

# The Destruction of the Wachovia Brand and Culture

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This is the story of how a 130-year-old model banking institution was snuffed out for doing business the way we now wish all banks would. The bank was Wachovia. Its undoing was its insistence on caution in handling other people's money.

When I worked for Wachovia in the early 1980s, I was struck by how different it was from Irving Trust in New York City, where I had completed a corporate lending and executive management training program. The professionalism was similar, but the atmosphere was so much more, well, egalitarian. At Irving, dining facilities were divided by caste – the lowly ate in a giant cafeteria in the basement, first-level officers had custom dining a few floors up and top executives rode special elevators past the troops to a private space near the top of the building. Wachovia had one country-cooking cafeteria, where leaders including President John Medlin and Chairman Hans Wanders were just as likely to sit with a group of secretaries as a team of banking officers.

As I walked to work during my first week at Wachovia, Mr. Medlin himself pulled up on the left side of a busy one-way street and gave me a lift. As we rode, he chatted comfortably about people he had worked with through the years at Irving.

Unless something was about bank business – where authority and rank were essential – people treated others as equals. But when matters turned to business, Wachovia had an authoritative, near militaristic style. Unlike Irving, where the “credit department” was considered a geek squad to be cajoled, tricked and mocked by the much smoother real bankers, Wachovia centered its power in loan administration, where soundness trumped profitability and growth, the other two parts of the metaphorical three-legged stool. We knew that the bank's future leaders would rise through that department.

When our local competitors NCNB (now Bank of America) and First Union (now Wachovia Wells Fargo) were making aggressive loans and acquisitions, Wachovia appeared stuck in neutral. But Mr. Medlin called us together to remind us that we were a highly regulated, utility-like business with the daunting responsibility of issuing certificates of deposit with a government guarantee. Our customers were depositors who had placed their faith and hard-earned money with and in us, he said, and we should work hard for them as “disciplined entrepreneurs.” He ran through the mathematics of making a bad loan, where thin spreads would mean forgoing profits on hundreds of millions of dollars in good loans to make up for a single million-dollar loss.

In those days we held the loans we made until maturity, and Mr. Medlin insisted that we limit losses by basing loans primarily on an analysis of each borrower's cash flow and only secondarily on asset backing. Individuals weren't compensated based on loan or fee production, because that would distract from the team effort and potentially lead to poor decisions.

Mr. Medlin emphasized that the controlled management of risk was rather boring and that if we wanted job excitement we should move out of banking, or at least out of Wachovia. He observed that our merger-crazed competitors were cobbling together other banks rather than completing

full integrations, often allowing bank managements to operate autonomously post-merger. He said that was dangerous because banks may grow earnings as fast as they want but should not dare grow the number of employees faster than ten percent per year or risk losing control. He was right, as we know now.

A lot of smart bankers at Wachovia thought the bank was too careful at times. Some of us wondered aloud whether the world would come to a screeching halt if every business and bank had Wachovia's risk tolerance. When Wachovia sensed that borrowers were going to have financial trouble, it sounded credit alarms early and encouraged them to change course. When borrowers didn't cooperate, it encouraged them to find other lenders.

Although happy at Wachovia, I realized in 1984 that the banking industry was too poorly regulated for my liking. My team had accomplished the extraordinary task of convincing the bank to lend \$25 million to a large New York retailer, but a more aggressive bank known then as Continental Illinois successfully intervened with an offer to lend the same amount at 'whatever Wachovia's rate is – minus 0.25 percent.'

Within weeks, Continental's reckless approach was rewarded in the marketplace by a \$10 billion run on the bank. I figured that bank regulators would punish the dirty devils, thus allowing Wachovia to thrive. Instead the government declared Continental "too big to fail" – coining a phrase for future overuse – and made the fatal mistake of bailing out all of its debtors. Adding insult to injury, the Fed asked strong banks like Wachovia to send millions to help with the bailout. Incidentally, the Continental bailout amounted to 2.6 percent of GDP then, a small price our country could have paid to avoid today's disaster, which may reach 30 percent to 50 percent of GDP before it ends.

I left Wachovia to become an investment banker with Wheat, First Securities. Wheat eventually was purchased by the insatiable First Union Bank, which went on to acquire Wachovia in 2001. Instead of being First Union's peer in size like it was in the early 1980s, Wachovia was much smaller because it had been true to its plan of soundness and had grown only about 8 percent per year. First Union had gone bonkers with acquisitions, aggressive lending and product line extensions.

At the time of the merger, Wachovia's pristine image was intact but First Union's had been tarnished by nonsensical acquisitions such as the Money Store – which almost instantly went bust on the bank's watch – and a poor stab at integrating a Pennsylvania bank it picked up along the way. In one of the greatest brand-destruction moves of all time, Wachovia agreed to let First Union use the Wachovia name on the merged bank. This was like Mercedes putting its brand on rickshaws, and not very good rickshaws at that.

If the government had stood tall in 1984 and let Continental's creditors take some losses for their folly, we probably would not be facing today's bailout problems. It may have helped, too, if banks had continued to hold the loans they made in their own portfolios, tying employee compensation closer to the long-term consequences of their behavior. The simple fact is that banking – when done properly – is a slow growth business of prudence and control of depositors' money.

We allowed our government's backing of CDs and mortgages to be abused to the point of maximum financial stress. As we re-regulate, we should return to basics and simply declare that if an organization is too big to fail, it is too big and should be right-sized. In the meantime, it is fortunate that the Wachovia name now resides with Wells Fargo which, ironically, used to be called the "Wachovia of the West." I wish them well.

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