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# CEO may be rethinking BofA's 'crown jewel'

*Lewis faces culture clash with retail bank's acquisition of Merrill Lynch*

By Edward Robinson, Bloomberg News

Courtesy Bloomberg News

Kenneth Lewis has been ridiculed by incoming Merrill Lynch advisers as a "toaster salesman" who doesn't appreciate the broker-client relationship.

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When Kenneth Lewis, chief executive officer of Bank of America Corp., unveiled the acquisition of Merrill Lynch & Co. on Sept. 15, he called its 16,000-strong brokerage group the firm's "crown jewel." Only a month later, the brokers were rebelling against their new parent.

Members of the Thundering Herd were steamed over the Bank of America employment contract they were asked to sign. Merrill was part of an industry group that let departing brokers who joined another member firm take their clients with them. The contract suggested that Bank of America might not join the group or honor the agreement.

The advisers ridiculed their incoming retail banking bosses as "toaster salesmen" who didn't appreciate the bonds of the broker-client relationship. Some advisers threatened to walk, with their customers in tow, before the contract could go into effect, says a Merrill broker with 25 years of experience who requested confidentiality.

Lewis, who has never displayed much affection for Wall Street, saw his $40.4 billion acquisition devolving into a confrontation with the very people he'd praised as Merrill's No. 1 asset.

Within days, Bank of America neutralized the protests by agreeing to join the industry group. Yet the culture clash flared again this week when two senior Merrill executives abruptly quit after Bank of America closed its takeover. On Jan. 5, Robert McCann, head of Merrill's brokerage and a 26-year veteran of the firm, resigned. On Thursday, Merrill president Gregory Fleming, 45, who was slated to run the corporate and investment banking unit, followed McCann out the door.

## 'Never liked Wall Street'

"They see the writing on the wall," says Paul Miller, a banking analyst at Friedman, Billings, Ramsey Group Inc., who rates Bank of America's shares a "sell." "Ken Lewis is a good retail banker, but he's never liked Wall Street, and these guys see that there's no way Merrill's culture will survive under BofA."

Still, Lewis has long yearned to rule Wall Street, and assimilating Merrill, which Bank of America plucked from the brink of insolvency, is shaping up to be the most trying test of his long career.

"Lewis is going to have to reconcile his love-hate relationship with the Street and his decision to buy such a massive firm," says Samuel Hayes, professor emeritus of investment banking at Harvard Business School. "That's going to be very difficult."

## Doubling down

Lewis is doubling down just as a global recession threatens to convert his growth machine into an underachieving laggard, investors say. Bank of America's shares plunged 66 percent in the past year. The Standard & Poor's 500 Index fell 37 percent in that span.

“If for some reason the Merrill deal becomes too burdensome for Bank of America to execute, then we'll look for continued stress in this stock,” says Ralph Cole, a money manager at Portland, Ore.-based Ferguson Wellman Capital Management Inc., which sold almost 361,000 Bank of America shares in the third quarter.

Lewis, 61, a onetime shoe salesman who became a prolific empire builder in American banking, has been frustrated in previous attempts to master Wall Street. Ever since he was named CEO of Bank of America in April 2001, he's sought to capture the Street's rich vein of underwriting and advisory fees.

**Credit crackup**

Yet the bank, which is so steeped in retailing that employees wear bank-branch-style name tags at corporate headquarters, has made little headway, languishing in 9th and 10th place in U.S. equity underwriting and mergers and acquisitions advice, according to data compiled by Bloomberg.

“I've had all the fun I can stand in investment banking at the moment,” Lewis said on an earnings call in October 2007 before backpedaling from that statement months later. Lewis and his deputies declined to be interviewed for this article.

Now the credit crackup has offered Lewis a chance to reshape Wall Street as he sees fit. The era of the bulge brackets is over: Lehman Brothers Holdings Inc. is bankrupt, and pacesetters Goldman Sachs Group Inc. and Morgan Stanley, facing the once unthinkable prospect of their own demise, have converted into bank holding companies.

