

# Cohen Financial

Jack Cohen has a new business model, and his company is growing again after a

BY STEVE BERGSMAN



(Left to right) Jack Cohen, chief executive officer; Timothy Mazzetti, executive vice president; Dean Wheeler, executive vice president; Manny Brown, chief operating officer; and (not pictured) Adrian Corbiere, executive vice president of Cohen Financial, have kept the company continually evolving and staying ahead of market changes.

# Version 3.0

timely recapitalization.



PHOTOGRAPHY BY BILL TUCKER

Most people who meet Jack Cohen, CMB, chief executive officer of Chicago-based Cohen Financial, come away thinking, “Now, there’s a really smart guy.” ■ The trouble is, in today’s tumultuous financial world, smart guys are not only a dime a dozen, but many of them are out of business—having succeeded in buckling Wall Street and sinking such illustrious New York institutions as Lehman Brothers and Bear Stearns & Co., not to mention all the talented people who created commercial mortgage banking companies, some of which no longer exist. ■ Jack Cohen would probably be happier to be known as a businessman who is nimble, flexible and not afraid of big, company-altering plays—in short, a survivor. ■ After holding Cohen Financial together, sometimes self-funding the company with other management these past four years, he recapitalized his firm in 2010 and is in the process of rebuilding it as a multi-platform, real estate capital services firm that not only can weather bad times but also take advantage of the recent market dislocations. ■ As a real estate service company, Cohen Financial has been one of the largest originators of commercial real estate loans in the United States, supplying, before the economic downturn, about \$50 billion in financing, says Cohen. The company, in a mortgage banking capacity, works with life companies, conduits, real estate investment trusts (REITs) and opportunity funds. ■ “Our sources are capable of [doing



everything from] delivering fully amortizing, long-term debt to structuring non-recourse construction transactions to highly leveraged mezzanine, bridge or preferred equity deals,” Cohen says.

Pembroke Capital LLC, a Bryn Mawr, Pennsylvania– based real estate investment firm, has been working with Cohen Financial since 2007, when Pembroke Capital was founded by John Vander Zwaag, who earlier in his career had worked at Cohen Financial.

“Our business plan for a specific asset may or may not include debt,” says Vander Zwaag. “And Cohen Financial, because of the breadth of its customer base and knowledge of other parts of the real estate capital markets, can find alternative sources of equity or joint-venture capital.”

Vander Zwaag adds, “The reason I like working with Cohen Financial is, no matter which of their offices I’m talking to, I’m getting a highly skilled professional that can understand the specific assets and our general business plan. The company gives us a very focused effort in terms of securing the appropriate capital.”

In addition to capital market services, Cohen Financial has evolved into a substantial third-party servicer and special servicer.

After some mighty tough years since the financial markets imploded starting around 2007, the company undertook a major recapitalization in 2010 and is now poised to unveil a third leg of its business—a

principal/funds management platform. In essence, Cohen Financial doesn’t just want to place other companies’ capital; it wants to be a principal investor as well.

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#### **A transformative investment**

In the second quarter of 2010, Mariner Real Estate Management, Leawood, Kansas, swept into Chicago on a determined shopping junket. Mariner executives bypassed the famed Miracle Mile, heading south to Two North LaSalle Street, where they eventually struck a deal to buy a majority interest in Cohen Financial. Mariner Real Estate could easily finance the transaction, as it’s an operating subsidiary of Mariner Holdings LLC, a \$7 billion wealth- and asset-management firm based in Kansas City.

The idea behind the deal was to recapitalize Cohen Financial, says Cohen. “We had a concept for this company to survive, but we needed a ‘suspension bridge.’”

The deal came about inadvertently because Cohen Financial had already signed a letter of intent to recapitalize with a different company.

What happened, explains Timothy Mazzetti, CMB, executive vice president of loan administration with the company, was that Cohen Financial had received a cold call from Mariner Real Estate about having Cohen Financial service Mariner’s investment portfolio. Mazzetti, who until the call had never heard of Mariner, traveled down to Kansas City to meet with the potential new client.

“Cohen Financial made the decision in the fall of 2009 to go out and look for a recap partner, and at the meeting with Mariner, I mentioned that,” Mazzetti recalls. “The light went on with the real estate guys at Mariner, and they said they might be interested. One thing led to another.”

Cohen Financial had already decided to go with a different company, but that acquirer was bought out by a larger public company—so all pending deals were off.

