KAH CAPITAL MANAGEMENT: DELIVERING RETURNS WHILE BUILDING WEALTH IN DIVERSE COMMUNITIES

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Adama Kah emigrated to the U.S. from The Gambia in 1989 to pursue his dream of earning a college degree in electrical engineering. This level of education was not available in The Gambia as the nation had no universities at that time. His family pooled their limited resources to cover his airplane ticket, one semester of tuition, a barely serviceable winter coat and about $500 in pocket money. As a teenager from the smallest nation in Africa – and one of the poorest – adjusting to life in America was a challenge at first.

However, the six-foot-nine inch tall Kah gained prominence after making The George Washington University's basketball team roster as a walk-on with limited experience playing the game, landing a spot as a center. Over his college career, The George Washington Colonials would rank among the Top 25 in the nation – even making the Sweet 16 in the NCAA Division I men's basketball tournament. Successfully competing in collegiate sports provided Kah with the foundational skills to assemble a winning team during his later career in alternative investments.

Kah would go on to launch Kah Capital Management (KCM), an alternative asset firm that invests in residential mortgage loans, in 2018. As CEO and CIO of KCM, Kah has traded seizing rebounds for opportunities in the market for non-performing (NPL) and reperforming loans (RPL) markets. NPL borrowers are severely behind on their mortgage payments (typically six months or more past due), while RPL borrowers are currently performing (often with the assistance of a modification or repayment plan) but with blemishes in their payment history.

To say Kah is well-versed in the NPL and RPL markets is an understatement. He ran Freddie Mac's $130+ billion distressed loan portfolio that resulted from the financial crisis of 2008. While at Freddie Mac, Kah pioneered sales and structured transactions of GSE origin NPLs and RPLs. Today, a special segment of interest for KCM is spotty pay RPLs, which includes borrowers that are intermittent payers that may be behind on their mortgages, have a willingness to pay but may be struggling to catch up.

KCM acquires mortgage loans – mostly spotty pay RPLs – at a discount to intrinsic value. With its ESG-focused strategy, the firm targets solutions for those borrowers using its proprietary analytics and technology platform. KCM's strategy serves two objectives: delivering attractive returns and creating positive social impact by keeping "at-risk" borrowers in their homes to help them build generational wealth for their families. KCM's solutions include creating manageable terms for at-risk borrowers that enable homeowners to continue making payments. This strategy increases the underlying value of the loans, allowing KCM to sell them at a premium after payments have stabilized.

According to Kah, many investors and servicers tend to treat borrowers who are past due on their mortgage payments as delinquents. Instead, he contends that most of these at-risk borrowers are willing to make payments but could be facing difficulties catching up, especially in the spotty pay RPL segment. By helping these borrowers retain their homes – many of whom are from communities of color and struggling middle-class neighborhoods. The firm also contributes to wealth-building in diverse and middle-class communities, helping mitigate the growing wealth gap faced by communities of color and middle-class families.

"We have managed portfolios across the mortgage investment landscape over our careers, but the spotty pay RPL segment is really the sweet spot for us," says Kah, "because there is limited competition due to expertise and operational requirements, there is a substantial supply of assets from the GSEs (Fannie Mae and Freddie Mac) and, it is a unique space to achieve our dual objectives of (1) significant positive home retention outcomes and (2) delivering strong investment returns."

MORE THAN JUST NUMBERS

With over 20 years of experience in U.S. mortgages, Kah has held senior positions in capital markets on both the buy and sell sides at organizations that include Freddie Mac and Credit Suisse. At Freddie Mac, leadership tapped Kah to oversee the management of Freddie Mac's distressed mortgage portfolio, which ballooned from a small share of the firm's portfolio to over $130+ billion due to the financial crisis of 2007-2008 as foreclosure rates reached record highs. "The GSEs, banks and servicers were struggling to devise solutions for the tsunami of distressed loans and how to address the difficulties servicers were facing to help homeowners while performing their loss mitigation responsibilities," recalls Kah. "I was asked to essentially launch a new capital markets group at Freddie Mac, build a team and analytic models, and figure out how to economically and operationally manage an incredibly challenging problem."