Lewis has long shunned their star-making machinery, sky-high bonuses and zeal for risk. A retailer at heart, Lewis sees investment banking as one of many product offerings in his financial superstore, says Tony Plath, a finance professor at the University of North Carolina at Charlotte.

**Prima donnas beware**

“The rocket-science stuff has no place in the new Bank of America,” says Plath, who has studied the company for more than 20 years. “It's all about plain-vanilla underwriting, and if the prima donnas don't like it, they'll be cut off at the knees.”

Even so, Lewis will be relying on a thoroughbred investment banker—former Merrill CEO John Thain—to make his deal pay off: On Oct. 2, Lewis named Thain, 53, as president of global banking, securities and wealth management, a new post.

Lewis and Thain hail from opposite ends of the financial world. Lewis, a striver who graduated from Georgia State University, rose to power by fixing troubled consumer banks across the Sunbelt. Thain, a brainiac who holds an engineering degree from Massachusetts Institute of Technology and a master's of business administration from Harvard University, was named chief financial officer of Goldman at the age of 39.

**Cross selling**

As CEO of the New York Stock Exchange from 2004 to '07, he pushed the antiquated Big Board into electronic trading and merged the exchange with Paris-based bourse Euronext NV.

With Lewis watching over him, Thain must execute a strategy that some investment bankers scoff at: cross-selling. In a financial supermarket, bankers are supposed to offer depositors a credit card and then a mortgage, a home equity loan and perhaps advice on stocks and bonds.

It will be up to Thain to extend cross-selling to investment banking, says Jefferson Harralson, an analyst at Keefe Bruyette & Woods Inc. Companies that have Bank of America-supplied credit lines and loans will be pointed to Merrill's investment bankers for their equity and fixed-income underwriting needs. The executives of those companies will be urged to have their personal accounts run by Merrill's wealth managers.

While commercial banks have long embraced cross-selling, there's not much evidence that it works. Bank of America has never disclosed how much revenue it derives from cross-selling, nor does it say how many products it sells per customer.

**Taking Lewis's job**

“There's no cross-sell revenues in anyone's models that I know of,” says Betsy Graseck, a banking analyst at Morgan Stanley, referring to other equity analysts.

And both retail and corporate clients are reluctant to trust one institution with all of their banking needs, says Miller.

“On paper, cross-selling makes a lot of sense, but in reality, I've never seen it work,” says Miller.

Should Thain deliver, the prize could be huge: Lewis's office on the 58th floor of the bank's granite tower in Charlotte, N.C., says Plath. Yet Thain will have to adapt to a new corporate culture and become comfortable playing second fiddle to Lewis if he wants to succeed his new boss. Thain declined to comment.

Bank of America is absorbing Merrill even as it struggles to digest Countrywide Financial Corp., the home loan factory that's become a byword for toxic debt. Both Merrill and Countrywide, which Bank of America agreed to buy in January 2008 for $4.3 billion, were burned in the subprime conflagration they helped start.

**Loan losses**

Merrill has suffered more than $55 billion in writedowns and losses related to the mortgage mess, according to Bloomberg data. More pain looms: Bank of America and Merrill had $56 billion in high-risk assets as of Sept. 30 and might have to write down $5.1 billion for the fourth quarter, Citigroup Inc. analyst Keith Horowitz wrote in December.

Bank of America, which has already written down the value of Countrywide's portfolio by $14.3 billion, is on course to suffer another $6 billion in loan losses from the mortgage lender by 2010, says Graseck, who rates the stock a “sell.”

Lewis may be overreaching in the same way Sanford Weill did when he built Citigroup. New York-based Citigroup has proved to be far too vast an organization to manage well, Hayes says. In November, the U.S. Treasury agreed to backstop $306 billion of the bank's high-risk real estate assets after the company had lost more than half of its market value in five trading days.

“We owned Citi for five years, but they were always putting out fires, and I just got tired of it,” Cole says. “Now you have Bank of America making the same kind of conglomerate.”

