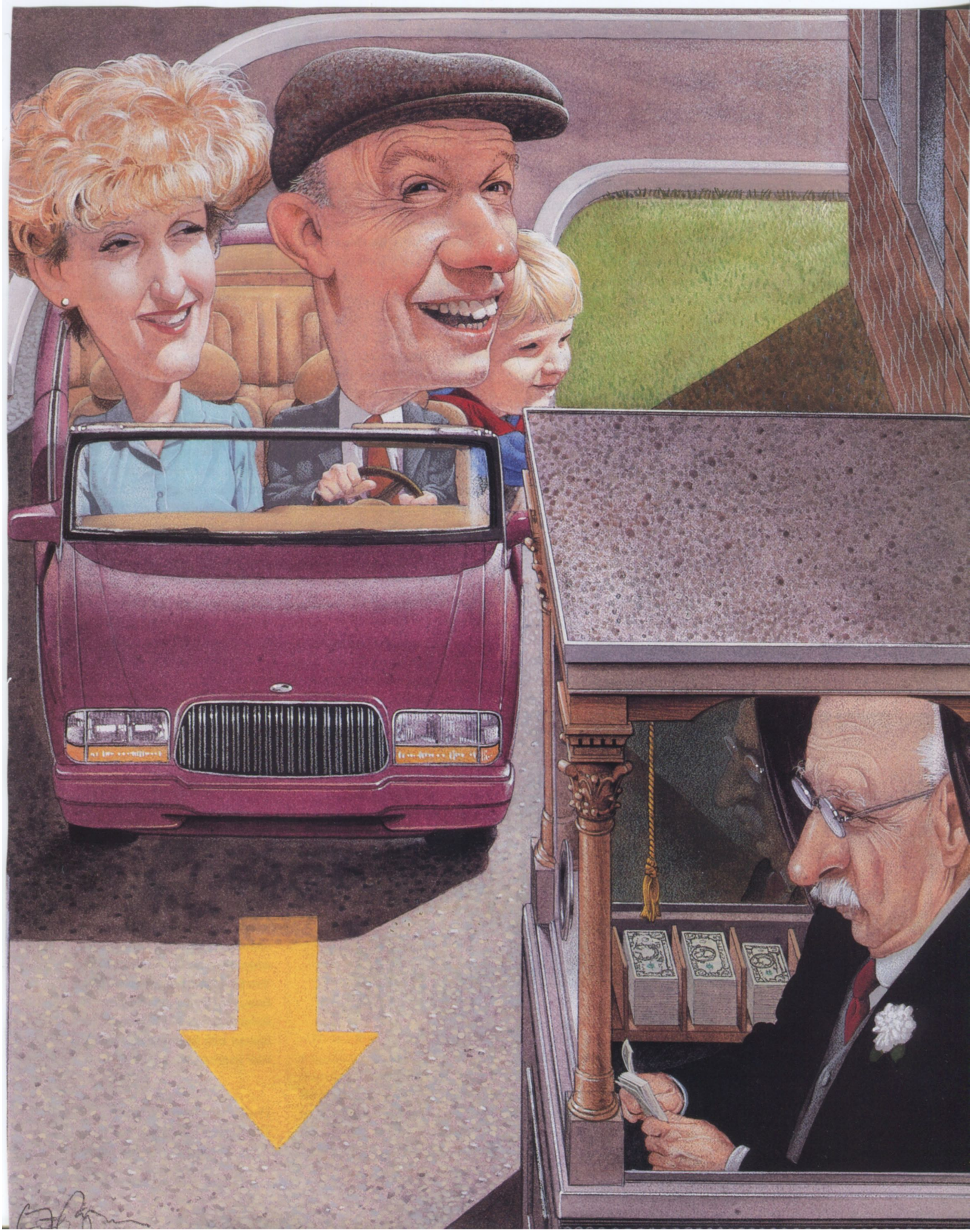

To capture more private banking customers, banks have significantly lowered their minimums. But you may want to lower your expectations.

