



# The Secondary Market Insider

A few thoughts from

**LoanSaleCorporation**

Welcome to the September edition of *The Secondary Market Insider*. We hope that all of you had a nice summer. We are excited about daily temperatures dipping below 100 degrees here in Phoenix!

## *The sky is falling, the sky is falling*

As I contemplated the topic of this edition, I realized I was being overwhelmed in conversations and data pertaining to the crisis brewing in the commercial real estate sector of our economy.

I originally thought that I would pen an article loaded with various statistics relating to the continued downturn of the commercial real estate markets. Then I realized that there are no shortage of pundits and industry experts predicting a further slide in the CRE marketplace. In fact, even Washington now seems to be getting the picture!

We are being bombarded with predictions (supported by data) of continued gloom and the further deterioration of fundamentals within the CRE sector. Our buyers, our sellers, our statistical providers are reporting this news on a daily basis.

So, instead of transferring borrowed factual data that can be interpreted as dire, I thought I would bypass the temptation. Having said that, it is not possible or prudent to totally ignore the state of the CRE market. We must use the information being thrown our way to chart a course of action.

*“Secondary market dispositions should be incorporated as a component to their (Lenders) workout strategies and updated business models.”*

## *Teaching old dogs new tricks*

Exploring new strategies, networking with colleagues, sorting through potential deals, putting out fires, taking endless calls from troubled customers, all while patiently waiting for some sort of results that are gratifying ( defined as profitable!) has become the daily grind for now.

We are ALL dealing with soured fundamentals, whether you are a lender, owner, broker, loan sale advisor, title company, etc. your business model has most likely changed. The funny thing is; much of this change has not taken transparent shape yet. Business models are still morphing into what they will look like in the next few years.

We repeatedly hear from many banks that they have never sold loans and are not sure that it is something they would be interested in doing. As mentioned above, most of the participants in the CRE market place are reinventing, or tweaking their business model. Technology has greatly enhanced the process of selling loans on the secondary market.

We believe that from a lenders standpoint, **secondary market dispositions** should be incorporated as a component to their workout strategies and updated business models.

## *Capturing value today*

As a participant in the secondary market of buying and selling of commercial real estate loans for the past two decades, I must admit that I have not seen anything quite like this.

The frozen state of the CRE marketplace is baffling. Things are truly anemic. Buyers are



pessimistic, sellers are indignant; both of these facts combined result in a huge bid / ask spread.

Financing is punitive, with no easing in sight.

Defaults are looming, values are deteriorating, and equity is evaporating. How do we move forward?

It is our opinion at LoanSaleCorp.com that the best way to move forward is to let go of your problems TODAY. Selling your problem assets via secondary market transactions should prove to be a better execution over the long run.

I recently saw a statistic that predicted defaults within the commercial real estate arena to increase to a level not seen since early 1990's. We all know that unemployment is rising, occupancy's are decreasing, rents are tanking, cap rates are rising, and new financing is a total burden. I tend to believe that many of these predictions of further deterioration will materialize, as most people in the CRE industry do. There is nothing on the short term horizon to mitigate any of these factors.

Working out troubled loans is a slow and long process. Selling loans in the secondary market is much quicker. The desired end result is the same for both transaction methods; disposition of the asset. However, in a declining market, **there is captured value in the quicker execution.**

## *The early bird gets better worms*

Many banks over the past few months have expressed an interest in selling assets by year end. It is typical for routine sellers to hit the market in the 4<sup>th</sup> quarter. Due to this yearly occurrence, it is also typical for the market to be bombarded with offerings. Buyers have to selectively choose the transactions in which to focus upon. Many times by mid to late November buyers are no longer able to look at new deals due to the fact they are locked in on a few acquisitions and committed to close them by year end. This years Holiday calendar is not friendly for business purposes. November and December combined offer very limited working

days if you figure in the Thanksgiving, Hanukkah, Christmas, and New Years Holidays (I can't wait!).

The point here is that if your institution is considering a sale by year end, the time is now to begin the process. The early entries are sure to get the best action.

*“In a declining market, there is captured value in the quicker execution.”*

## *Make the call*

LoanSaleCorp is uniquely positioned to help deal with the situation at hand. Dispose of your unwanted loans via secondary market transactions.

Be a first mover within your space. We are in touch with today's buyers. Let LoanSaleCorp help you through the quagmire of today and position your institution to capitalize on the opportunities that will make you profitable for tomorrow.

We offer a no risk system. **We do not sell via a sealed bid or auction format.** Our process is strictly a negotiated transaction. If a price we bring you is within your level, then we proceed. If not, we pass and continue to market the asset.

We can be reached at 480-664-1919 or on the web at [www.LoanSaleCorp.com](http://www.LoanSaleCorp.com).

We look forward to speaking with you.



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