



# The Loan Sale Advisor

Fall 2005

## Best Practices in Active Portfolio Management

### Page Two

- Deal Book
- Global Loan Sales

### Page Four

- DebtX in Brief
- Offices

## DXMark<sup>SM</sup> Delivers CRE Portfolio Valuations

DXMark<sup>SM</sup>, DebtX's mark-to-market valuation model, is helping financial institutions with large Commercial Real Estate (CRE) portfolios better understand the value of their commercial real estate loans.

Launched a year ago, DXMark is being used by one of the nation's largest Government Sponsored Entities (GSE), as well as two Federal Home Loan Banks and a housing authority in the mid-Atlantic region.

The largest U.S. and European banks are also interested in DXMark as a means to meet the upcoming BASEL II requirements for mark-to-market evaluations of CRE debt categorized as loans held for sale. DXMark can help banks validate internally derived valuations.

"DXMark is truly unique because its evaluations are based on a large repository of actual loan sale data, rather than simulated data," said DebtX Managing Director Karen Johnson. "Only DXMark has access to such a rich and diverse data pool because DebtX is the world's largest marketplace for CRE debt sales."

### A Better Way To Understand Value

DXMark was created to help credit policy executives, risk managers, and other senior executives conduct sophisticated risk analysis. DXMark can be used to help audit executives validate internally generated valuations.

## DebtX Helps Community Bank Thrive Again

Cowlitz Bank (NASDAQ: CWLZ) in Washington State was a troubled community bank in October 2003 when a new management team turned to DebtX to help clean up its balance sheet.

Today, the \$300 million institution is healthy again and is pursuing its first major acquisition following a comprehensive program of restructurings, workouts and three successful loan sales through DebtX.

"DebtX allowed us to eliminate classified assets faster and get us focused on making productive loans and looking at strategic

"Selling loans through DebtX was cost effective, and the sale prices were better than we expected."

opportunities," said Rich Fitzpatrick, President of Cowlitz, which has seven branches and is based in Longview, Washington about 45 minutes north of Portland.

### Targeted Loan Sales Work

DebtX began a series of loan sales for Cowlitz in October 2003 when the bank started its restructuring process. Cowlitz's first sale was a \$6 million portfolio of commercial real estate, residential and C&I loans collateralized by assets in the Pacific Northwest.

continued on page 3

continued on page 3



# The Deal Book

Highlighted transactions recently completed by DebtX

**Seller:** Regional Bank

**Asset:** A single, non-performing commercial real estate loan totaling \$2.1 million. The loan was secured by a second mortgage on a hotel in Michigan. The loan had additional collateral in the form of second mortgages on three other limited service facilities in Michigan, and a third mortgage on the guarantor's residence. The borrower filed for bankruptcy in December 2004.

**Results:** DebtX executed a broad marketing campaign to prospective investors that included 200 telephone calls and more than 1,700 emails to accredited buyers.

**Notable:** Five bids were received with the winning bid exceeding the Seller's expected price by 32 percent.

**Seller:** Finance Company

**Asset:** A single, performing note with a \$6 million principal balance. The note was originated to re-acquire real estate associated with five automotive dealerships in Connecticut. The note was secured by liens on real estate and the collateral assignment of investment securities owned by the guarantors.


**Results:** DebtX executed an extensive marketing campaign to prospective investors that included 250 telephone calls and more than 2,500 emails to accredited buyers resulting in more than 680 website visits.

**Notable:** Ten investors conducted due diligence and three submitted firm bids, resulting in the loan being sold at a price that was satisfactory to the Seller.

**Seller:** Top 20 Mid-West Regional Bank

**Assets:** \$44.2 million, mostly in performing CRE and commercial and industrial loans. The pool consisted of 45 loans in 20 borrowing relationships with balances ranging from \$364,000 to \$13.4 million. The collateral was located in several states, with the highest concentration in Michigan, New York and Ohio. Eighty-seven percent of the loans were secured by CRE. Collateral included several multifamily apartment complexes in Ohio and Michigan, a care facility in Michigan and a ski resort in New York. The remainder of the loans were secured by real estate, UCC filings on business assets and equipment leases.

**Results:** DebtX received strong investor participation with more than 100 bids from 32 entities. DebtX's targeted marketing campaign included more than 350 phone calls and 3,200 emails sent to accredited buyers.

**Notable:** This is the third time DebtX has worked with the Seller. Each of the assets received multiple bids resulting in prices that substantially exceeded the Seller's expectations and surpassed the Seller's reserve. 

## DebtX's Global Loan Sale Business Grows


DebtX's loan sale program continues to expand in Europe and Asia.

In Germany, DebtX recently sold portfolios of non-performing residential loans for a regional savings and loan and regional private bank. In Italy, DebtX is working with a large international bank to help the institution dispose of non-performing residential loans.

In India, DebtX is working with a large international bank

to sell a portfolio of C&I loans, and in Indonesia DebtX is selling non-performing commercial debt for a U.S.-based bank.

