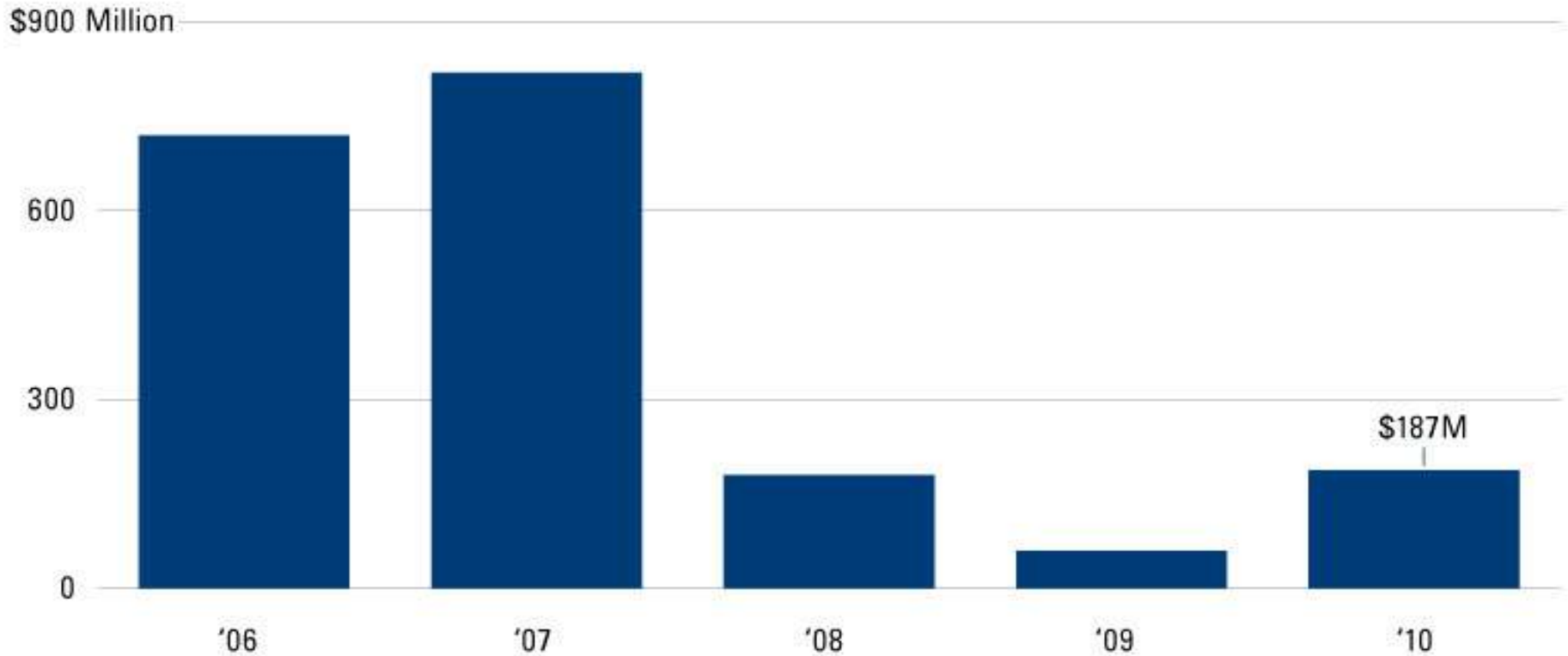


AVERAGE CAP RATE



CREDIT CONDITIONS IMPROVING

VOLUME OF NEW SENIOR HOUSING/INDEPENDENT LIVING LOANS



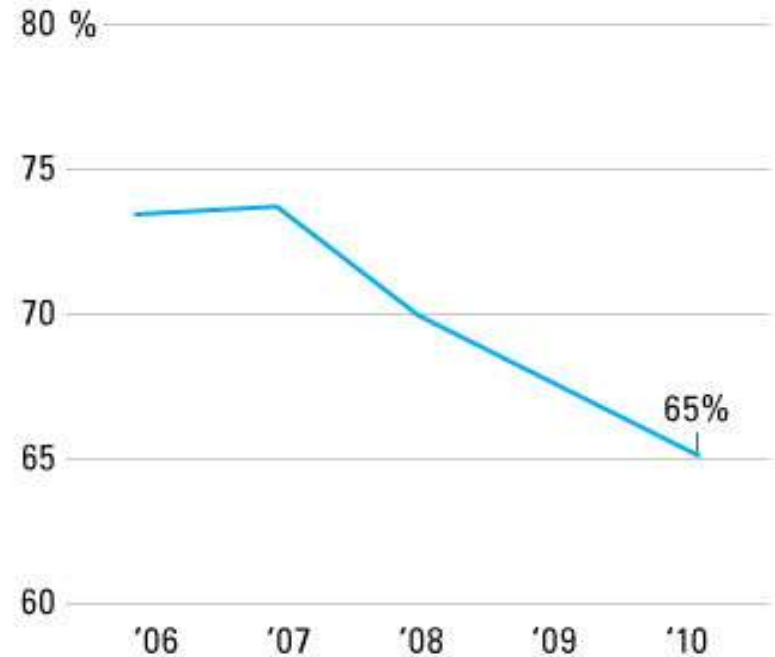
UNDERWRITING BENEFITS FROM LOW INTEREST RATES

PRICING OF NEW SENIOR HOUSING/INDEPENDENT LIVING LOANS

AVERAGE INTEREST RATE



AVERAGE LOAN-TO-VALUE



CapitalSource

Healthcare Real Estate Group

March 2011

Overview

Bank lending to SNFs

- Banks are slowly coming back to the SNF lending space on a more selective and sometimes more conservative basis.
- Today per the NIC Lender Locator, there are approximately 25 banks who lend to SNFs.
- SNFs have been a very stable asset class for the past 8 years (since PPS damage in 1998 – 2002)

Overview

Bank lending to SNFs

- The inherent risk with SNFs, is the “stroke of the pen” reimbursement risk. Most experts do not think CMS will drastically cut rates, but they do expect some reduction in the future.
- If underwritten correctly and using historical guidelines (i.e. SMELL TESTS like value per bed or value to revenue), SNF loans provide above average yields and plenty of cushion in debt service coverage and other bank metrics.

