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Your Multi-Family Finance Connection

MFLoan Update - May, 2011

Lender Update

Money continues to be available and lenders are fighting for every deal. Well at least for every deal they like. For the first time in a few years we can say that almost all lender types are in the game and aggressively quoting deals. Banks, Life Companies, CMBS lenders, Freddie, Fannie and HUD all have an appetite for multifamily deals and all are aggressively lending. They are being more prudent in underwriting than in the heyday, but each lender is doing what it can to win deals. Lenders are pricing aggressively and in some cases stretching aggressively for loan proceeds. The only thing that does not seem to be on the table with respect to stretching is borrower quality. It seems that all lenders are looking for borrowers with good net worth, strong liquidity and a track record to prove performance.

For larger deals, especially in top tier markets, the best deals seem to be coming from life companies. While they may be slightly more conservative on leverage they are winning deals from Freddie and Fannie on pricing. We are seeing them win high quality deals by 10-20 bps, some of this on spread and some on methodology (see MFLoan article below). However, for many larger deals Freddie and Fannie are still the ticket. If you are not in a major city or an A property/A location the life companies may not be interested. In that case Freddie or Fannie are usually winning the deal.

CMBS lenders are also raising their head on larger deals. They are usually slightly off the mark on rate, but they are competitive. Every day however, they seem to be getting more aggressive and if you are looking for a loan over $10 million you should make sure you get a CMBS quote. One thing to note is they quote loan spreads over the swap spread, not treasuries. This is running 8-10 Bps higher than treasuries so you must make sure you adjust if you are comparing spreads. They also quote actual/360 so take that into account if you are comparing your quote to a Bank or Life Company offering.

On smaller deals Banks and Fannie are the main lenders and for most borrowers banks are winning. With the steep yield curve many borrowers are choosing the 3 or 5 year bank loan because of the low rate. They think the 50-100 Bps tradeoff between the 10 and 5 year rate is too high. Hopefully they don't get caught in the switches when rates rise. Fannie is still very competitive on 5 year loans with lower LTVs and is quoting rates near, or under, 4% on low leverage loans. Also, Fannie just announced that on their small loan program they will be offering non-recourse financing in any market, previously it was limited to major markets. The only offset is the borrower must have replacement reserves if they want non-recourse and they are not located in a major market. I would take that tradeoff any day.

Rate Update

Rates are down, rates are down, and rates are down. Treasury rates are at their low for the year and spreads are stable to slightly down. This makes it the best time since early December to borrow. I am not sure what is driving this rate reduction, but many experts think it will continue. The experts say that rates will be higher in the future but they see no reason it will rise for a few months. They doubt the FED will do much to rates before the 4th quarter. QE2 will most likely end, but everything the FED is saying is that they will keep rates low until there is solid evidence of inflation.

One thing I worry about is how the political theatrics in Washington will affect rates. Everyone is talking budget cutting and economic growth is taking a back seat. The debt ceiling is a political football and making your point seems more important than jobs or the economy. I am sure this posturing will keep rates volatile so anyone working on a loan or locking rate needs to pay attention.

Given the rate reduction the question is what is the sweet spot for borrowing? With the yield curve still steep and expected to continue at this level for quite a while it makes sense to drop down the curve and go short. However with many people, including myself, expecting rates to rise rapidly when they do change then gong too short is a risk. Therefore I am advising clients into either a 7 year fixed loan or a 7 year agency capped ARM. The 7 year fixed is pricing about 50 Bps lower than the 10 year, it is long enough to protect a borrower through the next rate increase and the way lenders underwrite today you can get full proceeds. At an all-in rate of 4.75%-5.25% you really can't go wrong.

The other interesting option is the capped arm. Freddie has been the leader in this market, but Fannie recently introduced a competing product which should make things interesting. These loans go off at about 3.5% with an interest rate cap of 6.75%-7.25%. I think the 7 year fixed will end up offering a lower payment over the term of the loan, but the capped arm has a much more flexible prepayment premium making it an obvious choice if you think you will trade the property in the next few years.

MFLoan Articles - The difference between 30/360 and actual/360 and why should you care?

Just got a loan, but do you really know how your lender calculates your monthly payment and amortization schedule? It's not as simple as you think. In fact your lender may be calculating your payment differently than you expect or know.

A few years ago there was a lot of talk about payment methodology. People were talking about 30/360 payments, actual/360, actual/365 and all sorts of different methods to calculate your monthly payment. From my perspective these various payment methods were just one way for lenders and brokers to hide the real deal and fool borrowers. For the full article visit - http://mfloan.net/2011/05/09/rate-calc/

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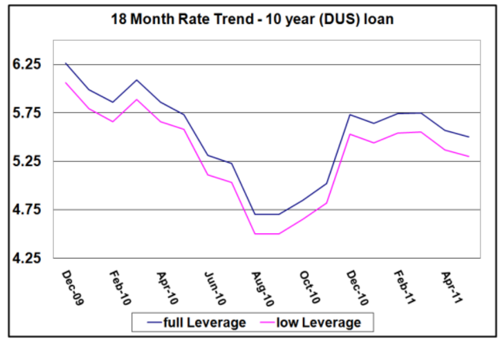

10 year treasury – 12 month history

10 year treasury – 3 month history

Key Rate Indices

	Current	Last Month	Change
6-mo. Libor	0.42%	0.45%	- 3 Bps
1- yr Libor	0.75%	0.78%	- 3 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT":m,	0.18%	0.29%	- 11 Bps
5-Yr Treasury	1.84%	2.34%	-50 Bps
10-Yr Treasury	3.14%	3.62%	-48 Bps

Current Apartment Rates

	5-Year	10-Year
Freddie Mac	4.00% - 5.25%	5.00%-5.75%
Fannie Mae	4.00% - 4.75%	5.00%-6.00%
FHA/HUD	3.75% - 6.00%	
Life Co's	3.75%-5.25%	4.75%-6.00%
Banks	4.25% - 5.75%	5.50% - 7.50%

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