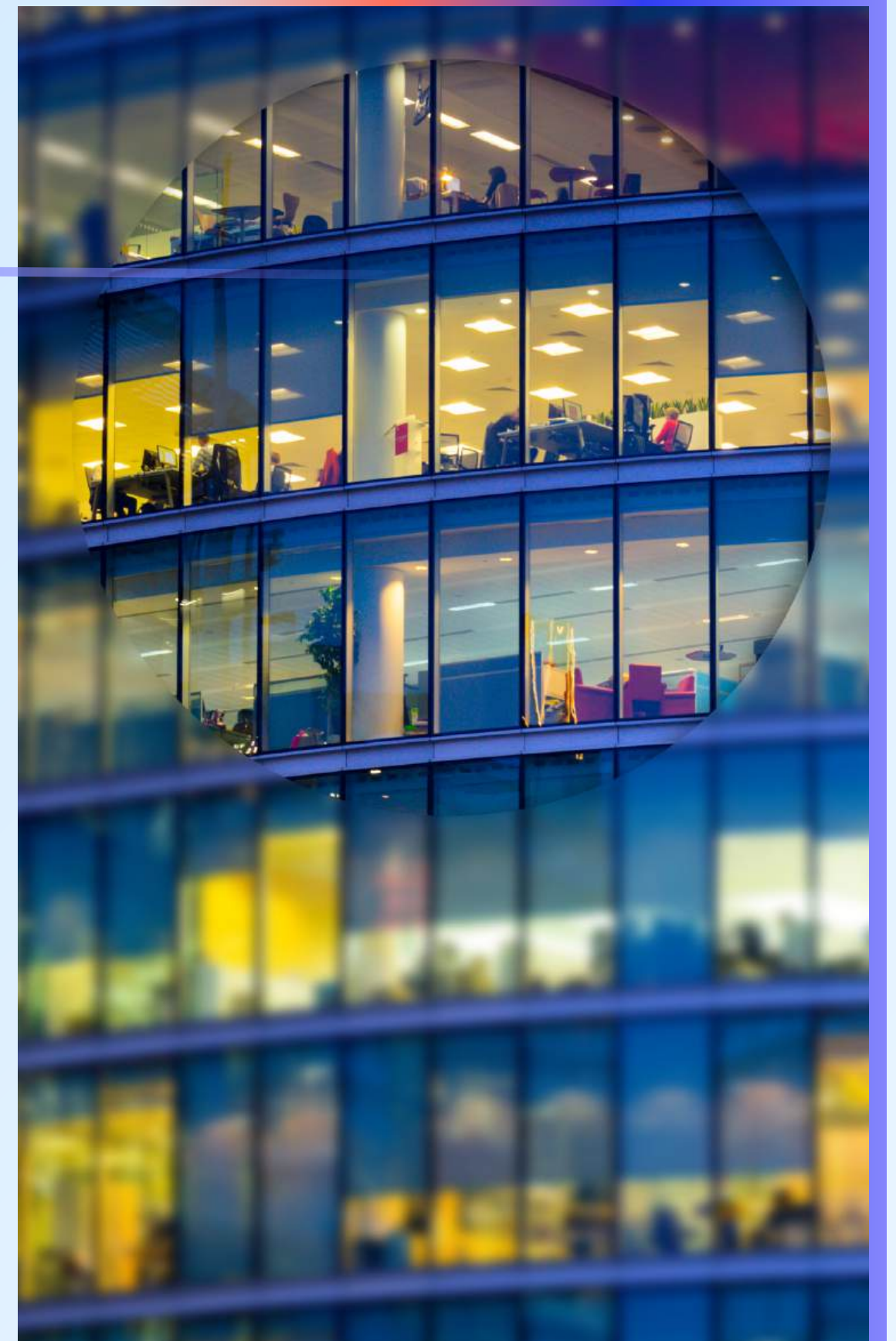


# 3 Ways Banks Can Mitigate Risk and Maximize Value When Selling CRE Assets



# Introduction

U.S. banks are expected to sell more commercial real estate (CRE) loans as the sector continues to struggle. Hundreds of banks are carrying a disproportionate number of CRE loans relative to capital, according to [a recent study by The Conference Board](#). As banks prepare to reduce CRE exposure, they must consider ways to maximize the proceeds of loan sales.

