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PRESS RELEASE

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FED PREDICTABLY RAISES SHORT-TERM INTEREST RATES: WHAT'S NEXT?

U.S. retail sales in May recorded their biggest drop in 16 months and consumer prices unexpectedly fell, encouraging some to suggest a softening in domestic demand could limit the Federal Reserve's ability to continue raising interest rates this year.

Nevertheless, as widely predicted, the Fed elected to raise short-term interest rates another quarter percentage point at the June meeting of the Federal Market Open Committee (FMOC), the branch at the Fed that determines the direction of monetary policy.

The Fed did the expected, possibly to calm and assure world markets that there would not be any short-term interest rate surprises this time around. But some experts suggest that moderate consumer spending and retreating inflation pressures could worry policymakers who have previously viewed the softness as transitory, Cambridge Realty Capital Companies Chairman Jeffrey A. Davis observes.

Cambridge is one of the nation's leading senior housing/healthcare lenders, with more than $5 billion in closed senior care transactions. Mr. Davis says that after three short-term rate hikes in six months, industry borrowers have been surprised that mortgage rates were barely off 2017 lows.

What's going on?

Mike Fratantoni, chief economist for the Mortgage Bankers Association, says central banks elsewhere are still aggressively stimulating their economies and keeping their rates low, which is acting like an anchor on longer-term rates. He expects mortgage rates may be held back by lower rates abroad over the next couple of years.

There's also this piece to the puzzle: during the financial crisis, the Fed lowered short-term rates to zero. Then, in an effort to give the economy a further boost, the central bank began buying mortgage-backed securities.

The thinking behind this move was that higher demand for these instruments would raise bond prices, resulting in lower yields or interest rates. This plan appears to have worked to perfection, but the Fed now holds more than $1.7 trillion in mortgage-backed securities, or about one-third of all those outstanding, Mr. Davis said.

"At some point the Fed will need to lay out a schedule to address this imbalance. When it does, there will be another factor exerting upward pressure on interest 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 400 closed senior housing 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, joint ventures and sale/leasebacks. The company has acquired 16 facilities totaling approximately $60 million.

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 has a national origination office in Los Angeles, and numerous correspondent and brokerage relationships nationwide.

Cambridge publishes the bi-monthly Capital Wisdom(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 at http://www.facebook.com/cambridgecap, via blog at www.cambridgecap.com/blog 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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