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Investment Funds Mining Bankruptcy Courts for Distressed Opportunities
投資基金在破產法庭上尋找值得投資的資產

By Mark Heschmeyer (CoStar)

Rather than waiting for commercial real estate property values to find a bottom, a number of investment funds this past week showed they're ready to jump in now by taking direct control of companies already in distress, thereby gaining early control of their property portfolios as well. The funds are finding their opportunities in bankruptcy reorganization proceedings.

Most notably in this category is the ongoing and highly publicized contest of Simon Property Group, Vornado and Brookfield Asset Management, vying through a U.S. Bankruptcy Court for control of the massive General Growth Properties' mall portfolio. While that case has garnered all the attention recently, several other prominent examples are also worth noting.

Starwood Capital Group, TPG Capital and Five Mile Capital Partners agreed to invest up to $905 million in Extended Stay Hotels Inc. as part of a recapitalization plan that would allow the hotel chain to emerge from bankruptcy.

The proposal, which would value Extended Stay at $3.9 billion post-transaction, would allow the hotel chain to emerge from bankruptcy with a significantly stronger balance sheet, reduced debt load and significant cash reserves to invest in its properties and operations.

The Extended Stay board of directors determined Starwood Capital's offer to be superior to a previous agreement with Centerbridge Partners and Paulson & Co., which was subsequently terminated. The consortium's plan is not conditioned on any financing or due diligence provisions, but is subject to approval of the Bankruptcy Court.

"We are excited about the prospects of acquiring Extended Stay," said Barry Sternlicht, chairman and CEO of Starwood Capital Group and who under the agreement would become chairman of Extended Stay. "We believe we have made a very compelling offer with the specific intent of balancing and considering the interests of all stakeholders involved here. Starwood Capital has unparalleled experience in the hospitality sector and we believe we are uniquely positioned to work with the team to help the company flourish and maximize the company's potential for all stakeholders."

As part of the agreement, the consortium would invest $450 million of equity directly into Extended Stay and has also agreed to backstop a $200 million equity rights offering, thereby infusing $650 million of new capital into the company. In addition, the consortium will commit $255 million to provide a cash alternative for creditors who prefer cash to the equity they would receive as part of the plan of reorganization.

Under the terms of the agreement, affiliates of Starwood Capital Group will provide half of the new equity, with affiliates of TPG and Five Mile Capital equally providing the remaining amount.

Extended Stays' portfolio includes:

- Extended StayAmerica - 363 hotels - 41,000 rooms
- Homestead Studio Suites - 132 hotels - 17,000 rooms
- Extended Stay Deluxe - 109 hotels - 11,200 rooms
- StudioPLUS - 46 hotels - 3,600 rooms
- Crossland - 34 hotels - 4,400 rooms

In a more recent example, Trecap Partners LLC completed its acquisition of the real estate equity investment advisory business of Capmark Investments LP, including investment management contracts and general partnership interests in its real estate equity funds. Trecap paid $19.2 million.

The $4.3 billion portfolio includes 129 multifamily and commercial properties in the United States and 41 commercial and multifamily assets in Europe. These investments are held in four U.S. funds, one United Kingdom fund and several single asset/client accounts.

Capmark Financial Group Inc. and its subsidiary Capmark Investments filed for bankruptcy reorganization through Chapter 11 proceedings last October.

"Trecap embraces the opportunity to work closely and effectively with all the clients invested in these acquired funds, who consented to this transaction," said Douglas A. Tibbetts, the CEO of Trecap, an affiliate of Hunt Companies Inc. "In especially challenging commercial real estate markets, the combined experience and knowledge in the Trecap organization and our affiliates should provide a major advantage to our investors in core and value added real estate investments."

The entire former Capmark Investments' real estate equity leadership team--Robert Fabiszewski, William Martin, Wayne Harris, Paul Dolinoy and Gene Conway, as well as 25 other employees including five in the UK, are joining Trecap to continue to manage the acquired funds and client accounts.

