FINAL TRANSCRIPT

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SFI - Q2 2008 iStar Financial Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to iStar Financial's Second Quarter 2008 Earnings Conference Call. [Operator Instructions]. As a reminder, today's conference is being recorded.

At this time, for opening remarks and introductions, I would like to turn the conference over to iStar Financial's Senior Vice President of Investor Relations and Marketing, Mr. Andrew Backman. Please go ahead, sir.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Thank you, Beverly, and good morning to everybody. Thank you for joining us today to review iStar Financial's second quarter earnings report. With me today are Jay Sugarman, Chairman and Chief Executive Officer; Jay Nydick, our President; and Katy Rice, our Chief Financial Officer

This morning's call is being webcast on our website at istarfinancial.com in the Investor Relations section. There will be a replay of the call beginning at 12:30PM Eastern Time today. The dial-in for the replay is 1-800-475-6701 with a confirmation code of 952998.

Before I turn the call over to Jay, I would like to remind everyone that statements in this earnings call which are not historical facts may be deemed forward-looking statements. Factors that could cause actual results to differ materially from iStar Financial's expectations are detailed in our SEC report.

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Now, I would like to turn the call over to iStar's Chairman and CEO, Jay Sugarman. Jay?

Jay Sugarman - *iStar Financial - Chairman and CEO*

Thanks, Andy. I want to focus on four main topics today and provide the metrics we think are most important, as we think about our business going forward amid what is obviously a difficult and challenging market.

The market turns for this call is clearly more pessimistic than during our first quarter call, when post Bears Sterns optimism was evident in our and other credit markets. The real and psychological impact of the near failure in Fannie Mae and Freddie Mac late in the second quarter dealt a damaging blow to market confidence, and we have to reassess our own portfolio in that light.

Resulting impacts are significant and we'll require a period of transition before we can signal an all clear sign.

However, we think it's important for investors to evaluate these changes in the context of the overall iStar business. And during this call, we'll seek to provide the context and metrics we are using to evaluate our own business and portfolio under current market conditions.

Let me start by going through a snapshot of value for the Company. Let's start with current book value of approximately $17 per share. But to add back the reserves and asset discounts from the Fremont portfolio of $550 million or just over $4 per share, let's also add back the depreciation on the CTL portfolio of the sale leaseback portfolio of another $460 million or a little less than $4 a share.

And lastly, let's add outstanding liabilities at indicated market prices, which adds another $2.3 billion of value or $17 per share. And adding all those together, the snapshot value before credit losses is approximately $42 per share.

Now let's subtract the $554 million of reserves and discounts we do expect to use to cover credit losses, taking that number down by $4 per share. Let's subtract the mark-to-market losses on corporate and bank loan portfolio of approximately $135 million or $1 per share. All told that puts us at $37 per share before unreserved or unexpected future credit losses.

Obviously, that is all as of today. And the market has just suffered a serious shock on top of an already difficult credit environment. And we don't yet know the full impact this might have on our portfolio over the coming quarters but we would not be surprised to see total additional reserves through the end of the year in the $300 million to $400 million range.

Now, factoring in these rough estimates for potential reserve addition, we need to subtract another $3 per share, leaving a net economic book value today of approximately $34 per share for the firm. I start there only to put in context the range of loss outcomes we believe are possible, if current market conditions remain difficult and to highlight the apparent valuation gap that appears to exist today of our current trading levels, even if market conditions were to worsen somewhat.

Let me turn to credit and show you where some of the values that factor into the above analysis come from. Again for context, let's break the portfolio down, this time into credit tenant lease assets, Fremont assets, core iStar assets, and NPL and watchlist iStar assets.

On the credit tenant lease side, the $3.2 billion portfolio is approximately 95% leased for an average of 12 years, and generates approximately $320 million of income per year. Current book value there is net of $460 million of historical depreciation and while we think there are many assets that have appreciated in values since the time of our acquisition many years ago, we assume on a portfolio basis they are just worth original costs, taking the CTL book up to $3.7 billion.

On the Fremont assets, we started with a portfolio of $6.3 billion of senior mortgages and $3.7 billion of forward commitments. Today, the portfolio is $4.6 billion of outstanding senior mortgages with $1.2 billion of forward commitment. That $4.6 billion

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is split between the $1.9 billion Fremont A note, if you remember, is that LIBOR plus 150 with no floor and no maturity, and $2.7 billion funded by iStar.

Approximately, $3.3 billion in pay-offs have been received and net realized losses to date have been approximately $27 million.

As you remember, we bought the portfolio, the Fremont portfolio, at a discount and expect it to recover $300 million less than face value in our base case. Subtracting the $27 million, we've already realized from the original $300 million loss bucket, these $273 million of remaining losses that we had underwritten as a given when we closed.

Through June 30th, we have specifically reserved or charged off $206 million on these assets that we have either foreclosed or closed on, or determined recovery would be less than par, but have not yet fully realized, leaving $67 million of expected losses that we've not yet identified, but were fully baked in under our original underwriting.

Now, look, while the credit cycle will ultimately determine the timing and size of any additional loss provision, we believe the potential exists for $100 million to $200 million of unidentified losses over and above the original $300 million we priced into original underwriting, given the obviously challenging current market conditions.

So just to recap Fremont to date, $10 billion portfolio bought with an expectation of $300 million of losses baked in; 40% of the portfolio has gone away from $4 billion of repays and commitment reduction; realized losses in that first 40%, which included the $3.3 billion in repays has been $27 million. In the $6 billion remaining portfolio, we have identified and reserved or charged off $206 million of losses, leaving $67 million of remaining unidentified loss cushion from our original $300 million loss bucket.

And based on the potential fallout from the recent negative market events, making the assumption that there will be an added $100 million to $200 million of additional reserves over the next several quarters would bring the total aggregate loss bucket to $400 million to $500 million versus the $300 million originally expected.

Let's turn to the iStar core asset portfolio. We currently have $6.5 billion of assets in our loan book risk-rated in the one, two, and three category. Losses in this portfolio had been minimal and are expected to be very small, even in this tough environment. Importantly, the average maturity, in that portfolio is under three years.

And lastly, let's talk about the iStar NPL and watchlist portfolio. The NPL list for iStar assets is currently $650 million. Watch list for iStar assets is $1.1 billion. Many of these assets were higher yielding higher beta type assets with average coupon rates across all the NPL and watchlist assets in that LIBOR plus 600 to 800 range -- well above the core iStar asset coupon.

