

FDIC Sells \$1.2Bln of Commercial Mortgages in 2Q



WEDNESDAY, 29 JULY 2009

Commercial Real Estate Direct Staff Report

The FDIC sold \$1.2 billion of commercial mortgages during the second quarter in 171 transactions, recovering \$650 million, or nearly 55 percent of the loans' principal balance.

Since instituting its whole-loan sales program late last year, the agency has recovered 48.4 cents on the dollar for loans with a balance of \$2.7 billion. It has sold those loans to a total of 147 investors in 417 transactions.

During the latest quarter, according to FDIC data compiled by *Commercial Real Estate Direct*, the agency recovered \$507.6 million, or 61.3 percent of principal balance for performing loans.

It recovered \$91.8 million from the \$213.4 million of loans that it had classified as nonperformers. And mixed-quality or subperforming loans sold for a total of \$50.5 million, or 34.5 percent of balance. A total of 66 investors bought loans through the agency's whole-loan sales program.

As should be expected, a handful of investors have been dominant buyers.

During the second quarter, Beal Bank, which was a very active buyer of distressed loans during the RTC era, was by far the most-active investor, paying \$206.16 million, or 61.14 percent of balance for 774 loans in 49 transactions. The bulk of its acquisitions involved loans from the failed Franklin Bank, a Houston institution that was seized last November.

Colony Capital, meanwhile, was second-most active among investors during the second quarter. It acquired 212 loans, with a principal balance of \$178.96 million, through 23 transactions. All were from Bank of Clark County of Vancouver, Wash., and Haven Trust Bank of Duluth, Ga.

Most Active Investors in FDIC Loans 2Q2009			
Investor	Balance \$mln	Price \$mln	% of Face
LNV Corp. (Beal Bank)	337.22	206.16	61.14
Matrix Advisors (Colony Capital)	178.96	120.73	67.46
FH Partners (FirstCity Financial)	49.31	28.47	57.73
VFC Partners (FirstCity Financial)	45.74	26.76	58.51
Galaxy Commercial	29.03	15.09	52.00
Others	547.04	252.71	46.20
TOTAL	1,187.30	649.93	54.74

The agency's whole-loan sales program, overseen by its Dallas regional office, relies on auctions conducted through DebtX of Boston and First Financial Network of Oklahoma City. And it recently tapped three additional whole-loan sales advisers, Eastdil Secured, Garnet Capital Advisors and Mission Capital Advisors, but the thinking is that the agency is looking to sell all commercial mortgages it takes from failed banks through structured offerings, where it would keep a stake, while offering financing. Whole-loan sales are all-cash deals, with no profit-sharing involved.

The move to structured offerings, which would involve portfolios of roughly \$1 billion apiece, has received largely negative reviews from countless investors and advisers, who feel the offerings would alienate most of them.

The bulk of the investors who have successfully acquired whole loans from the agency have invested less than \$10 million each. Many of those would essentially be excluded from the structured offerings, not only because they would require substantially greater equity commitments, but because the portfolios could involve hundreds of loans each - a servicing requirement that most investors couldn't meet.

Meanwhile, some large investors that would otherwise be able to pony up say \$100 million or more for a large portfolio, are said to also have panned the agency's plans.

For starters, they're leary of getting involved in a partnership with the government, which likely would involve onerous reporting requirements and possibly entail restrictions on profits and compensation.

In addition, many of those large investors have put together substantial kitties of capital. The structured offerings might, ironically, hamper their ability to put much of that capital to work.

That's because of the equity sharing component. Investors who might have, say, \$300 million of capital to put to work might only need to pony up about \$100 million for a \$1 billion portfolio if they opt for FDIC's generous financing. Their equity requirement would be substantially greater if they opted not to take the financing.

Either way, the deals might leave investors putting out less capital than they anticipated, while, because of the volume of assets acquired, leave them with no excess servicing capacity for other investments. And the buzz is that the FDIC would restrict the ability of its partners to quickly re-sell assets acquired through the structured offerings.

So far, the agency has launched only one structured offering, a \$1.4 billion portfolio of residential mortgages from Franklin Bank. The offering is being handled by RBS Greenwich Capital Markets. Bids are due Aug. 31. Others are said to be in the works for in the Fall.

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