P L E T T E R

JUNE, 2010

<u>RATES:</u> have been coming down recently. We are quoting ten year fixed rates at or close to 6.00%. We have recently quoted a 10 year fully amortizing loan fixed at 5.75%. Loan to value is 55%. Another closed loan is 10 year note with 5 years fixed at 6.625%. Twenty five year amortization. Property is a class "B" garden office building with 25% vacancy.

<u>LOAN TO VALUE:</u> is generally a 65% number. We can get more (up to 75%) but the rate increases dramatically. Additionally, a 70% to 75% loan to value depends upon other circumstances with the credit. Borrowers credit and assets together with the tenancy must make the difference.

<u>BANK FAILURES:</u> The northwest has lost Frontier, CityBank of Lynnwood, Horizon, American Marine, WestSound, Evergreen; and, Venture Banks. The loss of these businesses greatly reduces the options borrowers have when seeking construction and other loans. There are still several banks on the FDIC watch list including Home Street, Seattle, First Sound; and, Sterling. "Normal" business lending is far from available. Most banks don't even know how to define normal.

<u>FDIC TAKEOVER METHODOLOGY:</u> When the FDIC first started closing banks, they would "sell" the deposits to another healthier bank; and, have to keep most – or – all of the loans. Lately; this has changed to a program of selling the loans to the acquiring bank subject to a "loss sharing" agreement. This is really a joke as the FDIC agrees to "share" by absorbing 95% of the losses on defaulted loans. So; what really happened was that the FDIC doesn't have enough staff to take on any more troubled loans. So; they stick the loans with the acquiring bank and that bank probably hires the same people to manage the loans that managed them at the liquidated bank. It would be seamless to the delinquent borrower; because he deals with the same people. They just have new business cards.

<u>GOVERNMENT CONTROL OF LENDING:</u> is in effect through the FDIC auditing procedures. The FDIC tells banks that they would have to classify as "possible loss" any real estate loan that is over 75%; or, one made secured by a gravel pit; or, one where the borrowers have credit scores under say 660. Well guess what. The banks don't make loans like that anymore. Categorically. Thus, the FDIC calls the shots on lending to American Business. We are seeing a very significant cramp down on lending in the U.S.

<u>NEW CFPA & OTHER REGS:</u> are going to make consumer lending even more hazardous. The CFPA is the Consumer Financial Protection Agency. This Federal Agency will have "rule writing powers". This is another effort by the government to legislate against stupidity; and, prevent people from being responsible for their own acts. It will make getting a consumer loan extremely difficult in the future; and, be a fabulous 401K for the attorneys.

<u>CONDUIT LENDERS????</u> Are rumored to be raising their heads from the sewer manhole covers. It has been stated that investors willing to buy mortgage backed securities would command a 1.00% to 1.5% premium over existing rates. In other words 7.0% to 7.5% in a 6.00% market. That is why the business has not resurfaced. We have been contacted by people willing to consider transactions of $75,000,000,.00 and up with 50% Loan to Value.

<u>LEASING??</u> Has been very trying. The leasee market continues unabated. Landlords are doing almost anything (legal) to keep tenants. In the Kitsap area there are so many feet for lease at low rates that no one could consider building anything. It would be completely uneconomic.

<u>WHAT ARE WE DOING??</u> Loans are coming due. They have to be refinanced. Some owners DO have to sell for health and other reasons. Business is struggling forward. We try to find homes for these various requests. And; we are having much more success this year than last.

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