



NAUTILUS CAPITAL, LLC

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GREENVILLE NEWS - Posted Sunday, October 14, 2001 - 1:24 am

Niche markets emerging as financial world consolidates

By Chris McCarter
BUSINESS WRITER

In the midst of a serious downturn in the national economy and continuing consolidation in the financial services industry, a few local entrepreneurs are trying to carve out various niches they believe will grow even in a recession.

Recognizing that in the future there will be niche players and financial-services giants, with not much in between; they are veterans of larger financial institutions who believe that, with attention to detail, fewer employees and lower overhead, they can focus on a smaller universe of clients with a personal touch.

Two of the firms — Nautilus Capital LLC and East Broad Trust Co. — are focusing on opposite ends of the financial continuum.



Photos by JASON PARKER/Staff

Scratch-and-dent sales: Steven P. Cohen, one of two managing directors of Nautilus Capital, spends much of his day on his phone and computer finding buyers and sellers of distressed mortgage loans.

Nautilus Capital is one of a few local companies involved in the secondary market for subprime mortgages - home loans to people who don't qualify for conventional "A"-rated loans because of low incomes or bad credit history.

East Broad Trust Co. is one of very few independent trust companies in South Carolina providing personal trust and estate planning services to families and individuals - typically wealthy clients - managing assets that have been acquired through inheritance or a life of saving and investing.

By working as small independent companies focusing on a narrow segment of the financial service business, both firms hope to be more flexible.

Steve Cohen and Laird Minor, both formerly with Greenville's subprime lender HomeGold Financial Inc., formed Nautilus Capital last December to specialize in "distressed" residential mortgage loans - essentially serving as middlemen to broker loans from

mortgage lenders into the secondary market.

In recent years, federal agencies have encouraged development of a vibrant secondary market for such loans to make credit - and home ownership - available to a broader cross-section of citizens.

At HomeGold, Minor and Cohen were each involved in sales of loans - Minor, a lawyer, was in charge of HomeGold's credit policies and underwriting standards, and Cohen, with 20 years' experience on Wall Street selling investment instruments, was in charge of selling loans to institutional investors and managing interest-rate hedging.



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They found it difficult to find buyers for subprime loans that were delinquent on payments but not yet in foreclosure mode.

"We had a problem selling 'scratch and dent' loans, which are difficult to find a home for," Minor said. "Once we realized the problem we had selling, we figured others were in a similar position."

They decided that together they could prosper in what they saw as an untapped market.

At Nautilus, they help independent mortgage brokers and, increasingly, commercial banks and thrifts, reduce their loan risks by finding accredited investors to buy up old and non-performing notes.

The mortgage lenders and banks - the sellers - aren't charged because Nautilus is compensated by the buyers, who typically can buy a pool of relatively high-interest mortgages (the average subprime mortgage rate is about 11 percent) at a discount.

In addition to "scratch and dent" loans, their product includes inventories of loans that are 90 days or more past due, as well as first and second liens.

Minor said Nautilus typically might bundle 12 subprime mortgages with similar payment histories, worth about \$1 million, and sell the package as a collateralized mortgage obligation to an institutional investor or even a wealthy individual investor. Or, they might buy and sell a single \$80,000 mortgage.

Finding the buyers is hard work, said Cohen, but the amount of paper on the market is growing, especially as the current economic downturn forces more homebuyers to fall behind on payments.

Another factor at play: New federal regulatory scrutiny is prompting small commercial banks and thrifts to shed poor or non-performing loans.

Earlier this year, the federal regulatory agencies began requiring banks and other lending institutions to adopt higher capital requirements for past-due and subprime loans. "Nautilus is expecting many banks to re-evaluate their holdings of subprime loans, especially as we near the end of the year," Minor said.

Together, these forces will increase the supply of loans available for the secondary market, lowering their price, Minor said.

To date, Nautilus this year has been able to price about \$275 million in distressed mortgage loans from more than 90 lenders and has successfully bid on more than \$30 million, Cohen said.

While there are many investors in the current market, "there are a lot more people that are seeking out non-performing and sub-performing loans for purchase," Cohen said.



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While Nautilus' focus is on a national market, East Broad Trust's concentration is solely on the Upstate, and its target market is on the upper end of the income scale.

Being locally owned, with local contacts, is East Broad's primary selling point, although it has vendor relationships with lenders, brokerage firms and mutual funds nationwide, said co-founders Steven M. Fisher and F. Jordan Earle.

East Broad Trust is trying to develop a broad range of options for its clients, forging relationships with a broad array of private banking, brokerage and mutual fund vendors.

Both Greenville natives and Citadel graduates with master's degrees, Earle and Fisher together spent three decades in trust and lending at bigger banks. Fisher, president, was vice president and trust officer at NationsBank and has retail and commercial lending experience from Wachovia and C&S Bank. Earle, CEO, was with United Carolina Bank and BB&T, where he was trust administrator and business development manager.



The personal touch: F. Jordan Earle and Steven M. Fisher, co-founders of East Broad Trust Co., say they provide individual attention to their clients' needs, from paying bills to dealing with contractors.

With recent legislation breaking down the walls between banks, brokerages and insurance companies, many financial holding companies have trust divisions that can refer clients to lending, investing and insurance services. But the independent trust companies claim they can give their clients a broader array of choices with an unbiased approach.

Fisher said they also can serve as objective arbitrators settling family disputes over assets, sometimes keeping the families from being torn apart.

"We're not family members," so they work to preserve family relationships, he said.

With a small clientele, East Broad is able to provide a level of personal service its larger rivals seldom can make time for, they said.

"We make house calls," said Earle.

Besides the traditional core business of acting as a trustee or agent to administer living and irrevocable trusts, charitable trusts, IRAs and private foundations, East Broad's commitment to personal service gets Earle and Fisher involved in numerous ancillary services for their clients - from paying bills to dealing with contractors and painters to finding sitters for elderly clients.

Fisher recalls how one elderly client who was homebound became petrified and isolated when her TV blacked out. "She was scared to death," he said. "We went out that afternoon and bought her a TV set, picked it up and delivered it."



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Just about a year old, East Broad currently has 18 clients and about \$15 million in assets under management. When it reaches \$60 million, it will hit profitability, but it hopes to reach a target of \$100 million of assets under management within five years, Earle said.

"The key to the trust business is being patient," he said. "We make decisions carefully, and once we develop relationships, we keep them through the long term."

The outlook for both East Broad's and Nautilus' niches is good, even in a downturn. However, a severe recession could hurt both.

For Nautilus, a "moderate downturn" would be good for business - putting more loans with spotty pay histories into play, Minor said. But a "horrendous" downturn, he said, could raise delinquencies so high that buying could stop.

For the more than 520 independent trust companies in the country, the current economic doldrums can't stop a demographic tide.

"There are trillions of dollars that will flow down to the baby boomer generation in the next 10 to 15 to 20 years," said Thomas Blank, general counsel of the Association of Independent Trust Companies.

"People engaged in this business understand that recessions will come and go, and look at estate planning, wealth planning and asset management as a longer-term sort of thing - beyond what one economic cycle can do," Blank said.



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