“At the beginning of 2010, we went back to the market and Mariner was right there,” Mazzetti says. “We generated two other letters of intent, but we opted for Mariner and the deal closed on April 22.”

Even before the recapitalization deal, Mariner Real Estate had already opted to have Cohen Financial service its loans.

“We got to know Tim Mazzetti and Cohen Financial very well, and when we heard the company was looking to recapitalize, I said we would be interested,” notes Ryan Anderson, co-president of Mariner Real Estate Management.

“We thought Cohen Financial’s executive leadership team of Jack Cohen, Tim Mazzetti, Dean Wheeler, etc., was first-class. They had given us great customer service and our people liked working with them,” Anderson says.

Mariner Real Estate was founded in July 2008 and manages two funds—Mariner Real Estate Partners LLC and Mariner Real Estate Partners II, both of which are fully funded. In August 2010, the company closed a structured transaction with the Federal Deposit Insurance Corporation (FDIC), which involved the acquisition of a portfolio consisting of \$760 million in real estate loans. In effect, Mariner Real Estate acquired a 40 percent managing member interest for approximately \$52 million in the limited-liability company created by the FDIC to hold loans and real estate-owned (REO) assets.

Cohen Financial is the servicer of all the loans acquired by Mariner Real Estate in the deal with the FDIC.

“The investment in Cohen Financial provides us with a couple of tangible benefits,” Anderson says. “It allows our real estate entity to be in the middle of the deal flow. We get good access to debt and equity markets, and good intelligence as to how markets are functioning. We are better investors because of the data from their capital markets unit. Finally, on the loan administration side, it makes our processes smoother, the lines of communication quicker and, at the end of the day, it gives our investors a higher return.”

#### **Running faster and faster**

The recent recapitalization of Cohen Financial really is not a standalone event when viewed against the firm’s corporate history. The company has never stood pat; instead it’s continually evolved and managed to stay abreast, if not

ahead, of the vast changes in real estate economics during the past three decades.

The genetic strain of entrepreneurship began with Jack Cohen’s father, Benjamin B. (Buddy) Cohen, who founded B.B. Cohen & Co., also based in Chicago, in 1965. A legendary, free-spirited businessman, Cohen developed the first correspondent lender relationship with John Hancock Life Insurance Co. Inc., Boston, which became an industry standard for many years.

B.B. Cohen was eventually sold to cross-town regional financial giant Walter E. Heller Co. After a few years of corporate life, Buddy Cohen decided it was time to start over again, and in 1978 he created Cohen Financial Corporation. In the early 1980s, he brought his sons, Jack and Bruce, into the business.

Jack became chief executive officer of the company in 1990, and together with his brother decided to expand the company.

“My dad, to his credit, agreed to let Bruce and I grow the business,” Cohen recalls. “Around 1997, we raised \$80 million of high-net-worth capital and put it on the balance sheet, and then went to 14 banks and created a \$320 million bank line. We then looked like an unregulated bank. We would lend; hence interest income. We would do brokerage and servicing; hence non-interest income.”

That model held from 1998 through 2003, and during that period, Cohen Financial went from \$300 million in origination volume and \$300 million in servicing to \$3 billion in originations and \$3 billion in servicing,

Cohen reports.

Then the business model changed again in 2004, with Bruce Cohen going his separate way, forming Wrightwood Capital, Chicago, a commercial real estate investment company. Two years later, Jack Cohen recapitalized the company for the first time with Toronto-based FirstService, parent of Colliers International, buying more than 50 percent of the company.

In 2000, Cohen Financial’s annual transaction volume was \$2.5 billion and that rose in 2006 to \$5.2 billion, according to company information.

Even with this significant growth in volume, there was a question about whether it was enough.

“In 2006, I had a \$50 million business but I wanted to grow to \$100 million,” Jack Cohen says. That phase didn’t last long because by third-quarter 2007, Cohen realized “the industry was headed off a cliff” and as quickly as possible started shrinking the company.

In December 2008, Jack Cohen offered to buy back the company. “It was a classic entrepreneurial play,” he says. “FirstService agreed. They became a minority partner and I took control. We were losing money at that point because we couldn’t shrink the company fast enough. The management team and I funded the business from 2009 to May 2010, when Mariner came in.”

