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NEW YORK BUSINESS

JANUARY 7 - 13, 2019

PROFITS AND CAUSES

CEO Keith Mestrich is taking New York's Amalgamated Bank national by embracing social responsibility

VOL. XXXV, NO. 1 WWW.CRAINSNEWYORK.COM

MESTRICH, in the bank's Woody Guthrie conference room, has plans to expand Amalgamated from the New York island to California.

PHOTOS BY BUCK ENNIS

BANKING FOR GOOD

Founded to support the city's union workers, Amalgamated plans to grow by financing socially responsible causes

BY AMY CORTESE

It was the morning after the 2018 midterm elections and Keith Mestrich, chief executive of Amalgamated Bank, was placing congratulatory calls to the bank's clients. His first three calls were to Antonio Delgado, Max Rose and Anthony Brindisi, Democrats who ousted Republicans in New York districts as part of a statewide blue sweep. Also on his list were national Democratic leaders such as Sens. Jon Tester of Montana and Sherrod Brown of Ohio, ranking member of the Senate banking committee.

"We do a nice national business banking the Democratic Party," Mestrich said, sitting on a couch in his office above an Amalgamated branch in the Garment District. That might be an understatement. Amalgamated's clients include the Democratic National Committee, progressive super PACs and rising national stars such as Alexandria Ocasio-Cortez as well as stalwarts including Sen. Kirsten Gillibrand. The bank serviced Bill de Blasio's mayoral campaigns and Hillary Clinton's billion-dollar presidential run.

All told, Amalgamated raked in more than $2 million in fees from Democratic campaigns and organizations during last year's midterms, according to Federal Election Commission filings.

The turn to politics is part of a plan by Mestrich to diversify beyond the bank's organized-labor roots. The bank was founded 96 years ago by a New York garment workers union and for most of its existence has served local union members and their pension funds. Since becoming CEO in June 2014, Mestrich has moved to embrace a broader set of organizations and businesses that share the bank's social and environmental concerns. (Planned Parenthood and the Sierra Club are clients.) Getting political, it turns out, can be a winning business strategy.

Mestrich built an Amalgamated presence in Washington, D.C., almost from scratch, hiring former Obama administration officials as bankers. Amalgamated in May completed the acquisition of San Francisco–based New Resource Bank, netting a portfolio of commercial loans to socially responsible firms in areas such as clean energy, organic food and green building. In August the bank was listed on Nasdaq, becoming the first labor-owned company of any kind to go public and providing access to the kind of capital Mestrich will need to finance more acquisitions.

The goal is to create a national financial powerhouse that serves socially responsible organizations—the Patagonia of banking, you might say. That mission could grow Amalgamated from nearly $5 billion in assets today to $50 billion in a decade or two, Mestrich forecasts.

That's a big ambition for a bank that is tiny by the standards of JPMorgan Chase and Bank of America, which each have more than $2 trillion in assets.

"Size really matters," Mestrich said. "When you don't have a big balance sheet, you can't do things for the largest players. You can't bear the risk of product development. You can't build a national name and national footprint."

Mestrich's plan relies heavily on a digital banking platform with a limited physical footprint. "The model won't work in Topeka or Little Rock," he acknowledged. "But it does work well in places like Boston, Chicago, Los Angeles and Seattle, where there's a concentration of nonprofit organizations and unions and political groups. I think we can build a real business around that."