As we mentioned in our earnings calls beginning in 2006, we did move away from zero loss tolerance in a portion of our portfolio to capture higher coupon, higher risk return profile opportunities. And while we have had sizeable gains in some of our non-core investments, including almost $350 million realized in the first two quarters of this year, those gains have been offset by a similar amount of specific charges and other reserves against many of the higher coupon assets. In light of the difficult current conditions, again, we would not be surprised to see potential future reserves increase $100 million to $200 million for these types of assets thorough the end of the year.

Let me be clear. We are extremely disappointed with the losses we have seen and the potential losses that could show up in this part of the portfolio. And we are working hard to minimize them. But the latest sharp downturn has clearly pressured this part of the portfolio beyond our earlier expectations.

So the combination of higher potential losses on Fremont and the higher risk-rated portfolio at iStar will create most of the assumed variance in earnings for 2008, and should begin to dissipate in 2009.

Let me now turn to capital. As we reported earlier, we've increased capital availability to approximately $1.4 billion at the end of the second quarter from under $1 billion in the first quarter. As Katy will walk you through the sources and uses projection,

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our goal is to fully fund the business model, with no need to tap the debt or equity markets through the end of 2009 when we expect normal capital flows to move to a large surplus position.

That fully funded position does not assume any asset sales or NPL resolution through year end. But given we continue to realize solid prices for the assets we have sold and hold approximately $14 billion of unencumbered assets concentrated in credit tenant lease and first mortgage position, we think that creates an added layer of flexibility if funding needs were to change from current expectations.

On the other hand, NPL resolutions continue to be slower than we had hoped and recycling that capital into earning assets remains the key goal for 2009. And we can talk more about asset resolutions after Katy walks through the numbers in more detail.

Let me turn it over to Katy.

Katy Rice - *iStar Financial - CFO*

Thanks, Jay and good morning, everyone. There are a number of topics I want to cover this morning, particularly after reading some of the research reports and other industry publications that have raised a number of questions about iStar. We hope to clear up some of the misinformation and erroneous assumptions in some of these reports that have unfortunately filtered through the market and have misrepresented the facts about the Company.

First, let me run through the results for the quarter and then turn to some of these topics which will include credit, liquidity, covenants and the dividend.

Before we dig in, I want to remind everyone that the numbers we discussed on our pre-earnings conference call two weeks ago were preliminary, and that some of the results we discuss today are slightly different and reflect the final closing of our second quarter book. However, none of the changes are material.

Okay, let's start with the results for the second quarter. On an adjusted earnings basis, we reported a loss of $196 million or $1.46 per diluted common share. As we announced when we pre-released our earnings estimates two weeks ago, the main drivers of this quarter's loss were the increased loan loss provisions we took following our risk ratings meetings, several non-cash mark-to-market impairments associated with poor credits in our portfolio, as well as the write-off of certain goodwill and intangibles.

However, if you include the $308 million realized gains we had on asset sales that closed during the quarter, adjusted earnings were $106 million or $0.79 per diluted common share.

Net investment income for the quarter was $156 million, up 28% from the second quarter of 2007. Year-over-year increase was due to growth in the overall loan portfolio, which was primarily due to the addition of the Fremont assets, as well as the amortization of $17 million of Fremont loan purchase discount, recognized in the quarter.

During the quarter, we funded a total of $981 million, under new and preexistingt commitments and received $1.2 billion in gross principal repayments. Of the $1.2 billion, approximately $480 million was utilized to pay down the A participation interest in the Fremont portfolio and $700 million was retained by iStar.

The principal balance of the Fremont A participation interest at the end of the second quarter was $1.9 billion, down from $2.4 billion last quarter. As you know, 70% of all principal repayments from the Fremont portfolio go to reduce the A participation until it is paid off. After that, iStar will retain 100% of all principal receipts.

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We currently expect Fremont A participation to be fully paid off in the middle of 2009.

Including the $308 million of realized gains this quarter, adjusted return on equity was 18.3%. We are including gains for discussion purposes as implicit in our original underwriting assumptions, some of these assets that we sold this quarter were the expectations for low ROE in the first few years of the investment, followed by increasing cash flows and valuation of the properties. By adding back the gain, we believe adjusted return on equity more accurately reflects our performance for this quarter.

Our net finance margin for the quarter excluding the amortization of the Fremont loan purchase discount was 2.75%. And I should note that this metric is being negatively impacted by loans on non-performing status. At the end of the quarter, our equity represented 24% of our total capitalization. And our leverage, defined as debt to equity plus accumulated depreciation in loan loss reserve, was 3.2 times versus 3.5 times at the end of the first quarter.

As we've said, we expect to see slight variations in quarter-over-quarter leverage, but we don't anticipate leverage increasing materially from these levels. In fact, we would expect leverage to decrease at 2009, as we receive asset repayments in excess of our funding requirements.

Let me turn to the portfolio and credit quality. At the end of the second quarter, our total portfolio on a managed basis was just under $18 billion. This is comprised of $13.2 billion of loans, $3.7 billion of diverse corporate tenant lease assets and about $700 million of other investments. 90% of our portfolio is first mortgages, senior loans, and high quality corporate tenant lease assets. The average loan to value on our portfolio was approximately 74.5% at the end of the quarter.

At the end of the second quarter, we saw an increase in loans on NPL status. Specifically, 39 assets representing $1.3 billion or 10.5% of total gross loan value were on the NPL list at the end of the second quarter. This compares to 30 assets representing $1.1 billion or 8% of total gross loan value last quarter.

As a reminder, gross loans value represents iStar's book value plus the A participation interests in the associated assets.

Let me first review with you the iStar NPL portfolio. Approximately half of the Company's NPLs or $657 million are iStar legacy loans. They are comprised of 13 loans ranging in size from 4 -- $200 million, 91% or $600 million of iStar's NPLs are first mortgage or senior loans, with only 9% or $57 million being mezzanine or junior loans.

It's important to recognize that being in the senior position gives us more control and the ability to recover maximum principal during the work out process.

Seven loans representing $450 million or 68% of the iStar NPLs are related to land. Included in this amount was the previously discussed $200 million first mortgage, on a Midtown Manhattan parcel of land. We continue to expect to recover all of our principal and all of our accrued interest on this asset.

Four loans representing 20% of iStar NPLs are secured by mixed used projects, which include some combination of retail, office, entertainment, and hotel assets. These loans range in size from $18 million to $43 million. And finally, about 10% of the iStar NPLs are secured by retail property.

