

Wealth Management Firm Opts for Start-Up Over a Sale

BY STEVE GARMHAUSEN

Wealth management firms regularly get approached, and bought, by banks that want more customers and more products to sell.

After receiving overtures from several money-center banks, the leaders of Keller Financial Group in Irvine, Calif., went a different route: They founded their own bank instead.

"They asked the question, 'Why are all these big banks chasing us down?'" said Scott E. Kavanaugh, the chief executive of First Foundation Bank, which opened for business Oct. 1.

Mr. Kavanaugh knew Keller's leaders from when they invested in Commercial Capital Bancorp Inc. of Irvine. He helped to found and run Commercial Capital, which sold itself to Washington Mutual Inc. last year.

That Keller's 900 wealthy customers were lucrative as investors as well as prime targets for loans, deposit accounts, trust services, and insurance opened eyes at the firm, Mr. Kavanaugh said.

"The more we thought about it," he said, "the more we realized it made sense to start that bank and put all the financial services around our client base."

Large brokerage houses and insurance companies have founded thrifts and banks, but there are few if any precedents for a wealth management boutique doing so, said Ed Carpenter, the chairman and CEO of the Irvine investment bank Carpenter & Co., which was involved in the First Foundation start-up.

Yet the concept may be catching on, he said: Carpenter & Co. is working on two more bank start-



Kavanaugh: It's "the right step" if the firm has a solid client base.

ups by wealth management firms.

Not only can cross-selling be lucrative, Mr. Carpenter said, but building a bank is a way to boost a firm's value. Wealth management firms often sell for around 10 times earnings — about half of what banks fetch, he said.

"With these larger wealth management firms like Keller, the only piece of the puzzle that's missing is fiduciary trust and banking services," he said.

Selling could have meant a nice payday for the owners of the 17-year-old Keller Financial, which manages \$1.2 billion of assets. But building a bank allowed them to keep autonomy that might otherwise have been lost, Mr. Carpenter said. First Foundation's holding company raised more than \$32 million for the start-up, of which \$25 million was invested in shares of the bank.

"We're trying to figure out what to do with the other \$7 million in capital," Mr. Kavanaugh said.

Keller directors own 56% of First Foundation's holding company. Most of the remaining investors are Keller clients.

"We hope to convert a lot of those Keller relationships into clients on the bank side," Mr. Kavanaugh said. "But we also expect to be a stand-alone bank at the end of the day."

Part of First Foundation's lure for Keller clients will lie in the bank's knowing them and their needs, and in its ability, for example, to lend large sums of money quickly for business deals or investments, Mr. Kavanaugh said. Bank consolidation in California has increased the perceived value of personalized service, he said.

The team behind First Foundation registered as both a start-up bank and as a holding company to obtain trust powers, Mr. Kavanaugh explained.

"Not many people take off as much as we did in one bite," he said. "But we wanted to offer all financial services from the start."

Keller Financial operates as a sister company of the bank, and assets managed under the bank's trust unit can be handled by Keller.

The firm follows a large-cap investment philosophy, and will likely outsource some asset management in other styles to other firms, Mr. Kavanaugh said.

Keller will charge fees for money under management and for financial planning advice but will not earn referral income for loans or other bank functions, he said.

First Foundation plans to offer insurance through a third party, though it has not yet chosen a partner, he said. ■