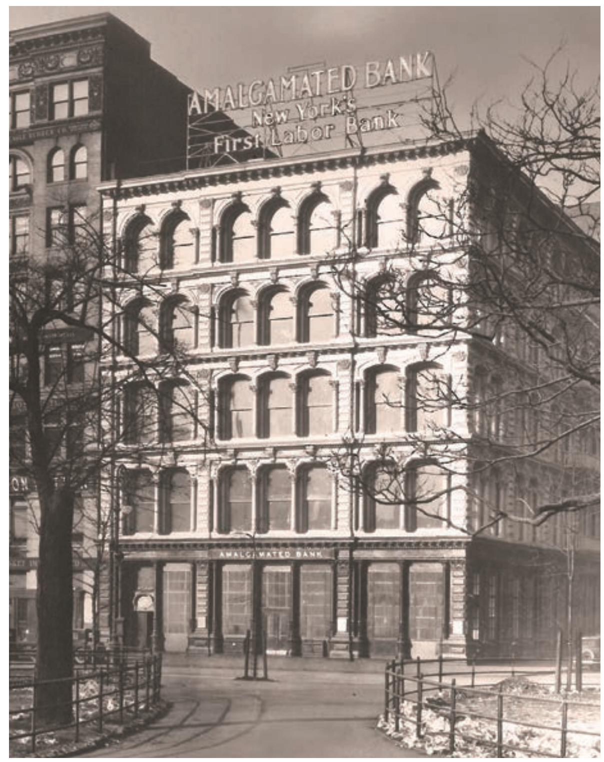
Values play

Across the financial industry, players including BlackRock and Goldman Sachs are adopting so-called socially responsible investing. Often that involves splashy initiatives but little fundamental change in how the institutions operate. JPMorgan Chase, for example, made headlines in 2017 for committing to 100% renewable energy by 2020. Yet it financed $25 billion in "extreme" fossil-fuel projects, including tar sands and coal, from 2015 to 2017, according to a Rainforest Action Network report.

In contrast, Amalgamated was born out of a platform of workers' rights and solidarity, and those values are baked into its DNA. The bank, which has championed a $15 minimum wage, became the nation's first to raise its own minimum to that level in 2015. (Jamie Dimon followed suit a year later.) It uses its $40 billion trust business to pressure public companies on issues including board diversity, gun control and curbing carbon emissions. It's leading an initiative to devise a framework for measuring the climate impact hidden in loan portfolios.

Amalgamated is also one of the few banks, along with New Resource, to become a certified B Corp., a voluntary designation that requires businesses to rigorously measure and report the impact they have on their employees, customers, the communities they work in and the environment.

CHARTERED IN 1923 IN UNION SQUARE, Amalgamated brought affordable banking to the working classes.



COURTESY OF AMALGAMATED BANK

That all-in strategy sets Amalgamated apart, said Dennis Kelleher, president and chief executive of Better Markets, a watchdog group. Amalgamated is "trying to bring a socially responsible financing model to the financial industry," Kelleher said. "That's obviously very hard to do in an industry where the competitive pressures on revenues and profits are so intense. But it's an exciting experiment that the country really needs to see."

It's also an experiment you wouldn't expect from Wall Street. But then, Amalgamated has never been a typical bank. And Mestrich, who spent the bulk of his career in the labor movement—starting as a financial analyst at the AFL-CIO and rising to chief financial officer and deputy chief of staff for the Service Employees International Union—is not your typical banker.

"I've had a pretty nontraditional career path to becoming a bank CEO—to say the least," he said.

Labor organizer Sidney Hillman and the Amalgamated Clothing Workers of America founded the bank in 1923. As New York City's first labor bank, it sought to provide working folks with affordable services. The year after its founding, the bank introduced the nation's first unsecured personal loans, akin to today's credit cards. It also offered the city's first free checking accounts and the first foreign-exchange transfer service for immigrants looking to send money to relatives who stayed behind.

Hillman also helped to create the Amalgamated Housing Cooperative in the Bronx—the oldest limited-equity cooperative housing in the nation, with a several-year waiting list. It was financed, naturally, by Amalgamated Bank.

The bank's Manhattan headquarters celebrates that history. Posters of Hillman hang on the walls, and conference rooms are named after progressive heroes such as Woody Guthrie and Eleanor Roosevelt.

The union merged in 1995 with the International Ladies' Garment Workers' Union to form the Union of Needle Trades, Industrial and Textile Employees, or UNITE—"the best acronym ever for the labor movement," Mestrich said.

But that proud history almost came to an inglorious end. By the turn of the century, unions were under assault. Membership numbers plummeted. Infighting broke out at UNITE, which had by then merged with a union for hotel and restaurant workers.