Geographically, 30% of the iStar NPLs are located in New York, 30% in California, 20% in Florida, 3% in Las Vegas with the balance in various other locations around the country.

Let me turn to the Fremont NPL. Approximately $680 million of our total NPLs were Fremont-related. They're comprised of 26 loans ranging from $1 million to $139 million. 100% of these loans are first mortgages. As we've discussed, the majority or 51% of the Fremont NPLs are condo conversion projects, 20% are condo construction, 20% are land-related and 8% are secured by other collateral types.

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Geographically, 40% of the Fremont NPLs are located in Florida, 40% in California, 10% in Hawaii, 3% in Las Vegas and the balance are in various other locations.

We expect the Company's total NPLs to increase over the coming quarters as we continue through a very difficult credit cycle. We believe that many of our borrowers will continue to have difficulty refinancing or selling their projects in order to repay us in a timely manner.

In addition, real estate loans often take longer to resolve than other types of financial assets. However, they tend to have higher recovery rates. For example, banks and finance companies that are experiencing larger default levels on credit card or other consumer debt typically charge off the expected loss 90 days after the customer defaults. They then sell the obligation to collection agencies for pennies on the dollar.

Our resolution process is much longer. But having hard assets as collateral increases recovery rates. Our NPLs are typically resolved by several means. We can foreclose and sell the assets, we can sell our note, or we can enter into a restructuring discussion with our borrower, if the asset value and/or cash flow are strong or if he has the means to continue to support the projects.

At the end of the second quarter, 12 assets on our NPL lists were in foreclosure. The foreclose process varies from state to state and can take anywhere from three to 18 months. Although it takes time, we have a very strong asset management infrastructure. And in most cases, we expect to recover a high percentage of our book basis.

During the second quarter, we took title to three properties, all of which were previously on NPL status, and had an aggregate gross loan value of $75 million. This resulted in a $10 million charge against our allowance for loan loss reserves.

Additionally, we sold two assets during the quarter that were previously classified as REO, for total net proceeds of $81 million at a slight gain to book value. At the end of the second quarter we had eight assets on REO status with the book value of approximately $270 million.

While our asset management team is working diligently to resolve our REO and NPL assets, we believe that over the coming quarters, new additions to the list will outweigh the number of assets we are able to resolve. This trend will most likely reverse in 2009 as assets resolved should begin to outnumber assets added to the NPL list.

As most of you know, during our quarterly risk ratings process, we review each of the assets in our portfolio, not only do we risk rate each asset on a scale of 1 to 5 but we also review any loans that become NPL in the quarter for impairment. And we also develop our watchlist.

As part of this process, we established specific reserve for any loans that we believe are impaired. Impairment arises if we don't believe that we will be able to resolve the assets such that we are able to collect all of our principal and interest.

We also use the results of our numerical risk ratings to establish our general reserves for the quarter. Like most financial institutions, our general reserves are based on a loss given default probability model, which takes into account the increase or decrease in risk in the portfolio.

At quarter end, we also review our held to maturity security for impairment. This quarter, based on the continued deterioration of the market and economic outlook and the results of our risk rating review, we determined that it was prudent to establish larger specific and general reserves than we had originally forecasted. Should the severity of current market conditions and the longevity of this credit cycle continue to impact our borrowers, we will need to add to our reserves in future quarters.

I'll review our current assumptions with respect to additional reserves in a moment, when we walk through our earning guidance.

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During the second quarter, we increased general reserves by $60 million and took asset-specific reserves or impairments of $217 million. In addition, we recorded $45 million of non-cash mark-to-market impairment, primarily in our corporate loan and debt portfolio. And we wrote off approximately $52 million of goodwill and intangibles, primarily associated with the Fremont acquisition.

At the end of the quarter, total loss coverage, which includes $460 million on balance sheet reserve and $94 million of discount remaining from the Fremont acquisition, was $554 million.

Total loss coverage was 4.3%, total gross assets value and 20% of total non-performing loan and watchlist assets combined. While we did see substantial increases in our loan loss provision and asset impairments this quarter, we also recognized significant gains in the quarter.

In addition to the previously announced sale of our TimberStar Southwest joint venture, we also completed the sale of our Northeastern Timber assets and a group of assets from our AutoStar CTL portfolio, as well as a few smaller CTL assets. All of these sales generated gains, which in aggregate totaled approximately $308 million to the quarter.

Now let's review our sources and uses of funds for the remainder of this year as we see it today. As you know, we've raised approximately $2.9 billion over the past seven months through secured and unsecured financing and select asset sales. At the end of the quarter, we had $1.4 billion of cash and credit facility availability. We expect to receive approximately $1 billion in asset repayments during the third and fourth quarters, net of the A participation paydowns, bringing our total sources for the reminder of 2008 to $2.4 billion.

For the same period, we expect our funding obligations including the $50 million August bond maturity to total $1.7 billion. Furthermore, we expect to resolve certain NPL assets and complete the sale of additional REO assets in the balance of the year.

As a reminder, we have almost $14 billion of unencumbered assets. As those of you who cover us know, each year we selectively prune assets on the CTL side. We do not include any proceeds from these sales in the $2.4 billion of sources I just laid out.

As you can see, we expect to have at least $700 million of liquidity at year end. As a result, we do not expect to raise additional debt or equity cap in the capital markets this year.

Now looking at 2009, we expect to continue to build even more liquidity throughout the year, as our funding obligations diminish and the A participation interest is retired during the first half of the year. We currently expect approximately $5 billion of repayments in 2009, net of proceeds to repay the balance of A participation.

Our uses for 2009 total approximately $2.7 billion, which includes approximately $1.2 billion of unfunded commitments, $1.1 billion of unsecured debt maturities, and approximately $435 million of secured debt maturity. Assuming no new originations, we would expect to end 2009 with over $2.5 billion of liquidity.

The result is that we do not expect that we will need to raise any debt or equity in 2008 or 2009; and we would do so only on an opportunistic basis should we see the opportunity to invest new capital at attractive returns.

Now many people ask us what our comfort level is with our asset maturities in 2009, given the difficult market conditions many of our borrowers are facing. And while almost everything is difficult to predict these days, if you reduce the expectations for 2009 repayment by 50%, we should still be in a net positive position for 2009.

Let's spend a few minutes on our covenants. First, as we mentioned on our call two weeks ago, we are currently in compliance with all of our bank and bond covenants. We've had a number of questions regarding our covenants recently, particularly in light of recent ratings downgrades by Moody's and Fitch which, as many of you know, made the covenants in our bond operative.

