

ADVISOR

Winter 2014

DebtX Launching Completely Redesigned Syndication Platform

Before the end of the year, DebtX will launch a powerful new version of its syndication platform to help syndication professionals better manage deal flow.

“DXSyndicate® has been redesigned from the ground up to meet the increasingly complex needs of today’s syndicators,” said Geoff Ricks, Managing Director. “This is the most complete overhaul of DXSyndicate since our initial launch in 2005. It is now, without question, the market’s most advanced and robust syndication platform.”

The new web-based syndication platform features a completely redesigned interface, tighter integration with email and calendar applications and deeper market-specific functionality. The platform was re-vamped to maximize data mining and analysis opportunities. Reporting, storage and data retrieval create opportunities to mine data aggregated in DXSyndicate.

Key Features

Like earlier versions of DXSyndicate, the new platform is designed to empower geographically distributed syndication teams to plan, manage and monitor multiple transactions.

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Record Number of Sellers at DebtX in 2013

Nearly fifty percent more sellers have used DebtX to sell loans in 2013 as compared to any other year. The total number of unique sellers at DebtX increased from 67 to 99 over the past year.

Smaller financial institutions are accelerating the sale of troubled loans to focus more on growth and investors are buying loans elsewhere then selling those loans through DebtX at a profit.

“Three years ago, the FDIC was the dominant seller of distressed loans,” said Bill Looney, President, U.S. Loan Sales. “Then the focus shifted to the largest 25 banks. The big institutions have worked through most of their NPAs; now regional and community banks are starting to do the same. This a very positive development because community banks are such important drivers of local economic activity.”

“Similarly, resellers are coming to DebtX because they’ve been wholly unsuccessful at maximizing price elsewhere,” Looney said. “These resellers tell us that other platforms simply don’t generate enough bids. As smart arbitragers, they are now purchasing elsewhere with the intent of selling at DebtX at a higher price.”

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DebtX Selling \$5 Billion for HUD in Fourth Quarter



Building on the sale of more than \$7 billion in single family loans for HUD over the past year, DebtX has generated strong investor participation in HUD’s latest non-performing single family loan sale.

The SFLS 2014-1 loan sale includes approximately 29,000 loans totaling \$5.2 billion – the largest residential loan sale ever offered to the public.

“Investor demand remains strong for HUD loans,” said DebtX CEO Kingsley Greenland. “Investor participation has increased with each sale event and we expect investors will exhibit the same high level of demand on the upcoming bid dates.”

Placing Bids

The SFLS 2014-1 loan sale is divided into three parts.

A national/regional offering of approximately 24,000 loans totaling \$4.3 billion in unpaid principal balance (UPB) was split into two parts. DebtX took bids for Part 1, which included approximately 10,700 loans totaling \$1.7 billion, on October 30, 2013.

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DebtX Case Studies

Community bank sold \$12 million mixed performance CRE and residential loans

Seller Goals and Concerns: In early 2011, an investor group purchased a majority interest in a community bank. A primary goal of the new bank management was to grow the bank through M&A. However, since 2010, the bank had been under a cease and desist order from the Federal Reserve Board, restricting the company's ability to issue debt or make stock transactions. It was imperative for the new management to improve the bank's balance sheet and get the order lifted in order to pursue their strategy for growth.

To bring the ratio of classified assets to capital to a satisfactory level, bank management engaged DebtX to sell a pool of problem loans. The bank needed quick turnaround and certainty of execution at the highest possible price to satisfy the regulators and move forward.

Solutions and Outcomes: Through the use of its patented trading desk and a targeted marketing campaign, DebtX sold the loans quickly and successfully. All sales closed promptly and smoothly with prices exceeding the bank's expectation. Within a short period, the Federal Reserve Board terminated the cease and desist order. Within weeks, the bank announced the acquisition of an area bank, tripling the original size of the bank.

Aggressive loan sales were the final piece that allowed the bank to go from surviving under a cease and desist order to growing through acquisition. The stock price of the bank increased 25% between the time of the C&D order and the acquisition.

Public employee pension fund sold \$32 million performing and non-performing CRE

Seller Goals and Concerns: A public pension fund owned an "orphan" portfolio of CRE loans that no longer fit its strategic goals. This CRE portfolio consisted of twenty-six performing loans and one non-performing loan. The loans were secured by retail, office, industrial and multifamily properties. The fund was under pressure to sell all the loans, and could not risk holding just a handful of credits.

The seller received a direct bid for the portfolio at a price below par, leaving the fund with a need for fairness guidance. More bids were required to validate the current offer and confirm the fund would be achieving a fair market price. It was important to the fund that they receive the highest possible price and that the transaction be demonstrably fair.

