

EVEN FOR A GO-GO BANKER, THERE ARE CERTAIN NO-NOs

Regulatory realities catch up with CenTrust's David Paul and his flamboyant ways

Give David L. Paul credit for his persistence and ingenuity. For instance, there was the morning in 1985 when the chairman and CEO of Miami's CenTrust Savings Bank met with Lewis S. Ranieri, then the guru of mortgage-backed securities at Salomon Brothers Inc. He learned that Ranieri planned to have lunch with a tycoon. Paul asked to join them. Ranieri declined. So Paul donned a waiter's vest and slipped into their private dining room at Salomon's headquarters. He delivered a Perrier with a twist of lime, Ranieri's favorite drink, and sat down at the table. Recalls Ranieri with a laugh: "He'd made his point."

That mix of chutzpah and guile is a Paul trademark. He's the go-getter who took charge of a moribund Miami-based thrift in 1983 with no money down, pledging little more as a guarantee than his then-unfinished yacht. Under Paul, CenTrust has more than quadrupled its assets to \$10 billion. He has made it the biggest thrift in the Southeast and 20th-largest in the nation. **CAPITAL CRUNCH.** While Paul is arguably CenTrust's biggest asset, he may also be its biggest liability. He is alternately combative and conciliatory toward regulators, and his opulent lifestyle raises red flags. Critics charge that the thrift takes too many risks with its fast-growth strategy and heavy reliance on mortgage-backed securities, junk bonds, and, yes, even Old Masters. Regulators have ordered Paul to liquidate CenTrust's \$28 million art collection—most of which is exhibited in his home. The collection includes a Rubens that cost \$12 million. Some experts have valued it at much less, though Paul defends the purchase price.

CenTrust—which lost \$5.4 million in the Mar. 31 quarter and nearly \$20 million in the last nine months—has been forced to change its ways as a result of regulatory directives and what Paul concedes is a more conservative economic and political climate. But clearly this is no Texas-sized thrift disaster, and Florida and federal regulators are trying to make sure it doesn't become one. Under

their pressure, the state-chartered thrift is scaling down its \$1 billion portfolio of junk bonds, and over the next two years it will establish a 3% loss reserve. It has agreed to notify regulators before declaring dividends on the common stock, of which Paul owns 51%. To increase outside influence on CenTrust's board, Vice-Chairman Alfred Teti is relinquishing his directorship.

Still ahead for CenTrust and hundreds of other thrifts is the challenge of meeting tougher capital standards pending in Congress. They could require a tangible net worth of 3% of assets. Depending on how that capital is measured, thrift analysts say CenTrust would be thinly capitalized, or at worst, insolvent. Given its condition and its image, raising new capital would be tough: The stock, at 4, is down 71% from its 1986 high. "It's a locomotive headed for a brick wall," says Stephen Skaggs, vice-president of Shearson Information Services, which follows thrifts.

Like him or not, David Paul is CenTrust—from the idea to bathe CenTrust Tower in lights, which created an indelible fixture on Miami's skyline, to using his initials, DLP, as the ticker symbol. In keeping with his high profile in local society, Paul hosted a dinner for 60 in December that was prepared by six French chefs flown to Miami for the occasion after he bid a reported \$30,000 for their services at a charity auction.

NO WIMPS. Paul, 49, has made the papers in other ways as well. In addition to his law degree from Columbia University, he has boasted of a graduate degree from Harvard. Numerous publications, including *BUSINESS WEEK*, took him at face value. But the *Miami Review*, a legal newspa-

PAUL GOT CENTRUST THROUGH TIMING, LUCK, AND LEVERAGE



per, has since reported Paul's admission that he never graduated from Harvard.

Former executives and associates say that he solicits advice but doesn't heed it and that he doesn't delegate well. "I am a strong personality, and people like me or don't like me," Paul admits. But he contends that other CenTrust executives are outspoken, too: "This institution is not made up of wimpy people."

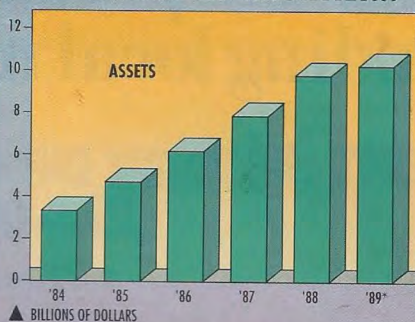
Even some of his harshest critics concede that Paul took over an ailing thrift without federal help and—so far—has kept it alive. Friends and foes alike cite his prodigious capacity for work, frenetic energy, and brilliant intellect. "He's a typical entrepreneur," says one regulator. "I'm just not sure he belongs in a regulated industry."

How Paul got there was a matter of timing, luck, and leverage. In 1981, when he was a developer in Connecticut, he borrowed \$12 million to buy control of an ailing real estate investment trust, Westport Corp. Through a friend who sat on both boards, he heard of the plight of Miami's Dade Savings & Loan Assn., which, like many thrifts, was shaken by sky-high interest rates and dubious real estate loans. In October, 1982, Paul applied for the \$2.3 billion asset thrift, planning to pay with Westport stock worth about \$25.7 million.

