



SNL Specialty Finance M&A™

June 2008

Top news

Adviser Kropschot merges with Alta Group

After facilitating more than 150 acquisitions of specialty equipment leasing companies, Bruce Kropschot and the company he founded are looking abroad.

Kropschot, who founded Vero Beach, Fla.-based Kropschot Financial Services in 1986, told SNL Financial that his company's merger with Glenbrook, Nev.-based Alta Group will give his three-person M&A practice access to Alta's resources and relationships with specialty equipment leasing companies worldwide.

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Top deal

Target getting 'money for nothing' in Chase card pact

Target Corp. CFO Doug Scovanner, speaking on a conference call, described his company's May 5 agreement through which JPMorgan Chase & Co. and unit Chase Card Services would acquire a 47% interest in the retailer's credit card receivables as a win for the buyer and a home run for the seller, despite the 7% initial purchase discount associated with the \$3.6 billion deal.

"I just couldn't be happier with the choice of partners that
continued on page 6

Stumbling out of the gate IPO postponement a sign of challenges for MBS startups?

The postponement of MFResidential Investments Inc.'s proposed \$250 million initial public offering is the latest setback for a group of new entities formed to acquire mortgage-backed securities and related assets that have found mixed results in their nascent stages.

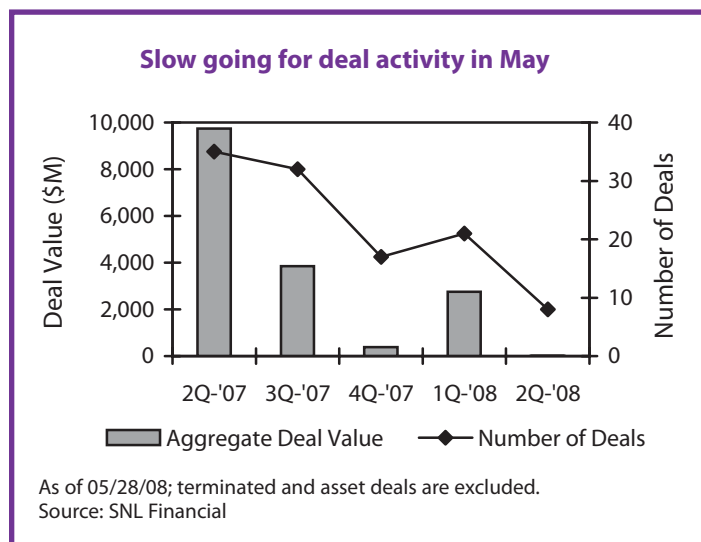
At least seven such companies have registered with the SEC for IPOs since the start of the credit crisis in August 2007, according to SNL archives, and they have sought to raise more than \$2 billion in gross proceeds. Three have successfully closed their respective deals, but on a combined basis, their shares closed May 21 at an average of 3.3% less than their IPO prices.

Five of the seven companies have emphasized or propose a strategic focus on agency mortgage-backed securities. MFResidential and Chimera Investment Corp., however, have taken a different approach as both of their external managers, or parents of their managers, are known for their expertise in agency mortgage investments.

Chimera, externally managed by Annaly Capital Management Inc. unit Fixed Income Discount Advisory Co., outlined a broad array of asset classes it planned to target when it first registered for an IPO on Aug. 17, 2007. The company included prime, jumbo and Alt-A mortgage loans, agency and nonagency RMBS and various types of consumer and commercial asset-backed securities among its planned pursuits. However, Chimera said nonagency mortgage-backed securities and residential mortgages originated by "select, high-quality originators" would be the first areas of emphasis.

Chimera completed its IPO in November, and amid what the company described as a "slight easing" in the turbulent credit markets in early 2008, Chimera began to buy RMBS and whole mortgage loans, believing that it was purchasing high credit-quality assets that would be readily able to be financed. Thereafter, however, credit-market conditions deteriorated

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Stumbling out of the gate *continued from page 1*

sharply beginning in mid-February, and the company said in its 10-Q for the first quarter that nonagency RMBS and whole mortgage loan valuations “remain volatile and under severe pressure.”

Under Chimera’s arrangement with Fixed Income Discount Advisory, the company pays a quarterly management fee representative of 1.75% per annum of gross stockholders equity. From Nov. 21, 2007, through March 31, 2008, Chimera paid Fixed Income Discount Advisory total management fees of \$3.4 million. The arrangement also allows for Fixed Income Discount Advisory to earn incentive fees based on a specified formula relating to core earnings, but Chimera did not pay any such fees during its first two quarters as a public company.

MFResidential is to be managed and advised by MFA Mortgage Investments Inc. unit MFA Spartan Manager LLC. The company intends to devote its primary investment focus toward nonagency mortgage-backed securities. It also plans to invest in agency mortgage-backed securities so as to maintain its exemption from registration under the Investment Company Act of 1940.

