



APPRAISALS AND GEORGIA BANKING

Economic Forecasting Center

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McKenna Long & Aldridge

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The Difficulty of Calling Markets and Values

JIM LEHRER: One final question, and a third subject. How worried are you about the slump, so-called slump in the housing market in the United States right now? And what kind of damage, if any, is it doing to the economy?

HENRY PAULSON: ...we've had a major housing correction in the U.S... That correction was inevitable; that correction has now been significant. We think it is near the bottom... **So my very strong view is that we are near the bottom and that this will be contained as -- the housing will be contained.**

May 17, 2007

May 2007 CS Atlanta: 135.60



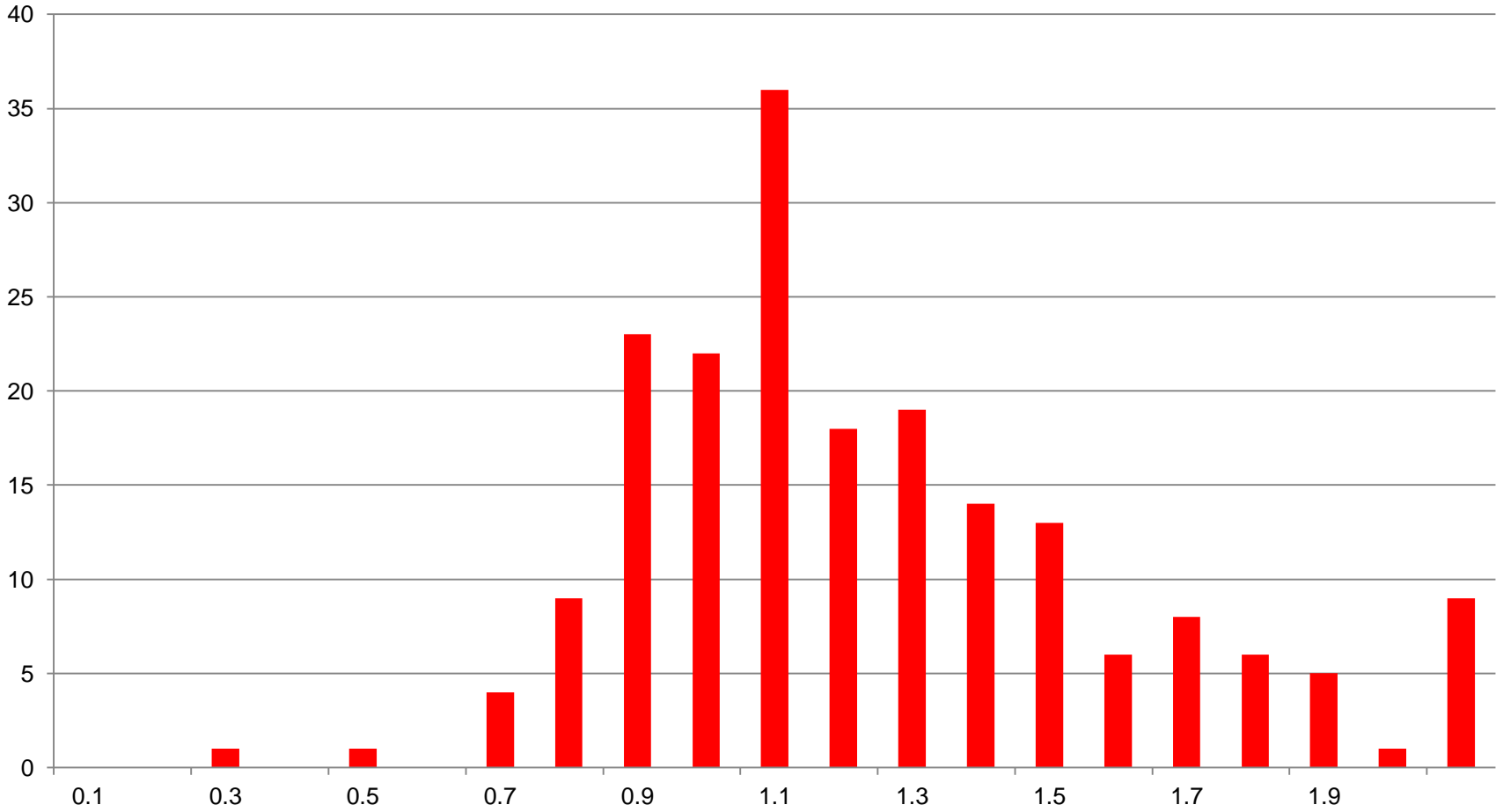
Feb 2012 CS Atlanta: 85.58

Down 37%

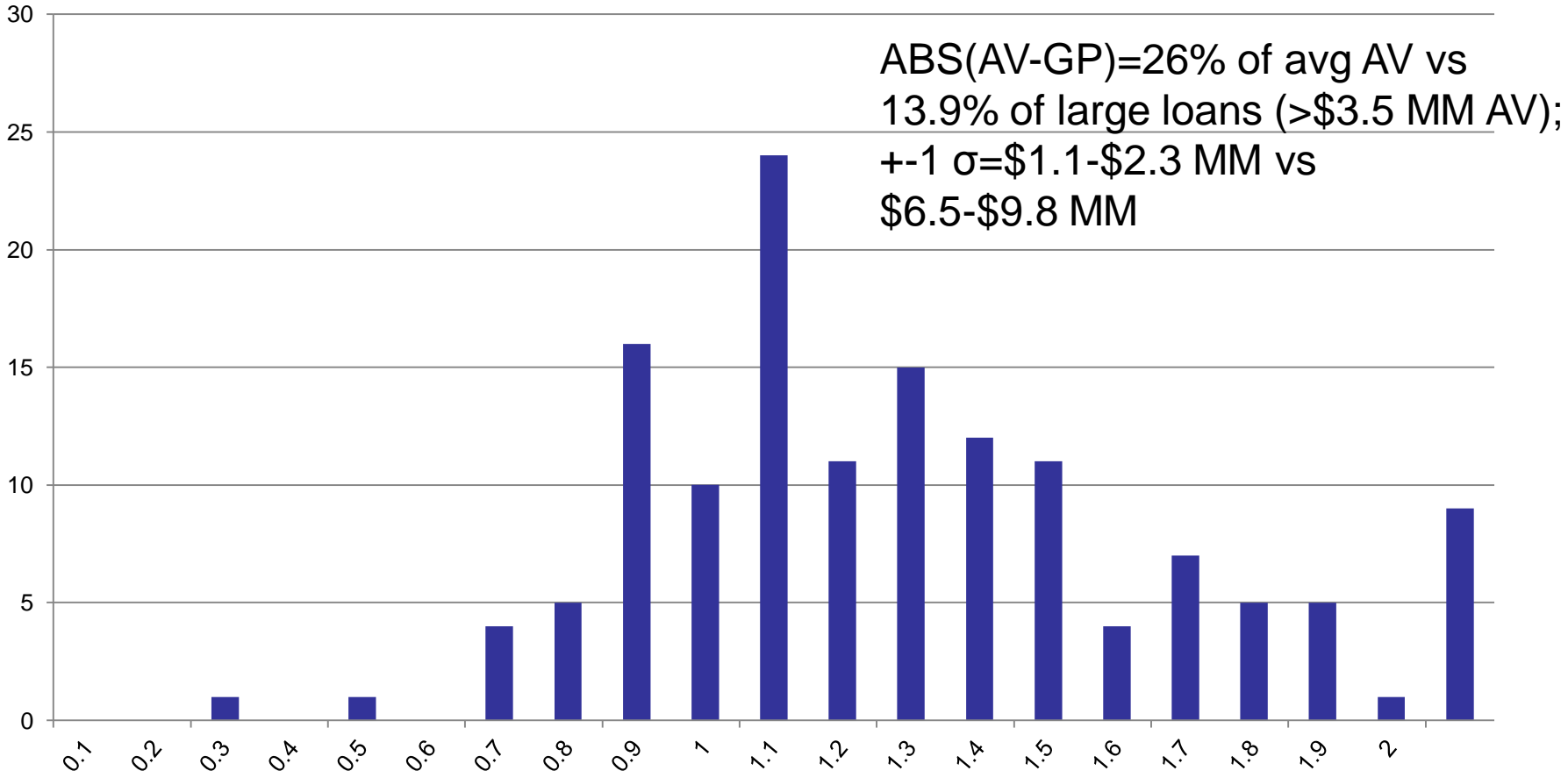
Testing Appraisal Predictive Power in GA RE

