MFLoan Update November 1, 2010

Lender Update

It's the final stretch to the end of the year; lenders are pushing to close their pipelines while still trying to get new deals for next year. The landscape has stayed relatively stable for the last month with Government backed lenders (Freddie, Fannie and HUD) providing most lending especially those properties over $5 million. Banks are still doing their share and are the main lender for smaller properties and tertiary markets. For borrowers looking for shorter term loans (3-7 years) banks and life companies are the answer.

Freddie Mac – There have been no major changes in Freddie's credit position over the last month. They are still focusing on larger higher quality loans and are actively winning those deals especially in major markets. They are probably the best lender for large (over $10 million) loans that are on class A or B properties. There focus on large deals can be seen in their ___Bps increase to standard pricing for loans between $5 and $10 million, something not done by Fannie. The biggest Freddie issue is timing. Currently Freddie offices are very busy getting deals done for this year. They are still quoting loans, but processing times are delayed. If you need to get your deal done this year, Freddie is not the lender.

Fannie Mae – Fannie has gotten a little more aggressive in the last month continuing the trend of allowing more waivers to their credit policies. We have seen underwriting exceptions to floor rates and have seen more aggressive quotes in secondary and impacted markets. Over the month spreads increased slightly. Fannie DUS is usually the best lender for a $5 - $10 million deal and given the competitive DUS lending structure may be the best lender for a larger loan looking for maximum proceeds. On the Small loan front, Fannie is still the lowest rate available in major markets. This is especially true for 10 year loans where they can usually provide competitive loan proceeds. On shorter term loans (5 and 7 year) they offer the best rate, but may be short on proceeds due to floor u/w rates.

HUD – FHA is still a major lender even with their more conservative rules. If you are building a new project FHA/HUD is the best lender from a proceeds basis. For existing loans they are the best lender for borrowers needing maximum LTV or in economically impacted or tertiary locations. The HUD processing times are very slow (6-10 months for a refinance, 9-15 for new construction) and there is no real way to lock rate until the process is almost over. Therefore anyone planning on a HUD loan needs to have a lot of patience and the belief that rates will stay low for a protracted period of time.

Banks – Some banks started to get more aggressive on lending over the last few months. LTV's have risen especially for national and large regional banks with 70%-75% LTVs being offered on many deals. The majority of banks are still on the sidelines as they deal with their troubled commercial real estate portfolios. Nevertheless banks are the only option for many owners of smaller properties or those is tertiary markets. You may need to look around, but there are banks lending in most markets.

Life Companies – Life companies are in the game for class A properties in good markets. This is especially true for larger properties and those owned by very financially strong borrowers. On 10 year loans for these properties they are competitive, but for shorter term loans (3 - 5 yr) they are clearly the best lender.

CMBS – CMBS lenders are not back in the game, but they are getting close. There have been a number of diversified pools that have sold well. For most properties Freddie and Fannie are still offering better pricing and unless the CMBS lenders can offer more proceeds or will work on smaller loans, (they are currently only looking at deals over $10 million) they will not win business. The one place they are competitive is their ability to allow mezzanine loans behind their first. This may make them the solution for overleveraged properties that will need a high level of structuring for a new loan.

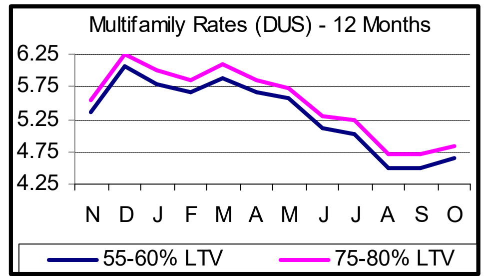
Rate Update

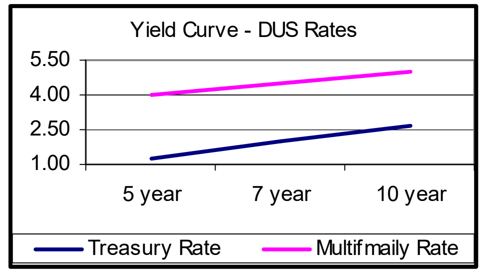
Last month we saw the lowest rates on record. For those of you that were able to lock you're rate during the middle of the month you got a real bargain. For those unable to accomplish that don't worry. Even though rates are up in the last week they are still great from a historical perspective.

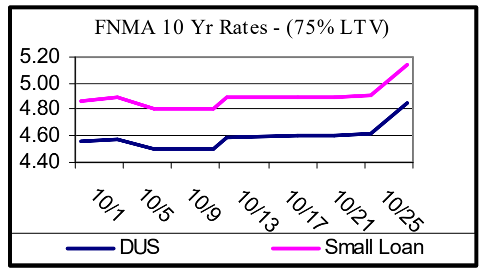
The real question is how rates will perform going forward. Have we seen the bottom as Bill Gross from PIMCO indicated? I don't know, but next week will give us many clues of what will happen. Who wins the election is an important factor; will a strong or even moderate conservative win change the landscape. Whoever wins we need to watch the policies on protectionism, limits to spending in an effort to reduce the deficit and tax policy. These will all affect current and future interest rates.

More important than the election and how the markets react to that (because any reaction will be short lived) is the FOMC meeting next week and what they decide to do with quantitative easing (QE2). There have been opinions all across the board as to what the Fed will do. However, it is clear to me that the expectation of a very strong QE2 policy is what drove rates down last month. If the FOMC announcement is weak or less than expected then expect rates to continue to increase a bit.

I long ago gave up predicting rates, but on a recent Chase/JP Morgan call their economist announced their belief that the 10 year treasury rate will drop to 2.25% over the near future and stay near that level for a protracted period of time, at least the first half of 2011. A report from Wells Fargo indicated similar, but less specific advice. For all of us, I certainly hope these predictions are correct.







Key Rate Indices

	Current	Last Month	Change
6-mo. Libor	0.45%	0.42%	- 1 Bps
1- yr Libor	0.76%	0.78%	- 2 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT	0.23%	0.26%	- 3 Bps
5-Yr Treasury	1.17%	1.27%	- 10 Bps
10-Yr Treasury	2.60%	2.50%	+10 Bps

Current Apartment Rates

	5-Year	10-Year
Freddie Mac	3.75%-4.75%	4.25%-5.25%
Fannie Mae	3.50%-4.50%	4.40%-5.40%
FHA/HUD	3.75% - 5.25%	
Life Co's	3.50%-5.00%	4.25%-6.00%
Banks	4.25%-6.25%	N/A

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