Even as Chimera issued its warning about nonagency mortgage-backed securities in its 10-Q, MFResidential said in its various amended registration statements throughout the spring that it believes the risk-adjusted return profiles of those securities are “highly attractive.”

MFA Mortgage CEO Stewart Zimmerman described the MFResidential IPO as “a major initiative for 2008” in his company’s April 30 earnings conference call. He said the company “is expected to generate investment and management fee income for MFA and additional value for MFA stockholders.”

MFResidential’s manager would receive a base fee of 1% of stockholders equity per annum until Jan. 1, 2009, and 1.5% per annum thereafter, according to the company’s May 16 amended registration statement. The manager also would be entitled to incentive compensation should MFResidential’s performance exceed a certain threshold.

In light of the postponement, which, Dow Jones reported, came as a result of market conditions, MFA Mortgage investors will have to wait at least a little longer to realize that extra income and value. As developments relating to the last company in the group to have succeeded in completing an IPO indicate, the economics of the strategy for external managers could be subject to change.

American Capital Agency Corp. raised gross proceeds of \$200 million in its May 14 IPO. The deal had been envisioned as

generating \$250 million in proceeds, but the final transaction was supplemented by an agreement with American Capital Strategies Ltd., parent of American Capital Agency’s external manager, for the sale of an additional \$100 million in common stock, up from \$50 million as previously proposed.

In addition, American Capital Agency made material changes in the agreement with its external manager. The company eliminated a component of its manager’s compensation that called for the issuance of 750,000 shares of restricted common stock simultaneously with the IPO’s completion. The company also deleted the provision that would have provided incentive compensation to its manager on a quarterly basis using a multistep formula.

“The purpose of the incentive compensation is to provide an additional incentive for our Manager to achieve targeted levels of Core Earnings and to increase our stockholder value,” American Capital Agency said in the April 28 registration statement. However, its May 16 prospectus indicated, “There is no incentive compensation payable to our Manager pursuant to the management agreement.”

The prospectus also indicates that American Capital Agency increased the management fee, payable monthly in arrears, to an amount equal to one-twelfth of 1.25% of the company’s equity from one-twelfth of 1% of equity as outlined in prior registration statements.

Hatteras Financial Corp., meanwhile, closed its \$276 million offering on April 24. All documents relating to its first public offering of stock state that “[n]o incentive fee is payable to our manager so that stockholders fully benefit during periods of attractive returns and our manager has little incentive to take undue investment risk.”

Time will tell which, if any, of the newly formed companies have implemented the right strategy and put their capital to work at the right point. For what it is worth, Impac Mortgage Holdings Inc. CEO Joseph Tomkinson, who has his own designs on making investments in distressed mortgage assets, said on a May 21 conference call that some investors have been entering the market prematurely.

That, of course, assumes that those investors can get their vehicles funded in the first place.

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Kropschot Financial/Alta Group *continued from page 1*

John Deane, managing partner of Alta Group, told SNL Financial that the addition of Kropschot will be complementary to his firm's existing business.

Currently, Alta Group performs a wide variety of consulting services — including such functions as captive finance and vendor program development, market intelligence and competitive benchmarking and market entry analysis and services — for clients in North America, Latin America, Europe, the Middle East, China and the Asia-Pacific region.

But while Alta has worked on deals before, it has traditionally assisted with due diligence rather than serving as an adviser, and wanted to add that latter capability to its portfolio of services.

"There is no one in the world that has done more transactions in equipment leasing and financing than Kropschot Financial Services," Deane said. "So, we saw this as a good way to blend our traditional consulting services with Bruce's M&A experience and footprint."

But beyond strategy, the two sides also had a history of interaction.

Kropschot told SNL that he has known the principals of the Alta Group for a long time, selling leasing companies to several Alta members when they were in the corporate world, and Deane said he's known Kropschot for around 30 years.

The two even worked together for an affiliate of Euromoney between 1992 and 1997. "Bruce joined that group to bring M&A to the activity and I joined the group to start a consulting function," Deane said.

In terms of the M&A environment for specialty equipment lessors, Kropschot told SNL that while the U.S. market remains fertile, there are fewer of the larger players than there used to be. "We've helped to consolidate the industry," he said. Kropschot also said his firm recently began moving into the Canadian market and has already found some success there.

In recent years, Kropschot Financial Services has advised on such transactions as US Express Leasing Inc.'s acquisition of MBO Finance and JTA Leasing Co. LLC's asset sale to CSI Leasing Inc. Kropschot also advised Marubeni America Corporation in its purchase of Partners Equity Capital Company.

