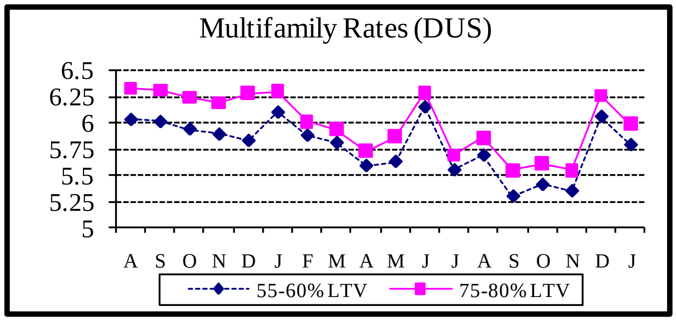
Multi-Family Loan Update February 1, 2009

Key Rate Indices	Current	Last Month	Change
6 month Libor	0.38%	0.43%	- 5 Bps
1- year Libor	0.85%	0.98%	- 14 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT	0.30%	0.45%	- 15 Bps
5-Year Treasury	2.37%	2.68%	- 31 Bps
10-Year Treasury	3.58%	3.83%	- 18 Bps



Rate Update

Treasury rates dropped for the month with the 5 year ending near its levels form early November and the 10 year back to mid December levels. I still believe the long term trend is for higher rates. However, I must concede that current economic factors are driving rates down.

Issues with Greece and other sovereign debt, the weak stock market and erratic public policy are all reasons for money to flow into or stay in safe government debt keeping rates low. This will probably keep treasury rates low for a while, but with all the liquidity in the system and Fed support for the MBS market scheduled to end in a couple of months the 10 year treasury is bound to increase. I think it will be over 4.5% by the end of the summer and over 5% by the end of the year.

In contrast to my view many multifamily lending pros are arguing that rates will stay low. They feel the 10 year treasury will stay in the range of 3.50% - 4.15%. At the same time they expect Freddie and Fannie to keep 10 year rates in the 6% range by increasing or decreasing spreads accordingly. This may be wishful thinking or may be good reading of the economic news and the political tea leaves. Only time will tell.

For multifamily borrowers using Freddie and Fannie the month has been pretty good. Rates have dropped as treasury rates decreased and Agency spreads decreased, though only slightly. While Freddie and Fannie continue to do most of the financing their overall business is down because of the large drop in overall financing. The press is also full of speculation about the future of these agencies. A change in the structure of these agencies could mean higher rates for borrowers, but in the current economic and political environment it is highly unlikely that such a change will occur before the end of this year.

During the month Freddie announced changes in their Affordable housing programs making them more conservative and giving Freddie more control of underwriting decisions. This is just more of the trend of both agency lenders to be more conservative and take control of their lending decisions. Expect additional announcement for changes in the Freddie and Fannie program to come out of next week's Mortgage Bankers convention where they usually announce changes and plans.

HUD lending volume is way up and many borrowers are seeing the process grind to a halt. Lenders and HUD offices are overwhelmed and having difficulty meeting demand. Their rates and structure are still the best in the business. HUD is thinking of making changes to deal with the backlog and to take more control of the risk in their loans. For more information see our blog post HUD discusses changing their program.

Banks are still making loans and are the mainstay of the smaller loan market. We still hearing of banks not renewing good borrowers and loans because of overall problems at the bank. There is also an increased activity in selling loans to clear problems off of bank books. These banks selling portfolios or pushing borrowers out are in trouble and, for the most part, are not lending. However, other banks are still active and looking to put out money. Looking for a bank now takes much more work than in the past and the hurdles you need to jump through to get the loan is still significant. If your loan is conservative, be patient, you will get what you want. If you have high leverage you may not get what you want and have to work with your existing lender to find a solution that works for both of you.

My best advice to borrowers is to keep focused on the bottom line. Manage your property well and to do your best to build up cash reserves. In refinancing you may need to pay down a loan or put up a deposit with the lender. At least this liquidity will show them that you have a financial backstop in case issues occur. This will go a long way in calming their fears.

Yes CMBS is back, and at least in structure it does not seem to different. However, the reality of getting a loan is much different and is still evolving. For more details see our blog post CMBS is Bank, Sort of. This is an issue that will need to be closely monitored because it has the potential of solving a lot of issues both in the banking system and for borrowers. Stay tuned.

Multifamily Rates*				
	Loan Terms		**Fixed Rate**	
	Min. DSC	**Max. LTV**	**5-Year**	**10-Year**
Freddie Mac	**1.25-1.40x**	**65%-80%**	**5.25% - 6.00**	**5.25% - 6.50%**
Fannie Mae (DUS)	**1.20-1.40x**	**70%-80%**	**4.75% - 5.75%**	**5.50% - 6.25%**
FHA/HUD	**1.175%**	**85%**		**5.25 - 6.75%***
Life Companies	**1.30-1.50x**	**65%**	**6.00% - 7.50%**	**6.50% - 8.50%**
Banks	**1.20-1.30x**	**70% - 75%**	**5.75% - 7.00%**	**6.25 – 7.50%**

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

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