



## KEY TRENDS FROM THE YEAR END 2009 LENDER SURVEY

The real estate capital markets slowly moved into a functioning mode in the second half of 2009. Despite the low volume of lending, *some patterns have emerged in underwriting, pricing, and loan terms. As a result, we are releasing the Fantini & Gorga Lender Survey again* – newly re-designed to account for market changes - the first Survey since mid-2008.

A few loan securitizations were done for large borrowers in late 2009, but the securitized pools that were very active until mid-2007 have not, as yet, revived. For cash-flowing real estate, the market is being served primarily by banks and insurance companies. This is the universe we surveyed. For construction loans, agency lenders, equity, and other transaction types or capital sources see the Fantini & Gorga Master Money Matrix © series at [www.fantinigorga.com/publications](http://www.fantinigorga.com/publications).

*Most insurance companies have ramped up production to at least modest levels*. They tell us they plan to increase production much more in 2010. Here are today's parameters:

- **Underwriting remains conservative**, typically with loan-to-value (LTV) maximums in 55%-65% range, and minimum debt coverage ratios (DCR) ranging from 1.35 to 1.50.
- Pricing at 300-350 bps over like-term Treasuries puts **most rates on 3-5 year loans “in the 5s,” with 7-10 year loans “in the 6s.”**
- **Most of the insurance companies are sticking to “major markets”** the cities and closer-in suburbs of places like Boston, New York, and Washington, but some will go to “secondary” and “tertiary” markets for a conservatively underwritten deal.
- **They look cautiously at retail, office, and industrial, and are particularly concerned with near-term lease expirations.** A number of insurance companies will consider escrowing funds for tenant fitup and leasing commissions to mitigate lease rollover exposure. But overall they want a “clean, simple deal” with “no stories.”
- Insurance companies like apartments, but lose most of this business to Fannie and Freddie on both price and proceeds.
- Insurance companies do not lend on hotels today, although a few will consider an incredibly conservative request for this asset type.
- **These lenders offer a variety of terms, focused mainly in the 5-15 year range, but going out to 25 years** on a fully amortizing basis in some cases. **They own the market for fixed rates 7 years and longer.**

*Regional banks remain active, if cautious. By contrast, many large banks are effectively lending only to existing customers. This makes it challenging to obtain a loan of more than about \$15M today from a bank.* Here are today's parameters:

- Although many banks offer loan terms out to 10 years or even longer, **very few banks will fix a rate for more than 5 years.**
- **Banks charge a broad range of interest rates.** Community and regional banks typically price over the Federal Home Loan Bank (FHLB) advance rate, while the national banks (and some regional) price using LIBOR swaps (For these indexes, see [www.fantinigorga.com/links.html](http://www.fantinigorga.com/links.html)), but they charge a wide range of spreads (typically 225 bps – 350 bps.) **The resulting 3-5 year rates range from 4.25% up to 6.50%. Some banks have a floor rate in the 6% range.**
- **Most loans have personal recourse**, except for a few with high-quality real estate and LTVs under 50%. Here too there is a broad range within the markets, ranging from full to partial guarantees-usually no less than 25%.
- **Potentially, banks underwrite less conservatively than insurance companies:** up to 65%-75% LTV, 1.25-1.40 DCR. But this debt coverage constraint can drive proceeds down, especially since most banks want 20-year amortization on commercial properties.
- **The community banks lend locally into the smaller markets** that the insurance companies tend to shy away from.

*Stay tuned for changes when the next survey comes out in the first quarter of 2010!*



