



The Loan Sale Advisor

Winter 2005

Best Practices in Active Portfolio Management

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Strengthening the Balance Sheet **FirstMerit Sale Exceeds Reserve**

The management team at FirstMerit Bank was initially skeptical about executing a loan sale to bring its non-performing assets back in line with its peer group.

A \$10 billion commercial bank serving the Midwest, FirstMerit had never considered a loan sale, but needed to tackle the problems caused by aggressive lending and the subsequent downturn in the Ohio economy several years ago.

Once FirstMerit made the decision to implement a sale, it never looked back. FirstMerit held a "beauty contest" among several advisors and selected DebtX, which then sold the loans at a price higher than originally anticipated.

"Our first loan sale with DebtX was successful enough that we conducted a larger sale two quarters later," said David Lucht, Executive Vice President and Chief Credit Officer of FirstMerit. "Both transactions significantly reduced our non-

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performing loans, improved the credit profile of the bank, and largely eliminated a drag on earnings. DebtX met our expectations for the inherent value of the loans. We were terrifically pleased with the liquidity that this sales channel provided."

DXOpen™ Enables Self-Directed Sales

DebtX makes it easier to sell loans

DebtX has launched a powerful new product that enables financial institutions to sell loans online faster and more easily at DebtX's electronic exchange.

DXOpen™ allows institutions to post loans directly for sale at DebtX's online marketplace, the world's largest electronic exchange for commercial debt. DXOpen™ gives sellers hands-on control of the transaction from start to finish.

With DXOpen™, banks, insurance companies, investment banks and pension funds can oversee

"DXOpen™ will function like an industry utility that sellers can use as their own private production platform to continually offer loans in a competitive bidding format."

all aspects of pricing, marketing and due diligence. Other loan sale advisors can also sell portfolios through DXOpen™ and participate in DebtX's electronic exchange for the first time.

"DebtX has traditionally operated as a full-service loan sale advisor, but our success in generating higher sale prices has prompted many clients to seek more freedom and

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The Deal Book

A summary of deals recently completed by DebtX

Seller: Regional Bank

Assets: A pool of sub-and non-performing CRE loans totaling \$56.4 million. The 127 loans represented 40 loan relationships and consisted of a wide variety of asset types including hospitality, agriculture, industrial, business assets, vacant land and residential property. The assets, located in three Midwestern states, were offered for sale individually, in pools or on an All-or-None basis.

Results: Forty investors submitted 223 bids. Investors who expressed interest significantly below expectations were encouraged to increase their pricing. DebtX's marketing campaign included more than 700 telephone calls and 2,800 e-mails to accredited buyers.

Notable: DebtX's bidding format attained the highest price possible for the assets by allowing investors to bid on individual assets and pools. Bids from 12 different buyers exceeded the All-or-None bid by more than \$1 million. All 12 closings occurred within 10 calendar days of the bid date.

Seller: Finance Company

Assets: A \$3.5 million performing commercial lease. The lease, between the finance company and a top U.S. computer and software retailer, covered the cost and installation of a phone system in retail stores throughout the country. The lease was offered in two structures: 1.) Schedule of the 50 remaining lease payments with the residual; 2.) Schedule of the 50 remaining lease payments without the residual.

Results: DebtX targeted two distinct pools of buyers in a marketing campaign that included 2,600 e-mails and more than 300 phone calls. The campaign generated interest from 90 entities, with 15 conducting detailed due diligence. The transaction was conducted in a sealed bid format, and four entities submitted bids. The winning bidder was a mid-sized leasing company whose offer on the lease payments and residual exceeded the seller's expectation.

Notable: The lease sale was another in a series of transactions the finance company executed through DebtX, enabling the company to achieve its strategic objective of reducing its exposure in this area. The marketing campaign succeeded in educating buyers and thus deepened the market significantly.

Seller: Top 10 Bank

Assets: A pool of \$78.7 million performing CRE loans. The portfolio consisted of 115 multifamily ARM loans divided into six pools based on geography. Two pools were offered in an online English forward auction. The remaining four pools were offered in a sealed bid auction.


Results: DebtX generated multiple bids for each of the pools, which were purchased by several different investors. DebtX's marketing campaign included advertisements in three financial publications, 1,300 letters to local institutions, 3,000 e-mails and 900 follow up calls to potential buyers.

Notable: The winning bids exceeded the Seller's expected price by 4 percent. The sale helped the institution execute its strategic objective of freeing up room for additional originations and balancing its portfolio.

Seller: Community Bank

Assets: A single, restructured performing CRE loan totaling \$1.4 million. Collateral consisted of a vacant parcel of land near Seattle. The land was zoned NC-Neighborhood Commercial, which allowed for the development of a range of commercial uses.

Results: Eleven investors conducted online due diligence and eight submitted bids. DebtX's marketing campaign included more than 350 telephone calls and 2,800 e-mails to accredited buyers.

Notable: The winning bid exceeded the Seller's expected price by 4 percent. 

FirstMerit Strengthens Balance Sheet

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FirstMerit hired DebtX in late 2003 to help sell \$33.6 million in performing and non-performing loans collateralized by properties in Ohio, Pennsylvania and Indiana. The loans included a wide range of Commercial & Industrial (C&I), Commercial Real Estate (CRE) and residential debt.

