

## Lenders Hike Rates; Stop Quoting Loans

Commercial mortgage lenders, whipsawed by volatility in the CMBS market, are systematically re-pricing loans they had earlier offered to write.

Loan spreads are now as much as 80 basis points higher than they had been as recently as a week ago. And in some cases, lenders have simply stopped quoting spreads, aware that the market volatility would make those quotes moot.

"Every fixed-rate loan is a floating-rate loan until its rate is locked or it closes," remarked Elliott Eichner, co-founder and principal of Sonnenblick-Eichner Co., a Los Angeles investment advisory boutique that represents borrowers.

"Lenders are walking away," said Alan Reay, president of Atlas Hospitality Group, an Irvine, Calif., advisory firm.

"We've had an event," explained Jay Rollins, president and chief executive of JCR Capital, a Denver real estate finance company. And the reaction has been "a lot quicker than anyone anticipated."

A sharp increase in delinquencies in the subprime mortgage market impacted the value of many bonds backed by such assets. That, in turn, had an impact on a number of hedge funds, which had become the biggest buyers of CMBS rated AAA. With them out of the picture to a large degree, spreads

See CMBS, Page 5

### CMBS...From Page 1

on AAA bonds have widened sharply.

Earlier this week, Merrill Lynch priced a super-senior AAA bond class of its latest conduit, Merrill Lynch Mortgage Trust, 2007-C1, at a spread of 57 bp over swaps. Its BBB class priced at 250 bp over swaps.

In contrast, the super-senior class from Morgan Stanley Capital I Inc., 2007-HQ12, priced last Friday at 48 bp over swaps, while its BBB class priced at 235 bp over.

A few days before that, Citigroup Commercial Mortgage Trust, 2007-C6, saw its super-senior class price at 42 bp over swaps and its BBB class at 230 bp over.

With the volatility in CMBS, which has become the favored exit vehicle for lenders of fixed-rate commercial mortgages, it has become extremely difficult for lenders to profitably price their loans.

So many have either stopped doing so, or they've quoted prices with enough cushion to absorb additional changes in the market.

That could be the breather that many

in the market have been calling for.

"To some degree, this is healthy," said one market professional. "Steam is being let out of the pot."

Lenders, in an effort to win lending assignments, had become ever-more aggressive in their loan underwriting. They increasingly provided loans that didn't require principal payments and used generous assumptions in determining how much financing to provide. And while the rating agencies warned against the practices, they didn't react with a call for higher subordination levels, which limit the amount of high-priced AAA bonds that could be issued in every deal.

Until April, that is, when Moody's Investors Service formally warned that it would start penalizing certain deals because of aggressive underwriting.

"New assumptions have to be used in acquisitions and the refinancing of debt," Rollins said. "This is a return to normalcy." He predicted: "30 to 90 days from now, there will be a new set of rules."

Borrowers will face higher-cost and lower leverage loans. And the velocity of transactions will decline.

The increasing loan spreads have more than offset recent declines in the 10-year Treasury rate, which is often used as a benchmark for determining mortgage rates.

The 10-year was yielding 4.75 percent today, down from 5.19 percent on July 6. But the recent rebounding of the stock market has prompted some to argue that investors might begin plowing capital into common equities, which could lead to higher Treasury yields.

The market will reach a "new equilibrium," predicted an investment-sales specialist, with lower property values and higher cap rates.

Fundamentals, he added, haven't changed, with rents and occupancy levels still climbing in most major markets. And indeed the CMBS delinquency rate remains miniscule.

"This is a repricing of debt," he said. "It's not reflective of the health of the real estate markets."