

Contrarian

Westwood Capital's Dan Alpert goes against the "vulture" culture by working with overextended homeowners to profit from the mortgage mess.

by David Moss

While Asia remained gripped in a deep recession following the financial crisis of the late '90s, all Westwood Capital's Dan Alpert could see was opportunity. As he strolled the streets of Tokyo on a chilly afternoon in February 2000, he witnessed some positive economic signs firsthand: people eating out, stores open, regular business transactions, everyone working. There were also darker realities he couldn't see but that he knew lurked: a massive asset bubble and a mountain of unresolved debt that had left Japan in dire straits. Still, Alpert knew profits were there for the taking.

Westwood Capital, a New York-based boutique investment bank founded by Alpert in 1995, decided to test its strengths in real-estate financings, restructurings and securitizations. Over the next four years, the firm advised native Japanese businesses on innovative financing deals to take advantage of the debt storm. One of its crowning achievements: the \$40 million purchase of a mortgage from Lone Star involving a cut of residential land in Kawanishi, a property originally valued at \$600 million by the now-defunct Long-Term Credit Bank of Japan.

Westwood, unapologetically, makes big money during economic tragedies, and Alpert is readying for another profit-making round. "Many are saying about the United States, 'Look, job creation might be stagnating, but unemployment is very low. Therefore, we can't really have a recession.' Well, sure you can."

Other players appear to share Alpert's bearish stance; Aladdin Capital Management, for example, began fundraising to buy distressed mortgage securities, and TCW Group has raised a \$1.6 billion vulture fund to do the same. Westwood, however, is trying a more humane route to profit. In January, it finished raising money for the Westwood Capital Distressed Mortgage Opportunity Fund, which will buy distressed underlying mortgages, not securities, at a discount and restructure payment schedules with individual homeowners. In essence, Westwood can take advantage of the economic downturn by helping homeowners help themselves, rather than by profiting from their misfortunes.

"Hopefully we'll have plenty of opportunity to profit, put money out in the market and help keep people in their homes," Alpert says. "To a certain extent, we see ourselves as the white hats." The current economic forecast isn't pretty. Inflated home prices, driven by cheap debt and little equity, nearly doubled over the past six years. More pain seems on the way, with some predicting a 25 to 35 percent retrenchment. It's not surprising that defaulting loans are not retaining their original sticker price, but with current inventory offered at 35 to 50 cents on the dollar, some are betting the paper can be worth more in the right hands.

Into the murkiness steps Westwood with its plan to transform individual mortgages from default to steady payments, creating valuable paper in the process. The firm will start small, with \$50 million in equity, but expects as much as \$500 million by year's end. Thanks to the magic of leverage, Westwood might end up handling billions in mortgages. It's a labor-intensive plan, but Westwood is confident it can capture its spreads within a two-year window. "Most of the money is chasing after cheap securities and trying to come up with some formula for marking them for what they believe is fair value," Alpert says. "I wish them the best of luck, but that's not what we're interested in doing."

Scorecard Dan Alpert Age 49 City New York Firm Westwood Capital Position Founder and managing partner Education B.A. in public policy from the University of Pennsylvania Career Arc V.P. of the Radnor Group, 1982–1987. President of a division of the Intercontinental Monetary Corporation, 1987–1989. Senior V.P. of real-estate investment-banking group of Oppenheimer & Co., 1989–1995. Founded Westwood in 1995. Really Big Deal In June 2007, Westwood advised a group of Saudi business leaders, including Prince Mishaal A.T. Al-Saud, in the formation of a joint venture with Bear Stearns. The venture, Bear Stearns Arabia Asset Management, issues sharia-compliant and traditional investment products.

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