Bank Underwriting for SNFs

- 70 to 75% leverage
- Pricing will be 6% to 8%
- Bank terms will be 3 to 5 years
- Valuation - 12.5% to 14% on in-place trailing twelve months EBITDAR

SNF Industry Market update

- Overall deal flow is definitely picking up from previous three years
- Some renewed acquisition activity - - majority of larger deals are being done by the HC REITs.
- Refinance wave is expected to hit this year and 2012
- Several large SNF deals done in 06-07 era and a couple of large CMBS loans come due as well

CapitalSource

SNF Loan Originations

2003 - \$230mm

2007 - \$650mm

2004 - \$300mm

2008 - \$20mm

2005 - \$700mm

2009 - \$220mm

2006 - \$900mm

2010 - \$300mm

2003 thru 2008 - 90% of loans were for acquisition financing, 10% were refi's.

* 2009 and 2010 – exact flip: 10% of loans were acquisitions, 90% were for refinance.

CapitalSource SNF Loan Terms

March 2011

Valuation: Use cap rate of 13% to 14% on in-place historical trailing twelve month EBITDAR

LTV: 65% up to 85%

Pricing: 450 to 550 over LIBOR or Treasury (L/T floor of 1% to 2%)
Offer both variable and fixed interest rates

CapitalSource SNF Loan Terms

March 2011

Fees: 1 point in, flexible on exit fee

Terms: 3, 5 or 7 years

Prepayment: 2 year lock out

Guarantee: Non-recourse available for quality credit transactions

CapitalSource SNF Loan Underwriting March 2011

EBITDAR calculated subject to:

- Management fees of at least 5% of net revenue
- Capital expenditures of \$400 per bed per year
- Reasonable bad debt expense (1% of net revenues)
- Reasonable GL/PL insurance expenses

CapitalSource

Refinance of SNF portfolio

- Seasoned SNF operator based in South
- 10+ SNFs with approx. 1,500 beds
- Need was to refinance existing finance co. lender who was not in position to renew
- CapitalSource had been in close contact with this operator over the past 5 years
- Operator knew of CapSource SNF industry expertise and valued our certainty of execution

CapitalSource

Refinance of SNF portfolio

- Loan Amount: \$60,000,000
- Interest Rate: Fixed at 7.4%
(5 year T + 5%)
- Term: 5 years, 25 yr amort.
- Extension option: One 2 year option (variable at 5.9%
over LIBOR)
- Prepayment: 24 month lockout, yield
maintenance thereafter

CapitalSource

Refinance of SNF portfolio

Guaranty: Corporate

Fees: 1 point in, ½ point exit

Reserves: Two months debt service,
property taxes and insurance

Escrows: \$1.5mm CapEx reserve

CapitalSource

Refinance of SNF portfolio

Underwriting Highlights:

- EBITDAR	\$10,000,000
- Occupancy	89%
- Quality Mix	30%
- Per bed loan amount	\$40,000

CapitalSource

Refinance of SNF portfolio

Underwriting highlights:

- Debt to EBITAR of 6x
- Value to Revenue of 1x
- CapSource used a \$85,000 per bed limit to cap certain facilities' values
- Borrower pledged A/R as additional collateral (A working capital line is expected to be established during 2011)

CapitalSource

Refinance of SNF portfolio

- Once term sheet signed, due diligence commences:
 - Site visits (visit main competitors as well)
 - Forensic audit of financials
 - Review of annual care and compliance surveys by CapitalSource regulatory and nurse team
 - Standard third party reports
 - Legal, title, background checks, etc.

CapitalSource

Refinance of SNF portfolio

- Covenants:
 - Fixed charge ratio of 1.20x
 - Minimum census of 80%
 - Minimum EBITDAR of \$10mm
 - Minimum net leverage of 6x

CapitalSource

Acquisition financing for SNF portfolio

- Acquisition of 5 Midwest SNFs
- Borrower approached us after their initial Bank failed to deliver
- CapitalSource provided 80% leverage
- 570 skilled nursing beds in two states

CapitalSource

Acquisition financing for SNF portfolio

Loan Amount: \$14,600,000

Interest Rate: Variable rate (Floor of 7.5%)

Term: 3 years, 25 year amort.

