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PRESS RELEASE

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FED FACES DIFFICULT TASK OF NORMALIZING INTEREST RATES NOW THAT EXCESS CASH IN THE BANKING SYSTEM HAS SOARED TO $2.5 TRILLION

If you think making sense of Federal Reserve Board policy decisions is difficult now, just wait until later when the Fed starts to raise interest rates.

Cambridge Realty Capital Companies Chairman Jeffrey A. Davis says a recent Reuters News Service release puts the Fed's dilemma in perspective:

"Managing the interest rate was easier when the banking system had about $800 billion in excess cash. However, the task is seismically more difficult now that the excess stands at $2.5 trillion."

Cambridge is one of the nation's leading FHA-approved HUD lenders. The Fed has begun testing three new programs that the central bank believes will help mop up excess reserves without causing dislocations, Davis said.

"Historically, traders, analysts and everyone else with a stake in the outcome have closely monitored the federal funds rate for clues on what borrowing costs will be." he added.

The federal funds rate is the interest rate member banks charge each other on actively traded balances held at the Fed. Simply, member banks with surplus balances in their accounts lend those balances to institutions in need of larger balances, typically on an overnight basis.

The Fed sets the federal funds rate. The rate has narrowly fluctuated between 0.06 percent and 0.25 percent since January 2009, when the Fed moved to aggressively lower interest rates in an effort to stimulate economic growth as the country settled into a deep recession.

In the modern era, the federal funds rate peaked at 19 percent in 1983 as the Fed battled to halt spiraling inflation. It was 5.5 percent as recently as 2008 before the stock market tanked, the economy imploded and the Fed moved to stimulate economic growth by parking the funds rate near zero, where it remains today.

The Fed has signaled it will attempt to usher in a new era of normalized interest rates using three relatively new programs. Added to the central bank's arsenal are the term deposit facility (TDF), the reverse purchase agreement (RRP) and the interest rates on excess reserves (IOER).

The Fed has started offering seven-day deposits (TDFs), which bear interest rates higher than the current 0.26 percent rate at the top end of the federal funds rate range. These longer-term loans help keep cash out of the banking system longer than the federal funds rate traditionally used for overnight loans.

The interest on excess reserves program (IOER) currently offers a 0.25 percent interest rate to banks for excess reverses held at the Fed. However, the effectiveness of this program has been mitigated somewhat because banks need to hold capital against these reserves.

Davis says the most critical tool may be the RRPs or reverse repos. The reverse repos are geared to attract cash from money-market mutual funds and government mortgage finance agencies, which hold substantial cash but are not eligible for the IOER or TDF programs.

Compared with the TDF, the reverse repo facility is a veteran of Fed operations. The central bank started talking about such a tool in July 2013 and is now using it regularly to drain excess cash from the banking system.

"We now know the Fed has additional levers to pull as it attempts to manage interest rates. How well they all work in tandem remains to be seen," he said.

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 nursing home, assisted living and healthcare debt and equity capital providers, with more than 400 closed transactions totaling more than $4.5 billion since the early 1990's, when the firm began its specialization in providing senior housing capital.

Cambridge has consistently ranked among the country's top five FHA-insured HUD lenders (now HUD LEAN) over the last 15 years and offers an array of conventional lending options, including permanent construction and interim loans on either a floating or variable rate basis. The company's principal investment strategy includes direct property acquisitions and joint ventures, sale/leasebacks, conventional and mezzanine debt financing, and the acquisition of distressed debt.

Cambridge is the creator of *The Signature Experience(TM)*, a four-step process designed to transform the traditional lender/borrower relationship and identify "ideal" capital solutions for worthy projects. The company has a national origination office in Los Angeles, and numerous correspondent and brokerage relationships nationwide.

Cambridge publishes the bi-monthly e-PULSE!(R) electronic newsletter, which delivers company news and feature stories via e-mail to corporate friends and clients, as well as monthly updates of other relevant news and breaking trends. Additional information is available on the Cambridge website, www.cambridgecap.com, and Cambridge can be reached at (312) 357-1601 or via e-mail to *info@cambridgecap.com*.

The firm also has embraced social media and networking via Twitter at http://twitter.com/cambridgecap , via Facebook athttp://www.facebook.com/cambridgecap, via blog at www.cambridgecap.com/blog, via YouTube at http://www.youtube.com/user/ePulseLive, and via LinkedIn at http://www.linkedin.com/companies/454232, where information on the firm and its employees can be found.

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