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As a reminder, the covenants in our primary bank facilities have always been operative. And the recent rating agency actions have no impact on these facilities.

Let me walk you through how the covenants are calculated, as we've had a lot of questions and confusion on this point. Our bank and our bond covenants each have a fixed charge coverage ratio test of 1.5 times; and in unencumbered assets to unsecured debt are UAUD tests of 1.2 times.

The fixed charge coverage test in our bank line is a maintenance test, while in our bond covenant it's an incurrence test. The UAUD covenant in both the bank line and the bonds are maintenance tests.

So how is fixed charge coverage calculated? It's calculated slightly differently for the primary bank facilities and the bond covenants. First, they are both trailing 12-month numbers. In the bank line, gains on certain asset sales are included in the EBITDA calculation. We also add back non-cash items, including asset impairments and loan loss reserves. In the bond covenants, gains on asset sales are excluded from EBITDA. However, we do add back asset impairments and specific reserves.

So this quarter, the bond covenants were tighter than the bank covenants given the large gains we've recognized on our TimberStar Southwest asset sale which, as I mentioned, were included in EBITDA for the bank covenant but excluded in the bond covenant calculation.

So at quarter end, the fixed charge coverage ratio was 2.4 times for the bank covenant and 1.7 times for the bond covenant. Given the cushion we have in the bank covenant as we see it today, we expect to be in compliance with our bank fixed charge coverage ratio through the end of 2009, based on a number of different scenarios.

Given the smaller cushion on the bond covenants, we expect the fixed charge coverage ratio to be tight through 2009. The fixed charge coverage ratio in our bond covenant is an incurrence test, which means that if we were to breach the covenant in future quarters, we would not be able to incur additional debt. As we discussed earlier, based on our liquidity profile, we do not expect to raise additional debt or equity in 2008 for 2009.

Let me now turn to the other main covenant, which is the ratio of unencumbered assets to unsecured debt or UAUD. The UAUD calculation is similar in our bank and our bond covenant. It is simply the gross book value of the unencumbered assets on our balance sheet, divided by our total unsecured debt. This quarter, the covenant was 1.3 times. We expect this covenant to remain in the 1.3 time range in the coming quarters. This covenant is not particularly sensitive and is relatively easy for us to forecast to manage, as it is driven by our leverage level, and our secured debt levels, both of which we expect to remain flat through the end of this year.

Finally, let me conclude with our earnings and dividend guidance. Based on our current view of the markets, the increased level of reserves we took this quarter, and our forecasted provisioning levels in the next several quarters, in 2008, we expect an AEPF loss of $1.00 to $1.75 per diluted common share and a diluted GAAP loss of $0.25 to $1.25 per share.

As you know, we do not add back; we do not include gains on asset sales in AEPS. However, we do add back impairments to goodwill and intangibles, as these are non-cash charges.

This is well below our previous guidance range and takes into consideration our view that prevailing market conditions could continue for some time. Most recently, the continued deterioration and volatility in the financial markets which is, in part, being caused by the uncertainties surrounding Fannie Mae and Freddie Mac has negatively impacted our view of the business going forward.

As we discussed on our previous call, this also translated into higher reserves and forecasts this quarter. Our guidance for the full year 2008 assumes approximately $300 million to $400 million of additional reserves over the next two quarters. Obviously, we cannot precisely identify reserves until we review our assets and then prevailing market conditions each quarter.

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However, our earnings guidance assumes that there will be no improvement in market conditions and their impact on our borrowers for the remainder of 2008. However, we hope to see reversal of the trend of higher provisions in the first half of 2009.

On to the dividend. As most of you know, although this is sometimes the source of confusion particularly for those you who cover other financials, as a REIT, we're required to pay out 90% of our taxable income. In practice, it is our policy as it is for most REITs to pay out 100% of our taxable income. Because if you were to only pay out 90%, then the difference between the 90% and 100% payout is taxed at the corporate rate.

For REIT purposes, taxable income is an annual calculation and it is somewhat complex. The difference between GAAP and taxable income relate primarily to differences in the timing of when certain income and expenses are recognized. Given the various timing differences, GAAP and taxable income often diverge.

This year, because of the gains from the asset sales and the asset impairments and specific reserves, and the potential timing of their ultimate resolution, it is difficult to accurately forecast today what our taxable income will be for the rest of the year. While our Board has not yet declared any dividend for the third or fourth quarter, we currently estimate the third quarter dividend to be in the range of $0.30 to $0.40 per share.

The actual dividend will be determined by the Board at the end of the third quarter, based upon the latest information available and therefore, it is possible that the actual dividend will be different from this range. The fourth quarter dividend will be based upon the remaining amount necessary to distribute 100% taxable income for the year.

Before I turn it back to Jay, as we mentioned in the press release we issued this morning, our Board of Directors has approved a $50 million common stock repurchase program.

And with that, let me turn it back to Jay.

Jay Sugarman - *iStar Financial - Chairman and CEO*

Thanks, Katy. I know you and we are disappointed at the pace of the asset resolution as both optically and financially resolving non-earning assets have very positive impact on earnings, dividends and credit metrics. We have worked through several assets as Katy said, resolving them in a variety of fashions including foreclosing and selling the fee interest, selling notes outright, settling with borrowers after all good faith effort have been exhausted, and selling them as (inaudible) lenders who have taken over assets.

The only common theme has been the significant time it takes to work through the assets. In the case of condo conversion foreclosures, even after getting title, we generally seek to stabilize the asset occupancies at 90% or more for 90 days, to make them eligible for Fannie Mae financing and maximize the recovery. This creates longer timeframe than we would like, and we are looking for ways to shorten the process while still making thoughtful economic decisions.

We have a strong team in the field working these assets, and we'd hope to see an increased number of resolutions towards the end of the year, and certainly in the next year.

So let me just summarize our focus. In the second quarter, we wanted to make sure the business plan was fully funded, we wanted to make sure the bank covenants were in good shape, we wanted to methodically work the portfolio at a harvest gains and minimize losses, we want to be realistic about the impact that what happened at the end of the second quarter as we think about the future, and we're just going to sit here and wait out the storm and continue to try to maximize value for all our shareholders.

With that, we'll open it for questions.

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QUESTIONS AND ANSWERS

Operator

Thank you. [Operator Instructions]. Don Fandetti. Please go ahead.

Don Fandetti - *Citigroup - Analyst*

Jay, I think I heard that Katy was saying the forecast assumes things don't get better in '08, but slightly improve in '09. Doesn't it seem a little optimistic just given what you've seen over the last 30 days and the changes you've made to your outlook?