**'Tight business model'**

Today, Bank of America is the No. 2 U.S. retail bank by deposits, after JPMorgan Chase & Co., and the No. 1 U.S. credit card issuer. The addition of Merrill made it the No. 1 global wealth manager.

Bank of America disputes the comparison to Citigroup.

“Bank of America runs a tight business model whose basis is creating and maintaining leading positions in all of the businesses in which it operates,” spokesman Scott Silvestri says.

The deepening U.S. recession is squeezing off Bank of America's lifeblood: consumer spending. American households probably lost a staggering $7 trillion in net worth in 2008, according to an analysis of Federal Reserve, housing and stock market data by Thomas Lawler, former senior vice president of risk policy at Fannie Mae.

**Lewis' cushion**

In 2007, the bank drew almost three-quarters of its $68 billion in revenue and 63 percent of its $15 billion in profits from its consumer and small-business banking division. Its credit card unit, the firm's largest single source of revenue, lost $373 million in the third quarter of 2008 compared with a $1 billion gain in the same period a year earlier.

“We expect them to take a lot of losses in the credit card portfolio,” says Thomas Forsha, a money manager at Louisville, Ky.-based River Road Asset Management LLC, which holds more than 1.7 million Bank of America shares.

Still, Lewis has an ample cushion—$874 billion in deposits and $25 billion in cash from the U.S. Treasury's bailout kitty—for another run at Wall Street. Bolstered by its base of deposits, Bank of America has weathered the panic of 2008 better than overleveraged investment banks.

“For seven years as CEO, I've said that commercial banks will eventually own investment banks because of the funding issue,” Lewis said in the Sept. 15 news conference that announced the Merrill deal. “I was a little ahead of my time.”

**Delivering for shareholders**

Lewis' knack for rapidly integrating his acquisitions has delivered for shareholders. Bank of America's stock returned 13 percent annually from the outset of his tenure in April 2001 through June 30, 2007, when the mortgage crisis sent all financial stocks into a tailspin. That trounced the S&P 500's 5 percent annual return during that span, as well as the 3.6 percent annual return recorded by JPMorgan Chase.

“He's taken advantage of market dislocations to buy tremendous franchises, and from a strategic standpoint, that makes all the sense in the world to us,” says Brian Schartz, an analyst at Gardner Lewis Asset Management, an investment firm based in Chadds Ford, Pa., that holds more than 7 million Bank of America shares. “This current state of affairs will pass, and Bank of America will be very well positioned.”

**Timber town roots**

Kenneth Doyle Lewis was born on April 9, 1947, in Meridian, Miss. He grew up about an hour's drive west in the timber town of Walnut Grove. His father, Vernon, enlisted in the Army to escape his hometown's sawmills, according to an autobiographical oral history that Lewis provided when he received a management award from the Computerworld Honors Program in 2004.

When Lewis was about 7 years old, his father was transferred to Fort Benning, near Columbus. Soon afterward, Vernon and Lewis's mother, Alice Byrdine, divorced. Byrdine, as she's called, raised Ken and his younger sister Gloria on her own in Columbus. Vernon has since died.

A registered nurse who pulled double shifts to support her children, Byrdine imbued her son with a powerful work ethic, Lewis said in the oral history. From about the time he entered junior high school, he worked odd jobs, peddling Christmas cards door-to-door and selling shoes to make a 36-cent commission per pair.

**Scrappy rival**

He put himself through Georgia State in Atlanta by doing accounting at a municipal bond firm and working as a reservations agent for United Airlines from 6 to 10 p.m. By the time he graduated with a finance degree in 1969, Lewis, a B student, felt like he'd also completed a real-world course load in customer service and bookkeeping.

“I had a background that maybe others didn't have, and maybe it gave me a head start,” he said in his oral history.

That summer, Lewis interviewed for a job with First Union Corp., the prestigious North Carolina institution that years later merged with cross-state rival Wachovia Corp. He wound up taking a position at NCNB Corp., a scrappier rival intent on becoming a force in Southeastern U.S. banking.