As far as drivers of M&A, Kropschot said much of the activity in the industry now is related to the difficulty or inability of smaller companies to find financing. While a few of the deals could be considered distressed, most are companies that are finding their attempts to grow hindered by funding restraints, and these kinds of smaller lessors are attractive to private equity firms and other acquirers who have greater access to the capital markets.

Deane said M&A activity is higher in the leasing space that it has been in 10 years, but for different reasons than it was a decade ago. He agreed that the difficult financing environment is driving companies to sell, remarking that it is easier to find equity capital than debt capital in the current market.

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Top 5 Specialty Finance Deals

*Last 12 Months
Ranked by Deal Value*

Buyer	Target	Seller	Announce Date	Deal Value (\$M)
Ristretto Group S.a.r.l.	Williams Scotsman International Inc.	Williams Scotsman International Inc.	07/18/07	1,631.6
INVESCO Ltd.	Option One servicing ops	H&R Block Inc.	03/17/08	1,147.7
American Express Co.	Corporate Payment Services	General Electric Co.	03/27/08	1,100.0
Standard Chartered PLC	American Express Bank Ltd.	American Express Co.	09/18/07	1,072.0
Sherman Capital LLC	Sherman Financial Group LLC	Investor group	09/14/07	518.7

Includes whole-company deals for both finance companies and mortgage banks for which deal value is available. Data as of 05/28/08. Asset sales are not included.

Source: SNL Financial

Specialty Finance Advisory Rankings

Year To Date

Deals Announced: 31

Aggregate Deal Value (\$M): 2,769.4

Ranked by Number of Deals

Leading Financial Advisers	Total Deal Value (\$M)	# of Deals	Leading Legal Advisers	Total Deal Value (\$M)	# of Deals
Colonnade Advisors LLC*	NA	2	Sidley Austin LLP	1,170.0	2
Goldman Sachs & Co.*	1,100.0	2	<i>Twenty-five legal advisers tied with one deal.</i>		

Thirteen financial advisers tied with one deal.

Ranked by Deal Value

Leading Financial Advisers	Total Deal Value (\$M)	# of Deals	Leading Legal Advisers	Total Deal Value (\$M)	# of Deals
Lazard Freres & Co.	1,147.7	1	Sidley Austin LLP	1,170.0	2
Goldman Sachs & Co.*	1,100.0	2	Jones Day	1,147.7	1
UBS Investment Bank	1,100.0	1	Manatt Phelps & Phillips LLP	1,147.7	1
Blackstone Advisory Services	179.2	1	Weil Gotshal & Manges LLP	1,147.7	1
JPMorgan Securities Inc.	179.2	1	Cleary Gottlieb	1,100.0	1
Deutsche Bank Securities Inc.	166.5	1	Bass Berry & Sims PLC	179.2	1
Lehman Brothers Inc.	166.5	1	Clifford Chance LLP	179.2	1
Oppenheimer & Co.	166.5	1	Kirkland & Ellis LLP	166.5	1
FalconBridge Capital Markets	20.0	1	White & Case LLP	166.5	1

*Deal value is not available for at least one transaction.

Includes whole-company deals for both finance companies and mortgage banks. Data as of 05/28/08. Asset sales and terminated deals are not included.

Source: SNL Financial

Specialty Finance Asset Deals Announced between May 1 and May 28

JPMorgan Chase & Co. (JPM) buying Target credit card receivables from Target Corp. (TGT)

Announced: 05/05/08

Deal Value: \$3.6 billion

Summary (continued from page 1): we've managed to end up with on the other end of this arrangement," Scovanner said. Target had been pursuing a "unique" outcome for its card business since announcing in September 2007 that it would evaluate strategic options, and Scovanner said the Chase deal accomplishes all of the retailer's goals.

"We worked very hard to create something that was unique, to create something that was interesting and enticing in both [a] strategic and a financial manner to a potential partner," he said.

Under terms of the transaction, Chase will acquire an undivided interest in 47% of the principal amount of Target's outstanding receivables at closing. Both parties will share expected profits from the arrangement in accordance with their respective ownership interest, subject to a cap. To the extent that the cash-basis portfolio yield continues to exceed the cap, initially set at 3.4% of the principal amount of Chase's interest in the receivables, profits from the entire portfolio in excess of the cap will be retained by Target.

The transaction offers liquidity to Target that is unrelated to the volatile capital markets. Chase will fund 47% of Target's expected receivables growth in the near term, up to a certain specified limit. Target, meanwhile, will retain control of the strategy surrounding the credit card business, unless an unexpected and substantial deterioration in portfolio performance were to take place.

"Bottom line in this one is we continue to control our destiny," Scovanner said. Target will remain solely responsible for interfacing with its card customers and continuing the "deep integration" of the business within its core retail operations.

Scovanner likened the arrangement to the title of the mid-1980s Dire Straits hit song "Money for Nothing."

"We expect to get hundreds of millions of dollars of profit from this venture unless we really screw it up," he said.

