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AUMSVILLE'S HONG KONG CONNECTION

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FAI HENG CHAN AUMSVILLE AMERICAN PACIFIC BANK FOREIGN INVESTMENT
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Summary: The controversial chairman of American Pacific has grand plans for the bank – and himself

Fai Heng Chan slipped quietly into Aumsville unnoticed by most of the town's nearly 1,500 inhabitants.

Ryegrass dust from cattle feed made at the Aumsville Pellet Mill settled on the car as he and a companion waited to turn onto Main Street.

It was August 1986. Chan had arrived in Aumsville, about eight miles southeast of Salem, to meet with the board of directors of the \$10 million Santiam Valley Bank.

He had come to talk about buying the bank.

Brushing thick black hair off his forehead and pushing wire-rim glasses to the top of his nose, he appraised the nearly deserted town center, like a Clint Eastwood character surveying the dusty street of a frontier settlement.

Aumsville was a sturdy, one-tavern, one gas station kind of place, where a new trailer park spelled progress the Corn Festival was the town's annual gala. Chan reflected on the striking contrast between Aumsville and the crowded, noisy streets of Hong Kong, to which his father had fled after the communists, seized mainland China in 1949.

He had wanted town a bank since has was young – a seemingly unreachable dream for a middle-class Chinese boy from a family in the textile business. Banking, which was dominated by the English, was the pinnacle of Hong Kong respectability.

Since emigrating in 1984 to Vancouver, British Columbia, from Hong Kong, Chan had been looking to buy a bank, “the smallest possible bank, so if something goes wrong, I could fix it”, he said.

In 1986, Chan learned of Santiam Valley Bank – in his words, “a small bank in Timbuktu.” The 7-year-old bank had been losing money since it started, and government regulators were closing in on the decaying carcass like vultures.

The bank needed a lifeline.

Chan, seeing a chance to realize his dream, came to the rescue. In 1987, he propped up the bank with a \$380,000 investment, gaining control in the process. Renaming it American Pacific Bank, he set about tearing the bank apart and rebuilding it, in the process turning it into his personal fiefdom.

His goal: to make the bank, and himself, rich and influential players in Oregon, the United States and the world.

Chan has gathered strong supporters who testify to his business acumen and personal honesty.

Impressed by the financier’s money and talents, the bank’s original shareholders, directors and officers were convinced they would be the eventual beneficiaries of disruption in far-away China that drove a Hong Kong financier into their arms.

But as jobs were lost and the value of the bank’s stock shrank, they came to see Chan more as a predator and themselves more as victims.

- A bank is born

Two beef quarters went to the Grand Opening prize winners.

About 50 people gathered on a cool Monday, Dec. 10, 1979, to see Aumsville Mayor Joel Mathias cut the ribbon for the Santiam Valley Bank’s headquarters and only office.

The town’s previous bank, the Bank of Aumsville, closed abruptly during the Depression, leaving vacant a squat, red-brick building on the corner of Sixth and Main streets reminiscent of a frontier jail.

In May 1979, the Aumsville City Council told Elmer Duncan he could set up a trailer on Main Street to sell stock for the proposed Santiam Valley Bank.

Joining Duncan, formerly manager of Western Security Bank in Turner, as a founding board member were a mint farmer, two local builders and a sales manager, all of them from Aumsville or nearby towns. Investors from Aumsville and other communities in Oregon, Washington, Idaho, California and even a few from Nevada and Indiana plunked down \$10 are for 100,000 shares of the new bank’s stock.

The stock sale a success, Santiam Valley Bank was chartered on Nov. 23, 1979.

The bank plodded along for a while. Then it deteriorated as the quality of its loans eroded and nobody watched carefully enough over the bank’s internal operations.

Alarmed regulators told the bank it needed to raise capital that could serve as a cushion against operating losses and protect depositors. In January 1984, the Federal Reserve Bank of San Francisco and the Oregon superintendent of banks forced the bank to sign an agreement promising changes.

