

Despite Credit Woes, Asset-backed Loan Funds Enjoy Steady Returns *(excerpt)*

By DAVID PRICE

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With Wall Street's giants taking billion-dollar write-downs from subprime-linked losses following this summer's spate of hedge fund closures, mortgage lending has become the black sheep of the investment family. But a small number of hedge funds have carved out a niche for themselves in this market, and the results are eye-opening.

According to Gregg Winter, president and founder of Winter & Co. Commercial Real Estate Finance, a commercial mortgage brokerage and advisory firm in New York, hedge funds are a more efficient vehicle to source, originate and service short-term loans, compared with pulling together investors for each deal. He launched the W Financial Mortgage Fund in June 2003 and now manages nearly \$30 million, all from accredited individuals. The fund makes close to \$80 million in loans, and net returns for investors have been just under 11% per year since inception.

"This is a progression of hard-money lending," Winter says, adding that investors benefit by gaining greater diversification and a more reliable income stream under the hedge fund model. "It's the same philosophy behind investing in a mutual fund—there's a lot less risk in spreading out investments across a portfolio of stocks rather than a single company." Looking to capitalize on the booming interest in asset-based lending, Winter plans to open up the fund to institutional investors in early 2008.

As with any asset-backed vehicle, the biggest downside risk for ABL funds would be a precipitous decline in the value of the underlying asset. But while residential property values have fallen in many parts of the country, commercial real estate prices have so far held strong. The short time frame, along with the low loan-to-value ratio typical for bridge loans, also provides a substantial financial cushion for fund managers if a borrower falls behind or defaults on a loan. Winter says W Financial has yet to experience a single default or foreclosure.

As a rule, ABL funds are also relatively conservative in their own use of leverage. Winter said he occasionally will take on debt—either to keep the fund fully deployed or to swing slightly larger deals.

And despite the growing interest by institutions and the resulting tide of new money, Winter said he doesn't anticipate the eventual rise of huge ABL mega-funds. Real estate is a very local business, he explains, making it tough for a firm to expand much beyond the markets it already knows intimately.

"This is a niche strategy, and to do it well, you really have to understand the territory. That's probably going to keep most firms from getting too big or going national," he says. "I'd think it would be difficult to ramp up to \$1 billion or more in size."