

DebtX's Greenland

By Erika Morphy
October 30, 2008



Greenland

This week DebtX, an online market for commercial loans, and boutique investment banking firm KEMA announced they signed a multi-year agreement with the US Department of Housing and Urban Development to sell some of its multifamily and healthcare portfolio loans -- loans that were primarily assigned to

HUD after default by a borrower or co-insuring lender. The first sale under the agreement is expected to be executed in early 2009. In many ways HUD paper is just another flavor of loan that will trade on DebtX. However the fact that HUD -- a sophisticated and very large seller of commercial real estate paper -- is finally moving the majority of its sales online is a significant development for this industry. It also may spotlight one of the underrated advantages to these marketplaces, especially as the credit crisis continues to worsen: namely, that the daily pricing data seen in the marketplace provides lenders with a transparent view of what the ultimate downside is -- i.e. the bottom price the market will deliver -- for any deal they might be considering. "Our claim to fame is that we price and sell illiquid loans -- and we do so at very large volumes," Kingsley Greenland, CEO of DebtX, tells GlobeSt.com. "We price north of \$850 billion loans per month right now. These are primarily CMBS and GSE loans -- as well as loans for which banks want valid pricing on what they would be worth at this moment."

GlobeSt.com: What can your data tell us about pricing in the market right now? Something more specific than it is very bad right now.

Greenland: Unfortunately I cannot give you specific examples. Each loan is different so that would mean we are talking about specific transactions. Also October pricing is coming out on Thursday Oct. 30, and that will be radically different than what we saw in September. You can find that information on Bloomberg.

GlobeSt.com: The HUD deal is a significant win for you, correct?

Greenland: Yes. It is a three-year contract and it is exclusive -- HUD has not done that for at least eight years. One reason why they picked us is because we are combining due diligence services with loan services, which is cost effective for them.



GlobeSt.com: What does this contract mean for the buy side?

Greenland: Buyers won't have to learn how to ramp up for each HUD offering -- there will be the same structure and rules of engagement over next three years. Also HUD is one of the largest financiers in the multifamily industry and anytime the system has a process that gives the industry a sense of what the worst-case exit strategy is -- besides bankruptcy -- that is always helpful.

GlobeSt.com: How will your process differ from how HUD has sold its loans in the past?

Greenland: For the last eight years HUD has hired loan sale transaction specialists for one-year terms. It would do one or two offerings per year on average.

GlobeSt.com: Do you think the three-year contract means it will bring more offerings to market?

Greenland: I cannot speak to that other than to say we have not had that discussion with them. But by hiring DebtX that becomes an available option for them. Since we operate a marketplace where loans are sold every day we don't have to make a lot of noise in order to gather a large number of buyers for the sale. We have a constant pool of liquidity here.

GlobeSt.com: You are also selling loans for FDIC, correct? Do you see this as a new trend -- the government using this technology to sell its paper?

Greenland: I would think so. Now that there is more paper to move there is a growing recognition that outsourcing is more cost-effective. Also that it can give sellers access to more liquidity. High-end, mixed-use development with an affordable component has been done elsewhere and profitably. Voelker points to the W Hollywood Hotel & Condominiums, situated at the fabled Hollywood and Vine, as a prime example. The Los Angeles Community Redevelopment Authority mandated 15% of all apartments and condos to be affordable in the project. Voelker says the developer shifted the full burden to just the apartment component, upped the percentage to 20% and the project hit its goal to become a catalyst for a once-seedy strip. He says there now are more than 3,000 new residential units coming to fruition.