

# How Two Billionaires Rescued a Union Bank

Started by garment workers in 1923, Amalgamated got \$100 million from Ross and Burkle last year

by

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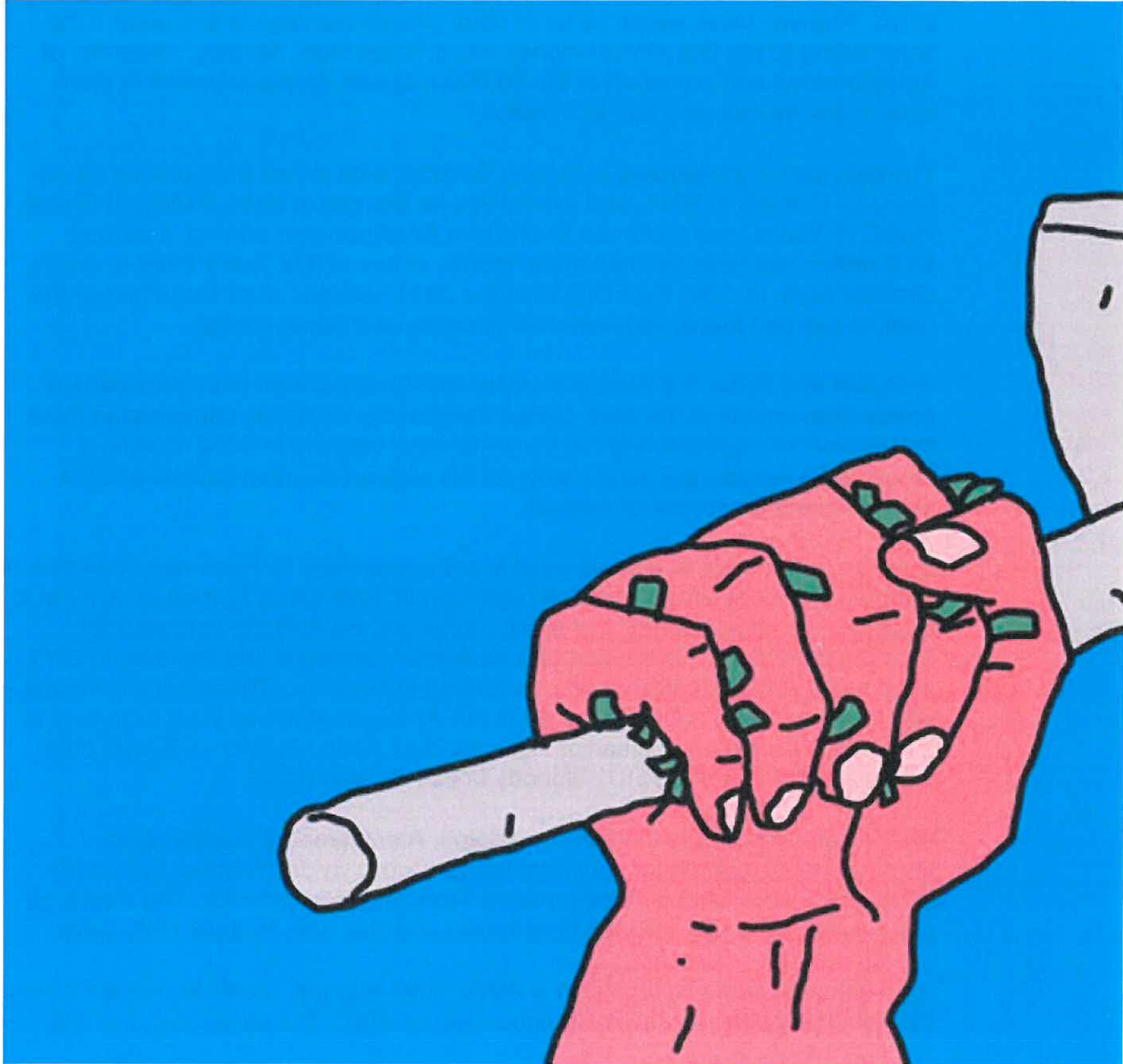


Illustration by 731

Amalgamated Bank, the nation's largest union-owned lender, was almost ruined after the housing bust by soured real estate deals. By August 2011, it was on its way to a \$12 million annual loss, and the Federal Deposit Insurance Corp. ordered it to clean up its act. "Regulators were threatening significant sanctions and possibly closing," says Chief Executive Officer Ed Grebow. "We desperately needed capital."