Prepayment: 24 month lockout

CapitalSource

Acquisition financing for SNF portfolio

- Guaranty: None
- Fees: 1 point in, 1 point exit
- Reserves: Two months debt service, property taxes and insurance
- Escrows: \$300k + CapEx reserve
(includes installation of sprinklers)

CapitalSource

Acquisition financing for SNF portfolio

- Underwriting Highlights:

- EBITDAR	\$2,800,000
- Occupancy	82%
- Quality Mix	25%
- Per bed loan amount	\$25,000

CapitalSource

Acquisition financing for SNF portfolio

- Underwriting highlights:
 - Debt to EBITAR of 5.2x
 - Value to revenue of 0.6x
 - CapSource used a \$60,000 per bed limit to cap certain facilities' values
 - Borrower established a \$6mm working capital line

CapitalSource

Acquisition financing for SNF portfolio

- Working capital line details
 - 85% advance rate on eligible A/R
 - Variable rate (Floor of 7%)
 - Collateral management and unused line fee of 1% per annum
 - 3 year term

Overview

Bank Lending to SNFs

- CONCLUSION:
 - Banks are increasing their lending to the SNF industry.
 - When underwritten correctly, SNF loans provide good yields for banks and generally are more stable than other commercial real estate assets.

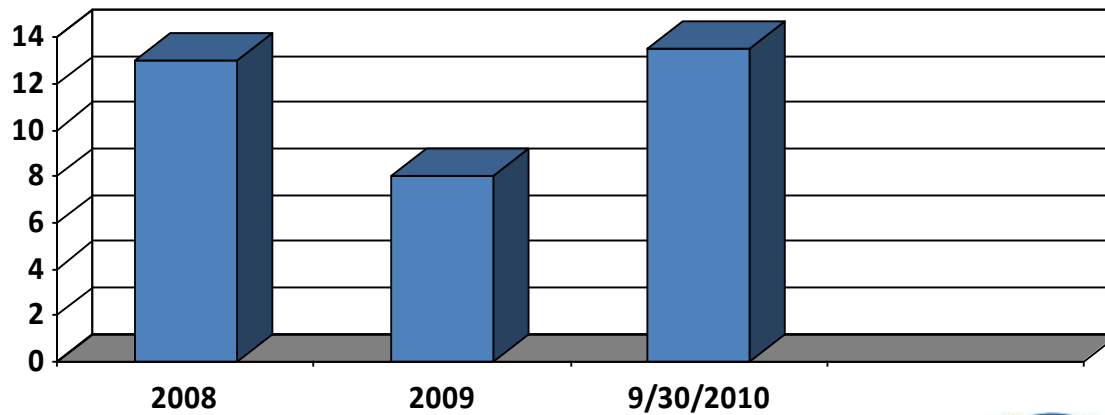
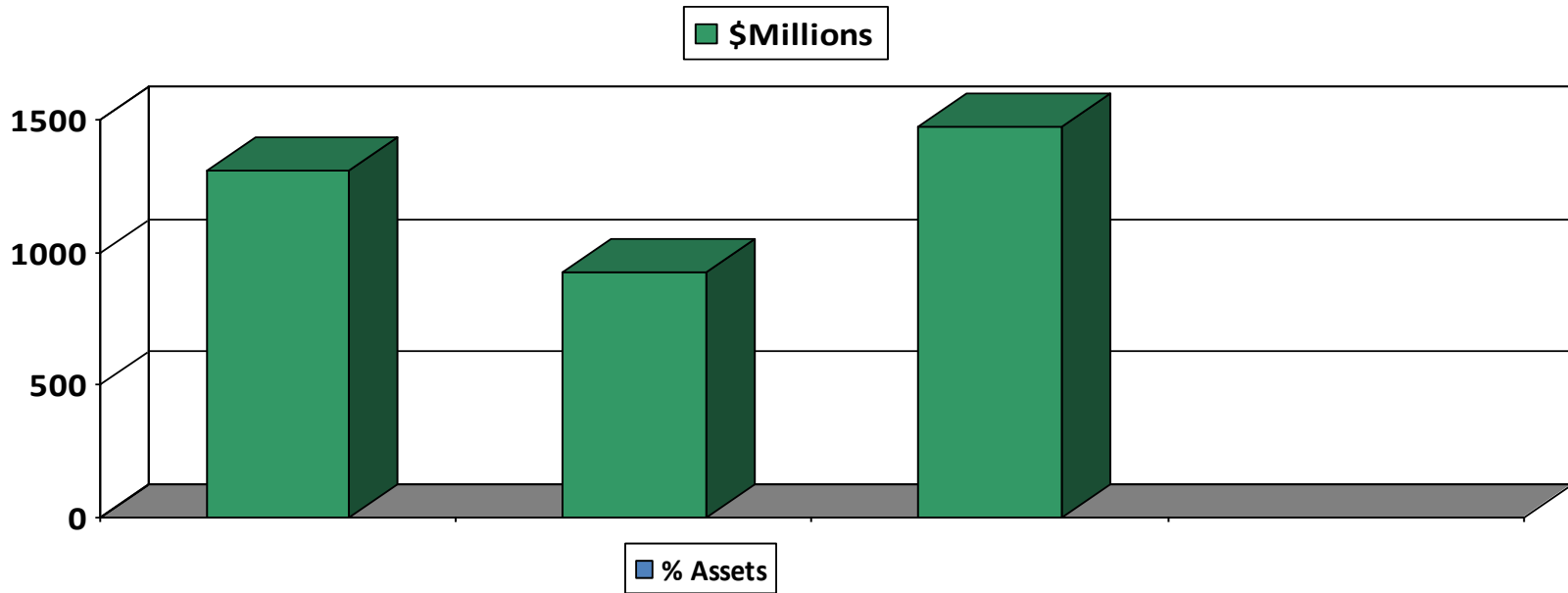
*Overall Assessment of Banking
Conditions:*

