



The Loan Sale Advisor

Winter 2011

Best Practices in Active Portfolio Management

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DebtX Analysis Powers Report By BofA-Merrill

DebtX recently provided loan-pricing data for a research report authored by the Global Research Department of Bank of America-Merrill Lynch (BAML).

In support of BAML's mark-to-market research note published September 29, 2010, DebtX provided quarterly fair value marks for both performing and non-performing loans. The fair value marks were across eight loan categories on approximately \$7 trillion of assets held by 7,800 banks in the US from Q4 2007 through Q2 2010.

DebtX analysis offered perspective on the variability in the fair market value of bank loans during this period of extreme volatility in the housing and credit markets.

DebtX provided marks using three different approaches: 1) Empirically observed whole loan trades; 2) Fair value estimates from investor-submitted data; 3) Interpolation of third-party data.

The analysis provided to BAML is also available to fixed-income or equity research firms, M&A advisors and private equity firms for pre- or post-acquisition analyses.

For more information, contact David Roover, 617.531.3446, droover@debtX.com.

More Financial Institutions Sell Loans

More banks are turning to loan sales to help manage their balance sheet.

Between 2003 and 2008, the percentage of banks reporting an impact to non-interest income from loan sales was approximately 25.0%, according to BankRegData.com. But in the second quarter of 2009, the percentage jumped to 30.3% and has climbed steadily, reaching 33.3% in the third quarter of 2010.

"Many institutions now realize that active portfolio management through programmatic loan sales eliminates problems efficiently and achieves a greater level of portfolio diversification."

Of those institutions selling loans, 93.4% had a gain in non-interest income.

"A growing number of financial institutions are selling performing and non-performing loans to strengthen their balance sheets and be in a position to pursue strategic opportunities," said DebtX CEO Kingsley Greenland. "Many institutions now realize that active portfolio management through programmatic loan sales eliminates problems efficiently and achieves a greater level of portfolio diversification."

The Deal Book

Highlighted transactions recently completed by DebtX

Seller: Top 25 Bank

Assets: \$196 million in performing CRE loans. The portfolio consisted of performing, low loan-to-value assets with an average balance of \$2.1 million. The loans were secured primarily by multifamily, retail, office and industrial properties in California, New York, Washington, Illinois and Washington D.C.

Marketing: DebtX executed a marketing campaign consisting of 8,500 emails, more than 700 personal phone calls and more than 1,000 letters.

Results: The auction generated an outstanding level of interest. A total of 490 investors reviewed the assets and a total of 59 investors submitted 409 bids.

Seller: Community Bank

Assets: \$314 million in CRE and C&I whole loans and participations. This sale was broken into three tranches collateralized primarily by office and retail buildings, residential subdivisions, land, and business assets located almost entirely in Pennsylvania. Representative assets in the transaction included a \$3.1 million performing loan secured by a 138-acre parcel improved with an 18-hole golf course, pool and clubhouse in Pennsylvania and a \$15 million relationship secured by a 232-acre horse farm, an adjacent single-family residence and five thoroughbred stallions in Kentucky.

Marketing: DebtX's marketing campaign consisted of more than 10,000 emails, 1,000 calls and 300 letters.

Results: Interest in these loans was strong, resulting in 180 individual bids and 22 combination bids received for Tranche 1, and 199 individual bids and 27 combination bids for Tranche 2. Tranche 3, which consisted of two offerings, received 12 bids.

Seller: Financial Corporation

Assets: \$38.7 million in performing and non-performing CRE loans. The portfolio consisted of 15 stand-alone offerings and four pooled offerings. Collateral included all commercial property types, land for development and REO concentrated in South Carolina, Georgia and Florida. Representative assets included a \$3.6 million performing note secured by a marina in South Carolina with 32 boat slips.

Marketing: DebtX conducted a broad marketing campaign that consisted of more than 1,500 emails and more than 200 phone calls.

Results: Investor interest was excellent with a total of 30 distinct investor groups submitting 106 bids.

Seller: Commercial Bank

Assets: \$139 million in performing and non-performing CRE loans. The portfolio consisted of 18 offerings secured by retail, office, mixed use, multifamily and condominiums. Collateral was located in 14 states throughout the U.S., with concentrations in Nevada, Oregon, New York, Florida and Ohio. Representative assets in the transaction included a \$43 million relationship secured by three retail centers in the Las Vegas area and a \$3.3 million relationship secured by three condominiums in Colorado close to Aspen and Snowmass ski resorts.

Marketing: DebtX conducted a broad marketing campaign consisting of more than 2,000 emails and more than 350 calls.

Results: Investor interest was very strong. A total of 422 investor groups reviewed the assets, and 111 groups completed full due diligence. A total of 45 investor groups submitted 122 bids.

