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**Rates**

<b>Prime Rate</b>	<b>5%</b>		<b>5 Year T</b>	<b>3.37%</b>
<b>1 Month Libor</b>	<b>2.46%</b>		<b>10 Year T</b>	<b>3.87%</b>
<b>3 Month Libor</b>	<b>2.78%</b>		<b>5 Year swap</b>	<b>4.16%</b>
<b>6 Month Libor</b>	<b>3.11%</b>		<b>10 Year Swap</b>	<b>4.66%</b>

**Loan Losses Rise, Credit Availability Falls, What's Next**

The Wall Street Journal reported today that IStar, a mortgage and equity REIT, is in danger of losing its investment grade credit rating because of a huge increase in loan defaults in its commercial loan portfolio. IStar is reporting that loan defaults rose to 13% of total loan assets with total estimated delinquent loans at \$275,000,000.

On the same day we learned that one of the big investment banks sold a huge pool of subprime loans at 22 cents on the dollar! Ouch!

Do these announcements indicate that the big lenders are finally recognizing their losses? Are we at the bottom? Please read on for my take on this subject.

**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 to 1.00
- 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 Step-down prepay offered for 15bps 5, 5, 4, 4, 3, 2, 1
- Minimum credit score 650
- Cost \$5,750 to \$10,750

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### **Buyer Beware - there is trouble in dem dare hills!**

You might remember that IStar, the large mortgage REIT acquired a pool of commercial real estate loans from failing Fremont Investment and Loan last year. Two thirds of the projected defaults announced by IStar came from the Fremont pool. That raises some interesting questions. Did IStar over-reach when it bought these loans? Did it fail to properly assess the risk in this pool? If it did forecast this level of problems, did it pay too much? The answers to this will probably not be known until the Fremont pool is liquidated which could take many years. Nevertheless, the announcement of these losses continues to support the bears of our industry who predict that the proverbial other shoe is about to drop and the commercial side will be the next to go.

The level of delinquencies in the Fremont portfolio highlights the risk of buying loans. Even a crack team of due-diligence nerds may have trouble predicting losses and ultimately coming up with the right valuation for the loan pool. Would IStar have bought into losses that could severely impact their credit rating. By the way, an additional \$100,000,000 of troubled loans were originated by IStar itself.

The troubles besetting IStar highlight exactly why we are in a credit crunch. How much is a "performing" loan worth? How much is a non-performing loan worth? What level of yield does the purchaser have to get in order to justify purchasing the loan if you really can't predict the risk level? While Wall Street would like us to believe that the performance of a pool of loans can be quantified, we know that the highly complex mathematically driven formulas that predicted failures on the residential side turned out to be useless when the market experienced the perfect storm. We even have less "data" to help quantify the commercial market which is in full retreat now.

Purchasing loan pools, performing and non-performing gets down to seat of the pants underwriting, loan workout experience and educated guessing. And finally, when in doubt, bid low to protect yourself. The protective below "bid" is not only driven by the desire for ridiculously high yields but is also on the down side.

For a while now, sellers don't believe that commercial loans will get whacked as much as the residential side did and they won't hit the very low buy bids. The buyers will point to an IStar and say that the performance of the IStar pool is good indicator of what is to come. That in essence explains why loans are not selling. No one is comfortable where the bottom is.

Quick case in point. We received an assignment to underwrite a pool of sub-prime commercial small balance loans. (Bet you didn't know we provide this service did you!) Our customer was in contract to purchase the loans at 82 cents on the dollar. By the time we reviewed the files and re-underwrote each of the 40 plus loans, we recommended a price of 55 to 60 cents on the dollar because of the high probability of default of a significant number of loans in the pool. Our buyer agreed with our assessment and reduced his bid. The sellers would not adjust their price. No sale.

Here is one critical point to consider: IStar identified the inability of borrowers to refinance maturing loans as a major contributor to the delinquent loan lists.

If the market has no liquidity, many loans coming due will be classified as in default. But the reality is that the properties are still performing. The lack of liquidity generates the default and downward spiraling market becomes a self fulfilling prophecy.

The bottom line is that the market needs rational lenders and regulators. Commercial real estate will be ok as long as the regulators don't shut the spigot.

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