# Business Building: William Spiegel Interview

10/09/09 An 18-year veteran of private equity, William Spiegel is the head of the finance sector business at Pine Brook Road Partners. Opting to call his line of work “business building” rather than venture capital or leveraged buyouts, he talked with Alternative Universe about the upheaval and resulting opportunity in the finance sector.

## PrivateEquityCentral.net: How did 2008, with the worldwide financial crisis, affect you?

William Spiegel: It actually created a lot of opportunity for us. Pine Brook looks to invest in financial services businesses in the face of dislocations and how we invest is not to use a leveraged buyout strategy or venture capital strategy, but a business building strategy. We look to create businesses and grow them in the face of dislocations in the finance sector.

For us, a dislocation is defined as an imbalance between the supply and demand of capital. The reason I focus on capital is because capital is the raw material for the finance sector. So when you look back at 2008, with the credit crisis being an example of supreme dislocation and destruction of capital, a compelling need was created for new businesses to be formed or for new capital to flow to existing businesses to take advantage of the opportunity this dislocation created.

## PEC: Is there a sense that the economy has now turned around and that the finance sector is making a comeback?

WS: Well, I think the crisis is over in a sense that we now know the world will continue to exist. But, will the finance sector continue to exist in a way that we knew it pre-crisis?

I think you have to use a broad definition of the finance sector. If you think about it, there are a lot of very different businesses in the sector and their one common thread is that they are held together by capital. Certain businesses were not affected in the financial crisis in the same way that others were. The biggest example was banking, which was clearly and dramatically impacted in the crisis by the decreased value of the assets on its balance sheet.

The crisis began with the marked-to-market problem that certain banks had with their securities portfolios. This did not affect all banks because loans are not marked-to-market; a loan is held at cost until there is a reason for it to be marked down because of delinquency. We have had 95 bank failures this year. We saw 26 last year. There are 9,000 of them in the country, so we are still early in the game as far as the number of failures we are going to see.

## PEC: Give me an example of a sub-sector or fringe sector of the finance sector.

WS: In May 2009 we announced the formation of the first private mortgage insurance company since the crisis. For any loan where the loan-to-value is greater than 80%, which would mean the individual is putting in less than a 20% down payment, for Fannie Mae or Freddy Mac to purchase the loan, it is required that there be mortgage insurance. Mortgage insurance would pay the first loss should a homeowner default on the mortgage. It is a government requirement.

We began to look at the mortgage sector in late 2007. We looked at origination, we looked at servicing, and we concluded by mid-2008 that there was a good opportunity in mortgage insurance because the existing mortgage insurance companies were going to suffer significant losses from the collapse of housing.

That would create a capital supply and demand imbalance, and there would be an opportunity for a new, “clean,” well-capitalized company to emerge.

So we began to work with the CEO of this company, Mark Casale, and together we formed Essent and we raised $500 million to help build this company. We helped him find a management team and we are in the process of being able to launch at the end of 2009 or early 2010.

This is a good example of a sector that suffered a significant supply and demand imbalance and we created a company out of this dislocation in order to capitalize on that.