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Advisors Angle for Part of Distressed Jackpot

Commercial real estate specialists are coming out of the woodwork to position themselves to advise buyers and sellers of the growing pool of distressed assets.

Many shops — large and small, new and old — are angling to get a piece of what is shaping up as a bonanza of opportunities to provide valuation, asset-management, due-diligence and other advisory services. Much of the focus is on the $700 billion rescue program proposed by the **U.S. Treasury Department.** But the specialists also are eager to pursue assignments from the **FDIC** and the private sector.

Among the players launching advisory efforts are **Allon Financial** of Denver, **Cobblestone Advisory** of Greenwich, Conn., and **Savills** of New York. Allon, which was formed five months ago, provides due-diligence services. Cobblestone, a newly formed affiliate of **JBK Capital** of New York, consults on loan workouts and valuations of whole loans and CMBS, and also helps clients develop acquisition and disposition

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strategies for distressed assets. And Savills has set up a distressed real estate division (see articles on Page 3).

That's just the tip of the iceberg. Big-name players like **BlackRock, Blackstone, J.P. Morgan, Morgan Stanley** and **Pimco** are all closely watching the government rescue program for possible advisory contracts. Meanwhile, law firms, including **Katten Muchin** and **McKee Nelson,** are laying the groundwork to advise managers hired by the government.

Just this week, BlackRock, a major player in the distressed arena, beefed up its financial markets advisory group by hiring veteran securitization executive **Debra Huddleston.** The group helps clients manage, restructure and value distressed assets. Huddleston, who spent the past dozen years at **Credit Suisse,** was named managing director and head of transaction management. She reports to managing director **Craig Phillips,** head of the group, who joined BlackRock in May. Phillips worked at Morgan Stanley from 1994 to 2006, leaving as global head of the securitized products group. While at Credit Suisse, Huddleston had several senior posts in the CMBS group and most recently was head of investment banking and special situations for the residential mortgage unit.

Meanwhile, advisory firms are closely watching for details about the government rescue program, which figures to offer significant master- and sub-contracting opportunities for asset managers, due-diligence specialists, law firms, valuation experts and accounting firms.

Within 45 days of the passage of legislation authorizing the rescue program, the Treasury Department is required to disclose procedures for selecting asset managers and criteria for identifying the troubled assets that it will purchase.

Advisors, as well as members of **Congress,** are wary of the latitude that the Treasury secretary would have to select advisors. Some advisors are still wondering how BlackRock won a role in the **Federal Reserve**-backed takeover of **Bear Stearns** by J.P. Morgan in February. That arrangement landed BlackRock an assignment to manage a $30 billion pool of distressed mortgage assets that the Fed took on from Bear as collateral for a loan to J.P. Morgan.

That has raised concern among market insiders that any hiring of managers or advisors could take place suddenly and without a standard request-for-proposals process. That, in turn, is contributing to what is already a heated sense of competition among potential contractors.

Congress has moved to make the selection of contractors more transparent and broad-based. For example, the revised draft of the legislation authorizing the program instructs the Treasury Department to include contractors that are owned by women or minorities — a requirement that was also imposed on **Resolution Trust Corp.,** the government agency that liquidated billions of dollars of seized thrift assets in the early 1990s. The draft also says that the FDIC should be considered as an asset manager.

But the Treasury Secretary would still have broad discretion to waive normal contracting policies under certain circumstances. "Because of that authority, aspiring asset managers will need to pay close attention to the fast-track implementation of the program," according to law firm **Stroock & Stroock.** "Notwithstanding the safeguards imposed during the past week for Congressional oversight and monitoring of the [program], the possibility remains that program guidelines might be issued and procedures waived with very little advance notice."

Many candidates for contracting assignments are concentrating on cozying up to government officials who might be able to help them win assignments, while others are preparing proposals that explain why they consider themselves best suited for the jobs. ❖

Due-Diligence Firm Looking to Hire

A Denver provider of due-diligence services expects to hire a number of mortgage analysts in the coming months to position itself for an increase in business because of worsening credit-market turmoil.

Allon Financial, founded five months ago by chief executive **Sue Allon,** has 15 full-time staffers so far. It can also tap up to 300 temporary "contract workers" to handle assignments as needed. Sue Allon is best known in the industry for running the former **Murrayhill Co.,** a Denver outfit that monitored the credit risk tied to clients' securitized mortgage portfolios.

For now, Allon Financial mostly reviews and evaluates troubled residential mortgages, including loans that have been securitized. But commercial mortgage assignments will eventually become a major part of its business as well, Sue Allon said.

The pace of hiring, meanwhile, will depend on how fast the company grows. She and president **Daniel Gallery,** another Murrayhill alumnus, are betting on rapid growth because a widespread dislocation in loan and bond prices has made it difficult for market players to assign values to their mortgage-related holdings.

The startup aims to evaluate mortgage pools by reviewing the underlying cashflows, servicer performance and risks. Its clients would use the resulting data to manage portfolios and assess potential investments.

The firm's main clients are likely to be investors, including

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hedge funds. The federal government could become a customer as well. For example, the **FDIC** is looking for companies to help evaluate and manage seized assets. Shops like Allon Financial could also win business if Washington lawmakers approve a **U.S. Treasury Department** plan to allocate $700 billion for the purchase of troubled mortgage assets.

Allon Financial hopes to attract non-buyside clients as well, such as lenders and rating agencies. Some of its clients will come from **Edison Mortgage Decisioning Solutions,** a rival due-diligence firm in Edison, N.J., that it bought last week.

Sue Allon, formerly known as Sue Ellis, founded Murrayhill in 1997. The credit-risk management shop, which also monitored mortgage-servicer performance, was keeping tabs on $137 billion of clients' assets by 2004. At that point, Allon sold her company to **TA Associates.** The Boston private equity firm merged it with one of Murrayhill's rivals, **Clayton Services** of Shelton, Conn., in 2005. The combined entity, called Clayton Holdings, was acquired by another private equity shop, **Greenfied Partners,** in July.

Sue Allon has been on the sidelines since leaving Clayton's board about three years ago. In the early 1990s, she worked for **Coopers & Lybrand,** overseeing business development for an asset-management unit that helped **Resolution Trust Corp.** liquidate billions of dollars of S&L assets. ❖