by ANDREW WELSCH

STAYING POWER

ON WALL STREET'S ANNUAL RANKING OF THE TOP WIREHOUSES AND REGIONAL BROKER-DEALERS

Morgan Stanley's Greg Fleming and other wealth management executives are increasingly relying on lending to strengthen client relationships, create stickiness for the firm and boost revenue.

In late December 2012, Adam E. Carlin, a private wealth advisor at Morgan Stanley, got a call from a wealthy client: He needed to liquidate $5 million of assets to put into a family entity for estate planning purposes, and he needed to do it before the year ended.

Taking one look at the portfolio, Carlin realized that the client was likely to incur large capital gains taxes that would be due in a few months. "He was truly concerned that he wasn't going to be able to do it," Carlin remembers.

But Carlin saved the day by presenting an alternative, one that he has made use of numerous times since: a securities-based loan through Morgan. The firm was able to offer a competitive rate, Carlin says, and get the paperwork done in a matter of days, saving the client from having to liquidate the assets.

"I could honestly give you 10, 12 stories that are similar," Carlin says. They are "different permutations of the same situation, but they really happen."

Morgan Stanley's Greg Fleming calls lending a "major opportunity." The president of the firm's wealth management unit wears a green wrist band in honor of his wife and the couple's three children. It says: Fleming Five Forever.

Photography by David Yellen

EXPANDING THE CLIENT RELATIONSHIP

Lending, while not entirely new to the Street, is a key method for how firms are growing the bottom line.

"Advisors are becoming more and more the clients' go-to for anything financial," says Alois Pirker, research director at Aite Group.

By serving both sides of the client's balance sheet, the thinking goes, advisors can increase revenue for the firm, deepen client relationships and create stickiness. In other words, clients will have so many points of contact with the firm — investment portfolios, loans and mortgages — that they'll stay put, if only for convenience.

In recent years, wirehouse executives have built up their lending capabilities and offerings, hired more private bankers and established connections between them and advisors. They are seeing those efforts pay off. The benefit for advisors? Happier clients, incrementally higher pay and potentially more assets to manage.

REVENUE OPPORTUNITY

Greg Fleming, president of Morgan Stanley Wealth Management, says lending is a major opportunity for his firm. In recent years, the wirehouse has been ramping up its capabilities. At the end of the first quarter, it reported securities-based lending and other loans had risen 40% year-over-year to reach nearly $23 billion. Residential real estate loans, meanwhile, soared 53%, to almost $17 billion.

"That part of the advice model is working better and better for us on a broader and broader basis," Fleming says.

Morgan Stanley, he adds, has come a long way since he joined at the end of 2010. At that time, Morgan's capabilities were nascent and management was preoccupied with the Smith Barney merger, insiders say.

Boosting the firm's lending capabilities, along with other measures, has helped improve the pretax profit margin for the wealth management division to 22% for the first quarter of 2015 from 19% a year ago, and from 10% in 2011.

"One of the reasons their margins weren't as high as their peers is that they didn't have as much income coming from interest income," says Shannon Stemm, a senior analyst at Edward Jones. "They weren't doing as much lending as, say, Merrill Lynch."

Like its competitors, Morgan offers a variety of lending products such as securities-based and tailored loans as well as mortgages. Morgan has private bankers situated in key geographic areas who collaborate with the firm's advisors on finding the right lending product for a client's need.

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"The financial advisors look at us as an extension of their team," says Joshua Meeks, a Morgan Stanley private banker in Phoenix. "Typically, we get a call or email from the advisor who says they met with so and so and they have this need, so what can we do to help?"

Though the firm has gained ground, Fleming says it has plenty of room to grow. He says the aim is to boost the firm's deposits program, which stood at about $134 billion at the end of the first quarter, to $200 billion over the next five years.

So far, those efforts appear to be paying off. Net interest income, which is partially derived from Morgan's lending products, rose 27% year-over-year to $737 million for the first quarter. By comparison, non-interest revenue grew 2% year-over-year, rising to just over $3.1 billion.

Lending is a profitable line of business, in part, because the client is already with the firm, Stemm says.

"It's not like they are spending a lot on marketing," she says. "It's just selling an additional product. The main expense is the interest expense, the funding. With where interest rates are right now, the costs are low."