Private Banking GOES PUBLIC

By John Sedgwick

I INHERITED SOME MONEY AFTER MY father died, and, to my surprise, I also inherited a banker at the Fiduciary Trust Company to take care of it for me. His name was Fred Holton, and, although he was almost my father's age, I always called him Fred. He had a genial, vaguely butlerish way about him, a bit like Batman's Alfred, and he always answered the phone with a genteel, orotund "Hello." He kept track of my modest portfolio, did my taxes, occasionally gave me investment advice, and once secured a bridge loan for me when I finally came to buy a house. He was no financial whiz—more like a dutiful secretary. But it was good to have him around. Every bundle of money should have a fellow like Fred attached to it, I remember thinking.

If trends continue, every bundle of money soon will. Fred Holton was a trust officer. Nowadays he'd more than likely be called a "private banker," a term guaranteed to make your friends swoon with envy or hate you forever for being a money-grubbing capitalist.

Although the very idea of private banking, with its platinum-card associations, has a decidedly non-'90s ring to it, the service is currently one of the fastest-growing segments of the American banking industry. According to a 1988 survey by the American Bankers Association, 95 percent of the nation's commercial banks offer some form of private banking services, having gotten into the business, on average, just four years earlier. Four million households currently use the services. "Everyone in the industry is expanding their private banking department right now," says Don Tansey, a division executive of Chase Manhattan Private Bank, one of the many private banking enterprises that have blossomed in the last decade. "It's the hottest thing going."

It doesn't take much brainpower to see why banks have jumped into private banking with both feet, whether by rechristening existing trust departments or by whipping up new private banking divisions: A vast hoard of private wealth was created in the '80s by the stock market explosion and the entrepreneurial boom. (There are over a *million* millionaires in the country today, up from 500,000 in 1980.) Also, legions of baby boomers are just now hitting their peak earning years.

Banks are delighted to give these newly rich some special attention, because they produce at least five times the fees of regular customers. Indeed, the banks are so delighted to provide these services that bankers have taken to scouring the business pages for hot prospects. After 44-year-old Steve Scott, M.D., took public his Coastal Healthcare Group of North Carolina for $180 million in stock and $10 million in cash, he was courted, in person, by representatives of the old-line banking firm of J.P. Morgan. Knowing Scott had served his residency at Duke, Morgan even brought along a Duke graduate to try to win him over. (The gambit failed; Scott went with a local bank instead.)

Clients like Scott are especially desirable because their requirements—asset management, loans, trusts for the children, and so forth—generate significant fees and income for the bank. Such revenue goes a long way toward offsetting a bank's blunders in Northeastern real estate and third-world lending. Last year Citicorp's private banking division earned approximately $150 million, even though the company as a whole *lost* $458 million.

BANKS ARE HAPPY TO HELP. PRIVATE BANKING CLIENTS PRODUCE FIVE TIMES THE FEES OF REGULAR CUSTOMERS.

The only question is whether the service is as good for the clients as it is for the banks. As it stands, private wealth's relationship with private banking most closely resembles that of an oil field to a drilling rig. To be sure, there are those who are thrilled to get personal financial attention from a friendly banker. Most firms are reluctant to mention names, but Chase Manhattan's PR firm kindly provided one satisfied client, Fred Smith, a 48-year-old former IBM executive who relies on Chase Private Banking to manage his stock portfolio, offer investment advice, serve up an occasional loan at the prime rate, and, once in a great while, find him opera tickets. Once, he remembers, to help a business associate obtain a loan in Florida, Smith simply called his private banker at Chase. "Instead of making 20 calls," he says, "I made one."

But, inevitably, there are those who are less enchanted. One well-to-do private banking client who prefers to remain nameless could not pull her children's money out of her private bank quickly enough. In his wisdom, the banker had invested their entire five-figure account in one stock, the discount store Caldor's, and then sat idly by as it dropped like a stone. "I kept calling to ask and they kept saying not to worry," the client recalls. She finally managed to pull out when the stock fell to ten percent of its purchase price. "The banker acted a little hurt. But my children were hurt a lot more. The whole experience was terrible—awful!"

