



The Loan Sale Advisor

Fall 2007

Best Practices in Active Portfolio Management

Page Two

• Deal Book

Page Four

• DebtX in Brief

• Offices

DebtX Case Study **How One Independent Bank Exited The Auto Lending Business**

When Bank of Marin decided to exit the indirect auto lending business, they had a strategic decision to make regarding their existing indirect auto portfolio – a decision that would have an important and positive impact on the Northern California bank.

Selling the \$80 million performing loan portfolio, which constituted approximately 15% of the bank's balance sheet at the time, represented a unique opportunity for Bank of Marin to reposition its portfolio and better deploy capital.

"The yields on our auto portfolio were not where we wanted them to be compared to other opportunities in the marketplace," said Kevin Coonan, Executive Vice President and Chief Credit Officer of the Bank. "We thought the funds could be better deployed. By selling this portfolio, we have been able to do that."

Bank of Marin (NASDAQ:BMRC), a highly regarded independent bank serving individuals and business clients in Marin and Sonoma Counties, as well as San Francisco, chose DebtX to execute the largest loan sale in the bank's history, following a smaller transaction DebtX successfully completed in 2006.

Bank of Marin selected DebtX to sell the auto portfolio after a competitive review of other loan sale advisors. DebtX's ability to manage the sale from start to finish, in addition to the success of the 2006 transaction, motivated Bank of Marin to

Liquidity Unaffected By Recent Upheaval In The Credit Markets

Despite turmoil in the financial markets, the secondary market for Commercial & Industrial (C&I) and Commercial Real Estate (CRE) whole loans is holding up well.

"Liquidity is largely unaffected, although there is pricing pressure in specific asset classes, such as land development deals," said DebtX CEO Kingsley Greenland. "Most buyers have committed capital and warehouse lines, and they are not

"Shareholders, regulators and rating agencies all support loan sales because they improve the balance sheet and risk management, as well as reduce costs."

impacted by short-term changes in the marketplace. Many have long-term funding sources that are not being immediately re-priced. Overall, there are plenty of buyers and plenty of liquidity."

DebtX has seen a significant amount of trading activity at its online marketplace in spite of the recent market volatility. The number of buyers conducting due diligence, as well as the number of bids, is consistent relative to a year ago. Much of the loan sale activity at DebtX has been in CRE, auto-related or land development deals.

Greenland noted that buyers are managing the assets through the workout process and are holding onto them once they are repositioned.

continued on page 3

continued on page 3



The Deal Book

Highlighted transactions recently completed by DebtX

Seller: Top 10 U.S. Bank

Assets: This offering consisted of a pool of 223 non-performing, small balance business loans totalling \$9.3 million. The demand note pool had a 12.65% WAC and an average loan balance of \$42M. Borrowers were located in 31 states throughout the U.S. A third were concentrated in New York, with additional concentrations in Connecticut, Massachusetts, New Jersey and Pennsylvania.

Marketing: DebtX's marketing campaign included 2,000 e-mails and 250 phone calls to prospective buyers.

Results: Six investors placed bids, 48 performed summary due diligence and 11 investors performed full due diligence. This offering was the 21st engagement with this institution in the past five years.

Seller: Private Equity Fund

Assets: This offering consisted of a single, \$4.6 million seasoned performing CRE Loan. The note carried a 6.9% fixed interest rate and a March 2018 maturity date. The note was secured by a 100% occupied 52,000 square foot supermarket in southwest Louisiana – an area not affected by Hurricane Katrina. At the time of the sale, the tenant was under a long-term lease and the supermarket had consistently generated very strong sales.

Marketing: DebtX's marketing campaign included 2,500 e-mails and 400 phone calls to prospective buyers.

Results: 22 buyers completed summary due diligence, with six completing full due diligence. Three investors bid on the asset. DebtX sold the loan for \$230,000 more than the reserve price set by the Seller.