# FANTINI & GORGA

*Skillfully Linking Borrowers and Lenders*

## Lender Survey - *Insurance Companies*

Year End 2009

Lender	Loan Size Preferred Range	Note Term	Pricing Index Rate Lock	Primary Underwriting Metrics						Loan Features				Funding Availability	Comments	
				Property Type	Pricing Spread(s) expressed in basis pts.	Minimum Coupon if applicable	Standard & (Maximum) Amortization	Standard & (Minimum) DSC Ratio	Standard & (Maximum) LTV Ratio	Minimum Cap Rate if applicable	Loan Fees	Recourse	Pre-payment Restrictions			Escrows
A	\$5M to \$30M	out of market	n/a	Apartments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0	Out of the market.
				Retail	n/a	n/a	n/a	n/a	n/a	n/a						
	Same		n/a	Office/Ind.	n/a	n/a	n/a	n/a	n/a	n/a						
				Hotels	n/a	n/a	n/a	n/a	n/a	n/a						
B	\$3M to \$30M	5 to 15 years, maximum fixed rate 7 years	n/a	Apartments	n/a	6.00%	25 (30)	1.25 (1.25)	75% (75%)	n/a	\$2,500 to \$10,000	Carve-out only	Declining percentage	Tax escrow required; RR & RL/TL if deal warrants.	4	Only lending in northeast. Can do 5-year automatic re-pricing, beyond the initial fixed term at borrower's option. Within retail sector will only consider grocery anchored. Also offers construction/perm and earn outs.
	Retail			n/a	6.50%	25 (25)	1.25 (1.25)	65% (65%)	n/a							
	\$5M to \$20M		At application	Office/Ind.	n/a	6.50%	25 (25)	1.25 (1.25)	65% (65%)	n/a						
				Hotels	n/a	n/a	n/a	n/a	n/a	n/a						
C	\$5M to \$15M	5 to 15 years, also fully amortizing under 15 years	Treasury	Apartments	300	n/a	25 (30)	1.35 (1.35)	65% (65%)	8.00%	\$5,000	Carve-out only	Yield maintenance	Negotiable	5	Only lending in major metro markets with greater than 1 million population. Within retail sector prefer grocery anchored. Within office sector prefer medical. Will not lend on single tenant properties.
	Retail			350	n/a	25 (30)	1.35 (1.35)	65% (65%)	8.50%							
	Same		At application	Office/Ind.	350	n/a	25 (30)	1.35 (1.35)	65% (65%)	8.50%						
				Hotels	n/a	n/a	n/a	n/a	n/a	n/a						
D	\$3M to \$50M	3 to 25 years, beyond 10 years must be fully amortizing	Treasury	Apartments	300 to 325	n/a	25 (30)	1.40 (1.15)	65% (70%)	7.50% to 8.00%	\$5,000	Carve-out only	Yield maintenance	RR negotiable; Tax/Ins. & RL/TL depends on LTV	4	Also lends on mobile home communities. Typically lends on hotels, but currently at maximum portfolio weighting in sector. Also offers floating rate and float-to-fixed structures. Earn outs possible.
	Retail			300 to 350	n/a	25 (30)	1.40 (1.15)	60% (65%)	8.00% to 9.00%							
	\$5M to \$35M		At application	Office/Ind.	300 to 350	n/a	25 (30)	1.40 (1.15)	60% (65%)	8.00% to 9.00%						
				Hotels	n/a	n/a	n/a	n/a	n/a	n/a						
E	\$10M to \$100M	5 to 30 years	Treasury	Apartments	Varies	n/a	Varies	Varies	Varies	n/a	Negotiable	Carve-out only	Yield maintenance	Tax/Ins. not required; RL/TL negotiable	5	Lends only in primary and some secondary metro markets. Underwriting metrics are based upon a holistic deal-by-deal analysis; there are no hard guidelines.
	Retail			Varies	n/a	Varies	Varies	Varies	n/a							
	\$20M to \$100M		At commitment	Office/Ind.	Varies	n/a	Varies	Varies	Varies	n/a						
				Hotels	Varies	n/a	Varies	Varies	Varies	n/a						
F	\$20M plus	5 to 7 years, also fully amortizing under 20 years	Treasury	Apartments	350 to 400	6.75% to 7.00%	30 (30)	1.40 (1.40)	60% (60%)	7.00% to 7.25%	25 basis points	Carve-out only	Yield maintenance	Tax/Ins. Required; RR & RL/TL negotiable	3	Lends only in primary metro, infill locations with diverse economic drivers & high density. Prefers multi-tenanted buildings or long-term credit tenancies. Might consider retail. Also offers construction/perm structures as well as joint venture equity and sale/leasebacks.
	Retail			n/a	n/a	n/a	n/a	n/a	n/a							
	\$30M to \$80M		At application	Office/Ind.	400 to 415	7.25%	30 (30)	1.50 (1.50)	55% (55%)	7.25% to 7.50%						
				Hotels	n/a	n/a	n/a	n/a	n/a	n/a						
G	\$2M to \$50M	10 to 25 years	Treasury	Apartments	250 to 300	5.75%	25 (30)	1.35 (1.30)	65% (70%)	7.00%	\$5,000	Carve-out only; no warm body required	Yield maintenance; other options available at pricing premium	Tax Required; Ins. RR & RL/TL negotiable	4	Lends nationally, currently under weighted in north east. Within retail sector prefers grocery anchored. Has limited (6 months) forward commitment appetite.
	Retail			275 to 325	6.00%	25 (30)	1.40 (1.35)	60% (65%)	7.25%							
	\$5M to \$20M		At application	Office/Ind.	275 to 325	6.00%	25 (30)	1.40 (1.35)	60% (65%)	7.00%						
				Hotels	n/a	n/a	n/a	n/a	n/a	n/a						
H	\$1M to \$10M	5 to 25 years	Treasury	Apartments	350 to 375	6.00%	25 (25)	1.50 (1.40)	60% (65%)	8.75%	\$3,500	Carve-out only	Yield maintenance	Waived unless in default	3	Lends nationally in primary & secondary markets. No storied deals.
	Retail			375 to 400	6.25%	25 (25)	1.50 (1.40)	60% (65%)	9.00%							
	\$3M to \$8M		At application	Office/Ind.	375 to 400	6.25%	25 (25)	1.50 (1.40)	60% (65%)	9.00%						
				Hotels	n/a	n/a	n/a	n/a	n/a	n/a						