Trecap Partners' portfolio includes:

- Multifamily: 21,621 units
- Office: 5.4 million square feet
- Retail: 3.6 million square feet
- Mixed-Use: 1.9 million square feet
- Industrial: 1.2 million square feet

In yet a third example, Tiptree Financial Partners LP entered into a definitive agreement to acquire Care Investment Trust Inc., a real estate investment and finance company investing in health care-related real estate and commercial mortgage debt. Care is externally managed and advised by CIT Healthcare LLC, a wholly-owned subsidiary of CIT Group Inc., which also is undergoing Chapter 11 bankruptcy reorganization.

Tiptree will gain control of the company through a combination of an equity investment in newly issued common stock at $9 per share and a cash tender offer by Care for up to 100% of its currently issued and outstanding shares of common stock at the same price,

Care would terminate its existing management agreement with CIT Healthcare.

As of Dec. 31, 2009, Care Investment Trust owned 14 assisted living, independent living and Alzheimer-care facilities with 643 units in Illinois, Indiana, Iowa and Nebraska. It owned an 85% equity interest in nine Class A medical office buildings developed and managed by Cambridge Holdings Inc. totaling 767,000 square feet in Texas (8) and Louisiana (1) and controlled $25.3 million in three investments in mortgage loans.

Hotel CMBS Defaults May Hit 30% By 2012
旅館的商業貸款抵押證券拖欠率至 **2012** 年可能會高達 **30%**

By Mark Heschmeyer (CoStar)

The dismal performance of U.S. hotels since their peak of 2008 has Fitch Ratings predicting that defaults should double from current levels by 2012. Hotel defaults will be most pronounced in 2011 and 2012 when the largest concentration of loan maturities occur.

Hotel revenue has declined almost 20% since 2008, the largest decline among the major CMBS property types, according to Fitch. Cash flows are not expected to increase until 2011. In addition, capitalization rates have increased, according to Fitch. As a result, hotel property values have fallen as much as 50% from their peak in 2007.

The magnitude of income and value declines in 2009 were a result of reduced travel in the corporate and leisure sector, capital constrained borrowers, and a frozen financing market for property trades. Since hotels do not have long-term contractual leases, and rates can be re-set on a daily basis, they have been especially hard hit by the economic downturn. Also, given lower free cash flow from the properties, capital investments have been postponed, affecting future hotel operating performance.

Of the $42 billion Fitch rated hotel loans originated during 2006-2007, 45% were floating rate. As a result of a record low London Interbank Offering Rate (LIBOR), borrowers in many cases have been able to keep their loans current, despite lower operating cash flows.

However, of the floating rate hotel loans originated during 2006-2007, 78% mature in 2011 and 2012. Many of these loans will have difficulty refinancing given their lower values and operating cash flows and higher debt yields required by the lenders. Therefore, mainly due to upcoming maturity concerns, Fitch Ratings projects that delinquencies will increase from 16.6% as of February 2010 to 25-30% in 2012.

Poor performance too is also affecting older vintage loans as well. Atlas Hospitality Group has been retained as the exclusive loan sale advisor for the sale of a nonperforming commercial loan secured by the 182-room Ramada Plaza Hotel at 2151 Hotel Circle South in San Diego, CA. The $12.175 million loan was originated in December 1998. The loan, currently in default, matured in January 2009.

"I think this is of interest as it is the first CMBS hotel loan in San Diego that has been exclusively listed for sale and it is from a much earlier period (1998) than the typical loans that have defaulted (2005-2007). We see this as a growing trend with lenders, looking to sell the loans before the foreclosure date," said Alan X. Reay, President of Atlas Hospitality Group in Irvine, CA.

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Medical Developers, Hospitals Early Winners as Health Care Overhaul Becomes Law
在健保改革法案成為法律后，醫療大樓需求會增加

By Randyl Drummer

The uncertainty over the nation's mammoth health-care overhaul has at least partially lifted for medical office developers, investors and hospital systems, who are now gauging the possible impacts of the legislation approved by the House and signed into law Tuesday by President Obama.

