

Partnership Plans to Buy Distressed Mortgages, Restructuring Some and Creating Rental Units

Dalton Investments, LLC, and Beach Front Property Management hope to profit from escalating mortgage delinquencies by buying defaulted loans and the properties secured by them at a discount.

The new joint venture “will combine Dalton’s expertise in distressed debt and Beach Front Property Management’s experience in buying and restructuring troubled real estate assets,” said Steven Persky, co-founder and CEO of Dalton Investments, a Los Angeles-based management firm serving institutional and private clients.

“We might restructure and hold the mortgages,” Persky told *Inside Mortgage Profitability*. “You have to take a flexible approach. If you have an owner and they have the means to pay on a reduced amount, and that makes sense, it would probably be our first choice.”

“Our fallback position is that if we can’t restructure the loans profitably, we can always rent the houses out,” Persky said.

He said that Beach Front, based in Long Beach, CA, already manages about 2,000 rental units, but the current down market presents an unusual opportunity to augment those holdings.

“For years, you haven’t been able to buy property at a favorable rental spread,” he said. “It didn’t make sense to buy unless you were gaining appreciation.”

The partnership will initially focus on buying mortgages in southern California, Las Vegas and Phoenix, markets where easy credit and investor speculation drove up home prices until the bubble burst in the recent meltdown of the subprime mortgage market.

“This strategy will build on our existing management platform and will only invest in mortgages after we have done a thorough analysis of their underlying assets,” said Beach Front President Kyle Kazan. “There will be tremendous opportunities for buying loans at significant discounts and turning them into profitable investments while allowing homeowners to stay in their homes with more affordable monthly payments.” ►

Ditech Marketing Campaign Focuses on Selling Additional Products to Existing Customers

Some lenders are finding success in a challenging market by pinpointing the most likely candidates among current borrowers for further services and cutting back costs on redundant marketing programs.

For example, GMAC and its subsidiary, Ditech.com, are using a massive direct mail campaign led by Quattro Direct to take aim at current customers who already have a mortgage through GMAC but could extract more equity from their house, originate a home-equity loan, or take advantage of debt consolidation. Every customer who is current with his bills and has sufficient equity should receive something in his mailbox.

“This cross-sell and retention campaign continues to be the workhorse of the GMAC/Ditech.com retention efforts,” according to Scott Cohen, managing director of Quattro Direct. “It has proven itself even in a down mortgage market.”

The direct mail campaign, which produces some 250,000 pieces per month, aims to

increase production while times are slow on the origination end, and also helps the company cut back on costs related to marketing the GMAC and Ditech names separately.

“The beauty is that GMAC as a big company used to work in silos, trying to do its own retention marketing and other programs that really were not cost effective,” said Cohen. “We’ve developed a highly customizable program. During the production process we sort potential customers by individual customer records.”

According to Cohen, Quattro Direct’s campaign has already increased response and conversion rates for the company’s home equity products.

The marketing campaign also tries to appeal to customers who may be reluctant to continue borrowing given the recent market turmoil. Individualizing the mailings for each borrower aims to make the lender seem like less of a mortgage giant and more of a neighborhood bank lender. ►