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## A better-balanced stool

In 2006, when Jack Cohen was intent on growing his business, he realized he needed a better executive team, and one of his first key hires was Tim Mazzetti, who had been with Midland Loan Services, Overland Park, Kansas.

“The company Jack Cohen had, after he split it up with his brother, was what I would call a one-legged stool,” Mazzetti recalls.

“It was heavily weighted in the capital markets and transaction business. It also had this ‘training wheel’ off to the side, which was servicing. That was very typical of most mortgage bankers. The training wheel captured the in-house servicing of life company loans and CMBS [commercial mortgage-backed securities]. It was not an integral part of the business—it couldn’t stand on its own and was 100 percent dependent on loans that were originated through the capital markets business,” Mazzetti says.

When Cohen asked Mazzetti to join the firm, Mazzetti looked over Cohen Financial’s structure and saw it had the potential to be a major player in the third-party servicing arena.

“I told Jack that, ‘If I were to come over here, I would see my role as transforming this company into a more diversified, better-balanced stool,’ so I spent the last four years focused on diversifying away from this heavily weighted, more volatile, more risky line of business that was about placing debt and equity,” Mazzetti says.

The first and best way to affect change was to overhaul the existing servicing platform, which at the time was about \$5 billion of life company loans and a small bit of CMBS.

To make the corporate directional turn, Mazzetti needed help and he recruited an associate from his old Midland Loan Services days—Dean Wheeler, who would become Cohen Financial’s executive vice president of loan administration.

“The challenge was to implement institutional-quality processes while servicing the customers that already were Cohen Financial customers,” Wheeler recalls. “We replaced our servicing technology to an industry-leading platform, we undertook an analysis and review of each person that was part of a team and brought in some additional resources to fill in the gaps. We worked on redoing the process and organizational structure to make sure it was where we wanted to take the business,” Wheeler says.

The servicing business was not in good shape when Mazzetti and Wheeler arrived at Cohen Financial. “We had a number of correspondents who were not happy and were saying, ‘Look, you are on probation,’ which is not a good place to be when you take over a new group,” Mazzetti says.

The tension Mazzetti and Wheeler faced with existing clients was an unsettling reality to the newcomers.

“To be quite honest, I didn’t like working with Cohen

Financial until they reorganized and put the current management staff in place,” says Teresa Klein, director of loan administration for Summit Investment Partners, Cincinnati, the lending arm of Lincoln, Nebraska-based UNIFI Companies, consisting of Ameritas Life, First Ameritas Life, Acacia Life and Union Central Life.

“Cohen Financial went from being our worst servicer to our best servicer within a year of Tim Mazzetti and Dean Wheeler arriving and getting things organized,” Klein says.

“They corrected the errors being caused by lack of process, lack of procedure, lack of training and lack of performing functions. After Tim and Dean came in, all of the remittances started coming in on time and were error-free. Reports that were accountable to us on a monthly and quarterly basis started showing up on time and were accurate. They enhanced the quality of the service a hundred-fold,” Klein says.

The working relationship is now so good between Cohen Financial and Summit Investment Partners that Klein has begun moving servicing work over to Cohen even in situations where it wasn’t involved in the original transaction.

“In some cases, we have discontinued a relationship with one of our correspondents and we have transferred those loans to Cohen Financial,” Klein says.

## Moving into special servicing

Cohen Financial also moved into special servicing, bringing its first client on in February 2009. The future for special servicing looked very bright until the

end of the first recapitalization. After the leveraged buy-out, the company was working solely on management capital. As Mazzetti notes, “We lost our institutional-type balance sheet and our ratings.”

Getting recapitalized a second time with Mariner put the special servicing arrow back in Cohen Financial’s quiver.

One New York-based hedge-fund company uses Cohen Financial as a special servicer for its \$550 million fund that acts as a buyer of distressed residential and small commercial mortgages.

“We have been working with Cohen Financial since December 2009,” says Daniel Ostersehite, the hedge-fund firm’s director of acquisitions. “When we buy a package of nonperforming loans or high-risk, scratch-and-dent, commercial loans, we have a team at Cohen Financial that works with us.”

The reasons the hedge fund went with Cohen Financial are twofold, Ostersehite explains. “First, the asset managers working on our assets are best-in-class. Secondly, they think outside the box; they are very entrepreneurial.”

