

THE WALL STREET JOURNAL.

Deals & Deal Makers: Repko's Rescue Mission: Helping Companies Stay Aloft

By Paul M. Sherer

Staff Reporter of The Wall Street Journal

1964 words

16 April 2001

[The Wall Street Journal](#)

J

C1

English

(Copyright (c) 2001, Dow Jones & Company, Inc.)

Xerox Corp., Lucent Technologies Inc., Southern California Edison Co., LTV Corp.

In this weak economy, what banker in his right mind would consider lending more money -- hundreds of millions of dollars more in some cases -- to companies such as these, which already are struggling with heavy debt loads?

Bill Repko, that is who, as long as he gets to set the terms.

It is workout time again on Wall Street. That is bad news for struggling borrowers and many of the bankers who lent them money. But for Mr. Repko, king of the corporate bailout at J.P. Morgan, the investment-banking arm of J.P. Morgan Chase & Co., troubled loans are a great countercyclical business.

A key part of his job: deciding when to lend a helping hand to a beleaguered borrower by extending a new loan, and when to snub a supplicant because it likely would mean throwing good money after bad.

Negotiations occasionally are contentious and always require a delicate balancing act, as in the recent case of auto-parts maker Federal-Mogul Corp. Last fall, the Southfield, Mich., company faced a daunting challenge: either get \$500 million of new loans from its group of bank lenders or seek bankruptcy-court protection from its creditors.

Mr. Repko's group structured a new loan, and he began dialing for dollars, trying to win over other banks that initially refused to open their wallets. "If you say no to this," he recalls telling other workout specialists, "it's going to be a disaster for your own portfolio. If you do this deal, you are materially better off, and so is the company."

Only days before it was prepared to file for bankruptcy-court protection, Federal-Mogul received a \$550 million **credit** line, including \$50 million from J.P. Morgan -- which pocketed \$10 million in fees for leading the restructuring.

It was a vintage performance by Mr. Repko, perhaps the best-known restructuring banker in America. When author Tom Wolfe needed to learn how banks deal with troubled borrowers for his novel "A Man in Full," he turned to Mr. Repko for advice. Indeed, one of the book's most memorable scenes came from a real-life experience of Mr. Repko, who at a meeting with a debtor in the mid-1980s pulled off his jacket to brandish his skull-and-crossbones suspenders.

Still, the 51-year-old Mr. Repko generally prefers persuasion to confrontation, unlike the ruthless Harry Zale, the fictional workout banker in Mr. Wolfe's novel, who prided himself on being able to humiliate a debtor until the sweat marks under his arms stretched across his chest to look like saddlebags.

A born comedian and a masterful schmoozer, Mr. Repko is known for being straightforward with debtors and other bankers, and for realistically gauging how markets will receive a workout deal -- all the more complicated today because many corporate giants have multiple **credit** lines from syndicates comprising dozens of banks that often must unanimously approve loan restructurings.

"It's a huge political process to get a workout done and get a bank agreement put together," says Robert S. "Steve" Miller, chairman of Federal-Mogul and a veteran turnaround artist. "For a guy like Repko, the problem is like herding cats. That's a role that Bill plays extremely well."

Mr. Repko, a deep-voiced, burly redhead, entered the world of bad debt as a workout man in 1980 at Manufacturers Hanover Trust Co., which, after a series of mergers, is now part of J.P. Morgan Chase, of New York. He showed his toughness in negotiations with Texaco Inc. in 1985, after a jury ordered the White Plains, N.Y., oil company to pay \$11.1 billion in damages in a merger dispute.

Texaco, which long had been accustomed to dictating terms to its banks, faced a liquidity crisis. It didn't grasp that this meant the banks held the power in their relationship until Mr. Repko cleared things up during a tense meeting. "You went from being a blue chip to a cow chip last night," Mr. Repko told a Texaco assistant treasurer. Texaco soon agreed to a new loan under tough terms. Since then, Mr. Repko has helped bail out other famous names, such as auto maker Chrysler Corp., now part of DaimlerChrysler AG, in 1992, computer concern International Business Machines Corp., of Armonk, N.Y., in 1993, and retailer Kmart Corp., of Troy, Mich., in 1996.

In the years he has been a restructuring banker, the business has changed, and his job has changed with it. As a traditional workout banker in the early 1980s, his goal usually was to recover as much money as possible from financially pinched borrowers. Now, in such cases as Lucent -- which recently arranged new financing as it sold off assets to repay debts -- Mr. Repko and other bankers often help borrowers by solving short-term liquidity crises that can quickly sink a company, giving businesses the breathing space to fix their problems. Mr. Repko himself doesn't do traditional workouts anymore; like his bank, he is focused on arranging new loans and syndicating them to other banks, keeping most of the fees but spreading the risk.

