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Morgan Stanley, Goldman Search for Deposits; Banks Are `Lunch'
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By Ambereen Choudhury

Sept. 23 (Bloomberg) -- Morgan Stanley and Goldman Sachs Group Inc., the two largest remaining independent U.S. securities firms, may add to the \$81 billion of financial services deals unveiled during the past week as they morph into banks.

Morgan Stanley plans to sell as much as a 20 percent stake for \$8.4 billion to Mitsubishi UFJ Financial Group Inc., Japan's largest bank, to shore up capital. Goldman Sachs said that its new status as a bank will help it purchase assets.

Stock market declines of the past 10 days helped push Lehman Brothers Holdings Inc. into bankruptcy and Merrill Lynch & Co. into a takeover by Bank of America Corp. That's helped financial services leapfrog the mining sector to become the most active for mergers and acquisitions this year, data compiled by Bloomberg show. Regional banks probably will become ``lunch" for larger institutions, JPMorgan Chase & Co. analyst Steven Alexopoulos told clients yesterday.

``We are seeing deals that are highly opportunistic and speedily arranged, where targets are distressed," said Marco Boschetti, co-head of global mergers and acquisitions at the Towers Perrin consulting firm in London.

Goldman Sachs, granted permission Sept. 21 to transform into a bank holding company, may raise capital to buy assets assuming it finds the right opportunities, said company spokesman Lucas van Praag in New York.

``If we see assets that are attractive, we might raise capital in order to be able to acquire them," he said yesterday, adding that Goldman has ``no immediate plans to raise capital."

Circling Seattle

Washington Mutual Inc., the Seattle savings and loan that put itself up for sale this month, has at least five companies mulling takeover bids, said a person familiar with the matter yesterday. They include Toronto-Dominion Bank, JPMorgan in New York, Wells Fargo & Co. of San Francisco and New York-based Citigroup Inc., the second-, third- and fourth-biggest banks.

The next several weeks present a ``window" for financial firms to issue new capital or merge, said Michael Mayo, a New York-based analyst at Deutsche Bank AG. The U.S. Treasury's plan to buy troubled assets, disclosed Sept. 18, and a temporary ban on short-selling make it easier to shore up capital, he said.

Morgan Stanley and Goldman probably will increase deposits by going after retail and corporate banking customers by selling products such as certificates of

deposits, said Richard Bove, an analyst at Ladenberg Thalmann & Co. in Lutz, Florida.

“There's a whole bunch of small banks in the United States that might be willing to sell out to them, but not big banks,” Bove said. “Why would they want to link up with a company which is struggling to stay alive?”

Danish Banks

Lloyds TSB Group Plc, the London-based bank that's acquiring HBOS Plc, Britain's biggest mortgage lender, may put about 9 billion pounds (\$16.6 billion) of assets up for sale, including the Scottish Widows money management unit, analysts said. Lloyds TSB agreed to buy Edinburgh-based HBOS for 12.5 billion pounds last week after the bank lost almost half its market value on concern it was cut off from funds for loans.

“Whilst we anticipate higher levels of M&A activity in financial services than many other sectors, we expect a return to the fundamentals of how good deals get done,” Towers Perrin's Boschetti said.

In Denmark, Ebh Bank A/S put itself up for sale yesterday as it cut its full-year pretax profit forecast to zero and removed Chief Executive Officer Finn Strier Poulsen after bad real-estate related loans were larger than expected. Two regional Danish lenders, Forstaedernes Bank A/S and Lokalbanken i Nordsjaelland A/S, also received bids last week from rival Scandinavian banks.

Renaissance Capital

Russian billionaire Mikhail Prokhorov agreed yesterday to buy half of Renaissance Capital to inject funds into the Moscow-based investment bank. Prokhorov's Onexim Group holding company will pay \$500 million for 50 percent minus one share of Renaissance Capital, he told reporters in Moscow.

Edward Eyerman, head of leveraged finance at Fitch Ratings in London, said J.C. Flowers & Co. and Lone Star Funds are among leveraged buyout firms that will scour the market for distressed financial services companies.

“We may see the private equity guys coming into the market,” said Frederick Lane, a former co-head of mergers at Donaldson, Lufkin & Jenrette, who now runs Boston-based Lane Berry & Co. in an interview.

CVC Capital Partners Ltd., Europe's biggest private equity firm by assets, started a team this month to scour for financial-services investments. Dallas-based Lone Star agreed last month to buy IKB Deutsche Industriebank AG, Germany's first casualty of the subprime mortgage crisis, for about 150 million euros (\$220 million). In the U.S., Bain Capital LLC and Hellman & Friedman LLC are jointly negotiating to acquire Lehman's asset-management unit, according to people familiar with the discussions.

--With reporting by Zachary Mider, Christine Harper, Jason Kelly in New York and Christian Wienberg in Copenhagen. Editors: Edward Evans, Francis Harris.

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