And if there is a third reason, it’s because Cohen Financial has been able to structure the relationship so there is an alignment of interests, which is Ostersehite’s way of saying the compensation is tied to the returns on the portfolio.

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In 2006, when Wheeler joined Cohen Financial, there were just 12 people doing servicing, but now there are 45—most of whom are based in Kansas City. In addition, an asset-management office opened in 2010 in Dallas.

Servicing volume, which was about 700 loans valued at \$3.7 billion at the end of 2009, rose in the fourth quarter of 2010 to 2,400 loans with a value of \$5 billion, the big hits coming with Mariner's FDIC deal and new special servicing business from third parties like the hedge-fund firm.

Cohen Financial may be helping a government-sponsored enterprise (GSE) in the future, Wheeler hints.

The goal of making servicing the second revenue leg of Cohen Financial appears to be on target. "In 2007, we had gotten a little third-party business, which took us to 5 percent of servicing," Mazzetti comments. "In 2008, that grew to 30 percent and then 35 percent to 40 percent in 2009. In 2010, about 90 percent of all new [servicing] business will be third-party."

### A third leg

At the end of 2010, Cohen Financial was a two-legged company with a piece of business—debt advisory services—that, corporate-wise, straddled the two existing operating units because debt advisory provides consulting services to borrowers with distressed debt structures. That business was started in 2009 with the biggest clients being borrowers with CMBS loans. As distressed levels continue to increase, Cohen expects good growth out of this service.

However, debt advisory is not a new corporate unit, and Cohen Financial executives view a well-balanced company as something more than just two business lines.

Fifteen years ago, Cohen Financial was not just a mortgage banking firm, but a principal lender as well. In 2011, the company will return to that business—thus creating that proverbial third leg of the corporate structure, making Cohen Financial a more stable, more diversified financial company than it was before the economic downturn.

"The good news is, we have a history in this business. We have the DNA, we know what it takes to create this new business," observes Manny Brown, Cohen Financial's chief operating officer.

"At one time, we had a principal business attached to Cohen Financial. We understand the markets and how synergistic it is with the other parts of our business," Brown adds.

Being a principal lender means Cohen Financial will be investing its own capital into deals, not just that of life insurers or banks. One big advantage in being a direct lender is that Cohen Financial can invest alongside its clients, which gives the company an alignment of interest—something many lenders are seeking from their correspondents and servicers.

To be a lender means Cohen Financial will have to raise capital.

Brown doesn't think that will be a problem. The bigger issue, he says, is finding a place for that capital.

"We not only have the ability to raise monies, but have a variety of ideas where we can place that capital," he says. "Not only do you need to raise it, but you have to find where to place it so you can get the returns your investors are looking for. We can do that, and that's why we feel confident that our plan for 2011, once we finalize it, will be executable."

### Expansion under way

In 2006, Cohen Financial boasted 15 offices around the country staffed by 150 employees, says Cohen, and after shrinking the business, the company ended up with seven offices and 55 people—that was at the time of the Mariner deal.

The Mariner recapitalization stabilized the firm, and expansion has since restarted. At the end of 2010, the firm was back up to 100 employees, 65 of whom were in the servicing side of the business.

Cohen has plans to open new offices in Los Angeles, Seattle and New York.

When all the spreadsheet numbers are tabulated for 2010, Cohen suspects his firm will end up in the red for the year, although business continued to improve month-to-month and Cohen Financial was profitable in the fourth quarter.

Cohen expects the company will again become profitable in 2011, as gross revenues from the servicing side will be at record levels due to all the new business that was coming in at the

end of the year from FDIC and other sources.

"[Last year] was the transition year, as we went from pre-Mariner to Mariner," says Cohen. "Our ratings were reaffirmed and third-party business has continued to come in."

As for the capital markets business, it was profitable for the last six months of 2010 and Cohen expects it will be profitable again in 2011, as the transaction market has started picking up.

Over the next five years, Cohen wants the firm's capital markets unit to achieve gross revenue of \$25 million, with the book of servicing to reach \$25 billion. The goals for principal/funds management are more mundane: Hire people, build platform and roll out product.

"At the end of 2011, we expect to have robust origination, loan administration and principal lending businesses," Brown summarizes.

"Each will be successful in its own way but synergistic with each other. We have the ability to use our suspension bridges between clients and partners and solve a variety of capital markets issues. As a total company, we will provide more to the marketplace than we are doing right now," Brown concludes. **MB**

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