* But problems continued to multiply. In each of the next four years, the bank reported losses. In 1987, the losses mounted to \$635,888, and the Federal Deposit Insurance Corp. warned it might cut off deposit insurance.

The bank was rotting from within. It desperately needed a savior.

- Flight from Hong Kong

Growing up in Hong Kong as the oldest of five children, Chan was expected to carry on his father's textile business. But he had other plans.

"It's not my love," Chan said recently, explaining why he abandoned the business. "I don't like it. I won't be good at it. You know, you order things from China for Christmas, and it come Easter. I can't cope with that."

After the St. Joseph Brothers, a Catholic order, finished educating him in Hong Kong, Chan left for further education in Switzerland, determined to become more cosmopolitan.

But learning French proved "a bit too much for a Chinese person to cope with," Chan said, so he moved on to more familiar territory – London. There he was more comfortable in the company of other Hong Kong Chinese sent because of Hong Kong's status as a British crown colony.

After earning a degree in business management and commerce from Northwestern Polytechnic, Chan stayed on in London to run Inter-Asia Travel Ltd., an aircraft charter business that ferried Asian students between England and Hong Kong, Malaysia, Singapore, Thailand and Australia. He had started the business during school.

"One day I was offered such a fantastic price to buy my company, such a ridiculous price," he said, chuckling, "so I sold controlling interest."

Chan said that left him, at the age of 22, a rich man.

Some initial successes in the Hong Kong stock market led him to think his future was secure. "It was unbelievable," he said. "I think I don't need to work so hard anymore. That was a mistake."

The Hong Kong stock market crashed in 1973. "It cleaned me out completely," he said.

So he returned to Hong Kong and started over. He learned how to analyze a balance sheet, how to invest, how to restructure a company. He became a partner in a securities company, then an owner.

In 1982, everything changed. Britain agreed that year to let Hong Kong revert to Chinese control in 1997.

The 1982 agreement worried Chan's wife, Yoke Keow Chan. Would her children be safe? Fearing the worst, she pushed Chan to emigrate. Chan, who by that time owned a Hong Kong securities company, hesitated.

"I myself have a lot of doubt to leave Hong Kong," Chan said, "because I've got a lot to lose."

But Chan bent to his wife's wishes.

He saw three choices: The United States, England and Canada.

His first choice was the United States, but it had an immigration quota that would have kept him waiting for up to 10 years. "I think it's too long to wait," Chan said. "In my situation, I say – forget it."

Then he rejected England. "I don't fancy England," Chan said. "It is not very progressive."

That left Canada, which had a program promising quicker citizenship to entrepreneurs.

Chan chose Vancouver, British Columbia, because it was connected to Hong Kong with daily non-stop connecting flights and offered one of the largest concentrations of Chinese in North America.

So in 1984, Chan, accompanied by his wife, daughter and two sons, moved to Vancouver.

Chan linked up with a mining company called British Pacific Resources, which became British Pacific Financial Inc. as it shifted into investments. Later it became Inter-Asia Equities as it focused on managing Chan's own investments and the North American investments of his former colleagues in Asia.

Chan promised the board they would all come out ahead with him at the helm.

"He basically came in with the savior thing,"

- Big changes

Image is everything to Chan.

Beneath a bank brochure picture of an 18-storey office tower at 121 S.W. Morrison St. run the words: "American Pacific Bank's Portland office located in the central business district."

The bank's Portland office is, in fact, a rabbit warren of little rooms occupying only a few thousand square feet in the Bank of America Financial Center, and the bank's headquarters is a nondescript building on Main Street in Aumsville.

But the picture still is closer to the truth, because, no matter where the headquarters sits, the action has shifted to Portland.

Monthly meetings of the board of directors were permanently shifted to Portland in February 1990, a substantially enlarged mortgage program now operates out of the Portland office and the bank's newest venture, a Visa credit card program, is run out of Beaverton.