In fairness, this incident occurred over 20 years ago, when the financial world was a far simpler place. It may have made some sense, then, to pick one stock and stay with it forever. But today's financial landscape is far more complicated, and bankers are more hard-pressed than ever to address their clients' varied financial needs *and* to deliver solid returns on their investments. Unfortunately, it is hard for a potential client to tell which private banks are doing well. A lot more statistics are available about a typical major league shortstop than about the investment performance of any private bank. There are no result tables in the business pages, and no newsletter addresses the subject. Also hard to track are the results of the private banks' major competitors, the brokerage houses (Merrill Lynch is gunning for private banking clients, and even discount brokerages such as Charles Schwab are setting up some private banking services). But at least brokerage firms are regulated by the SEC, which keeps records of any illegal activity. There is no such agency that holds equivalent information about a private bank.

Furthermore, it says something about the uncertain state of the industry that no two banks can agree on what private banking is. Every conversation on the topic begins with a tedious definition of terms: "Here is what *we* mean by private banking...." The phrase has come to mean some form of close personal attention to the very rich, but the precise slant of that attention and the way it is delivered by the bank varies widely.

Besides handling checks and providing credit cards and other basics, private banking usually sallies forth into three main areas of business, all of them customized for the moneyed individual: credit services (a jumbo mortgage, say, or a whopping business loan), asset management (through a personalized investment account, or in-house mutual funds), and trust accounts (to pass the wealth along to the next generation). The credit-investment-trust arrangement is intended to cover clients virtually from womb to tomb: It catches the potential multimillionaires when they are still in need of credit to build their fortunes, then gives them advice in investing those fortunes, and finally sets up trusts to preserve their wealth for their heirs.

IN PRACTICE, HOWEVER, FEW banks handle all three business areas equally well. Most of them pick out one or two they can manage and call that private banking. In the late '70s, when the private banking boom started, banks tended to focus more on credit services. Recently private bankers have shifted their attention to the investment side as people in their 30s and 40s continue to move out of the borrowing phase of their lives and into the investment phase. Some bankers were spurred by what David Ross Palmer, a New York bank consultant specializing in marketing to the affluent, calls "a bunch of nasty surprises" with their unsecured loans after the bottom fell out of the real estate market. Even ultra-cautious U.S. Trust has found itself in the unaccustomed position of having to deal with two mortgage foreclosures. "We never had any before," says John C. Hover II, executive vice-president in charge of private banking at U.S. Trust. The investment side is much less risky: it's other people's money.

Typically, each client is handled by a bank representative called, charmingly, a "relationship manager," who takes personal charge of the client, drawing in other financial specialists—from the credit side, say, or the investment department—only as necessary. The primary emphasis in private banking is on creating a personal relationship between banker and client, in which, as one officer summarized it, "I know my banker and my banker knows me." (In most small-town banks, this sort of relationship is taken for granted.)

Relationship managers at the older, more established private banks have been known to go an extra mile or two to

ILLUSTRATION BY C.F. PAYNE

MEMBERS OF THE CLUB

Private banking could not be more aptly named.

Because no one agency specifically regulates the hundreds of private banks and private banking departments in the United States, shopping for a private bank becomes an exercise in intuition and in gathering referrals in order to discern a bank's reputation for risk, discretion, and financial savvy. Not least among a prospective client's concerns should be fees, which hover somewhere around one percent of assets under management. Yet the very nature of private banking dictates bending the rules to accommodate top customers; the same flexibility applies for minimums.

Below is a representative sample of private banks around the country and their vital statistics.

BANK OF AMERICA
San Francisco, international offices
MINIMUM REQUIREMENTS:
$1 million net worth

After merging with Security Pacific National Bank in 1991, Bank of America has signed up even more newly affluent Californians.
415-622-6221

BANKERS TRUST
New York, international offices
MINIMUM REQUIREMENTS:
$2 million net worth

Venerable Bankers Trust is mining the accounts of its entrepreneurial clients to manage their budding businesses.
212-250-2500

BROWN BROTHERS HARRIMAN & CO.
New York, international offices
ACCOUNT MINIMUM: $2 million

Old-line paterfamilias of the private banking world, BBH prides itself on having its nine senior men sit at polished rolltop desks at its New York headquarters.
212-493-7292

CHASE MANHATTAN
New York, international offices
MINIMUM REQUIREMENTS: $1 million net worth or $250,000 annual income

Glad to make a secured loan, even if the collateral is a Picasso instead of cash. Known for lightning-fast service for its base of too-busy clients. Recently has attracted more international investors.
212-552-2222

