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## The Tough Guy Of Big Mortgages Boosts Wachovia

**Mr. Verrone Bumps Off Rivals In \$50 Million-Plus Loan Niche; Pistachio Shells on Park Avenue**

By **CHRISTINE HAUGHNEY**  
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In the clubby world of issuing \$50-million-plus mortgages -- used in the horse-trading of skyscrapers -- Robert "Large Loan" Verrone is the party-crasher.

In less than three years, he has taken banking company **Wachovia** Corp. from hardly any presence in this niche business, to displacing traditional leaders such as **Credit Suisse Group** and **Deutsche Bank** by some key measures. Along the way, he's become known for his irreverent, tough-guy demeanor, and for quoting lines from "The Godfather" in deal negotiations.

Robert Verrone "doesn't eat brie," quips David Lichtenstein of Lightstone Group, a major real-estate firm and Verrone client.

Mr. Verrone says he in fact does occasionally eat brie, "but I am not a huge fan." He does, however, gobble up controversial deals -- this at a time when prices for skyscrapers and other large commercial properties are already at record levels. He is also one of the nation's biggest drivers of the complex mortgage-backed securities that get crafted out of these loans, as well as other investments that are increasingly popular with pension funds, life-insurance companies and hedge funds owned by millions of Americans.

It's a high-stakes game. As long as commercial property values remain strong, and owners get a steady flow of rental income, then owners should have little problems making their mortgage payments. But if the market turns, there could be trouble.

Mr. Verrone has transferred much of that risk to investors, says Stephen Blank of the Urban Land Institute, a real-estate trade group based in Washington, D.C. "It's sliced, diced and priced," Mr. Blank says. "It's off Wachovia's books."

Mr. Verrone says he is confident the market is a healthy one. During a spring interview in his Park Avenue corner office, he gestured out the window at the surrounding pricey office buildings. "In my position, you have to be an optimist," he said, then added: "You know what I see is





David M. Russell

Robert Verrone once washed dishes and roofed houses; now he makes millions in banking.

job security. Every building in Manhattan needs a mortgage."

Beside his desk, a framed photo of James Gandolfini as Tony Soprano rested on the floor. Beneath his feet were a scattering of pistachio shells.

The heart of his business is negotiating loans of \$50 million or more. As recently as 2003, Wachovia lent just \$3 billion in commercial mortgages. But between 2004 and the first half of 2006, Wachovia financed \$25 billion in large loans, including the mortgages on Donald Trump's office tower 40 Wall Street, the Insurance Exchange building in Chicago, and the Ritz-Carlton in New Orleans.

This past week, he closed on a \$1.1 billion loan for Blackstone Group's refinancing of the Boca Raton Resort & Club in Boca Raton, Fla., an exclusive, 80-year-old resort now getting renovated.

Wachovia is now the nation's leading contributor to commercial mortgage-backed securities, or CMBS. In the first half of 2006, Wachovia contributed more than \$8.9 billion, or 10%, of the \$86 billion in loans that were pooled into commercial mortgage-backed securities, according to CommercialRealEstateDirect.com in Newtown, Pa. Credit Suisse ranked second with \$6.8 billion.

Rivals say Mr. Verrone helped popularize what is known as "mezzanine" financing, which is when several lenders get involved with a deal, enabling the borrower to obtain a bigger loan. It works like this: Banks rarely lend more than 75% of a property's appraised value, which is referred to as the "loan-to-value ratio." The buyer is expected to pay the remaining 25% from his or her own cash. However, Mr. Verrone began offering slightly higher loan-to-value ratios, and introduced borrowers to third-party mezzanine lenders who covered much of the amount normally paid by the buyer.

This lets borrowers put less of their own cash at risk, but also increases the amount of borrowed money involved in the deal. If a borrower defaults, the mezzanine lender could become the owner of the property.

Deals like this are soaring in popularity. Data gathered by the Mortgage Bankers Association shows that the use of mezzanine loan debt in commercial real-estate deals more than tripled to \$19 billion in 2005 from \$4.8 billion in 2004.

"The higher loan-to-value [ratio], the less margin of error there is," says Mr. Blank of the Urban Land Institute.

Wachovia often doesn't lend to the riskiest parts of these deals, though it's a hair more aggressive than its rivals. Manus Clancy, a managing director at Trepp LLC, a New York based analytics firm, estimates that the average first mortgages that Wachovia has made and put into commercial mortgage-backed securities since January 2004 have been for 70% of the appraised value of the property. That, says Mr. Clancy, is just slightly higher than the 68% average made by all banks.

The son of Italian immigrants who grew up in working class Paterson, N.J., Mr. Verrone washed dishes, painted and roofed houses, sold Cutco Knives and manned a drag-racing game on the Seaside Heights, N.J., boardwalk while working his way through Moravian College. He broke into banking when his friend's sister, who worked in human resources at **Bear Stearns** Cos.,

tipped him off to a summer internship.

He joined Bear Stearns full-time after college, but left after four years when he was told that there were no jobs in fixed-income mortgage sales. A Bear Stearns spokeswoman declined to comment.

Larry Brown, a former managing director at a predecessor to Wachovia, said he hired Mr. Verrone in 1995 because he had the Wall Street experience the bank was then trying to attract to Charlotte, N.C., where Wachovia is based. Mr. Verrone was moved to New York in 2003 to win more Manhattan deals.

A Wachovia spokeswoman wouldn't discuss his salary or bonus. But Jane Lyons, a partner with New York-based executive search firm Rhodes Associates, estimates that someone in a similar role could earn \$3 million to \$5 million annually depending upon the volume of loans they produce and how profitably these loans sell as mortgage-backed securities.

Mr. Verrone courts clients in ways that depart from tradition for bankers. For instance, when Joseph Chetrit (whose investments include stakes in Chicago's Sears Tower) went to a rival bank for a loan, Mr. Verrone says he sent him a Mafioso-style funeral bouquet to mark what he called the death of their lending relationship.

Mr. Verrone says Mr. Chetrit found the flowers amusing enough that he later came back to Wachovia with more than a dozen subsequent deals. "I basically reminded him that he could talk with other people, and dance with them once in awhile," but "I'm his guy," Mr. Verrone says.

Mr. Chetrit declined to comment.

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