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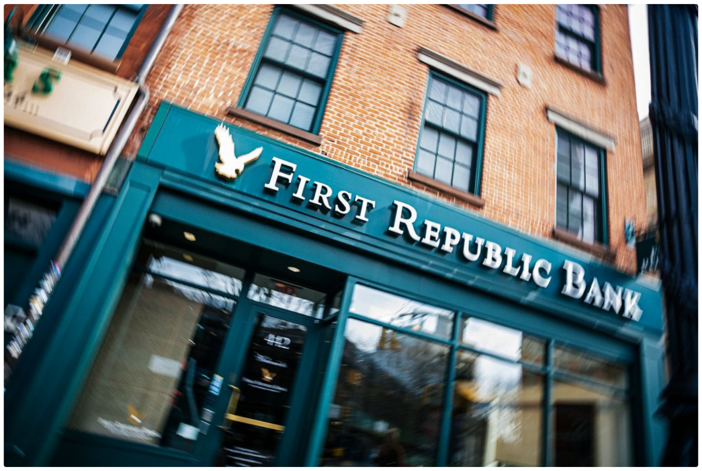
Pressure on First Republic Mounts as Advisors Jump Ship

By Andrew Welsch Follow April 28, 2023 11:18 am ET



Advisor departures imperil a company known for top-flight customer service.
Photograph by Nicole Fara Silver

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First Republic Bank FRC -41.68% suffered a brutal first quarter as it was swept up in the regional banking crisis. Customers yanked deposits. Its stock cratered.

Now, as investors assess whether the New York bank can recover after bleeding a staggering $100 billion in deposits, First Republic (ticker: FRC) faces pressure from another corner: Its elite financial advisors are walking out the door. First Republic shares were down more than 30% Friday morning over concerns about its future.

In a remarkable loss of talent, at least 20 wealth management practices, either teams or solo advisors, have left First Republic for competitors since March 17—some just months after moving to the bank—according to public registration records. These practices had at least 47 financial advisors. That's a sizable dent in the bank's advisor ranks given that First Republic currently lists about 225 wealth managers on its website.

The recently departed advisors managed at least $37 billion in assets, a fraction of the $289.5 billion the bank's wealth management unit had at the end of the first quarter, but more advisors plan to jump ship, industry recruiters and lawyers say. The exodus of talent imperils the bank's elite wealth management unit and the customer referrals that advisors make to First Republic's consumer bank.

"If it goes on this way, I think there will be more defections," says Michael King, a recruiter. "The key is that you can't bring in new clients to First Republic. Who is going to come to First Republic with all the bad press?"

When asked for comment, a First Republic spokesman referred to comments executives made during the first-quarter earnings call. CEO Mike Roffler said executives "anticipate retaining a portion of the wealth management assets associated with departing teams." The company also remains committed to its "integrated banking and wealth management model, and the unique benefits it provides to clients."

End of a Growth Surge

It's a sharp reversal for First Republic, which for years has been able to recruit top advisors. The company was still picking up fresh talent as recently as March, when it hired a six-person team from Morgan Stanley. The bank offered lucrative recruiting deals, but it also lured advisors with its boutique feel and white-glove service model targeting well-heeled customers.

In recent years, First Republic's recruiting efforts helped it grow its wealth management business rapidly. Assets under management or administration ballooned to $271 billion at the end of 2022 from $107 billion at the end of 2017.

Advisor David Hou, who worked at First Republic from 2013 to 2019, says the company offered not just competitive rates on loans and mortgages for wealthy clients, but had top-notch customer service. "They could take the pain out of taking out a loan," he says.

First Republic offered "Ritz-Carlton" service, says Steven Sacks, who has banked with the company since 1997. He recalls going to a Manhattan Beach, Calif., branch late in the day to get a cashier's check after the staff had locked up the checks: "They said, 'We'll bring it to you tomorrow. We'll drive it over.' Sure enough, someone drove it over to me in the pouring rain. You think you'd get that kind of service at any other bank?"

The wealth unit's growth benefited the consumer bank, and vice versa. Last year, the company's bankers referred more than $11.5 billion of assets under management to the wealth unit, which in turn referred deposit balances totaling more than $3 billion to their banker colleagues, Bob Thornton, president of private wealth management at First Republic, said during the company's earnings call. Deposits referred by wealth managers and sweep accounts represented more than 13% of the bank's total deposits, he added.

Advisors loved the client referrals and the culture, says Roger Gershman, a recruiter who has placed advisors at First Republic and has bank accounts there. "It had one of the best cultures on the Street."

Ominous Earnings Call

Advisor attrition threatens to squeeze the referral pipeline. For advisors mulling an exit, Monday's earnings call may have proved pivotal. Republic executives took no questions during the call, which lasted only 12 minutes. Although management said deposit outflows had slowed, the quarterly decline in deposits was far worse than Wall Street expected. Meanwhile, the company said it was making "significant reductions" to executive compensation, reducing office space, and conducting layoffs. First Republic expects to reduce its workforce by 20% to 25% in the second quarter, which could affect its ability to maintain its high-touch service model.

The earnings report and call failed to assuage investors. The stock lost nearly half its value on Tuesday, falling from $16.00 to $8.10. It has fallen further, closing Thursday at $6.19, down 95% year to date.

For many advisors, the bank's current woes might seem similar to the 2008-09 financial crisis. But unlike that period, when the survival of many banks and brokerage firms was in doubt, advisors have plenty of healthy options. And they are exercising them, bolting to Morgan Stanley (MS), JPMorgan Chase (JPM), Royal Bank of Canada (RY), and other competitors. "Some advisors believe they have no choice but to leave," says Ross Intelisano, a lawyer who represents financial advisors at law firm Rich, Intelisano & Katz.

Write to Andrew Welsch at andrew.welsch@barrons.com