Taking on this role gave Kah a new perspective. At first, what were just loan numbers on a computer screen and billions of dollars became people. "For the first time, I saw loan numbers as people and families and children, which resonates very well with what I care about in terms of impact and values," says Kah. "A disproportionate share of those impacted by financial crises are low-income or lower-middle-class people and people in communities of color. I had to think of what I could do to manage this, both from an investment perspective but also do something that had a positive impact on these families." Whereas the original objective was to slow the hemorrhaging of the assets' value, Kah and his team outperformed, earning billions for Freddie Mac while leading the effort to work with regulators to provide solutions that prioritize home retention for struggling homeowners. Kah's experience at Freddie Mac with struggling homeowners inspired him to launch KCM.

Kah's parents instilled a "doing well by doing good" philosophy in him at an early age. Though not formally educated beyond the high school level and living on low-paying government salaries, Kah's parents raised him, his three siblings and took in two young relatives whose parents passed away. "They taught me the value of hard work, positive attitude and sacrifice," Kah recalls. "Their prioritization of building and empowering communities over individual self-interest are some of the principles I live by." That belief, reinforced by a "team and family over self" outlook gained from his days as an athlete, laid the foundation for what would later become KCM's credo.

TAKING HIS SHOT

In 2018, the idea came to Kah to launch his own firm. A strong proponent of the African proverb, "It takes a village to raise a child," which he also learned from his parents, Kah felt almost obligated to give up the lucrative career at Freddie Mac and go out on his own. "I spend a lot of time mentoring young people, and I had to be consistent with what I tell them about taking risks. It's very important to inspire others, especially those that look like me," he says. "It's not about telling people what to do. It's about showing them. And maybe they'll say, 'If Adama can do it, maybe I can too.'"

Leveraging the team-building experience gained as a collegiate athlete, along with the knowledge and expertise acquired managing and structuring mortgage loan and securities portfolios, Kah established his namesake firm some 10 miles from his alma mater's campus. Immediately going out to raise capital, KCM closed Fund I with a $150 million allocation from a publicly traded REIT. "That investment helped mitigate the main difficulties of stepping out on our own because the biggest challenges new firms face are raising capital and having enough cash flow to build the business."

Kah's years launching and running Freddie Mac's distressed mortgage portfolio gave him valuable experience building what was essentially a startup organization where a team, infrastructure, operational capabilities, securitization platforms and other critical components had to be built from the ground up.

With Fund I closed, Kah and Co-Founders Devajyoti (Doc) Ghose, another Freddie Mac alum, and Chandra Bhattacharya, who leads the development of the firm's quantitative models and analytical platform, built a leadership team. Among those brought aboard were Sanjay Malhotra, CFO & Chief Compliance Officer, and Chief Operating Officer Donna Sims Wilson. Zaili Fang, Vice President, Models & Analytics, and Joseph Murray, Manager, Due Diligence & Servicing Oversight, round out the team.

A HOUSING BOOM

With housing fundamentals remaining strong, KCM is in the process of raising Fund II, a $300 million commingled fund. "Going into COVID, we expected housing prices would decline a little bit, but it's been the opposite," says Kah. He expects this strength to continue with a limited supply of housing units and increasing demand as more millennials enter the housing market. "Even though some borrowers may be behind on their mortgages, many have a lot of equity in their homes. These borrowers have an incentive to find a way to keep up on their mortgage payments, and we believe we have targeted solutions to help them do so and deliver strong returns for investors."

KCM has produced strong double-digit returns and favorable borrower outcomes despite the economic fallout from the pandemic. At only three years old, the firm remains in the early stages of its evolution. Whatever the future holds for the housing market, Kah will continue to build on the lessons learned from his career at Freddie Mac and on Wall Street combined with values instilled by his parents, coaches, teammates, and colleagues to deliver attractive returns with positive social impact.