

BofA Downshifts on First Republic Sale

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10/09/09 - 12:18 PM EDT

CHARLOTTE, N.C. (TheStreet) -- Despite earlier indications that Bank of America (BAC Quote) was putting First Republic up for sale -- and that eager bidders were chomping at the bit -- the firm may hold onto its prized high-end bank after all.

Pressure heated up on BofA to raise capital in the spring, when the Federal Reserve's stress tests determined the bank would need \$33.9 billion in additional funds in case economic conditions worsened considerably. The bank responded by saying it would raise capital through earnings, stock offerings and exchanges, and asset sales.

During a conference call with analysts on April 20, CEO Ken Lewis confirmed widespread reports that First Republic was on the block. He responded to a question about what businesses were being prepped for a sale by saying, "we have got First Republic in the process as we speak."

Bank of America: A History



But since that time, Bank of America has raised more than enough capital to satisfy the Fed's onerous demands, engineering a \$13.5 billion stock offering, a \$14.7 billion preferred-to-common stock exchange, and at least \$8.3 billion in asset sales. Furthermore, government probes into the Merrill Lynch acquisition have cut short Lewis' time at BofA, meaning other deals may have to be put on hold until a new leader is at the helm.

"They've got an awful lot going on," says **Dennis Nason**, a former banker who now runs an executive-search firm. "Their priorities have changed, and First Republic is an awfully small item on their agenda. They've got other large issues that are in the forefront."

CFO Joe Price, speaking at a financial conference last month, didn't rule out a First Republic sale, but emphasized that it's no longer a priority.

"When we originally announced the disposition of a couple of businesses," Price said, referring to First Republic and Columbia Management, "it was in connection with a lot of the capital raising activities... You obviously saw us do a lot of other things to reach those objectives. So decouple those from the capital raising effort and think of these as more business transactions."

"From a size standpoint," he added, the two assets are "probably not something that I would suggest you spend a ton of time worrying about."

BofA initially said it might sell First Republic, Columbia, and other unnamed businesses and joint ventures to raise funds. It then offloaded \$7.3 billion worth of China Construction Bank stock almost immediately after the stress-test results were released in May. Then, on the same day last week that BofA announced Lewis' impending departure, Minneapolis-based Ameriprise Financial (AMF Quote) agreed to acquire Columbia Management's long-term asset management business for \$1 billion in cash.

Columbia manages a large family of diverse funds, of which Ameriprise bought \$165 billion in equity and fixed income assets. The business entered the BofA family years ago as part of the 2003 acquisition of FleetBoston, but has lost money for several quarters and been criticized at various times for underperformance and lack of focus.

Nonetheless, the Columbia bidding was competitive with top money managers like Franklin Resources (BEN Quote), Bank of New York Mellon's (BK Quote) Dreyfus business, Federated Investors (FII Quote) and BlackRock (BLK Quote) named as reported suitors. The latter firm - which, ironically, is roughly half-owned by BofA via the Merrill deal - may yet acquire Columbia's remaining cash assets.

It's unclear whether First Republic will now fit more neatly into the fold at BofA, but its position appears stronger.

The San Francisco-based unit caters to upper-crust clientele, mostly on the West Coast and parts of the Northeast. Merrill acquired the bank in 2007 for \$1.8 billion, but it may be worth much more now.

Eric Fitzwater, an associate director of research at SNL Financial who specializes in private banks, says it appears as though First Republic made a swift turnaround after the Merrill acquisition. According to Federal Deposit Insurance Corp. data, at least two divisions lost money from 2004 through 2006, but the businesses jumped into the black the following year.

BofA said its results this year "benefitted" from the addition of First Republic, but that seems like an understatement, judging from the numbers. The segment that includes First Republic results - known as "all other" - swung from a loss of \$13 million during the first six months of 2008, to a profit of \$3.7 billion in the same period this year.

Bank of America doesn't separate First Republic's results entirely from other items, and a healthy portion of the profit related to a special tax benefit. But it seems that core results improved as well when stripping out the gain, the addition of its card services business into that category, and other special charges and restructuring costs. For instance, the division's equity-investment income climbed to \$7.3 billion during the first half of 2009 from \$977 million a year earlier.

Nason, the executive recruiter whose banking experience includes stints with Citigroup, Credit Suisse and Wells Fargo, says it's hard to judge whether BofA will sell the bank, considering the management turmoil, or whether it ought to.

"We try to compress time, but when you have something as large as a Merrill Lynch that you're trying to ingest, on top of a Countrywide, it's difficult to do," says Nason. "We're only talking about nine months to try to integrate all this, and I think people tend to forget how hard it is to meld all these cultures."

BofA's other relatively small, though highly regarded, wealth-management branch provides evidence of this as well.

Lewis chaperoned the purchase of U.S. Trust, a storied private bank based in New York, for \$3.3 billion in 2006. While the business gives Bank of America a huge presence in a key banking segment, its difficult integration strikes an eerily familiar tone. Though not as severe as the wave of Merrill defections, some U.S. Trust employees have hopped to other ventures since the acquisition because their high-end, white-glove culture did not meld neatly into BofA's Southern retail roots. Critics say "U.S. Trust, Bank of America Private Wealth Management" has been unable to retain the top-notch stature it enjoyed as a standalone firm.

It's unclear whether BofA will jump to divest either First Republic or U.S. Trust, though overlap certainly exists within the wealth-management division. And for a bank that puts a priority on size and scale, it's worth noting that First Republic and U.S. Trust are dwarfed by the division's third arm, Merrill Lynch Global Wealth Management.

The Merrill business comprised 73% of wealth-management revenue and earned \$848 million during the first half of the year, up 66% from the prior period. By comparison, U.S. Trust's profit dropped 50% to \$162 million, while revenue declined 9% to \$1.4 billion.

BofA CFO Price said the bank was "still in the process on both sides" of potential deals when he spoke in mid-September. Two weeks later, the Columbia deal was officially announced and the transaction is now set to close in the spring.

Asked to provide some color on the progress of asset sales -- First Republic or otherwise -- BofA spokesman Scott Silvestri said "I don't have any further information for you beyond what we've said publicly."

Though talk of a First Republic sale has been downplayed amid other big BofA headlines, bidders still appear to be fired up.

"Private banks cater to high net worth individuals in general," says SNL Financial's Fitzwater. "Up until the economic fiasco....there was a huge run-up at these companies. It was sort of like hedge funds - everyone just wanted to be involved in private banking because it was fun to talk about at cocktail parties, and you just wanted to get as much business as you could."

However, the larger public players now seem occupied or disinterested, making First Republic low-hanging fruit for private equity players or foreign banks seeking entry into the U.S. market.

Citigroup's (C Quote) recent sale of another high-net-worth gold star, Smith Barney, to Morgan Stanley (MS Quote) suggests that neither of those firms are interested in another private-wealth acquisition. Wells Fargo (WFC Quote) is still grappling with the Wachovia acquisition, while UBS (UBS Quote), another top private banking player, is still coping with the fallout from a tax-evasion scandal related to high-net-worth clients' Swiss bank accounts. JPMorgan Chase (JPM Quote) and Goldman Sachs (GS Quote) already have large, competitive private banks of their own.

However, reports circulated over the summer that private equity titans The Carlyle Group, Blackstone (BX Quote), TPG Capital, and Flexpoint Ford, run by Texas billionaire Gerald Ford, were interested in a deal. Credit Suisse (CS Quote) was more recently named by *Investment News* as an interested party, as were smaller PE shops like Lydian Private Bank and Trust, Boston Private Financial Holdings and GenSpring Family Offices.

But for the time being, overheated bidders may have to cool their jets.