Katy Rice - *iStar Financial - CFO*

Yeah, I think, Don, let me just quickly jump in, I don't think that our earnings guidance -- obviously we are not giving 2009 guidance. We don't do that until later in the year. But I think our thought process is that things will remain bad as they are now for the foreseeable future.

I think what you're keying off of is the dynamic within our own portfolio in terms of resolution of assets, and then the turn in 2009 that will be accompanied by a decrease in unfunded commitment and a very significant increase in asset repays. So, the overall macro view is bad.

I think we have a dynamic in our own portfolio based on our asset maturities that I think is positive.

Don Fandetti - *Citigroup - Analyst*

But wouldn't it be fair to assume that it looks like things are definitely going to stay bad, but looks like they are going to get worse. So, I am trying to just get a sense on have you built in an assumption in your mind, in your expectations for a deteriorating market beyond what we are seeing today?

Jay Sugarman - *iStar Financial - Chairman and CEO*

I guess my -- the way I've been characterizing is we've seen the shock; we have not yet seen the aftershock. There is definitely the potential for unintended consequences from I think, frankly, the psychological impact, watching the pillars of our financial community continue to be undercut. And I think that's why our pessimism probably does take into account a lot of the negative viewpoints we see out there.

Yes, I guess the question really, Don, is how bad can it be? I think watching Fannie and Freddie really have their viability challenged on the front page for weeks at a time scared us. That's probably not something we ever factored into our thought process, we watch their stocks go from $25 to $5 in a matter of days.

That really shook a lot of the pieces of the puzzle I think as we think about the forward period. And it will take time to heal that.

I do believe on the other hand that Fed has very strongly signaled it's going to try to keep rates in a range that allows that recovery, but certainly providing the liquidity to the street to try to give them time to heal. We've seen the government really make housing a top priority. I think that gives at least some comfort that we are not going into a period where there is no functioning mortgage market in this country.

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And I think that was particularly one of our fears. I will tell you if that actually happens, thing could set worse. We are still anticipating a very difficult, very restrained, but still functioning mortgage market; primarily driven by Fannie and Freddie with perhaps in 2009 some of the stronger banks are stepping back into the fray in a meaningful way.

But right now, we don't see that and we were quite concerned that if Fannie and Freddie stop writing new business, yes, the environment could get materially worse in a way that is particularly impactful to us. And I think we are trying to be realistic; we're trying to choose assumptions that do take into consideration very tough times.

But they do not take into account this shutdown of the mortgage market in the United States.

Don Fandetti - *Citigroup - Analyst*

How would you describe the commercial real estate finance market as effectively shut today?

Jay Sugarman - *iStar Financial - Chairman and CEO*

No, I would not. We continue to see deals take place as you heard from Katy's numbers. There are lot of repays taking place. We continue to see assets that generate cash flow continue to have a -- access to capital in some cases, at prices that we kind of scratch our head. But given the quality of the assets, there are still players both in the life company world and in the commercial bank world, not necessary just domestic but also overseas banks that are still writing loans and now, today, significantly depressed level.

And I think anybody you talk to in our industry is going to tell you velocity, volumes, transaction flows way down.

But that doesn't mean there is none. And we see it in our own portfolio everyday people coming in and saying, "You're repaid." And we ask them "Where'd you get the money?" And they tell us, and we look at the pricing and we look at the LTVs and we look at the recourse provisions, we look at the debt service coverage and we go there's still a market for high quality assets generating cash flow. There's still money for high quality sponsors willing to provide recourse.

And so, I don't think we're sitting here with a draconian view that the residential market has no realistic way to function. The commercial mortgage market has no realistic way to function.

We do believe that volumes are dramatically reduced, only transactions that really can afford to be refinanced will be refinanced.

So we've taken that into account as we think about repayments and as we think about what borrowers can realistically do. And again I think we are somewhat more thoughtful about the risk profile of Fannie and Freddie than certainly we were three months ago.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Thanks, Don. Beverly, next question please.

Operator

John Guarnera with Banc of America Securities.

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John Guarnera - *Banc of America Securities - Analyst*

Yes. Good morning, Jay; good morning, Katy. Quick question for you guys. Jay, in the past you have talked about that the investment grade rating was sacrosanct to you. And with two of the agencies right now at BAA3 and BBB- and on negative outlook.

Can you talk a little bit about how this may impact your strategy going forward? And how we should think about that?

Jay Sugarman - *iStar Financial - Chairman and CEO*

Let me just give my own viewpoint on this. We have built a very strong balance sheet. We continue to believe, relative to others in the finance sector, this is a very strong balance sheet. It includes significant asset diversification, high quality assets that have proven themselves to be extremely liquid.

Fundamentally, we look at the -- I think Katy quoted the number 24% equity capital ratio against the portfolio that's 90% first mortgages and credit tenant lease fields.

And from our own standpoint, clearly, it has taken us 10 years because we are relatively different than most finance companies. To get to investment grade, we believe that is where this firm will always run. We have some work to do with the agencies, obviously, the downturn in the commercial real state market does give them pause.

And we've got some own issues on our portfolio, we are going to work through. But I think when we think about the capital strength of our balance sheet, the portfolio strength of our balance sheet, we fully expect to be able to walk into the agencies at some point and say, "Relative to everything else we see you rate, this Company has a very strong balance sheet and should be a solid investment grade company."

But I can't fault them right now for looking at the world environment and saying, "Gee, we are a little bit nervous." And so, I think our view is we still want to work with them on the metrics they follow. We have very strong views on what is fair, relative to the rest of the finance world, and we will continue to work with them on those issues.

But right now, job one for us is to take care of our own issues and be able to walk in there with a clean, all clear signal and say, "Now, let's look at ourselves compared to others. What's a fair relative rating, we think that will be a solid investment grade."

John Guarnera - *Banc of America Securities - Analyst*

Okay, thanks.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Okay. Thanks, John. Beverly, our next question, please.

Operator

Thank you. The next question comes from Tayo Okusanya. Please go ahead.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Hi, are you there?

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Operator

Tayo, your line is open.

Omotayo Okusanya - *UBS - Analyst*

Hello.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Hi. Tayo, is that you?

Omotayo Okusanya - *UBS - Analyst*

Yes, it is. Good morning, everyone. Thanks for giving a lot more detail on the call today. It is very, very helpful.

