Business Week

March 16, 1987

A 'RESCUE FINANCE' TEAM TAKES ON BANKING

Hallwood applies a European turnaround trick to BancTexas

When Dallas' $1.3 billion BancTexas Group Inc. got in trouble, the last thing shareholders imagined was that it might be bailed out by a British-born globe-trotter living in Monte Carlo and a computer jock who rarely budges from his Scottish Highlands estate. Indeed, Anthony J. Gumbiner and Brian M. Troup, chairman and chief strategist. respectively. of Hallwood Group Inc. are new to banking. But the Federal Deposit Insurance Corp., burdened with 1,500 problem banks, has tentatively agreed to let Hallwood try its "rescue financing" technique on a U. S. bank for the first time. The founders of Hallwood, based in Cleveland, got their start taking over obscure British real estate companies in the 1970s.

BLUE-CHIP BACKERS. FDIC Chairman L. William Seidman figures it would have cost about $450' million to liquidate BancTexas. But the FDIC will inject only $150 million under the Hallwood plan—if it works. If not, "they'll have to jump back in, and it'll cost Seidman a bunch more," says one bank chairman.

The BancTexas plan spotlights a popular European turnaround method that some analysts think could spread in the U. S. Usually, Hallwood seeks out companies that are close to bankruptcy but that retain a solid asset base and good management. Gumbiner and Troup then offer to wipe the debt off the books in exchange for a piece of the action in a new, successor company. To erase debt quickly, Hallwood offers each creditor a partial cash settlement, using funds from a network of blue-chip backers, largely in Europe. Among them are London's N. M. Rothschild & Sons, Zurich's Interallianz Bank, and Scottish American Investment Trust PLC in Edinburgh. Shareholders in the shaky company, who stand to lose everything if it fails, can exchange their shares for rights to buy stock in the new company. Shares also go to company managers and Hallwood's backers.

.It's a time-consuming way to buy assets cheaply, and it doesn't ensure that losses will be recouped. But everyone has a chance to get something back. The company's board usually goes along in order to avoid Chapter 11. Creditors with some idea of what happens in bankruptcy court usually agree to take 50¢ on the dollar, or less, plus an equity interest, and they leave the cleanup to Hallwood. Since last June, Hallwood has been trying to convince the FDIC that its formula would work with banks. The agency rejected Hallwood's bid for First Oklahoma Bancorp., selling it instead to First Interstate Bancorp., of Los Angeles. But it continued to negotiate over BancTexas. The Feb. 19 decision ultimately hinged on $107 million of nonperforming loans: Hallwood promised the assume the risk of collecting them and to pump at least $500 million into the company in return for the FDIC'S capital injection. The agency's final approval is expected within 90 to 120 days.

Successfully negotiating with Banc Texas' borrowers will be a pivotal, and unfamiliar, task for Hallwood. To manage the bank, Gumbiner has hired James G. Cairns Jr., former president of the American Bankers Assn. While Cairns's agenda at the ABA alienated some bankers, others are fans. He's "hardcharging, able to go through brick walls," says L. Michael Riley, chief financial officer at People's Bancorp. in Tacoma Wash. where Cairns was president. Hallwood's European deals have earned the admiration of savvy investors. But its experience in the U. S. has been mixed. After gaining control of Brock Hotel Corp. in 1986, Hallwood brought its earnings up to $37.2 million for the first nine months of last year, compared with a net loss of $39 million a year earlier. However, Hallwood is still wrestling with Saxon Oil Co., whose oil partnership required an additional $12 million equity infusion last year. William D. Saxon, chairman and 5% owner of the company, recently resigned to run a company of his own.

Still, investors don't blame Hallwood. "Saxon Oil didn't work out very well because nobody could see the extent of the collapse in oil prices," says John Kleinguti, executive vice-president of Interallianz Bank.

TRENDSETTER. If BancTexas works out, Hallwood's approach may be copied, notes Jeffrey T. Kessler, vice-president at Cowen & Co., a brokerage firm. It hasn't happened yet, he adds, because Chapter 11 is too ingrained as a reorganization method.

Hallwood's new prominence is bringing fresh interest in its stock, long avoided by many investors because its deal driven earnings have been so volatile. At 25 lately on the Big Board, the stock is up strongly from its 52-week low of about 16. But what if Hallwood's BancTexas deal draws a horde of rivals into the vast field of troubled banks? Gumbiner, a lawyer and powerboat racer, doesn't see any reason to worry yet Hallwood has "about an 18 month lead on anyone wanting to do a bank," he says. Now it's a question of how well the company uses its headstart.

By Dan Cook in Cleveland with Todd Mason in Dallas and Richard ~ Melcher in London