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Dallas joint venture buys 'toxic' loans at deep discount

Dallas Business Journal - by [Chad Eric Watt](#) Staff writer

A group of Dallas investors has put together a \$10 million fund to buy up mortgage pools that selling banks consider toxic.

RTR Capital, a joint venture between **Cienda Partners**, **Transition Capital Partners** and others, was formed after about a year of studying mortgage-backed securities.

That first look revealed high prices that just weren't sustainable, said Phil Wise, founder of Cienda Partners.

That changed last year, and the fund was able to buy pools of performing second mortgages for half of their face value — or less.

By paying so little, RTR can make money even if some portion of the borrowers default.

But default is not in the interest of buyers such as RTR. Rather, they can afford to work with borrowers who are at risk of defaulting.

"If the current holder has them on the books at 100 cents on the dollar, we have the ability to go back to the borrower, restructure the loan, and we still get a good return," said Dan Patterson, founder and chairman of Transition Capital Partners. "We can cut somebody's debt service in half. Our job is to keep that borrower in the home."

While big investment funds have bought first mortgages, they have mostly neglected the market for second mortgages, Patterson said.

"The prices are lower for the volume that's available," he said.

Thus far, RTR has purchased loan pools from sturdy institutions. Weaker banks haven't yet begun selling their holdings, in part because they don't want to write down the values of those assets to what they're likely to sell for.

The early returns for RTR look promising. Two of the four loan pools it has purchased are close to covering their expenses in less than a year. Given that the second mortgage pools it has acquired pay off on average over a period of seven years, that means the fund has a good chance for some strong returns.

In the last two months, the sale process has been slowed by the introduction of the federal government's Public-Private Investment Program.

That program allows buyers such as RTR to use government loan money to do what it has been doing with its own money.

Once that program was introduced in late March, banks quit selling and buyers quit buying, waiting on details of the program.

"We think it's a great source of financing for us, but the lenders are sitting on the sidelines to see if that thing gets legs," Patterson said.

From the banks' perspective, the program could lead to more buyers and better prices for the sellers.



Jake Dean

OPPORTUNISTIC BUY: Dan E. Patterson, left, of Transition Capital Partners and Phil Wise of Cienda Partners are part of a joint venture formed to buy up toxic mortgage-backed securities