The growth of the mortgage program, which concentrates on single-family home construction loans, means most deposits are still coming from Aumsville, but the loans are going elsewhere, principally Portland.

The Visa credit card program offers cards to high-risk borrowers who have trouble getting credit, provided they place a certain amount of money on deposit first.

To run the operation, Chan has contracted with Irving Levin, a founder and formerly chief executive officer of a Portland-area credit card bank called First Consumers National Bank. Levin is servicing American Pacific's secured card accounts out of a suite at One Lincoln Center in Beaverton.

"The bank owns the portfolio and makes money on it," Levin said.

Chan said the program was established primarily to market cards to Asians who have a problem getting credit cards, but Richard Woolley, ific's president, said that was not the bank's intention.

Rather, the primary market is simply low-income people across the United States, he said.

Some bank employees are nervous about leaping into an area outside the bank's expertise, but Chan and Woolley are confident. Woolley predicts the bank will sell 25,000 secured card accounts within one year.

His striped shirt open at the neck and the knot of his blue silk tie pulled down, Chan walked purposefully into the bank's Portland office earlier this summer. This is where Chan spends most of his time these days, trying to restructure the bank to achieve his goals.

Part of that effort has involved replacing the original board members and bank officers and by diluting the value of the shares bought by the original investors in Santiam Valley Bank.

When Chan took control, he told the senior officers their jobs were safe. He told regulators, however, that he planned to clean house.

In June 1987, Robert Bride, the bank's president, came back from a vacation to find he'd been fired. Seven months later, Chan fired the bank's vice president and cashier, and one of the bank's town loan officers.

In Bride's place, Chan installed John F. Walrod, formerly chairman and chief executive officer of Lewis and Clark Bank of Lake Oswego, as president. Where Bride had been *quiet and unassuming, the bank's employees found Walrod smug and showy.

Chan paid Walrod a \$72,000 annual salary, about double what Bride had been getting, and provided him with a Mercedes-Benz.

Chan then made himself chairman. Chan's wife of 23 years also sits on American Pacific's board now and takes part in decision-making.

"In America, you call it a mon-and-papa shop," Chan said, referring to the roles he and his wife play in the bank.

Chan, seen by some people connected with the bank as aggressive, demanding, abrupt and insensitive to women, proved to be a striking contrast to earlier easygoing chairmen.

“He didn’t spend any time on pleasantries,’ one employee said of Chan. “He definitely was not a charmer.”

Chan replaced most of the bank’s directors with out-of-towners. The only local left over on the board now is Francis Hendricks, a fescue grass-seed farmer.

Chan further alienated the old guard when he cut off the former directors from borrowing money at the bank to service their outstanding loans. Exploitative insider lending had been responsible, in part, for the bank’s problems in the past, he said.

“They used the bank,” chan said, “They just don’t pay back.”

Chan said the bank has since written off loans to many of the former directors, some of whom have filed for bankruptcy.

Chan further earned the enmity of the original directors, and many of the bank’s original shareholders, when he went to the Vancouver Stock Exchange in September 1988 to raise an additional \$1.3 million of capital by selling 3,300,000 new shares at 38 cents a share (Canadian). The offering immediately diluted the voting power and value of the 100,000 shares the original investors had bought in 1979 for \$10 a share.

Richard Woolley, who succeeded Walrod as president in March 1990, said the bank went to Vancouver because it concluded the investment well was dry in the United States.

“We talked extensively with Bill Gallagher, who was at that time, until he died, the guru of small bank stocks in Oregon,” Woolley said. “He just flat told us there was no appetite for a small, failing community bank in Oregon to sell the stock on a domestic basis. In fact, he told us we’d be absolutely foolish to try.”

In 1990, American Pacific shifted from the Vancouver Stock Exchange to a listing on the U.S.-based National Association of Securities Dealers Automated Quotation system, commonly referred to as Nasdaq.