COMPETITION HEATING UP

Of course, Morgan isn't alone in trying to capture more of this business. UBS Wealth Management Americas, for example, reported that gross loans rose 15% year-over-year, reaching $45.5 billion for the first quarter of 2015. UBS' mortgage portfolio balances soared to $7.7 billion at the end of 2014 from $700 million at the end of 2010.

Brian Hull, head of the Client Advisory Group at UBS, says these services are a natural extension of the client relationship.

"You want to provide more resources and more value to help make your client's life simpler," Hull says. "Yes, it's a good margin business and, yes, it's good for shareholders. But the reality is that when we ask clients, they want those services because they want a simpler life."

For advisors, not having these capabilities to offer clients — particularly wealthy clients — can be a handicap, Hull says.

"It's about mind share and market share and being relevant," he says. "I think that if you're not at the table, then that could put you at a disadvantage."

Wealth management, Hull says, has become an attractive business, and more players have been trying to get into the space. He feels "the competitive pressures not just from our large competitors but from smaller regional competitors and banks."

COLLABORATION COMPANYWIDE

Wells Fargo has been building up its lending offerings across its independent, bank and employee advisor channels, says Mary Mack, president of Wells Fargo Advisors.

The firm's priority credit line, a securities-based lending product launched last year, has generated 20,000 applications and $2 billion in balances, according to a spokesman.

Mack also points to the opportunities to better meet client needs when different Wells units collaborate. In late 2013, the firm introduced a high-net-worth partnership between its private bankers and advisors, which Mack says is an important change because historically the two haven't been paired. "That works well for the client and for the advisors in terms of the business that they can do — [the advisors] can bring in best-in-class lending services," she says.

And, Mack says, it fits in with the holistic approach that clients want.

It is critical, she says, for advisors to familiarize themselves with the liability side of the client's financial life. "We've got a lot of financial advisors who, once they understand what rate the client is paying on a mortgage, can find a way to reduce that interest rate," she says. "If they refinance with us, that's terrific. If they do it somewhere else, then we still have a client that is better off because of the advice provided by the financial advisor."

RAKING IN THE ASSETS

Mickey Wasserman, a recruiter based in Agoura Hills, Calif., says that lending capabilities can be a great tool for advisors to win new prospects. It can put additional arrows in the quiver. "The more products they have to offer, the more clients they can get," he says. "It's that simple."

Being able to offer lending products can encourage clients to bring over more assets, advisors say. Morgan's Carlin says he won over a prospective client from a competitor where the client already had a securities-based loan of about $4 million, meaning that the client needed to leave some assets behind as collateral or repay the loan in full. Morgan was able to offer a loan on better terms, helping Carlin win an account north of $50 million. "I would've got 90% of the relationship if we weren't able to do it," Carlin says. "But we were, and I got 100%."

Carlin acknowledges that not every loan is in the seven-figure range. Some are for as little as $250,000. "It may not be a large loan, but it's for an important purpose," he says. "Having the ability to do that, when it makes financial sense, is huge."

UBS' Hull says that the conventional wisdom was once that an advisor shouldn't lead with lending. "There was a reason: We're wealth management and not a commercial bank," he says.

But if you peel back the onion, Hull says, the true statement is that you can do so if it's part of a holistic approach."If you're using it to support a wealth management relationship, then it makes great sense," he says.

NEED FOR SPEED

Not every advisor is going to do a lot of lending. In many cases, it's simply not a need for clients. "For the average financial advisor who does $300,000 to $400,000, securities-based lending is a really small part of the business," says Rob Blevins, president of Rowlette, a recruiting firm in Dublin, Ohio.

Some advisors also dislike the push to do more lending, saying that they feel pressure to do it even when it might not be in the best interest of the client. Brien Krank, an advisor in Fargo, N.D., says he and his partner left Morgan Stanley to go independent with Raymond James partially because of that. Krank, who was with Smith Barney before the merger, says the culture shifted after the merger and management began pushing advisors to do much more lending.

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Krank says it's not that he doesn't want to help clients with those needs. But he would rather refer his clients to a local bank for a mortgage because it can do a better job and his name isn't attached to it.

"My experience is that unless someone is very used to using leverage, securities-based lending, then maybe they shouldn't use it," he says. "I'd rather have them use other things."

