AUGUST, 2008

BAD NEWS: **We have seen construction lenders exiting the market. Two long term "players" Washington Federal and Homestreet Bank are out of the market until at least the end of the year. First Independent Bank of Bellevue has eliminated its Commercial Lending Group. Harris Bank (Chicago) stopped making commercial real estate loans to Investors in May. Loan Terms have contracted. Interest Only deals are non-existent; Mezzanine(seconds) financing is gone from the market; 30 year amortization is getting hard to obtain as lenders cut back to 25 or 20 year terms. Debt service coverage is now 1.2 or higher on most deals. The insurance companies are cutting loan to value back to 60% to 65%. There is concern that tenants are coming under pressure as business activity slows.(read Starbucks?)**
This means that vacancy rates may increase. That would lead to lower N.O.I.s and reduced loan amounts. If income is lowered, then values would go down as well. This lending thing is being driven, to a large extent, by the Bank Examiners. One Bank I am familiar with has reappraised "ALL" of its collateral on commercial real estate loans at their own expense. In several cases the "new" lower value has meant that their loan is over 80% to over 100% of the new value. So; the Bank has written off the difference between 75% and the newly calculated LTV even though the borrower knows nothing of this and has never missed a payment.
The other negative is that the pressure on lending staff is cutting into (or off) lending activities. At a minimum, upper management wants constant reports on the status of every loan (even when there is nothing to report). If you have a lending office with 6 persons to originate loans, you need 15 when some of those loans are workouts or foreclosures. Take a look at www.indymacbank.com. Visit the foreclosure section. They own 38 houses in Phoenix and Tucson alone. I didn't bother to look in San Diego.

GOOD NEWS: **We have been closing loans this year.**

$1,650,000.00	**Apt.**	**66.6% LTV**	**5.6%**	**Adj. Rate**	**1.0% fee**
$2,850,000.00	**Indus.**	**67% LTV**	**6.47%**	**Fixed**	**1.0% fee**
$4,215,000.00	**Retail**	**58% LTV**	**6.25%**	**Fixed**	**1.0% fee**
$ 920,000.00	**Indus**	**70% LTV**	**6.75%**	**Fixed**	**2.0% fee**
$4,100,000.00	**Med.**	**45% LTV**	**6.25%**	**Fixed**	**2.0% fee**

Additionally we are offering a construction/permanent loan through an insurance company for medical facilities. This is 6.375% rate today. Loan is 80% of cost; and, requires a real equity of 20% in the deal. We can offer a similar deal on apartments with 75% loan to cost.
The new term in lending is "skin in the deal". All the lenders want borrower's cash in the deal. On construction deals, this can be paid for land.
The usual cycle for these financial issues is: Crisis; Hand wringing: Excessive Write Offs; Lending contraction: Sudden realization that they have to make loans to make $$; Resumption of lending activity. So; we are just past the half way marker. The banks will be back in it in 2009.
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