Couple of questions. The $5 billion in maturities next year, what assumptions are you making in regards to total loans that are actually maturing and the portion of them that either go NPL or where you may end up having loan extensions to get to that $5 billion number?

Katy Rice - *iStar Financial - CFO*

Yes, Tayo, that's a good question. Obviously, as we've talked about on a number of calls in last couple quarters, probably the most difficult number for us to project and predict in an accurate way has been our loan repayments. I think over the last quarter or so, we have done a better job internally of scrubbing those numbers and being a lot more realistic with respect to where our borrowers are on each transaction.

So I think right now, we have pretty good visibility for the next couple of quarters. Obviously, as you get into 2009, and time goes on, while well we are continuing to expect a difficult environment for our borrowers, time creates less certainty for all things.

So we have absolutely scrubbed the 2009 numbers. But again, looking at loans that are maybe coming due in October-November of 2009, you don't have great visibility.

I think what gives us comfort and what I mentioned earlier on in my remarks, is that even if you assume only 50% of those repays we're still in a net positive liquidity position.

Jay Sugarman - *iStar Financial - Chairman and CEO*

The only thing we can really help you with is to give you the statistics from the last quarter, which is really reflective in my mind, of how good are we at predicting. So on March 31st, when we finalize risk ratings in first quarter, we looked at every single asset, how many dollars are going out the door on funding and how many dollars are coming back on repays.

And for the quarter -- and again this is the only dataset we can show you right now since we instituted the new process, to do extremely granular analysis -- we had $1.91 billion of projected fundings, we actually funded $909 million so $181 million less funding than we expected. We had $1.261 billion projected repays. We got $1.189 billion repaid, so small variant there.

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Total positive cash flow for the quarter, relative to projections was $109 million. So, I think our people are trying to make reasonable assumptions as Katy said.

As you look out three months, six months you have a higher confidence level. 2009's going to be tricky but every quarter we'll continue to have a pretty solid view of the near term window. And as Katy said, we think that cushion in '09 is sufficiently large, based on generically where we think repays will be that even as we tighten those numbers up in the range of strength, and people get a little more closer to "Hey, can I really get repaid on this?", we think there is a very, very large cushion.

Again, we are not anticipating assets sales in '09. We are not anticipating large scale NPL resolutions.

In terms of liquidity, we think those will be used for new transaction flow but, certainly, as we think about the safety net, i.e., the liquidity cushion in '09 we feel quite good. And as I mentioned by the end of '09, we think there is quite a large capital surplus. And we'll start thinking about that kind of midway through 2009, what's the best way to deploy that?

Omotayo Okusanya - *UBS - Analyst*

Got it. In regards to the loan maturities and as well as the debt maturities, just when you kind of look at timing wise '09, how the loans are maturing versus how your debt is maturing, do you kind of feel comfortable with the timing issues related to that that you can... ? That there won't be any problems?

Katy Rice - *iStar Financial - CFO*

Yes, the loan maturities or the debt maturities that we have are, are kind of sprinkled through the year. There are a few in the first quarter, and a few in the third quarter. So yes, and I think the refunding, I mean, the repays are relatively flat through the year, they build a little bit towards the end of the year.

But yes. The timing, the timing seems okay to us right now.

Omotayo Okusanya - *UBS - Analyst*

Great. Last question, in regards to when you look at the portfolio right now, any -- in regards to potential write-downs, you kind of seen any more risks going forward. The reason I ask is, for example, with WCI putting out news recently that they were defaulting on their debt covenants.

As more of that kind of news starts to show up, are you guys concerned at all that you may end up with any more potential write-down?

Jay Sugarman - *iStar Financial - Chairman and CEO*

I think that's reflective of the increase reserves positions we are talking about. It's unfortunate and we're incredibly unhappy about reducing the dividend and having to reduce it. But we are making reasonable assumptions about some of the issues that WSI, other companies are going to have going forward.

It's just no two ways around it. The market has been shocked.

And a second wave that I think is even more psychologically damaged than the first shock, which watching Bear Sterns was a very difficult process, for the market to absorb, it absorbed it. We actually saw, what I would describe as a relief rally in the credit markets shortly thereafter.

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I keep watching, really, Fannie, Freddie -- the entire financial guarantor industry, and many of our largest and strongest investment banks, really struggle through this period. It's going to set back a recovery. And we need to be reflective about, we need to be as candid as we can be, given the assumptions we are making about what we are going to be able to absorb. And we think additional reserves are likely going to be needed, given that shock.

Omotayo Okusanya - *UBS - Analyst*

Great, again thanks for being really candid on the call and providing all this information, it's very helpful.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Thanks, Tayo. Beverly, next question please?

Operator

Thank you. Ee Lin with Credit Suisse. Please go ahead.

Ee Lin - *Credit Suisse - Analyst*

Hi, good morning. Three questions. The first is, what dollar amounts of loans do you have interest reserves? And the reason I asked that is we are worried that these loans are currently characterized as performing loans but when the interest reserves run out, they may become NPL.

And the second question is, is your goal to charge off most of the NPLs by the end of the year so that you can actually reduce taxable income?

The third question is, is it your goal to potentially say 'no' to under discretionary maturities which have extension options so that you can preserve capital? And how do you balance that saying 'no' to a loan extending and having it become NPL versus saying 'yes' and funding more commitments, but so that you don't become NPL? Thank you.

Jay Sugarman - *iStar Financial - Chairman and CEO*

Let me help on the first one and I think Katy can pick up on the second and third one. Many of the loans in a construction book have interest reserve that typically you fund it up front. There's enough equity and enough debt in whether you want to consider the equity of the interest reserve or the debt the interest reserve doesn't really matter, it's fungible money. You need to fully capitalize the entire capital structure through completion and often times beyond completion, depending on the product type.

Our view is what we use the watchlist for, certainly, is that highlight things that may look like they are performing, but we clearly see evaluation issue. If in fact we don't think something is recoverable, then we actually start specific charging it, so those interest income numbers disappear.

And I think, as we have said, one of the impacts on the P&L right now that is most disturbing is we've got a lot of dead money. And resolving those assets as we move out into 2009 is an important discussions.

I will tell you we have not been afraid when a borrower is not performing or is not doing the right thing to foreclose on them, call it an NPL and go, we know we can capture this value if it is in our hand. We have seen it in our own resolutions, to five, six, seven assets, we have actually taken title to and work through and really put our team on it.