By a 219-212 vote, the House of Representatives on Sunday approved the landmark Patient Protection and Affordable Care Act of 2010, the most sweeping overhaul of the nation's health-care system since President Lyndon Johnson signed the Social Security Act of 1965, which implemented Medicare and Medicaid.

More than a dozen states have sued to block the law as unconstitutional at last count and Republicans, who unanimously opposed the legislation, have vowed to repeal the law. However, the bill, widely viewed as dead two months ago, would now extend coverage to 32 million uninsured Americans and prohibit insurance companies from denying or canceling policies due to pre-existing medical conditions or annual or lifetime caps on coverage, according to the Congressional Budget Office. The overhaul will cost $938 billion over 10 years, with health-insurance exchanges beginning to operate in 2014, eventually raising the percentage of eligible insured Americans from today's 83% to 94%.

Passage of the bill removes another bottleneck in the deal-making process for investors, developers, landlords and tenants and allows the CRE industry to drill down into the details of the massive legislative package, according to experts in the medical office sub-sector contacted by CoStar Advisor.

Health-care real estate players unanimously agreed that the new law would sooner or later result in increased demand for both on- and off-campus outpatient medical office buildings (MOBs).

The year-long wait for Congress to enact the legislation hasn't curbed the appetite for institutional grade MOB product, and "I suspect passage of the bill will likely only make it more attractive," said Jud Jacobs, managing director of Trammell Crow Company's Healthcare Development Initiative, which recently broke ground on a second medical building for CHRISTUS Santa Rosa Health System near San Antonio. "Certainty is always better than uncertainty. The contents of the bill, for better or worse, are now known and I believe this gives lenders and investors one less thing to worry about."
Al Pontius, senior vice president and managing director of Marcus & Millichap's National Office and Industrial Properties Group and director of the firm's health care real estate group, agreed.

"It will be a while before the real impact is more clearly understood and begins to affect supply-demand characteristics," Pontius said. "But I don't think there's any doubt that if health care insurance is made more broadly available, to 32 million more insured, there will be significantly increased demand."

Like other property types, MOB occupancy has suffered in recent quarters. The direct vacancy rate for Class A and B medical office space stood at just over 13% at the end of the fourth quarter, up about 50 basis points from a year earlier, according to CoStar data.

Other potential impacts mentioned by health-care property professionals include the following:

- The bill places limits on new or expanded physician-owned hospitals, a major source of health care development in some parts of the country, including the fast-growing Texas market.

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- New Medicare taxes on investment income and capital gains, including rental income, will financially pressure landlords, doctors and other high-income earners.
- Charitable hospitals face more verification and accountability for the "community benefit" they provide in exchange for their tax-exempt status, possibly translating into demand for off-campus facilities. Not-for-profits, which account for nine out of 10 U.S. hospitals, have traditionally met the requirement by writing down the cost of providing care to uninsured patients.
- The investment portfolios of nonprofits have taken a beating in the market. Meanwhile, demand for capital to fund new projects will compel, perhaps require, hospitals to look beyond the weakened public bond market to deals with private real estate investors to monetize their non-core health-care properties through sale-leasebacks and other transactions.

Keen Demand Expected
Nearly 60 million square feet of new medical office supply could eventually be built to meet the demand, based on a standard industry multiplier of 1.9 square feet of new MOB space for each new outpatient brought into the system, according to Jeffrey H. Cooper, executive managing director with global real estate services firm Savills LLC in New York. While not everyone completely agrees with that formula, virtually all said that developers are among the likely winners. Most of them also agreed that hospital systems will benefit, at least in the short run, as more insured patients come into the system and help offset the costs of treating uninsured people who lack the means to pay.

Tens of millions will be added to the insurance rolls, but the central question is how much the legislation will actually drive increased utilization of medical services, said John Montgomery, executive vice president and head of facility development for Chicago-based Lillibridge, one of the nation's largest private health-care development firms. "There will not be 30 million people who suddenly show up and say, 'now that I'm sick, I can go see a doctor.' They're already doing that anyway."

