

# FINANCIAL TIMES

THURSDAY OCTOBER 22 2009

Companies | International

## Investor group pays \$1bn for First Republic

### INVESTMENT COMPANIES

Private equity firms dominate purchase

BofA selling asset to raise capital

By Henry Sender in New York

An investor group led by two leading private equity firms, Colony Capital and General Atlantic, is buying First Republic Bank from Bank of America for more than \$1bn, said people familiar with transaction yesterday.

Bank of America put First Republic on the block months ago as part of its efforts to raise capital. Both Colony and General Atlantic will each have 24.9 percent of the equity, in keeping with government limits for non-bank investors in banks.

Other investors – including mutual funds such as

Wellington and T Rowe Price and venture capital funds such as Sequoia – will put up between 5 and 10 per cent each, according to people familiar with the transaction. Other terms were not disclosed.

A specialist in serving wealthy customers, First Republic has almost \$20bn in assets and what analysts call a “clean” balance sheet. This makes the deal one of the few during the current cycle that involves a relatively healthy bank.

Colony Capital has been raising money in hope of finding underpriced financial assets

BofA acquired First Republic as part of its troubled acquisition of Merrill Lynch. One reason BofA reckoned that it could dis-

pose of First Republic was because it already owned US Trust, which serves a similarly well-heeled clientele.

Merrill acquired First Republic for more than three times the bank’s book value. BofA is unlikely to receive as steep a multiple in the current transaction.

Tom Barrack, founder of Colony Capital, has been raising money aggressively in hope of finding underpriced financial assets following the meltown in global financial markets.

Mr Barrack has said for months that it is now more lucrative to own regulated financial companies than to pursue opportunities in the shadow banking world of hedge funds and private equity. His investment thesis is based on the low level of interest rates, which enables banks to raise cheap funds.

First Republic’s existing management team, including Jim Herbert, chairman and founding chief execu-

tive officer, and Katherine August-deWilde, the bank’s president, will continue in their roles, the sources said.

Bank of America, which has received \$45bn in government bail-out funds, has expressed hopes that it can pay back some of the money this year.

People familiar with the bank have said it believes that it can raise as much as \$6bn to \$7bn of after-tax capital from the sale of assets such as First Republic, administration group Financial Data Services and insurer Balboa.

Earlier this month, Bank of America reported a \$1bn loss for the third quarter, as continuing problems with consumer credit hurt earnings and threatened to hamper BofA’s results into 2010.

Revenues for the period were \$26bn, but an \$11.7bn reserve for credit losses, with \$15.7bn of expenses and restructuring charges, pushed BofA into the red.