

## Demchak, No. 2 at PNC, Is Looking Like a Keeper

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By HEATHER LANDY

Other banks might continue calling Bill Demchak about becoming their chief executive, but PNC Financial Services Group Inc. has just made it a lot more likely he'll say no.

Last week the Pittsburgh company added its retail banking and asset management groups to the list of areas overseen by Demchak, who is 48, essentially giving him supervisory responsibility over all of PNC's businesses.

The move cemented Demchak's status as heir apparent to James E. Rohr, the 61-year-old chairman and chief executive of the \$262 billion-asset company. And it conveys PNC's interest in holding on to a seasoned leader with credit, risk management and capital markets expertise — a combination that has been sought after by rivals including Bank of America Corp., which approached Demchak last year about taking over for Kenneth Lewis.

"Demchak is one of a small handful of current executives at financial institutions that has the range of experience, intellect and skills to actually run an integrated banking model," said Rob Sloan, head of the U.S. financial services practice at the executive search firm Egon Zehnder International Inc.

Rarer still, Demchak can "understand what the guys with the dynamite are doing," Sloan said.

It's an apt metaphor considering Demchak's role in building a market for structured credit

products that turned into TNT for the financial system.

At J.P. Morgan & Co., Demchak led a group in the late 1990s that developed a credit derivatives product intended to help his bank offload risk from its loan portfolio. The product worked, and was soon replicated many times over for clients in need of credit risk protection. Other banks got in on the action, which was prized at least as much for its ability to generate fees as its ability to manage risk. But as the nature of the deals changed, the products became overrated, underpriced dumping grounds for exposure to loans — mainly mortgages, by the end of the market's heyday — that buyers and sellers knew little about.

Before structured credit got too heady, though, Demchak — as described in "Fool's Gold," Gillian Tett's book about the financial crisis — had grown disillusioned with the structured products market and with the merger that had created JPMorgan Chase & Co. He was lured home to the Pittsburgh area, where he had grown up and attended college, to become chief financial officer at PNC in 2002. He was 40.

"He possesses extraordinary talent and expertise, and he brings with him a wealth of financial and management experience," Rohr said at the time.

The announcement was something of a coup for PNC, which needed skills like Demchak's to dig out of an off-balance-sheet accounting scandal it was mired in at the time.

Demchak was named head of corporate and institutional banking in 2005, and promoted to the executive post of senior vice chairman in 2009. The intervening years had presented challenges and opportunities that Demchak, who had been global head of structured finance

at JPMorgan, seemed especially qualified to handle.

**"He understands, by virtue of his background and experience, a lot of the more complex issues that have led to the problems the industry faces now,"** said Rod Taylor, founding partner of Taylor & Co., an executive recruiting firm in Atlanta that specializes in financial services searches.

Demchak and Rohr declined a request for interviews.

PNC's earnings and credit issues have been improving along with the rest of the industry, and it planned to sell \$2 billion of delinquent loans this quarter as it continues to clean up its balance sheet. The acquisition of National City Corp. in late 2008 essentially doubled the size of the bank and gave the combined company an opportunity to build up its corporate bank clientele, and cross-sell more products to retail customers.

Analysts have praised PNC for the smooth integration of National City, and several said last week that they expect Rohr to remain with the company for another few years before handing over the reins. But with the industry still in turmoil and with regulators looking more closely than ever at management and transitional leadership planning, PNC's announcement Sept. 7 about Demchak fits in perfectly with broader industry trends.

**"More banks are accelerating the retirement of senior executives or taking other steps to ensure that they keep the successors they've had in mind, rather than risk losing them,"** Taylor said.

Elsewhere in the industry, Comerica Inc. consolidated its retail bank and wealth and institutional management divisions in August into a single organization led by executive vice president Curtis C. Farmer, 48. Farmer, a

longtime Wachovia Corp. executive who joined Comerica in 2008 on the wealth and institutional management side, has also assumed responsibility for corporate marketing and communications, and corporate quality process.

Taylor calls bankers between the ages of 38 and 52 the "missing generation." Their ranks are so thin, he said, because this was the group entering the work force just as banks were slashing their credit training programs to bring down costs in the 1980s.

**"You can't find lenders in that 40-year-old age bracket, with 15 years' experience, who know how to originate quality assets and can understand the fee-based products that can be sold along with the credit products,"** Taylor said.

So when a bank does land someone with those skills, it should be loath to lose him or her to competitors.

"There's an insurance policy" in what PNC did, "to make a move before somebody else does," Sloan observed. "I put it in the category of natural succession planning."