

BENSON BLASTS SUBPRIME BORROWERS AT IMN CONFAB

19 Sep 2007

--Cathy Cunningham

The **Information Management Network's** conference on the subprime market got off to jumping start in Las Vegas today as keynote speaker **Richard Benson**, president of **Speciality Finance Group**, took aim at subprime borrowers. Benson referred to subprime borrowers as "crap magnets" and said the tide would turn away from homeownership to renting. "In renting foreclosure is simple, you just kick their ass out," he said. Benson told the audience at the "Subprime ABS - Where Are We Heading?" confab that the silver lining of the subprime mess could be found in its clean up. He said of the \$500-800 billion in prime, a lot may actually be subprime. "This will create a tremendous opportunity for people in this room," he said. "America is good at creating messes but also good at clearing up messes."

Benson said that the 13% in delinquencies subprime borrowers create each year can be controlled with short term maturities, but not with 30-year maturity dates. He also touched briefly on **Bear Stearns'** hedge funds blow-up, putting it down to "the nuclear waste they created" in the funds.

Looking to give **O.J. Simpson's** court hearing a run for its money as the top story in Vegas, attendees milled around the breakfast buffet before Benson's speech, gearing up for the day. "When is cocktail hour?" one attendee asked. "I think every guy in this room needs a strong drink!"

Like knights of the subprime Round Table, the first panel speakers sat sipping from emerald green goblets, discussing the state of the subprime ABS market. The panelists agreed that the value was to be found in the highest parts of the capital structure and also the lowest parts to capitalize on discounted prices, but not in between. Moderator **Steven Finnk** from **Guggenheim Capital Partners**, however, said value can be found across the capital structure, but "you have to pay to play." He added that those who provide liquidity will also be paid for doing so.

There was some debate between panelist **Mark Adleson** of **Adelson & Jacob Consulting** and **Bobby Lazenby** of **Lazenby & Associates** regarding the future size of the subprime market. Adleson said it would shrink and agreed with Benson that there will be more renters and the amount of lending will shrink. Lazenby retorted, "I can assure you that the number of subprime borrowers is increasing, and it is ridiculous to think that there won't be substantially more subprime borrowers."

Today's early buzz was about the servicer's role, with some curious attendees pointing to the afternoon session on the topic as a "must go to." Most attendees were trying to take the temperature of the market. One portfolio manager told TS "I'm here for an update, to see what we can expect next." He said his L.A.-based company, which has \$36 billion in assets, had little exposure to subprime collateral besides \$1 billion in CDOs "I'm one of the lucky ones," he joked.

LONE STAR STATE BUILDER PREPS WORKING CLASS HOME FUND

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-- Cathy Cunningham

Houston-based **Building Projects International Enterprises** is trying to raise money for its new lease-to-purchase home lending program. The builder wants to build 5,500 homes for working class families in the Gulf Coast region by 2010 and is looking to set up a \$50 million fund to fund the project, **Jeff Samuels**, president, told TS. The effort will go toward filling the need for one million new homes in the area over the next four to eight years, a result of damage from recent hurricanes, Samuels said.

BPIE is targeting subprime and first-time borrowers. BPIE's borrowers will lease the home for 24-36 months if the borrowers prove they can afford payments, after which they will enter a standard mortgage program. The length of

the initial lease reflects the uncertainty in the market, and is a way of avoiding mortgage rate increases, Samuels said.

OPPORTUNISTIC FUNDS SEE SUBPRIME SILVER LINING

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-- *Cathy Cunningham*

*The pipeline for opportunistic funds is building up fast and furious, according to panelists at IMN's Subprime ABS conference in Las Vegas. **Tim Nabors**, managing director at **Six Degrees Capital Management**, estimated \$15-20 billion in opportunistic funds will launch by mid-2008, while **Bill Martin**, portfolio manager at **TIAA Investment Management**, upped the ante to between \$30 and \$50 billion. "We have to get through bonus time first, and then I think we'll see a lot of Wall St. guys resurface in new distressed debt funds," one investor told *TS* afterwards. He declined to identify some new funds in the works.*

The industry is on the "other side of the pendulum," said panelist **John Kim**, director of **CapitalFusion**. "We have a good investor base, which will come back in an opportunistic way. We're in the middle of the storm, around 50% of the way through." **Ralph Sells**, president of **Emortgage Logic**, agreed. "The worst is yet to come," he said.

BOSTON PORTFOLIO ADVISORS SHOPPING FOR DISTRESSED DEBT

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-- *Cathy Cunningham*

Fort Lauderdale, Fla.-based financial services consultancy Boston Portfolio Advisors is looking to make some opportunistic investments in distressed subprime residential mortgage-backed securities. "We see major opportunities. We're interested in buying pools of distressed securities," said **Scott Calahan**, president, in a session on making the most of the subprime mortgage market's worst year. Calahan said the company has a "my way or the highway" mantra. "We bid 15, the seller said 'not below 75'...well, that's a pretty wide spread there," he joked.

Boston's tough stance extends to its rules on loan servicing. "The first is servicers, please don't steal. We've found this happening too many times." Calahan also said he required servicers to demonstrate expertise in effective collections, and promote successful borrowers through dedicated servicing. "You can't do that through a couple of calls. The best servicers have increasingly interesting ways of engaging borrowers in meaningful discussions." Finally Calahan said servicers should operate honestly, openly and effectively and "we like servicers who also pay attention to us." Afterwards moderator **Paul Arvidson**, senior v.p. at **Lewtan Technologies**, joked, "*Scott Calahan's Ten Commandments* will be available in stores tomorrow."