CHEMICAL BANK
New York, national offices
MINIMUM REQUIREMENTS: $1 million net worth excluding primary residence and/or income of $250,000

Its merger with Manufacturers Hanover Trust last year boosted assets under management considerably in the private banking division. Aggressive combing for clients is backed up by an excellent reputation for service.
212-310-6161

CITIBANK PRIVATE BANK
New York, international offices
MINIMUM REQUIREMENTS:
$1 million excluding primary residence; $100,000 household income

Globally omnipresent and growing fast, Citibank continues to shadow many of its competitors in size, if not always in old-world service.
212-559-5959

FLEET NATIONAL
Providence, Rhode Island, international offices
MINIMUM REQUIREMENTS:
$100,000 annual income or liquidity

Not quite white-shoe, Fleet is private banking's everyman. Its Westminster Account was the first of its kind in the industry, combining a money market fund, checking account, Visa card, a line of credit, and investment assets on a single monthly statement.
401-278-6001

HARRIS TRUST AND SAVINGS BANK
Chicago, international offices
ACCOUNT MINIMUM:
$750,000 for individually managed investment accounts

One of the most trusted household names in the Midwest, Harris is as conservative as they come.
312-461-3464

J.P. MORGAN
New York, international offices
ACCOUNT MINIMUM: $5 million

"If you have $5 million to invest, give us a call," sniff J.P. Morgan advertisements that adorn commuter railways and magazine pages. Don't let the nonchalance fool you. They're scrambling for your business just like everyone else.
212-837-4343

NATIONS BANK
Atlanta, Georgia
MINIMUM REQUIREMENTS:
$1 million net worth

With coverage from D.C. to Dallas, Nations is one of the strongest banks in the South.
404-617-5175

PRIVATEBANK AND TRUST COMPANY
Chicago
MINIMUM REQUIREMENTS:
$100,000 net worth

Beginners can't be choosers. Though its experienced principals brought clients with them, newly chartered PrivateBank is counting on newer money and younger clients to build its client base.
312-683-7100

REPUBLIC NATIONAL BANK
New York, international offices
MINIMUM REQUIREMENTS:
not available

Like most of the private banks, Republic hedges on its minimum: "It's a very individual thing," they tell you.

Built on Edmond Safra's reputation for fierce Swiss banking secrecy and conservatism, Republic is also one of the most truly internationally vested private banks, known for thinking well beyond your basic mutual fund.
212-525-8903

THE NORTHERN TRUST CO.
Chicago, national offices
MINIMUM REQUIREMENTS:
$1 million liquid net worth

Traditionally focused on trust business, Northern Trust is concentrating on growing its customer base in the South and Midwest.
312-557-2929

U.S. TRUST
New York, national offices
ACCOUNT MINIMUM: $1 million

The private club of private banks. The oldest trust company in America has an unwritten rule that new clients enter its portals by referral, and referral alone.
212-887-0406

—CARLA KOEHL

deliver truly personalized service, although they turn indignant at the prospect of walking a dog for a client in accordance with one of the hoarier myths of the trade. Still, Jeffrey Maurer, president of U.S. Trust, earned one of his stripes as an account manager by climbing aboard a cargo plane to deliver a coffin to a client whose mother had died unexpectedly while vacationing on Nantucket. "Any number of people would have done that," he says. At U.S. Trust, maybe.

Surveys show that such close personal rapport is supremely important to customers, so much so that some are willing to pay a premium for it. Fees tend to hover somewhere around one percent of assets under management, although rules can be bent for top customers. A close relationship, after all, is no less important to the bank, which makes most of its money off the continuing sale of additional services to its clients. "It's a lot more economical to make that second, third, and fourth sale to existing customers than to go out prospecting for new ones," says John DeMarco of Payment Systems Incorporated (PSI), a Tampa-based research and consulting firm that has conducted extensive research in private banking. "The banks would be crazy not to take advantage of what they have."

THE MINIMUMS HAVE BEEN DROPPING LIKE LEAVES, AS THE PRIVATE BANKS SCRAMBLE TO INCREASE THEIR CUSTOMER BASE.

