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Firm's Co-Founder Rips Reorganized Institution

FINANCE: Ex-Fremont exec pushes new slate of directors for Signature

By DEBORAH CROWE *Staff Reporter*

Former financial services giant Fremont General Corp. emerged from Chapter 11 bankruptcy two years ago with a different name, new management and a business plan that investors hoped wouldn't get the company into trouble again.

Now James McIntyre, the largest single shareholder of what became Signature Group Holdings Inc. – and the Fremont co-founder who led the company through most of its torrid and controversial growth years – contends the new team has squandered opportunities and depleted shareholder value.

He wants shareholders to install his slate of directors at the company's annual meeting Tuesday.

"These people are primarily dealmakers who have never really run a public company or even a business really," McIntyre told the Business Journal last week as he led the proxy battle from his home in Santa Barbara. "When they finally called a shareholder meeting, I decided that they shouldn't get a free ride."

Fremont was once a $9-billion Santa Monica financial services firm that rode and crashed in successive waves of the 1990s workers' compensation insurance boom and the subprime mortgage lending craze of the early 2000s. It narrowly avoided liquidation after filing for reorganization in 2008 after a move to Brea.

That's when Signature Group, a small Sherman Oaks investment firm, stepped in. The firm convinced investors, creditors and the bankruptcy court that it could reduce Fremont's liabilities and deploy remaining assets. The group said it could invest in promising businesses unable to tap conventional capital sources and that the businesses would become part of Signature.

The company's most valuable asset is Fremont net operating

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HQ: Signature's Sherman Oaks office.

losses that now total more than $900 million and are due to losses suffered in the subprime market. The losses are attractive to profitable companies that might want to join with Signature to use the losses to lower their tax liabilities.

For example, Signature already has acquired a controlling stake in a Burbank circuit-breaker distributor and a specialty skin care company in the L.A. area.

McIntyre alleges Signature executives have made changes that enrich themselves and the company hasn't handled its investments well. Shareholder value has declined more than 50 percent since June 2010, he notes. The stock moved from the Pink Sheets to the Over the Counter Bulletin Board in April; shares closed at 35 cents on July 18.

Both Signature's management and longtime observers of Southern California's financial industry are skeptical of McIntyre's claims. The company has mounted a spirited defense to investors and proxy advisory firms in letters and presentations.

Chief Executive Craig Noell said Fremont ran significantly afoul of insurance and banking regulators during the tenure of McIntyre and his handpicked successors. Noell added that he and his team inherited significant baggage that will take more than two years to unload.

He also contends that two of McIntyre's allies on the postreorganization board – who have since left – continually threw up roadblocks to management's efforts to rebuild the company.

"We inherited the rump end, the charred ashes, of what was once a $9-billion company," he said.

Signature has spent millions of dollars to try to settle more than 150 legacy lawsuits and get regulatory filings current so the company can move to a stock exchange attracting larger investors.

"We knew it would take a lot of work to remake (Fremont) into something that investors and potential business partners would want to be part of, but we are making progress," he said.

Veteran L.A. investment banker Lloyd Greif, who is familiar with Signature's efforts, isn't taking sides in the dispute but said management makes valid points.

"McIntyre was at the controls when the company made the decisions that led it to run aground," he said. "So why would current investors want to rush to judgment on a new team that's only had two years and return control to the guy who was at the helm when the company racked up $900 million in losses?"

Troubled history

The company has been in business since the early 1960s. McIntyre had been a Fremont director since it went public in 1972, serving as chief executive from 1976 to 2004. He continued as company chairman until 2007, just as the extent of the housing bust and the questionable practices of many lenders in the industry were becoming apparent.

But the housing crisis wasn't Fremont's first debacle. It was primarily known as an industrial bank when lawmakers deregulated the California's workers' compensation insurance market in 1995. The company, along with dozens of others, began competing in the market by lowering premiums until there wasn't enough money to cover claims.

The resulting cascade of claim losses led the California Departments of Insurance to take over supervision of Fremont's insurance business in 2000; the company divested the line in 2002.

But even before that, in 1998, Fremont officials were looking at other opportunities. The company acquired PacificAmerica Money Center Inc. for $55 million and used the residential mortgage lender to boost its own lending business. By 2005, Fremont had originated $36 million in loans, specializing in the subprime market. When the market crashed and people stopped paying their mortgages, Fremont was on the hook because it had agreed to buy them back from investors.

"Like most other lenders, they got caught up in the hyperbolic exuberance of the housing bubble," said Stuart Gabriel, director of the Ziman Center for Real Estate at UCLA.

In the proxy fight, three top advisory firms are siding with management. But even if he loses, McIntyre might win.

"He will have been successful in raising the company's profile," Greif said, "which may generate the opportunities he's seeking."