Solutions and Outcomes: DebtX's review suggested the seller would obtain a significantly higher price through a comprehensive marketing effort. DebtX's sales effort would also bring a high level of transparency and fairness to the transaction. This allowed the pension fund greater comfort in reporting to its board and its overseers.

Buyer response and interest in the portfolio was overwhelming. Every single loan was sold and most sold at a premium. Ultimately, the seller got an auditable, independent transaction and delivered an extra \$4.5 million in proceeds to its beneficiaries.

Upcoming Loan Sales

\$32 Million
High quality, seasoned performing loans secured by first liens on owner and non-owner occupied CRE including medical office, office, industrial and retail properties. Collateral located in Northern and Southern California, New York, Texas, Florida and Illinois.
Bid: December 11, 2013

CLP\$ 39 Billion (USD \$78 Million)
Charge-off portfolio located in Chile, South America. Portfolio consist of consumer credit card accounts.
Indicative- November 18, 2013
Bid: December 12, 2013

\$2.1 Billion
Non-performing single family loans located across the United States
Bid: December 17, 2013

\$900 Million
Non-performing single family loans located in Atlanta, Baltimore/DC, CA, Indianapolis, Las Vegas
Bid: December 19, 2013

\$11 Million
Performing and scratch & dent C&I and CRE. Collateral types include multifamily, hospitality, retail, office, mobile homes and business assets located throughout the US
Bid: December 20, 2013



Innovation. Experience. Results.

How DebtX Handles an Accelerating Number of Transactions

Q&A with Dan O'Leary, Managing Director, Deal Management

Dan O'Leary makes sure DebtX hits on all cylinders for buyers and sellers. Leading a cross-functional team at DebtX, Dan has helped greatly expand the capacity of the DebtX marketplace.

How has the capacity of the platform changed in the past year?

We handle so much more volume today than we could have just 12 months ago. For our upcoming loan sales for HUD, we will be able to process over 30,000 residential loans. A year ago, we processed 10,000 loans. For buyers, they can look at each of the 30,000 loan files if they want. All of them are searchable and organized by loan pool. What we've achieved is an amazing engineering and processing feat.

What was the biggest stumbling block previously?

DebtX's technology engineers made huge strides in document conversion. Our streamlined process now expedites the uploading of millions of loan documents to the DebtX platform. As a result, deal preparation occurs much more quickly. We're working on 45 separate assignments right now, including HUD. We have no problem handling any of them because the DebtX platform has so much capacity.

Did you make any improvements to due diligence in the process?

Always. We retained the ease-of-use for investors conducting due diligence. Documents at DebtX are optical-coded, so they are easily searchable by keyword. Once you find a loan file, the documents are neatly organized in different folders. We'll have a folder for financial statements, title policy, the promissory note, and so on. We have up to 20 folders. Because each folder aggregates relevant information in a single place, it's convenient to find information. That's what investors tell us, too.

Why is due diligence such a focus at DebtX?

We believe that our job is to enable investors to conduct as much due diligence as they would like. We provide them with the opportunity to make a smart decision. That's why we focus on delivering timely and accurate information on behalf of sellers and have many professionals on staff with legal experience.

Is the platform more secure?

It's always been extremely secure. It's been stressed-tested repeatedly by the world's most sophisticated financial institutions. Our personnel policies are also very stringent and secure. All of our people are thoroughly vetted in accordance with an established hiring process. Every person is required to sign confidentiality agreements. If someone works on a DebtX sale for the FDIC, they have to be approved by the FDIC. We set and maintain a very high bar on all aspects of security.

For non-resi deals, how has greater capacity helped?

For commercial real estate deals, we can move faster now through a combination of better technology and additional staff. CRE deals typically require more hands-on preparation of the loan files than a large HUD transaction. We assign people with extensive experience with legal documents to help bring an offering to market. Many of them are lawyers or have law degrees. That level of expertise is a key reason for the quality of the due diligence experience at DebtX.

DebtX Launching Completely Redesigned Syndication Platform

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New features and functionality include:

