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#### ► EUROPEAN SECONDARY MARKET FOR WHOLE LOANS TO GROW STRONGLY AGAIN IN 2007

Complementing the increased liquidity of syndicated loans, Europe is likely to see its fourth consecutive year of double-digit growth of whole loan sales as financial institutions accelerate their efforts to eliminate non-performing real estate loans from their balance sheets. The increased focus on cleaning up non-performing Commercial Real Estate (CRE) and residential real estate is likely to be good news for both financial institutions and the global investor in 2007. For financial institutions, the sale of non-performing loans (NPLs) – which historically has a direct impact on the bottom line – will help increase profitability and lift stock prices. The collateral benefit of fewer management distractions also allows institutions to spend less time on problems and more time meeting client needs.

For global investors, the growing availability of these non-syndicated loans represents a unique investment opportunity. Many of these assets have higher yields than comparable asset classes, and are increasingly popular for investors who are looking for higher yields.

As 2007 unfolds, three trends are likely

to positively impact the secondary market in Europe. First, continued strong growth in the European secondary market sales of NPLs. German and Italian financial institutions, which are dealing with a large volume of NPLs, will step up their loan sales. Over the past few years, these institutions have embraced loan sales for the first time and enjoyed a positive experience. Now that institutions understand the process and the full benefits, the number of sales and the number of sellers are likely to increase. Several years ago, only the largest banks were selling loans. Today, small- to mid-tier institutions have begun to do the same. Financial institutions in the UK, Spain and Portugal are also likely to expand the secondary market for whole loans because NPLs are likely to become a growing problem in those countries. Rising interest rates and declining home sales are creating the typical cyclical challenges after the sustained run-up in real estate values. In 2007, many institutions will be forced to take action to eliminate the headwind of too many NPLs.

Second, liquidity in the secondary market will increase significantly. With opportunity funds and hedge funds awash in cash, more institutional money will flow into the market. Opportunity funds and hedge funds are stepping outside of their traditional footprint, both in terms of geography and asset classes, driven by the need for yield.

Third, improved process will reduce deal friction. Over the past two years, the transaction times for selling NPLs has shrunk in half, from six months to three months. In 2007, the loan sale process will continue to move toward the typical US transaction time of 60 to 75 days. The shortened transaction times in Europe are due primarily to the growing acceptance of standardised legal documents and online due diligence. Rather than individually negotiating documents, more transactions are using a common set of standardised legal documents, a practice that is routine in the US. Additionally, online due diligence is eliminating much of the lost travel time and expense in physically inspecting the loan documents and other records. As European institutions and investors become more comfortable with technology and a streamlined legal process, more deals are being done at a fraction of the cost.

In 2007, both institutions and investors are likely to enjoy more opportunity by leveraging a maturing secondary market for whole loans. ■

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