Platinum Level BANKING

Seattle's wealthiest customers are demanding more specialized financial services

By M. Sharon Baker

Photography By Gary Benson

WHEN COLLEGE FRESHMAN John Murphy got slapped with a $20 fee after overdrawing his first checking account last fall, he received his first unpleasant lesson on the privileges of wealth from his father.

A multi-millionaire at a Seattle-based company, Murphy's dad doesn't pay any fees on his bank accounts. If there's ever an issue, he gets a personal e-mail or call asking how he wants to handle the problem.

"If I'm overdrawn, it's because the bank screwed up somewhere or maybe I forgot something," says the senior executive who asked that his name be withheld, "so the bank is going to call and figure out what happened."

Ah, the life of the well-to-do. Banks clamor for their business and indulge their whims. That may be a bit of an exaggeration, but it is true that a growing number of banks in the Puget Sound area are developing services that cater to the region's wealthy.

Like our anonymous multi-millionaire, these customers find it a breeze to set up credit lines. Borrowing between $50,000 and $100,000 can be as easy as picking up the telephone. And don't bother with investigating the cheapest interest rate on that mortgage—it's a given.

"I got the red-carpet treatment," he says, with a hint of embarrassment. "They set everything up, called me on the day I wanted to close, had the mortgage ready, and I just walked in and signed it. I didn't have to go through the rigmarole that other people do."

COMPETING FOR CUSTOMERS

These are just a few of the many perks increasingly being offered by private banks to keep Seattle's super-rich happy and to entice executives to move more of their assets to the bank.

Private bankers, brokerage houses and other financial institutions flooded Seattle in the late 1990s, when many of these firms realized—thanks in large part to the success of companies like Amazon.com, Microsoft and Starbucks—that the region is home to more than 60,000 millionaires.

Seeking to manage this new wealthy class, Goldman Saks, D.A. Davidson, Northern Trust Bank and Sonata Capital Group Inc., among others, opened offices in the Puget Sound region to attract and cater to these customers.

Some companies, such as Seattle brokerage firm McAdams Wright Ragen, merged with trust companies, planning to cross-sell brokerage services to the trusts' clients. Further encouraging new competition was the passage, in 1999, of the federal Gramm-Leach-Bliley Act, which opened the doors for different types of financial institutions to consolidate their services. Other companies formed close relationships so they could offer expertise in particular services, including setting up personal offices, trust funds and foundations. Large banks beefed up their staffs with private bankers to handle wealthy clients.

But what many banks learned after pursuing these well-heeled clientele is that such people are loath to put their money in one spot. These clients are also leery of companies pushing their own investment products, which many times come with hidden fees.

"The entire industry is struggling with wanting to be the best adviser but [is] awash in conflicts of interest that are difficult to get by," says Kaycee Krysty, CEO and president of wealth management firm Laird Norton Tyee in Seattle.

"One of our biggest challenges is that clients are increasingly expecting unprecedented levels, and also unprecedented integration, of services," adds Peter Glidden, regional president of Harris Private Bank of Washington. "Clients want one-stop shopping, but nobody does it across every service or as well as clients want them to."

The anonymous Seattle senior executive agrees: "I use my private banker strictly for banking purposes, not investment services. I don't think commercial banks attract the best of the wealth advisers, per se, but they like to think they do."

SEEKING INDEPENDENCE

He's not alone in his lack of confidence and trust in private bankers and advisors. The wealthy are growing more wary.

According to the Spectrem Group, a Chicago-based research firm, some 25 percent of affluent investors moved at least some of their portfolios to new providers due to declining trust. The study of 500 individuals with assets of more than $500,000 found that 38 percent of those surveyed say their trust has decreased in their investment advisors during the past few years. Another 52 percent say their trust has remained unchanged. Many respondents cited poor investment advice, hidden fees, conflicts of interest or poor performance as reasons for changing investment counsellors.

"As consumers become more sophisticated, they want advice from people

PETER GLIDDEN, REGIONAL PRESIDENT OF HARRIS PRIVATE BANK OF WASHINGTON.

GENERATIONAL CHANGE IN DENTISTRY CAUSES A BOOM FOR BANKERS

With many young professionals and aging baby boomers obsessively brightening their smiles these days, it isn't surprising that Barbara Cooch and Winslow Hayes have parlayed this demand into profitable careers.

But neither of them is a dentist. Cooch is the senior vice president of business banking at Cascade Bank in Bellevue and Hayes the vice president of medical dental banking at Charter Bank's Seattle office. They specialize in the niche market of helping dentists buy, remodel, grow and sometimes sell their practices.

