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Bank of America CEO In Spotlight After Deal

Countrywide Gives Lewis Status He Long Craved; Up From Walnut Grove

By VALERIE BAUERLEIN

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Addressing 500 managers at a meeting in New York early this year, Bank of America Corp. Chief Executive Kenneth D. Lewis ticked off the banking industry's problems. The housing market was faltering, and the interest-rate environment was difficult. Yet he foresaw a watershed year for Bank of America, a chance to inflict pain on competitors that lacked its scale, diversity and cash.

"This is the time I think we could go for the jugular, really be disruptive and take market share," he said, to loud applause.

Within months, Mr. Lewis agreed to buy Chicago's LaSalle Bank for \$21 billion, taking advantage of a bidding war for its struggling Dutch parent. He rolled out free online stock trades nationally, bruising discount brokers. And he introduced a "no-fee" mortgage program designed to take business from competitors.

Last week Mr. Lewis made one of his most dramatic moves yet, a \$2 billion investment in teetering Countrywide Financial Corp. The deal at once helped stabilize the credit markets and gave Bank of America a foothold in the nation's biggest mortgage lender. It even brought a swift \$445 million paper profit, as Countrywide's shares rallied on the news.

In so doing, Mr. Lewis, known among bankers for craving respect after a humble childhood, finally penetrated a realm that had been denied to him and to his Charlotte, N.C., bank, despite its size. With the high-profile deal, the 60-year-old CEO has emerged as an undisputed peer to the leaders atop the New York banking dynasties, Citigroup Inc. and J.P. Morgan Chase & Co. In Mr. Lewis's six years as chairman and CEO, Bank of America has morphed from a buccaneering but provincial bank into one of the very top financial institutions in the U.S.



Kenneth Lewis

Mr. Lewis makes no apology for needing to prove something, after growing up in Army towns and working his way through Georgia State University. "You had to be a dreamer to think we could do what we've done. I had no Ivy League background, no blue-blood parents. Yet this company allowed me to compete," he said earlier this year.

He elaborated on his personal drive in an interview yesterday. "I know that I have had a chip on my shoulder and collectively the [management] team has had a chip on their shoulder," he says. "Maybe I wouldn't call it that anymore. But there's still an intensity to move forward and to put distance between us and second place."

The son of a soldier and a night-shift nurse, Mr. Lewis was born in Walnut Grove, Miss., a place so small, he says, that you had to go to another town "just to be born." His father moved the family to Germany, then to the Army town of Columbus, Ga., before

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born." His father moved the family to Germany, then to the Army town of Columbus, Ga., before leaving his wife and two children when Mr. Lewis was an adolescent. Mr. Lewis made his way through Georgia State with jobs at a shoe store, an insurance company and as an airline reservation agent. Graduating in finance, he went to work for the only full-time employer he has had, taking a job as a credit analyst for an obscure lender called North Carolina National Bank.

He rose quickly, moving every few years as the ambitious bank sought ways to expand in the face of legal barriers to doing business in other states. When it found a way to pick up a string of branches in Florida, each with its own processing system, NCNB's swashbuckling chief, Hugh McColl Jr., called in Mr. Lewis in 1985 and told him to bring order to the operation.

"I said, when can you go?" Mr. McColl recalls. "He said, 'When you stop talking to me.' He reported for duty within 24 hours, bought a house and told his wife -- in that order. We had a man who knew what had to be done."

In Florida, Mr. Lewis extracted fat margins by consolidating back-office operations and through moves like assigning a single account number to each customer for all accounts and branches. Soon, Mr. McColl put him to work consolidating the remnants of a large but stumbling Texas bank, FirstRepublic, that NCNB acquired with regulators' blessings. Later, Mr. Lewis developed a uniform set of procedures that his employer called the Model Bank, a common system enabling a customer in Atlanta to walk into a Miami branch and access all account data.

Colleagues and friends say he seemed driven by a sometimes manic need to defy his difficult childhood and a belief that bankers from more elite backgrounds viewed him, and the North Carolina bank, with condescension. Mr. Lewis "grew up poor and didn't like it," Mr. McColl says.