More Financial Institutions Sell Loans

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Small And Mid-Size Institutions Line Up

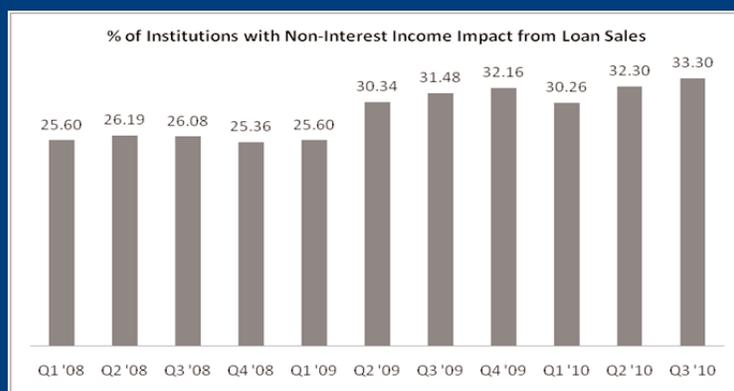
Money center banks have traditionally been loan sellers, but small- to mid-size institutions are increasingly sellers, too.

Among the mid-sized banks selling loans recently is Flagstar Bancorp in Troy, Michigan, which sold \$474 million in loans in the fourth quarter. First Busey Corp. in Champaign, Illinois, sold \$73 million of distressed assets in the fourth quarter of 2009. First Midwest sold \$300 million in distressed assets

in the third quarter.

Van A. Dukeman, President and CEO of First Busey, told American Banker that selling the loans quickly was better for the bank. "To us, it made sense to have the pain happen all at once," Dukeman said in an interview. "After a long assessment, we said, 'Let's take the most acute toxicity and remove it.' "

For more information about loan sales, contact Bill Looney, 617.531.3402, wlooney@debtX.com.



Between 2003 and 2008, the percentage of banks having a gain or loss from loan sales hovered right around 25%. But in the second quarter of 2009, the percentage jumped to 30.34% and has climbed steadily, reaching 33.3% in the third quarter of 2010. That is the largest gain in seven years and is more than double the gain from the prior three quarters.

DebtX Streamlines Bidding Process and Expedites Loan Pricing

DebtX has made a series of technology enhancements to streamline the bidding process at its loan marketplace and to expedite requests for loan or portfolio valuations.

Loan buyers at DebtX's marketplace can now place multiple individual bids at once or combination bids for loans. From a single bid form, buyers can submit offers on an individual loan, multiple loans, or any number of combination bids on one page. Previously, bidders had to page through the details of each loan or loan pools to make offers.

Other improvements to the platform allow bidders to place offers directly online instead of emailing or faxing in the offers. Additionally, sellers are notified

faster of the highest and best offer, which often allows DebtX to award bids to buyers sooner.

Loans Priced In Less Time

DebtX now has greater capacity to price more loans in less time following system upgrades that have increased its computational power by 20 times.

The enhancements to DXMark®, DebtX's loan pricing platform, also allow financial institutions to conduct sophisticated stress testing. Loan-to-value, property values or other variables can be modified to model best and worst case scenarios. The shortened turnaround times will give financial institutions more opportunity to evaluate entire portfolios or individual loans.

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DebtX In Brief

DebtX Posts Record Year

DebtX had its best year to date in 2010.

“By just about every measure, 2010 was our most successful since the company was founded 10 years ago,” said DebtX CEO Kingsley Greenland. “We sold more loans for more private institutions. We priced more loans for public and private financial institutions. We made substantial new investments in technology to make it easier for market participants to work with DebtX.”

The volume of loan sales at DebtX was up 98% in 2010, while the number of selling institutions increased 54%. Continuing the trend over the past few years, many selling institutions executed multiple transactions at DebtX during 2010.

The majority of loans sold in 2010 were non-performing, although DebtX continued to sell a substantial number of performing loans. DebtX also expanded its franchise in Europe, where institutions are under pressure to dispose of mounting distressed loans.

DebtX’s other achievements in 2010 included:

- Pricing a record number of loans for clients of DebtX’s valuation services.
- Executing a record number of transactions for clients using DebtX’s web-based deal management platform.
- Streamlining the bidding process at debtX.com to make it easier to place offers.
- Shortening the time it takes to prepare portfolio or individual loan valuations for clients.
- Significantly expanding the marketing commentary and insight offered by

Upcoming Events

DebtX will attend the following conferences:

Tercera Convención Financiamiento Especializado en México 2011

March 10-12, 2011 Acapulco, Mexico

CRE Finance Council 2011 Annual Convention

June 13-15, 2011 New York, NY

17th Annual Reuters LPC Loan Conference

September 22, 2011 New York, NY

EXPO REAL

October 4-6, 2011 Munich, Germany

2011 RMA Annual Risk Management Conference

October 23-26, 2011 Washington, DC

LSTA Annual Conference

November 2, 2011 New York, NY

CRE Finance Council January Conference 2012

January 9-11, 2012 Miami Beach, FL

MBA CREF/Multifamily Housing Convention & Expo

February 5-8, 2012 Atlanta, GA

DXMarket Data®, a subscription service available to loan buyers at DebtX’s marketplace.

“DebtX is accomplishing its objectives because of the hard work and expertise of its outstanding team of employees,” Greenland said. “Everyone at DebtX remains focused on the founding mission of the company: Creating liquidity for illiquid loans.”