DebtX's full-service loan sale advisors managed the entire process for FirstMerit. DebtX evaluated and established initial pricing of the loan portfolio, and then used its electronic exchange to facilitate online due diligence and to conduct a highly competitive online auction.

DEEP POOL OF BUYERS

"We think we got better price execution by using DebtX," Lucht said. "DebtX also tried to find investors with an appetite for a particular asset class. Another benefit we liked is that when an institution won the bid, it immediately put down a 10 percent deposit, with the rest due at closing. There is assurance that you will get execution once you get the bid."

Executive Vice President Tom Goodwin said DebtX allowed FirstMerit to market its loans to a much wider audience of buyers than it could have otherwise. "The result is that the bidding for FirstMerit's loans became very competitive and investors bid significantly above the reserve price."

Following on the success of its initial loan sale, FirstMerit then sold a larger pool of non-performing loans in the second quarter of 2004. FirstMerit offered \$38.5 million in C&I, CRE and residential loans.

"FirstMerit's loan sales served the dual purpose of eliminating non-performers and diversifying its portfolio by selling some performing loans, which represented high concentrations of certain at-risk loan types," Goodwin said. "DebtX does both of these kinds of sales for many institutions across the country. With FirstMerit, DebtX provided a seamless, turnkey process that ultimately delivered loan sale proceeds substantially above the reserve price."

FOR MORE INFORMATION ABOUT DEBTX'S FULL-SERVICE LOAN SALE PROGRAMS, PLEASE CONTACT BILL LOONEY, 617-531-3402, WLOONEY@DEBTX.COM. 

DXOpen™

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flexibility to leverage DebtX's marketplace," said DebtX CEO Kingsley Greenland. "DXOpen™ will function like an industry utility that sellers can use as their own private production platform to continually offer loans in a competitive bidding format."

Sellers using DXOpen™ can sign onto the system, list individual loans or pools of loans, grant permission to investors to conduct online due diligence, determine the date of the sale and the length of the auction, and set many other parameters of the transaction. Sellers can offer as much product as they'd like as often as they'd like.

DXOpen™'s customer relationship management tools also allow sellers to learn more about the specific buying patterns of each investor. The

"Our success in generating higher sale prices has prompted many clients to seek more freedom and flexibility to leverage DebtX's marketplace."

platform's tools provide sellers with a better understanding of the purchasing preferences of investors and help sellers get the right assets in front of the right buyers at the right time.

"DXOpen™ won't replace the need for loan sale advisors because the overwhelming majority of institutions still need loan sale professionals to successfully complete a transaction," Greenland said. "DXOpen™ will complement in-house loan sale teams and outside advisors by providing an open, easy-to-use execution platform that delivers above average sale prices and greater liquidity for commercial debt."

TO LEARN MORE ABOUT DXOPEN™, PLEASE CONTACT MANAGING DIRECTOR BILL JAKUBOWSKI, 617-531-3431, WJAKUBOWSKI@DEBTX.COM. 

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DebtX In Brief

Transactions Up at DebtX for Fifth Consecutive Year

DebtX posted another record year in 2004, conducting loan sales for 45 financial institutions across the country. DebtX sellers included five of the top 10 banks in the U.S., four of the nation's largest insurance companies and four large finance companies, among others. Of those institutions, 18 were new sellers and 27 were repeat sellers.

"DebtX had another terrific year," said DebtX CEO Kingsley Greenland. "We strengthened our leadership position as the world's most liquid market for commercial debt by growing the total number of sellers and transactions. We saw an increase in both large and small portfolios, as well as an increase in selling institutions of all sizes. Our success reflects the growing recognition that well-executed loan sales improve an institution's balance sheet and profitability."

New York Office Expands

DebtX has hired Tom Panitz to work in its New York office. Panitz, who has 15 years experience in the real estate finance industry, is responsible for marketing DebtX's loan sale advisory services, primarily to bank lenders in the New York region. Before joining DebtX, Panitz was with a New York firm that purchased commercial debt in the secondary market. Earlier in his career, Panitz managed property investment sales with Newmark & Co. of New York. Panitz joins Mike

Upcoming Events

DebtX will attend the following conferences:

RMA Texas Chapter Spring Conference

April 7-8, 2005 San Antonio, TX

CMSA Annual Conference

June 8-10, 2005 New York, NY

RMA Annual Risk Management Conference

October 9-11, 2005 Washington, DC

Vallorosi and Rick Riecker in DebtX's New York office.

DebtX Updating Profiles of Marketplace Participants

DebtX is re-registering all of the participants at its online marketplace to maintain exceptional trading execution of the world's most liquid exchange for commercial debt. "Re-registering at DebtX is simple, and it will take only a few minutes," said Managing Director Bruce Hounsell. "The process will confirm acquisition preferences and reaffirm the participants' appetite for acquiring assets. Investors cannot review or bid on assets until they have re-registered." DebtX recently notified participants of the re-registration requirement via e-mail, but if your company has not re-registered or is unsure whether it has, please contact the DebtX Trading Desk at 617-531-3400. 