In September 1969, Lewis, then 22, moved to Charlotte and was installed in NCNB's credit analysis department. His first assignment: analyzing Bank of America, then a San Francisco-based institution with an extensive statewide branch network and innovative products such as the BankAmericard, then the No. 1 mass-market credit card and a precursor of Visa.

“I got the appreciation for the size of NCNB versus Bank of America at the time,” Lewis said. It was a lesson he never forgot.

**McColl taps Lewis**

During the next 16 years, Lewis climbed the ranks of the corporate banking group. In November 1985, CEO Hugh McColl buttonholed Lewis at headquarters. McColl, then 50, was a former Marine who'd acquired a hodgepodge of distressed banks in Florida. He needed someone to whip the holdings into a streamlined, profitable operation.

“I would like you to go run our Florida bank,” McColl told Lewis, according to Lewis's oral history.

The next day, McColl swung by Lewis's office only to find it empty. Lewis had already decamped for Tampa to assume his new post. McColl, now 73, declined to comment.

Upsetting the then sleepy world of Florida banking, Lewis closed redundant branches, dumped nonperforming loans and poached corporate and retail customers from rivals. In less than a year, Lewis transformed a fragmented Florida operation eking out a profit into a humming depositary machine cranking out $45 million in annual earnings, according to company filings.

**Buying Bank of America**

In 1988, McColl bought First RepublicBank Corp. and dispatched Lewis to Dallas to perform a major makeover of the bank. The No. 1 thrift in Texas was about to collapse as loan defaults soared amid the oil and real estate bust. Replicating his Florida game plan, Lewis had First RepublicBank contributing 40 percent of NCNB's bottom line before long.

The Texas deal turned NCNB into a national banking contender, spurring McColl to change its name to NationsBank Corp. in 1990. Back in Charlotte, Lewis came to be known as “Little Hugh.”

In 1998, McColl captured his greatest prize: BankAmerica Corp. The $42 billion deal created a national bank, now called Bank of America, with $618 billion in assets and 4,700 branches in 22 states.

And on April 26, 2001, Lewis came full circle from that day 32 years earlier when he'd pored over Bank of America's ledgers: He succeeded his mentor as CEO. McColl went on to lead several ventures, including Falfurrias Capital Partners, a buyout firm in Charlotte.

**Acquisitions**

As Lewis took the helm, the bank was struggling to integrate McColl's dozens of acquisitions, which had quadrupled its size in a decade. The dot-com bust had sucked the air out of the stock market and the economy, and bad loans were mounting.

So, for the next two years, Lewis shelved dealmaking to cultivate organic growth. And he assigned a human resources executive named J. Steele Alphin to help him impose order on the raft of businesses that McColl had collected.

Under Alphin, human resources grew into a powerful bureaucracy that did more than process new employees and handle benefits. It imparted guidance on business development, marketing and other operating initiatives, says Karen Geiger, a senior vice president in human resources at Bank of America from 1988 to '93.

Inside Bank of America, Alphin, who reports directly to Lewis, is recognized as the CEO's major-domo.

**The plan**

“Personnel was more involved as a contributing member of the management team than at any other company I'm aware of,” says Joel Smith, who retired after serving as president of the bank's seven-state Eastern region.

Lewis also intensified a homegrown system for driving growth known simply as the Plan. Beginning every August, the heads of units prepared detailed reports to set revenue and profit targets for the year ahead. Lewis made bonuses and promotions for managers contingent on not just meeting the Plan but beating it.

If your Plan wasn't bullish enough, Lewis would summon you to a sit-down, Smith says. “He would say, 'You're not ambitious enough; your bottom line has to be 10 percent higher than it is now, so go out and find it,' and, of course, you'd always agree,” Smith says.

It was a bad idea to try to low-ball income targets with Lewis. “He's a numbers guy who'd run his own units,” Smith says. “You weren't going to put anything past him.”

