BOND STREET CAPITAL NEWS

Volume 1 Number 31 www.bondstreetcapital.com 888.270.4100 August 7, 2007

SPECIAL REPORT

Plowing Ahead

The CMBS market is in disarray. Things appeared to be stabilizing early last week and then collapsed again at the end of the week and then seemed to slightly recover yesterday. Welcome to the roller-coaster. One major conduit is reportedly out of business completely. Most other conduits are either not quoting or quoting very wide spreads for protection. It seems that many borrowers and conduits are sitting on the side lines waiting for the market to stabilize. The few CMBS lenders still in the market are quoting spreads of 190 and up and that change by the hour.

Uncertainty abounds and that has taken loan purchasers out of the market. They do not know what to bid. One major loan purchaser in the residential world told me that if he would have bid a portfolio of performing loans a year ago at 101, he would now bid them at 85. That is a $16,000,000 hit on a hundred million dollar pool even though the loans are performing. He told me that know one knows the value of any security right now and so they are throwing out ridiculous bids in the hope that a desperate company will jump on it. Once the market returns to balance, that same pool bought at 85 will be worth a whole lot more.

Should you consider a CMBS loan? The answer is yes under very specific conditions. However, when spreads are as wide as 190, portfolio loans become very attractive. With a plain vanilla conduit loan hovering between 6.65% and 7% at this moment, consider the following portfolio options:

- Multi-Family pricing for a five year fixed rate deal, under 7%, 1 point, costs of less than **$5,000** with a 3,2,1,1,1 prepayment penalty up to **$10,000,000**. Other options include interest only and forty year amortization for wider spreads, reduced spreads for a five year lockout underwritten with a DCR at 1.15 in certain markets.

Interest Rates

Index	Current Rates
Prime	8.25%
2 Year T	4.52%
5 Year T	4.56%
10 yr. T	4.74%
30 yr. T	4.90%
1 Mo. Libor	5.33%
3 Mo. Libor	5.36%
1 year Swap	5.25%
30 year Swap	5.70%

I Remember...

I remember that the collapse of the S&L industry in the early 1990's (here I go showing my age again.) While there certainly were crooks in the business, the collapse was in part created by ill conceived government regulation. The government suddenly required that high yield bonds be "marked to market". The so called junk bond market tanked over-night because of concerns about the value of securities in a potentially illiquid market. That, along with other factors caused an unexpected collapse of a number of otherwise very profitable and solvent Thrifts with a high concentration in this asset type. In one instance, the RTC, the quasi-government company charged with liquidating the assets of failed thrifts, sold a 3 billion dollar junk bond portfolio of one thrift at 30 cents on the dollar. There was no evidence that the companies that issued the bonds were in danger of defaulting. When the market re-stabilized, the bonds were reportedly liquidated at full value or more. A despicable two and one half billion dollar loss for stockholders and

Compare this to a CMBS deal which will, even in the small balance program, have costs in excess of $30,000 when you add, borrower legal and surveys.

- Commercial fixed three year deal at 7 3/8% rolling to successive 3 year terms, 3,2, 1 prepay. Earn outs possible, include assisted living, single tenant, and possibly hospitality (very limited availability.)
- Construction and bridge loans with earn-outs.
- Commercial deals for hospitality, gas stations, and other exotic products from the low 7% range.
- Commercial and multi-family deals with no prepayment penalty.
- Non-recourse and limited recourse available on a case-by-case basis.

(Please note, rates and terms identified above are subject to change without notice (especially in this market) and are dependent on asset type, asset quality, etc.)

With most of these programs, rates are locked up front removing the market risk. Typically no single purpose entity is required, legal is included and the origination process is substantially easier than the conduit process. Portfolio deals offer prepayment flexibility and lower costs than conduit deals.

Too often Borrowers sit on the sideline waiting for rates to drop. That is risky business and in many cases the wrong decision.. For example, a ¼ rate difference on a two million dollar deal amounts to $5,000 per year. This is just insignificant in the scheme of things. While the borrower is waiting for rates to drop, the market may push other terms away such as leverage and costs. If the deal works 6 ¾ percent, it will work at 7%. If it doesn't, go find another deal.

Consider this; if we have a significant increase in defaults in the commercial loan pools sold over the last few years, getting a lower rate will be the least of our concerns. Rates will rise, underwriting criteria will stiffen considerably, and proceeds will get really hit. Further, cap rates are definitely on the rise in most markets and that will also impact proceeds. The rating agencies have already sent out warning signals that they expect higher defaults in the loan pools of the last few years.

Borrowers should not wait for what may never come.

the tax payers. One smart "vulture fund" tripled their money in 18 months. I think the vultures are circling again.