Indeed, advisors are sometimes reluctant to refer clients to other parts of their firm, Blevins says. "If you're a client and your advisor sets you up with a mortgage, and if it's a pain in the neck, then who are they going to call? Their advisor," he says.

Mike Foy, director of the wealth management practice at J.D. Power, which conducts an annual survey of advisors' satisfaction with their firms, says that advisors, acting like their client's financial quarterback, don't mind making the recommendation for a mortgage or lending product if the service is going to be good. But, he adds, "If advisors feel pressure to sell products that they don't feel are appropriate for their clients, then advisor satisfaction can drop."

Tash Elwyn, president of Raymond James & Associates, says his firm does have lending and mortgage capabilities but says that it "is paramount that those introductions or referrals are made on the advisor's choice."

You need to let people embrace the right solutions for them, Elwyn says. "It all comes down to respecting and treating your financial advisors as professionals, and thereby giving them the tools and resources they need as well as the autonomy to decide how best to weave them together for the benefit of their clients," he says.

From his vantage point in Morgan's Miami office, Carlin says he doesn't feel pressured to do lending. "One other thing that I really respect is that as much as the firm is trying to make sure that we offer lending when it's needed, it's also saying that when it doesn't make sense, don't do it," he says.

Carlin adds that he has told clients not to use lending when it didn't make sense. "It probably happens more often than you imagine, the reason being that just because interest rates are low and someone can borrow doesn't mean that they should borrow," he says.

STICKINESS

Lending can also act as an anchor, insiders say. Clients will stick with an advisor if for no other reason than convenience. "Anything that takes more work for the client to leave, they're going to be less likely to do it," Stemm says.

UBS' Hull concedes that it is more difficult to move, but adds that clients are more likely to stick with an advisor who is meeting more of their needs holistically. "If you are solving more of your client needs, then they have less reason to think about moving," he says.

Stickiness, however, is a two-edged sword. It can be harder for advisors switching firms to bring clients along with them, as some of the assets may remain tied up at the older firm.

"Morgan Stanley loves it because the accounts that we are having a hard time bringing over are those accounts" that are tied to lending, says Krank, the former Morgan advisor.

INCENTIVES

Firms have also tried through the structure of compensation plans to encourage advisors to offer lending to clients.

For example, under its 2015 plan, UBS expanded the criteria for a key growth award to include lending. And Merrill Lynch instituted a policy requiring an advisor or team to make an introduction to another part of Bank of America, such as the commercial bank (the introduction doesn't have to result in business).

"We want everyone to recognize the capabilities of the organization," says John Thiel, head of Merrill Lynch Wealth Management. "In every practice, there are needs of a client that go beyond traditional wealth management offerings. This is a way to create awareness about everything we can do to help the client."

He adds, "Our clients, by the way, want that. They might not necessarily consume it, but they want to know it's there."

Industry insiders say that emphasizing a goals-based approach to wealth management can help grow the top and bottom line. Serve all the client's needs and you'll get more business from them.

Thiel emphasizes that clients' goals are a key element of this whole effort. "With this kind of conversation, it's a holistic conversation because there are several levers to pull," Thiel

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> **ADAM E. CARLIN, PRIVATE WEALTH ADVISOR, MORGAN STANLEY**

says. "Investment returns are just one lever. What's your cash flow? How do you optimize efficiency? How do you pass wealth responsibly? "

Knowing goals helps determine what the appropriate solutions are. Thiel notes Merrill Lynch's many capabilities, from estate planning to trusts. "As we demonstrate our value, clients will give us more of their wallet share," he says. "Fundamentally, the approach helps build trust. And that's the key ingredient."

keep evolving

Lending and mortgage products will probably never be the main aspect of an advisor's business. But they will play a more important role in how firms and advisors, particularly those at higher production levels, boost business.

"It's a need a lot of investors have and to the extent that wealth management firms pursue it more aggressively, I think you can definitely see more growth," says Stemm, the analyst.

It has also helped to increase advisor productivity, which has been on the rise at the wirehouses. At Morgan Stanley, for instance, revenue per advisor rose to $959,000 for the first quarter of 2015 from $878,000 a year earlier, a roughly 9% increase.