Commenting on credit trends within the portfolio, Scovanner said he expects the delinquency rate to remain stable, but he slightly increased the projection for net write-offs to reflect the receivables growth Target achieved during the second and third quarters of 2007. Accounts in Florida, California, Arizona and Nevada, states that have witnessed some of the sharpest depreciation in home prices, have shown more distress than the rest of the Target portfolio, Scovanner said, consistent with trends reported by other companies in the consumer finance business.


Otherwise, he said, "We have a very healthy and relatively stable portfolio."

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Specialty Finance Asset Deals *continued*

BlackRock (BLK) buys mortgage assets from UBS AG (UBSN)

Announced: 05/06/08

Deal Value: \$15 billion

Servicing SoldPrice/Servicing

\$22 billion

68.18%

Summary: UBS AG said May 21 that it closed the sale of approximately \$15 billion of primarily subprime and Alt-A U.S. residential mortgage-backed securities to a newly created distressed-asset fund, which will be managed by BlackRock Inc.

Under the transaction, UBS sold positions with a nominal value of around \$22 billion to the new fund for an aggregate sale price of around \$15 billion. Based on UBS' categorizations, most of the positions were subprime and Alt-A in equal parts and the rest were prime.

The fund purchased the securities using around \$3.75 billion in equity raised by BlackRock from investors and a multiyear collateralized term loan of around \$11.25 billion provided by UBS.

Further terms of the transaction were not disclosed.

Goldman Sachs Group Inc. (GS) buying mortgage servicing rights from Fremont General Corp. (FMNT)

Announced: 05/08/08

Deal Value: Not Available

Summary: Fremont General Corp. said May 8 that it agreed to sell the remaining mortgage servicing rights on its \$12.2 billion mortgage servicing portfolio to Houston-based Litton Loan Servicing LP, an affiliate of New York-based Goldman Sachs Group Inc.

Fremont entered into an asset purchase agreement with Litton, which does not include the sale of Fremont's servicing platform.

Under the deal, Litton will pay Fremont for the mortgage servicing rights and reimburse Fremont for the unreimbursed delinquency and servicing advances made by Fremont, along with Fremont's accrued and unpaid servicing fees. The company expects the transaction to close in the second quarter, provided that the FDIC and the California Department of Financial Institutions do not object to the deal.

Fremont intends to wind down its remaining loan servicing operation in Ontario, Calif.

Fremont General recently agreed to sell all of Fremont Investment & Loan's assets and retail deposits to CapitalSource Inc. With the Litton deal, Fremont has now agreed to sell substantially all of Fremont Investment & Loan's assets, and the holding company intends to provide an update on its future plans "shortly."

Undisclosed buyer buys commercial real estate loans from East West Bancorp Inc. (EWBC)

Announced: 05/12/08

Deal Value: Not Available

Servicing SoldPrice/Servicing

\$111 million

NA

Summary: East West Bancorp Inc. disclosed in a Form 10-Q on May 12 that it sold \$111.4 million of commercial real estate loans in bulk to a third party without recourse.

The sale was the main contributor to the company's first-quarter net gain on sales, which increased 98% to \$1.9 million from \$938,000 a year prior.

East West said that prior to this year, it had not sold commercial real estate loans in bulk transactions, but as "part of our efforts to de-leverage our balance sheet, we plan to sell more commercial real estate loans if presented with attractive pricing opportunities"

Specialty Finance Asset Deals *continued*

Allianz SE (ALV) buys U.S. MBS portfolio from Bank Hapoalim B.M.

Announced: 05/21/08

Deal Value: \$2.6 billion

Servicing Sold

Price/Servicing

\$3.4 billion

74.56%

Summary: Tel Aviv, Israel-based Bank Hapoalim BM sold its U.S. mortgage-backed securities portfolio to investment fund PIMCO Advisors Holdings LP for \$2.55 billion, Reuters reported May 21.

The deal was facilitated by Deutsche Bank AG by way of a nonfinanced cash transaction.

Hapoalim said the value of its MBS portfolio was \$3.42 billion, and it would record a loss of \$870 million because of the sale. The company already reported around \$710 million of the loss as a decline in value in April.

Nevertheless, the bank said it expects to record a profit of at least 1 billion shekels for 2008 and pointed out that the decision to sell the whole portfolio will dispel uncertainty regarding the securities.

PIMCO is an affiliate of Allianz SE.

CU Bank Shares Inc. buys credit card portfolio from Winston Salem City Employees' Credit Union

Announced: 05/27/08

Deal Value: Not Available

Receivables Sold

Price/Receivables

\$1.3 million

NA

Summary: Dallas-based CU Bank Shares Inc. unit TNB Card Services has acquired Winston-Salem, N.C.-based Winston Salem City Employees' Credit Union's credit card portfolio. The portfolio has a reported \$1.3 million in receivables and nearly 1,000 cardholder accounts.



