



BOND STREET CAPITAL NEWS

January 16, 2008

Volume 2, Number 2

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The Good, the Bad and the Very Ugly!

The Good! Rates from our portfolio investors are very attractive for solid, middle of the road commercial and multi-family properties. Rates start in the **mid 5's** on Multi's to **low 6's** on commercial for income producing properties with strong borrowers with good credit. Rates move up from there as leverage and negative issues impact the quality of the loan. **HOWEVER**, every day we see more and more evidence that deal negatives cannot be mitigated; Smaller MSA's (community size), poor credit, high leverage, are getting harder and harder to do at any price. **If you have a deal in hand. Grab it.**

The Bad: Without relief in the capital markets, we will see more and more impact on the portfolio guys. We have had two easy 2007 deals rejected in the last two days from portfolio investors getting spooked. One statistic to keep in mind: The conduits funded over \$160 billion in 2005, \$200 billion in 2006 and even \$200 billion plus in the first half of 2007. When you remove that capital from the market, deals have to go somewhere. So the lenders still in the market can now cherry pick. If your deal is not a cherry, it's going to remain on the tree.

More and more lenders are going out of business. LaSalle's multi-family group exited the market this week. They were far and away the lead horse in the small balance multi-family space for the first half of this decade. As with other lenders who relied on a capital markets exit strategy, they found that their ability to sell loans had disappeared. Even before the B of A purchase, they had ceased to be a market leader. Their demise was predicable but nevertheless speaks to the fragility of our commercial markets. Despite the rosy emails we all get for cheap money for borrowers with low credit or high leverage deals, the reliable institutional sources are out of that business or are pulling back. Many a borrower is going to lose a big deposit to a fly-by-night capital source, only to be told later that the loan does not qualify. That is the kind of market we are in. It is becoming tougher and tougher to separate real companies from con artists.

Those of you who are regular readers of this newsletter know that we tell it like it is. Every day we get back deals that we "lost" to some lender that really did not exist or would not fund on the basis that was represented. We are committed to providing real loan quotes and closing as per the terms of the application. However, even we are being surprised when our investors unexpectedly pull back or exit the market. All any of us can do is be honest with the client. You

can rely on us for that.

The Ugly: This story is ugly. It's so ugly that even after 25 years in the business I cannot remember a borrower so mistreated. Here are the facts: A borrower (not our customer) with a stellar record in the commercial business purchases a property on a 1031 exchange for \$29,000,000 in July of 2007. The property has a current loan in place of \$16,000,000 that cannot be defeased (paid off) until January 2008. The borrower is smart, very credit worthy and very, experienced. He decides to purchase a forward commitment to fund. That is, he requests a \$22,000,000 loan to be funded in January of 2008. He has three conduit lenders compete for the deal. The winner is the very large, national bank that he has been doing business with for over 10 years and where he keeps eight figure deposits. The bank underwrites and approves the deal. The Bank quotes a higher than market rate because it's a future funding and the bank is "hedging" its risk by the extra rate spread built into the loan. Had the Borrower been able to close in July, he could have had a rate of 5.90%. The Borrower posts a 2 point deposit and agrees to accept a loan at 6.25%. As rates begin to drop, and as per the terms of the Rate Lock Agreement, the borrower is required to put up additional deposits to maintain the hedge. He ultimately has in excess of \$850,000 at risk. Two days before the scheduled closing and after the borrower has paid out nearly \$100,000 in loan defeasance costs, the Bank calls and says that market conditions have changed and they will not fund. They offer a 7.25% rate with a reduction in proceeds of \$2,000,000. The Borrower, a long term customer of the bank is shocked. He rejects the new loan terms pointing out that the "re-trade" will cost him over \$2,000,000 over the life of the loan. Now this fellow is not by nature litigious so he says to the Bank that he will allow them out of their commitment if they simply refund his \$850,000. They refuse. So, not only is this Borrower not getting the benefit of his bargain, but he stands to lose millions of dollars.

Unfortunately, I think that there will be many more stories like this to come. Stay tuned on this one.

-Joe Forman