Unloading Sour Assets, Not Waiting for a Rescue

American Banker

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September 26, 2008

As the credit crisis has deepened in recent months, some banking companies have moved to shed toxic assets, rather than waiting for the market to improve—or for the government to bail them out.

The methods have varied, but the goals are similar: making it through the crisis without sustaining deep and lingering hits to profits and capital levels.

Gauging the relative success of these efforts is hard, since most companies have given only anecdotal information to date. Analysts said they will be listening closely during third-quarter earnings calls next month to gauge the efficacy of each strategy.

Those strategies include Colonial BancGroup Inc.'s "war room," a special office set up in Florida this summer, where bankers host affluent individuals and real estate investors and the Montgomery, Ala., company's bankers personally show available properties.

Synovus Financial Corp. of Columbus, Ga., has experimented in recent months with online auctions, and Fifth Third Bancorp of Cincinnati has launched a Web site and invested in search engine advertising to attract potential buyers to its homes.

Other companies like Wachovia Corp. and National City Corp. have promoted or hired executives to oversee efforts to modify or liquidate problematic assets and distressed debt.

Analysts say those that move real estate quickly should be better off than those that wait in hopes that pricing will stabilize or improve. They cited the rise in other real estate owned at banks; in the second quarter it increased 19.7% from the first quarter and 119% from a year earlier, to $19.87 billion, according to data from the Federal Deposit

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"The biggest enemy is time," because sharp increases in the number of distressed properties for sale would likely drive valuations and prices down more than what has already occurred, Christopher Marinac, an analyst at FIG Partners LLC, said in an interview last week.

Jeff Davis, a longtime bank and thrift analyst, said in an interview Thursday: "I think you take your lumps and move on. Banks aren't in the property storage business, and we're in a perfect storm of illiquidity and issues with credit."

The $26 billion-asset Colonial is hoping to minimize the discount it takes in selling real estate. The special office was created in July to handle 42 residential projects valued at about $340 million, all but two of them in Florida, where a good chunk of its balance sheet is based. Colonial gave Julie Stapf, a veteran commercial and corporate lender, the task of running the war room. Robert Lowder Jr., its chairman, president, and chief executive, hosts weekly calls with Ms. Stapf, chief credit officer Caryn Hughes, and Frank McCormack, who handles special assets.

"We talk about every loan ... and what we can do about it," Mr. Lowder said in a conference this month. The objective is to sell the real estate "at full value," and the properties "are too good" to sell at a steep discount.

Colonial sold $100 million in loans in the second quarter through national brokers, taking a 49% hit from the sales.

Synovus' approach is widely seen as more aggressive. An online auction for Atlanta developments during the second quarter allowed it to shed real estate at a 20% haircut. Other auctions around Atlanta have been less successful, with prices ranging from 63% to 70% of the value of the loans.

Richard Anthony, the $34 billion-asset company's chairman and CEO, said during a conference this month that the discounts met "our expectations." Synovus plans to participate in at least one more auction this year, focusing more on Georgia properties outside the Atlanta area, before taking a winter hiatus, he said.

Observers said there are pros and cons to the auction process. It allows companies to move properties quickly, but the final price can be uncertain. Also, auctioneers, much like real estate agents, typically take a commission ranging from 6% to 10% for handling the process, along with an up-front marketing fee, according to the National Auctioneers Association, a trade group based in Overland Park, Kan.

Michael Permenter, the chief credit officer for real estate lending at Zions Bancorp.'s California Bank and Trust in San Diego, said the costs have made auctions a less-attractive option. Instead, the bank has been contacting customers such as investment funds and home builders with offers to buy distressed properties, Mr. Permenter said in an interview Wednesday. "We market to the people that we know."

Richard Spencer, an executive vice president for problem loan administration at BB&T Corp., said the Winston-Salem, N.C., company also looked at auctions and listed some properties but chose not to sell at the prices that came in from bidders.

"It didn't make sense because the prices are so suppressed," Mr. Spencer said in an interview Thursday.

The $136 billion-asset company's capital and liquidity positions are allowing it to be more selective and sell on a case-by-case basis, he said. "We are not in a panicked-seller state."

John Edwards, the senior vice president for special assets at Fifth Third Bank, said it is using a wide range of techniques to sell residential developments. In southwest Florida, it has marketed properties by letting investors review asset summary reports, in some cases selling sites to people who are already familiar with the properties. In Michigan and other parts of Florida, it has held auctions. Doug Wernke, the marketing director for Fifth Third Mortgage Co., said the $115 billion-asset company created a Web site in July to market repossessed homes. As of Thursday, nearly a third of the 809 listings were in Florida, another 30% were in Michigan, and 22% were in Ohio. The site has been getting 900 to 3,000 daily visits, he said.

Originally published by American Banker.

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