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LBO Profile: O'Brien-Staley Seeks to Buy Loans From Institutions Under Pressure

By DAWN LIM

O'Brien-Staley Partners is on the lookout for unloved loans. Commercial and industrial loans it can buy at discounted prices. Assets that trade down because of the ripple effects from distressed markets.

"I look at who's getting squeezed," said Gerald O'Brien, the firm's chief executive. "And then I play the ricochet trade."

The Edina, Minn., credit shop recently raised $600 million to buy out-of-favor and orphaned credit assets and what Mr. O'Brien calls "garage sale opportunities which other funds have to divest."

The firm has stockpiled capital at a fortuitous time: An unusually prolonged stock rally, whipsawing energy prices and an unpredictable political climate have left investors girding for a pullback across markets. "It's quite clear we have passed the business cycle on expansion and are tending toward contraction," said Mr. O'Brien.

O'Brien-Staley wrapped up fundraising for OSP Value Fund II LP four months after it launched marketing in March, the latest sign of investor interest in firms that stand to profit from strapped cities and market distress. It exceeded its $500 million target and the $490 million its debut fund closed on in mid-2015.

The fund brings O'Brien-Staley's total commitments raised since inception above $1 billion, marking new momentum for the firm formed in 2010 by former professionals from agribusiness company Cargill Inc. The firm is named after its founders, Mr. O'Brien, the former head of global loan portfolios at Cargill credit subsidiary CarVal Investors, and Warren Staley, a former Cargill chief executive.

The firm will continue focusing on the purchase of commercial and industrial loans in deals of $5 million to $20 million, casting its net among banks, businesses, economic development boards and government agencies.

In its early trades, the firm scoured through the tumultuous banking landscape after the 2008 financial crisis, and snapped up loans tied to failed banks through deals brokered by the Federal Deposit Insurance Corp. It bought credit and preferred equity the U.S. Treasury Department injected into banks through the Troubled Asset Relief Program, an initiative to prop up financial institutions.

Although these trades have largely had their run, O'Brien-Staley expects to buy credit from banks and financial institutions that come under new regulatory strain.

The firm also will keep looking at loans made by economic development boards and government agencies, at a time when many U.S. cities and municipalities are sinking deeper into funding deficits. Puerto Rico, which is going through what amounts to the largest ever U.S. municipal bankruptcy, is on its radar.

It intends to expand its focus as well, eyeing loans from hedge funds and businesses affected by the slump in oil-and-gas prices, as well as Canada's stalling economy. It's also paying close attention to the retail space, where chain stores are struggling to adapt to the rise of e-commerce and competition among brick-and-mortar shops. "Retailers that don't have a competitive distinction to Amazon are getting crushed," Mr. O'Brien said.

At the same time, O'Brien-Staley has been expanding. Nineteen out of 20 of the backers from its first fund committed money to its newest fund, and six new investors signed on. It bought AmeriNat, which services loan portfolios, in 2015, to gain more firepower to steer the next market dislocation. It is also planning to raise an impact investing fund.

"You never step into the same river twice," Mr. O'Brien said.