Chan now lives almost full time in Portland with his wife in a RiverPlace condominium he has purchased. He said he probably will buy a house when his two boys, who are in Vancouver, can join him. He is still a Canadian citizen and continues to own a home in a fashionable suburb of Vancouver.

In a recent interview, Chan said he maintains an office in Vancouver with three full-time employees. They look after his own investments, he said, as well as those of some Hong Kong colleagues, through a company called Inter-Asia, of which his wife is president.

“Now I basically give this bank 100 percent of my time,” he said. Chan has been chief executive officer of American Pacific since April 1 of this year.

Chan also has said, however, that he still looks after “hundreds of millions” of North American investments of numerous Asians through such companies as Concord Holding Co. of Hong Kong.

Chan’s name also turns up in connection with numerous other companies.

For example, stock transaction records of the Georgia Pacific Securities Corp. show that thousands of shares of American Pacific Bank have recently been sold and the proceeds passed to the Silverstein Foundation Inc. of Hong Kong and Vancouver in care of Chan.

Chan said the foundation is a Bermuda-based investment outfit that he manages on behalf of some Hong Kong investors.

Chan has declined to provide a complete list of his business relationships, saying it is private information.

It is, in any case, American Pacific that is his pride and joy, he says.

- “I’m good at it.”

Chan has big plans for the bank.

H says they will work, in part, because deregulation of the U.S. banking industry will allow banks to promote a much wider range of financial services.

Chan says he want American Pacific to open branches in Portland, Seattle, San Francisco and overseas, to provide an information service on global investment opportunities and to help companies list of stock exchanges throughout the world. He also wants the bank to offer trust services and fund management for corporate and individual investors.

“I’m a very unique individual that has learned global financing and restructure operations,” Chan exclaims. “I’m good at it. I’m so good at it it’s unbelievable.”

Lately, Chan has been flying back and forth to New York to meet with an underwriter who has agreed to issue convertible bonds to raise money for the bank.

Chan would not disclose the amount of the proposed issue, but another source confirmed it is in the \$10 million range. If the deal goes through, the additional capital might allow American Pacific to open a full-fledged branch in Portland.

With the changes already completed and others in the wings, Chan expects to get rich from American Pacific Bank.

“Not in the short term, but in 10 years my investment will pay me back very handsomely,” Chan told the bank’s board of directors in 1986, before he took control.

His roit, some would say manipulative, handling of the bank’s stock may well prove him right.

A report filed by the bank with the Securities and Exchange Commission says Chan owned 289,266 shares of American Pacific Bank, or 40.84 percent of the stock issued and outstanding, as of March 31.

American Pacific's stock has had a recent run-up in price, unexplained in light of the bank's losses, bringing the stock's bid price up to \$4.875 a share at the market's close on Friday.

Chan confirmed that since 1987 he has acquired directly or been granted extremely generous options on several million more shares by his board, a substantial portion of them at prices far below the current market – in one case, 650,000 shares for one Canadian penny a share and in another case, up to 2,250,000 shares at 89 U.S. cents per share.

If Chan were to eventually sell all of the shares he owns or has an option to buy at the current market price, he would reap millions in profits.

American Pacific has a long way to go, however, if it expects to build on solid financial performance.

It lost hundreds of thousands of dollars in 1987 and 1988, eked out a slim profit in 1989 and slipped back into the loss column in 1990. Through the first half of this year, the bank has lost nearly \$140,000.

Despite the losses, Chan is full of optimism.

“A lot of people say to me: ‘Are you crazy – you buy this bank in Timbuktu?’” Chan said, opening his eyes wide and spreading out his arms.

“We are so small,” he says of the bank, “nobody want to take notice of us.”

But that will change, he said. “We will be a J.P. Morgan of Oregon, but we are not yet.”

Caption: 2 Photos – FAI HENG CHAN – RICHARD WOOLLEY < Photo by MICHAEL LLOYD – of The Oregonian staff.

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