**No BS**

Lewis was a remote, taciturn presence inside the bank, a respected if not beloved boss, former colleagues say. His desk was so clean that it became a companywide joke to say he kept nothing on it, as if it were a prop on a movie set. And he rarely engaged in chitchat or backslapping camaraderie, Geiger says. During a job interview with Lewis in 1981, he asked her one question at the outset—“Why should we hire you?”—and then clammed up, she says. She prattled on for 45 minutes.

“He just sat there and looked like he was interested, and I just kept talking,” says Geiger, 54, a management professor at the McColl School of Business at Queens University of Charlotte. Lewis wasn't arrogant; he just liked to get to the point.

“Working with him, it's all about the results and not any BS,” Geiger says. “He just wants to talk business.”

**Grow the franchise**

As the economy rebounded in 2003, Lewis unleashed his own spate of deal-making. That October, he expanded into the six-state New England market with the $48.1 billion all-stock acquisition of Boston-based FleetBoston Financial Corp. And in June 2005, he unveiled the $35.4 billion cash-and-stock purchase of MBNA Corp., the Wilmington, Del.-based credit card behemoth.

As consumers indulged in the bounty of their soaring home values during the asset bubble, Bank of America thrived: Net income in its consumer unit doubled to $11.4 billion in 2006 from $5.7 billion in 2003. In 2006, Lewis pocketed $28 million in compensation, the most lucrative year of his tenure as CEO.

When it came to investment banking, Lewis opted to grow his own franchise instead of shopping for a Wall Street powerhouse. “I'm highly skeptical that I would ever think an investment bank is worth what they think it's worth,” he told Bloomberg News in 2003.

**Tribal conflict**

In July 2005, Lewis broke down the walls between the corporate and investment banking divisions and fused them into one unit. To push cross-selling of the bank's loans and underwriting and trading services, he named Eugene Taylor, a bank veteran who'd headed the corporate and consumer divisions, to run the newly minted global corporate and investment banking team.

No matter how hard Lewis tried, his Wall Street efforts were hampered by tribal conflict.

“It's a retail culture trying to run a wholesale bank,” says a former Bank of America senior investment banker who requested anonymity. “There was little experience, little feel and little love for the investment bank; there was always a culture clash.”

Whenever Lewis visited the Gotham office, investment bankers scrambled to pin the bank's red-white-and-blue flag logos to their jackets to satisfy the boss, who was rarely seen without one, says a former senior manager on the securities desk who asked not to be named. An enterprising banker even kept a box of them in a drawer for just such an emergency.

**YouTube**

And investment bankers loathed attending the bank's “spirit rallies,” morale-boosting assemblies that reminded them of high school. In March 2007, a video surfaced on YouTube showing a rally at which a pair of employees sang earnestly about Bank of America's merger with MBNA in a song set to the music from “One,” a ballad by U2. As the video went viral across the Street's trading desks, the bank's New York contingent moaned in embarrassment.

“It was horrifying,” the former securities executive says.

The investment bankers chafed under the management systems that Lewis imposed across the firm. Take the Plan. Back in Charlotte, consumer bankers found it a useful tool for measuring performance. In New York, the Plan was seen as an ill-founded attempt to impose predictability on capital markets prone to unpredictability.

Alphin's human resources reps, dubbed “Personnel Partners,” were also resented. They were often involved in business development decisions such as expansion into trading international securities for institutional clients.

“It was like having spies continually looking over your shoulder,” the former securities executive says.

**Mortgage meltdown**

By June 2007, the investment bank had bigger worries than YouTube videos: The mortgage meltdown had begun. While Lewis had ceased originating subprime mortgages in 2001, the investment bank was still securitizing and trading subprime mortgage-backed securities.

In the third quarter of 2007, the bank suffered $1.4 billion in trading losses related to the housing crash, driving a 93 percent drop in net income in the corporate and investment banking unit compared with the same period a year earlier.