It's hard to precisely pinpoint how much space will get built, but it's already clear that health care facility dollars will have to be spent more wisely, Montgomery said.

"Hospitals will have to build smaller and more efficiently, with an eye toward keeping patients out of [inpatient] beds, and treating them in the most economical method possible. There will be a need to expand the roles of nurses, nurse practitioners, division assistants, because there aren't enough physicians to see all those new people.

"We think [reform] will continue to drive the need for outpatient facilities, ambulatory care, medical office buildings, and that's good for us," added Montgomery, who said managed-care systems like Kaiser Permanente in California are the likely care delivery models of the future.

Over the medium and long term, hospital systems and doctors will see declining government reimbursements for certain medical procedures. Most of the newly insured will seek out family physicians, but fewer doctors may enter that field because they will need to see up to 50% more patients to maintain the same income, Cooper said.

Shrinking profits could make it difficult for doctors who don't belong to a group to afford occupancy costs, which could negatively impact occupancy and rents, said Cooper, a veteran in investment banking and other aspects of medical office and health-related facilities.

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Ownership Restrictions Could Hurt Doctors
In another key element, the Senate version of the bill would effectively halt the expansion or construction of new physician-owned specialty hospitals by denying them Medicare reimbursements. Hospitals owned by doctors have become increasingly popular over the past 20 years. But critics, including Democratic lawmakers and major hospital groups like the American Hospital Association, have long said the practice of doctors referring patients to their own facilities drives up medical costs and amounts to a financial and ethical conflict of interest.

The ban would start on Aug. 1 -- or Dec. 31 if the Senate approves "fixes" in the reconciliation bill. The Dallas Morning News has reported that North Texas has the largest concentration of physician-owned hospitals in the nation, particularly rehabilitation facilities, and as many as 32 projects to build such hospitals statewide wouldn't meet the August deadline.

In a statement released Wednesday morning by Physician Hospitals of America (PHA), the industry trade group warned that the reform bill "will have a devastating impact on physician owned hospitals, the patients they treat and the communities they serve."

"The legislation virtually destroys over 60 hospitals that are currently under development, and leaves little room for the future growth of the industry," said Molly Sandvig, executive director of the group. "In total, over 25,000 jobs are at risk in 37 states. Billions of dollars already invested in hospitals stand to be lost. And, rural and inner-city hospitals being rescued and kept open by physician investment will now close."

Large acute-care hospital systems have been co-developing facilities jointly with physicians "to keep doctors from going off on their own and building their own hospital," Cooper said. "With physician-owned hospitals out of the picture, they now become less of a competitive challenge for some of these hospital systems. Doctors won't be able to build an ambulatory care facility that's going to compete with the main hospital because they may not get reimbursed by [Medicare]."

On the other hand, the effect of health -care reform on individual doctors and other smaller tenants is less clear. Because of rising costs and declining revenue, many doctors not connected with physicians groups or hospital may have to join up with practices owned by hospital systems and become tenants of their hospital campuses and MOBs. As those investment-grade properties fill up with good-credit long-term tenants, "there will be more opportunity for institutional investors to invest in this asset class," Cooper said.

After a period of inactivity due to the weak economy, hospitals are beginning to again make expansion decisions. Passage of the legislation will help that process along, Cooper said.

"I think we'll see a boost in activity because the hospitals now know what the landscape is going to look like and can finalize and execute their capital and strategic plans for the next five years," he said. "That will generate a lot more development activity, especially of medical office and other ambulatory type facilities."

Long-Term Outlook Cloudy For Hospitals
Despite the short-term boost, however, Cooper said hospital executives are concerned about the longer-term ramifications of the legislation on their bottom line.

Hospitals, striving for efficiency to cope with the new environment and raise growth capital, will be compelled to review their existing portfolios for possibly sale/leasebacks of non-core MOBs and other non-acute facilities. Possible buyers include cash-flush REITs, which are striving to bolster their MOB portfolios, with private investors, offshore capital and possibly pension funds also likely to look for a piece of the action.