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Deals Completed *between May 1 and May 28*

Entity Sold (Ticker) <i>Seller, If Different (Ticker)</i>	Buyer (Ticker)	Completion Date	Completed Deal Value (\$M)
Flatiron Credit Company Inc. <i>Toronto-Dominion Bank (TD)</i>	Wells Fargo & Co. (WFC)	05/01/08	NA
Gator Leasing Inc.	Ryder System Inc. (R)	05/12/08	NA
Liberty Financial Group Inc.	McCarthy Group LLC	05/12/08	NA

Specialty Finance Company Deals *Announced between May 1 and May 28*

Wells Fargo & Co. (WFC) buys Flatiron Credit Company Inc. from Toronto-Dominion Bank (TD)

Announced: 05/01/08

Deal Value: Not Available

Target Information

Target Market: Commercial**Activities:** Premium Finance

	Financial Advisers	Legal Advisers
Wells Fargo & Co.....	Not available.....	Not available
Toronto-Dominion Bank	Colonnade Advisors LLC.....	Not available

Summary: San Francisco-based Wells Fargo & Co. said May 1 that Wells Fargo Bank NA has acquired Denver-based Flatiron Credit Co. Inc. and its subsidiaries.

Flatiron was a subsidiary of Toronto-Dominion Bank unit TD Banknorth NA. Terms of the transaction were not disclosed.

Dave Zuercher, head of international and insurance services for Wells Fargo, said in a news release that Flatiron will serve as the company's platform as it enters the premium finance business.

All Flatiron employees will remain with the business, and the company will retain the Flatiron brand.

Flatiron originates, funds and services insurance premium finance contracts for commercial property and casualty insurance.

McCarthy Group LLC buys Liberty Financial Group Inc.

Announced: 05/12/08

Deal Value: Not Available

Target Information

Target Market: Retail**Activities:** Mortgage Bank

	Financial Advisers	Legal Advisers
McCarthy Group LLC	Stratmor Group.....	Not available
Liberty Financial Group Inc.	Not available.....	Not available

Summary: McCarthy Capital Corp. said May 12 that San Diego-based Guild Mortgage Co. completed the acquisition of Bellevue, Wash.-based Liberty Financial Group Inc.

The terms of the deal were not disclosed.

Guild Mortgage was acquired in 2007 through a partnership formed with the senior management of Guild Mortgage and McCarthy Capital, a unit of McCarthy Group LLC.

Specialty Finance Company Deals *continued*

Investor Group buys US Express Leasing Inc. from Credit Suisse Group (CSGN)

Announced: 05/20/08

Deal Value: Not Available

Target Information

Target Market: Commercial & Retail

Activities: Equipment Finance

Summary: An investor group unit Tygris Commercial Finance Group Inc has acquired Parsippany, N.J.-based US Express Leasing Inc. from Zurich, Switzerland-based Credit Suisse Group. US Express is an equipment finance Co. that originates transactions through manufacturers, distributors and dealers in the commercial & industrial, graphic arts, healthcare, office equipment and technology industries. Upon closing, James D. McGrane, CEO of USXL will join Tygris' management team as President of Small Ticket Leasing and Company will continue to operate under the USXL brand.

Investor Group buying Marcap Corp.

Announced: 05/20/08

Deal Value: Not Available

Target Information

Target Market: Commercial

Activities: Equipment Finance

Summary: Tygris Commercial Finance Group, Inc. has agreed to acquire substantially all of the assets and business of Chicago-based Marcap Corporation LLC. Marcap Corp is a middle market healthcare equipment finance company that provides creative, flexible financing solutions to ambulatory surgery centers, diagnostic imaging centers, hospitals and cancer and dialysis centers, and healthcare equipment manufacturers.

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Other News Reported between May 1 and May 28

Allianz SE

ALV

PIMCO Advisors Holdings LP

05/23/08 Allianz SE unit PIMCO Advisors Holdings LP manager Bill Gross is gobbling up mortgage debt, tripling his holdings, the *Financial Times* reported May 22.

FT said more than 60% of the fund's holdings are now mortgage debt, compared to just over 20% a year ago. The move seems to be working as the fund is off to its best start in at least eight years, returning 3.8% so far in 2008.

Gross told the publication that the move was based on the U.S. government's implicit guarantees of Freddie Mac and Fannie Mae. He said the fund was buying primarily agency-backed debt, "not the subprime garbage."

Gross also called U.S. Treasury bonds "overvalued." He told the newspaper that the popping of one bubble lead to a counter bubble in quality securities.

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American Capital Strategies Ltd.

