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REAL ESTATE

Colony, Cogsville Team Up in FDIC Asset Sale

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LOS ANGELES—A partnership between Tom Barrack's Colony Capital LLC and a minority-owned investment firm won the bidding for a $1.85 billion portfolio of distressed commercial real-estate loans auctioned off by the Federal Deposit Insurance Corp.

The FDIC retained the remaining 60% and offered seven-year, zero-interest financing to the Colony-Cogsville group, which reduces the venture's upfront cash input to $218 million.

This deal is the first public-private setup in which a minority-owned firm has taken a stake, albeit a small one, during this economic downturn. Cogsville, an African-American-owned firm, contributed $16 million to the $218 million investment, for a 7% stake in the portfolio.

"The FDIC is encouraging partnerships between large and small firms," said Don Cogsville, a former player on the U.S. national soccer team in 1988 who had worked as a lawyer and an investment banker before forming his own firm in 2007. "We see it as a major opportunity." Barclays Capital advised the FDIC on the auction.

The Cogsville Group

Over the past year, there have been complaints on Capitol Hill and among smaller financial firms, especially those owned by minorities and women, about the lack of minority-firm participation in various public-private investment programs.

"**A lot of minority-owned firms have been angry because they haven't been included in a lot of deals," said William Michael Cunningham, an investment adviser who tracks minority-owned financial firms.**

In response, the FDIC started its minority-and-women outreach program this year, conducting seminars to facilitate participation by firms in its asset sales, FDIC officials said. The move also comes as politicians are ratcheting up pressure on regulators and financial firms to boost minority firms' chances of participating in various asset-management and bank-rescue programs sponsored by the government. These programs are expected to generate millions of dollars in management fees and investment opportunities for private companies.

Still, for the FDIC, which is trying to limit taxpayer losses and shore up its deposit-insurance fund, its mandate is to get the highest price for the billions of dollars of assets it inherited as a result of bank failures. But not everybody seeking to get a piece of the pie can do so.

"You have to qualify and have to have the management and experience to deal with distressed real estate," said Tim Kruse, manager of structured transactions at the FDIC. "You can't be retail investors."

Mr. Kruse said the agency encourages relatively small, minority-owned firms to join with bigger companies to bid for its structured-asset sales via public-private ventures. The FDIC also is tailoring some of its asset sales to specifically target small and minority investors. It has created a portfolio of $181 million of commercial-property debt held by various failed banks that is aimed for these investors. The bidding deadline for the portfolio is July 27.

Demand for these assets, at a discounted price, has become intense. Investors have amassed billions of dollars to buy distressed loans and property, much as investors did in the early 1990s. But many banks won't sell. Some, especially community and regional banks, haven't marked down the value of their loan portfolios to current market rates, something that could jeopardize the survival of weaker lenders. Many hope the low cost of funds offered by historically low interest rates will let them earn their way out of trouble. Meantime, many property owners aren't selling, as they are trying to hold onto their buildings in hopes of a stronger recovery. That makes the FDIC practically the only game in town.

"The new equity is debt," said Mr. Barrack, founder of Colony Capital, referring to investment opportunities for real-estate investors. "And the best delivery of debt is the FDIC because it's a willing seller." Colony Capital has been one of the most active bidders at FDIC loan auctions.

Indeed, the agency has to sell off a pipeline of real-estate assets acquired from banks that collapsed after lending too aggressively to owners of offices, shopping malls, apartments and other commercial property. A total of 90 banks have failed this year, on top of 140 bank collapses last year. While the loans are expected to be sold at a discount, observers said, the competition and the low-cost financing provided by the government should drive the price higher. Also, the FDIC is structuring the deals so taxpayers will share in the upside if the market improves.

The public-private partnership structure is modeled on about 70 such deals pioneered by Resolution Trust Corp., a federal agency formed to clean up the savings-and-loan mess of the late 1980s and early 1990s. Rising property values in the mid- and late-1990s enabled the RTC to reduce taxpayer losses. These structured deals, however, carry additional risk for the FDIC and, by extension, taxpayers. Because the agency takes a big chunk of the equity and provides financing, it stands to lose more if the markets decline.

The Colony-Cogsville group intends to work with borrowers when possible as opposed to foreclosing on them. If a borrower defaults, the group may modify the terms to make the loan current. It would make money as long as the borrower stays current on modified terms. In some cases, the group may sell the debt back to the borrowers for more than what it paid.

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