"You'll see new satellite hospital campuses, which may not have an acute-care facility, and emergency care

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facilities developed by the hospital where the populations move," Cooper said. "Development is going to accelerate because the person who has to get hip surgery who lives on the outskirts of Indianapolis may not want to go all the way downtown for treatment. They'd rather go to an ambulatory surgery facility closer to their home."

The smaller 50- to 100-bed community hospitals are going to be the most economical and efficient way to get care to people, said Montgomery, whose Lillibridge owns 95 MOBs totaling approximately 5.7 million square feet in 37 markets across 16 states and Washington, D.C. The firm serves as third-party manager for 41 MOBs totaling 1.4 million square feet and has developed health care real estate in 36 states.

Real estate ownership of inpatient facilities by REITs may very well increase. Developers of MOBs and outpatient facilities in off-campus hospital satellites will need a strong sponsor for their projects, Montgomery said.

"Patients are going to find points of access where they need to be, not where they are now. In the near term there will be more money flowing in, which is good for us. But hospitals are going to have to start cutting back on the dollars spent. Again, that's very good for us because it pushing folks out of the big expensive hospitals into outpatient facilities. Providers will need more square footage. All of that is very good on the real estate side."

Another component of the legislation, the new Medicare tax on investment income, including capital gains and rental income, is drawing the ire of landlords. To raise more than $200 billion to help fund the overhaul plan, the House hiked the proposed new tax from the 2.9% proposed by President Obama in February to 3.8%. This first-ever Medicare tax, which would start in 2013, would extend beyond wages to include income from interest, dividends, annuities, royalties, capital gains and rents for individuals who earn more than $200,000 annually and joint filers reporting more than $250,000.

Implementation Timetable Unclear

How sooner will the law begin affecting commercial real estate practitioners? Estimates vary.

Trisha A. Talbot, senior vice president with Phoenix-based GPE Medical Office Partners, said investors looking to buy or health care providers looking to lease medical properties "should start looking yesterday." Tenants with good credit that can aggressively negotiate a lease should stop waiting and move forward before the demand for space increases, probably in six to 12 months, she said.

Increased volume of patients could drive medical tenants to not only MOBs, but even retail spaces that could accommodate a medical clinic or practice, added Julie Johnson, executive vice president with GPE.

"Our advice to tenants is to secure a good long-term lease at today’s market rates," Johnson added.

Health care real estate has felt the downturn in the capital markets, but not to the same degree as other sectors, said GPE executive Kathleen Morgan. "Even in this market, there are physicians that receive financing for tenant improvements, hospitals expanding and medical buildings developed." Planned hospital expansions and medical facilities that were put on hold will likely move forward as implementation of the health care bill unfolds.

Trammell Crow's Jacobs' said now may be good window for investors to sell, not because of the health care overhaul but because there is plenty of equity capital chasing high-quality MOBs right now.

Meanwhile, tenants should evaluate the likely impact of the legislation on their individual practices.

"Make sure you are comfortable with the terms before signing a long-term lease commitment. If you can

demonstrate a quantifiable hardship resulting from the legislation, this information might be a good lease negotiating position," Jacobs said.

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Regulators Calling for Tougher CRE Lending Guidance
監管機構推廣更加嚴謹的商業地產貸款準則

By Mark Heschmeyer (CoStar)

U.S. banking regulators continued their drumbeat of warnings this past week concerning commercial real estate loan concentrations. This time it was Comptroller of the Currency John C. Dugan speaking in Orlando before the Independent Community Bankers of America National Convention.

Dugan told the bankers that conditions have proved bankers opposition to stricter commercial real estate loan guidance issued in 2006 were unwarranted and, in fact, have proved not to have been rigorous enough.

"Given what we know, I think we need to revisit the issue of the appropriate regulatory response to CRE lending concentrations, especially for construction and development lending, and especially for concentrations supported by non-core funding," Dugan said. "While the concentration guidance we issued in 2006 was necessary - even though it was opposed by many parts of the industry - in retrospect, it has obviously not worked as well as we would have liked."