PRIVATE BANKING ORIGINATed in Europe, almost three centuries ago. It didn't catch on here in a big way until the late 1970s. The art is still practiced most skillfully by such old-line Swiss *banques privées* as Pictet & Cie, a firm so utterly reliable it was selected by insider trader Dennis Levine when he wanted to stash an ill-gotten $100,000. The Swiss push private banking to a white-gloved extreme. In its imported version, slavish personal attention and obsessive discretion are more often selling points than realities. In fact, the out-and-out snob appeal of private banking has faded somewhat in the post-Reagan years.

Nevertheless, there are a few places in America that still reek of exclusivity. One of them is Brown Brothers Harriman. Pull open the heavy door of its New York City headquarters at 59 Wall Street and you might think you had stepped into the set for a Merchant-Ivory production of an Edith Wharton novel. The corridors are lined with quill-penned mementos of 19th-century transactions. Even the air smells old. Nine of the firm's 34 partners sit at antique rolltop desks in the communal partners' room on the main floor. A grandfather clock ticks away the centuries in one corner; an oil painting of the Brown brothers hangs over the fireplace. Only the Quotron screens placed discreetly beside each desk suggest this is New York City, 1992.

When I arrived, senior partner Laurence Whittemore checked that the service was up to snuff. Did the guard know my name? Did the attendant offer me a cup of coffee? Yes, yes, yes. Yet Brown Brothers doesn't cater to all the needs of its private banking clients. It concentrates almost entirely on investment advice and eschews lending, deeming it too risky.

Some institutions provide a separate bank-within-a-bank for those eager to maintain class distinctions. The Harris Bank's private banking department, for instance, is called Upstairs at the Harris, as if it were a private supper club. It is on the third floor of the Harris Bank's Chicago headquarters. Yes, there are "gorgeous moldings," in the words of the department's executive director, Maribeth Rahe. But a bank-within-a-bank, like Upstairs at the Harris, is increasingly the exception. Most banks today regard private banking merely as a vehicle for offering an extra array of services to the wealthy, and forgo the expense of creating a whole separate area for their comfort.

Alas, private banking is not all that exclusive anymore. The minimums have been dropping like leaves lately, as the banks scramble to increase their customer base. Once private banking was confined to the certifiably rich—those with at least $2 million to invest (still the Brown Brothers minimum). Today some banks have dropped their requirement for minimum liquid assets (not including primary residence) to as little as $100,000, with annual salaries of prospective clients as low as $75,000. Even venerable U.S. Trust, which had restricted its services to those with $1 million in liquid assets, now provides some asset management services for individuals with as little as $250,000 to invest.

As the standards have dropped, the old-money aura that clung to private banks has largely been dispelled from all but the truly old-guard institutions like Brown Brothers. The prevailing atmosphere is more Hyatt Regency than private club. "I don't know if anybody tries to achieve that old-money style anymore," says U.S. Trust's Hover. "Old money, new money, it really doesn't matter nowadays."

What does matter is to catch the money before it finds a home in another bank—or scampers off to Wall Street. At the Harris Bank, for instance, the private banking department targets professional categories—those people starting medical practices, law firms, or consulting groups. One banker there specializes in signing up female entrepreneurs.

In marketing themselves so boldly, however, some banks can seem a little forward, a little raw to those expecting the old-fashioned decorum. Fleet Bank, for example, has rapidly moved beyond its native Providence, Rhode Island, to establish a presence throughout the Northeast. If Brown Brothers is the stately grandfather of the profession, Fleet, where private banking is concerned, is the bumptious young upstart.

Fleet made its first foray into private banking in 1982, when it renamed its doddering trust department "100 Westminster Street"—it later dropped the name—offering the full range of private banking services through a single Westminster Account. The address, tellingly, never existed, and there is still no single area of the bank dedicated to private banking. Today Fleet employs 75 relationship managers throughout its system of eight banks, each of them responsible for 75 accounts. For the top one percent of its customers, those with at least $400,000 in assets, Fleet Private Banking offers only credit assistance, while investment advice is provided through Fleet Investment Services. For its "emerging affluent" customers, Fleet Private Banking handles both credit and investment. But for these clients, the investment advice consists largely of directing the client to Fleet's array of in-house mutual funds that are marketed under the name Galaxy. "It's simply not economical for us to personally manage assets under $400,000," Twomey explains. And economics are everything.

