

## South Bay's Financial Services Industry Holding Up

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While the federal government's recent seizure of IndyMac Bank heightened concern among executives and consumers about the future of the nation's banking industry, local financial experts say the South Bay's banking and accounting sectors are still slated for a relatively good year.

"The general economic outlook is certainly cloudy right now," says Robert Franko, president and CEO of Manhattan Beach-based Beach Business Bank. "The good news is I think the South Bay is . . . doing much better than virtually anywhere else in Southern California."

One reason for his confidence in the local market, he says, is that the strength of some of the South Bay's largest industries has somewhat insulated the area from the economic conditions currently sweeping the nation. "For the first time in . . . recent history, the United States is starting to become a manufacturing exporter, as opposed to just an importing consumer," he says, noting that the ports' export business continues to grow. "And the defense industry is still doing very well, so you don't have a major industry falling apart."

Franko adds that the area is more affordable than neighboring communities – such as the Westside of Los Angeles, Beverly Hills and Malibu – which has helped further bolster the local economy. "It's like a rainy day, where the storm is all around, but it's only cloudy and drizzly where you are," he explains. "Having said . . . that, I'm hopeful that this all clears up pretty quickly."

As a bank catering to small businesses, Beach Business has also remained relatively shielded from the impact of the national economy. But despite granting new loans and work-



Robert Franko, President/CEO  
Beach Business Bank

ing with new clients, the bank is operating cautiously, he notes.

"We're careful about what we do," Franko says. "Some of the things that were . . . what somebody in the banking business would have called a 'no-brainer' a year or two ago, now take a lot of brains and a lot of careful analysis because the things that were true [then] are not as true now."

With real estate, for example, one could count on prices increasing by up to 20 percent in a year, but now one runs the risk of prices dropping by that much. As a result, the bank has taken a "blocking and tackling" approach, he explains. "You might have a few bumps – everybody gets that – but at least you won't get smashed and killed in the marketplace."

Beach Business' strength, Franko adds, could lead to future acquisitions, as other banks succumb to the pressures troubling the industry.

U.S. Bank, meanwhile, recently completed its acquisition of Mellon 1st Business Bank – a move that has exposed the financial institution to the South Bay market. In turn, Mellon 1st clients can now make use of the services offered by the new parent company, explains U.S. Bank Team Lead Regional Manager Kim Defenderfer.

Like Franko, Defenderfer expects to see "business as usual," given U.S. Bank's strength and the fact that it had little involvement with companies tied to subprime lending. In fact, many of his clients are middle-market companies, which enables them to turn to more profitable industries – such as alternative energy sources and oil refineries – during tough economic times.

"These middle-market companies are . . . certainly affected by the overall economy, but because they're more niche and

smaller companies, they find it easier to adapt,” he says, noting that change is not as easy for larger corporations. “What I mean by ‘adapt’ is . . . many of them can adjust their markets to an area of the economy that’s doing better.”

Nevertheless, helping clients increase revenues remains a top priority for U.S. Bank, Defenderfer says, adding that the bank recently hosted a round-table discussion to help business owners and managers develop ideas for maximizing profits while minimizing expenses. “It’s basically Business 101, but it’s something that we don’t do as much in good times, [and] we really need to focus on [it],” he explains. “There’s no magic bullet. It takes work.”

Wells Fargo & Company is also poised for a strong year, according to its South Coast Community Bank Regional President David DiCristofaro.

“We’re following a lot of the national trends, . . . but one of the benefits we do have in the South Bay is that . . . we didn’t have as much of an uptick around the housing jobs that you had in a lot of the other parts . . . of California,” he says, pointing toward areas such as Orange County and the Inland Empire. “We didn’t get as much of a run-up in those kinds of industries, so we’re not seeing as much of a decline.”

In fact, Wells Fargo expressed its confidence in DiCristofaro’s market area – which includes the South Bay – when the company opened a new El Segundo office last December. Moreover, he notes, many clients continue to seek credit, indicating that there is room for financial success despite the current economic conditions.

“We’ve always been a conservative lender and a conservative institution – it’s one of the reasons why we have a triple-A credit rating – and that’s fared us well,” he explains. “In the boom times, we’ve probably given up some market share, but it’s faring us well in times like this. . . . We’re actually gaining market share and having a record year in terms of credit for small business. And that’s one of the benefits of having such a strong capital position – we’re able to be there for our customers in the good times, as well as the more challenging times.”

As with the South Bay’s banking industry, experts forecast a fairly optimistic outlook for the local accounting sector.

“On an overall basis, we’re probably as concerned as any segment of the economy as to where the general direction is going,” says Steve Wolowicz, a certified public accountant (CPA) and president of Torrance-based Zdonek & Wolowicz Accountancy Corporation. “We see these mounting costs and we know the impact that they have on businesses, so . . . I’m not going to say that we’re doomsayers, but we’re reminding people that every dollar spent should be justified.”

And as companies become more aware of the need to rein in expenses, “it is an excellent time to be a CPA,” Wolowicz

observes. For example, he says, accountants are more frequently asked to provide advice on cutting costs, mitigating the pressures of the economy, merging with larger companies or pursuing acquisitions of smaller companies. “Those kinds of things are taken quite seriously because of the impact that they may have on both the businesses and employment.”

An increasingly common way to reduce costs is to downgrade financial statements from audits to reviews, he notes. Ironically, however, companies need statements to obtain adequate financing, so there is a continued demand for CPAs.

“There is a great need for many businesses to have their financial statements prepared by an accountant so that they can go to either the equity community and obtain capital or that they can go and borrow money . . . because there are continuing pressures to obtain financing resources in order for businesses to continue,” he explains. “[But] when major segments of the economy start to slow down, there’s a tremendous ripple effect and that puts pressure on businesses.”

Providing basic services for businesses – such as producing financial statements and conducting audits – has also become increasingly important, as financial disclosure requirements have become stricter in the last five years. “The new sets of rules that have been promulgated have taken their toll on many companies,” he explains. “They’re having to disclose more, it takes longer for the accountants to prepare the financial statements [and] those are costly.”

As a result, companies are more frequently comparing their CPA’s services with what they are likely to get back, assessing whether there is a financial justification or benefit. While some companies are reducing their accountant’s work to cut costs, Wolowicz says he has not seen any fallout at his firm – although some clients have told him they are now more cost-sensitive.

Hoping to have a better sense of how much funding may be needed to pay annual taxes, more companies are seeking earlier tax preparation and planning. The trend has picked up over the last few years, Wolowicz says, noting that clients now tend to call on their accountants earlier in the year.

He adds, however, that accountants need to be sensitive to the impact of the national economy on businesses. While the current conditions tend to create a greater demand for CPAs, more companies are less likely to be able to pay for the services. He therefore recommends that accountants make a commitment to provide attentive and proactive advice to companies early on in the year, stay close to their clients and help them through the economic uncertainties.

“We’re not pessimistic, but we’re not going to say that we’re optimists right now,” Wolowicz says. “We’re very much in the middle of the road.” ■