



MEDIA RELEASE

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Signs of life appearing in the distressed debt industry

Whilst many financial markets remain moribund, signs of life are appearing in the distressed debt sector, with market participants beginning to see a closing of bid-offer spreads and a growing recognition by vendors that bad debt disposal will be an important ingredient in an eventual recovery.

Speaking at the IMN European Distressed Credit Investing Summit in London on Friday, Bluestone's Chairman, Alistair Jeffery said that global financial markets remained massively damaged due to synchronised liquidity and credit shocks. Impending losses from non-performing assets coupled with a lack of transparency regarding where these losses will report has led to widespread fear. The confidence required for financial markets to operate is almost non-existent, compounding the credit damage being done by falling asset prices.

"Early steps to address the dislocated market focussed on bad bank strategies and the ring-fencing of non-performing assets", said Mr Jeffery. "The original TARP plan had asset segregation at its core, but unfortunately the financial markets were 'dying on the table' before the original plan could be implemented. The Lehman Brothers collapse emphasised the need to stabilise the key participants of the markets as a higher priority to ring-fencing assets, hence the bank re-capitalisation and nationalisation plans", he said.

But in the longer term, it is highly likely that restorative strategies will focus on isolating non-performing assets, and financing them via specialist funds or governmental agencies who are prepared to take a long term view on asset value. The resulting flow of distressed assets to third parties will represent a cleansing of the balance sheets currently holding the assets, leading in time to improved confidence and the resumption of normal credit intermediation by banks. Given the sheer quantity of non-performing assets that are likely to emerge over the next few years, the distressed debt industry is likely to expand very rapidly. Bluestone is currently expanding its asset management operations into Europe to benefit from this growth.

Mr Jeffery criticised the 'toxic asset' label used to describe a vast array of structured instruments as too simplistic and interfering with the recovery process.

"There is no doubt that hard losses will occur in a number of structured notes in the market, due to the weak performance of the assets (such as sub-prime loans) that the notes finance. It is true also that the yield on these notes is often lower than the cost of capital needed to re-finance or purchase them, and for this reason many are worth substantially less than par. But toxicity implies that structured notes will poison all who come into contact with them, which is simply not the case", said Mr Jeffery.

There was evidence at the conference of a small but growing number of specialist buyers who can both understand and value these instruments, or the underlying loan portfolios. These buyers, which include specialist funds and high net worth families, are generally using un-levered capital and targeting private equity style returns from cashflows that have been stressed with reasonable and conservative assumptions.

About Bluestone

Bluestone Group is an asset management business with offices in Australia, New Zealand and the UK. The business manages residential, commercial and reverse mortgages, as well as unsecured loans. Bluestone Servicing is rated Above Average by Standard & Poors.

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