- 299 CMBS liquidations of GA commercial mortgages between 2004 and 2011
- Principal balance of \$1.6 B (\$5.2 MM avg), liquidated for \$1.0 B (\$3.4 MM) and a loss severity of 44%
- Of these liquidations, 199 loans had an appraisal < 1 year old at liquidation date
- This recent appraisal group had principal balances of \$987 MM (\$5.0 MM avg) and produced gross liquidation proceeds (GP) of \$644 MM (\$3.2 MM) and a loss severity of 46%
- The aggregate of Appraised Values (AV) was \$683.2 MM or an AV/GP of 1.06 (\$683.2/\$644)
- The AV < Gross Proceeds in 57 cases, = GP in 6 cases and > GP in 132 cases
- The absolute error of AV-GP = \$124.1 MM or 18.1% of AV
- The average AV= \$3.5 MM, σ for AV-GP=\$1.0 MM (tighter than national study)

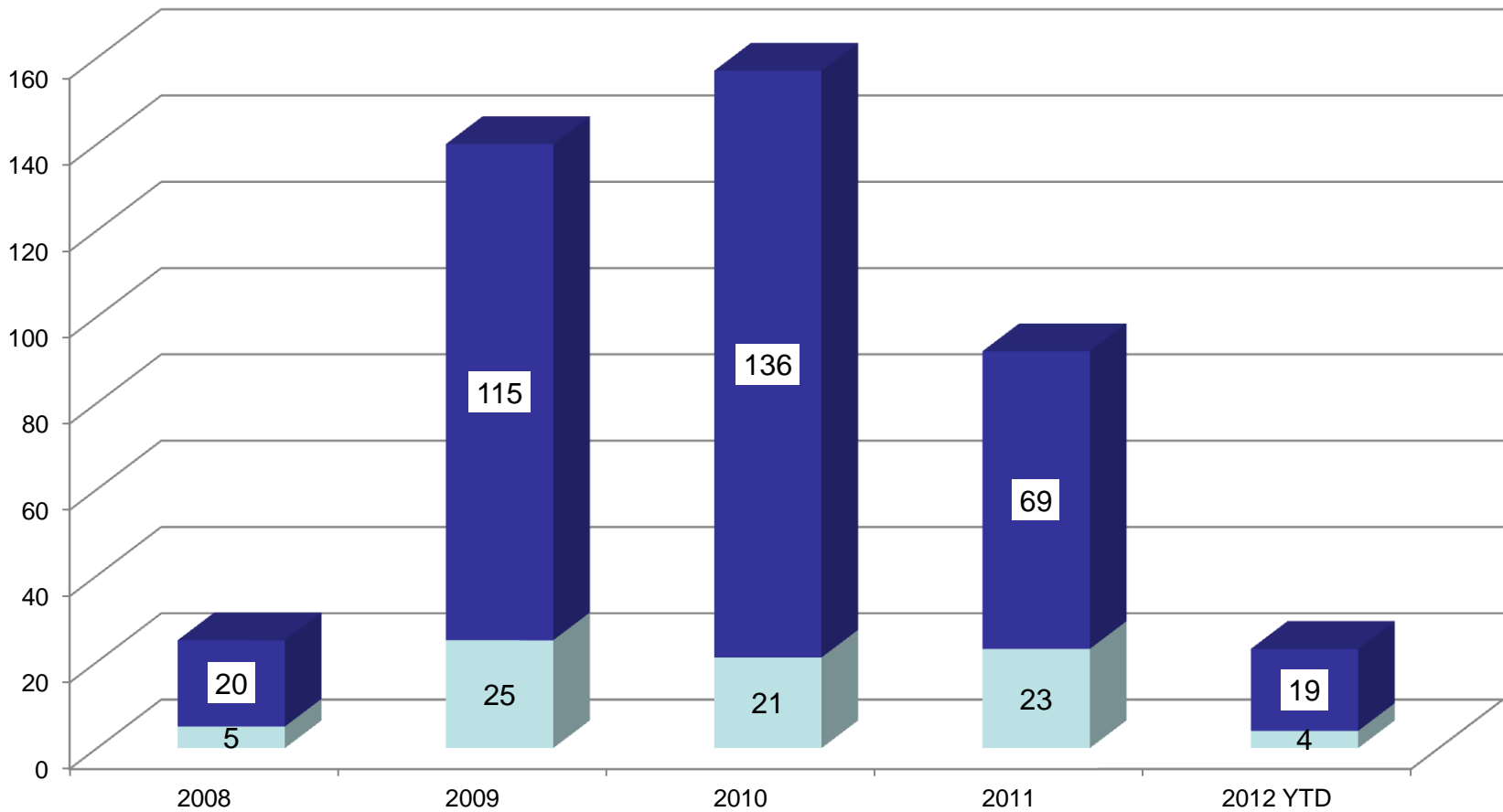
Relationship between Appraised Values and Gross Proceeds (AV/GP) for GA loans (Source: Trepp, LLC; Olasov/Conway)