**157 Banks Closed/Merged in 2010 but ,
Of the 6,000 + remaining**

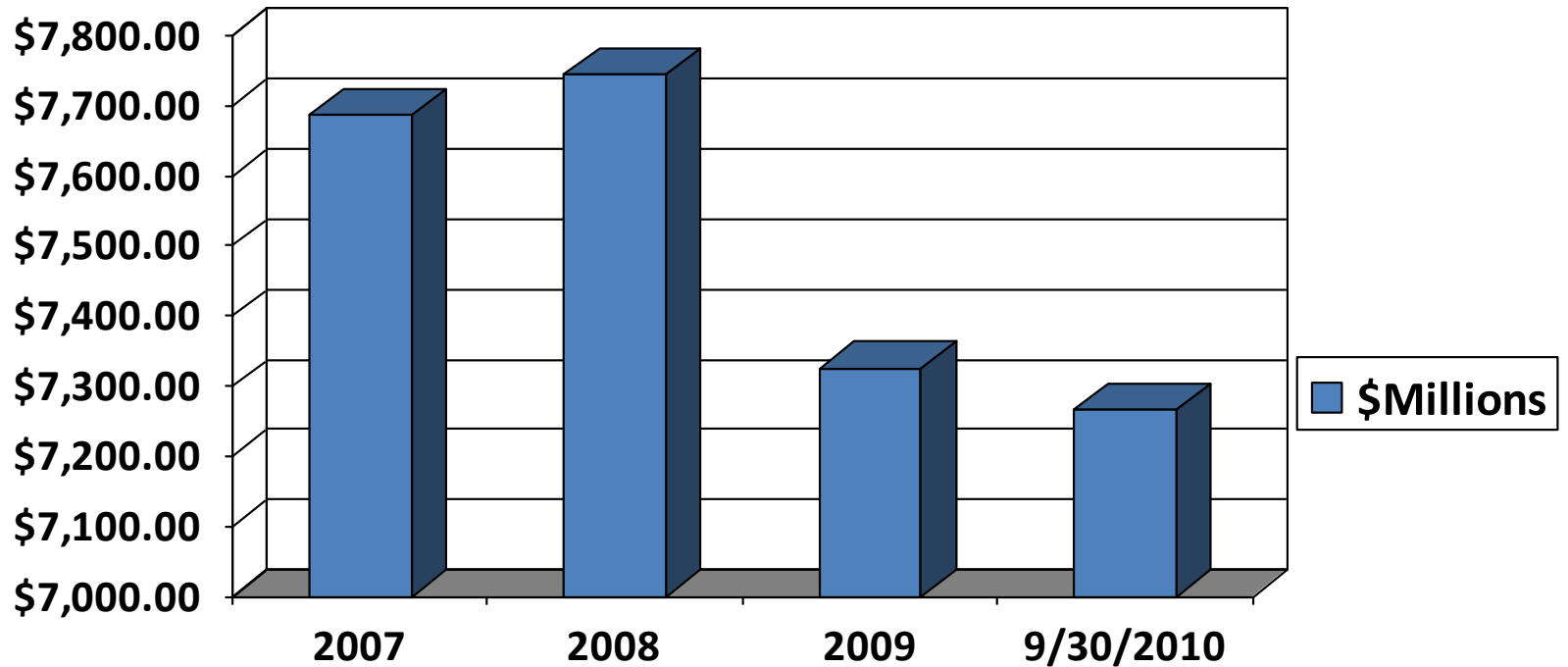
Many are flush with Cash and **Some are
“Selectively” lending to the Sr. Housing Industry**

- Liquidity at many banks is at an all time high
- Loan demand from “Qualified” Commercial borrowers is low
- This combination bodes well for “best of class” operators/owners

