

**Rate Update**

“THERE BUT FOR THE GRACE OF GOD GO I”

There are some things that are just too hard to comprehend and the catastrophe that has just visited New Orleans and the Gulf Coast is one of those things. You would have never thought that such a tragedy could happen in this country. 500,000 U.S. citizens are now refugees from that terrible storm. New Orleans seems to be in chaos and no one knows when and if things will get back to normal. All we can do is give our thoughts, prayers and donations to assist in this terrible tragedy.

While our hearts goes out to the people of the gulf coast our heads can't stop wondering how this will affect the economy and interest rates. The cost of rebuilding, of caring for the population, the loss of wealth, the effect on insurance industry is only just being considered. In addition effect on the oil industry, both production and refinery capacity has further driven already high oil prices even higher. These are all things that will affect the national economy. They will put a drag on economic productivity, but in he long run may spark and fuel real inflation. However, it will take a while to see the

full effects on the national economy.

The short term effect has been to reduce long term rates and further flatten the yield curve. Currently the 5 year treasury is only 30 Bps higher than the 30 day LIBOR rate. With the expected increase in the Fed Funds rates short term rates will probably be higher than long term rates. According to our college economics book that is not suppose to happen. How long it will last is anyone's guess, but until we understand the true facts about how long it will take to recover from Hurricane Katrina we believe long term rates will remain low. Based on the news reports we have been reading this will probably be a month or more.

In addition to the yield curve flattening the 10 year treasury has dropped back to near its low for the year. Just last month we thought it was almost the end of great long term rates; however it looks like we were wrong. With the 10 year at this level there is still time to lock in a really attractive long term rate. Just over 5% is easily available for full 70%-80% loans and less than 5% is available for lower leveraged transactions. Additionally lenders are still very

Multifamily Spreads/Rates				
	Floating Rate		Fixed Rate	
	Index	Spread	5-Year	10-Year
Freddie Mac	30 day LIBOR	175 - 225 Bps	4.90% - 5.30%	4.85% - 5.25%
Fannie Mae (DUS)	30 day LIBOR	140 - 180 Bps	4.90% - 5.30%	4.85% - 5.25%
Conduit	30 day LIBOR	150 - 250 Bps	4.70% - 5.50%	4.800% - 5.50%
Life Companies	30 day LIBOR	150 - 225 Bps	4.75% - 5.50%	5.10% - 6.00%
Banks	6 mo LIBOR	185 - 250 Bps	5.25% - 6.25%	5.25% - 6.25%

\* Based on informal survey of lenders. Rates assume 75% - 80% LTV. Lower rates are usually available for lower leveraged loans.

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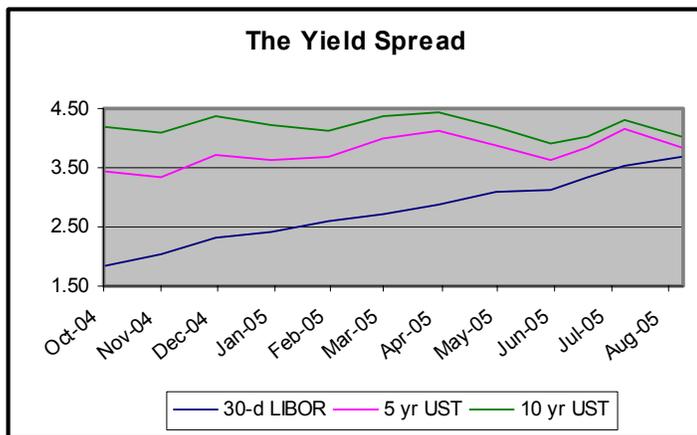
Key Rates			
	Current	Last Month	Change
Fed Funds	3.50%	3.25%	+ 25 Bps
30 day LIBOR	3.70%	3.56%	+ 14 Bps
Prime	6.50%	6.25%	+ 25 Bps
MTA	2.86%	2.86%	+ 0 Bps
1-Year CMT	3.88%	3.77%	+ 11 Bps
5-Year Treasury	3.82%	4.16%	- 34 Bps
10-Year Treasury	4.00%	4.32%	+ 32 Bps
Swap Spread	43.8 Bps	44.8 Bps	- 1.0 Bps

aggressive cutting underwriting corners and offering unique programs such as interest only loans.

We are still preaching that all borrowers should take advantage of this opportunity. If you have a property that you plan on keeping long term and it has stabilized operations finance it today. Even if you have a prepayment penalty you should still investigate refinancing. With the flat yield curve the benefit of paying off a yield maintenance or defeasance has never been better. You may be surprised how short a pay back period you have on paying even a high prepayment penalty.

**The Yield Spread**

It's amazing how the yield curve has flattened over the last year. Currently the 5 year treasury is only 12 Bps greater than 30 day LIBOR. A year ago this spread was 159 Bps. The drop in the spread for the 10 year treasury is even greater going from 235 Bps to 35 Bps. As you know this has happened as short term rates have increased while longer term loans such as the 5 and 10 year treasury have stayed relatively flat.



Yes this is interesting, but what does it mean to you. For the most part it is just an interesting fact. However, the reduced spread does mean anyone paying off a loan with a yield maintenance prepayment premium or defeasance is getting a discount on their prepayment premium.

Most importantly you must remember that this spread is very unusual and will not last. When it does change either short term rates can drop or long term rates can rise. It's our guess a little of both will happen. Short term rates will drop slightly, but long term rates will increase. While we have not tested the average spread over history we have heard the spread averages about 150 Bps over time. If that's true then the upward pressure on long term rates is probably about 1%. This would put rates in the low 6% range which is not a bad rate, but compared to today's 5% rate it is not great so you may want to lock your rate now if you can.

**Cool Links**

With all the tragedy in the world we don't seem to be able to focus on anything cool so we have listed below some sites that will assist you in giving to this tragedy. Please open your wallets and give all you can to assist in this grave time of need.

[www.redcross.org](http://www.redcross.org) – The American Red Cross, a humanitarian organization led by volunteers, guided by its Congressional Charter and the Fundamental Principles of the International Red Cross Movement, will provide relief to victims of disasters and help people prevent, prepare for, and respond to emergencies.

[www.CharityNavigator.org](http://www.CharityNavigator.org) – Charity Navigator allows you to find out which charities use their funds effectively. This allows you to better manage where your funds go.

[www.salvationarmyusa.org](http://www.salvationarmyusa.org) – The Salvation Army is currently providing services to storm victims and first responders in the Gulf Coast states.

[www.networkforgood.org](http://www.networkforgood.org) - Network for Good is a nonprofit organization that connects individuals with their favorite charities. Network for Good is the place to make secure online donations, explore volunteer opportunities, and learn more about the causes that matter most.

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