Seller: Regional Bank

Assets: \$15.8 million in sub- and non-performing CRE and C&I. The offering consisted of nine borrowing relationships, containing 25 sub- and non-performing loans. The loans were secured by varied collateral such as industrial buildings, finished and unfinished lots in a residential subdivision, a multifamily apartment complex, vacant land, and business assets for multiple borrowers. The collateral was located in Florida, Illinois, Indiana and Michigan.


Marketing: DebtX's marketing campaign included 2,000 e-mails and 300 phone calls to prospective buyers.

Results: Nineteen investors placed a total of 56 bids. This offering was the 15th engagement with the institution in the past three years.

Seller: German Bank

Assets: €89.7 million (\$124.3 U.S.) in non-performing CRE loans. The pool consisted of 35 non-performing loans secured by first liens on 122 residential and commercial properties located in and around Berlin, Germany.

Marketing: DebtX conducted a transnational marketing campaign in the U.S and Europe. More than 2,000 e-mails and 300 phone calls were made to U.S. and European investment banks, commercial banks, opportunity funds and hedge funds.

Results: Investor participations was excellent. Eighty three investors conducted quantitative analysis and 66 performed detailed due diligence, 12 of whom submitted bids. 

Bank of Marin

continued from page 1

again work with DebtX.

“The Bank wanted a high degree of confidence that the portfolio would clear the market,” said DebtX Managing Director Jeff Cantor, who worked closely with the Bank. “In addition, it wanted to ensure there was a wide enough audience of buyers to create competitive dynamics. DebtX was chosen because it demonstrated to the Bank’s Board of Directors that it had the expertise and reach required to meet these objectives.”

ADAPTING THE PROCESS

The strategic nature of this portfolio sale created unique circumstances and concerns for Bank of Marin. DebtX tailored the process up front to address the bank’s unique concerns.

DebtX initiated and managed a comprehensive marketing campaign, which included advertisements in *American Banker* and *Asset-Backed Alert*, as well as 2,500 e-mails and 300 phone calls. From this, DebtX identified a short list of the most qualified investors and presented it to the Bank for review and approval.

Once the vetting process was complete, the sale proceeded according to DebtX’s standard procedures with due diligence and bidding taking place through DebtX’s electronic trading platform.

Even though the process was modified to address Bank of Marin’s specific concerns, the transaction was completed within the same timeframe as a typical sale.

“DebtX’s ability to tailor the transaction to the specific needs of Bank of Marin demonstrates the flexibility of the platform and the team,” Cantor said. “Most importantly, the Bank was very pleased with the net proceeds and the broad range of interest from bidders.”

Bank of Marin received eight bids from commercial banks, investment banks and finance companies. A total of 41 investor groups conducted due diligence.

“Ultimately, we got the kind of price we expected,” Coonan said. “DebtX did a good job of marketing the portfolio, and we were pleased with how DebtX managed the transaction.”

JEFF CANTOR MANAGES DEBTX’S SAN FRANCISCO OFFICE AND CAN BE REACHED AT 650.344.6719 OR AT JCANTOR@DEBTX.COM. ✉

Liquidity

continued from page 1

“Since investors have locked up their capital long term, they’re looking for the same yield. This is not hot money,” he said.

On the sell side, more banks continue to bring assets to the market. DebtX is offering more than \$500 million in loans through October 15.

“As the economy slows down, banks are being proactive and selling ahead of the curve,” Greenland said. “The rate at which institutions are selling loans is part of a fundamental shift in loan portfolio management. Compared to just a few years ago, loan sales are now a widely accepted practice in every segment of the financial services industry. Shareholders, regulators and rating agencies all support loan sales because they improve the balance sheet and risk management, as well as reduce costs.”

MORE THAN 250 INSTITUTIONAL CLIENTS

Ten of the top 20 U.S. banks by deposit size have executed loan sales through DebtX, and more than 250 institutions have engaged DebtX in the past seven years. The company has worked with commercial banks, pension funds, insurance companies, investment banks, and specialty finance companies in the U.S. and abroad. Many of the institutions repeatedly work with DebtX, and some have sold debt through the firm 10 or 20 times.