The bank's controlling owner, Workers United, an affiliate of the Service Employees International Union, didn't have the money, so Amalgamated turned to an unlikely source: billionaires Wilbur Ross and Ron Burkle, whose investment firms put in about \$50 million each in April 2012, taking a 40 percent stake in the bank. "Frankly, there weren't a lot of other people standing in line around the bank willing to put that kind of money into it," says Noel Beasley, chairman of Amalgamated and president of the 80,000-member Workers United. "I didn't have many friends who had \$50 million."

The billionaires' investment is helping Grebow, who joined from private equity firm J.C. Flowers in 2011, and executives he brought in from JPMorgan Chase, HSBC Holdings, and Goldman Sachs turn Amalgamated around. It earned \$3.9 million last year and has made money in two of this year's three quarters, Grebow says. In June the FDIC lifted the 2011 consent order that directed the bank to sell bad loans, renovate risk systems, and boost capital.

In Burkle and Ross, the bank is working with businessmen who have earned praise from unions in the past. United Steelworkers officials commended Ross for his work on restructuring the domestic steel industry in 2002. Burkle, a longtime Democrat, got good marks for his support of union causes and his supermarkets' treatment of workers.

Even so, billionaires at a union bank is not a seamless fit. Ross was chairman of International Coal Group when an explosion in 2006 killed 12 men at its mine in Sago, W.Va., after hundreds of safety violations. He sold the company for \$3.4 billion in 2011. His support of presidential candidate Mitt Romney in 2012 irked some Amalgamated clients, according to Grebow. "These are billionaires who have common cause with a bank like Amalgamated—at least from time to time," says Amalgamated senior vice president Keith Mestrich, a former chief financial officer for the SEIU. "Nobody in this world is pure."

Real estate was nearly the bank's undoing. Amalgamated bought about \$800 million of loans from subprime lender Countrywide Financial before the 2008 crisis, according to Amalgamated Treasurer Ken Schmidt. The mortgage giant collapsed under the weight of losses and was sold to Bank of America.

Amalgamated was an investor in a Plaza Hotel-themed, multibillion-dollar luxury gambling complex in Las Vegas announced in 2007. Six years later, the site

remains empty desert. The bank sold off its loan in August, according to Samantha Berg, a spokeswoman.

It had even worse timing as lender to the 556-room InterContinental Chicago O'Hare hotel, which opened days before Lehman Brothers' 2008 bankruptcy. Also that year, Amalgamated agreed to lend as much as \$21 million to a company in Long Island City, N.Y., whose owner was sentenced in May to seven years in prison for defrauding the bank. "Terrible loans, really bad loans," Grebow says. "The bank expanded into markets it didn't know, and Las Vegas is the best example."

Amalgamated, with \$3.6 billion in assets, has about two dozen retail branches, almost all in New York, and divisions that finance real estate and manage and administer pension plans for unions. Much of its business is in line with what its website calls its progressive tradition. Amalgamated became the Democratic National Committee's only lender last year, handled banking for President Obama's second inauguration, and announced a loan program for skilled immigrants in August.

The bank also started lending to city governments. Its loan to Scranton, Pa., which faced a budget gap, helped pay municipal workers. Occupy Wall Street, the global movement against income inequality, became a client in 2011. "OWS would routinely collect thousands of dollars in crinkled small-bill donations," says former Occupy finance committee member Haywood Carey. "We have nothing but great things to say about the staff, management, and board."

While the bank defines itself by its focus on unions, in recent years that was "also our weakness," says Grebow, citing the labor movement's decline. "It was clear to me we couldn't just rely on labor. We needed to branch out." That's meant clashing with some union ideals. Amalgamated lends to private equity firms, which unions including the SEIU have criticized for cutting benefits and jobs at the companies they buy.

In May, Amalgamated gave a multimillion-dollar credit line to TrakAmerica, which provides services to debt-collection companies. Consumer groups have criticized debt collectors for abusive tactics that take advantage of lower-income people. TrakAmerica is "a legitimate business," says Amalgamated Chief Financial Officer Bill Houlihan, who previously worked at Goldman Sachs and subprime credit card lender Metris. Debt collectors work with borrowers "to try to get them to do the right thing."

The bank also is relying on foreclosures to get soured home loans off its books. "We are very careful to make sure we treat people fairly," Grebow says. "On the other hand, our job is to protect the assets of the bank, and that's what we do."

Burkle, who made the investment through his Yucaipa, declined to comment. Ross, chairman of WL Ross & Co., doesn't see any problems with a union-owned bank having a wide range of clients. "One of the unfortunate things in today's society is capitalism has become to many people a dirty word," he says. For Amalgamated, "the only way it will ultimately fulfill the original dream and the original mission is to be a profitable and healthy bank."