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PPIP causes pregnant pause in loan sale market

EXCLUSIVE

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By [Joe Mantone](#)

The legacy loan portion of the U.S. Treasury Department's Public-Private Investment Program was designed to relieve banks of toxic assets and help stabilize falling prices, but as buyers and sellers anxiously await details, the supply of the assets has increased, further taxing the banking sector and depleting prices.

For companies included in the SNL Bank and Thrift Index, nonperforming assets plus 90-day delinquencies as a percentage of assets jumped to 1.9% as of March 31, up from 1.59% as of Dec. 31, 2008, and 1.20% as of March 31, 2008. Kenneth Segal, senior vice president and director of asset finance services for Howe Barnes Hoefer & Arnett, said banks are unlikely to see better pricing as the supply of nonperforming assets increases.

"The strain is getting worse and worse," Segal told SNL. "I think a lot of people are taking a pause just to see how these different government programs play out."

Segal works with community banks and believes PPIP is more geared toward large banks, some of which see the program as a safety net. Still, he said some of his clients are waiting to see how PPIP affects the market and are hoping pricing improves.

Part of the reason he does not think his clients will take part in the program is that the benefit of PPIP is providing leverage to buyers. Buyers of his clients' assets have liquidity, but sellers are not willing to take the capital hit that comes with current bids.

"They don't need help for investors because there's plenty of liquidity out there chasing deals," Segal said. "What they need is some level of relief for the true capital charge."

Timothy Clark, a senior partner with [CarVal Investors LLC](#), said his company would like to become a buyer of loans through PPIP, and CarVal is eager to hear the program's details. Clark believes fewer loan sales have taken place in recent weeks because buyers and sellers are waiting for PPIP, and he thinks the leverage issue could complicate the process.

"We think it's simpler and less complex if the government would simply be more a part of the auction process and format and processor as opposed to the lender or the co-investor," Clark told SNL.

Clark believes providing leverage to buyers could do more harm than good because overleveraged buyers purchasing distressed assets helped create the current economic turmoil. He is also concerned about possible government restrictions that could arise when taking part in the program, and he is worried that leverage could create more competition for his firm.

[Blackstone Group LP](#) said it is [not currently interested](#) in PPIP because of the auction process, which the FDIC is expected to set up to sell the loans.

But if the government changes its strategy and decides not to run the auction or not to provide leverage, it could lock out smaller players and give the perception that certain investors are being favored. Thane Ritchie, CEO of [Ritchie Capital Management LLC](#), said he is interested in the program but believes PPIP will ultimately only reward large players.

"It's going to benefit a few of the large players so they can pay their bonuses, but the reality is normal people won't be able to take advantage of it," Ritchie told SNL.

Ritchie also expressed concern about the pace of the government's efforts to release the details. "By the time you figure out how the government is going to run all this, liquidity may come back in the system already," he said.

FDIC spokesman David Barr said the agency still plans to roll out a pilot legacy loan program in June, but the agency was not ready to release more details. While some may find the lack of details frustrating, the FDIC is likely sorting through the more than 400 comments that potential buyers and sellers submitted during the public comment period, which closed April 10.

Also, the FDIC is working with the Treasury to establish the legacy loan program, and that department has also been busy sorting through [applications](#) for managers on the securities side of PPIP. With various players and issues involved, Jones Day partner Chip MacDonald said he is not surprised the legacy loan portion is taking some time to develop. "It's a multiagency program, and then you have Congress drafting new legislation in the middle of it," MacDonald told SNL.

MacDonald referenced a Senate amendment to a homeowners relief bill that would provide the inspector general of TARP with greater access to the books and other records of PPIP investors. The amendment requires investment managers "to retain all books, documents, and records relating to such public-private investment fund, including electronic messages."

MacDonald believes the bill, which has bipartisan support, could serve as a deterrent to the potential investors. He said the increased restrictions are reminiscent of how conditions were added to TARP.

"It's morphed into many more things than it purported to be at the beginning of it," MacDonald said. "I think there are a lot of questions and few details."

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[SNL Financial LC](#), One SNL Plaza, PO Box 2124, Charlottesville, Virginia 22902 USA, (434) 977-1600