Many banks turn to third-party provider (TPP) firms to help them present assets in the most favorable light and optimize returns in three ways: (i) organizing data, (ii) streamlining processes and (iii) performing a comprehensive book review. Here's a closer look at each step.



# Step One

## Data Aggregation

The first and perhaps most critical step in optimizing a portfolio sale is data aggregation and normalization. “Good data supports a more compelling story for the assets, enhancing investor confidence and driving better outcomes,” said Jen Cleare, SitusAMC Senior Director, Strategic Advisory Solutions. “Disorganized data opens up the possibility that potential investors will walk away, because they may consider it too time-consuming and expensive to scrub the data, perform the due diligence and assemble a bid in the allotted time frame.”

Given industry consolidation in recent years, loan information is often scattered across multiple systems that don’t communicate with each other. Data might be stored internally or with third-party providers, in formats ranging from tapes to Excel spreadsheets to physical documents.

“Unifying all of that is step one,” said Cleare. “If a bank is regionally focused, sometimes each region has their own way of doing things -- onboarding a loan, managing the data, etc. Not every bank has a centralized system that

retrieves all the relevant data from the other systems. In that case, standardization becomes a very manual process.”

“A third-party provider can help pull data such as servicing information, financial statements or other critical documents from various sources to mitigate the risk of errors and inconsistencies that could deter potential buyers. The challenge is gathering the data, verifying that it’s correct and updated, and making sure it presents a strong story for that pool,” Cleare said.

The process includes verifying and refreshing stale data, as well as removing bank jargon and non-essential information. “At SitusAMC we understand how the industry consumes this data, so we decode abbreviations and standardize bespoke language in the bank’s servicing system,” Cleare explained. “Instead of seeing a bank property code like LH1 or MO2, a potential buyer knows that the former stands for lodging and the latter refers to multifamily.”

Third-party firms make sure the data is both accurate and easily interpreted, whether it’s a translating a column header, putting together a

legend or removing a distracting column that is not important to potential buyers.

If a bank skips this step, it can provoke a flood of time-consuming questions from bidders about the bank’s loan processes, risk rating policies and procedures, collection of financial statements, etc. -- requiring the bank to devote resources to respond to those inquiries. Poor data presentation not only increases the burden on the bank’s internal resources but can reduce the competitive bidding environment, potentially reducing the sale price.

Engaging a third-party provider early in the process helps ensure all relevant information is unified into a single, coherent data tape for bidders to review during due diligence.

“Sophisticated investors demand accurate data presented in a clear and standardized format,” Cleare said. “Banks can have the most beautiful pictures, tables and charts to illustrate the loan pool’s performance, but granular data is what drives the deal.”

“Good data supports a more compelling story for a bank’s assets, enhancing investor confidence and driving better outcomes.”