**NOTES:** (a) Pricing Spread(s): Matrix spread(s) assume pricing over the identified index with a term equal to the "comparable loan-term". Spreads also assume average quality asset and creditworthy borrower. The low and high spreads show within the matrix represent the lender's, "best" pricing and "standard" pricing respectively. Some lenders are also setting pricing marks based upon the loan term/duration, as well as loan quality ratings, so the "best" spread isn't solely derived by the assigned loan quality rating. Some lenders, in special situations, will offer spreads that are either somewhat tighter or wider than the target range shown, if loan quality ratings dictate.

(b) Amortization: Expressed in years, assuming a level debt service schedules.

(c) Funding Availability: Scaled from zero to five, reflective respectively of the lenders minimum to maximum appetite for whole loan assets.

(d) DSC and LTV ratios are determined based upon lender derived NOI's, which today are commonly incorporating some "stressing" of both in place rent rolls & expenses.

(e) RR = replacement reserves; RL/TL = releasing/tenant improvement reserves



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## Lender Survey - Banks

Year End 2009

Lender	Loan Size Preferred Range	Note Term	Pricing Index Rate Lock	Primary Underwriting Metrics							Loan Features				Funding Availability	Comments
				Property Type	Pricing Spread(s) expressed in basis pts.	Minimum Coupon if applicable	Standard & (Maximum) Amortization	Standard & (Minimum) DSC Ratio	Standard & (Maximum) LTV Ratio	Minimum Cap Rate if applicable	Loan Fees	Recourse	Pre-payment Restrictions	Escrows		
A	\$0.25M to \$20M	5 to 10 years, maximum fixed rate 5 years	FHLB	Apartments	225 to 275	6.00% plus	25 (30)	1.25 (1.20)	70% (70%)	n/a	Negotiable	Full recourse	Open without penalty	Tax/Ins. not required; RR & RL/TL negotiable	2	Only lending in MA, NH & RI. Occupancy history and historical operating statements are important to underwriting drivers.
	At commitment		Retail	225 to 275	6.00% plus	20 (25)	1.25 (1.20)	70% (70%)	n/a							
	Office/Ind.		225 to 275	6.00% plus	20 (25)	1.25 (1.20)	70% (70%)	n/a								
B	\$0.25M to \$5M	5 to 25 years, maximum fixed rate 5 years	Treasury	Apartments	325 to 375	n/a	25 (25)	1.25 (1.25)	75% (75%)	n/a	25 basis points	Usually required.	Declining percentage	Tax only	2	Primary, secondary and tertiary cities in the northeast (excluding ME). If refinance LTV limited to 70%. Underwriting focus on sponsors' credit and real estate experience.
	At commitment		Retail	n/a	n/a	n/a	n/a	n/a	n/a							
	Office/Ind.		n/a	n/a	n/a	n/a	n/a	n/a	n/a							
C	\$1M to \$34M	1 to 15 years, maximum fixed rate 10 years	FHLB	Apartments	225 to 325	n/a	25 (25)	1.25 (1.25)	70% (75%)	n/a	Negotiable	Negotiable	Cost maintenance	Negotiable	4	Only lending in New England. Underwriting focus is on end-of loan-term "exposure"; also requiring funded escrows or other credit support if significant tenant rollover. Also lending on self-storage & fractured condos. Will offer forwards & earn outs on a limited basis; construction & construction/perm if break-even leasing in place.
