Multi-Family Loan Update May 2, 2010

Key Rate Indices	Current	Last Month	Change
6 month Libor	0.53%	0.44%	+ 8 Bps
1- year Libor	1.02%	0.92%	+ 10 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT	0.42%	0.44%	- 2 Bps
5-Year Treasury	2.42%	2.55%	- 14 Bps
10-Year Treasury	3.66%	3.83%	- 17 Bps

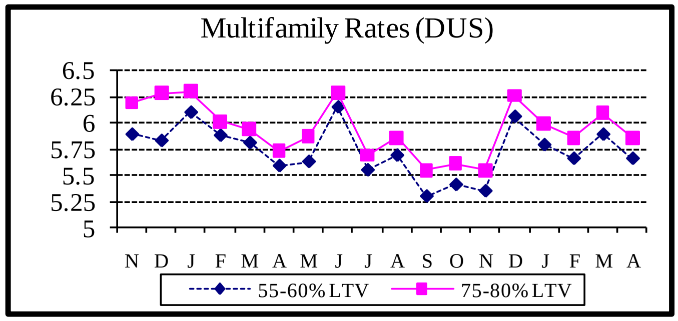
Rate Update

Last month long (5 and 10) year treasury rates fell maintaining the trading range of between 3.5% and 4% for the 10 year treasury. As the month ended we had a relatively good treasury auction, the Fed continued to state they would keep rates low and the Greek (or PIGS) debt crisis continued. This is all good news from a rate perspective, but I still wonder about the long term trend. With the economy getting stronger, rates will go up, the only question is will this happen sooner or later.

Freddie and Fannie continue to be the lenders of choice and seem to be modulating their spreads to keep rates between 5.5% and 6.25% for a 10 year loan. As rates increase their spreads contract and as rates drop they widen. It's not a 1 for 1 move, but it is modulating the overall interest rate environment for borrowers. Since most deals cannot lock rate until late in the process, borrower's can't really manage the timing to take advantage of this rate trend. The best advice is to start the process and after commitment wait till rates are where you want them before locking. Remember there is just as much a chance of rates rising, so if the rate you are being offered makes sense for your deal, take it and move on.

In speaking with Agency lenders everyone seems to be seeing deals, but no one is busy. The purchase market is still small and it's hard to make refinances work. Loans are either overleveraged or borrower financial strength is insufficient, at least based on Freddie and Fannie rules.

On another note the new Freddie program allowing Mezzanine debt, which we discussed last month, has been put on hold for a short time. Evidently they still need full approval from their regulator before starting the program. We expect approval and the program to go forward soon.



HUD continues to be the best lender from a rate and proceeds perspective, but they continue to be the worst from a process perspective. We are also hearing lots of stories about HUD discouraging or rejecting requests for construction loans under the 221D program. This has also been our experience as HUD does not seem to see the need for additional multifamily housing in most markets. For more info see our recent blog post (HUD Update).

During the last month Life company lenders have started to get more competitive, at least on lower LTV transactions. We have heard a number of cases where on large low LTV deals they priced loans in line with or even lower than Freddie or Fannie, and with an easier process.

Banks are still lending and are the main source of funding for smaller owners. It's still a market of the haves vs. the have nots with some banks aggressively lending and others pushing loans out the door. To find a bank lender you will need to shop around and present your deal correctly.

I have ignored conduits for the last 2 years as they have not been a factor in the multifamily market for at least that long. In the beginning of this year we saw some activity and discussion about CMBS-v2. However I have been skeptical. The lenders that were back were focusing on larger deals (over $10 million) and were not price competitive. These lenders are still not a factor on most loans, but I am starting to believe they will come back. Lots of shops are hiring staff and to market product. On multifamily deals they will only be a nitch player, for now. Don't expect these to be CMBS deals of old; they will be well underwritten and priced higher than agency debt. But, if your deal does not fit the agency's due to location, vacancy or history the CMBS-v2 may be your home.

Multifamily Rates*				
	Loan Terms		**Fixed Rate**	
	Min. DSC	**Max. LTV**	**5-Year**	**10-Year**
Freddie Mac	**1.25-1.40x**	**65%-80%**	**5.00% - 6.00%**	**5.30% - 6.30%**
Fannie Mae (DUS)	**1.20-1.40x**	**65%-80%**	**4.50% - 5.55%**	**5.25% - 6.25%**
FHA/HUD	**1.175%**	**85%**		**5.00 - 6.25%***
Life Companies	**1.30-1.50x**	**65% - 75%**	**5.50% - 7.50%**	**5.50% - 7.50%**
Banks	**1.20-1.30x**	**70% - 75%**	**5.75% - 7.00%**	**5.50% – 7.50%**

* 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 us at Aklingher@mfloan.com

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