There are lots of problems to mend of late, following a lull in the debt-restructuring business after the last big U.S. debt mess that was cleaned up by the mid-1990s. Hardly a week goes by without another stalwart American corporation falling into trouble. U.S. companies defaulted on \$30 billion in high-yield, or junk, bonds last year, and about \$590 billion of bonds and bank loans are now considered distressed, meaning they trade at prices of 10 percentage points or more above comparable benchmark securities such as Treasurys, according to Edward I. Altman, professor at New York University's Stern School of Business, in Manhattan.

That means Mr. Repko and his team of eight senior professionals are busier than they have been in years. His ringing phone brings him a stream of calls asking him to, as he puts it, "foam the runways" for companies that have burned through their cash and are coming in for a crash landing. "One of my early warning signs: if 'beleaguered' appears before the company name in news articles, I need to pay them a visit," Mr. Repko says. Hal Dietz, chief **credit** officer of Bank of New York, says, "I want to put a homing device on him, so I know where he is and where my next problem will be coming from."

Some of the problem loans, of course, are ones J.P. Morgan arranged. The combined J.P. Morgan and Chase had \$1.43 billion of impaired loans on their books at the end of 2000, up from \$1.30 billion a year earlier -- though at 0.89% of total assets, those nonperforming loans are a smaller percentage than at many other big banks.

Mr. Repko is no one-man show. His clout in the corporate bailout business is bolstered by the fact that J.P. Morgan Chase has built what may be the world's most powerful lending machine. Last year, it arranged 34%, or \$410 billion, of U.S. syndicated loans, says Loan Pricing Corp., a New York market-research firm. He and his team work closely with the bank's relationship managers, with veteran deal makers such as James B. Lee, and

with Jeff Sell, who runs the traditional workout group.

Perhaps surprisingly, lending to companies in trouble can be not only lucrative but also relatively low-risk. Fees on such loans typically range from 1% to 3% of the amount lent. Moreover, loans made to a company that already has filed for bankruptcy-court protection under Chapter 11 of the U.S. Bankruptcy Code are the first to get repaid, while loans made to a struggling company outside of bankruptcy generally are heavily secured by the company's assets.

The Federal-Mogul restructuring was fairly typical. The auto-parts maker faced a crisis because of a significant downturn in its core business and a surge in asbestos lawsuits against it. In return for \$550 million in new funds and for keeping Federal-Mogul's existing \$1.7 billion **credit** line open, its banks were given a higher interest rate, plus collateral that included the company's U.S. property, plant and equipment, which will leave the banks with a much higher recovery if the company were to default; the existing \$1.7 billion **credit** line had been unsecured. Federal-Mogul said the extra money will give it ample liquidity through 2004.

"If you can help clients not only in growth markets but through volatile ones, it's a huge advantage," says Don McCree, co-head of North American **credit** markets at J.P. Morgan and one of Mr. Repko's bosses.

While today's restructurings tend to be more amicable than in the past, some still turn contentious, such as the recent battle between steelmaker LTV and its bankers, led by J.P. Morgan.

Mr. Repko got a call Dec. 1 from LTV asking for \$225 million in new loans. He sent a team to the company's headquarters in Cleveland to scour its books, but the team didn't like what they saw. Mr. Repko called LTV with the bad news. "We said, '\$225 million isn't happening,'" he recalls. "They said, 'How much is happening?' We said, 'Close to zero.'"

In response, the steelmaker threw down the gauntlet to Wall Street. In filing for Chapter 11 in federal court in Youngstown, Ohio, on Dec. 29, LTV effectively grabbed control of "securitized" assets it already had sold to other investors, stunning its bankers. LTV earlier had sold the future income from the assets, its steel inventory and accounts receivable, to two specially created companies; these companies then borrowed \$600 million from banks, which were to be paid back with the cash flows from those assets.

The bankruptcy court, on an interim basis, approved LTV's maneuver on the same day. LTV justified its move by saying in a statement that the funds were necessary "to continue the normal operation of our businesses and develop . . . a restructuring plan that will result in a viable, successful LTV."

If LTV didn't back off, Mr. Repko said in an interview in early January, "it's going to be war."

Still, while banks didn't think LTV's maneuver would stand up to a challenge in appeals court, they also didn't want to risk a court judgment against them, fearing it could undermine the financial mechanism used in the \$1 trillion asset-backed securities market.

So the banks settled. Led by J.P. Morgan, the banks converted the \$600 million loan to the two specially created companies into a \$600 million loan to LTV, while other lenders threw in an additional \$100 million to LTV. In return, LTV dropped its legal maneuver. The new loans are secured by all of LTV's assets and will be repaid before most other lenders get a dime.

Mr. Repko spent the last week in December on the phone with Ohio politicians and LTV's other banks, disrupting his plans to spend the holidays quietly with his wife and six children. Still, he tries to pace himself since being hit with chest pains in early 1998 during a tough restructuring. He ended up in the hospital having emergency angioplasty to widen the clogged arteries leading to his heart.

"It just goes to prove to you, I'm not heartless," he says. "You can't have angioplasty if you have no heart."