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As Giant Banks Emerge, Southland's Largest Sticks to Small Business

By James Flanigan

Headline-making deals are creating behemoth banks — and they keep passing Southern California right on by.

J.P. Morgan Chase & Co.'s just-announced plan to acquire Bank One Corp. promises to produce the country's third trillion-dollar financial-services company, following Bank of America Corp.'s agreement in October to gobble up FleetBoston Financial Corp. Both giant institutions are chasing Citigroup Inc., which already boasts more than \$1 trillion in assets.

"It's musical chairs played by sumo wrestlers," says Russell Goldsmith, vice chairman and chief executive of City National Corp., the Beverly Hills firm that finds itself the largest banking company still based in Southern California.

Its assets: a mere \$13 billion. The banking giants, in other words, are roughly 80 times its size.

That doesn't seem to faze Goldsmith, although he acknowledges that businesses may be penalized for the lack of corporate and big-bank headquarters here.

"Part of the price we pay for not having corporate headquarters is lack of political clout in Washington and Sacramento," Goldsmith says. "Small to mid-size companies can't hire lobbyists. As a result, I don't think the businesses of this area are fully appreciated or protected" on the political front.

But by and large, Goldsmith believes, being a relatively small bank isn't really a problem — especially in an economy as vibrant and diverse as Southern California. Indeed, bank size has become almost irrelevant in the entrepreneurial economy that is characteristic of California and many other parts of the West.

In the Golden State, where 95% of companies employ fewer than 50 people,

small to mid-size banks are fully able to handle virtually every need of their clients. A colossus such as Bank of America isn't necessarily better equipped to serve them.

City National, for example, has an international division that employs seven foreign-exchange traders; their job is to assist small businesses in particular. These businesses range from the producers of the "Survivor" television series, which is frequently taped abroad, to Amende & Schultz Inc., a South Pasadena firm that imports seafood for the finer restaurants of Los Angeles.

Although institutions such as Bank of America and San Francisco-based Wells Fargo & Co. boast ledgers full of loans to small businesses — and take pride in catering to these firms — City National and its breed may simply be a better fit for the little guy.

"We are focused on the entrepreneur," Goldsmith says. "This is an incredibly attractive place to do business, spawning companies left, right and sideways."

All told, City National has tens of thousands of entrepreneurial customers: small manufacturers, law firms, moviemakers and more. Most generate annual revenue of \$1 million to \$300 million.

That may seem like small potatoes, but it makes for quite a healthy bottom line. In fact, City National reports better results than J.P. Morgan and Citigroup when it comes to banking's main yardstick: return on assets.

In many ways, the story of Goldsmith's bank, and of the man himself, mirrors that of the bank's clients. It began in 1954, when a liquor purveyor, a tire shop owner and a real estate developer (Goldsmith's father, Bram) found themselves being shut out by the big banks. So they decided to start their own.

Goldsmith is a Harvard-trained lawyer who was a movie producer before taking up leadership of City National. Since he started running the bank in 1995, he has gone on his

own mini-acquisition spree: eight little banks in California and 11 investment management companies.

But all of these purchases were made with an eye on continuing to serve City National's core market: small businesses. In this regard, City National stands in sharp contrast to the mega-banks, which are intent on expanding into credit cards, investment banking and other areas far beyond the small-business arena.

"We know the small-business owner needs many services — cash management for his business and investment management for his own wealth," Goldsmith explains.

And what are the chances that City National might find itself in the grip of a takeover by a "sumo wrestler" bank?

Not great. For one thing, Goldsmith's family controls more than 15% of the stock. For another, City National isn't takeover bait; it's too profitable.

Shortly, City National will underline Los Angeles' conversion from a city of big institutions to one where the smaller company is king. The bank will move many of its operations into 12 floors in the old Bank of America Tower on Figueroa Street downtown. The building will be renamed City National Tower.

"City National," says Goldsmith, "is on a different path."

That's a sentiment you can bank on.

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