Lewis retrenched in October, firing 3,000 bankers and other employees primarily in the investment banking unit. That month, Lewis ran into Taylor, now 60, the corporate and investment banking chief, in a hallway on the hushed executive management floor at headquarters.

The CEO told Taylor matter-of-factly that he was being replaced by Brian Moynihan, the head of wealth management who's now the bank's general counsel, according to a person who spoke with Taylor about the incident. Ending a 38-year career at the bank, Taylor retired shortly afterward.

“We will miss him,” Lewis wrote in his letter to shareholders that year.

**Thain makes the call**

Eleven months later, Wall Street was quaking as Lehman neared collapse. Lewis was weighing whether to buy Lehman when Treasury Secretary Henry Paulson told the nation's top bankers at a meeting in New York on the evening of Friday, Sept. 12, that the government wouldn't save the venerable firm. Without a backstop from the Treasury, Lewis rejected an acquisition. The next morning his phone rang, and Thain was on the line. Thain wanted a deal or, more precisely, a rescue.

Rather than wait to pick Merrill up at a fire-sale price, Lewis pounced. He deployed more than three dozen bankers and other personnel to perform due diligence that weekend, and he relied on reviews of Merrill's books by New York investment company J.C. Flowers & Co., to size up the firm's risks.

**70 percent premium**

Satisfied that Thain had written down the bulk of the bank's toxic assets during the past 10 months, Lewis agreed to pay $29 a share, a 70 percent premium over the closing price on Sept. 12.

Just two months earlier, Lewis had said in a speech in Los Angeles that he wouldn't trim the bank's dividend or dilute stockholders through share sales. To raise capital in the wake of the Merrill deal, he reversed course, slashing the dividend in half to 32 cents a share on Oct. 7 and raising $10 billion in a fresh equity sale.

For Lewis, who has finally completed his financial supermarket, the hard work of integration is just beginning. He plans to wring $7 billion in savings from the combination, much of it to come from firing up to 35,000 employees during the next three years.

While thinning the ranks, Lewis and Thain must also retain those brokers with valuable client books. And Lewis is garnering a reputation for not appreciating the nuances of the client-broker relationship, says Thomas Lewis, a lawyer at Stark & Stark in Princeton, N.J., who represents brokers in employment issues and is not related to the CEO.

**U.S. Trust**

In November 2006, Bank of America announced the $3.3 billion acquisition of U.S. Trust Corp., a private bank that caters to the wealthy, from Charles Schwab Corp. Shortly afterward, Lewis attended a spirit rally at U.S. Trust's New York headquarters.

As about 300 U.S. Trust private bankers looked on, an executive asked Lewis whether he was concerned about advisers quitting after the merger, according to a person who was present. Lewis replied that he received 25,000 resumes a month, so hiring qualified replacements wouldn't be a problem for the company.

“There was a deafening thud in the room,” the adviser says. “It was clear he didn't understand what he'd just acquired. It's not something that can be quantified on a spreadsheet.”

**New order**

In November, former U.S. Trust CEO Jeffrey Maurer led a group of 10 firm veterans in a defection to Evercore Partners Inc., the New York-based investment bank founded by Roger Altman.

The departure on Monday of McCann, 50, who'd played a key role in the Bank of America-Merrill integration, is fueling speculation among brokers that the Charlotte and New York contingents are continuing to battle as Lewis moves to impose a new order.

“It's a signal that a lot of change is coming,” says the Merrill broker with 25 years of experience.

Along with Merrill president Fleming, Brent Clapacs, Merrill's co-head of European markets, also quit Thursday. The departures come days after Fleming announced the exit of Merrill Vice Chairman Jeffrey Edwards, a former chief financial officer and head of the capital markets division. Daniel Sontag, 52, a 30-year Merrill veteran, will replace McCann.

**Countrywide blowup**

On Thursday, Moody's Investors Service cut Bank of America's debt rating to Aa3 from Aa2 partly out of concern that integrating Merrill will be a stormy process that will drive many prized employees to the exits.