Morgan's Fleming attributes that partly to the breadth of the firm's product offerings, namely banking and lending, and says there's still room for growth, given how recently these changes have come to the industry. "The reality is that this industry has changed dramatically in the past 10 years," Fleming says. "There were no deposits [back then]. Managed accounts were much smaller, maybe a third of their size today,"

Clients' needs have changed. Indeed, they always do. Hull says UBS frequently surveys clients, and the message today is clear. "Clients want holistic wealth management relationships driven by an advisory relationship," he says. "When you give that, they say we'll stay, we'll bring more assets. … So at the end of the day, if you listen to the clients and what they want and what they'll pay for, then you'll make more money, our advisors will make more money, and the shareholders will be rewarded."

But, he adds, it all has to come back to the client. "We have to continue to evolve how we deliver for them," Hull says. **OWS**

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Head Count

FIRM	ADVISORS IN 2014	ADVISORS IN 2013	% CHANGE
Morgan Stanley Wealth Management	16,076	16,456	-2.3%
Wells Fargo*	15,187	15,280	-0.6%
Merrill Lynch	14,085	13,772	2.3%
Edward Jones	14,000	13,158	6.4%
UBS	6,997	7,137	-2%
Raymond James & Associates	2,491	2,430	2.5%
Ameriprise Financial	2,083	2,205	-5.5%
Stifel	1,969	1,934	1.8%
RBC Wealth Mgmt.-U.S.	1,879	1,903	-1.3%
Baird	816	727	12.2%
Janney Montgomery Scott	729	742	-1.8%
Hilliard Lyons	410	406	1%
Wunderlich Securities	200	190	5.3%

**Data for Wealth, Brokerage and Retirement unit*

Revenue

FIRM	2014 REVENUE	2013 REVENUE	% CHANGE
Merrill Lynch	$15,256,000,000	$14,771,000,000	3.3%
Morgan Stanley Wealth Management	$14,888,000,000	$14,143,000,000	5.3%
Wells Fargo*	$14,220,000,000	$13,200,000,000	7.7%
UBS	$7,606,000,000	$7,075,000,000	7.5%
Edward Jones	$6,270,000,000	$5,660,000,000	10.8%
Raymond James Financial (Private Client Group)**	$3,346,613,000	$2,995,497,000	11.7%
RBC Wealth Mgmt-U.S.	$1,600,000,000	$1,500,000,000	6.7%
Stifel	$1,232,651,000	$1,117,179,000	10.3%
Ameriprise Financial	$890,437,749	$827,936,998	7.5%
Baird	$574,000,000	$501,000,000	14.6%
Janney Montgomery Scott	$495,000,000	$466,000,000	6.2%
Hilliard Lyons	$269,789,000	$256,930,000	5%
Wunderlich Securities	$58,100,000	$57,200,000	1.6%

**Data for Wealth, Brokerage and Retirement unit.*
***Includes employee and independent channels.*

Total Client Assets

FIRM	2014 CLIENT ASSETS	2013 CLIENT ASSETS	% CHANGE
Merrill Lynch	$2,034,000,000,000	$1,917,000,000,000	6.1%
Morgan Stanley Wealth Management	$2,025,000,000,000	$1,909,000,000,000	6.1%
Wells Fargo*	$1,650,000,000,000	$1,580,000,000,000	4.4%
UBS	$1,032,000,000,000	$970,000,000,000	6.4%
Edward Jones	$866,000,000,000	$787,000,000,000	10%
Raymond James Financial (Private Client Group) **	$483,000,000,000	$446,500,000,000	8.2%
Ameriprise Financial***	$444,391,000,000	$409,147,000,000	8.6%
RBC Wealth Mgmt-U.S.	$215,000,000,000	$204,000,000,000	5.4%
Stifel	$186,600,000,000	$165,600,000,000	12.7%
Baird	$109,000,000,000	$91,000,000,000	19.8%
Janney Montgomery Scott	$67,500,000,000	$63,100,000,000	7%
Hilliard Lyons	$40,800,000,000	$36,800,000,000	10.9%
Wunderlich Securities	$7,800,000,000	$7,300,000,000	6.8%

**Data for Wealth, Brokerage and Retirement unit.*
***Includes employee and independent channels.*
****Data for Advice & Wealth Management unit.*