**JEN CLEARE**  
SitusAMC Senior Director,  
Strategic Advisory Solutions



# Step Two

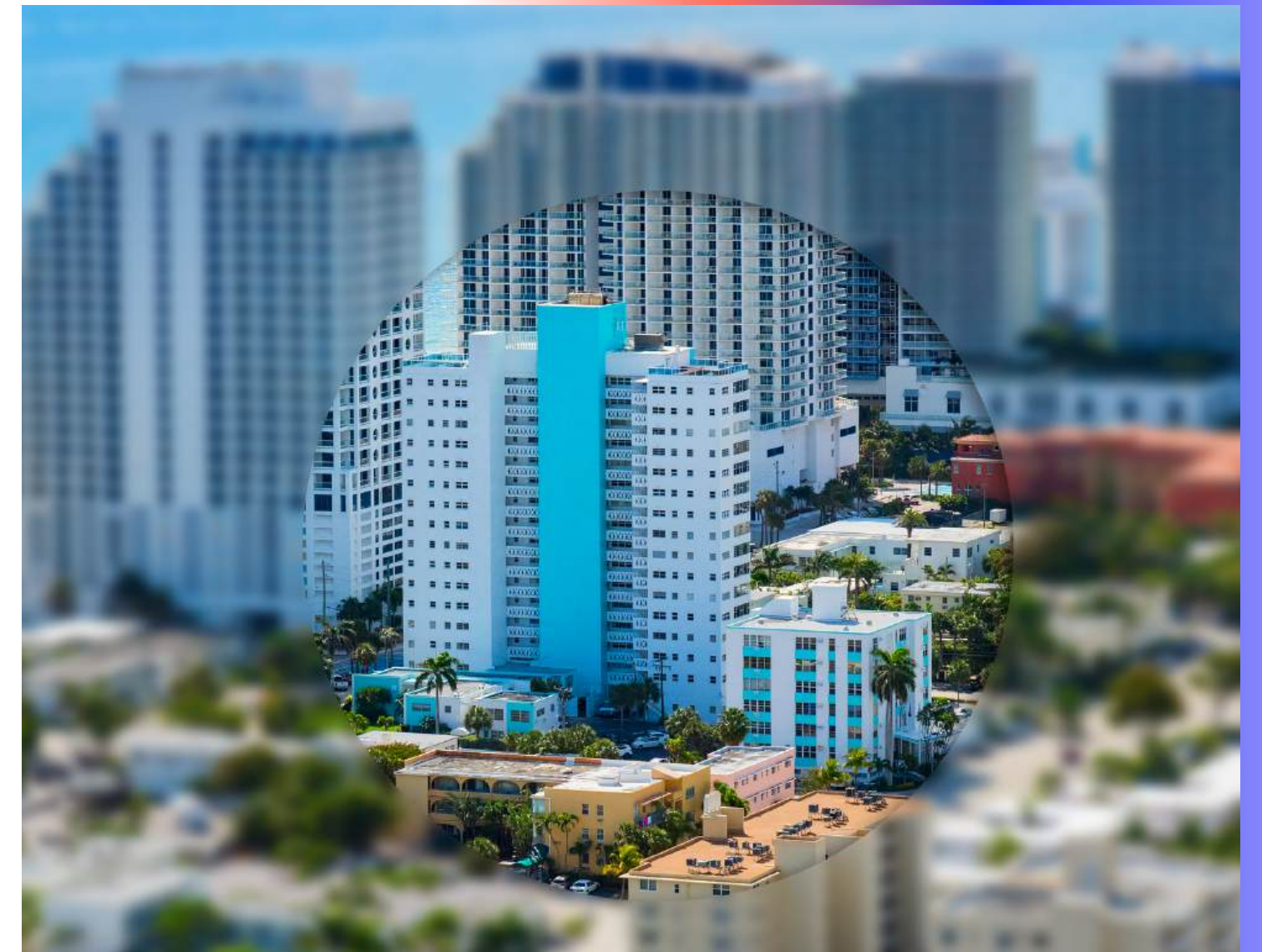
## Translating Policies and Procedures

Beyond data aggregation, third-party firms can add significant value by scrutinizing a bank's policies and procedures. While all banks must adhere to federal regulations and conduct regular audits, the specific ways in which they manage properties, update appraisals and interact with borrowers can vary widely. These nuances, if not properly understood and conveyed, can complicate or disrupt the sale process.

“A good third-party provider will work to develop a deep understanding of how things are done internally at the bank: where decision-making happens, how the bank interacts with borrowers, how it retrieves financials and how often it analyzes them,” Cleare explained. “This context gives us a better understanding of the bank and how we can assist, such as preparing additional schedules or write-ups needed for the offering memorandum.”

Understanding policies and processes before the initial bid diligence phase begins is crucial, enabling swift responses to investor questions. In short, third-party firms can bridge the gap between a bank's internal operations and the external expectations of sophisticated investors, ensuring that all aspects of the bank's policies and procedures are communicated effectively and contribute positively to the overall sale narrative.

