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Highlights from the 2010 Commercial Mortgage Bankers Association Conference

March 19, 2010 - Upstate New York

This year's Commercial Real Estate Mortgage Bankers' Conference was held last month in Las Vegas. Last year's conference reflected the realities of the commercial real estate financing market and the gloominess surrounding the economy. This year's conference was much more upbeat and could be summed up as "less negative is the new positive."

Over 1,600 attendees were at this year's event including representatives from life insurance companies, agency lenders, bridge lenders, and yes, even Commercial Mortgage Back Securities (CMBS) lenders! NorthMarq Capital had attendees from each of our offices, as well as our affiliated AmeriSphere multifamily finance group.

AmeriSphere specializes in both FNMA and FHA lending platforms. According to AmeriSphere, they believe FNMA may be loosening some of last year's underwriting restrictions. Although FNMA continues to use conservative underwriting techniques, AmeriSphere believes that FNMA is willing to be more flexible in their underwriting standards than they were in 2009. According to Scott Suttle and Jeff Dannes, senior officers of AmeriSphere, "We believe that FNMA will be willing to listen to and accept reasonable underwriting explanations, which previously put deals into a pre-review status." This may result in greater flexibility within the FNMA program for 2010.

Freddie Mac continues to provide multifamily financing and introduced a new financing vehicle known as a Commercial Mortgage Execution (CME). CME loans are structured to be sold as mortgage backed securities. Loans processed through CME typically have better spreads than traditional Freddie Mac transactions. According to NorthMarq's Robert Ranieri, director of Freddie Mac's eastern region production, "A CME execution should result in spreads being 20-30 basis points less than a traditional Freddie Mac transaction." Ten-year fixed rates for both FNMA and Freddie Mac are in the 5.5 to 5.75% range. Loan-to-values (LTVs) are restricted in "cash-out" refinancing, for both agencies; however, acquisition transactions continue to be processed in the 80% loan to cost level (except for certain hard hit areas of the country).

The FHA/HUD platform is getting much more attention this year, as other sources of financing have dried up. Some HUD offices are reporting up to 24 months of processing time for 221(d) 4 construction financing. As processing times are lengthening, underwriting is getting more conservative. Deputy assistant secretary for Multifamily Housing, Carol Galante, said that HUD will "target and tighten" some of HUD's underwriting for the 221(d) 4 program. Look for HUD to lower loan-to-cost ratios, increase debt service ratios and increase operating reserves on a going forward basis. These changes are being implemented due to an increase in defaults within the 221(d) 4 program nationally.

HUD has also extended the three year waiver for its 223(f) program. This waiver was implemented to help provide construction lenders, primarily commercial banks, with take-out financing for recently completed multifamily projects. 223(f) provides up to 85% LTV financing on non cash out basis. The Rochester NorthMarq office recently completed a 223(f) financing for a 204- unit property. The loan closed with an interest rate below 5% fixed for 35 years. The process took about ten months to complete.

Several of our correspondent life insurance companies have indicated that they are back in the market for loans after being absent for much of 2009. Their preference is for basic property types - office, retail, industrial and multifamily. NorthMarq expects life companies to be cautious as they re-enter the market. Interest rates for life insurance company loans are expected to be in the 6.50 - 7.25% range for 10-year fixed rate transactions. Class A opportunities may test the 5.75 - 6.25% range. Most life insurance company transactions are expected to be done in the 65% LTV range. NorthMarq believes insurance company financing will become more aggressive throughout 2010. As cash continues to pile up, insurance companies will have greater pressure to put the money out and to work for them. Look for LTVs to increase back to the 75% LTV range with spreads tightening.

Interestingly, several companies are trying to reactivate their practically dormant CMBS programs. Goldman Sachs and JP Morgan, along with several other companies, are looking for transactions over $10 million. Rates range in the mid 7%. They are seeking opportunities below 70% LTV for 10-year deals. Even though CMBS lenders are purporting to be in the market, the Commercial Mortgage Alert recently reported that the CMBS pipeline is empty.

In summary, it appears that financing is finally starting to loosen up. Lenders are talking. Only time will tell if they will actually step up to the plate.

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