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Bank of America To Offer Free Trading

Move Applies to Clients
With as Little as \$25,000 in Deposits;
Escalating an Industry Price War

By VALERIE BAUERLEIN
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Bank of America Corp., escalating a raging price war as banks and brokerage firms battle for online stock-trading customers, plans to offer as many as 30 free trades a month to millions of customers with at least \$25,000 in deposits.

The move, to be announced today, is effective immediately in New York City, Boston and other areas in the Northeast where Bank of America -- which is based in Charlotte, N.C. -- is a relative newcomer but has been pushing hard to challenge **Citigroup Inc.**, **J.P. Morgan Chase & Co.** and other financial giants on their home turf. Bank of America officials are likely to extend free stock trades to the rest of the U.S. by February.

TRADING DOWN



Bank of America is offering up to 30 free online stock trades per month to customers with at least \$25,000 in combined deposits:

- Those in the Northeast will be the first to get free trades.
- By February, other Bank of America customers will also qualify for the trades.
- The bank hopes to use this as a reward to attract more business from its existing customers.
- This continues the trend toward low-cost online trades at many discount brokerages.


As many as a third of Bank of America's 50 million individual consumer-banking customers are ultimately expected to qualify for free online trades. By comparison, **Charles Schwab Corp.**, a leading online brokerage, has about 6.8 million active accounts. To be eligible, Bank of America customers must have \$25,000 or more in any combination of checking, savings and other deposit-related bank accounts.

By eliminating stock-trading fees previously ranging from \$5 to \$10, Bank of America is trying to leverage its 5,700 branches in 29 states -- and its leading market share of 10% of all U.S. bank deposits -- to vault the bank's

brokerage unit from also-ran status. Bank officials expect the free stock trades to generate growth in mortgages, checking accounts, certificates of deposit and other lines of business, while helping Bank of America fend off an increasing invasion by brokerage firms that are trying to win business from traditional banks.

Consumers will likely see further price cuts on online trades as other banks and brokerage houses feel the pressure from Bank of America. The \$25,000 threshold is substantially lower than the balances typically required for free stock trades. Schwab, based in San Francisco, offers \$9.95 trades for households with \$1 million in assets. **Wells Fargo & Co.**, also of San Francisco, gives 50 free trades a year to customers with at least \$250,000 who link their brokerage account to a

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specific group of bank products. Last week Zecco Holdings Inc.'s Zecco.com started offering free trades to build traffic to its Web site, which aims to become a social-networking hub for traders.

Other companies have tried offering free trades and failed, hurt by rising regulatory costs and other factors. Yet no bank has made as big a play as Bank of America, with its broad strategy of using free trades as a perk for a dedicated relationship, echoing frequent-flier and other reward programs.

Unlike pure brokerages, Bank of America's motive isn't getting a customer's trading business per se. Instead, the company wants people to centralize their assets in one place, in keeping with its long-held tenet that customers are most happy and profitable when doing business with one financial-services company. So far, some consumers have resisted the financial-supermarket model, but Bank of America says its research shows that more people are warming to the idea.

Bank of America's move is "an industry changer" and a "fundamental change of business models," says Liam McGee, president of consumer and small-business banking at the company. The bank is keeping its 2,000-person army of brokers, who will still charge for advice and stock trades not made online.

Another big reason the bank is trying to ramp up its online-trading business is because it has hit a federal ceiling on deposits that sharply limits its ability to expand through acquisitions. Instead, bank officials are increasingly using Bank of America's sheer size as a competitive weapon, much like **Wal-Mart Stores Inc.** is doing with its \$4 prescriptions for some generic drugs. After Bank of America, the largest branch network in the U.S. belongs to **Wachovia Corp.**, also based in Charlotte, which has 3,400 locations in 21 states.

Besides the revenue it will lose on free buy and sell orders, Bank of America is risking embarrassment if it can't process the additional volume smoothly. Bank officials say they have been planning for the changes for 18 months, stressing that Bank of America learned its lessons from botched computer-system conversions following some bank takeovers. This year's integration of credit-card issuer MBNA Corp. has generally won high marks, and Bank of America recently streamlined its online operations so that customers need only one user name and password to access all their bank and brokerage accounts.

Brian Moynihan, president of Bank of America's wealth- and investment-management unit, says online trading will continue to generate "the lion's share" of overall business at the brokerage unit. The bank's Premier Banking & Investment unit, which includes the brokerage arm, brought in just 4.6%, or \$254 million, of Bank of America's second-quarter profit of \$5.48 billion.

The typical online stock-trading customer at Schwab, TD Ameritrade Holding Corp., Omaha, Neb., and **E*Trade Financial Corp.**, New York, makes about 2.5 transactions per quarter, according to Richard H. Repetto, an analyst at Sandler O'Neill & Partners LP. Bank of America says its research shows 52 million U.S. households have at least \$25,000 in assets to invest. About 26.5 million households own stock, not counting what is in their 401(k)s and other retirement plans.

Bank of America's gamble is similar to its 2002 move to eliminate online-banking fees. At the time, the bank was charging \$5.95 a month, but projected that killing the fee could entice more customers to pay bills, check balances and transfer funds online, bolstering loyalty and account growth. Other banks followed, and free online bill payment now is the industry standard. Bank of

America has 20 million online banking customers and half of the U.S. bill-pay market.

In its online-trading operation, Bank of America charged \$19.95 per trade until December, when it lowered trading commissions to \$5, \$7 or \$10, depending on deposit balance and the number and type of accounts a customer had at the bank. Bank of America did little advertising, but account and balance levels spiked, surpassing the bank's previous forecasts "by multiples," Mr. Moynihan says.

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What You'll Pay to Trade Stocks

Here's how fees for online stock trades vary at selected firms:

FIRM	FEE	WHO PAYS WHAT
Bank of America	Free	Northeastern customers with \$25,000 or more in deposits trade free up to 30 times a month. Eligible customers in other areas will follow by February 2007 but for now pay \$5 to \$10, depending on their deposit balance and number and type of accounts.
Charles Schwab	\$9.95 to \$12.95	Commissions are based on balance and trading activity. Rates are lowest for customers with \$1 million in assets or who make 120 trades or more over the prior 12 months.
TD Ameritrade	\$9.99	Flat rate for all customers.
Wachovia	\$11.95 to \$29.95	Commissions vary from \$11.95 for 48 or more trades per quarter to \$29.95 for five or fewer trades.
Zecco.com	Free	Uses free trades to entice customers to a social-networking site that offers blogs and forums. Relies on accrued interest from margin loans and other services for profit.

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