Greenland said that in this economic cycle, banks are being more aggressive about selling non-performing assets (NPAs). Institutions are seeking to stay below historical levels of NPAs and are trying to avoid the expense in ramping up workout staffs.

“The bottom line is that we simply aren’t seeing a liquidity problem in the marketplace for either buyers or sellers,” Greenland said. “The secondary market for whole loans is performing exactly as it should. There is sufficient liquidity to allow both buyers and sellers to execute their objectives.”

KINGSLEY GREENLAND CAN BE REACHED AT 617-531-3400 OR BY EMAIL AT KGREENLAND@DEBTX.COM. ✉

DebtX Offices

Boston

133 Federal Street
Boston, MA, 02110
Telephone: (617) 531-3400
Fax: (617) 531-3499

Atlanta

5755 North Point Parkway
Alpharetta, GA 30022
Telephone: (770) 500-3836
Fax: (770) 500-3556

Boulder

4440 Whitney Place
Boulder, CO 80305
Telephone: (303) 545-5207
Fax: (720) 304-3281

Chicago

1279 Cranbrook Circle.
Aurora, IL 60504
Telephone: (630) 820-1410
Fax: (630) 820-1433

New York

The Fisk Building
250 West 57th Street
New York, NY 10107
Telephone: (212) 835-9480
Fax: (212) 835-9482

San Francisco

204 E. 2nd Ave., No. 249
San Mateo, CA 94401
Telephone: (650) 344-6719
Fax: (650) 343-1593

Frankfurt am Main, Germany

An der Welle 4
D-60422 Frankfurt am Main
Telephone: +49 69 7593 8414
Fax: +49-69-75-93-8200

www.debtX.com

DebtX In Brief

DebtX Expands Trading Team

Will Mercer, a financial services executive with 15 years of experience, has been named Vice President, Trading.

Before joining DebtX, Mercer spent five years at Sun Capital Advisers LLC in Boston, most recently as Vice President, U.S. Public Fund Income. At Sun Capital, he was responsible for the management of investment-grade CMBS and REIT portfolios.

With the addition of Mercer, DebtX's trading team now includes six professionals in the U.S. led by Managing Director Dave LeBlanc. The trading group is supported by more than 40 other professionals dedicated to creating liquidity for whole loans.

Earlier in his career, Mercer served as Vice President of several different divisions, including U.S. Private Placements and U.S. Mortgages. Prior to that, he was an Investment Officer for John Hancock's Real Estate Investment Group, where he was responsible for managing all aspects of commercial real estate lending for both insurance and CMBS pools.

Mercer earned a Bachelor of Arts degree from Harvard University and is a CFA charterholder.

DebtX in the News

DebtX was featured in a full-page story in the August issue of the *ABA Banking Journal*. In story entitled, "Point, Click and Unload," CEO Kingsley Greenland describes how DebtX is helping banks manage their loan portfolios.

Upcoming Events

DebtX will attend the following conferences:

Expo Real 2007

October 8-10, 2007 Munich, Germany

RMA Annual Risk Management Conference

October 21-23, 2007 New Orleans, LA

CMSA Investors Conference

January 8-10, 2008 Miami, FL

MBA's 2008 CREF/Multifamily Housing Convention & Expo

February 3-6, 2008 Lake Buena Vista, FL

The August edition of *Collections & Credit Risk* lists DebtX as one of the companies whose online trading platform is helping buyers and sellers trade commercial debt. "Shopping for Deals" explains how DebtX is streamlining the due diligence process by allowing prospective investors to review loan packages online, thus saving the expense and time of visiting a war room.

In June, Bloomberg quoted Executive Vice President William Looney regarding the commercial debt market. Looney said that hedge funds were gaining an advantage in the marketplace because the sub prime lending squeeze was making investment banks more reluctant to bid for new pools of distressed loans.

To see all DebtX coverage, visit www.debtX.com. 