"In fact, we have tried very hard to get ahead of the commercial real estate aspect of this crisis through a series of communications to examiners and bankers beginning in 2005 and extending into this year," he said. "While we were criticized early on as being unduly stringent relative to other regulators, we frankly have heard far less of that type of complaint recently - which we see as evidence of the consistency of our expectations."

"Given the surge in losses, problem banks, failures, and costs to the deposit insurance fund - costs that will have to be borne by healthy banks for a very long time - I don't think the status quo is acceptable," Dugan said. "We need to take action, after thoughtful and careful study, to reduce the exposure of the industry and the insurance fund, to such large losses - before the next downturn comes, as it surely will."

The comptroller said that experience from the late 1980s and the early 1990s, and from the current period showed that significant concentrations in CRE lending leaves banks vulnerable to an economic downturn - "and the higher the concentration, the more vulnerable the bank."

While a healthy economy will mask problems with poor underwriting for a while, Dugan said, a rapid buildup of commercial real estate loans is likely to overwhelm risk management controls, and some concentrations are so large that even the most sophisticated control systems cannot protect the bank from a serious economic downturn.

"We know that banks that build concentrations in CRE are more likely to rely on noncore and/or high interest funding," he said. "And we know that significant CRE concentrations in economic downturns can lead to an increase in problem banks, an increase in bank failures, loss of jobs, loss of incomes, loss to communities, loss to the deposit insurance fund, and higher costs for all banks, even those that do not have CRE concentrations."

Dugan said policymakers should consider a range of options such as harder limits, increased capital requirements, a more granular approach to defining concentrations (since not all CRE is the same), minimum underwriting standards, more stringent requirements for concentrations supported by substantial amounts of non-core funding, or some combination of the above.

Noting that newly-chartered institutions are overrepresented among bank failures, Dugan said consideration should be given to minimum federal standards for all newly chartered depository institutions, with a particular focus on business plans that call for significant CRE concentrations or reliance on non-core deposits for extended

periods.

However, Dugan also warned that regulators should exercise care in moving ahead during the current economic environment.

"We should not do any of this in haste, or in ways that would exacerbate the current problems of distressed banks," he said. "Any course of action would have to be carefully phased in taking into account the current activities of all banks."

The comptroller said that while the vast majority of community banks are sound problem banks represented almost 9% of all insured depository institutions at the end of 2009. Since the start of the crisis, 195 banks, nearly all of them community banks, have failed, and projected failures this year are expected to exceed the 145 that were closed last year.

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Bank Launches Big Plan to Cut Mortgage Debt
美國銀行將為出了問題的貸款人降低欠款數

By JAMES R. HAGERTY and NICK TIMIRAOS (The Wall Street Journal: Business)

Under pressure by Massachusetts prosecutors, Bank of America Corp. said Wednesday it would reduce mortgage-loan balances as much as 30% for thousands of troubled borrowers, in what could presage a wider government effort to encourage banks to offer debt reduction to ease the mortgage crisis.

The plan is one of the boldest moves yet to address the plight of millions of U.S. homeowners who are "under water," owing more on their homes than they're worth. It could make it easier for the Obama administration to move in a similar direction with its existing loan-modification program, although senior government officials and many bankers remain very wary of offering to cut loan balances as the main way of helping distressed borrowers.

So far, most modifications, including those under the government-subsidized Home Affordable Modification Program, involve reducing interest rates. Some also extend terms to 40 years, to shrink monthly payments.

But banks are finding that some borrowers aren't willing to keep making even reduced payments, believing they have little hope of ever having equity in their homes and might be better off renting, and perhaps buying a less-expensive home later.

"Severely under-water homeowners are reluctant to accept a solution that does not offer some reduction in principal," said Barbara Desoer, president of Bank of America Home Loans. "The whole purpose of the program is to get more customers to return phone calls" and make payments for trial modifications so workouts can be made permanent, she added.

The Obama administration is discussing with banks how to adjust its existing loan-modification program to encourage forgiveness of principal, people familiar with the matter say. An official declined to discuss such efforts but said the administration was encouraged by Bank of America's initiative, calling it "consistent with our own housing policy principles."

