Is there disconnect between buyers and sellers of distressed assets?

Posted By tonyb On May 26, 2009 @ 11:30 am In Commercial Loans, REOs, Sub-performing Loans, The Distressed Asset Market

Why is it that so many REO and sub-performing loan pools are offered for sale yet so few close?

If you have doubts about how many distressed assets pools actually closed ask loan brokers, bankers, investors, real estate agents or others who work in this area. Very few of them will tell you that they have closed many pools this year. Why is this so? Well there is not a lot of public data available on this subject. However, one source of real data is the FDIC sales of assets from banks in its receivership program.

Since January 2008, the FDIC has sold loans from failed banks at auctions. These are a combination of performing, non-performing residential and commercial loans. The FDIC's average auction value for residential and commercial loans was 56.3 cents on the dollar. Additionally, the average sale price of non-performing commercial loans was 32 cents on the dollar.

As we look at the market today, the typical asking price of most sellers of distressed asset pools is 55 cents or higher. In fact asking prices of 70 to 80 cents on the dollar are not unusual. On the other hand most large buyers of distressed pools generally are comfortable with paying 40 to 60 cents on the dollar. This clearly shows misalignment between buyers and sellers price expectations.

There are many pools being offered and some transactions are being completed. The price points you have seen may be different. However, it is obvious that at the present time buyers and sellers are not willing to meet at a price where many transactions can be completed.