CB&T Cash Liquidity



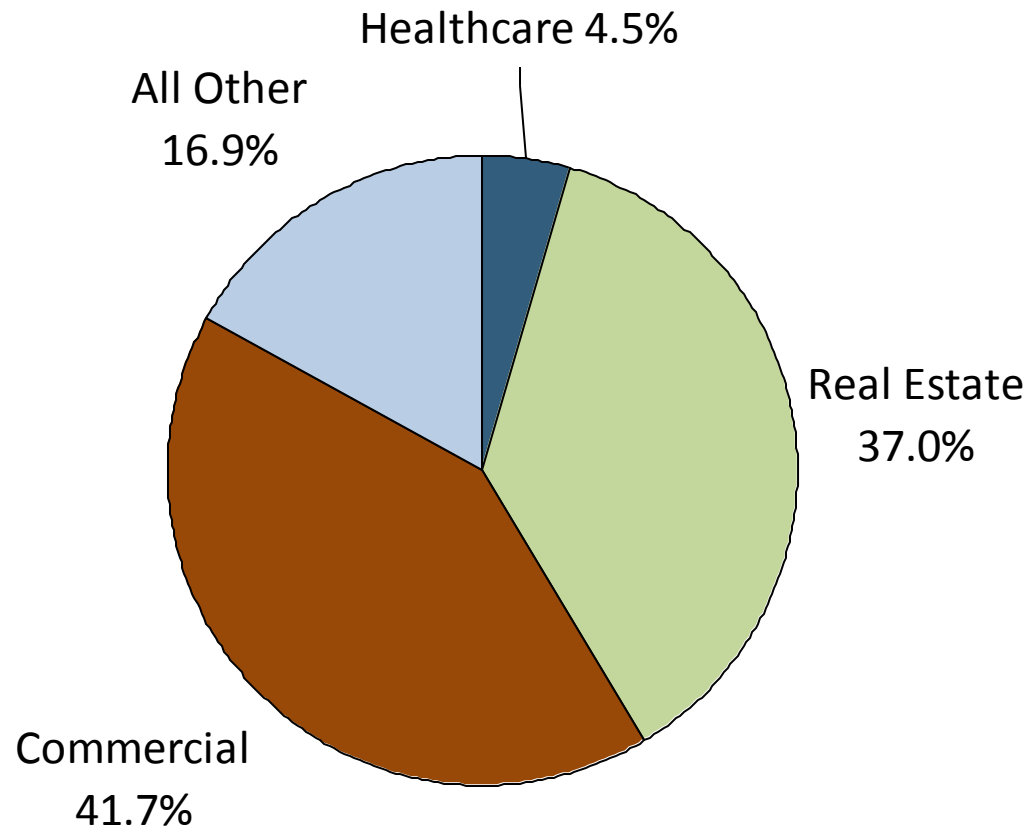
CB&T Loan Portfolio



- Excludes \$ 2.0 B from the acquisition of Vineyard Bank and Alliance Bank

- High Liquidity / Low Growth are creating an environment that has bankers asking “Where can we make loans?”
- Competition amongst banks for strong credits is very aggressive.

- CB&T has a Small Healthcare Presence today:*



California Bank & Trust is making loans in the Skilled Nursing sector.

- We are seeking “**Banking Relationships**” with top tier Operators
- “Relationship” means.....We are the primary bank for operating accounts.
- We provide working capital loans in addition to real estate financing.
- Private banking or lines of credit for the principals.
- We are viewed as “part of the team” to help finance growth through acquisitions or development.
- We are not strictly a “one off” real estate lender.

For this customer, the financing window is open and terms are favorable



- Current Lending Parameters

- LTV's in the **60-65%** range
- DSC's of **1.4x** preferred, under 1.0 a “non-starter”
- Properties should be stable for at least one year, two years preferred
- Interest Rates in the **mid-5%** range on a floating basis, **6%** or more on a fixed rate basis.
- Recourse preferred.
- Banking required.
- Working Capital Lines of Credit are available at similar interest rates.

Recent Loan Closings

- \$1 million Working Capital Line to Operator taking over an underperforming property
- 85% advance rate on new account receivable
- Operation at a slightly positive cash flow position
- Prime + $\frac{3}{4}\%$, 5.5% Floor
- Nominal fees
- Recourse

Recent Loan Closings

- Acquisition of Land and Building by Current Operator
- LTV < 60%
- DSC > 1.5x for last three years
- Very good Quality Mix
- 5 Year loan, 25 Year Amortization, no Prepay after two years to allow for HUD takeout
- L+300 Floating, 5.25% floor
- 6.5% Fixed Rate Option
- Recourse

In Summary:

- Many Banks have the cash liquidity to lend.
- Those Banks who understand the industry are aggressively trying to find Quality customers to lend to.
- The proposed California Budget cuts will weed out many “newcomers”.
- I believe you will see the banks more involved in lending to the industry in 2011.

California Bank & Trust has over 100 branches throughout California



\$11 Billion in Assets



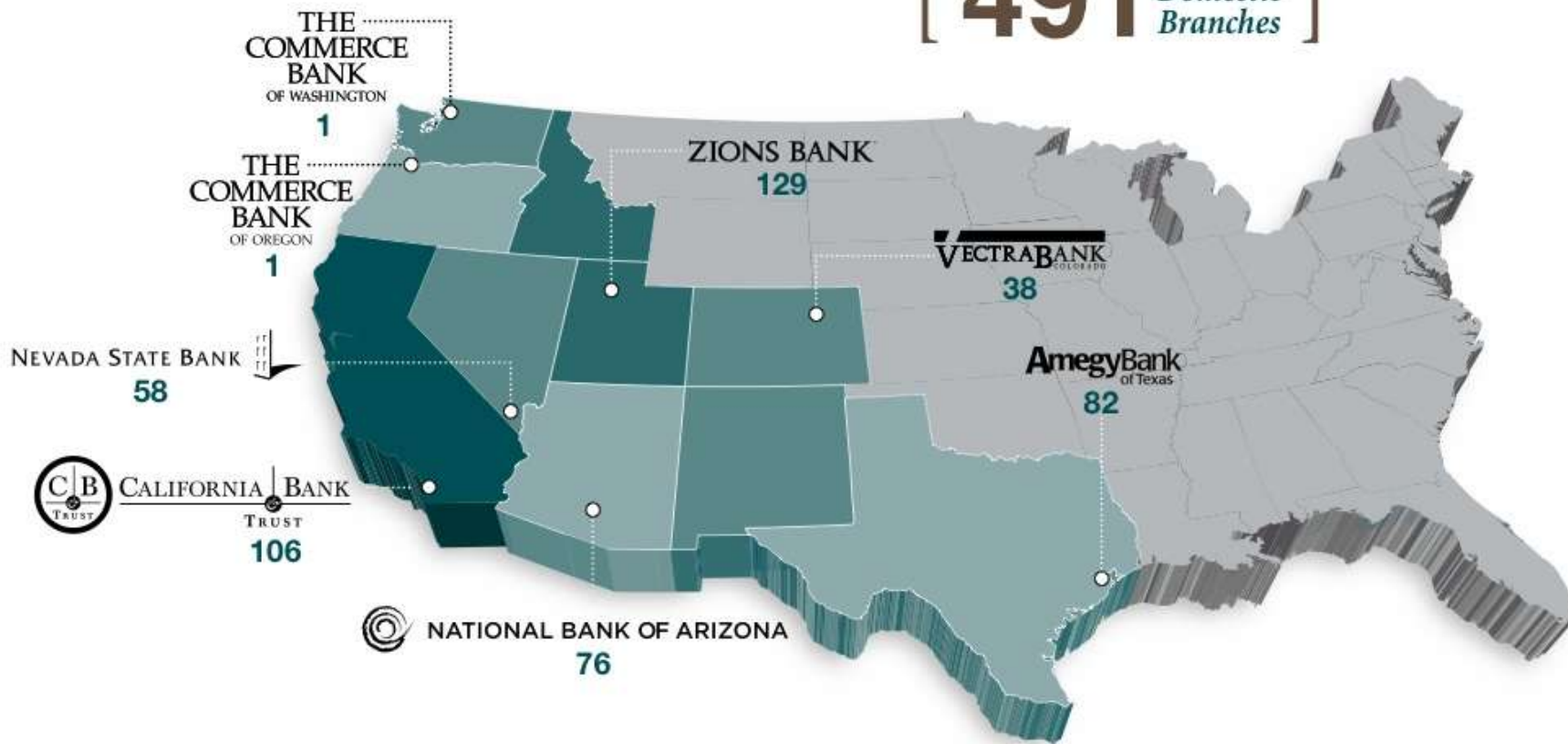
Zions Bancorporation, Our Parent Company



