



# The Loan Sale Advisor

Fall 2008

## Best Practices in Active Portfolio Management

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### Active Sales Schedule Sellers & Investors Turn To DebtX

DebtX is scheduled to sell more than \$1.5 billion in loans over the next eight weeks.

“Because of the liquidity at DebtX, a growing number of public and private sector entities are turning to DebtX to sell loans at attractive prices,” said DebtX CEO Kingsley Greenland. “We expect significant investor interest for all of the transactions throughout the remainder of the year.”

The major sales include the following:

- On November 10, DebtX sold \$147 million in Commercial Real Estate (CRE), Commercial & Industrial (C&I) and consumer loans originated by First Priority Bank of Bradenton, Florida.

- On November 19, DebtX sold the first tranche of \$518 million in non-performing Commercial Real Estate (CRE) loans in Michigan. Additional tranches of CRE loans will be offered between November 19 and mid-December. Due

**DEBTX IN MARKET WITH  
\$1.5 BILLION**

diligence materials are now available.

- On December 2, DebtX will sell \$245 million in acquisition, development and construction loans for a commercial bank in the Southwest. The loans were originated for residential sub-divisions throughout Southern California, with a concentration in Los Angeles, Riverside and San Bern-

### DXMark® Pricing \$875 Billion CRE Loans Each Month

DXMark®, the loan pricing service from DebtX, is now available to subscribers who have the BLOOMBERG PROFESSIONAL® service.

DXMark offers loan pricing on the underlying value of \$875 billion in CRE loans through Bloomberg. DebtX’s loan pricing data is aggregated from trades made at DebtX’s online marketplace. By making loan pricing widely

“In today’s volatile marketplace, it’s critical to understand current market values to make better buying and risk management decisions.”

available, DebtX is creating a new level of transparency for the Commercial Mortgage-Backed Securities (CMBS) market.

“Bloomberg and DebtX are delivering much needed transparency to the CMBS market by making loan pricing data widely available,” said DebtX Managing Director Karen Johnson.

“DXMark is the first objective tool to accurately estimate the collateral in a CMBS issue. With superior information, investors and risk managers can make materially better judgments about their CMBS portfolios and ultimately improve profitability.”

The integration of DXMark with the data and analytics on Bloomberg allows users to more

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# The Deal Book

Highlighted transactions recently completed by DebtX

**Seller:** Top 25 Bank

**Assets:** \$6.3 million in seasoned performing and sub-performing Commercial Real Estate (CRE) loans offered in three separate pools. The loans were secured by varied collateral which included a San Antonio, TX office building; real estate, medical equipment, vehicles and aircraft in North Carolina, and Pennsylvania; and retail and office buildings in Florida, Georgia and Pennsylvania.

**Marketing:** DebtX's marketing campaign consisted of 4,400 e-mails and 340 personal phone calls to buyers.

**Results:** A total of 173 investors completed summary due diligence on one or more of the assets. Twenty-one investors placed a total of 35 individual or combination bids. In aggregate, loans sold at a price that exceeded the Seller's reserve price by 34%.

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**Seller:** Government Agency

**Assets:** \$11.4 million offering in four separate pools. The pools included the following: \$3.4 million in non-performing loans in Minnesota, collateralized by real estate, business assets, consumer assets, farm land, equipment and vehicles; \$5.5 million in mixed performance loans located in Florida, collateralized mainly by residential and commercial real estate; \$2.1 million in sub-performing loans representing small participation interests in large real estate development projects across the country; and \$364,000 in non-performing loans located in Missouri and Kansas, collateralized by residential properties, a day care center and business assets.

**Marketing:** A broad marketing campaign was conducted targeting all investors who aggressively pursue these types of note purchases, including national banks,

**Seller:** Regional Bank

**Assets:** \$14.1 million in seasoned performing CRE offered in four separate pools. The loans were secured by a Southern California grocery store; a drug store in South Florida; a large, multifamily apartment complex in Southern California; and an office building on Long Island, New York.

**Marketing:** DebtX's marketing campaign consisted of 3,145 e-mails and 730 personal phone calls to buyers.

**Results:** Investor interest was exceptional. A total of 223 investors completed summary due diligence on one or more

regional and specialty banks that may or may not be familiar with buying loans. DebtX sent more than 3,700 e-mails and made 500 personal phone calls.

**Results:** Investor interest for these pools was very strong. A total of 458 investors completed initial due diligence,

211 investors completed summary due diligence and 144 completed full due diligence. Twenty-seven separate investors placed a total of 36 individual and combination bids. The pools sold at prices that exceeded the Seller's reserve price. 



# European Banks Embrace Loan Sales

Europe's major economies are starting to work through the credit crisis by selling Non-Performing Loans (NPLs) in the secondary market.

Lenders in each of the major countries are at different points in their utilization of loan sales, but a growing number are recognizing that selling NPLs is an important complement to traditional solutions such as protracted workouts.

"European bankers are more accustomed to originating and holding loans than U.S. bankers, but that is changing," said Gifford West, Managing Director and head of DebtX's European Operations. "In each of the major countries, loan sales have been effective in helping lenders deal with the increasing volume of troubled loans. DebtX is working with banks in many countries to plan, manage and execute loan sales that maximize price."

The German and Italian markets are the most advanced in using loan sales to dispose of NPLs. Germany has had an active secondary market since 2002-2003, when the hangover from of the reunification bubble resulted in 300 billion in secondary market loan sales being recognized. Having experienced the benefits once, German banks are comfortable utilizing NPL sales to reduce balance sheet risk and workout costs.