"DebtX continues to build on its successes overseas working for both international banks as well as smaller domestic banks," said Gifford West, Managing Director and head of international operations for DebtX. "The growth is recognition that loan sales are a highly effective way to manage a balance sheet, diversify a portfolio and eliminate non-performing assets."

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# DXMark

continued from page 1

DXMark also helps executives estimate the financial impact of loan sales in the secondary market.

One of the nation's leading GSEs has been using DXMark to validate its internal pricing by obtaining a third-party evaluation of its CRE portfolio. This independent assessment is particularly helpful given the recent regulatory scrutiny of all GSEs.

"Shareholders, regulators and other stakeholders are increasingly interested in third-party valuations to provide greater transparency for assets such as commercial real estate loans. This capability can help to identify potential problems," Johnson said. "Using actual sale data to conduct

"DXMark is tool that becomes more valuable each day because it is continually updated with new loan sale transactions, creating a deeper, richer set of data."

mark-to-market evaluations better represents real market conditions and provides greater clarity."

The Federal Home Loan Banks are also using DXMark to help evaluate the CRE portfolios of member banks that pledge commercial real estate loans as collateral for loans from the FHLB. DXMark has proven useful in identifying geographic concentration risks and loans with downward credit trends.

Institutions can obtain a valuation by providing their loan data to DebtX, which conducts the evaluation. DXMark requires no software installation or other internal process changes to generate a portfolio assessment.

"DXMark is a tool that becomes more valuable each day because it is continually updated with new loan sale transactions, creating a deeper, richer set of data," Johnson said. "The unique value of DXMark as a management tool is reflected in the growing interest among the world's largest and most sophisticated financial institutions."

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## Restructuring a Portfolio Cowlitz Bank

continued from page 1

Based on the success of the first transaction, Cowlitz executed a second sale in December 2003 that consisted of \$2 million in loans. In December 2004, the bank sold seven more loans totaling \$2.5 million to complete its restructuring process.

"Selling loans through DebtX was cost effective, and the sale prices were better than we expected," Fitzpatrick said. "We like the auction format. We had dozens of buyers that looked at our loans. They were all well-qualified, and we knew we were going to get a price that cleared the market. You weren't dealing with just one or two bidders with DebtX."

Cowlitz, which is in the process of acquiring AEA Bank of Seattle, may use DebtX again in conjunction with future acquisitions if it needs to dispose of sub- or non-performing loans. "We would certainly consider using DebtX to upgrade a portfolio," Fitzpatrick said.

### The New Economics of Loan Sales

DebtX Managing Director Jeff Cantor, who worked with Cowlitz over the past two years, said that loan sales involving a relatively small number of loans in lower dollar amounts are possible because DebtX's electronic trading platform greatly reduces the traditional costs associated with debt sales.

In the past, it was feasible to execute a loan sale only when the face amount was \$50 million or more due to the fixed costs in preparing, marketing and closing any transaction. Today, a single loan or a small pool of loans can be sold cost effectively through DebtX because much of the process has been streamlined.

"Cowlitz is a case study in how smaller institutions can leverage the power of DebtX's nationwide marketplace to generate higher loan sale prices and get focused again on growth," said Cantor.

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## DebtX In Brief

### DebtX Expands Sales Team

Expanding its sales capabilities across the country, DebtX has appointed four executives with significant industry experience.

The appointments include Matt Galligan, a commercial real estate syndication executive with more than 25 years of experience. Galligan was named Executive Vice President, Real Estate Capital Markets and joined DebtX's senior management team. Before joining DebtX, Galligan was Managing Director of Fleet Boston Financial/Fleet Securities, where he managed commercial real estate syndications and served as head of the bank's real estate investment banking division. Previously, Galligan was a Managing Director of Bank of Boston and worked for Chase Manhattan in a series of management positions.

In addition to Galligan, DebtX also appointed:

- John Sauer, Director of Sales. Sauer has 25 years of experience in financial services and commercial real estate. Most recently, he was Vice President, Real Estate Finance, of CIT Group in Alpharetta, Georgia.
- Suzanne Blossfeldt Ellis, Director of Sales. Ellis has more than 20 years of experience in

### Upcoming Events

DebtX will attend the following conferences:

#### LSTA 10th Annual Conference

October 26, 2005      New York, NY

#### German Distressed Property - Risks and Opportunities

November 9-10, 2005      Berlin, Germany

#### ABA/CBA North American Agricultural Lenders Conference

November 13-16, 2005      Omaha, NE

#### CMBS Investors Conference

January 8-10, 2006      Boca Raton, FL

#### MBA's CRE/MF Housing Convention & Expo

February 5-8, 2006      Orlando, FL

the financial services industry. Most recently, she was a founding partner of MBS Associates, a loan sale advisor in Boulder, Colorado.

- Hendon Pigeon, Director of Sales. Pigeon has more than 10 years of financial services and technology experience. Most recently, he was National Sales Director of Valora Technologies, a document management company in Waltham, Massachusetts. ☒