\$51 Billion in Assets

A COLLECTION OF GREAT BANKS

[**491** Domestic Branches]



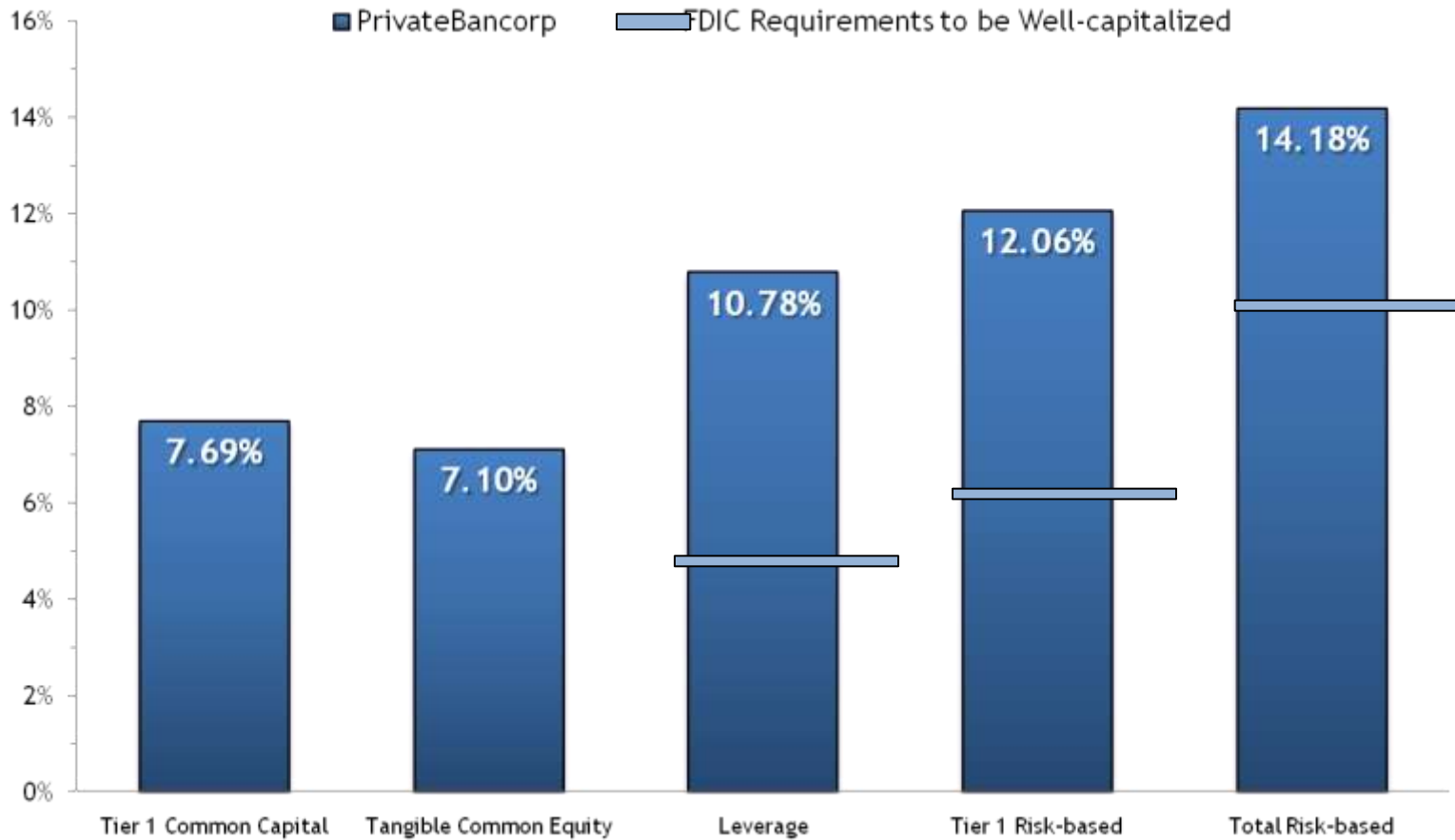
The PrivateBank

Jeffrey Steele, Managing Director & EVP
The PrivateBank

Did Banks Exit the Market or Adapt to a New World?

