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Bigger Role for Boutiques In Advising Giant Banks?

■ BY MATTHIAS RIEKER

Large so-called universal banks trying to avoid conflicts of interest when doing acquisitions could prove to be a boon for small investment banks seeking to win bigger advisory roles.

Over the years Keefe, Bruyette & Woods Inc. and Sandler O'Neill & Partners LP have consistently led the league tables in the number of whole bank and thrift acquisitions in which they, along with larger investment banking companies, have had an advisory role.

However, the two New York financial services boutiques have ranked lower in terms of deal value, and rarely has one of them acted as sole adviser on a big-ticket deal.

But some say that to avoid conflicts of interest, big banking companies may turn to smaller advisers instead of big investment banks or their own investment banking units.

Citigroup Inc., Bank of America Corp., and JPMorgan Chase & Co. all have their own investment banking arms; they could advise themselves, and regularly do.

But even if they do, they may be well advised to get a second opinion from an independent firm.

"There may be an issue from an investor-credibility standpoint," said Kip

A. Weissman, a partner at Luse Gorman Pomerenk & Schick PC, a Washington law firm, who has worked with Keefe Bruyette and Sandler as well as large investment banks.

Board members and shareholders may be more comfortable if an acquirer using its in-house investment bank



Duffy: In-house merger advice is "almost like having no opinion."

would see at least a second, so-called fairness opinion from an independent adviser, said Mr. Weissman in a telephone interview Friday.

John G. Duffy, Keefe Bruyette's chairman and chief executive officer, agrees.

In-house advice is "almost like having no opinion," he said Thursday in a telephone interview.

James J. Dunne 3d, Sandler's senior managing principal, echoed that view in an interview Friday. "There is no doubt that companies should seek out a separate opinion away from their own investment bankers," he said. "That to me is as clear as day."

Keefe Bruyette was the first of the two to get hired for a megadeal. It was Bank of America Corp.'s primary adviser in the deal, announced late last month, to buy the credit card company MBNA Corp. for \$35 billion.

Last year, when B of A bought Fleet-Boston Financial Corp., it used Goldman Sachs Group Inc.

The Charlotte-based Bank of America has its own investment banking unit, Banc of America Securities, which did give some advice, a spokesman for the company said. But Keefe Bruyette was "best positioned to do this transaction," he said.

B of A's relationship with Keefe Bruyette goes back years, and that was one factor in choosing the firm, he said. Another, he said, is that it provided a second opinion to the card lender Household International in 2003, when Household sold itself to HSBC Holdings PLC.

But there may have been another reason.

“As the subsectors of the financial services industry have consolidated,” Mr. Duffy said, “there certainly exists the possibility that in some cases a particular buyer may not want to choose one of the large investment banks of one of the other large institutions.”

The reason, he said, may be that the holding company has an interest in the target or just that a banker does not want to give business to a competitor.

Merrill Lynch & Co. of New York is also said to have negotiated with MBNA. (Merrill declined Friday to discuss the matter.) Wachovia Corp. of Charlotte is said to have done the same. And Morgan Stanley is looking into divesting its own credit card unit, Discover; that too may have been a consid-

eration for B of A, observers said.

But Mr. Duffy and Mr. Dunne said governance issues and other potential conflicts are only some of the reasons that their firms are likely to get more involved in large deals.

Both have been building their investment banking practices for some time and have hired aggressively in recent years. Both said they are now reaping the benefits.

Sandler’s role “continues to broaden, Mr. Dunne said, “as other issues, such as conflict issues and regulatory concerns, rise.”

However, an investment banker from a large New York firm expressed doubt that his smaller competitors were assuming a bigger role.

“There might be a role for them, but it its going to be opportunistic” and limited to situations in which

there is a clear conflict, he said — for example, when the buyer’s preferred investment bank is working on a conflicting bid or is interested in being the buyer itself.

“I don’t expect a big wave of these things,” this investment banker said.

But John A. Kanas, the chairman of North Fork Bancorp Inc. of Melville, N.Y., said that he would not chose JPMorgan Chase or Citigroup as an adviser in future deals because he competes with them in both retail and commercial banking.

“Why would you give them a fee?” he asked.

Mr. Kanas, an active acquirer in the metropolitan New York area, said he will use a firm “where you don’t have conflict.”

“That is good for the Sandlers and the Keefes of the world,” he said. ■