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## Summers' Time: Is it the market or the economy?

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Fantini & Gorga has released its second quarter Lender Survey. Here are excerpts from Tim O'Connell's comments: "Since the conduits stopped new lending last September, there is no widely available standard against which banks and insurance companies can measure themselves. Generally, spreads on fixed-rate loans continued to rise. The range between the best spreads a lender will charge and the highest spreads widened out as lenders insisted on being paid for risk. Underwriting became still more cautious, and the overall availability of funds decreased further.

"Lenders' best spreads - reserves for the lowest-rise deals - actually decreased somewhat: about 15 bps for industrial, office and apartments, and 35 bps for self-storage, as lenders recognized that very conservative deals in all these property types remain very attractive. But for the 'straight down the middle' transaction, lenders were looking for increased spreads, except for apartments, where Fannie, Freddie and FHA set a competitive standard. Office and industrial loans were costing 20 to 30 bps more than in the previous quarter, and pricing for loans on anchored retail was up by about 40 bps; reflecting concern about sales and credit quality among retailers.

"Several conduit lenders responding to our survey are actually using their origination staffs to generate loans they are willing to keep on their balance sheets. Their pricing - generally in the 250 to 350 bps range - is like that of the banks and can sometimes compete with the life companies.

"With a more limited supply of funds to put out, lenders continue to tighten underwriting. More insurance companies report they will lend no more than 60% to 65% of a property's value, compared with the formerly more common 70% to 75%. Banks report approximately the same underwriting criteria as they did 90 days earlier, but they apply these criteria in more conservative ways."

Scott Miller, vice president of Deutsche Bank Mortgage Capital, was a panelist in Fantini & Gorga's recent quarterly breakfast roundtable, Wall Street Lenders...Act II? Describing the CMBS competitive environment, he said that "Large players, clean (relatively speaking) CMBS balance sheets and patient management are IN, while small players without balance sheet access, ROE on full cycle (including writedowns) and does not support business line and parent problems/acquisition target are OUT."

In answer to the question "Is it the CMBS Market or the Economy?" Miller said, "70% to 75% LTV (down from 80% to 85%, but less important than coverage; equity is important (cash out refinance will need to be justified), and no 'box' underwriting - real credit analysis returns" are important to remember.

And looking to the future of CMBS, he added, "Pricing currently at 350+/-, Bank of America deal is the last one in the CMBS pipeline, collateral was viewed as 2007, fairly weak, but demand for bonds was high. Lack of supply and continued strong default/delinquency performance should further compress pricing. The process: (1) Application with 3rd party deposits only, (2) Legal Commitment

(real good faith deposit), and (3) Rate Lock post commitment without MAC language. Also be most similar to FNMA/Freddie process."

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