

Goldman, Morgan likely suitors for First Republic

BofA eager to unload private bank even if it takes bath, experts say

By **Charles Paikert**
April 5, 2009

Goldman Sachs & Co. Inc. and Morgan Stanley have emerged as the most likely suitors to snap up First Republic Bank, the private bank that Bank of America Corp. inherited from Merrill Lynch & Co. Inc.

San Francisco-based First Republic, which has about \$13 billion in assets, is also being looked at by some private investor groups, according to industry observers who say BofA is eager to unload the private bank.

First Republic, which provides personalized wealth management services, was purchased for \$1.8 billion in 2007 by New York-based Merrill and is now owned by Charlotte, N.C.-based BofA.

BofA, which is looking to reduce non-core assets, already owns a similar high-end wealth manager, U.S. Trust.

"Morgan Stanley is a natural buyer," said Nancy Bush, managing member of Annandale, N.J.-based NAB Research LLC, an independent research firm that specializes in financial services companies. "They're looking for some kind of banking franchise with which to expand their bank-holding-company strategy."

Goldman, which, like Morgan, became a commercial bank last fall, is also a logical suitor for First Republic because it now needs deposits, said Alois Pirker, a senior analyst for Boston-based Aite Group LLC.

"It could be an interesting proposition for Goldman as a new commercial bank," he said.

Both Goldman and Morgan Stanley "ought to be looking at First Republic," said investment banker Liz Nesvold, managing partner of New York-based Silver Lane Advisers.

"It would be a sensational entrée into bank holding. First Republic has a loyal following in wealth management and does business on an old-school-relationship basis, which is more important than ever," she said.

Although industry analysts said that market conditions make it too difficult to put a price tag on First Republic, no one thought the price would be anywhere near the \$1.8 billion the bank fetched two years ago.

"Whatever the sale price ends up being, I think it will be a rounding error for Bank of America," Ms. Bush said.

A spokesman for BofA said that the bank declined to comment on speculation.

Goldman and Morgan, both based in New York, also declined to comment on their interest in First Republic.

Meanwhile, industry observers believe that private investors are also very much in the mix to purchase First Republic.

"There's potential for some high-profile San Francisco families to co-invest in a buyout along with management," said a senior executive at a large bank, who asked not to be identified. "Also, if Bank of America is anxious to sell, a private-equity firm can move a lot faster than a large commercial bank."

The firm, or firms, that eventually purchase First Republic will acquire a bank with assets that place it among the top 75 in the country.

What's more, First Republic clients have a reputation for being particularly "sticky," in industry parlance.

"They've historically had clients with whom they've had multiple relationships with different services or products," Ms. Nesvold said. "Clients stick around because it's not just a commercial relationship."

However, First Republic's lending capabilities, while popular with affluent clients seeking jumbo mortgages, also may drag down its market value.

"First Republic's aggressive sales culture originated a significant volume of high-asset, quality residential-real-estate loans," said the banker who asked not to be identified.

"Too much high-end residential-real-estate lending limits its ability to post a high-enough return on equity. Without meaningful fee income to increase return on equity, it would be tough to justify a top-end multiple on its book value."

A critical question surrounding First Republic's status is whether the bank's well-known founder, chairman and chief executive James Herbert, 65, and its president and chief operating officer, Katherine August-deWilde, 62, want to lead a privately backed buyout.

If so, industry observers said, they could force Bank of America's hand by threatening to walk if the bank is sold to a big commercial bank. Mr. Herbert and Ms. August-deWilde declined to comment.

A private-buyout group led by Mr. Herbert and Ms. August-deWilde "could strike a very good deal with Bank of America," said Charles Burkhart Jr., founder of Rosemont Investment Partners LLC, a Conshohocken, Pa.-based private-equity firm.

But Mr. Burkhart said he doesn't think First Republic is a good candidate for private equity.

"I think most of the senior partners would prefer a less risky environment which could be provided by a leading commercial bank, but not by a private-equity-management buyout-oriented approach," he said.

Ms. Bush also is skeptical of a private-equity sale.

"I think there are bigger opportunities out there for private-equity firms, in terms of asset managers, than First Republic," she said.

In fact, she characterized First Republic as a "small money manager stuck onto a mortgage company."

E-mail Charles Paikert at cpaikert@investmentnews.com.