P L E T T E R

June 2008

INTEREST RATES: **We are quoting interest rates rather than spreads over the treasury bill. A ten year rate today is 6.25% to 6.60%. A five year rate would be 6.00% to 6.15% fixed for the term. Virtually all of the conduit lenders such as Lehman Brothers and Wells Fargo are either out of the market; or, have priced themselves so high that they will do no business. Our best rates are almost all with the insurance companies.**

Whether the lender is an insurance company or a conduit lender, they rely on either the Mortgage Backed Security market (MBS) or the Collateralized Debt Obligation (CDO) to sell off the loans they make. Even if they do not sell off the loans, the MBS and CDO have allowed the lenders to hold the loans in what they thought was a more liquid form. There are very few buyers for preexisting instruments [at reasonable rates] today. The market for new issues has been disintegrating over the last six months. A lot of the fear is irrational. But; what can you say? There have been losses in apartment portfolios in the SE U.S. within the last year.

I recently called a dozen lenders to search out a home for a loan. I would call the attitude conservative. Three of them were concerned about "relationship" lending which basically means that they want to lend to their customers only. Most want lower loan to values secured by well located; very well performing properties.

Many Insurance companies are buying AA rated MBS from desperate sellers (Bear Stearns & UBS) at spreads of 350 to 400 instead of making new loans at ½% to ¾% less. The big wall street firms had hundreds of billions of dollars of MBS and CDOs which were financed with short term borrowed money. They were borrowing at 5% and getting 6.5%; paying themselves big bonuses; and, patting themselves on the back. They were also leveraged 18 to 20 times(you have one billion and borrow eighteen billion). Anyone around in the 1980s would remember this formula from the Savings & Loan days. They have been busy unloading these assets to repay the short term debt and reduce the size of their leveraged assets. The losses resulting from these sales are what you have been reading about in the papers.

CURRENT DEALS: **We are working on a couple of industrial properties, an apartment, two medical facilities, a mini-storage; and, a retail store. The borrowers are generally selecting 10 year fixed rate loans with 25 year amortizations. As these loans are for several million dollars, the loan fee is usually 1.0%. The lenders are cutting the loan to value back whenever they can to 60% to 70%.**

CAPITALIZATION RATES: **We are seeing the cap rates increasing. Some properties for sale are languishing on the market with wishful thinking – i.e. 5.5% caps. Most properties are in the 6.5% to 7.5% range.**

GREEN REVOLUTION: **I just had a friend attend the National Home Builders convention in Orlando. As a typical Florida greeting, he had his wallet stolen outside the convention hall. He related that a big push this year is going "Green". This strikes me as a fad made in advertising heaven. Therefore; I am announcing here and now that Paladin Funding, LLC is going "GREEN". With every loan we make, I will plant a small tree to contribute to the program. I can state this fearlessly due to the fact that there is no common definition of "GREEN"; and, more importantly, there is no monitoring of anyone's efforts. I fear that this will mostly be a feel good program due to the fact that most people cannot afford to pay for any "greening" that costs more money.**

WATCH OUT FOR THE ELECTION: **Right now it looks like Obama. I am worried about what happens when the next President goes looking for tax revenue to pay for new programs like national health care. What will happen to the tax exception for capital gains on a personal residence lived in for two years? How about the 15% capital gains tax? What would happen if the deducibility of home mortgage interest is questioned? All potential killers. Additionally; the war is costing $12 Billion per month. Any wonder we cannot afford to repair the national infrastructure?**

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