

BOND STREET CAPITAL NEWS

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SPECIAL REPORT

MELT DOWN - 1998 REVISITED

The Capital Markets are in full retreat as the market went through a major collapse this week. Most major conduits are not quoting or are widening spreads by 20bp (at least) to cover fluctuations in value. Any quote is deemed good only for 24 hours given the volatility.

Borrowers that are sitting on the sideline waiting for things to calm may be in for a rude awakening. The “credit flu” is spreading to the many non CMBS lenders as well. One major multi-family investor is completely out of the market for the first time since its inception almost 10 years ago. Any company that cannot hold loans on its balance sheet and has to rely on securitization for its loan exit will have likely have issues.

Meanwhile the portfolio investors out there who have had to live on the deal left-over’s are now licking their lips. They don’t care about “B” piece buyers or where AAA paper is trading. They simply have to make an appropriate spread to be happy. A number of our investors called telling us to ramp up the business to them! They want loans! Of course we are only too happy to oblige them.

Even with all of this uncertainty, a conduit loan will be the best alternative for certain borrowers. For example, we are still actively quoting hotel deals and by historic standards, rates are still great. On the other hand, now that Wall Street is pricing uncertainty into the mix, we have portfolio programs that are now very competitively priced with our conduit programs for some of the more conventional property types.

Only one thing is certain; markets are always dynamic. If the program works and the rate is acceptable, close your deal. Waiting for the “perfect loan” or the bottom that never comes, can lead to disaster. I remember 1998!

Interest Rates	
Index	Current Rates
Prime	8.25%
2 Year T	4.52%
5 Year T	4.58%
10 yr. T	4.78%
30 yr. T	4.94%
1 Mo. Libor	5.32%
3 Mo. Libor	5.36%
1 year Swap	5.30%
30 year Swap	5.77%

I Remember 1998!

I remember exactly where I was when I heard about the last great collapse. I was having lunch at Junior’s deli in West Los Angeles with our point man at First Union (now Wachovia). We were discussing how much business we were going to do before the end of the year.

He got a phone call during lunch and his face went ashen white. “Joe – we are out of the market and all deals are on hold.” I instantly knew he wasn’t kidding. I came home and told Nancy that it was time to go on vacation – and we did. Thankfully we had Ned there to mind the store.

An "on point" article appeared today in Real Estate Finance and Investment (www.iirealestate.com) about the debacle in the Capital Markets. Editor, Samantha Rowan has graciously given us permission to reprint her article.

CMBS Market Bloodied - 07/27/2007

Thursday was the worst day that the commercial mortgage-backed securities market has seen since the 1998 Russian debt crisis, traders and investors said. Spreads on the benchmark AAA-rated, 10-year super senior bonds widened 10 basis points overnight and issuers were said to be considering pulling some planned deals as a result. By Friday morning, spreads on new AAA-rated, 10-year super senior bonds were being priced at swaps plus 55 nearly 20 basis points wider than a week earlier. Spreads gapped as wide as swaps plus 70 briefly on Friday morning before coming back into the swaps plus 55 area.

Spreads widened due to a laundry list of technical troubles spillover from the constant bad news of the subprime meltdown, word that two Australian hedge funds were in trouble, uncertainty over lending standards and credit quality, a 300-point dip in the stock market and a drying up of demand for corporate debt as evidenced by news that the investment banks that were having trouble funding Chrysler's buyout by Cerberus. "The linchpin to the whole market are the investment banks, which are originating deals and warehousing risk," one investor noted.

One lender pointed out that CMBS is not alone. "There is a liquidity crunch across products," he said. "It's not in a vacuum." Nevertheless, three conduit deals were being marketed last week the \$4.76 billion Citigroup Commercial Mortgage Securities 2007-C6, the \$1.9 billion Morgan Stanley Capital Trust 2007-HQ-12 and the \$4 billion Merrill Lynch Mortgage Trust 2007-C1.

There was speculation that issuers likely were pricing and then holding excess bonds on their balance sheets due to the lackluster demand. But that could boomerang badly if spreads keep widening. Market participants believe that some of the dealers are well-hedged, namely the larger commercial banks, but there are concerns that some of the other firms are being badly affected.

One investor said his firm is ready to buy as much as they can once spreads stabilize some. "People feel like this is a good buying

Before I left for Europe I told Ned that I would call in only once. If the news was good, he should tell me. Otherwise, no point in ruining my vacation. I called in- we had a very short phone call.

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opportunity, not just a one-day blip. It may take a while before things return to normal," another said.

The turmoil is expected to have a significant impact on the new loan origination market. Additionally, the collateralized debt obligation market is also feeling the ripple effect.

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