

Citizens Tries to Crack Private-Bank Market..... 2

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Citizens Tries to Crack Private-Bank Market

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Regional lender Citizens Financial Group opened a new private bank for wealthy customers last month. Its inspiration: First Republic Bank, which collapsed earlier this year in the second-largest bank failure in history.

Citizens, based in Providence, R.I., is spending tens of millions of dollars hiring former First Republic staffers. It hopes the strategy will help it crack a market it has long coveted. Executives said they plan to copy only the good parts of First Republic, such as its beloved customer service.

"We scooped up the very best talent," Citizens consumer banking head Brendan Coughlin said. "Our goal is going to be to build the pre-eminent private bank in the United States for high-net-worth individuals."

Banks are in an arms race for rich customers, and lots of other, bigger players have a head start. Snagging such customers can lead to a bounty of fees, loans and deposits, something that particularly appeals to regional banks such as Citizens eager to prove their viability after First Republic and two other peers failed this year.

While regional banks were able to avoid the full-blown contagion many feared this spring, they still face an existential crisis of sorts. They are trying to find a way to thrive in a world of higher rates and potentially tougher regulations.

For Citizens, which has 1,100 branches in the Northeast and Midwest, the stakes are high. Shares are down 32% this year, compared with an 18% decline in the KBW Nasdaq Bank Index. Profit dropped 32% in the third quarter from a year earlier, due in part to customers demanding more interest on their deposits.

The wealth unit at Citizens is tiny, even for a regional bank. And it isn't a cheap business to build, especially these days.

"Now that interest rates are even higher than when First Republic ran into trouble, it's going to be that much more difficult for this business to work," said David Chiaverini, an analyst at Wedbush Securities.

First Republic attracted wealthy customers by offering them a bureaucracy-free banking experience and extremely low rates on loans such as big mortgages. (Mark Zuckerberg once got one at a starting rate of 1.05%.) It seemed like a winning approach: The San Francisco-based bank became one of the 15 largest in the U.S.

But the business didn't hold up when the Federal Reserve started raising interest rates, prompting rich customers to move their deposits out of no-interest accounts. The bank's profits also started to get squeezed by its low-rate loans. A March run on peer Silicon Valley Bank prompted panicked First Republic customers to pull about \$100 billion in deposits, mortally wounding the lender.

The Federal Deposit Insurance Corp. seized First Republic on May 1. Citizens and PNC Financial Services Group were among the bidders, The Wall Street Journal reported at the time. JPMorgan Chase was the winner. The megabank still operates the unit under the First Republic name but plans to change it.

Citizens, long known for its branches inside supermarkets, has tried to do more business with wealthy people since its 2014 spinoff from the Royal Bank of Scotland.

Some efforts have worked, like getting more affluent customers to keep their primary checking accounts at the bank. Others, like building a business that manages customers' investments, have yielded mixed results.

Citizens has also done deals to get a foothold in the affluent New York City market, where it now sponsors local sports teams such as the New York Giants and New Jersey Devils and events like the New York City Marathon and Queens Night Market.

"It's not for the fainthearted," CEO Bruce Van Saun told the Journal at a New York City Marathon event in Central Park, where the bank hosted almost 100 clients. "It's a competitive market."

There are some parts of First Republic that Citizens plans to leave in the past, such as 1% mortgages in a higher-rate world. The bank is, however, considering bringing back the fresh-baked chocolate-chip cookies and high-end umbrellas that First Republic was known for.

Citizens has hired about 60 top First Republic bankers and about 100 support staffers. The bankers were largely in roles where they were the main point of contact for customers. Customers would call them up if they needed yen delivered before a trip to Japan or a bespoke mortgage for a new vacation home. These staffers were largely paid based off the business they generated and could earn seven figures in a good year.

The new hires are "hunter-gatherers who love the thrill of bringing in new business," Van Saun said in an interview.

Citizens said that it spent \$35 million on the hires and related costs in the third quarter, even as it announced a companywide expense freeze for 2024. The bank is renting office space for the bankers in New York, Boston, San Francisco and Palm Beach, Fla.

Executives said they are giving the new hires free rein and believe clients will follow. "It feels incredibly familiar," said Susan deTray, head of the private bank at Citizens and First Republic's former deputy chief credit officer.

Citizens has simplified account opening in the private bank and increased deposit limits. The new hires can lend to individuals and businesses, and some underwriting was centralized to cut down on red tape. Customers in venture capital and private equity, areas where the failed banks did a lot of business, are a big focus.

Eric Bahn, co-founder of a venture-capital firm in the Bay Area, loved that he could text his First Republic bankers and turn to them to sponsor events his firm held for startups. His bankers went to Citizens, and they persuaded Bahn to switch over last month. He is happy with his new bank accounts and commercial lines of credit and says the service is great.

His one gripe: the **technology**. "It's probably one of the roughest bank websites I've ever seen," Bahn said.

Citizens said the new hires brought in more than \$500 million in deposits and investments before the private bank's October launch. It says the unit will boost the bank's earnings starting next year.

Citizens will offer big customers discounted rates but doesn't plan to undercut the market by as much as First Republic did. Executives also said the First Republic-style business is less risky as a small part of a more diversified bank.

Alexis Jeffries, a product strategist, professor and angel investor in Los Angeles, said she would consider moving some of her First Republic accounts to a bank like Citizens if it offered good service and competitive rates.

But she won't be in the market for a mortgage soon: The one she got with First Republic in 2021 has a rate of 2.6%.

"Short of pulling a rabbit out of their hat and giving me a lower rate," she said, "I don't see that happening."

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