	At closing		Retail	250 to 350	n/a	25 (25)	1.30 (1.25)	65% (70%)	n/a							
	Office/Ind.		225 to 325	n/a	25 (25)	1.30 (1.25)	70% (75%)	n/a								
D	\$0.75M to \$20	1 to 10 years, also fully amortizing to 15 years	FHLB	Apartments	250 to 275	n/a	15 (20)	1.30 (1.30)	70% (70%)	n/a	50 to 100 basis points	Negotiable	Negotiable	Negotiable	5	Only lends in New England, with preference for southern tier. Will offer construction and construction/permanent if 50% plus leasing is in place. Also consider earn outs.
	At commitment		Retail	275	n/a	20 (20)	1.30 (1.30)	70% (70%)	n/a							
	Office/Ind.		250 to 275	n/a	20 (20)	1.30 (1.30)	70% (70%)	n/a								
E	\$1M to \$75M	1 to 10 years, maximum fixed rate 3 years, unless fully amortizing	Swaps	Apartments	250 to 400	n/a	20 (25)	1.30 (1.20)	65% (75%)	n/a	50 basis points	Negotiable	Yield maintenance	Depends upon LTV	4	Lends throughout eastern US. Underwriting focus is on end-of loan-term "exposure"; also requiring funded escrows or other credit support if significant tenant rollover. Will offer earn outs on a limited basis; construction & construction/perm if sufficient leasing in place.
	At commitment		Retail	250 to 400	n/a	20 (25)	1.35 (1.25)	60% (70%)	n/a							
	Office/Ind.		250 to 400	n/a	20 (25)	1.35 (1.25)	60% (70%)	n/a								
F	\$0.5M to \$11.2M	1.5 to 10 years	FHLB	Apartments	275 to 325	6.00%	20 (25)	1.30 (1.25)	75% (75%)	n/a	\$5,000 to \$10,000	Negotiable	Declining percentage	No	4	Only lends in eastern MA. Will offer earn outs & bridge loans; construction & construction/perm if sufficient leasing in place. Specialty in tax credit bridge financing.
	At closing		Retail	275 to 350	6.00%	20 (20)	1.30 (1.25)	75% (75%)	n/a							
	Office/Ind.		275 to 350	6.00%	20 (20)	1.30 (1.25)	75% (75%)	n/a								
G	\$1M to \$20M	1 to 10 years; prefers 5 years or less	FHLB	Apartments	200 to 250	n/a	20 (25)	1.25 (1.20)	75% (80%)	n/a	Varies	Usually required. Can be limited.	Cost maintenance	Negotiable	4	Lends primarily in New England. Single tenancies and owner occupied acceptable with strong credit history & business fundamentals. Will offer earn outs, also construction & construction/perm if sufficient leasing in place.
	At closing		Retail	200 to 275	n/a	20 (25)	1.25 (1.20)	75% (80%)	n/a							
	Office/Ind.		200 to 275	n/a	20 (25)	1.25 (1.20)	75% (80%)	n/a								
H	\$3M to \$40M	1 to 10 years	FHLB	Apartments	225 to 275	n/a	25 (25)	1.30 (1.30)	65% (70%)	n/a	Negotiable	Usually, but partial. Can be non for low LTV / strong sponsor.	Cost maintenance	Negotiable	4	Lends in the DC to Boston corridor. Will also lend on self storage. Will offer construction and construction/permanent if sufficient leasing is in place. Also consider earn outs.
	At closing		Retail	250 to 300	n/a	25 (25)	1.30 (1.30)	65% (70%)	n/a							
	Office/Ind.		250 to 300	n/a	25 (25)	1.30 (1.30)	65% (70%)	n/a								
	\$3M to \$10M			Hotels	n/a	n/a	n/a	n/a	n/a							

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