ACAS

05/19/08 American Capital Strategies Ltd. said May 19 that it has committed \$300 million of its subordinated debt and equity to Dallas-based Core Business Credit, a newly formed commercial finance company.

According to a news release, Core Business Credit's president and CEO Michael Haddad and its executive vice presidents, Milton Iskra, Paul Martin and Ken Cichocki, are also investing alongside American Capital.

In addition to American Capital's investment, Core Business Credit has secured a \$125 million senior credit facility with Autobahn Funding Company LLC, bringing the company's total committed capitalization to more than \$425 million.

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AmeriCredit Corp.

ACF

05/23/08 AmeriCredit Corp. said in a registration statement filed May 23 that Leucadia National Corp. may, from time to time, sell up to 29,336,440 shares of the company's common stock.

AmeriCredit will receive no proceeds from the offering.

The shares for sale represent about 25.5% of the AmeriCredit shares outstanding. AmeriCredit previously agreed to elect two Leucadia-nominated directors to its board.

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CapitalSource Inc.

CSE

05/06/08 Farallon Capital Management LLC and affiliated entities increased their stake to 36,333,967 common shares, or 16.0%, of CapitalSource Inc.'s outstanding common stock, according to an amended Schedule 13D filed May 6.

In a Dec. 17, 2007, amended Schedule 13D filing, Farallon reported a 15.2% stake in the company, with aggregate ownership of 32,195,851 shares.

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05/07/08 CapitalSource Inc. said in a Form 8-K filed May 6 that Thomas Steyer resigned from the company's board, effective May 1.

Steyer resigned in an effort to facilitate the regulatory approval process associated with the company's applications recently filed with the FDIC and the Department of Financial Institutions of California with respect to its proposed formation of a de novo industrial bank which is expected to acquire certain assets and assume certain liabilities of Fremont General Corp. unit Fremont Investment & Loan.

Steyer is the senior managing member and co-managing partner of Farallon Capital Management LLC and Farallon Partners LLC.

The company noted that applicable FDIC precedent would indicate that an entity proposing to rebut the presumption of control should, among other things, have no more than one representative serve on the board.

Andrew Fremder, a member of and consultant to Farallon, remains on the board.

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Cash America International Inc.

CSH

05/22/08 Cash America International Inc. on May 15, through its unit Cash America Net Holdings LLC, made a supplemental payment of approximately \$63.2 million in cash in connection with its purchase of substantially all of the assets of Check Giant LLC.

In an amended Form 8-K filed May 21, the company said the supplemental payment, which is the fourth of five supplemental payments designated in the asset purchase agreement, was based on a 5x multiple of consolidated earnings attributable to CashNetUSA's businesses for the 12 months ended March 31.

The company previously made supplemental payments of approximately \$33.8 million and \$43.4 million for the 12-month periods ending Dec. 31, 2006, and Sept. 30, 2007, respectively. The company made no supplemental payment for the 12-month period ending March 31, 2007.

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CIT Group Inc.

CIT

05/01/08 A sale of CIT Group Inc. is "inevitable" if market conditions continue, Fox-Pitt Kelton Cochran Caronia Waller analyst Howard Shapiro wrote in a May 1 note, citing CFO Joseph Leone.

Shapiro called a sale of the company "the most likely long-term outcome" and maintained an "outperform" rating on CIT Group. "In the meantime, the company is moving to further buttress its liquidity position with a sale of the railcar leasing franchise increasingly likely," he wrote.

continued on page 12

Other News *continued*

Although liquidity concerns and the possible sale of the railcar franchise are detrimental to CIT Group's value, Shapiro said, "the company retains all of its other core lending franchises," which he thinks "will prove attractive to potential buyers over time."

Shapiro learned from Leone that CIT Group "is very open to a sale as a solution to its liquidity problems" and that a depository institution would be the most likely buyer. "Management is not open to an ad hoc sale/dismemberment of the company," Shapiro said.

Analyst speculation about CIT Group's capital position and a potential sale has been gaining pace in recent days, following news in April that the company would be selling \$1.5 billion in common and preferred stock, as well as the company's March announcement that it would be drawing on its \$7.3 billion in unsecured U.S. bank credit facilities.

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Citigroup Inc. C

05/02/08 Citigroup Inc. unit CitiFinancial Inc. slashed 400 jobs in India and also intends to sell off approximately \$1 billion of its portfolio consisting of a pool of commercial vehicle and construction equipment loans, New Delhi-based *The Economic Times* reported May 2.

Potential buyers of the assets will take around 300 employees in the two divisions as part of the sale.

Citigroup wants to dispose the loans as part of a plan to dispense of low-yielding assets and free capital, the paper said. A Citigroup spokesman told the publication that 150 more CitiFinancial employees may be laid off. The spokesman further said that the nonbanking consumer finance company plans to realign certain parts of the business to focus on client segmentation and to improve its distribution model.