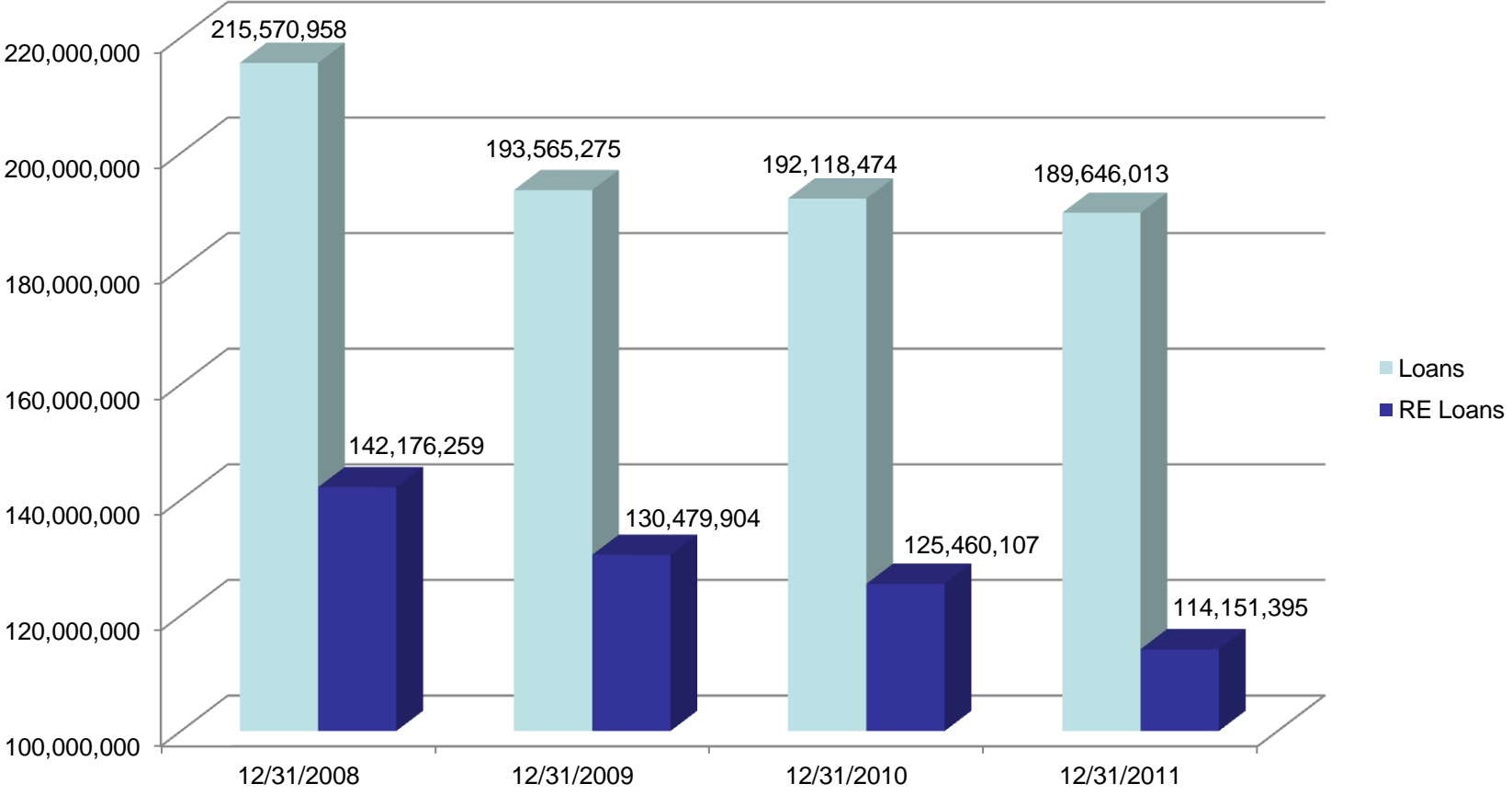
Smaller Loans (Avg=<\$3.5 MM) (Source: Trepp, LLC; Olasov/Conway)



