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A Pohlads bank nearly runs dry in the desert

By **CHRIS SERRES**, Star Tribune

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Carl Pohlads was known as a shrewd dealmaker who amassed his billions by buying and selling businesses at just the right times.

His family's timing wasn't as sharp when the housing crash struck the Pohlads' Arizona bank.

Nearly two years after Pohlads' death at 93, his three sons are paying a heavy price for a Phoenix-area lender's expansion in the Arizona housing market. The Pohlads brothers, Jim, Bob and Bill, have pumped nearly \$300 million of their own money into Meridian Bank, which made a headlong push into residential real estate just before housing prices went bust.

While the Pohlads rescued the Arizona bank from the brink of collapse, they are still dealing with the aftermath. The family, whose numerous business interests include the Minnesota Twins, is trying to unwind nearly \$130 million in troubled loans. Federal regulators are scrutinizing their lending activities more carefully, after citing the bank for "unsafe and unsound" banking practices in a 2009 enforcement action.

The problems in the Grand Canyon State are an embarrassing setback for a family that largely built its fortunes from banking. Marquette Financial, the family's Minneapolis-based bank holding company, has long touted its lending prowess and ability to compete with larger rivals. The elder Pohlads bought his first bank in the 1950s and reaped more than \$1.2 billion selling community banks.

"Luckily, he didn't live to see this ...," said Jim Pohlads, 57, chairman of Marquette Financial Cos., in a recent interview at Marquette's headquarters at RBC Plaza in downtown Minneapolis. "It hasn't been pleasant to write the checks."

Pohlads held on to the Arizona bank, which was founded in 1978, in part because he wanted to keep a toehold in the Arizona market and didn't want to exit the lending business completely after selling most of his bank holdings to Wells Fargo in 2001.

A series of costly blunders nearly brought it to collapse. It ramped up lending in an unfamiliar market just prior to the housing market's collapse and made loans backed, in some cases, by little more than desert sand. A review of Meridian's financial statements also indicates that it moved slowly to write down problem assets, possibly exacerbating losses by forcing it to sell properties at steep discounts after housing prices had already collapsed.

Pohlads insists the family finances are "very strong," and Meridian is now on sound financial footing after writing off or selling most of its bad loans. He declined to reveal the family's net worth, but Forbes magazine valued the late Carl Pohlads at \$3.6 billion in its 2008 ranking of the nation's richest Americans.

The family still owns a diverse collection of private businesses, including car dealerships, real estate ventures and a broadcasting operation, that together employ 3,900 people. Last year, the family sold its Pepsi bottling and distribution business for \$2.12 billion; the Pohlads received \$383 million.

"We're fortunate that we had the ability and the resources to be able to deal with this," Pohlads said. "Besides the desire, we had the ability. We're lucky."

Caught in a 'big tsunami'

Arizona's real estate collapse -- one of the worst in the country -- has been hard on bankers. About 65 percent of the banks in the state are losing money -- three times the nationwide rate, according to the most recent data from the Federal Deposit Insurance Corp.

"We were part of a big tsunami," said Bert Colianni, chief executive officer of Marquette Financial. "Arizona has been, frankly, a disaster for real estate values."

Colianni and Pohlads acknowledge the bank brought many problems on itself. Their biggest mistake, they said, was concentrating too heavily on a single type of borrower -- residential builders and developers. At its peak, such loans made up about 30 percent of Meridian's \$2.3 billion in assets.

Poor underwriting was also partly to blame, Pohlads said. "In certain cases, you go back and say, 'Did anyone ever go out and look at this piece of land?'"

Pohlads said the family erred by not hiring enough local managers in the Phoenix market. "You've got to know the market," Pohlads said. "We didn't understand it. If we were doing this in Minneapolis, I understand the market. ... We lost that connection."

In late 2007, Meridian's balance sheet was nearly pristine. Its loan charge-off ratio, or the percentage of loans it wrote off as uncollectable, was a minuscule 0.09 percent as of September 2007. The next year, the charge-off ratio hit 3.69 percent. In 2009, it shot up to an abnormally high 5.05 percent.

The sharp change of fortunes drew regulators' attention. In June 2009, the Office of the Comptroller of the Currency cited Meridian for "unsafe and unsound" banking practices and ordered the bank to clean up its balance sheet, among other corrective steps. The bank is still operating under the order.

The Pohlads dig deep

Once Meridian started to recognize large losses on its real estate portfolio, the Pohlads family moved swiftly to shore up the bank's capital. The family injected \$68.3 million into the bank in 2008, and a total of \$66.8 million in 2009 and 2010. The Pohlads also bought about \$130 million in problem loans from Meridian through a separate entity.

"We made a conscious decision as a family ... that we were going to do whatever it took to make sure the bank didn't fail," Pohlads said. "If you let something like that happen to you, you're basically done in banking. ... We didn't want to be done in banking."

The family's large capital infusions into Meridian are unusual. Since the financial crisis began in late 2007, only a small number of the nation's more than 7,500 banks have received more financial backing from their owners than Meridian. As a percentage of its capital, Meridian ranked 16th in the amount of capital it received from its owners or parent company, according to an analysis conducted for the Star Tribune by Trepp LLC, a New York-based financial research firm.

The cash infusions have given the Arizona bank healthy levels of capital to absorb future losses. The bank had a Tier 1 risk-based capital ratio, a key measure of a bank's health, of 16 percent at the end of 2010, comfortably above the industry median of 13 percent, according to FDIC data.

What's more, the bank's balance sheet has been largely cleansed of problem loans. As of the end of 2010, Meridian had \$72 million left from a residential construction and development portfolio that, at its peak, topped \$700 million.

"This is a reminder that there is something to be said for family ownership, for not letting a bank fail and honoring your commitments," said Bert Ely, a bank consultant from Alexandria, Va.

Pohlad insists the Arizona bank can still turn a profit -- but only if it changes its approach. He wants it to become more like a traditional community bank, which makes loans to Main Street businesses and consumers, rather than simply a lender to developers.

As a first step, Marquette has hired 18 executives and managers from the Arizona market. With its strong capital levels and its loan problems largely resolved, Meridian may be in a stronger position than Phoenix-area rivals, many of which are still writing off troubled loans.

"It's going to take a long time," Pohlad said. "It's not a 'build it and the business will come' type of thing. We have to go out and get it."

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