



Owners, developers, designers and builders need squeeze every last drop of value from IT revolution

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Just about a year ago, I authored an article "Credit Doors Open Slowly and Slam Shut....The Commercial Mortgage Backed (CMBS) Meltdown of 2007." The article detailed how a special report issued by Moody's in April, 2007 (U.S. CMBS: Conduit Loan Underwriting Continues to Slide - Credit Enhancement Increase Likely) set into motion a spiraling series of events which we can look at as today's commercial real estate credit crunch.

These along with other commercial real estate credit related events culminated this past week when on Sunday, September 7th, Henry Paulson and the U.S. treasury department along with the Federal Housing Finance Agency (FHFA) announced a plan with respect to the two Government Sponsored Enterprises (GSE), Fannie Mae and Freddie Mac. It is believed that these actions are consistent with the Housing Bill signed into law back in July.

According to several sources at NorthMarq Capital's affiliated Fannie Mae originating group, AmeriSphere, the September 7th plan involved four main elements:

1. Both GSEs will operate in conservatorship.
2. The U.S. treasury will purchase Fannie Mae and Freddie Mac preferred stock.
3. The creation of a new backup loan program known as a "Security Lending Facility."
4. The government purchase of the GSE's mortgage backed securities (MBS).

Under the conservatorship, FHFA, the regulator of Fannie Mae and Freddie Mac, will take control of both GSEs' day to day operations. Herb Allison, former chairman of TIAA-CREF will take over as CEO of Fannie Mae and former U.S. Bancorp CFO, David Moffett will be the CEO at Freddie Mac. The boards at both GSEs will be replaced.

In a statement by Doug Bibby, President of the National Multi-Housing Council (NMHC), concerning the plan, Bibby issued the following remark "Fannie Mae and Freddie Mac have played a critically important role in the apartment industry, and we do not expect that to change with the recent actions taken by the Treasury Department. It is important to note that neither company faces an immediate crisis. Rather, these actions were taken largely to restore investor confidence and keep the markets working. The impact of the new Treasury Department plan on the apartment sector remains to be seen as the details are worked out, but we are optimistic that there will be little to no disruption in the companies' multifamily operations." The "business as usual" sentiment was echoed by AmeriSphere executive vice president, Scott Suttle on September 8th. Suttle said, "As of this morning, AmeriSphere has experienced business as usual with Fannie Mae. Fannie Mae has already purchased five loans from AmeriSphere this morning. Fannie Mae continues to lock interest rates and purchase loans."

Freddie Mac's multifamily division senior vice president, Mike May, also expressed the "business as usual" theme. In a statement issued on September 8th, May said, "...the men and women of Freddie

Mac remain on the job and are conducting our business in the normal course."

Since the takeover earlier this week, Jeff Dannes, production manager for AmeriSphere, has noted an immediate five basis point drop in spreads and expects an additional five to ten basis points over the next week or so. Robert Ranieri, senior vice president of NorthMarq Capital, heads up the company's Freddie Mac relationship on the east coast. Ranieri commented that spreads have come in by over ten basis points since September 8th. He feels spreads may continue to contract but notes that all deals are specifically priced. Dannes added that we may find both Fannie Mae and Freddie Mac may be returning to a "Back to Basics" approach with respect to transaction underwriting. Debt Service Coverage Ratios will be in the 1.25 range versus the 1.2 range as we saw a few months ago. In addition, Dannes remarked that we may see the GSEs limiting the period of "interest only" on transactions with shorter term maturities.

Last September, the GSEs had reported a 75% increase in multifamily lending activity as a result of the exit of commercial mortgage Backed Security lenders from the commercial real estate lending markets. Since then, the GSEs "touch" over 80% of the multifamily transactions which occur in the marketplace. This represents an incredible percentage. In Bibby's NMHC statement, he reiterated the importance of the GSEs. "Over the past ten years, these two GSEs have helped the apartment industry withstand two financial market meltdowns and have protected the values of the multifamily housing that is home to millions of Americans. These government actions should help restore investor confidence in Fannie Mae and Freddie Mac, which will further benefit the multifamily sector and the housing market in general." U.S. treasury secretary, Henry Paulson, and the rest of us in the industry hope he is right. We will check back in a year.

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