Global Insolvency:

Restructuring trends in the US

United States- James Barresi and Shawn Creedon;

- *who is selling distressed assets?*

Many of the US funds are facing liquidity problems with regard to groups of assets they have purchased in the last few years. They are now placing assets into different portfolios with regard to likely buyers and are looking at underperforming assets so they can move portfolios on.

- *what are the drivers for sale?*

No real systemic driver within the US market for selling. It tends to be either “orphaned” groups of assets or change of strategy that renders the assets “non-core”. Sometimes the decision is taken that dealing with the underperforming assets is too labour intensive so it easier to sell. If there is a driver, it tends to be regulatory (with respect to depositories).

- *are there “hot spots” across Europe?*

Probably Spain. Italy is being talked about as the next place to be.

- *any particular sector trends?*

Energy and healthcare are popular assets where purchasers can maximise their return because they have superior knowledge to the vendor. There is focus in regulated industries where parties with great sector and regulatory knowledge can better leverage such knowledge (compared to those with less expertise in these complicated, heavily regulated sectors.)

- *are there any regulatory or legislative changes that will drive the market in the future?*

Some US Banks are liquidating assets that are not core to their business in light of regulatory capital requirements, which make it expensive to retain on balance sheet assets that are not core to a particular institution’s business. In general, asset valuations have improved to the point where banks can minimise the capital charge to be taken in connection with the sale of many assets. That permits the banks to redeploy proceeds in a manner that is consistent with their core business and more likely to generate a better return on capital.

- *have there been many portfolio sales?*

With regard to who is selling in the US - banks that were going to sell have probably done so by now. Smaller regional banks may be selling but the majority of the larger investment banks have already sold.

- *how are due diligence process of sales being run?*

Level and type of due diligence is driven by size of the portfolio, trading price availability etc. £13/14M worth and then outside consultants will come in and properly undertake due diligence before purchase.

- *how have loan portfolios been valued?*

With regard to valuations it is common for buyers to supplement their own diligence with diligence conducted by outside advisers e.g. Situs. Valuation dealt with by sector experts and also by the buyer looking to see if they have been traded. Assets normally fit into two categories: - liquid with a trading price and illiquid – not traded so deeper due diligence is necessary.

- *what is the present trend in your market?*

In the US smaller regional banks with commercial real estate exposure in states such as California, Florida and Arizona are benefiting from the rebound in property prices. Those states' economies are highly geared towards real estate and when the prices dropped to the floor in 2008/09 they were in real difficulty. They are now rebounding with real strength but query whether there is a property bubble developing again.

- *how do you see the next 12 months progressing?*

The risk for the future seems longer term i.e. more than 12 months. Pricing in the US is currently beyond the rational point. The combined effect of continued low interest rates and excess capital waiting to be deployed, asset managers seem to be willing to accept significant risk for some return (notwithstanding that returns are still modest by historical standards). Acquisition financing is very borrower favourable (both in terms of structure and terms) and is readily available. There is lots of concern amongst bankers about the position in 3 / 4 years from now. That may be another reason why bankers are looking to sell their portfolios now before another drop in the market.