“Bank of America typically imposes its own systems and practices upon an acquired firm, which has worked effectively with commercial banks,” Moody's managing directors Robert Young and David Fanger wrote in their report. “However, in the case of Merrill Lynch, this approach carries a greater risk of employee defections.”

Lewis must cope with more than departing executives; his retail strategy also is threatened by the Countrywide debacle. When Lewis announced he was scooping up Countrywide in January 2008, he boasted that the deal would vault his bank from the fifth-ranked U.S. mortgage lender to No. 1.

“Countrywide has product expertise and a sales culture that tops our capabilities,” Lewis said on a Jan. 11 conference call with analysts.

**Predatory mortgages**

Even better, he said, Countrywide would bestow on the bank a massive new customer base for cross-selling credit cards, checking accounts and other offerings. During the next six months, Lewis's grand plan was shaken by regulators who found that Countrywide's sales practices had helped drive the foreclosure wave wiping out the housing market. In June, California and Illinois sued Countrywide for allegedly deceiving borrowers during the housing boom by selling them predatory mortgages to fuel its wholesale securitization business.

“Defendants viewed borrowers as nothing more than the means for producing more loans, originating loans with little or no regard to borrowers' long-term ability to afford them and sustain home ownership,” stated the complaint filed by California Attorney General Jerry Brown.

In October, as part of a settlement with California and 10 other states, Bank of America agreed to reduce the principal and interest on $8.4 billion in loans to help 400,000 borrowers avoid foreclosure. The bank didn't admit or deny wrongdoing.

**Credit cards**

In moves unrelated to the settlement, Lewis jettisoned Countrywide's high-risk mortgage offerings and its brand name and placed $16 billion of its debt on Bank of America's own balance sheet.

“Countrywide profits came from exotic loans, and once they got rid of that, there's not a lot left,” Friedman Billings's Miller says.

Lewis's heavy bet on credit cards may be an even greater source of woe. After buying MBNA, the bank pushed hard to increase income by cross-selling plastic to its checking account customers and promoting no-interest balance transfers. Bank of America, which held $185 billion in managed outstanding card debt as of Sept. 30, has the highest exposure to cardholders with subprime credit scores after Washington Mutual Inc., the failed thrift now owned by JPMorgan, according to Innovest Strategic Value Advisors Inc. in New York.

Moreover, Bank of America's 30-day delinquency rate of 6.5 percent as of Nov. 30 far outpaces the 5.5 percent rate at the second-poorest performer, Capital One Financial Corp. In the first nine months of 2008, net income in the bank's entire consumer division fell to $3.2 billion from $7.5 billion in the same period a year earlier, a 57 percent swoon.

**Ruling Wall Street**

As Lewis moves to revive Merrill, he faces the challenge of operating a sprawling giant that may be ill-suited for the austere era dawning in global finance, says Keith McCullough, CEO of Research Edge LLC, a New Haven, Conn.-based firm that analyzes the securities markets for hedge fund firms. Lewis is wagering that the world will return to normal when the financial crisis abates and that he'll be poised to rule Wall Street just like he's dominated Main Street.

McCullough sees another future: Lewis and his fellow empire builders will be unable to manage their gargantuan banks, which are being stifled by culture clashes and bureaucracy. A new wave of nimble advisory boutiques will arise and prosper, returning Wall Street to its partnership roots.

“Industries always reach a point where they creatively destruct,” says McCullough, a former managing director at Carlyle Group's hedge fund. “The last thing you want to do in that situation is lever up with the companies that are breaking down. Getting larger is not the answer.”

**$2.5 trillion**

Bank of America, which now has more than $2.5 trillion in client assets, will be hard-pressed to reclaim the growth rates it enjoyed during the asset bubble, says Phillip Phan, a business professor at Johns Hopkins University in Baltimore. It's possible that Bank of America will eventually trade like a lumbering utility.

“Lewis may have to rethink his whole model,” Phan says.

For Lewis, a man who's reached the pinnacle of American finance by betting that size equals strength, such a reckoning would be a stunning turnabout.