“Examining policies and procedures in a loan sale process allows us to better understand the bank and its assets so we can help move this data along, prepare the tape and put things in the best light,” Cleare noted. “The better we understand how the bank does what it does, the more meaningful context we can give to the data, and the more the opportunity will resonate with buyers.”



“The better we understand how the bank does what it does, the more meaningful context we can give to the data, and the more the opportunity will resonate with buyers.”

**JENN CLEARE**  
SitusAMC Senior Director, Strategic Advisory Solutions

# Step Three

## Comprehensive Book Review

The third component that a third-party firm can offer is a comprehensive review of the bank's loan portfolio. Given current market conditions, banks are vulnerable to risks such as interest rate fluctuations and potential defaults. A third-party firm can identify major risks and help the bank refine its strategic approach to the portfolio sale. "The re-underwriting process allows us to take a critical look at individual loans, their performance, and current and future risk, enabling us to help guide the bank to structuring a better pool and optimize pricing," Cleare said.

For instance, a third-party firm can analyze the maturity schedule of loans in the portfolio to determine repayment and refinancing timelines, and help identify loans at risk for default. Understanding whether loans are likely to be paid off, extended or move to special servicing is crucial for accurate asset valuation.

For example, in one case SitusAMC worked on a portfolio bid for an investor that conducted an analysis of multiple loans with near-term rate resets. The analysis showed that if rates reset to greater than 6%, debt coverage ratios would fall below 1.0, i.e., the property's net income would be less than the mortgage payment. SitusAMC conducted additional analysis focused on refinance and modification/extension options, valuations and various rate scenarios for the bidder. "A third-party firm may have advised the bank to change the composition of the pool to support a better outcome," Cleare noted.

But in some instances, eliminating loans from a pool is not an option for the bank. "In that case, third-party firms can help banks lean into the analysis of loans with rate resets, and communicate the bank's internal process to manage the risk, as well as their track record of doing so," Cleare said. "This helps present the loans in the best possible light."

Through re-underwriting and risk assessment, third-party firms can help banks proactively address potentially problematic loans, and then assist in restructuring the pool composition to enhance the quality and attractiveness of the offering to potential buyers. For instance, if the portfolio includes a high concentration of office assets, which may be particularly sensitive to market changes, the third-party firm might recommend reducing the number of office loans and/or adding other loans collateralized by different property types to dilute the office exposure. This approach not only optimizes the sale price but also reduces the likelihood of post-sale issues, fostering long-term investor confidence and satisfaction.

## Our Offering

SitusAMC works with leading banks to help them elevate their CRE loan sales. Specific offerings include:

### Data Aggregation

Centralize and streamline data across the banks so they (and a potential buyer) can see the book from a high level

### Policy & Procedure Review

Understand and qualify policy and procedures from a practical standpoint so banks can improve how they manage their books and prepare for potential transactions

### Loan Book Review

Identify what is at risk for default and/or dollar loss



The re-underwriting process allows us to take a critical look at individual loans, their performance and current and future risk, enabling us to help guide the bank to structuring a better pool, and optimize pricing.

**JENN CLEARE**

SitusAMC Senior Director, Strategic Advisory Solutions

---

# About SitusAMC

SitusAMC the #1 solution provider to the residential real estate finance industry. We are trusted by leading banks, non-bank originators, RMBS issuers and other market participants to power opportunity in their residential real estate businesses. Our innovative solutions support the entire residential mortgage lifecycle, from originations to secondary market activity to loan servicing and asset management, leveraging expert-led services and innovative technology to power more efficient, effective and agile businesses. How can we power your opportunity?

To learn more about SitusAMC and how we partner with banks to help them maximize the proceeds of loan sales, visit:

[situsamc.com/banktransactions.](https://www.situsamc.com/banktransactions)



Powering  
opportunity  
everywhere.

[situsamc.com](https://www.situsamc.com)