

Rating Action: **CharterMac**

MOODY'S ASSIGNS FIRST TIME Ba3 SENIOR RATING TO CHARTERMAC; OUTLOOK IS STABLE

\$500 Million in Securities Affected.

New York, July 14, 2006 -- Moody's Investors Service assigned a rating of Ba3 to the \$500 million CharterMac guaranteed senior credit facility which the company is issuing to acquire ARCap Investors, LLC, a private real estate finance company specializing in high yield CMBS. In addition, Moody's has assigned CharterMac a corporate family rating of Ba3. The outlook is stable. The credit facility consists of a three-year \$150 million revolver and a six-year \$350 million term loan. According to the ratings agency, the firm's investor client concentrations and investments in riskier assets are attenuated by its affordable housing franchise. ARCap will provide CharterMac an industry-leading servicing platform as well as greater diversification of product offerings and asset classes. This represents the first time Moody's has assigned a rating to CharterMac.

Moody's sees strength in CharterMac's long and successful track record in providing financing to real estate developers and owners with a historical core focus on affordable housing through its three main business lines: qualified tax-exempt lending, tax credit equity and mortgage banking services. The ARCap transaction is the latest in a series of acquisitions in which CharterMac is seeking to grow and diversify the means by which it serves both its investors and borrowers, a credit positive. Furthermore, CharterMac sees greater stability in moving its business focus from direct investing towards fund management, a view shared by Moody's. ARCap enjoys a reputation among the best in the servicing industry, which should enhance CharterMac's franchise. Finally, the firm has demonstrated sufficient alternative liquidity to fund its business while sustaining very low credit loss.

Conversely, Moody's sees the tax credit business--while today politically popular and part of the tax code--as subject to legislative risk. CharterMac's businesses are also significantly dependent upon Fannie Mae and Freddie Mac, as both are significant investors in the firm's tax credit funds, as well as drivers of its mortgage banking business. Additionally, most of the investments made by CharterMac and its affiliates, including ARCap, are non-investment grade or non-rated real estate loans, which engenders asset quality concerns. Finally, given the recent number of acquisitions, integration risk is present.

The stable outlook is based on Moody's expectations that CharterMac will maintain its market share in affordable housing finance while growing its credit enhancement, pension advisory and mortgage banking businesses without any deterioration in asset quality as evidenced by higher credit losses. A successful integration of ARCap and prior acquisitions is also anticipated.

A higher rating would be considered should CharterMac strengthen its balance sheet by reducing leverage below 55% and increase coverage above 3X, in addition to growing its liquid assets to above 80% of total assets. In the absence of meaningful shifts in the balance sheet, rating improvements would depend on successful execution of the ARCap acquisition and integration of the two business platforms, the combined firm's continued success and growth in its franchise businesses of tax-exempt lending, tax credit equity, mortgage banking, as well as subordinate CMBS investing and servicing. In addition, meaningful growth in the areas of credit enhancement and pension advisory would also create positive ratings momentum.

The ratings agency would expect to take negative ratings action should leverage increase above 75% or coverage decline below 2X. Weakening franchise in the affordable housing sphere or sustained credit losses in excess of 25 basis points of the portfolio over a one year period would also point to a downgrade.

The following ratings were assigned with a stable outlook:

CharterMac -- Corporate Family Rating and Guaranteed Senior Unsecured Credit Facility, Ba3.

CharterMac (NYSE: CHC) is based in New York City, New York, USA. Through its subsidiaries, CharterMac is one of the nation's leading full-service real estate finance companies, with a strong core focus on the multifamily industry. CharterMac offers capital solutions to developers and owners of multifamily and commercial real estate throughout the country and quality investment products to institutional and retail investors.

ARCap Investors, LLC, based in Irving, Texas, USA is a private REIT and an industry-leading investor in high

yield Commercial Mortgage Backed Securities. ARCap manages over \$2.3 billion face value CMBS rated BBB- and lower, owned directly and through a family of funds. ARCap also acts as Special Servicer for each of the transactions in which it invests, currently servicing almost \$48 billion of mortgages throughout the United States.

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