

News release

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Demand still outstripping supply in US nonperforming loan market, according to new survey by Ernst & Young

NEW YORK, NY – April 12, 2010 – More than sixty percent of respondents to a new survey of the distressed debt market bid on or priced US nonperforming loan (NPL) portfolios in the last year, but fewer than 17.5 percent were successful in completing a transaction. This is one of the key findings in a report published today by Ernst & Young’s Real Estate Distress Services Group based on a survey of real estate investment and opportunity funds, private equity funds, institutional investors and real estate developers conducted in late December 2009.

The Ernst & Young survey portrays a US nonperforming loan market in which investors last year were eager to buy, but in which sellers were unwilling or unable to sell. Consequently, the few deals that came to market attracted multiple bids, leaving more investors foiled than fulfilled.

“The question on everyone’s mind today is whether the US distressed loan market in 2010 and 2011 will be the same as 2009; characterized chiefly by buyers waiting for sellers to turn up and transact,” said Mark Grinis, leader of Ernst & Young’s Real Estate Distress Services Group. Added Chris Seyfarth, a partner in the Real Estate Distress Services Group of Ernst & Young LLP, “The continued development of an efficient market for nonperforming loans here in the US will depend on sellers being prepared to enter the process over the next six months.”

Nevertheless, investors remain bullish about the opportunity to put out significant sums into NPL purchases in 2010 and 2011. More than half of the investors surveyed believe that conditions in the NPL market will be favorable enough for them to enter this year with almost 40% expecting to enter the market sometime after June 1. Behind this projection may be a feeling that by the second half of the year, the country's economic recovery will be well underway and a bottoming of commercial real estate values may be within sight.

What are these investors most interested in buying? In terms of loan type, nearly three quarters of investors surveyed preferred distressed whole loans backed by office, industrial and multifamily properties. About a third of investors favor distressed residential loans such as single family and condo loans as well as Acquisition and Development (A&D) and construction loans. Some investors also want hotel, CMBS, and land loans, but none favored residential MBS loans.

The capital is clearly there for a market to develop quickly. When asked how much they had allocated to invest in NPL portfolios, two thirds of respondents indicated they would have up to US\$500 million each available for purchases. Almost 5% of respondents have made US\$500 million or more available for such purchases.

However, the critical piece of the puzzle for a robust market in distressed loans in 2010 is still absent, says the Ernst & Young report. Despite an increase in troubled loans and growing Congressional scrutiny of financial institutions' loan exposure, banks generally have been slow to deal with their problem loan portfolios, most likely due to a fear of incurring losses from loan write-offs, reductions in earnings or erosion of capital. According to recent FDIC data, US banks' provisions for loan loss reserves totaled US\$61.1 billion in the fourth quarter 2009. The Ernst & Young survey suggests that respondents believe regional banks and thrifts are the most likely active sellers of commercial real estate loans in 2010.

For a comprehensive summary of the entire survey and to download a copy of the published report, "***Is history repeating itself? Distressed real estate loans investor survey,***" go to www.ey.com/realestate.

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