PRIVATE BANKING MAY HAVE gained something by going mass-market, but it has lost something too. When Groucho Marx said that he didn't want to belong to any club that would have him as a member, he might have been thinking of a private bank. Gone with the old-money ambiance is the devoted attention a smaller client base affords: According to industry figures, each private banker handles, on average, 190 households. Even the old-line banks, like U.S. Trust, average 100. The pressure creates burnout that in turn causes turnover, which clients find exasperating. In the case of one trust account at a Pittsburgh bank, the relationship manager has changed annually for the last six years, except in 1987, when the manager changed twice. Some banks have struggled to maintain continuity through a computerized personality profile of the client that lists his age, profession, hobbies, and the names of his children.

Private banks face other challenges. Many have a hard time getting referrals from other departments within their own banks. Those departments aren't sufficiently rewarded for giving up those wealthy clients and would, in fact, be unhappy to find a crater where a $2 million CD account used to be. "That's absolutely ridiculous, and it's costing the banks a ton of money," says consultant Palmer.

Nor are bankers necessarily suited to their role as investment advisors. They are more used to being wooed as lenders; but as investment counselors, *they* have to do the wooing, and many find the task objectionable. "Bankers don't think of selling as something they can do with integrity," says Palmer.

Finally, banks have long been prohibited from performing many investment activities by Depression-era regulations such as the Glass-Steagall Act. Although such prohibitions have been loosened considerably, their legacy continues to trip up the banks in unexpected ways. For instance, banks are forbidden to advertise the often spectacular results of their mutual funds. Two of Chase Manhattan Private Bank's Vista mutual funds were named number one in their category by the Lipper organization, but Chase was not allowed to tell the world about it in an ad.

Indeed, after some stumbling in the early '80s when banking's best asset managers jumped to Wall Street or started their own money management firms, the banks' investment results are now, for the most part, just as good as the brokerages. "The playing field has been leveled appreciably," says Robert Padgette, president of Mobius Group, a financial services research firm.

AT ITS BEST, THE PRIVATE bank functions like some mythical dad—always there, always understanding, always ready with cash and advice. Despite all the difficulties, there are some good private bankers out there to take charge of your finances. To find them, experts in the field have two recommendations. First, meet the people and see if you like them and trust them. The management of your financial affairs is an intimate business; you want to establish a nearly familial rapport that will survive through thick and thin. While you are at it, try to find out the average turnover rate for the department; anything under five years should make you think twice. Second, especially if it is investment advice you are seeking, check out the bank's investment performance. This can be measured through its mutual funds' returns, if the funds are managed by the bank's investment team. Otherwise, ask to see the results of a typical high-risk or low-risk portfolio. If there is any hesitation in meeting your requests, go elsewhere. Finally, make sure that the private bank is truly full-service so that it can handle the full range of your present and future financial needs. With luck, you might find that paragon of wisdom and courtesy that is the promise of private banking. Don't be surprised, however, if you end up with someone like my man Fred. ■

BUT DO YOU NEED ONE?

If you're over 40 and pulling down a healthy $250,000-plus annual income, or if you've just come into a large sum of money, you may fit the profile of a typical private banking client.

ISC Associates, a New York market research firm, conducted a phone survey for Bank of Boston of 200 Americans who rank in the top 1% of income. Those who described themselves as private banking clients shared some strikingly similar characteristics.

- **All were over 40 years old, and 67% called themselves corporate executives, not professionals or business owners.**
- **Just 15% were female, 85% were male.**
- **Nearly 100% said they had a net worth of substantially more than $1 million.**
- **Of those who had bought real estate in the last two years, 64% paid cash.**
- **Fully 85% had estate plans in place.**
- **The current recession had not significantly affected 83% of respondents' lifestyles.**

Definitions of private banks range from sleepy S&Ls to high-profile monoliths where they'll swap your options and walk your Chihuahua in the same day. But survey respondents described the private banks they used as their "primary investment management resource"—encompassing trust management, equity investment, loans, asset allocation, and a variety of other services.

—CARLA KOEHL

John Sedgwick is the author of three books, including Rich Kids, *about America's young heirs and heiresses, and* The Peaceable Kingdom: A Year in the Life of America's Oldest Zoo. *He writes for* The Atlantic, GQ, *and* Esquire.