Mr. Lewis was less charismatic than his gregarious mentor. He was seen as a technocrat, who lacked warmth in dealing with subordinates, say many people who worked with Mr. Lewis. "It's got to be a little frustrating, because of his personality compared to Hugh's," says Pete Kight, chief executive of CheckFree Corp., which runs Bank of America's online check processing. "Hugh got lots of coverage of all the deals he did, but Ken has a consummate vision for the bank."



Mr. McColl began grooming Mr. Lewis as a successor, naming him head of the growing bank's consumer division and then chief operating officer. He became chairman and CEO in April 2001 when Mr. McColl retired at the mandatory age of 65.

The bank Mr. Lewis inherited -- renamed Bank of America after it bought San Francisco-based BankAmerica Corp. in 1998 -- was the product of an 18-year run of acquisitions by Mr. McColl. Despite its broad network of branches and customers, the bank remained far short of Citigroup and J.P. Morgan in assets and global reach. And, reflecting the spate of takeovers, it was a tangled mess of back-office systems and vestiges of old corporate cultures. Spotty service and computer foul-ups drove some customers away. Analysts began referring to it as the "beached whale."

Mr. Lewis began a ruthless streamlining. He cut 10,000 jobs the first two years. He outsourced back-office jobs to India, closed call centers, and reduced the commercial-loan business in far-flung markets. He got out of the subprime-lending business, citing risk and volatility. He also launched a personal overhaul: taking lessons in public speaking, getting glasses that softened his angular features, and practicing a smile, not his default expression.

In 2003, just as Bank of America was doing a big advertising campaign with the slogan of "Higher Standards," emphasizing goals for service and integrity, it faced shareholder lawsuits related to two corporate scandals. The suits accused the bank of helping Enron Corp. inflate earnings and of not performing due diligence on WorldCom Inc.'s debt offerings.

The same year, as Mr. Lewis was on a golfing vacation at Pebble Beach in Carmel, Calif., he learned that New York's attorney general was about to accuse Bank of America's asset-management unit of a scheme to allow illegal short-term or after-hours trading in mutual-fund shares. Mr. Lewis returned to Charlotte and called an emergency meeting in his 58th-floor office. "We need to get our heads up and get in an action mode," he said, according to people present.

Mr. Lewis dismantled and rebuilt the asset-management division, forcing out hot-shot outsiders held just waned. Bank of America later reached a \$875 million settlement over the mutual fund

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he'd just wooed. Bank of America later reached a \$675 million settlement over the mutual-fund accusations. The bank also agreed to pay \$460.5 million to settle the WorldCom shareholder suit and \$75 million to settle the Enron one.



The crisis posed by the

scandals became an opportunity for Mr. Lewis to push forward in reshaping the bank around his vision. That vision was to build a nationwide financial-services supermarket, something other major U.S. banks had aspired to over two decades, but none had quite achieved. Mr. Lewis wanted the branch network to reach every major growing market in the U.S. He wanted ubiquitous ATMs and the sleekest technology, such as free online bill paying.

Mr. Lewis avoided acquisitions for more than two years of his tenure. But in October 2003, he agreed to spend \$47 billion to buy FleetBoston Financial Corp., gaining a big beachhead in the Northeast. He used the Fleet network, renamed Bank of America, to invade Manhattan in a big way -- taking the battle to the home turf of J.P. Morgan Chase and Citigroup with a blitz of branch openings, marketing initiatives and a new tower under construction near Times Square.

Mr. Lewis set tough performance standards. Borrowing a concept from retailing, he began measuring "same-store sales" in all branches open for a certain length of time, then a new metric for banks. He stepped up an unorthodox plan to implement the Six Sigma methodology that manufacturers use to minimize errors.