Georgia Banks have felt the brunt of declining RE values through bank failures ... (Source: FDIC)

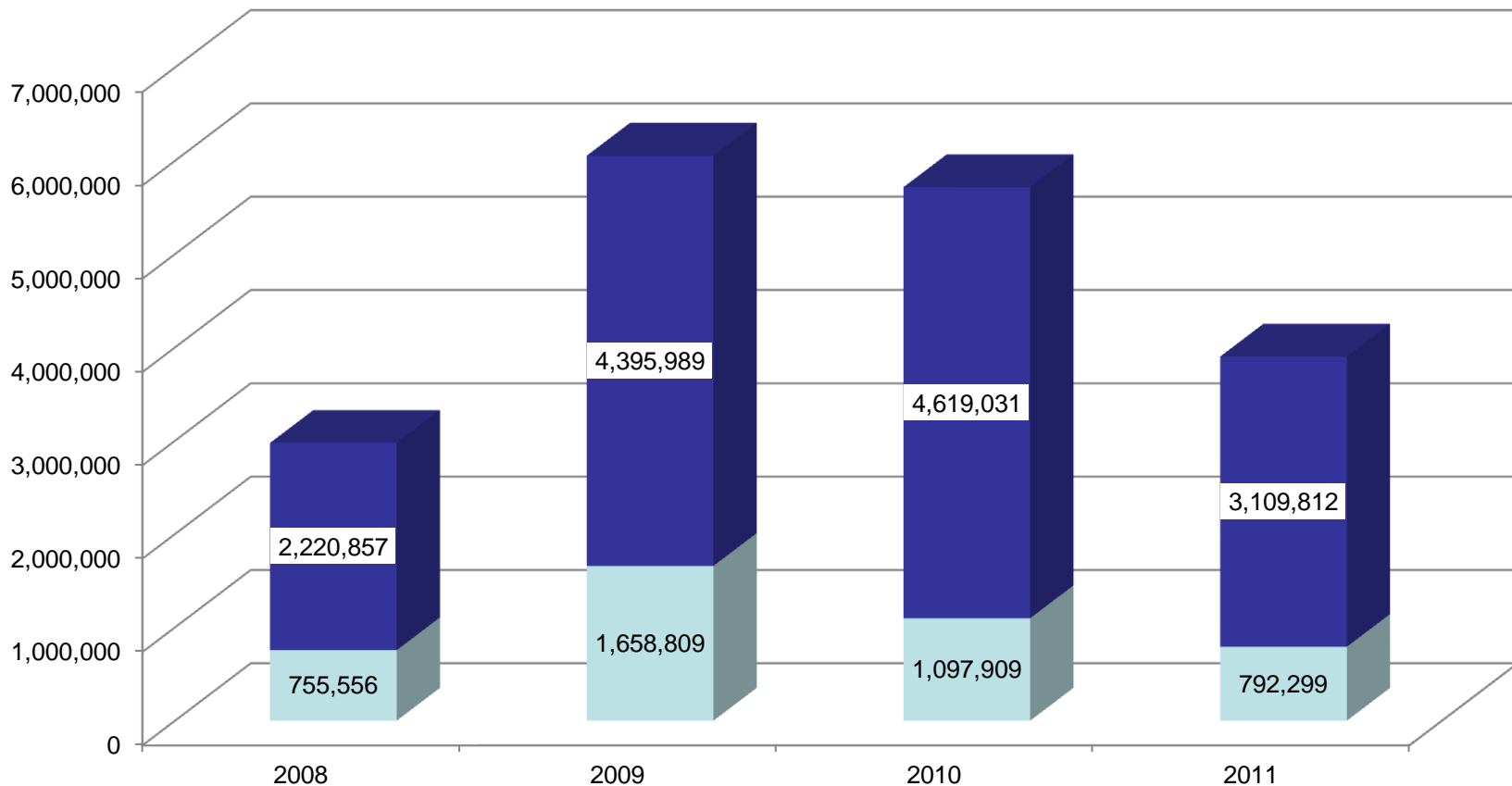


...and reduced lending (Source: FDIC)



...as a result of Charge-offs at GA banks (Source: FDIC)

2008-11 RE Charge-offs = \$14.3 B
or 47% of 2011 YE Total Bank Capital of \$30.7 B





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