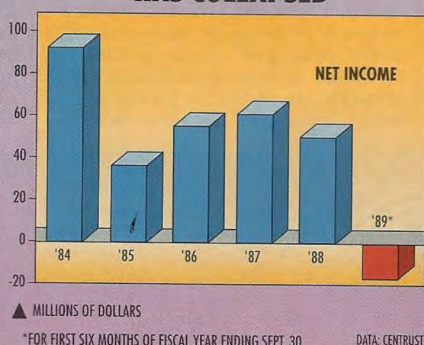
Regulators took more than a year screening the offer. They reduced appraisals of some Westport properties and questioned the health of a Chicago condo project. As a clincher, Paul pledged \$7.2 million worth of assets of newly formed David Paul Properties Inc. In addition to some mortgages transferred by Westport, its primary asset was the Grand Cru, his 94-foot yacht then under construction. As part of the deal, regulators said that the assets of Westport—since renamed CenTrust Trust—had to equal at least \$32 million by 1989. If not, David Paul Properties would have to make up the difference. No problem, says Paul, who claims that the net worth of CenTrust Trust is now over \$60 million.

JUNK DEBTS. But in late 1983, one month after the deal closed, Westport revised prior financial statements to boost the loss on the condo project from \$600,000 to \$4.6 million. In 1984, Chemical Bank foreclosed on the condo loan. Paul sued Chemical, claiming it had sabotaged the project, which Chemical denied. Chemical won the foreclosure in 1987. Paul's lawsuit is still pending. Now Chemical is pursuing Paul's \$5 million personal guarantee, with the trial ex-

CENSTRUST HAS EXPANDED MIGHTILY...



...BUT PROFITABILITY HAS COLLAPSED



*FOR FIRST SIX MONTHS OF FISCAL YEAR ENDING SEPT. 30

DATA: CENSTRUST

pected to begin shortly in Chicago.

Meanwhile, in taking charge at CenTrust, Paul sacked all but one top executive, installed additional controls, and revamped computer systems. He also had to tackle the takeover's albatross: \$526 million of the accounting asset known as "goodwill." This asset must be amortized over 25 years, confronting CenTrust with an annual \$21 million after-tax bite on net income.

Paul's solution was simple: more assets. That would reduce goodwill as a percentage of assets and enable the thrift to build capital through retained earnings and public offerings. Unable to gather enough deposits from branch offices, CenTrust bid aggressively through brokers. With help and encouragement from Wall Streeters such as Ranieri, CenTrust plunged into exotic trading strategies involving mortgage-backed securities. The thrift became a member of Drexel Burnham Lambert Inc.'s junk-

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bond network and had as much as 12% of its assets in high-yield bonds. That angered state regulators so much that the legislature passed a law barring state-chartered thrifts from owning bonds that were below investment grade. Paul took to buying unrated and private placement junk debt.

Over the years, critics have charged that CenTrust's profits result from trading. It recognized gains on profitable positions while classifying losers as "investments." Why the semantics? Outsiders say it's because under accounting rules for thrifts, trading securities must be marked to their market value, while investment securities needn't be. They say if CenTrust's mortgage-backed securities were marked down to current prices, the losses would be staggering. This Paul admits, but he argues that in principle they should be offset by the higher value of low-rate older deposits.

Trading profits aside, CenTrust is losing money on its core banking business. Celia Vlasin, an analyst with Johnston Lemon & Co., puts the losses at a \$72 million annual rate. Paul says they are only half that and that analysts are ignoring fee income and other revenues.

GILT AND GAZEBO. "I don't think we've ever gotten a fair shake," says Paul, citing a litany of successes. New loans were \$1.9 billion in the fiscal year ended last Sept. 30, up from \$77 million in 1983. Branches have grown to 60 from 32, and the net interest margin is up.

Paul's compensation has been modest—\$2.4 million over five years. He has also collected \$11 million in dividends. CenTrust holds \$3 million in mortgages for Paul, who bought the houses on both sides of his LaGorce Island mansion, leveling one for a garden and gazebo.

His taste for luxury and quality extends to CenTrust's offices. The \$95 million CenTrust Tower was built under the former management, but Paul's influence in the interior decor is unmistakable. CenTrust's quarters, which cost \$25 million to complete, boast Taiwanese and Italian marble floors and walls, a gold-leaf ceiling in the reception anteroom, and white gold above a stairway in the executive suite. Paul says the Old Master paintings were intended to grace the offices, but he kept them at home for safekeeping from humidity until construction was done. He now concedes that the art purchases were unwise and wishes the fuss would die down. But given his penchant for attracting controversy, something else would be sure to pop up in its place.

By Gail DeGeorge in Miami

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