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Deerfield Capital Corp. DFR

05/12/08 In violations of certain covenants of an alternative asset revolving warehouse funding facility with Wachovia Corp. unit Wachovia Capital Markets LLC, Deerfield Capital Corp. on May 12 entered a forbearance agreement with the lender but still faces the prospect of liquidation of assets in the facility should certain events fail to occur.

According to disclosures made in a Form 10-Q, the agreement relates to the covenant that Deerfield maintain stockholders equity of at least \$240 million. The company reported stockholders equity of \$217.4 million as of March 31.

"The forbearance agreement provides that no action will be taken in respect of any prior noncompliance with the Stockholders' Equity Covenant and waives through September 10, 2008 any future noncompliance with the Stockholders' Equity Covenant or the concentration limits relating to the composition of the collateral under the Wachovia Facility," Deerfield said.

The company was required to immediately contribute \$3 million to the Wachovia facility to reduce borrowings. Deerfield also must contribute additional funds on or before July 17 that are necessary to reduce to a specified level the ratio of borrowings to 55% of the aggregate par value of collateral held under the Wachovia facility.

The agreement would terminate should that specified ratio not be obtained. Further, the interest rate payable under the facility was increased by 50 basis points to LIBOR plus 250 basis points, and the funds previously paid to Deerfield under the facility as a servicer fee will now be used to repay borrowings.

In April, Wachovia informed Deerfield that the institutions party to the facility would not be renewing it in 2009, and as such, Deerfield is unable to undertake additional borrowings under the facility. The company had not undertaken any borrowings under the facility since July 2007.

"Unless the Company is able to negotiate an amendment with Wachovia, a termination event will be triggered under the Wachovia Facility if the Company fails to complete a second securitization by September 2008, which would give Wachovia the right to liquidate the assets under the Wachovia Facility in an amount necessary to repay all outstanding borrowings thereunder," Deerfield said. As of March 31, the company had an outstanding balance of \$76.4 million under the Wachovia facility, and the carrying value of the collateral under the facility was \$119.5 million.

The company said it believes its current cash position and other sources of funds are adequate to meet its anticipated liquidity requirements through March 31, 2009.

Deerfield reported a GAAP net loss of \$463.6 million, or \$8.43 per share, for the first quarter, largely a result of losses in its portfolios of residential mortgage-backed securities and interest rate swaps.

Deerfield also said it had received, and produced documents in response to, a subpoena received from the SEC pursuant to a formal order of investigation relating to certain practices associated with the offer, purchase or sale of collateralized mortgage obligations and real estate mortgage investment conduits and the creation of re-REMICs. The information requested related to certain mortgage securities transactions effected by Deerfield Capital Management LLC for the company in 2005 and 2006. The company said it cannot predict the outcome of the investigation.

[Click to view the 10-Q of 05/12/08 for Deerfield Capital Corp.](#)

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Delta Financial Corp. DFCLQ

05/21/08 Delta Financial Corp.'s former senior management team is creating a new mortgage company and recruiting past members of Delta Financial's staff, *Newsday* reported May 21.

The new company, Reliance First Capital LLC, will be based in Woodbury, N.Y., for approximately the next six months as staff members work on startup initiatives, the publication said, citing messages to one-time employees from former Delta Financial CEO Hugh Miller.

The publication added that Miller will retain his title of CEO for the new mortgage company.

In addition, *Newsday* reported that Reliance First Capital purchased approximately \$40,000 in assets from the bankrupt subprime mortgage lender two months ago.

Melville, N.Y.-based Delta Financial filed for bankruptcy and terminated all of its employees in December 2007.

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Other News *continued*

Franklin Bank Corp.

05/23/08 Franklin Bank Corp. Chairman and CEO Lewis Ranieri and some former executives from what is now GMAC LLC are heading a fund that is trying to raise \$1 billion to invest in delinquent mortgages, Bloomberg reported May 23.

According to the report, the Selene Residential Mortgage Opportunity Fund LP had raised \$151 million as of April 15.

Former GMAC executive and fund managing partner David Creamer told the news agency that the fund will buy and refinance delinquent mortgages in an effort to keep borrowers from filing for foreclosure.

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General Electric Co.

05/07/08 GE Money will stop writing loans for the purchase of recreational vehicles and the majority of watercrafts, effective Aug. 1, *The Wall Street Journal* reported May 6.

"It's a challenging time for RV and marine financing. We just didn't see the returns that we wanted to see," said Cristy Williams, a spokeswoman for GE Money, according to the *Journal*.

Williams also said GE Money will continue servicing its existing RV and marine loan portfolio. The company's commercial finance unit will also continue to provide financing for dealers to stock inventory.

FBTX

GE Money is owned by GE Consumer Finance Inc., a unit of General Electric Co.

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H&R Block Inc.

