

**August 19,
2008**

Volume 2 Number:20
888.270.4100

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Rates

Prime Rate	5%		5 Year T	3.38%
1 Month Libor	2.46%		10 Year T	4.00%
3 Month Libor	2.80%		5 Year swap	4.09%
6 Month Libor	3.10%		10 Year Swap	4.59%

As summer draws to a close (really hard to believe, isn't it) the worst predictions of earlier this year have unfortunately come true. **The Credit Crunch Is Here.**

That's the bad news. The good news is that many **deals are still getting done.** What are the factors that dictate whether a project is financeable? What issues are killing deals? Read on to see my take on these questions.

In this issue we are featuring **a great multi-family and commercial program.** It's not available everywhere but take a look at the pricing and terms and call us to see if it is available in your market.

Finally, we consider the issue of **property valuation.** Are we finally at a point that values are stabilizing? You be the judge!

FEATURED LOAN PROGRAMS:

Multi-Family

- Location: Select Markets Nationwide
- LTV max 75%, 70% max cash out
- Term 5, 7, or 10 years fixed, 30 year term, choose either LIBOR or MTA at 225 bps.
- Amortization, 30 years
- Debt Coverage Ratio 1.15:1
- Non-recourse available

- Prepayment all loans 3,2,1,1
- Rate lock 1% for 60 days refundable at close.
- No appraisal cost, \$2,750 deposit or 12.5 bps of loan amount , 45 to 60 day closing.

Commercial

- Location: Select Markets Nationwide
- Product types, Office, Retail, Industrial, Owner /User
- Loan Size, to \$10,000,000
- Term 10 year balloon fixed terms of 3, 5, 7, 10
- Amortization 30 years
- Non recourse under 65% available
- Minimum debt coverage 1.20 on 70% LTV or less, 1.25 over 70% max, LTV 75%
- Prepay: Yield Maintenance or Step-down prepay offered for 15bps 5, 5, 4, 4, 3, 2, 1
- Minimum credit score 650
- Cost \$5,750 to \$10,750

ISSUES THAT MAKE AND BREAK DEALS

With available funds in short supply, lenders are cherry picking transactions. What are the issues that can prevent a deal from getting done?

Consider the following deal killing issues:

- **Good Credit and Liquidity:** Virtually every lender in the market has raised its credit standards. Borrowers with credit issues or poor liquidity are not financeable without strong mitigation from other factors. If you have poor credit or are illiquid, time to find a rich uncle to be a co-borrower.
- **High LTV's:** Lower leverage is the name of the game. Deals pushing the proceeds envelope go to the bottom of the stack for several reasons. First, appraisals are coming in substantially less than deals underwrite for and lenders don't want to waste time on deals that will ultimately fail. Secondly, the regulators are pushing institutions to lower leverage to provide more value protection.
- **Non-Recourse:** Lenders want warm body recourse. Non-recourse has virtually disappeared except for the government programs and a few lenders who will go non-recourse on very low leverage deals.

The perfect deal is the fully leased property with a very strong borrower seeking a low leverage deal who will happily sign recourse. Deals that deviate from this formula are getting harder and harder to do. We are getting many of the flawed deals done, but borrowers need to recognize what we are all up against.

NARROWING THE GAP

Commercial property values are finally adjusting. We are seeing evidence that the market is starting to get a consensus on values. Two recent deals are evidence of this

of this trend.

Example One: A borrower called us to refinance raw, un-entitled land. He planned on carving up this beautiful well located parcel into 65 home sites which would sell out with a value in excess of \$32,000,000. He purchased the land for \$12,000,000 in 2005 by obtaining a \$10,000,000 loan from a bank. With pre-development costs and carry, he is into this dirt in excess of \$14,500,000. The bank offered to discount his loan to \$5,000,000. If you consider that he still has to carry the project and do the off-sites, he will be into this dirt for another \$4,000,000 before he can sell the first lot. We told him that the max loan we would consider would be \$2,500,000 to purchase the note plus another \$750,000 or so for interest reserve. After a short pause, the borrower told me that four other lenders had come up with almost the identical valuation. This tells me that we are starting to get a consensus on values even though this \$14,500,000 piece of dirt is now valued at \$2,500,000.

Example Two: In June of 2007, cap rates on newly built Walgreens were selling in the high 5 cap range. We have had numerous requests in the last few weeks to finance Walgreens being purchased at a 7 cap. That is a 17% reduction in value from a year ago. The developers who are building Walgreens today based on leases signed last year are underwater; development costs are greater than value. They may have to hold on for many years to even come out even.

*Joe Forman, President and CEO
The Bond Street Capital Companies*