Around that time, the bank embarked on a rapid expansion into underserved communities.

'A perfect storm'

Then the 2008 financial crisis hit. Amalgamated's branch in the Financial District sported a big sign supporting the Occupy Wall Street protesters. But internally, the bank was reeling from the same subprime loans that had shaken its big rivals. Amalgamated wrote down $150 million in tainted loans from Countrywide Financial and other subprime lenders, and regulators ordered the bank to raise its capital ratio. Making matters worse, the bank had relied on borrowing rather than deposits to finance its operations, and it was locked into long-term interest rates even as rates were plunging.

"It was almost a perfect storm," Mestrich said.

It nearly devastated the bank. Amalgamated was stabilized with the help of a $100 million loan in 2011 from funds controlled by billionaires Ronald Burkle and Wilbur Ross, who took a combined 40% stake. (The funds sold shares, reducing their stakes, in the August public offering. Ross fully divested of his interests in 2017.) The next year Mestrich left the SEIU, an affiliate of UNITE (now Workers United), to join the bank. His mandate: Expand the bank's sleepy Washington, D.C., presence. With his connections, Mestrich soon landed the Democratic National Committee as a client.

Two years later he was promoted to president and CEO. He moved to New York and began to close underperforming branches and unwind problem loans.

The financial crisis led Amalgamated, and Mestrich, to think more broadly and grow the bank's business beyond the labor community to nonprofit and political organizations and—with New Resource Bank—socially conscious businesses. After New York and D.C., "San Francisco was the next best market for us," Mestrich said. "We were trying to get there organically, but it was really hard."

The New Resource acquisition, which grew out of talks between Mestrich and that bank's CEO, Vincent Siciliano, presented a great opportunity. It also crystallized the strategy Amalgamated had long been mulling, leading to the tagline "America's socially responsible bank."

Getting to scale

The moves have paid off. The D.C. operation has gone from nearly nothing in 2012 to more than $1 billion, driven by bankers who hail from the political and nonprofit worlds and understand their customers' business needs. They're intimately familiar with arcane federal election rules and forms, for example, and offer extended hours to accommodate wires to facilitate the last-minute ad buys vital to campaigns. "We don't work bank hours; we work campaign hours," said Molly Culhane, Amalgamated's senior vice president of political banking, who joined the bank in 2014 after stints in the Obama administration and Barack Obama's re-election campaign.

Meanwhile, Amalgamated has committed to doubling the loans New Resource could make to triple–bottom line businesses (those aiming for environmental, social and financial results), from $350 million to $700 million by 2020. Amalgamated remains the largest manager of union pension funds in the country and Workers United its largest shareholder.

Since Mestrich has taken over, the bank has increased deposits by $1.5 billion and earnings from $3.3 million in 2014 to $32 million as of last year's third quarter.

> "BECOMING A $50 BILLION BANK WOULD SAY SOMETHING VERY REAL ABOUT THE PROGRESSIVE ECONOMY"

Wall Street has cheered the bank's moves. Amalgamated shares closed the year at $19.50, up 25% despite the broader market swoon.

In reiterating his "overweight" rating in December, JPMorgan analyst Steven Alexopoulos wrote: Amalgamated "appears to have years of double-digit growth potential within its reach as the company expands market share within its targeted niche." The bank, Alexopoulos noted, has just 5% of a potential $97 billion in customer assets within its target market of progressive organizations in six metropolitan regions.

As community banks struggle to adapt to changing technologies and intensified competition, Amalgamated's singular vision offers a competitive edge. "There are just under 5,800 banks in the U.S., and yet you really can't find a competitor to Amalgamated right now," Kelleher said. "The challenge is how well they can execute on their strategy and take a socially responsible bank model to scale."

Mestrich is intent on trying. "Could we be a $50 billion bank?" he mused from his office, filled with framed photos of politicians and progressive activists. "It would be pretty ambitious to get there. But a $50 billion bank would say something very real about the progressive economy. That would ultimately be the highest purpose that this institution could serve." ■