

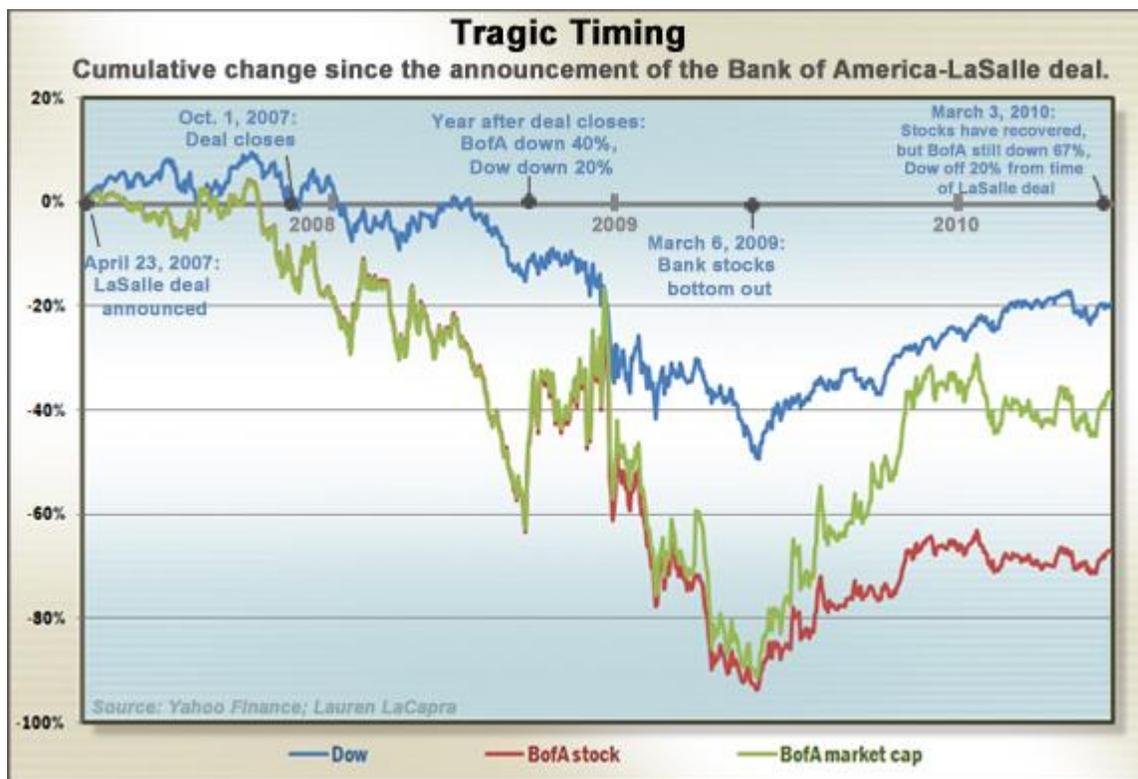
# Bank of America's Star-Crossed LaSalle Deal

By [Lauren Tara LaCapra](#) 03/05/10 - 12:46 PM EST

Stock quotes in this article: [BAC](#) , [PVTB](#) , [FITB](#)

*Updated to clarify deal closed on Oct. 1, 2007.*

CHICAGO ([TheStreet](#)) -- Anyone wondering just how expensive bubble-era deals will prove to be may want to consider how long it's likely to take **Bank of America**([BAC](#)) to see a palpable return on investment from its \$21 billion cash purchase of LaSalle Bank.



LaSalle was a Midwestern franchise of moderate size. It had a strong commercial presence in the Chicago area, a healthy wealth-management [business](#), and retail dispersal across Illinois, Michigan and Indiana.

Bank of America agreed to buy the franchise from ABN Amro, at a net cost of \$16 billion, in April 2007. In return, Bank of America would receive 17,000 commercial customers, 1.4 million retail customers and just over 400 branches. It would also gain \$113 billion worth of assets, \$63 billion worth of loans and \$57 billion worth of deposits -- a tiny fraction of Bank of America's \$1.6 trillion balance sheet at the time, but in a coveted geographic niche.

"We became one of the largest banks by deposits in the No. 3 market in the country -- Chicago -- and that's a market we did not have a significant retail presence in before LaSalle," says spokesman Scott Silvestri. "And we deepened our access to the wealth market in Chicago, and significantly broadened the array of product offerings to their clients."

When the deal closed on Oct. 1, 2007, Bank of America effectively paid \$11,200 per LaSalle customer just days ahead of the market's peak.

Mark Williams, a Boston University professor who specializes in [risk management](#), and has worked at S&P, **Deutsche Bank (DB)** and the **Federal Reserve**, says that assuming no customer defection and an annual fee target of \$500 per customer, Bank of America shareholders may not see a return on investment until 2027 -- an assumption he considers generous.

"The \$500 [target] on a 20-year payoff is aggressive," Williams says, citing a [World Bank study](#) that assumes average annual fees of \$70 per bank customer. "In reality, the period it might take for BOA to recover its investment in LaSalle could take 30 to 40 years."

Bank of America dismisses Williams' projections, with Silvestri noting that such back-of-the-envelope calculations don't factor in cost [savings](#), revenue synergies and new business developments in the intervening time. For instance, the merger exceeded original cost savings projections by 15%.

