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**Suffering and Surviving: W-S Division Offers Wachovia Rare Bright Spot**

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The Wealth Management division of Wachovia is providing at least bit of bounce to the rapidly declining fortunes of the fourth-largest bank in the country, but some observers are wondering if it could play an even more dramatic role down the line.

The possibility -- remote for the moment -- is that the Winston-Salem-based division could be sold to raise money if Wachovia's financial condition continues to deteriorate. The bank reported a massive $8.9 billion quarterly loss on Tuesday, due primarily to the continuing fallout from rising home mortgage defaults.

Wachovia Wealth Management employs about 600 of Wachovia's 3,500 employees in the Triad. The division remained in Winston-Salem after the 2001 merger with First Union moved the corporate headquarters to Charlotte.

It would not be a move taken lightly, according to UNC-Charlotte banking professor Tony Plath, because Wealth Management is both profitable and growing and a source of customers with lots of money who may use other Wachovia services. That makes it valuable to its banking parent -- but also potentially very valuable to others.

"It's the most important piece of ancillary business they've got," Plath said. "The mortgage business isn't worth anything, capital markets and the investment bank have value but not a lot. The only really strong non-general-bank asset that they've got is wealth management. So if they have to save the general bank, they're going to have to sell wealth management."

Other analysts disagree and see other Wachovia business units as more likely to be sold in an emergency, such as the Securities division that is one of the largest retail brokerages in the country.

Plath said Wachovia is not yet in such desperate need of capital that any such option will be taken in the short run, but it could happen. A key question may become how Wachovia chooses to define its core assets, and how much that definition may change if conditions don't begin improving soon.

New Wachovia CEO Bob Steel buoyed his company's stock price following the big loss announcement by saying he did not intend to raise money by issuing new shares, a move that would dilute the already weak value of existing shares. Wachovia's stock price is down about 70 percent from February of 2007, but it rose more than 27 percent by the end of Tuesday.

**Core business**

Wachovia will also cut costs by, among other things, eliminating more than 10,000 positions including more than 6,000 existing employees and exiting the wholesale mortgage business. As of Wednesday, Wachovia had not announced how many jobs in the Triad will be affected.

Among the alternatives to selling stock to raise money, Steel said the bank will consider the disposal of "non-core assets." When pressed during a conference call by an analyst to define such non-core assets, Steel declined to provide any specifics.
But that's an easy question for Stan Kelly, president of Wachovia Wealth Management. "I can say simply that this business is very core to Wachovia," Kelly said in an interview with The Business Journal. "The clients we serve are also the clients served in the commercial banking business and the small business bank. We serve their personal needs where some other lines at Wachovia serve their business needs. So we're one and the same."

Kelly highlighted several results from the second quarter that illustrate the value of Wealth Management to the overall organization. The segment saw earnings growth of 9 percent to $98 million, on revenue growth of 6 percent.

Though total assets under management slipped 3 percent to $77.3 billion as the stock market fell, Kelly said Wealth Management is adding new clients at a healthy pace, including in major markets such as Los Angeles, San Francisco and Manhattan where bigger rivals such as Citigroup and UBS have long had the upper hand.

The West Coast in particular is a new focus for the division, and Kelly said deposits there have grown at about twice the rate he had expected.

"A year ago on the West Coast we were just getting started, and today we have in excess of 60 professionals working on our teams there," Kelly said.

Kelly couldn't rule out any job cuts in Wealth Management related to the parent company's problems, but he said there are no current plans for cutbacks and he expects growth over time.

**Unthinkable**

Nancy Bush, who covers Wachovia and the banking industry for NAB Research in New Jersey, said the sale of Wealth Management would be just about unthinkable given how integrated it is in the overall business. She said among the other potential but drastic alternatives might be the sale of any remaining good mortgage assets or even a strategic retrenchment to east coast markets, given the drastic problems that have come from westward expansion.

"But I think if they're going to continue to be a large commercial and retail bank, they've got to have Wealth Management," Bush said. "That would be a very difficult thing to rebuild once you've gotten rid of it."

Elizabeth Nesvold, Managing Partner of Silver Lane Advisors who consults on mergers and acquisitions in the wealth management business, agreed that a sale would be both unlikely and unwise. While she thinks Wachovia could find several willing buyers, she said deal-making has slowed this year because of the financial problems facing many potential partners.

Without its wealth managers, Wachovia would lose an important "gate-keeper" function that means additional business for other divisions, she said. On the other hand, she noted that conditions for some big banks are bad and getting worse, so at some point the unthinkable may be thought.

She said she wasn't speaking specifically of Wachovia, but "broadly speaking, it's an incredibly awful market. That could prompt some strategic reviews that people otherwise would never undertake."

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