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## Bank, Thrift & Asset Manager - Industry News

### FDIC gets creative with asset sales, moves away from LLP

BLOG

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We've heard that the FDIC has become more flexible in its approach to asset sales and now seems to favor working directly with the buy side instead of selling assets acquired through receivership in the now-defunct legacy loan program.

The LLP effectively [died](#) in early June, at least for open banks, after the FDIC "postponed" the program in light of capital raising activity that took place without banks having to sell bad assets. The FDIC planned to use the LLP to sell assets acquired through receivership this summer, but it seems to have changed its tune.

The FDIC told us that the LLP is still in the developmental phase. James Wigand, deputy director of the FDIC in the division of resolutions and receiverships, had said the same thing back in early June. However, we've heard that the FDIC is placing more emphasis on a variety of other transactions, including structured transactions, whole loan sales and deals where it provides leverage to buyers.

"We're starting to see much more flexibility," one investor in the distressed loan space told us. "And we've seen them with and without leverage, the proverbial Chinese menu."

The investor, who requested anonymity, said the FDIC has split assets of failed banks into a number of large pools, and is now accepting bids on whole pools of loans as well as different structured transactions. In such deals, the FDIC puts assets acquired through receivership into an LLC and then accepts bids on the new entity.

In the six structured deals this cycle, the FDIC sold thousands of subperforming and nonperforming loans to a buyer that purchased a stake — usually about 20% to 40% — in the LLC holding the pool of assets. The FDIC holds the remaining participation interest in the LLC, but the investor's stake in the pool can increase if it achieves a certain target in aggregate recoveries.

The investor we spoke with said the FDIC is now considering structured deals where the investor would purchase as much as a 50% stake in the LLC. "I think they're probably still in the experimental stage," he said.

The FDIC has also used two loan sale advisers — First Financial Network and [DebtX Exchange Inc.](#) — to market loans acquired through receivership. We've heard that the list is growing.

In fact, another investor in the distressed loan space told us that the FDIC has employed the loan sale advisory services of three other firms including [Keefe Bruyette & Woods Inc.](#) and [Sandler O'Neill & Partners LP](#) to sell \$6 billion in loans accumulated from 23 failed banks in a structured transaction. The pool consists of acquisition and development loans, residential construction loans, commercial real estate loans and single-family loans.

We also heard from one loan sale adviser that the FDIC has chosen three or four large firms to market pools of assets. He said each "big name entity" will probably market \$1 billion to \$1.5 billion in loans, separating the different asset classes such as commercial land, commercial properties, residential land and residential properties into distinct pools. Those assets will be sold in structured transactions, he said.

The FDIC does seem to be exploring a variety of transactions. And that is certainly a positive, given the amount of assets in receivership it needs to sell and the fact that the already large inventory will grow as more banks fail.

Still, the FDIC, and any entity trying to sell loans for that matter, has faced difficulty in trying to attract investors due to the wide spread between the bid and asking price. The FDIC has the additional task of building trust with investors, who are reluctant to enter partnerships with the government because they are concerned it will change the rules of the game.

"I know that a lot of folks are looking, but my investors aren't specifically being satiated on what they're seeing and bidding on at the FDIC," Ken Segal, senior vice president and director of Asset Finance Services at [Howe Barnes Hofer & Arnett Inc.](#), said.

In selling assets of failed banks, Segal said the FDIC generally cannot offer the same level of detail or historical data on the assets being sold as an existing bank could because the institutional knowledge tied to the assets left when the bank closed. That means investors evaluating the assets come away with more unanswered questions.

He further said the mainstream investors have struggled to find assets sold by the FDIC that meet their product and yield demands.

"Our investors are still eager to look for business from us conventionally, which by in large is dealing with the banks that are not shut down," Segal said.

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