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Q & A WITH DWIGHT BOSTIC

Investment Banks Eager for Yield Return to Real Estate, Mission's Bostic Says

The low interest rate environment has spurred investment banks to join hedge funds and private equity firms to buy distressed real estate, **Dwight Bostic**, managing director at Mission Capital, tells Bloomberg Brief's Aleksandrs Rozens.

Q: Who is buying distressed real estate debt these days?

A: In the last few years there's been significant capital raised and there have been participants that exited the market during the significant downturn that have moved back in – probably most notably the investment banks. Then, there are hedge funds and private equity. It's a pretty broad market when it comes to investing in distressed assets these days.

Q: What kind of paper is it – Fannie and Freddie mortgage debt or non-conforming mortgages?

A: It is mostly assets that would have been originated in 2006 and 2007 and into 2008. From a legacy standpoint on the distressed side, there is still a significant amount of non-performing and troubled debt, restructured re-performing assets that sit on balance sheets of the depository institutions. Some of the structured sales that the FDIC ran in 2008 and 2009 have kind of played out and have gotten to the point where they can be liquidated. We are seeing some funds enter their wind-down phase — some of the early acquisitions that were made in the market. It's not purely depository institutions that have been sellers. It has been some of the funds as well.

Q: What's behind the renewed interest by investment banks? Are they restarting conduits for commercial and residential mortgages?

A: Today while there have been some banks willing to get back into new origination in conduit, that hasn't really taken off because the securitization market has not really taken off. The banks are looking at taking down the distressed side or re-performing assets in this rate environment as something they are willing to hold and earn the yield. Sometimes they have private investors behind them and they create investment vehicles for private equity groups or investors. They are really focused on the higher yield, distressed side of the market. The banks are also extending warehouse lines now to buyers in distressed markets. That's been a boon to overall pricing.

Q: What's your impression of the second lien home equity market? Is anyone buying home equity loans? What does that say about how people feel about the return in value of housing?

A: The second-lien home equity space has been very thin. While the housing appreciation we have seen has been more favorable than we thought it would be at this stage, it really has not resulted in some of 2006, 2007 and 2008 vintages coming back to a point where the second liens have equity in them. So it's still very

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much a collection play from a debt versus any sort of collateral backing it up. The banks and the other holders of that — the execution they are going to get on that is pennies on the dollar. The operational capacity that it relieves from them doing is not that significant. That market is very thin right now and given some of the regulatory oversight and regulations that have been put in place, I don't think that market is going to come back for a while.

Q: What happens to the market when Fannie and Freddie are unwound? Does this mean the end of 20- and 30-year mortgages?

A: That's one of the big concerns as to whatever sort of reform comes out of this: How do you preserve the 30-year fixed-rate mortgage for people? And, what sort of role does the government have in ensuring that that type of financing is available? I don't think anybody knows the resolution that's going ultimately pass. I know that's a very important part of this unwinding process and the future role of government in the mortgage space — and that is to not push the market to purely a balloon or adjustable rate environment.

Q: From what I recall, FHA loans saw a high rate of defaults and delinquencies. Are you doing anything in that space in terms of FHA or VA paper?

A: HUD has been actively selling non-performing loans for the last couple of years. All indications are that they will continue to be active sellers for the foreseeable future, call it three to five years. We are pursuing that market. Really there is the direct involvement with HUD and then there is the potential for individual banks and other holders of that paper to buy loans out of the Ginnie Mae securities — its called early buy out — and sell them. But the current rate environment is not really conducive to that trade. I think the majority of the trades will be direct through the HUD where HUD actually takes a bank out of the asset, pays off the claim and sells that uninsured asset into the secondary market. We are pursuing that business and I think that will be the majority of the HUD FHA and VA loan sales over the next several years.

AT A GLANCE

Age: 49

Education: West Virginia University

Professional Background: Has worked for Pru Home Mortgage, Ocwen Financial, Donaldson Lufkin & Jenrette and Credit Suisse. Joined Mission Capital when it was founded in 2002.

Family: Married, two daughters.

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