05/01/08 H&R Block Inc. said May 1 that it closed the sale of the mortgage loan servicing business of its unit Option One Mortgage Corp. to American Home Mortgage Servicing Inc., an affiliate of WL Ross & Co. LLC, effective April 30.

The company utilized a portion of the approximately \$1.3 billion proceeds to repay more than \$980 million on its servicing advance facility. The company realized net cash proceeds of slightly more than \$230 million and also retained a receivable related to certain servicing assets of approximately \$100 million. Approximately \$57 million of the receivable will be realized over the next 60 days.

In addition, the company said that it completed repayment of the outstanding balance under its revolving committed line of credit from a syndicate of lending banks.

The financial adviser in connection with the transaction was Lazard, and legal advisers included the law firms of Jones Day and Manatt Phelps & Phillips.

WL Ross is a unit of Invesco Ltd.

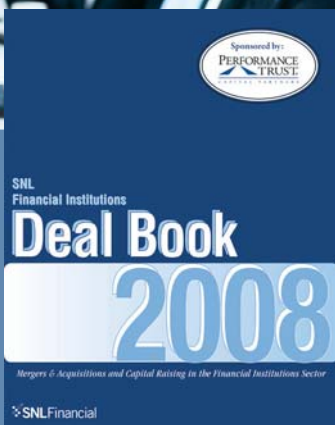
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Other News *continued*

Portfolio Recovery Associates Inc.

05/16/08 Portfolio Recovery Associates Inc. said May 16 that it is exiting the contingent fee third-party portfolio collections business overseen by unit Anchor Receivables Management.

Portfolio Recovery will redeploy Anchor's entire staff of approximately 100 people to its core owned-portfolio collections business, which the company said is more profitable and rapidly expanding. According to the Portfolio Recovery, the third-party collections business accounted for only 2% of revenue and less than 0.5% of net operating income for the first quarter.

The company will work with Anchor's current clients over the coming weeks in an attempt to resolve existing collections efforts.

The company expects no material impact to its financial results as a result of the action being taken with Anchor.

[Click to view the Press Release of 05/16/08 for Portfolio Recovery Associates.](#)

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Provident Funding LP

05/27/08 Craig Pica, the owner of Provident Funding LP, is purchasing Greenwood Village, Colo.-based Colorado FSB (\$44.7 million), SNL has confirmed.

Financial terms of the deal were not disclosed.

Patrick Fogerty, vice president and COO of Colorado FSB, said there is an agreement in place to purchase the bank between Pica and the thrift. "It's not really Provident, and it's not a merger, per se," Fogerty told SNL. "He's buying it individually, with his own money."

Pica filed an application for change of control with the OTS on May 16. Fogerty did not know exactly when the agreement between Pica and Colorado FSB was signed, but said it was approximately the same time as the application was filed.

Fogerty also said the deal was related to the recent cease and desist order that the thrift entered into with the OTS. "Prior to that, even, we were looking for [a] capital infusion," Fogerty said. "This [deal] came along and it just got some wheels, and that's the one that happened."

Colorado FSB is a subsidiary of Silver Queen Financial Services Inc.

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PRAA

Residential Capital LLC

05/05/08 Residential Capital LLC said it is taking a number of steps to meet June debt obligations and is considering additional measures, including asset sales, to raise another \$600 million by the end of June.

"There is a significant risk that we will not be able to meet our debt service obligations, be unable to meet certain financial covenants in our credit facilities, and be in a negative liquidity position in June 2008," the company said in a Form 8-K filed May 5. "Moreover, the amount of liquidity we need may be greater than currently anticipated as a result of additional factors and events (such as interest rate fluctuations and margin calls) that increase our cash needs causing us to be unable to independently satisfy our near-term liquidity requirements."

The Minneapolis-based company, which has suffered large losses in recent quarters amid soaring foreclosure rates, began buying back \$14 billion in bonds in a move announced May 2 to extend the maturity of the debt and prevent bankruptcy.

ResCap, owned by GMAC LLC and a group of investors led by Cerberus Capital Management LP, also wants GMAC to support it by exchanging \$350 million in ResCap bonds for additional ResCap preferred shares and to lend it \$150 million in additional credit under an existing borrowing agreement.

Even if these initiatives are successful, ResCap said in the May 5 filing that it is looking to make additional asset sales or other transactions "over and above our normal mortgage finance activities" to provide an addition \$600 million in cash by June 30.

With regard to these additional asset sales, the company said possible divestitures may include selling its retained interest in its mortgage securitizations, selling loans secured by time share receivables, selling its European loan portfolios, selling whole loans and spinning off noncore businesses.

The comments came after ResCap saw its ratings downgraded by Fitch Ratings, Standard & Poor's and Moody's May 2, following the plan to buyback the \$14 billion in bonds.

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