Howard Glaser, a housing-industry consultant, said, "The fact that private institutions are moving in this direction makes it more palatable for the Obama administration to face criticism from homeowners who think there's unfairness" in reducing principal for only some people.

The action by Bank of America is notable because it is the largest mortgage servicer, collecting loan payments on one of every five home loans in the U.S. At the end of last year, 14.76% of them were at least 30 days past due or in foreclosure, versus an industry average of 12.31%, according to Inside Mortgage Finance.

Some housing advocates were skeptical. Kevin Stein, associate director of the California Reinvestment Coalition, which works on access to credit, said "Everyone, including us, is looking for something positive to point to, but we are concerned this is going to be more P.R. than substance."

The bank's program is limited to Countrywide borrowers whose loan balance is at least 120% of the estimated home value, who are at least 60 days overdue, and who can show that financial hardship makes them unable to meet current payments. The bank estimated that 45,000 customers will qualify for principal reductions averaging more than $60,000.

Only the riskiest loans will be eligible. They include subprime loans; "option adjustable-rate" mortgages entailing minimal payments now but big increases later; and certain loans that have a fixed rate for two years and then adjust annually.

The bank's move is part of an agreement to settle claims over certain high-risk loans made by Countrywide Financial, which the bank acquired in mid-2008. The Massachusetts Attorney General's office, which was negotiating with the bank, said it was prepared to file suit had the agreement not included principal reductions.

Other banks have selectively reduced balances on certain loans. Wells Fargo & Co. said it modified loans for 52,600 borrowers with "option-ARM" loans last year, totaling $2.6 billion in principal write-downs.

Citigroup Inc. reduces principal on a case-by-case basis after other options to address affordability are exhausted, a spokesman said.

Banks and policy makers have long worried that reducing loan balances for some could spur others to default in hopes of a similar deal. Bank of America said it believed it would limit that risk by requiring borrowers to "earn" the lower balances in stages over five years by keeping up on their new, lowered payments. After the third year, the bank could halt principal forgiveness if home values have stabilized enough to provide borrowers with equity.

Last fall, Bank of America slashed more than $200,000 in principal on an option-ARM that Precy Padua used in 2007 to buy a nearly $1 million four-bedroom home in Fairfield, Calif. That modification, which stemmed from a 2008 multi-state Countrywide settlement, lowered her principal balance to $635,000 and provided a 5.5% fixed rate over 40 years.

Ms. Padua said she had stopped making her payments in late 2008, even though the loan wasn't set to adjust to higher payments for years, because the home's value had fallen to around half of the $850,000 she owed.

"We made a mistake," said Ms. Padua, a 61-year-old clinical lab technician. The lower principal balance is a "big help," she said, even though her monthly payments have increased by nearly 40% from the initial low teaser payments, to $3,275. She estimates her home is still under water by $100,000.

Bank of America has come under fire for not doing enough to rework troubled loans. Through February, it had 240,550 borrowers—or 24% of potentially eligible homeowners—in trial or permanent modifications, according to the Treasury Department, lower than most competitors. The bank had completed modifications for 20,666 borrowers, with 22,303 pending.

A bank spokesman said the government's numbers don't accurately reflect the firm's performance.

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Latest Residential Loan Rates [Slightly Higher than Last week]
最新住宅地產貸款利率【略高於上週】

	Interest Rate	APR
Conforming and FHA Loans		
• 30-Year Fixed	5.000%	5.191%
• 30-Year Fixed FHA	5.125%	5.850%
• 15-Year Fixed	4.250%	4.573%
• 5-Year ARM	3.875%	3.564%
• 5-Year ARM FHA	3.750%	3.342%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	5.250%	5.390%
• 30-Year Fixed FHA	5.250%	5.924%
• 5-Year ARM	4.125%	3.606%
Jumbo Loans – Amounts that exceed conforming loan limits		
• 30-Year Fixed	5.500%	5.643%
• 5-Year ARM	4.875%	3.883%