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The recoveries have been quite high. I think we have seen other situations where we've let borrowers who have not enough stake in the game, run out their option and candidly that is rarely worked very well for us. So we are taking a pretty conservative view even if there is ongoing interest reserves covering a deal we think is going to be a problem, we are not sort of blindly going, "Okay well, we've two more quarters of interest reserve, let's not worry about it."

It's either going watchlist or it's gone NPL and we're actually taking a charge. There are projects that have relatively long interest reserve in place because of the nature of the assets, some of those are still well out in the horizon. But our eyes are clearly focused on, "Okay, what is going to happen out there on the horizon and how clear do we believe those value proposition is?"

I think at this point, the portfolio is reasonably well scrubbed, and I can tell you every single deal we've caught, that is going to have a problem when the interest reserve really does run out, but, boy, we have taken specific charges against lots of deals that look like they are still performing. And actually have a quite realistic chance of recovering.

We've actually taken those charges now and said in the future we're likely to be taking more. Katy, you want to --)

Katy Rice - *iStar Financial - CFO*

Yes, I think Jay sort of touched on your second question which was sort of the NPL charge-off. But let me just walk you through and make sure you understand this is a process.

Obviously we go through risk rating, and we review each asset in the portfolio. During the quarter, certain loans might mature and become NPLs, they might become 90 days delinquent and become NPL. At the end of the quarter, we assess all of the new NPLs, and the existing NPLs for impairment.

So we then, if we have an impairment, we take a specific reserve against that asset. And that specific reserve typically is an amount that will allow us to capture the market value of the property. We don't charge off the reserve until we actually take the asset back through REO or sell the asset say if we sold the note and resolved the particular situation.

So you can't really just accelerate charge-offs until you either gain control of the assets through the REO process or sell the note and resolve the asset.

Ee Lin - *Credit Suisse - Analyst*

Right. But because provisions don't reduce taxable income, is it your goal to then sell off the asset rather than wait for it to be REO so that you can charge off those amounts to reduce taxable income so that you don't have to pay as high a dividend?

Katy Rice - *iStar Financial - CFO*

Oh yes, taxable income. I'm sorry, maybe -- I am not trying to... I am not answering your question. Yes, specific reserves, many of them, not all but many of them, do reduce taxable income, particularly those that we can forecast reasonably well. So those do reduce taxable income for REIT purposes.

Ee Lin - *Credit Suisse - Analyst*

Even though it's just a provision and it's not charged off yet?

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Katy Rice - *iStar Financial - CFO*

Yes, again if we believe we have a very good view of what that specific reserve really will be for the asset.

Ee Lin - *Credit Suisse - Analyst*

Okay.

Katy Rice - *iStar Financial - CFO*

And the third question you asked about discretionary funding going forward?

Ee Lin - *Credit Suisse - Analyst*

Yes.

Katy Rice - *iStar Financial - CFO*

We don't have too many discretionary fundings. Most of our construction-related funding as long as the borrower is in compliance with the loan documents -- including having adequate interest reserve based on the original transaction pro forma -- we will fund the loan.

Jay Sugarman - *iStar Financial - Chairman and CEO*

I think you are asking something slightly different, which is, you have an extension right, it's at our discretion, they may have missed a milestone that requires them to be met before they get an extension, would we take that NPL? Really it takes into account the real estate and the sponsorship, for good sponsors who are doing the right thing who are putting more money up, who are giving us additional collateral, we are absolutely positively willing to work with them rather than throw it on NPL and try to make some line in the sand.

However, borrowers who are not performing or who show, no willing to perform or frankly are at the end of the rope and can't perform, we think we recover more money when we take title for the assets as a very large institution with 40 million square feet of real estate that we own and operate every day. We can make better decisions perhaps than someone who is undercapitalized or just doesn't have the manpower.

So, I guess the answer is like almost everything in our book, we try to understand their very detailed scenario of the asset, the sponsor, the market and make a thoughtful decision. And we have certainly extended to borrowers we have not met that provision, when they've done the right thing by us; and for others who simply haven't met the milestones and clearly have no ability to really perform, it probably makes more sense for us to say, "Sorry, you haven't met your milestone, you have a hard maturity. If you can't pay us and you are not willing to work something out with us, we are going to have to foreclose."

It is certainly never our preference, but we've done it. And as Katy said, we continue to see an ability to take things in, write them down appropriately, sell them back out. And so far we are recovering close to what we think is fair value.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Okay, thanks. Beverly, next question, please.

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Operator

Thank you. David Fick with Stifel Nicolaus.

David Fick - *Stifel Nicolaus - Analyst*

Yes. One point of clarity on the covenants; the bond incurrence test, how does that affect your ability to draw the unsecured line balance or does it?

Katy Rice - *iStar Financial - CFO*

Yes, the bond covenants as we mentioned are incurrence tests and to the extent we are not in compliance with the fixed charge covered ratio or the UAUD, we would not be able to incur additional debt on the bank line.

David Fick - *Stifel Nicolaus - Analyst*

Okay. And that would affect your liquidity I assume and you've planned for that in your outline of capital sources and uses?

Katy Rice - *iStar Financial - CFO*

Yes, I mean, I think in the near term we expect to be in compliance, but we certainly are planning for that in the future.

David Fick - *Stifel Nicolaus - Analyst*

Okay. Can you enumerate your land loans in a bit more detail beyond just the one you have in midtown?

Katy Rice - *iStar Financial - CFO*

Yes. We have about $2.3 billion of loans associated or with collateral as lands, about 15% of the total portfolio. I'd say, they are spread across the country, they're not highly concentrated in certain geographic regions.

As we mentioned, the majority of those are performing. We do have some on the NPL and watchlist and these are assets that we are watching very, very carefully right now because of the economic downturn and the impact that it has on land valuation.

David Fick - *Stifel Nicolaus - Analyst*

How much reserves do you have against land loan in total at this point?

Katy Rice - *iStar Financial - CFO*

I don't know if I have that breakdown for you. I could probably get it, but I don't have it off the top of my head here.

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David Fick - *Stifel Nicolaus - Analyst*

All right. Your LTV spiked 5% from 69.5% to 74.5% this quarter. Was that simply your assessment, internal assessment of underlying value and where do you expect that to go?

Katy Rice - *iStar Financial - CFO*

Yes, at the quarterly risk rating meeting, we do assess value on each asset. We are not quick to move things up or down because I don't think real estate is -- it's a relatively slow-moving animal.

But obviously in today's environment, both from a credit perspective, from an ability for borrowers to leverage properties, and from just a transaction flow, all things would point to decreases in value really across the board. There is very little transaction volume as we have mentioned. So to really come up with V in the LTV and point to hard comparables in today's market is difficult.