With a rebounding economy, a growing number of Puget Sound's older dentists are more than ready to retire and to sell their practices to the younger generation. Cooch says dental industry statistics show that a large percentage of the Puget Sound area's approximately 1,500 dentists are expected to retire in the next 10 years, and that change is spurring greater activity.

>>>>>> BARBARA COOCH

"It's common to see more than one young dentist bidding on a practice," says Hayes. "Of course, we're not seeing the same frenzy [that we see in] the housing market, where people are outbidding one another, but it's been a big year for this type of purchase."

Dental practices typically sell for between $500,000 and upwards of $1 million for a business that has a licensed dentist plus an associate, Cooch notes. Appraisers usually value the practice based upon 75 to 80 percent of the previous year's cash flow. Profits are a fairly consistent measure for a general-practice dentist, she says, because most parents take their kids to see dentists twice a year. In addition, adults are taking better care of their teeth and are more willing to repair damage, as opposed to having teeth pulled, she adds.

When practices change hands, the demand for new equipment often follows, adding a hefty amount to the borrowing. A single dental chair can run $10,000, according to Cooch. She adds that a dentist looking to outfit a "three operatory practice" (one that uses three dental chairs) will need about $140,000 to supply the three work areas, another $60,000 in cabinetry, $26,000 for dental supplies and some $24,000 for computer hardware and software.

The current brisk business for bankers stems in part from the stock market plunges in 2000 and 2001, Cooch and Hayes agree. Many dentists at that time saw their retirement portfolios get hammered, so they decided to continue practicing longer than originally planned. That move put bankers on the sidelines as fewer practices traded hands.

Hayes says most banks are skittish about lending to dentists. Larger banks that have undergone mergers recently are pulling away from the sector because it requires creative thinking and an understanding of the dental industry; both are hard to come by in the today's banking world.

Unlike other small businesses, a dental practice's value comes from the patient base, not the equipment, says Hayes. When one dentist buys a practice from another, he explains, "You're essentially buying the cash flow. What's problematic is the financing. Banks like tangible assets as collateral."

>>>>>> WINSLOW HAYES

An extra hurdle awaits fresh-out-of-dental-school professionals who often don't have hard assets to pledge and typically carry high levels of school debt. Says Cooch, "Many banks aren't comfortable with a negative net worth."

A different banking niche requires different banking methods. Hayes doesn't keep typical bankers' hours, or even see clients in his own office. He often meets his clients before they open their dental office doors at 7 a.m. or after they close up shop for the day.

While some banks shy away from dental banking, Cooch and Hayes know there is a steady demand and a good market for dental practices because the market is relatively predictable. Each year, some 55 dentists graduate from the University of Washington's dental program, one of only two such schools in the Pacific Northwest.

—M.S.B.

who are completely free of product," Krysty explains. For that reason Laird Norton Tyee has taken bold steps to ensure that it is viewed as a truly independent entity. In 2003, the company cut its internal ties with the prestigious San Francisco-based investment firm Wentworth, Hauser & Violich.

The move caps off a multi-year plan that makes Laird Norton Tyee what's known as an "open architecture" wealth management firm, one of only a handful in the U.S. Krysty explains that with this type of arrangement, "We have nothing to sell but our convictions. We sit on the same side of the table and advise clients; the compensation is crystal clear, the client can figure it out and everyone knows what everyone's motivations are."

Krysty maintains that being independent helps the client get the very best deals. For instance, when you go to a broker to buy municipal bonds, he or she makes money on the commission and the spread (the difference between the selling and buying price), which varies.

"What we're able to do for our clients is hire managers to basically force the spread down to make sure we're getting the best deal; most individuals can't do that and don't even know they could do that," says Krysty.

ALTERNATIVE INVESTMENTS

Glidden notes that his company, Harris Private Bank, achieves such independent services by helping ultrahigh-net-worth clients—usually those who have $25 million or more of investable assets, according to Glidden—set up family offices. Family office managers—typically an accountant, certified investment manager or other specialized service provider—oversee the finances for the individual and sometimes for their families.

Citigroup Private Bank has seen a marked rise in the number of clients setting up family offices to help them administer increasingly complicated portfolios. In a study of 120 individuals, who each had a net worth of more than $25 million, Citigroup noted a dramatic growth in alternative investments, ranging from hedge funds to private equity deals and real estate funds, among other products.

"It literally keeps on broadening," Glidden adds. "Everyone started out with investment advisory services—private banking and trust issues—and now that's broadened into integrated financial planning, including insurance and brokerage accounts… It's a different industry." SB

KAYCEE KRYSTY, CEO AND PRESIDENT OF SEATTLE'S LAIRD NORTON TYEE.