- **Support for multiple browsers and mobile devices.** The platform supports all major browsers (Internet Explorer, Chrome, Safari and Firefox), all major mobile phone and tablet platforms (iOS, Android and Windows Phone) and traditional computers.
- **Deep email and calendar integration.** With a single click, users can easily import and export contacts using vCards with Outlook, Lotus or mobile devices. Bank meetings, amendments and other calendar invites are sent out via iCalendar and can be added to the invitees' calendars automatically. Emails are also automatically logged into the CRM component of the system.
- **Enhanced covenant and compliance tracking.** Upon closing of a deal, users can easily set up automated covenant and compliance event tracking. DXSyndicate then automatically notifies the responsible administrators and source contacts of upcoming deliverables. The agency team can track the status of all covenants across the entire portfolio.
- **Detailed fee and commitment tracking.** The platform now provides an overview of all lenders with fully integrated tracking by tier, title, commitment and fee. This enhancement enables syndication teams to abandon spreadsheets, aggregate deal data, and run detailed lender analyses. DXSyndicate's data mining capabilities help spot opportunities and increase profitability.
- **Direct drag and drop browser upload.** DebtX continues to innovate and simplify the document management process. With a simple drag-and-drop, users can upload multiple files and nested folders directly from a computer or network drive into the deal site.
- **Robust amendment voting.** DXSyndicate allows syndicators to invite lenders to review and vote on amendments via a calendar invitation. Users can easily set up a voting event, required voting percentage, invite appropriate parties and track indicative and executed votes with executed documents.
- **More powerful search capabilities.** Users can instantly search across deals, contacts, lenders and documents with Google-like ease. The platform performs searches faster and with greater precision.
- **Faster and simpler deal creation.** DXSyndicate is a significantly streamlined platform that allows users to create and launch deals in a matter of seconds.

For more information about DXSyndicate, contact Director William Huschle, whuschle@debtX.com, 617.531.3408.

Big Surge In Sales From Community Banks

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The single biggest source of transaction volume at DebtX remains M&A – institutions that acquired a portfolio and decided to sell loans that don't fit with their strategy for any number of reasons.

"Many smaller banks are trying to dispose of non-performing or poorly performing commercial real estate, residential, and C&I loans because they know that's the path to growth," Looney said. "Conversely, those that don't clean up their balance sheets become potential takeover targets. Banks with the healthiest balance sheets become the acquirers."

The influx of community banks and other smaller sellers is lowering the average size of the loan sale transactions at DebtX, bringing even more liquidity to the marketplace. Many of the community bank sellers are also buyers of loans from other institutions.

Many of the nation's largest banks, pension funds and investment banks continue to work with DebtX to actively manage their portfolios of both performing and non-performing loans.

With 7,000 smaller institutions across the U.S., it is likely that many more community banks will sell non-performing loans in the near-term.

Question the Competition

Several of DebtX's competitors have recently asserted that smaller loans, anything between \$500,000 to \$1 million, need to be pooled with other small loans to attract sufficient buyer interest.

"That's just plain false," said DebtX's David LeBlanc, Managing Director, Capital Markets. "If you are a community bank selling at DebtX, you can generate the same level of activity for smaller sales as you can for a larger offering. Local banks have no problem accessing regional, national and even international buyers. With the size and liquidity of the DebtX marketplace, there are buyers looking for all kinds of loans, including all sizes, types and loan durations, among other criteria."

When small banks are forced to pool loans, accounting and transparency problems occur immediately. It's difficult to determine the price of a single loan included in a pool. One seller's premium could be another's discount. The deal often winds up being deconstructed and collapses under the weight of intra-seller disagreements.

DebtX gives smaller institutions the ability to sell loans with face amounts of as little as \$500,000. DebtX's technology platform and streamlined process make possible the economics of a smaller sale.

"Community bank loan buyers often have an edge in understanding the local market because that is their exclusive focus," said DebtX's Ben Sabraw, Director, Loan Sales, "A growing number of community banks realize this advantage and are using DebtX to both buy and sell loans to round out their portfolios."

For more information about selling loans at DebtX contact, Bill Looney at wlooney@debtX.com

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Placing Bids

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DebtX will take bids on the remaining 13,600 national/regional loans totaling \$2.6 billion on December 17, 2013 in Part 2. These loans are secured by single family properties across the United States.

Part 3 is a Neighborhood Stabilization Outcome Pool (NSO) offering of approximately 4,300 loans totaling \$900 million in UPB. DebtX will take bids for this NSO offering on December 19, 2013. The NSO pools are secured by properties in Atlanta, Baltimore/ DC, California, Indianapolis, and Las Vegas.

All bids must be placed at www.debtX.com.

Not a "Tape Sale"

Investors have the ability to conduct full due diligence on each of the 29,000 loans online.

"This is not a tape sale," Greenland said. "DebtX has invested millions of dollars in its proprietary platform to support large scale transactions such as these. Loan files, servicing comments, payment histories, and third party reports for every loan are available and organized online to support an efficient investor due diligence process."

Since September 2012, DebtX has offered for HUD more than 47,000 non-performing, single family loans totaling \$7 billion in UPB. With the \$5 billion, 29,000 loans in this sale, DebtX will have completed the sale of 76,000 non-performing single family loans totaling \$12 billion for HUD alone.

For additional information, contact Mike Roth, 617.531.3424, mroth@debtX.com or email SFLS2014-1@debtX.com.

Upcoming Conferences

CREFC January Conference 2014
January 13-15, 2014
The Fontainebleau Hotel
Miami Beach, FL