But our asset management team is geographically spread throughout the country, they are in their local markets and do understand, get things to trading where they are trading. So, I think they have a good view, but as good a view as you can have today, but clearly, we do think values are declining somewhat sort of across the board.

David Fick - *Stifel Nicolaus - Analyst*

Okay. And then my last question relates to the dividend. I know you've got a lot of moving pieces and it's very hard for you to estimate at this point. But if we simply look at the potential for a $0.30 dividend in the third quarter, you'll have paid $2.14 year-to-date, and the high end of your EPS estimates are now a negative $0.25. I realize there is a substantial spread to what cash flow income is, but I'm a bit confused about why you would pay any dividend going forward, given that you do have the ability to move dividends between years.

And you have got some ability to manage beyond the 100% standard payout, and given that you think '09 could be worse and, I would assume potentially negative earnings next year also, why not simply preserve all the capital?

Katy Rice - *iStar Financial - CFO*

Yes, I think right now, as we mentioned it is probably too early in the year to predict where we're going to be with taxable income on December 31st. As I mentioned, there are a lot of timing differences between GAAP and taxable income. And I agree with your assessment, it's -- the fourth quarter dividend will effectively be used to deliver a 100% taxable income to maintain REIT status but certainly no more.

David Fick - *Stifel Nicolaus - Analyst*

It could very well be zero?

Katy Rice - *iStar Financial - CFO*

It could be zero, it could be... we've had a lot of gains in the portfolio this year which are good taxable REIT income. So I don't mean to be -- we are not being coy, we are not being -- it's just there are a lot of moving pieces and there are much larger moving pieces this year? And we don't want to give you estimates that -- you know, that don't make sense. But really, just not going to know that until frankly the fourth quarter.

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David Fick - *Stifel Nicolaus - Analyst*

Great, thank you.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Thank you, David. Beverly, do we have time for one last question, please?

Operator

Thank you. Michael Dimler with UBS. Please go ahead.

Michael Dimler - *UBS - Analyst*

I think I heard you say that you -- on the NPLs that have gone to recovery so far, you have been getting pretty much close to where you reserved recovery value. And I think that's in the 80% to 90% range.

I guess going forward in the NPLs and watchlist assets, how have your expectations changed from end of last year to present, given the market conditions that you've seen?

Jay Sugarman - *iStar Financial - Chairman and CEO*

I guess a couple of things. One, certainly in the condo conversion portfolio, the reason those are generally hitting our numbers is they are just multi-family properties. In some cases, they are nicely upgraded multi-family properties, still a pretty fluid market for well occupied, well leased, in many cases now fully remodeled or a quite nice physical product.

So, the recovery there, the predictions have generally been pretty much spot on. I think in some of the other asset classes, we have definitely -- trying to peg the market where we think fair value is. Again, we are unlikely as a large owner of real estates and due to stressed sales we have huge infrastructure inside this Company to run managed assets.

And we think like owners, and if we do have to take control of an asset we are going to think about it just like an owner would and try to figure out when is the appropriate time, what's the right business model, who is the right local partner to work with? Those all factors as we think about resolutions.

The biggest delta in my mind right now that we can point to is recourse has been much harder to collect on than we otherwise thought it would be. And I think part of that is, the capitalization of a lot of our sponsors, which looked very healthy a year or two ago, is not only under digressed in all particular situations, but they are likely to have multiple other assets having the some problem.

And all of a sudden, the liquidity profile, the recourse profile has turned down. We have large claims against those folks and it's really a question of how many of them we think are, ultimately, collectible. And we are going to have to chase them to get it, some people have done the right thing and just paid it up. Some people we worked out a structure where they can use other assets, to backstop it. But that's been a little bit, we've seen that in past cycles, we are certainly seeing it now, which is relatively healthy borrowers with tough liquidity situations making recourse difficult to collect on.

And that's changed our recovery views on a couple of material assets where recourse was a key component of the original underwriting.

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We continue to try to work with borrowers in a -- we'll treat you like we want be treated and have frankly been disappointed that some people have not stepped to their obligation, and we'll continue to work on those. I think the assets that have not yet got to resolution where we do have some higher betas around the recoveries, again, we are just trying to make thoughtful asset management decisions.

And I think selling some of these things right now is not the appropriate decision and we, if it's good real estate we have no reasons to sell something immediately at a very bad price. But if we have better alternation uses of the capital, we will clearly trade out of a troubled asset that requires a lot of attention into things that are new and fresh and more solid from a risk-adjusted return standpoint.

So, really every decision, it comes down to where can we use the money best. If it's reinvesting in the existing asset, we'll do that. If it's taking whatever we can get from that asset and going elsewhere, we'll do that.

It's just taking a heck of a lot of time, and you can sense our frustration, we know from all of you, you're frustrated and that's really one of the keys for 2009 is to be able to step up the pace and move the things off. So that the things that do move on, we can handle with full resources of the firm and make the same thoughtful decisions.

Michael Dimler - *UBS - Analyst*

And my second question is, in terms of the downgrade, have you seen any impact on your ability to attract new business? I realize you are not in a growth mode at this point, but I was just wondering if there is any impact on the marginal borrowers from your downgrade?

Jay Sugarman - *iStar Financial - Chairman and CEO*

Look, I think there has obviously been a lot of concern, we were in a two-week period where there was obviously some new and not particularly favorable information out there. I think we felt quite comfortable that the large unexpected gains in the portfolio and some of the new charges somewhat washed themselves.

But we've taken a hard look at the portfolio. I think we hoped on this call to give people real solid facts to work from and I think in terms of our customer base, we have actually heard a lot of support from people saying, "You guys have always done what you have said and been straight with us." And I think we are hoping that sort of sentiment exist throughout the marketplace.

Andrew Backman - *iStar Financial - SVP - IR and Marketing*

Great, thanks Michael. Thanks, Jay, and thanks, Katy. That's all the family have for today. Thank you everybody for joining us this morning. If you should have any additional questions on today's earnings release, as always please feel free to call me directly here in New York.

Beverly, would you please give the conference call replay instructions once again? Thank you.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 12:30PM Eastern Time today and running through August 14th, at midnight. You may access the replay service by dialing 1-800-475-6701 and using the access code 952998. Once again, that number is 1-800-475-6701, using the access code 952998.

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That does conclude our conference for today. Thank you for your participation and for using AT&T's Executive Teleconference Service. You may now disconnect.

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