But Eliot Stark, a longtime commercial banker from the Chicago area, agrees with Williams' range of ROI projection.

"To earn back the present value of what they paid out, using the cash flows of LaSalle, will take a long, long time," says Stark, who is now consults on financial services and M&A at *Capital Insight*.

It's difficult to assess statistically how well or how poorly the LaSalle deal has fared -- both because some goals are hard to value, and also because LaSalle was quickly disappeared into Bank of America's enormous folds. According to Silvestri, Bank of America doesn't break out LaSalle's income or loan-performance statistics any longer, but still considers the deal a long-term success.

So far, from an economic point of view, the Midwest economy has been [losing steam](#) since roughly the time the merger closed.

The Chicago area has been relatively resilient during the recession, but even there the jobless rate has been stuck at 10% or higher since September. In Michigan, the situation has been far worse, with the state facing double-digit unemployment in most metropolitan areas throughout 2009, many surging above 15%. Indiana is a mixed bag, with some areas facing jobless rates above 18%, and others below 8%.

Another issue that attracted headlines was the departure of Larry Richman, who left the top position at LaSalle in the wake of the deal to become CEO of the smaller regional competitor

**PrivateBancorp**([PVTB](#)). Richman took dozens of top managers with him, and at least some of their clients followed suit. PrivateBancorp's deposits climbed \$1.2 billion, or 33%, during the quarter Richman defected, while loans jumped \$958 million, or 23% -- both unusually high growth rates for the firm.

At the time, Bank of America CEO Ken Lewis predicted that the staffing and asset losses would be temporary, and insiders point out that PrivateBancorp hasn't been faring so well recently itself. But four sources familiar with the LaSalle deal and with the Chicago banking industry characterize the situation as a loss for Bank of America.

"They suffered a material loss of senior lenders, clients and other employees," says John Chrin, a former M&A banker at **JPMorgan Chase**([JPM](#)) who is now a fellow at Lehigh University.

"In retrospect, I would argue the deal destroyed value for [Bank of America] shareholders -- they bought at the top of the market, used valuable capital, increased their mortgage exposure and have experienced franchise erosion," he adds. "In, sum -- not a good deal."

Indeed, just after the deal closed, it became clear that Bank of America's Tier 1 capital ratios wouldn't remain as high as initially projected, because of unexpected losses as the financial crisis began to take shape. In the quarter it was acquired, LaSalle also brought along significant increases to Bank of America's non-performing assets and troubled [commercial loans](#) -- an area that is especially under stress today.

With a relatively small portfolio, LaSalle's impact on Bank of America's loss metrics has been marginal at most. But David Leibowitz, a Chicago attorney who is familiar with the local banking industry, says Bank of America "has not done a very good [job](#) either of digesting the La Salle commercial and real estate portfolio." Peter Sorrentino, senior portfolio manager of Huntington Asset Advisors, who follows Midwest banking industry closely, agrees.

"Watching the projects they were involved with over the last few years, I suspect that the quality of that loan book is proving to be a liability now," says Sorrentino.

Ultimately, it seems, LaSalle was a star-crossed deal -- one with great potential, but tragic timing.

When it closed, on Oct. 1, 2007, Bank of America shares were trading at over \$50, its market cap was over \$226 billion, and the **Dow Jones Industrial Average** had just crossed the 14,000 threshold. In less than a year's time, the bank's market capitalization was sheared to nearly one-third of that value, and the Dow had dipped below 11,000.

The only bigger U.S. financial M&A transactions from 2006 to present have been KKR's \$27.7 billion leveraged buyout of [First Data](#), and Wachovia's tragic acquisition of the subprime lender Golden West, according to *Dealogic*. In fact, the twisted logic of this bubble-era deal suggests that Bank of America's drive for dominance in the Midwest was worth \$2.5 billion more than Merrill Lynch, \$4.5 billion more than Mellon Financial, \$6.2 billion more than the North Fork franchise and \$8.3 billion more than Wachovia in its entirety.

In Bank of America's defense, though, no one knew that the bubble was about to burst. Sorrentino also points out that Bank of America wasn't the only one trying to get established in the Midwest through major acquisitions. In 2004, JPMorgan merged with Chicago-based Banc One, then the sixth-largest U.S. banking institution. The other option -- organic growth -- has been pursued by banks like **Fifth Third**([FITB](#)), but takes an incredible amount of time, dedication and investment.

Furthermore, says Sorrentino, it "hasn't proven to be that great of a return."

Bank of America management wasn't the only group of financial players blinded by the M&A light. Analysts on a [conference call](#) related to the LaSalle acquisition asked a lot of questions about how the deal was structured, and what Bank of America expected to gain, but not a single one questioned the price.

Shareholders, on the other hand, understood the situation pretty quickly. Within a few months of the deal's close, [Bank of America](#) shares were already coming under pressure.

"In hindsight, which is always 20/20, they bought at the peak of the market," says Stark, the *Capital Insight* consultant. "They probably got the cleanest, best piece of [ABN Amro](#), but they paid too much."

-- *Written by Lauren Tara LaCapra in New York.*