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October 3, 2019

Via Email to rich.wysocki@ct.gov
Connecticut Department of Social Services
Attn: Richard Wysocki
55 Farmington Avenue
Hartford, Connecticut 06105

Re: Covenant Living Communities and Services Financing 2019
Covenant Living of Cromwell, Cromwell, Connecticut

Dear Mr. Wysocki:

Erickson Peterson Cramer is representing Covenant Living Communities and Services ("CLC") and the other Members of the Obligated Group (collectively "CLCS"). CLCS is providing this notice, pursuant to Chapter 319hh of the Connecticut General Statutes relating to Continuing Care Contracts, of a financing transaction being contemplated by CLCS with Bank of America, N.A. ("BANA").

Inverness Village ("Inverness") is a senior living community located at 3800 West 71st Street, Tulsa, Oklahoma, containing sixty (60) residential cottages and garden homes, one hundred ninety-six (196) independent living units, thirty-one (31) assisted living units (consisting of 35 beds), twelve (12) memory support units and forty-four (44) skilled nursing beds on approximately fifty-five (55) acres of real property, with an additional approximately one hundred thirty-five (135) acres of undeveloped real property immediately adjacent to Inverness that is owned by Inverness. Inverness is experiencing financial difficulties, and as a result filed a voluntary bankruptcy petition under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101, et seq., in the United States Bankruptcy Court for the Northern District of Oklahoma, which bankruptcy case is currently pending.

CLC, prior to the filing of the bankruptcy petition, entered into negotiations with Inverness relating to the potential acquisition by CLC or an affiliated entity, whereby CLC or its affiliate would enter into an Asset Purchase Agreement ("APA") to purchase certain assets of Inverness from the bankruptcy proceedings. To accomplish the same, CLC formed Tula Hills Community, Inc., an Oklahoma not for profit corporation ("Tulsa Hills"). Inverness and Tulsa Hills subsequently entered into an Asset Purchase Agreement dated July 22, 2019 (the "APA") whereby Tulsa Hills agreed to purchase and Inverness agreed to sell to Tulsa Hills certain assets of Inverness, pursuant to the terms of the APA and subject to the terms of the bankruptcy proceeding. The APA and bankruptcy proceeding, in part, required that Inverness be offered for sale to other potential purchasers through a bid procedure to determine if any other potential purchaser desired to buy Inverness at a price greater than that agreed to by Tulsa Hills. As a result, Tulsa Hills, through the pendency of the bidding was known as the stalking horse bidder under the bankruptcy proceedings, meaning that depending on the participation and bids of other potential purchasers Tulsa Hills may not have been the final purchaser of Inverness. The bidding procedure was, however, just completed Friday, September 13, 2019. No other bids exceeded the amount offered by Tulsa Hills, and as such, Tulsa Hills became and is, subject to finality through the bankruptcy proceeding, the purchaser of Inverness in accordance with the terms of the APA. The purchase price to be paid by Tulsa Hills for the specific assets of Inverness is Forty-One Million and No/100 Dollars ($41,000,000.00).

Based upon the above, CLC and Tulsa Hills have been reviewing certain financing options to finance Tulsa Hills' acquisition of Inverness. The financing option that appears to be most advantageous to CLC, Tulsa Hills, and CLCS as a whole appears to be the option offered by BANA. Specifically, BANA has committed to providing a fixed rate five (5) year term loan (the "Loan"), interest only for three (3) years, thirty (30) year amortization schedule, in an amount not to exceed Forty-Five Million and No/100 Dollars ($45,000,000.00) to CLCS, not Tulsa Hills, with interest fixed at 2.22% per annum (anticipated rate) for the term of the Loan, subject to certain make-whole provisions of BANA in the event of prepayment.

The Loan would be issued to CLC and the other members of the Obligated Group through and subject to the terms of the Master Trust Indenture under which previous borrowings have been completed, except that this obligation would be a taxable term loan direct from BANA, and not a tax exempt bond issuance. Regardless, CLC and the other Members of the Obligated Group will provide to the Master Trustee mortgages of, and assignments of leases and rents with respect to, the facilities (including certain personal property), and a pledge of the Gross Revenues of CLC to secure the obligations under the Loan. The mortgages of, and assignments of leases and rents with respect to, the facilities of CLC and the Gross Revenues will secure on a parity basis all outstanding Obligations previously issued under the 2012 Master Indenture, along with the new Loan. Closing of the Loan is anticipated to occur on October 24, 2019.

In connection with the closing of the new Loan and disbursement of the proceeds from the same to CLC and the other Members of the Obligated Group, CLC and the other Members of the Obligated Group will loan the entire loan proceeds received to Tulsa Hills for Tulsa Hills to complete its acquisition of Inverness. Such loan from CLCS to Tulsa Hills will be under payment terms that at least mirror the payment terms of CLCS under the Loan from BANA such that the payments received from Tulsa Hills will be sufficient to repay the obligations owed to BANA under the Loan to CLCS. Such loan to Tulsa Hills from CLCS will further be secured by a mortgage and assignment of rents and leases, from Tulsa Hills to CLCS providing a collateral security interest in and to the real estate and improvements being purchased under the APA and rents received by Tulsa Hills at Inverness. As a result, CLCS does not anticipate increasing monthly care fees beyond the annual historical rate increases as a result of the transactions described in this letter. Rather, it is anticipated that the repayment of these obligations will be achieved through future operating revenue from Tulsa Hills from monthly fees and ancillary services and re-occupancy entrance fees received by Tulsa Hills that will be used by Tulsa Hills to repay the Loan from CLSC to Tulsa Hills, which payment will then fund the repayment of the BANA Loan obligation.

Although the CLC facilities are structured from a financing standpoint as one organization (the Obligated Group), each campus operates independently from an operating standpoint and has its own operating targets. Based on the same, financing obligations involving CLC and the Members of the Obligated Group are generally carried on the financial statements of the various campuses where the financed projects occur. As the current financing transaction is not specific to one or more campuses, CLC intends on carrying this Loan on the financial statements for CLC and not on the financial statements for the other Members of the Obligated Group, including Covenant Living of Cromwell, Inc.

Please contact me if you have any questions or need additional information.

Sincerely,

ERICKSON PETERSON CRAMER

Christopher W. Cramer

cc: Ms. Jody Holt via email
David Erickson, Esq. via email