- Ever changing capital requirements have driven banks to re-evaluate how they deploy capital.
- Tier I capital requirements from 6% to 10%.
- Increased capital requirements for banks are still not well defined.
- Banks have either had to shrink loan portfolios or issue new capital.
- Increased capital levels at some banks will mean increased lending but in different ways than in the past.

PrivateBank Capital Position



**Ratios as of 12/31/2010*

Shrink/Raise Capital/Grow

- Consistent lender to the skilled nursing and seniors housing industry.
- We seek clients that place “value” on consistency and knowledge.
- We view the business from the operations versus real estate.
- Maintain a favorable view on the industry.

PrivateBank Overview

At PrivateBancorp, Inc. we have a simple vision: to be the bank of choice for middle market business owners.

➤ **National Coverage for Skilled Nursing and Seniors Housing**

We have 34 strategically located offices in 10 states serving the greater Atlanta, Chicago, Cleveland, Denver, Des Moines, Detroit, Kansas City, Milwaukee, Minneapolis and St. Louis metropolitan areas.

➤ **Our People**

Our unique staffing model is a meaningful competitive advantage for us. We employ resourceful, highly experienced people with unique levels of expertise and provide an environment where empowerment, collaboration, flexibility, responsiveness and positive can-do attitudes can flourish.

