

PE Hand Tries to Rebuild Union-Owned N.Y.C. Bank

By Rachel Witowski

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Felix Unger and Oscar Madison, they are not. But the choice of private equity's Edward Grebow to lead the union-owned Amalgamated Bank might still be considered an odd coupling - if the deficit-laden institution wasn't bleeding out profits and capital. Grebow, a former managing director at J.C. Flowers & Co., knows how to get both on track. Though he has spent the past three years in private equity, Grebow is a turnaround specialist for financial services and labor-focused companies. He oversaw J.C. Flowers' \$25 billion purchase of Sallie Mae, for instance. Grebow has big plans for the New York-based bank, starting with a substantial capital raise that will likely take one of the few union-owned banks outside its ownership circle. "The bank is very much in the rebuilding stage, so we're actively looking for capital," Grebow said in an interview Thursday. The new president and CEO's task involves waking up the bank, refocusing it on labor unions, pension funds and union workers. "This is really a continuation of the bank's historic focus," he said. "Amalgamated, like many other banks, made too many real estate loans that did not go too well that we're now cleaning up." Despite rising nonperforming assets, the bank is well capitalized, with an 11.88% total risk-based capital ratio at March 31. Grebow said he wants to see the leverage ratio rise to 8% from 6%, which would require about \$100 million in new capital. This means the bank must turn to outsiders. "The potential investors who would be most interested in us are not union-owned," he said. New investors "would be motivated by a desire to earn an attractive return on their investment while ... supporting the bank in carrying out its core mission of serving the labor movement, middle-income families and progressive causes." While a capital raise might be tough given that the bank is closely held, it is no different from recent demutualizations that occurred with mutually owned savings banks, said Josh Siegel, a managing principal and co-founder at StoneCastle Partners LLC, a New York investment bank. "Over time, those members [of mutuals] realized that the closed-loop system can be difficult to grow their lending base and they needed to get out" of the circle, Siegel said, especially with the higher cost of regulation. The bank's previous president and CEO, Derrick Cephas, tried to retool the balance sheet by targeting commercial real estate and retail customers when he arrived in 2006. (Amalgamated had previously preferred to buy loans and invest in securities.) "In the first three months I was here, I literally had a blank sheet of paper, and I said, 'What should this look like?' " Cephas told *American Banker* in July 2008. "It looked nothing like it does now, both in terms of structure and in terms of personnel." By the first quarter of 2008, the bank posted a \$10 million loss, largely due to a \$24.5 million loan-loss provision set to address concerns tied to a Countrywide Financial Corp. home equity loan book it bought. The bank, which has since reported choppy results, lost \$2.6 million in the first quarter. Its nonperforming assets were 2.95% of total assets at Dec. 31.

"This institution has challenges," said Mike Heller, the president of Veribanc Inc., a ratings firm in Woonsocket, R.I. Nationwide, nonperforming assets have been falling, while at Amalgamated bad loans "have been going in the wrong direction," Heller said. Grebow said most loan losses came from big, syndicated commercial real estate credits that the bank did not originate, with most in construction loans outside its home turf. Grebow meanwhile said it is not his intention to clean up the \$4.47 billion-asset bank to then sell it. Siegel said the bank's success in raising capital will depend on its business plan. "If it's a limited-growth institution, and there is not a great return, it can be difficult to raise

capital," he said. A "reasonably sleepy institution but with a well-positioned franchise" will be more compelling to investors. Grebow "is a very level-headed, very wise banker," Siegel added. "And Amalgamated is an institution that needs a level-headed, patient leader." Credit: By Rachel Witkowski