



The Loan Sale Advisor

Fall 2006

Best Practices in Active Portfolio Management

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DebtX Awarded Patent

DebtX has been awarded a patent by the United States Patent and Trademark Office for its online loan sale and debt trading exchange system.

U.S. Patent No. 7,035,820 protects DebtX's pioneering innovations related to due diligence, loan

"The patent is another milestone for the company and demonstrates our commitment to applying fresh thinking to create innovative solutions."

sales and debt trading that have played a key role in transforming the way commercial loans are bought and sold. DebtX also has several patent applications on file with the PTO that pertain to DebtX's other innovations to its loan sale and debt trading exchange system.

Both the newly issued patent, and the pending patent applications, highlight DebtX's leadership in creating liquidity for financial assets that were previously illiquid.

"We're pleased that the U.S. Patent Office has recognized the unique components of DebtX's approach to loan sales, which has successfully generated billions of dollars in liquidity and has ushered in a new era of active portfolio management for financial institutions," said DebtX CEO Kingsley Greenland. "The U.S. patent for DebtX is another milestone for the company and demonstrates our commitment to applying fresh thinking to create innovative solutions." 

DebtX Offers DXParticipate™

Expanding its DXOpen™ product suite, DebtX is now offering DXParticipate, a powerful loan participation platform for regional, super-community, and community banks.

DXParticipate helps institutions maximize the marketing opportunities of new originations for Commercial Real Estate (CRE) and Commercial & Industrial (C&I) loans, while streamlining the traditionally cumbersome sales process.

Using DXParticipate, institutions can post and distribute loan information and documentation to prospective buyers and manage all follow-up investor outreach, including e-mail notifications and phone calls. DXParticipate also tracks commitments on a deal-by-deal basis and

"DXParticipate creates a repeatable business process that centralizes transaction knowledge – the bank's intellectual property."

facilitates communication flow to participants for compliance purposes throughout the life of the loan.

Institutionalizing Knowledge

"DXParticipate creates a repeatable business process that centralizes transaction knowledge – the bank's intellectual property," said Managing Director Bill Jakubowski.



Q&A with DebtX CEO

Kingsley Greenland

Why are federal regulators worried about concentrations of Commercial Real Estate (CRE)?

Federal regulators – the Fed, FDIC, OCC and OTS – have all said that growing concentrations of CRE loans may make some institutions more vulnerable to cyclical CRE markets. In particular, regulators are concerned about CRE loans “where the source of repayment primarily depends upon rental income or the sale, refinancing, or permanent financing of the property. Loans to REITs and unsecured loans to developers that closely correlate to the inherent risk in CRE markets” are also of concern.

(For more details, see Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices at www.federalreserve.gov/boarddocs/press/bcreg/2006/20060110/attachment.pdf)

What can banks do to address the problem?

Financial institutions have two primary options: They can reduce their exposure to CRE loans by selling loans or participations in their CRE loan portfolio. Or, they can demonstrate that their institution has properly measured the risk by providing an independent evaluation of their portfolio. DebtX can help on both fronts: As a full-service loan sale advisor, DebtX helps institutions sell CRE debt through our loan sale marketplace – the largest electronic trading exchange for commercial debt in the U.S. Using DXParticipate™ as a direct seller, banks can reduce concentrations and improve diversification by selling and buying participations. DXMark™ provides an independent portfolio evaluation of CRE loan portfolios based on actual loan sales from DebtX’s marketplace.

How does DebtX work with institutions to sell CRE?

DebtX serves as a full-service loan sale advisor to evaluate,

price and market loans, and then deliver superior trading execution through the DebtX marketplace. Our team of senior bankers, traders and technologists deliver the best price execution by combining human expertise and judgment with a highly efficient technology platform. DebtX loan sale advisors work with institutions to plan the strategy, set the initial price and then reach the widest pool of potential buyers by actively marketing the loans through their extensive industry network and by leveraging DebtX’s technology tools and platform.

Why is the DebtX approach better?

By aggregating buyers and sellers from around the world, DebtX creates demand and liquidity for assets that were previously thought to be illiquid. The power of the online marketplace, which has been executing loans sales for nearly seven years, is that banks, insurance companies, pension funds, investment banks and other institutions can put their loans in front of more buyers and close transactions quickly. The DebtX marketplace typically leads to more bids per loan sale, and that often translates into higher loan sale proceeds than if the transaction were conducted offline. For smaller institutions with CRE loan portfolio issues, DebtX’s marketplace is also very cost-effective. Costs are low because DebtX has standardized the process, timeframes are shortened and the friction in the transaction is largely eliminated. As a result, loans for as little as \$500,000 can be sold – something that’s not practical in a traditional, offline transaction. The sale of even a handful of loans or a small pool of loans can address the concentration risk that worries regulators.

How can DXMark produce an objective portfolio valuation that may satisfy regulators?

