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NEWS RELEASE

SCHWAB IN FRONT AS CUSTODIANS SET PLANS TO FINANCE ADVISER SUCCESSION

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The Charles Schwab Corp.'s plans to offer financing for financial adviser succession plans is putting pressure on other custodians to do the same, observers say.

Schwab Advisor Services chief Bernard J. Clark said this month that the firm will roll out a financing program in the first half of next year. The tentative plan is to have Schwab Bank loan money to junior partners for an initial purchase of equity in a registered investment advisory firm from senior partners.

The plan is designed to address the major hurdle faced by succession plans: lack of capital by junior advisers to buy into an advisory firm. Schwab's move would be the first formal step among any of the custodians to address this need.

Other custodians are well aware of the need.

"We recognize financing is a critical component, and we are working on a formalized [financing] program," said TD Ameritrade Institutional spokeswoman Kristin Petrick.

"Look for us to be quite active [in] financing" transitions, said David Canter, head of practice management and consulting for Fidelity Institutional Wealth Services.

"On an isolated basis, we've done lending to existing advisory firms to help them grow through acquisitions" for succession planning, he said.

"We're evaluating where we want to be involved," Mr. Canter said.

"If the cash flow supports it, we will consider working capital loans to help fund certain transactions," said Mark Tibergien, chief executive of Pershing Advisor Solutions LLC.

Founding partners of professional services firms often finance a sale themselves, but that process is a long-term proposition because buying partners must pay out of cash flow. And banks are skeptical of making loans without collateral, which advisory firms don't have.

Another option for advisory firms is to sell to one of the roll-up-type firm, but it might be impossible to retain full independence.

Still, some are skeptical.

"We'll see who comes out with a real program first," said **Dan Seivert**, chief executive at **ECHELON Partners**, a consulting firm.

Schwab's announcement is not a "game changer," Mr. Tibergien said.

"The question of financing has been around a long time" and is offered selectively by custodial firms, he said.

Extending credit to RIAs isn't a scalable service, so the volume of deals likely will remain small, observers said.

But no one doubts the need to address the financing issue.

Schwab is smart in recognizing that a custodian's providing some financing will likely attract more firms and their assets, said Michael Kossman, chief financial and compliance officer with Aspiriant LLC, which manages about \$4.5 billion.

A Schwab loan helped finance and transition Aspiriant's purchase of Deloitte Investment Advisors LLC last year.

Mr. Kossman has been advising custodians on how best to structure their programs. He expects that Schwab will come out with something akin to the way Aspiriant has been working with a local private bank to arrange financing.

Loans would be made to individual junior partners with a corporate guarantee.

"We're obligated to make good on it if the [junior] person defaults," Mr. Kossman said.

It makes sense for TD Ameritrade Institutional to get involved because its parent company is a bank, he said.

"They would have a whole consumer-banking mechanism in place," he said.

"What the custodians are going to struggle with a bit is the secondary source of repayment," Mr. Kossman said. "If the borrower doesn't pay, who comes next? ... How does Schwab get an appropriate level of security?"

Some deals require senior partners to co-sign for loans to junior partners personally, putting a firm at risk.

"When personal service businesses have their credit impaired ... generally, you see some type of divestiture," Mr. Canter said. "It's messy."

That is why it may make more sense for senior partners to act as the bank, though it may take longer to cash out, observers said.

Some also see a new source of conflict brewing if advisers borrow from their custodians.

There is a potential conflict when advisers "are personally borrowing millions from a vendor," said Mark Hurley, president of Fiduciary Network LLC, which offers an alternative scheme that helps advisers secure loans by combining debt and equity financing.

Although custodian loans may create the perception of a conflict, in practice, they aren't a concern, Mr. Kossman said.

At least in Schwab's case, the loan comes from a bank rather than the broker-dealer, he said. It is made to a junior partner at market terms, with no requirement to do business with the custodian.

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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