Over his tenure, Bank of America's annual revenue has more than doubled to more than \$74 billion. Its assets have more than doubled to \$1.46 trillion. And profits have more than tripled, to \$21.1 billion last year. The bank has 5,700 branches, which is two-thirds more than its closest retail-bank rival, Wachovia Corp., and far more than Citigroup and Chase. Bank of America's market value has tripled during Mr. Lewis's tenure, and now only narrowly trails that of Citigroup, the largest U.S. bank by that measure.

Mr. Lewis has kept his knife sharp in the executive suite, continually rotating senior leadership, forcing out even former stars after difficulty fitting in or poor results for more than a quarter. Four of the five top executives at Fleet who accepted positions with Bank of America left within six months, including Fleet president Eugene McQuade, who was unhappy with his limited duties. Mr. McQuade couldn't be reached for comment.

Mr. Lewis has had four chief financial officers in six years. Alvaro G. de Molina, who was CFO for 14 months, said in an interview he wanted to dispel the idea that Mr. Lewis was difficult to work for. "He's not a guy that you get really close to personally, but he's a great boss," Mr. de Molina said. "He was responsive. If you called him, you didn't even go to the bathroom because you knew he'd call you right back."

With all its deals, Bank of America is now hamstrung by a federal law that bars any bank from making acquisitions that would give it more than 10% of all U.S. deposits. Mr. Lewis's strategy was to stay under 10% but manage away less-profitable customers. Meanwhile, he could use the bank's large scale to bludgeon competitors, such as by using free online stock trades as a loss leader to lure in customers to other bank services.

To avoid the 10% cap, Mr. Lewis sought access to markets outside the U.S. or in specific lines of business where the bank was small. Thus, he agreed to buy credit-card processor MBNA Corp. in June 2005, paying \$35 billion. He also became more open to buying partial stakes in big companies, rather than taking complete control, as the bank had insisted on in the past. He acquired a foothold in the nascent Chinese credit-card market. Last November, he agreed to buy U.S. Trust, the private-banking arm of Charles Schwab Corp.

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Blanketing the U.S.'s biggest markets, the bank now can leverage its size in unique ways. For instance, it avoids competing to offer the best interest rates on certificates of deposits or bank accounts. Mr. Lewis bets that convenient branches and ATMs, and gimmicks such as credit cards embossed with National Football League logos, will attract customers even to lower-paying products.

And Bank of America pushes for more fees. More than half of its 2006 revenue came from fees such as overdraft charges, investment banking and wealth management advice. Bank of America has just boosted the charge for noncustomers to use its ATMs to \$3 -- the highest among major banks.

This month, when Countrywide was paralyzed by a lack of access to new credit, Mr. Lewis saw an opportunity to grab a piece of the largest U.S. home lender. Doing so would let him push farther into one of his targeted lines of business and also would cement his profile and that of Bank of America in a critical moment for the national economy.

"It did weigh on him heavily," said J. Steele Alphin, chief administrative officer and long Mr. Lewis's closest confidant. "He has a responsibility and he had to take on some of that."

After a team had spent several days studying Countrywide's books and negotiating terms, Mr. Lewis flew from his Aspen, Colo., vacation home to meet with Countrywide Chairman and CEO Angelo Mozilo in Calabasas, Calif., on Aug. 20. The two longtime acquaintances signed the deal, with Bank of America paying \$2 billion for preferred shares of Countrywide that yield 7.25% dividends and are convertible into a 16% stake in the lender.







The sale won quick approval from regulators and the companies' boards, and helped calm the credit markets. Although Countrywide's stock jumped, how well the deal ultimately will work out for Bank of America is unknown, amid uncertainties in the mortgage and housing markets.

Bank of America and Countrywide announced their agreement just hours after another move that helped ease the broad liquidity crisis. Bank of America, J.P. Morgan, Citigroup and Wachovia -- following Federal Reserve encouragement to borrow at its newly reduced discount rate -- announced they would each borrow \$500 million from the Fed.

"This is a time that I don't relish in the turmoil of the capital markets, because we're not immune," Mr. Lewis said yesterday. "But it does vindicate the idea that size and scale do matter. I see these times as a vindication of our model."

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