Multi-Family Loan Update — December 1, 2009

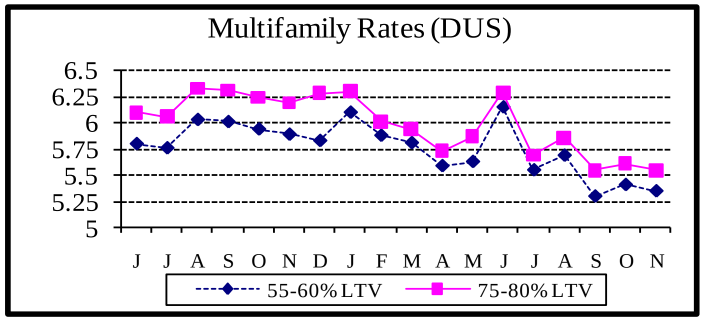
Key Rate Indices	Current	Last Month	Change
6 month Libor	0.49%	0.56%	- 7 Bps
1- year Libor	1.02%	1.20%	- 18 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT	0.26%	0.40%	- 14 Bps
5-Year Treasury	2.00%	2.32%	- 32 Bps
10-Year Treasury	3.19%	3.39%	+ 20 Bps

Rate Update

Well, we bounced off the 10 year treasury's trading range high point of 3.50% and headed downward for the month. The question now is how low it will go and how long will it stay at these levels. Many experts are now predicting the 10 year Treasury to hit 3% by year end. They may be correct, but few are predicting it will stay there for long. The Fed has said they will keep rates low for the foreseeable future and that will help keep long term rates low. But at some point the Fed action will change or the markets will ignore the Fed and push rates up for other macro-economic reasons. When that happens watch out. The 10 year treasury will increase and not be by just a few Bps.

However, for mortgage borrowers there are other factors to consider. For most of the last few months the Federal Reserve has been supporting mortgage market by buying agency securities and artificially keeping interest rates on mortgages low. This has been true for all types of agency bonds including multifamily securities from Freddie, Fannie and HUD. The Fed has not been the only buyer, but their participation in the market has kept demand high and rates low. Some experts believe this Fed program has reduced mortgage spreads by 80 – 100 Bps.

The issue is that the Fed has announced it is planning to stop this action in the end of March. If that happens rates may increase by up to 1%, even with no change in treasury rates. While it is possible that the Federal Reserve will change its plans and keep buying mortgage bonds beyond March, it is unlikely it will maintain an active purchase program throughout all of 2010. It's also possible that the Fed will refocus the program mainly on single family mortgage bonds in order to support political needs. Either way, at some point this support of multifamily rates will end. My personal worry is this will happen when treasury rates also increase thus hitting borrowers with a double whammy. It's possible this will result in multifamily rates increasing 1-2% in a relatively short timeframe. I don't think this will happen for at least 3-4 months so you have time to plan and take action.



The multifamily mortgage market has leveled off as we get to year end. There are still deals being made and closed, but activity is much slower than years past. Many lenders believe activity pick up next year, but both Freddie and Fannie are predicting 2010 will have lower volume than 2009.

Freddie and Fannie are still leading the market in volume and rates. Freddie's CME is their product of choice and probably offers the best rate in the market. However, Fannie is competitive on rate and in many markets they are offering more loan proceeds. In order to get the best deal you still need to get quotes from both lenders because you never know who will be best on any one deal. One area where Fannie has been excelling is in their small loan program (basically 3-max) where a number of lenders are very active. On $1-$3 million loans in major markets this offers the best rate and competitive loan proceeds.

Life Companies are still lending and increasingly so. This is especially true on larger properties. The issue is that they cannot really compete with agency lenders on rate and these lenders are not willing to compete on leverage. However, for owners who don't want to deal with the agency process or are looking for a shorter tern non-recourse loan this is increasingly becoming an option. Another lending option gaining traction are institutional lending funds. These are short term, high rate lenders who are lending to borrowers doing advantageous purchases or short payoff refinances. While the rates are high they can react quickly and understand the "story" on your deal. Banks continue to be an important part of the market, but rates are up and most banks are becoming increasingly conservative. With problems in other areas of commercial real estate banks do not want to take risk on any deal, even a stabilized multifamily loan.

As we finish the Thanksgiving holiday I want to share with you a recent article by Caroline Baum, from Bloomberg. This is a message of what the pilgrims can teach us in today's world.
Thanksgiving Story Resonates in Post-Crisis Age.

Multifamily Rates*				
	Loan Terms		Fixed Rate	
	Min. DSC	**Max. LTV**	**5-Year**	**10-Year**
Freddie Mac	**1.25-1.40x**	**65%-80%**	**4.25% - 5.00**	**5.00% - 5.75%**
Fannie Mae (DUS)	**1.20-1.40x**	**70%-80%**	**4.25% - 5.00**	**5.00% - 5.75%**
FHA/HUD	**1.175%**	**85%**		**5.00 - 6.00%***
Life Companies	**1.30-1.50x**	**65%**	**6.00% - 7.50%**	**5.75% - 7.50%**
Banks	**1.20-1.30x**	**70% - 75%**	**6.00% - 7.00%**	**N/A**

* FHA loans are 35 year fully amortizing and include MIP. Data is based on informal survey of lenders. .

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If you would like additional information on multifamily rates or are looking for a loan on any type of apartment project please give me a call at 847-421-2217 or send me an e-mail at Aklingher@mfloan.com