MFLoan Update December 1, 2010

Lender Update

For the most part lenders are cleaning out their pipelines and closing the deals that need to get done this year. With all that focus on current business little is being done on changing credit posture or processing policies. However, it's almost the New Year and with that comes some reflections and inevitably some changes. For now the issue is rates. With rates up many borrowers are rethinking their strategy. Did they miss the best rates or is this just a short term blip? Also, with rates up some deals no longer can achieve the same loan proceeds. This may cause some borrowers to pull out of the market. Rates are still low so think about the long term and don't be spooked by recent rate increases.

Freddie Mac – Of all the lenders Freddie is the most backed up. They have prioritized their pipelines and are managing the workload, but only with Herculean efforts from the staff and a triage operation pushing lower priority deals to the back. That should be corrected soon as the year end rush ends. They are in the process of hiring additional staff to deal with the volume for next year. Freddie has also slowly adjusted their pricing to manage the pipeline. They have made pricing adjustments for lower quality and smaller deals to discourage these deals vs. the larger high quality loans they want. Additionally overall spreads have increased on all their deals as the volume has increased. The question is, are these pricing increases a long term strategy or just a pipeline management tool. Nevertheless, Freddie is still the best lender for large Class A deals in strong locations, especially if the borrower wants a long term loan or a capped adjustable rate mortgage.

Fannie Mae – Fannie timelines are not as bad as Freddie, but of course this depends on the DUS lender. Some are swamped and others have capacity. Fannie's ability to evaluate and grant waivers as needed has not changed and they seem to be managing the year end rush without any hiccup. Pricing at Fannie has also increased over the month with spreads about 10 Bps wider. Fannie is still the best lender for long term loans under $10 million and most class B properties.

HUD – FHA is still rolling along. Volumes are still high and processing slow. The new rules adopted this fall have not slowed things down much. However, I am still wary of HUD loans given the processing time, but if you are doing new construction or need that slight extra leverage HUD provides, it's still a viable execution.

Banks – The trend on more banks getting more aggressive continues. We are getting better and better quotes form banks. They are beating the agency lenders on proceeds on shorter term deals and on smaller urban deals in high quality locations. Despite the aggressive posture of some banks there are many banks still struggling. We are seeing an increased volume of note sales from banks and we expect that to continue as this has become the preferred method of getting rid of bad loans. For most deals the banks don't want to go through the foreclosure process, its easer to sell the note and be done with it.

Life Companies – Life companies are in the mode of cleaning out their pipelines for the end of the year. As usual Life companies need to get their allocations for next year before aggressively lending so many lenders are not quoting many new deals. Expect them to be increasingly competitive next year on the same product they did this year, shorter term loans and those with strong sponsorship.

CMBS – CMBS lenders are still more talk than action. Most have decided they cannot really compete on multifamily so they are focusing in retail, industrial and some office. I am not sure when CMBS will again become a big factor in Multifamily, but my guess is it will not be in the near future.

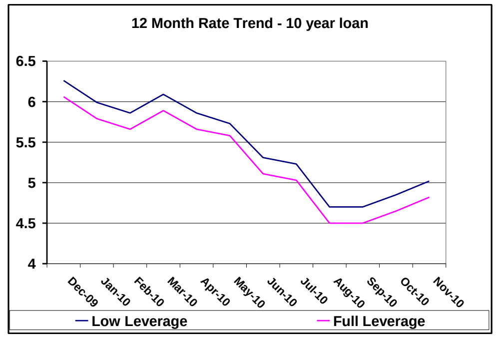
Rate Update

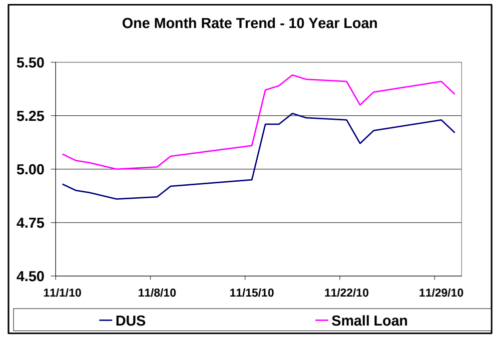
After dropping back down at the beginning of the month, the 10 year treasury increased dramatically mid month and this time stayed up. Recent geopolitical issues and continuing foreign debt crisis created a small flight to quality, but positive economic news overpowered these buyers. Rates are up significantly on the 5 and 10 year bonds (much of this increase happening today). The news is that the US economy is strengthening. Positive things are happening on jobs and consumer sentiment. It also looks like the consumer might be back given the recent results of Black Friday and Monday. If this is true rates will continue upward over the next year. While the Fed might not like this there is little they can do to stop it. Maybe QE2 will bring rates back down, but so far that has not happened.

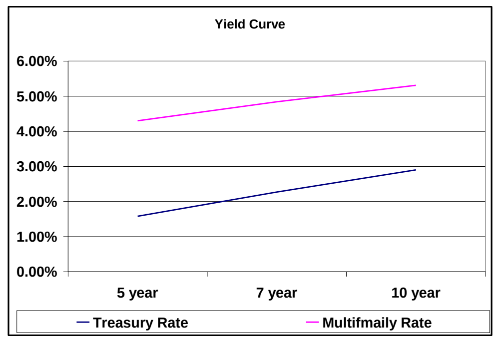
On the contrary side the improvements are still anemic and there is little chance we will see significant job growth. Unemployment is still high and there are big political issues that need to be addressed, but on which there is little agreement. Given the gridlock in congress it's possible we won't get any legislation passed even those items that are critical; that could be catastrophic. This might throw us back into recession and drive rates down again. This may sound crazy, but the congressional mistakes were one reason we saw a double dip in the depression of the 1930's. It could happen again.

My guess is rates will trend up over the next 6 months as we see some improvement. However, I am sure that there will be periods of lower rates as geopolitical crisis occurs or political issues cause panic It was an up and down roller coaster as rates dropped in the last year and it will be the same kind of up and down roller coaster as rates increase back to more normal levels over the next year or so.

I won't be distributing this newsletter again till the New Year, so I wish all of you joy this holiday season. 2010 was a challenging year for many, may 2011 be full of success, good luck and happiness.







Key Rate Indices

	Current	Last Month	Change
6-mo. Libor	0.47%	0.45%	+ 2 Bps
1- yr Libor	0.79%	0.76%	+ 3 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT	0.27%	0.23%	+ 4 Bps
5-Yr Treasury	1.63%	1.17%	+46 Bps
10-Yr Treasury	2.96%	2.60%	+36 Bps

Current Apartment Rates

	5-Year	10-Year
Freddie Mac	4.00%-4.75%	4.50%-5.50%
Fannie Mae	3.75%-4.50%	4.60%-5.60%
FHA/HUD	4.00% - 5.50%	
Life Co's	3.75%-5.00%	4.50%-6.00%
Banks	4.75%-6.25%	6.25% - 7.50%

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Yield Maintenance Prepayment Penalty, Should I worry? The question I get most asked is how does yield maintenance prepayment penalty work and should I be worried about it. This is especially

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