

CharterMac Corp. Rated 'BB'; Outlook Stable

Rationale

On July 13, 2006, Standard & Poor's Rating Services assigned it's 'BB' long-term counterparty credit rating to CharterMac Corp. (CharterMac). The outlook is stable. We also assigned a bank loan rating of 'BB' to CharterMac's senior secured bank loan and revolving bank facility.

The ratings on New York City-based CharterMac are based on the firm's strong market position in financing affordable housing projects, and favorable track record of excellent asset quality and geographic diversification. Offsetting factors include the firm's concentration in multifamily real estate lending and its profitability, which is somewhat low relative to that of other finance companies. The firm is also exposed to rising interest rates, but this results less from an asset-liability mismatch and more from the vagaries of commercial real estate markets.

CharterMac, with assets of \$3.6 billion (adjusted for FIN46 consolidation) at March 31, 2006, is a full-service real estate finance company. CharterMac is a diversified holding company, and through its subsidiaries is involved in the following cluster of businesses:

- Portfolio investing;
- Fund management;
- Mortgage banking; and more recently
- CMBS & CDO investments with a focus on fundamental analysis and primary & special servicing.

CharterMac has positioned its activities so that it can bring together complex elements needed to structure and finance tax-advantaged multifamily real estate deals. We believe the combinations of services provided by CharterMac have provided competitive mobility barriers that have protected the

Credit Rating:
BB/Stable/—

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firm's margins. In addition, the tax-exempt and tax-credit slice of the larger multifamily market should be somewhat protected from the effects of any downturn in the larger commercial real estate market.

Nevertheless, CharterMac's investments are concentrated in real estate and we believe that while real estate operating fundamentals, including the multifamily subsector, have strengthened and are generally healthy, asset pricing remains vulnerable to correction as interest and capitalization rates rise. In addition CharterMac's suite of products and services has been assembled through a series of recent acquisitions that entail operational risk. The firm's most recently announced acquisition of ARCap Investors LLC, will on the one hand open up a broader customer base of both developers and fund investors. On the other hand, the acquisition will move the company away from the core activities (around tax exempt and tax credit investing) that have eased competitive pressure. We will monitor CharterMac's performance in new investment arenas and its ability to integrate ARCap's excellent servicing capabilities and best-in-class information technology.

Outlook

The stable outlook is driven by the firm's strong strategic position and excellent track record with respect to asset quality. We will monitor CharterMac's leverage, its performance in new investment arenas, and its ability to integrate acquisitions. Over time, the outlook could improve if management is able to limit or reduce the firm's leverage, maintain strong asset quality, and establish a good earnings track record.

Ratings List

Ratings Assigned

CharterMac Corp.	
Counterparty credit rating	BB/Stable/—
\$350 million senior secured-term loan	BB
\$150 million senior secured revolver	BB

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