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ECONOMIC UNCERTAINTY CAUSING HEALTHCARE BORROWERS TO CLOSELY TRACK CURRENT COMMERCIAL INTEREST RATE TRENDS

It's never easy under the best of circumstances, but senior housing/healthcare borrowers contemplating timing issues in the current economic climate must do so with more than the usual amount of uncertainty and angst.

"We seem to have reached that point in a very steep economic downturn where the experts are prophesizing wildly different outcomes," funding expert Jeffrey A. Davis observes.

Davis is Chairman of Cambridge Realty Capital Companies, one of the nation's leading senior housing/healthcare lenders with more than \$2.75 billion in closed transactions since the mid-1990s. He points out that, of late, conflicting economic views have either fixated upon the deflationary forces of America's worst recession since the 1930s, or on the Federal Reserve Board's presumably inflationary efforts to spend the economy onto higher ground.

"What the experts can't decide is whether inflation or deflation provides the greatest cause for alarm at this time," he noted.

In an article on the subject, *The Economist Magazine* facetiously suggested that satirical country western singer Merle Hazard may have captured the monetary confusion better than anyone else when he sang: "Inflation or deflation, tell me if you can. Will we become Zimbabwe, or will we be Japan?"

Heavyweights are lining up on both sides of the argument. In a recent issue of the *New York Times* Paul Krugman, a Nobel Laureate in Economics warned that a Japan-style deflation period loomed. However, in the same edition of the *Times*, the eminent Fed historian Allan Meltzer said what he foresaw was a repeat of 1970s inflation.

"An excellent case can probably be made for either scenario," Davis believes.

"As a practical matter, senior housing/healthcare managers may be more focused on the inflation scenario. If price inflation is in the cards, then long-term interest rates may be rising sooner rather than later with borrowing costs rising as well," he noted.

Davis points out that due to heavy financial intervention from the Fed and Treasury Department the short-term interest rate curve has remained essentially flat.

The Prime rate of 3.25 percent in June was unchanged a month later, and the one month LIBOR rate was marginally lower in July, 0.30 percent compared with 0.32 percent in June.

But the long end of the interest rate curve is beginning to extend with 10-Year Treasuries rising more than 50 basis points in June before giving back some of the gains early in July. Apparently, the bond markets aren't sure whether they should buy into the inflationary scenario or not, he said.

"This development is important because interest rates for popular HUD financing programs tend to follow the directional shifts of 10-Year Treasuries. It's becoming more difficult to predict how long these loans will remain at today's attractive rates," he added.

Privately owned since its founding in 1983 as a real estate investment banker specializing in commercial real estate properties, Cambridge today has three distinctive business units: FHA-insured HUD loans, conventional financing, and investments and acquisitions. The company is one of the nation's leading senior housing and healthcare debt and equity capital providers, with more than 300 closed transactions totaling more than \$2.75 billion since the mid-1990s.

Cambridge has consistently ranked among the country's top FHA-insured HUD lenders and offers conventional lending options, including permanent construction and interim loans on either a floating or variable rate basis. The company's growing debt / equity financing strategy includes direct property acquisitions, joint ventures, distressed debt acquisitions and sale/leasebacks.

Cambridge is the creator of *The Signature Experience™*, a four-step process designed to transform the traditional lender / borrower relationship and identify "ideal" capital solutions for worthy projects. The company also has created four separate processes for customer groups that are designed to build and enhance long-term relationship potential and speed the way loans are processed and closed. Programs include *The Key To Capital™* for senior housing owners, *The Navigator Experience™* for senior housing brokers and mortgage bankers, *The Principal Lender Network™* for lenders who refer loans to Cambridge, and *The Relationship Building Experience™* for various industry-related consultants, including lawyers and accountants.

The company has an affiliate office in Los Angeles, and correspondent relationships nationwide. The firm also has established key origination relationships and numerous Internet-based strategies.

Cambridge's award-winning Web site, www.cambridgecap.com, provides current updates for its debt and equity capital programs. The company also publishes the bi-monthly e-Pulse! ® electronic newsletter, which delivers company news and feature stories via e-mail to corporate friends and clients. For additional information, contact Cambridge at (312) 357-1601 or via e-mail to info@cambridgecap.com.

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