Q&A: Wilbur Ross's Next Move

APRIL 10, 2008, 1:51 PM

Link to This
E-mail This

TOPICS Private Equity
INDUSTRIES Financial Services

In his quest to build a new mortgage operation, Wilbur L. Ross is taking a good look at savings and loan banks.

The billionaire investor, speaking at the Cardozo School of Law's Samuel and Ronnie Heyman Center on Wednesday, said that he's actively considering these kinds of institutions for his next investment. Buying a stake in such a bank, commonly known as a thrift, would help complete what is shaping up to be an ambitious mortgage empire.

Mr. Ross and his firm, **W.L. Ross & Company**, have been busy during the market meltdown. In addition to buying the servicing arms of **American Home Mortgage** and **Option One**, he has also agreed to acquire a stake worth as much as $1 billion in **Assured Guaranty**, one of the smaller bond insurance providers — and one of just three that maintain an all-important triple-A rating from all three major ratings agencies, he said.

In his speech at the Heyman Center's Corporate Restructuring Conference, Mr. Ross touched on a broad range of subjects, from recession (he thinks the United States is in one) to the plight of the American middle class.

Intriguingly, he said that if the federal government had allowed the dollar to weaken years ago, the current pressures on the middle class could have been alleviated. He also said that he supported universal funding of healthcare, arguing that the lack of such coverage is a competitive disadvantage — but not necessarily government-run healthcare.

DealBook followed up with a post-conference interview with Mr. Ross, focusing on his latest plans and his views on private equity. Below are edited excerpts from that conversation.

***Q:** So what's behind your interest in thrifts?*

When the **TPG** group committed $7 billion to **Washington Mutual**, it essentially got them out of the wholesale mortgage business. Lots of people are vacating that space, so at some point, it'll get stabilized.

The good part is that these are institutions that have a pretty stable deposit base and therefore are a pretty reliable source of funding. It's very important to avoid the problems **Bear Stearns** ran into, or for that matter **Northern Rock** ran into in the U.K. Both were very dependent on capital markets in general and short-term capital markets in particular for funding their liabilities. As we've seen, that's quite perilous.

We're quite determined that if we get into mortgage origination business, we must have a stable source of funding. The complication is that for a firm like ours, we couldn't own 100 percent of it. In general, we'd have to own under 25 percent, and that's fine.

And that points us toward a publicly owned entity and bringing in either people who are our limited partners or other parties with whom we've worked before.

LATEST DEALBOOK HEADLINES

MERGERS & ACQUISITIONS»
- Two Issues Combine to Scuttle an Aerospace Takeover
- Bank of Nova Scotia Said to Eye National City
- Is Takeda's $8.8. Billion Millennium Deal Too Rich?

INVESTMENT BANKING»
- More Shuffling in Citi's International Operations
- Bear Has No Good Estimate for 1st Quarter Results
- Bear Stearns and the Fair-Value Debate

I.P.O./OFFERINGS»
- Sprott Asset Management Confirms I.P.O. Plans
- PDL BioPharma to Spin Off Biotech Business
- The Un-I.P.O.

PRIVATE EQUITY»
- Four Buyouts of the Apocalypse: Clear Channel
- Movie Gallery Wins Confirmation of Exit Financing
- First Marblehead Won't Tap Goldman Loan

HEDGE FUNDS»
- George Soros Sees a 'Superbubble'
- S.E.C. Sues London's Headstart Over Late Trading
- Delphi May Try to Force Appaloosa's Hand

VENTURE CAPITAL»
- Ustream Pulls in $11.1 Million from V.C.'s
- V.C.'s Put Their Cash into Grindstone
- Coupa Snags $6 Million

LEGAL»
- Markets Meltdown Hits G.E.
- Yet Another Budget Airline Files for Bankruptcy
- Global Forum Calls for New Financial Controls

DEALBOOK NEWS BY INDUSTRY

Airlines / Autos | Basic Industries | Consumer Goods | Energy / Utilities | Financial Services | Food & Beverage | Healthcare | Media | Real Estate | Retail / Leisure | Technology | Telecom

Q: *What's your timeline?*

A. We're looking at some things right now, but we're not anxious about having to do it in the next 10 minutes.

Q: *Do you expect other private equity firms to jump in?*

A: I suspect so. But many private equity firms historically not been very interested in the financial services space, which doesn't lend itself to typical leveraged buyout.

[TPG's David] Bonderman historically has been different, and he's been on the board of WaMu. And we have some experience in taking over financial firms. We had taken over [Kofuku Bank], a failed bank in Japan, and did very well with it. It's still one of the better-performing banks in Japan. We had also bought a failed life insurance company from the Korean government, and it similarly worked out well.

While we didn't get Northern Rock, we were very comfortable with the idea of it. For us, it's a fairly natural space. It's not as natural for some others.

Q: *Also, you don't use a lot of leverage, right?*

A: No, we don't.

We also don't like to have one entity subsidize another we're invested in. Regulators are worried that private equity could use some of these institutions and use them to provide cheap financing for other entities that they own. We don't do that as a matter of policy.

Given the different operating styles of other private equity funds, some of them would have real problems dealing with a regulated environment. And some would be uncomfortable with not having more than 24.9 percent ownership.

Q:*How is the credit market looking now?*

A: The market isn't going to stay broken forever. Citibank is selling loans back to borrowers. $12 billion is not the end of the earth, but it's a good start. Citi must feel that they've marked loans properly to market. If you haven't marked these to market, you can't really sell them because that would crystallize a loss.

Similarly, **Goldman Sachs** announced recently that they had sold some of their **Chrysler** debt at 63 cents on the dollar. That's a terrible number, but at least they found a taker for them and offloaded some debt.

Every time some of this logjam is reduced, it's constructive. But remember that there's hundreds of billions of paper that's stuck, versus tens of millions that's only recently become unstuck.

Q:*So what's the duration? Six months? A year?*

A: I doubt this will take longer than 24 months.

–Michael J. de la Merced

1 comments so far...

1. April 11th, 2008 10:24 am — I always value Wilbur Ross' comments. He has a unique and insightful perspective in many of these substantial events and institutions.

   — Posted by George Field

Add your comments...

Name *Required*

E-mail *Required (will not be published)*

Comment