➤ **Key Data**

Total assets: \$12.1 billion

Total loans: \$9.1 billion

Total deposits: \$10.0 billion

Total wealth management assets under management: \$4 billion

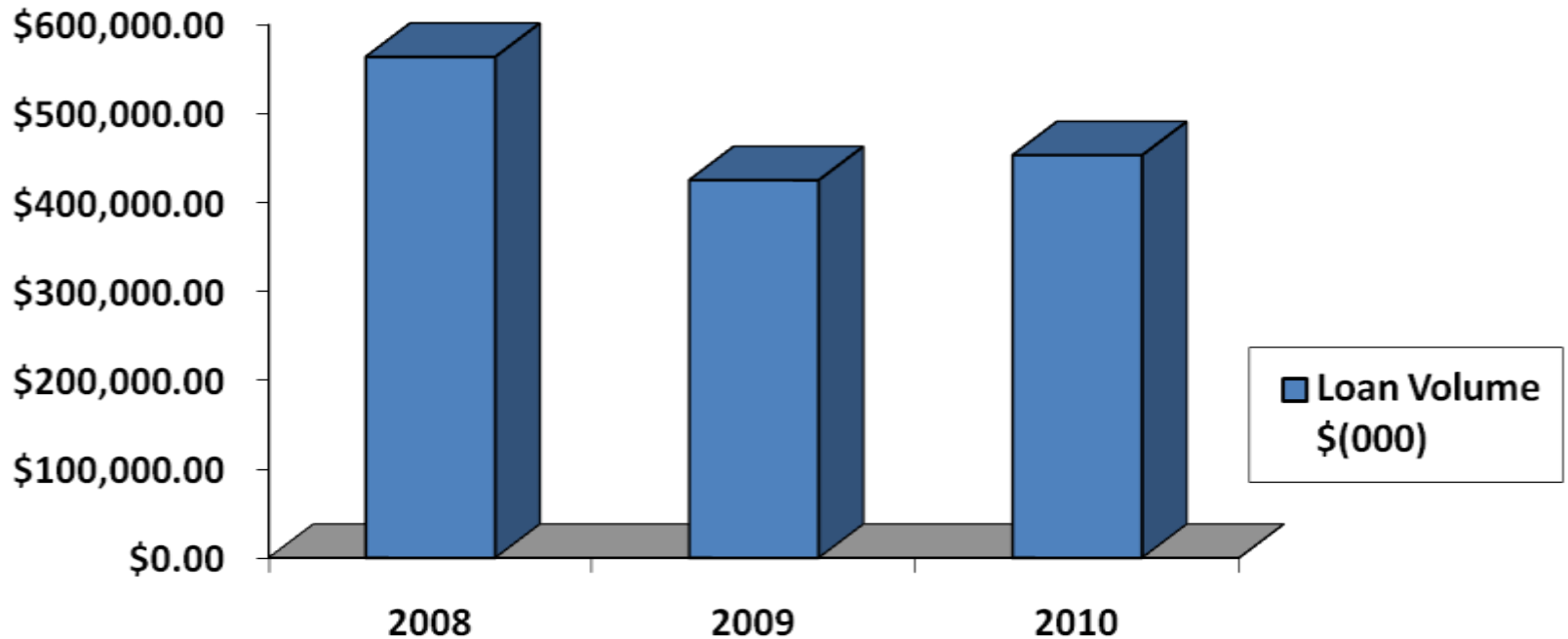
Tier 1 risk-based capital ratio 12.06%

Total risk-based capital ratio: 14.18%

**All numbers as of 12/31/10*



PrivateBank Loan Volume

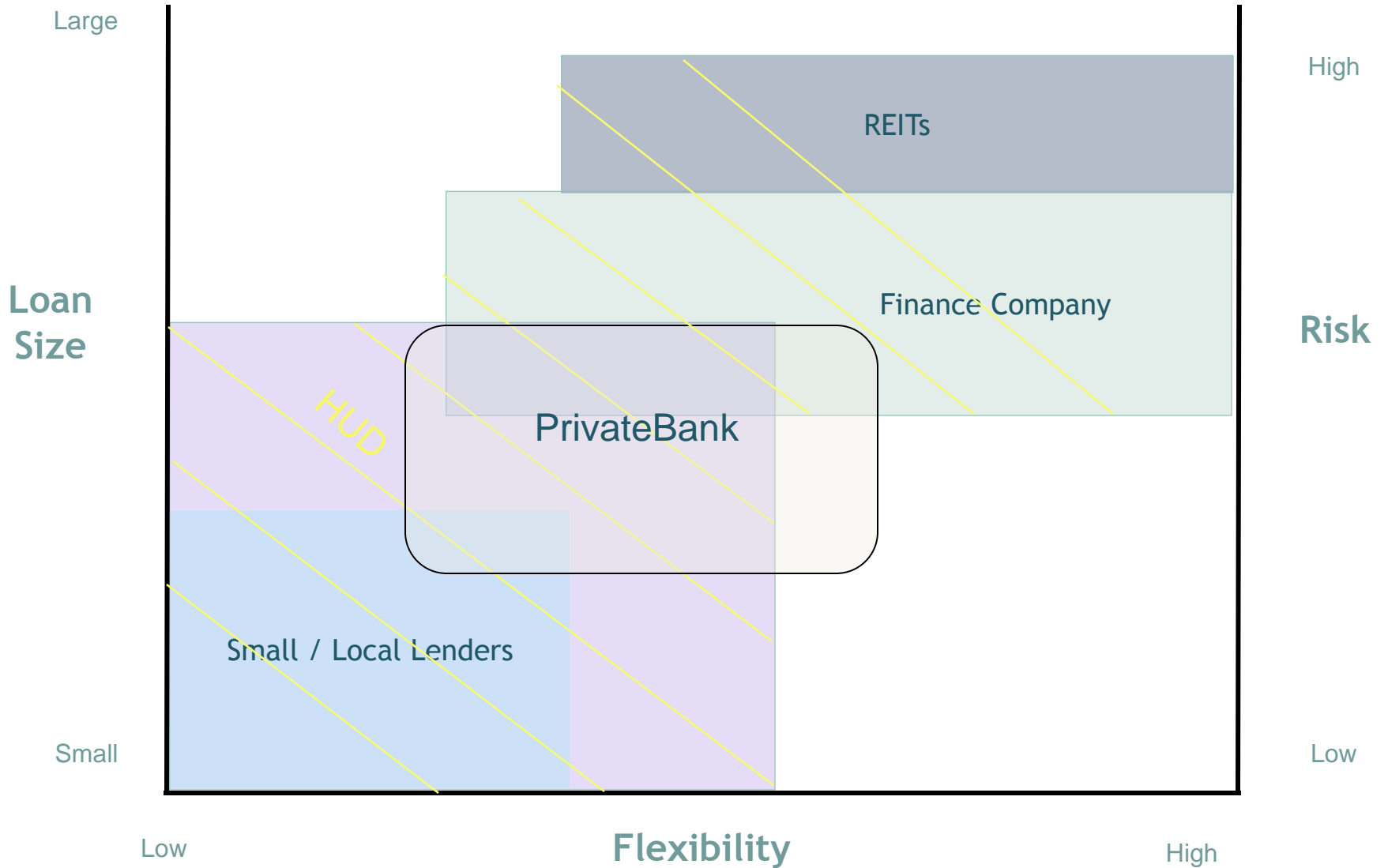


- ❑ Of the \$453 million in loan originations for 2010, product type included 15 acquisitions, 19 refinancings, 2 construction loans and 15 working capital lines of credit. Combined 3 year origination growth of \$1.4 billion.

Different Banking Strategies

- Transactional Model
- Single Bank - Different Markets
- Relationship Banking (What does that mean?)
- Multibank Strategy

Market Position



General Lending Parameters

- National Platform
- Working Capital Lines, Mortgage Facilities, Term Loans.
- LTV's up to 75% - 80%.
- Debt Service Coverage minimum of 1.35:1.00 (Underwritten 1.60:1.00).
- Amortization up to 25 years.
- LIBOR based pricing of 300 bps to 450 bps with floors currently in place.
- Guarantees are deal specific.

Full Banking Capabilities

- Treasury services on a national level without the need for “brick and mortar”
 - Web based account access (Access from anywhere)
 - Remote Deposit
 - Resident Trust Accounts
- Interest rate protection products (Swap, Caps, Collars)
- Private Wealth Services
- Trust Services
- Loan Syndications

Acquisition Example

- Acquisition of 198 Bed Skilled Nursing Facility in Wisconsin.
- 87 % occupancy.
- Total deal size of \$9.5 million
 - \$500 thousand Working Capital Facility
 - \$600 thousand Capital Expenditure Facility
 - \$8.4 million Term Loan Facility
- 5-year deal; 25 year amortization.
- 6.5% floating with an option to hedge.
- Guarantees with reduction hurdles.

Construction Example

- Construction of a 120 bed SNF in Texas.
- Replaced a 92 bed SNF in the same county.
- \$5.8 mln 5-year term loan based on a 25 year amortization.
- Loan to cost of 78%.
- Stabilized loan-to-value of 63%.
- Guarantee burn off after two consecutive quarters of 1.60 DSC.
- Borrower decided to hedge entire debt amount with an interest rate swap. All-in fixed rate of 6.9%.

Non-for-Profit Conversion Example

- Regional operator purchase of a non-for-profit campus portfolio (SNF and ALF) to a for-profit model.
- Total deal size of \$29 mln.
 - \$ 2.0 mln working capital
 - \$27.0 mln of term debt
- LTV of 75%; 5-year maturity; 25 year amortization.
- Focus was on bridge analysis provided by the operator and previous track record/history.
- Private Bank led the transaction and brought in a participant bank to facilitate the closing of the entire facility.