In Italy, the secondary loan market is equally active. The Italian banks regularly sell loans to manage credit quality. The systematic sale of NPLs in the secondary market is enabling Italian banks to maintain capital, credit quality and bank staffing. More than ever, Italian banks are looking to find a wider pool of buyers to ensure the best execution.

## SECONDARY MARKETS STILL DEVELOPING IN U.K., SPAIN

In contrast to Germany and Italy, Spain and the United Kingdom are just starting to embrace loan sales. Both countries are dealing with an unprecedented volume of problem loans stemming from the overbuilt commercial and residential real estate markets.

"Over the past decade, Spain and the U.K. have become used to unlimited, transparent liquidity," West said. "With the sudden disappearance of liquidity, both countries have gone into shock and are attempting to find new solutions such as loan sales to relieve the stress on the balance sheet."

In the U.K., the seizure in the credit markets has resulted in the failure of a number of banks, most notably Bradford & Bingley and Northern Rock. In this environment, U.K. banks are turning more

quickly to loan sales because strong steps are needed to manage rising NPLs.

In Spain, the secondary market is more tenuous. The glut of NPLs has driven down prices and institutions have become reluctant to sell debt. By waiting, however, lenders may be prolonging the problem.

"Selling loans in the secondary market in many instances is the most rapid and cost effective way to manage the problem and to resolve the cloud hanging over many of Europe's most venerable institutions," West said.

FOR MORE INFORMATION ABOUT DEBTX'S OPERATIONS IN EUROPE, CONTACT GIFFORD WEST, 617.531.3436, GWEST@DEBTX.COM. 

## Active Sales

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ardino counties. Due diligence materials will be available November 4.

- On December 2, DebtX will sell \$232 million in CRE, C&I and residential loans originated by The Columbian Bank & Trust of Topeka, Kansas. Due diligence materials are now available.

- On December 9, DebtX will sell \$100 million in primarily CRE loans from Integrity Bank of Alpharetta, Georgia, which was closed in August with FDIC named receiver. Also on December 9, DebtX will sell \$96 million of CRE loans originated by IndyMac Bank of Pasadena, California. Due diligence materials are now available.

- On December 18, DebtX will sell \$74 million of non-performing CRE loans that have been securitized for a national loan servicer. The eleven loans are secured by properties in the eastern U.S. Due diligence materials will be available in late November.

"Investor interest for loans at DebtX's marketplace has remained constant and that has accounted for the ongoing liquidity," Greenland said. "For institutions looking to strengthen their balance sheet, DebtX provides sellers with an opportunity to maximize loan sale proceeds. "Particularly in times of dislocation, DebtX offers financial institutions a highly effective option to manage their portfolios." 

## DebtX Offices

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## DebtX In Brief

### HUD Chooses DebtX, KEMA Advisors to Sell Loans

DebtX and KEMA, a boutique investment banking firm with offices in North Carolina and Washington D.C., have teamed up again to sell commercial real estate loans for the U.S.

Department of Housing and Urban Development under a joint venture called KDX Ventures (KDX).

In October, KDX signed a multi-year agreement with HUD to sell certain of the agency's multifamily and healthcare portfolio loans, which are primarily assigned to HUD after default by a borrower or co-insuring lender. The first sale under the agreement is expected to occur in early 2009.

"DebtX and KEMA are a proven team with complementary skill sets that will enable HUD to maximize recoveries from the sale of HUD-held loans," said DebtX CEO Kingsley Greenland. "We're pleased to work again with HUD to help the agency implement its loan sale strategy."

The contract is HUD's most recent engagement of DebtX and KEMA. In 2005, DebtX and KEMA collaborated to sell a loan portfolio totaling approximately \$300 million.

"The agreement between HUD and KDX enables the agency to obtain all valuation, due diligence, and loan sale services from a single and tightly integrated advisor," said KEMA President Kirk Michel. "This integrated approach, along with KEMA's local presence in Washington D.C., will enable KDX to efficiently and expeditiously sell loans within the scope of the agency's mission."

KDX Ventures was created under The U.S. Small Business Administration's (SBA) Mentor-Protégé program, which is designed to enhance the capability of 8(a) participants to compete more successfully for federal government contracts. The

## Upcoming Events

DebtX will attend the following conferences:

### **CMSA Investors Conference 2009**

January 12-14, 2009 Miami Beach, FL

### **MBA's CREF/Multifamily Housing Convention & Expo 2009**

February 8-11, 2009 San Diego, CA

program encourages private-sector relationships and expands SBA's efforts to identify and respond to the developmental needs of 8(a) clients.

"Kirk Michel and his team are excellent partners for DebtX, and we look forward to working with KEMA Advisors to help HUD realize its loan sale objectives over the next few years," Greenland said. ☒

## DXMark

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deeply analyze any or all of the individual loans in a CMBS issue.

Valuations of CRE loans are expressed as a percentage of par value of the loan pool and as a dollar value. For example, if the CMBS issue is based on \$500 million in CRE loans and the DXMark indicates the loans are worth 95% of par value, the valuation of the loan pool would be \$475 million.

"In today's volatile marketplace, it's critical to understand current market values to make better buying and risk management decisions," Johnson said. "DXMark is the best tool available today to achieve that objective."

FOR MORE INFORMATION DXMARK, CONTACT KAREN JOHNSON, 617.531.3432, [KJOHNSON@DEBTX.COM](mailto:KJOHNSON@DEBTX.COM). ☒