

## BANK OF AMERICA ACQUIRES U.S. TRUST MAKING IT TOP BANK

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Bank of America's acquisition of U.S. Trust will instantly catapult the Charlotte, N.C.-based firm from a respected wealth management provider to one of the industry's elite players.

With \$260.5 billion in assets under management, the B of A-U.S. Trust combination will stand out as the top U.S. private bank, surpassing rivals like JPMorgan, Northern Trust and Citigroup, third quarter figures show. B of A will also move from number nine to five in *Barron's* annual ranking of the country's top 50 wealth managers, a survey that includes brokerage and private bank figures.

In announcing the purchase yesterday, bank executives signaled they would use U.S. Trust's expertise in everything from white-glove client treatment to alternative investments to elevate their franchise's performance to a higher level. B of A acquired New York-based U.S. Trust and its \$94 billion in assets from parent company Charles Schwab for \$3.3 billion.

"It is a meaningful deal for the marketplace," says Daniel Seivert, managing partner at investment bank and consultancy 3C Financial Partners in Manhattan Beach, Calif. "Bank of America was a little bit of an up and comer, now this provides them with significantly more credibility and will let them look eye-to-eye with the big players."

"The deal is good for Schwab. It is good for U.S. Trust customers. It is good for U.S. Trust employees. It is good for Bank of America. The only one it is not good for is the competition," Seivert adds.

Upon the deal's closure, B of A will create a new ultra high-net-worth and high-net-worth focused division, Private Wealth Management, which will serve as an umbrella for U.S. Trust, The Private Bank of the Bank of America and Family Wealth Advisors. Peter Scaturro will oversee those units and report to Brian Moynihan, president of B of A's Global Wealth & Investment Management division.

It's unclear if the roles of Alan Rappaport, president of Family Wealth Advisors, and Jane Magpiong, president of The Private Bank of the Bank of America, will change following the transaction. When asked about their positions, the bank declined to give a definitive answer.

Core issues, such as whether the acquirer will keep the U.S. Trust name and the senior management structure at the new Private Wealth Management unit, are still under review by B of A senior management, officials say.

Moynihan, however, says the bank hopes to benefit from the prestige U.S. Trust has accumulated over its 153 years of existence, a strategy that could include keeping the company's name. Convincing the banks to move away from a proprietary platform is one of the hardest parts of the sell. "The single thing they have to acknowledge is that if they have fourth quartile performance in proprietary product, it puts them in the penalty box," Coughlin noted. "They may not lose accounts, but in terms of winning new business it's tough. "We will think it through. We don't want to do anything in the heat of the moment," he said during a conference call with analysts. "We are very mindful as a company of the strong legacy that this 153-year-old business has. We

don't have a definitive answer, but we will do our best for our franchise and do what is best for our customers."

Both wealth management providers have similar footprints, with Minnesota being the only state where they don't overlap. They both boast a strong presence in the New York metropolitan area (Bank of America's 20 offices versus U.S. Trust's seven) and the Southeast (Bank of America's 24 offices versus U.S. Trust's six).

The companies are less visible in the central U.S., Northeast and the South, where The Private Bank of the Bank of America and U.S. Trust have 42 and five offices respectively for the three regions.

In the new organization, veteran U.S. Trust advisors will now be in a position to serve wealthy executives who have a professional business relationship with the Bank of America and want to extend that partnership into their private life, says Allan Starkie, partner at executive search firm [Knightsbridge Advisors](#) in New York.

"U.S. Trust has a great name and reputation. They never have had a stream of referrals coming from commercial lending because they have never had the commercial clients that Bank of America lends to," Starkie says.

For Bank of America, the acquisition not only makes them the nation's largest private banker, it dramatically increases their presence in the affluent New York metropolitan region.

"Bank of America was probably not that strong in the tri-state area. When you combine the U.S. Trust assets, it brings their total to roughly \$70 billion in the New York area," Starkie says.

Of the combined firm's \$260.5 billion in assets under management, approximately \$86 billion will come from clients with \$25 million or more in invested private assets.

B of A executives have made servicing such upmarket clients a strategic priority. Other goals mentioned during the conference call include creating synergies between the asset management and alternative investment units of both firms, and merging the technology platforms of both firms to create cost efficiency.

Executives expect a small increase in the number of clients who leave the firm due to the acquisition, and little change in the rate of U.S. Trust employee attrition.

"I think it is an incredible opportunity. Looking at the client side, we have similar relationship manager models and that will minimize client disruption. We are building a collaborative organization that will bring the two worlds together," Scaturro told analysts.

The deal represents a full reversal of fortune for Peter Scaturro, the veteran wealth management executive who was one of several top Citigroup managers who left the firm following a regulatory scandal in Japan. After the much publicized firing, Scaturro was hired by Charles Schwab to help turn around U.S. Trust.

In the last 18 months, the CEO has sought to increase income and profit margins by maximizing its alternatives-focused consultancy CTC, offering credit to clients, and enhancing its family relationship services.

Matt Snowling, analyst with [Friedman, Billings, Ramsey & Co.](#), views the sale as a positive move for Schwab as it

will allow the discount brokerage to focus on its core strengths. Schwab initially bought U.S. Trust for \$2.7 billion in 2000, and is selling the unit for \$600 million above that sum.

"Since its acquisition, Schwab has struggled with growing the franchise and realized little in the way of synergies with its core discount brokerage unit," Snowling notes in a research note.

"An aggressive cost-cutting program during the past years has resulted in a 36% increase in pretax earnings within U.S. Trust over 2005, year to date. However, asset growth of 8% and revenue growth of 7%, over the same period, have lagged behind that of the rest of the business," he adds.

Seivert agrees that Schwab made the right decision in selling the firm. "Valuations are at peak levels and B of A was willing to pay in-line with a price that makes sense for a "strategic buyer," particularly one that has significant synergies.

"Schwab has tried long and hard to achieve success, but has not achieved on par with desires or expectations. At some point, one has to recognize that "we tried" and it is best for shareholders to give someone else a shot at creating value with the asset," he adds.

In a statement, Charles Schwab, chairman and CEO of the firm, said the sale will improve his company's overall profit margin and return on equity, and allow it to focus more on serving individual investors and independent advisors.

"While CEO Peter Scaturro and his management team have done a great job improving U.S. Trust's business model and establishing a firm footing for their future growth and success, we have decided that the business and its clients will find even greater opportunity when combined with the platform and products available through Bank of America," Schwab remarked.

"I can't imagine a better match for U.S. Trust than with Bank of America, a world-class company with a broad scope of innovative wealth management products and services. As a U.S. Trust client myself, with no intention to leave, I'm confident this will be a real win for clients," he added.

The Private Bank of The Bank of America, including Family Wealth Advisors, has \$236 billion in assets under administration; \$167 billion in assets under management; \$32 billion in loans; \$19 billion in deposits 114,000 client relationships; and 150 offices.

U.S. Trust has \$159 billion in assets under administration; \$94 billion in assets under management; \$7 billion in loans, \$9 billion in deposits; 13,600 relationships; and 33 offices, or what it calls client locations.

In a statement, Kenneth Lewis, Bank of America chairman and CEO, said that U.S. Trust was the right fit for his firm. "We believe combining the complementary capabilities of both companies will add value to our clients," he says.

#### ABOUT ECHELON PARTNERS

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