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%
• 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, $ 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)

ABS(AV-GP)=26% of avg AV vs 13.9% of large loans (>=$3.5 MM AV);
+1 σ=$1.1-$2.3 MM vs $6.5-$9.8 MM
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
The opinions expressed herein do not necessarily reflect the views of McKenna Long & Aldridge

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