DXMark is an objective valuation of commercial and


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Q&A with Kingsley Greenland

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multifamily real estate loans based on actual secondary market loan sales executed in the DebtX marketplace. Because the data set used by DXMark is from open market loan sales, the regression analysis utilized creates an independent portfolio analysis and is fundamentally different from pricing models that rely on an institution's internally generated estimates. To offer a comprehensive assessment of a CRE loan portfolio, DXMark provides valuations for both performing and non-performing CRE loans and employs different methodologies for each to accommodate for their differences. DXMark has provided evaluations for more than \$100 billion in CRE loans and has been used by Freddie Mac and the Federal Home Loan banks, including the Federal Home Loan Bank of Boston.

How does DXMark work?

DXMark is expressed as a percentage of par value of a loan. For example, a DXMark of 104.0% means that the loan is valued at 104 percent of outstanding principal balance. The DXMark is the estimated price that could be obtained if a loan was sold in the secondary market at a particular point in time. To arrive at that valuation, DebtX collects a standardized set of information shown to be predictive of a loan's selling price. DebtX reviews the dollar prices and calculates the implied Required Yields on loans sold in the secondary market to third parties, then stores the information in the proprietary DXMark database. DXMark performs a multiple regression analysis on this loan trade data to determine statistically relevant variables that affect the price, and their corresponding coefficients. By applying these coefficients to an existing loan's relevant variables, DebtX can estimate its value, or DXMark, at any point in time. 

DXParticipate

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"From an organizational perspective, DXParticipate helps banks build a knowledge database that doesn't disappear if a key team member departs," Jakubowski said. "Over time, this data repository provides insight into the performance of its partners and can help banks make even smarter decisions about participations. For example, as regulators grow increasingly concerned about concentrations of CRE, DXParticipate can help mid-tier institutions efficiently diversify their portfolios and reduce risk."

DXParticipate, and its companion solution, DXSyndicate™, are part of DXOpen, DebtX's pioneering loan sale platform that enables institutions to direct the loan sale

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process through the DebtX marketplace.

DXSyndicate is used by syndication professionals to improve profitability and deal flow for corporate, middle-market, and real estate syndicated loans.

FOR MORE INFORMATION ABOUT DXPARTICIPATE, DXSYNDICATE OR DXOPEN, PLEASE CONTACT BILL JAKUBOWSKI AT 617.531.3431, WJAKUBOWSKI@DEBTX.COM OR BILL HUSCHLE AT 617.531.3408, WHUSCHLE@DEBTX.COM. 



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DebtX In Brief

Visit DebtX at the RMA 2006 Conference in Chicago

DebtX will be participating at the RMA Annual Risk Management Conference at the Sheraton Chicago Hotel & Towers this October 22-24.

DebtX will be exhibiting on the conference floor at Booth No. 107, where CEO Kingsley Greenland, and Executive Vice Presidents Bill Looney and Tom Goodwin will be on hand.

DebtX is also hosting a cocktail reception on Monday, October 23 at the Java Bar on the Lobby Level of the Sheraton Chicago Hotel & Towers from 6:15 p.m. to 8 p.m.

DebtX is an active member in the RMA. Executive Vice President Bill Looney and Managing Director Pat Blount recently spoke at the Senior Workout Officers Roundtable in Tempe, Arizona in August. Executive Vice President Tom Goodwin and Director John Sauer have spoken at two chapter meetings in 2006. The first was in May at the Nashville Chief Credit Officers Roundtable followed by the Southeastern Banker's Lending Success Conference held in Tampa, Florida.

To learn more about DebtX at the RMA conference or to attend the cocktail reception, please contact Liz Morini, 617.531.3434, emorini@debtX.com

DebtX Expands Team

DebtX is proud to announce it has recently hired Bill Huschle as Director of Technology Sales.

Huschle brings over 17 years of experience in technology sales and sales management to DebtX. In previous positions, Huschle has brought more

Upcoming Events

DebtX will attend the following conferences:

RMA 2006 Annual Risk Management Conference

October 22-24, 2006 Chicago, IL

CMSA Europe Conference

November 8-10, 2006 Rome, Italy

2006 ABA North American Agricultural Lenders Conference

November 12-15, 2006 Las Vegas, NV

CMBS Investors Conference

January 7-9, 2007 Miami Beach, FL

MBA's Commercial/Multifamily Real Estate Finance Convention & Expo 2007

February 4-7, 2007 San Diego, CA

than 10 software products to market, signed nationwide and worldwide software license agreements and has grown and managed several professional sales teams.

Prior to joining The Debt Exchange, Huschle was the Vice President of Sales & Marketing at BondAxe which offered online tools to fixed income trading desks and sales teams. Huschle and his partners sold BondAxe to Reuters in March of 2006.

Huschle has successfully sold new technologies and trading platforms to a wide array of financial institutions and has held positions of Vice President of Sales, Director of North American Sales and Area Sales Manager at different technology companies. ☒