

SOUTH BAY PEOPLE



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The bank doctor

Bob Franko spent nearly two decades commuting across continents, opening, managing and selling banks for some of the world's wealthiest investors. Now he's doing it again, with a lot shorter commute, for his neighbors

by Kevin Cody

On a routine visit to his bank shortly after moving to Phoenix to practice dentistry in 1983, Bob Franko became frustrated with the bank's service and complained to its president.

The president let the young dentist vent and then asked if he thought he could do a better job.

"Because if you do, I'm looking for someone to run the bank. Do you want the job?" the bank president asked.

Two decades of banking later, in the summer of 2003, Franko himself was approached by a group of dissatisfied dentists whose trust funds he managed. They thought they could get higher returns by opening their own bank – with Franko as its president.

Doctors are popular with banks because they make large deposits and rarely borrow. Nonetheless, Franko told them that a doctors' bank was a bad idea. It was too narrow a niche. The FDIC probably wouldn't even insure its deposits.

Also factored into Franko's thinking was the fact that he had spent 15 of the past 20 years commuting across continents. When the doctors approached him he was comfortably settled in Manhattan Beach with a reasonable commute to a well paying job at City National Bank in Beverly Hills. For the first time in his banking career, he

was free on weekends to spend time with his wife and two young daughters, and even to run with the Wall-Nuts, an informal running club that every Sunday since the start of the Manhattan Hometown 10K 27 years ago, has met at the corner of Walnut and Ardmore for a run along the old railroad tracks.

On the other hand, Franko had previously been involved in three bank start-ups – one in El Segundo, one in Long Beach, and one in the British protectorate of Gibraltar. Their successes, rather than satisfying his entrepreneurial bent, had further fueled it.

While a doctors' bank didn't make sense, a community bank with a core of doctors as depositors did make sense. Community banks in merger-mad California were selling for up to six times book value.

But a new bank, he cautioned the doctors, required a minimum of \$10 million in start-up capital. To be safe, he told the doctors, they'd need \$12 million. If they could raise that amount in 45 days, he'd quit his job to run their bank.

"I figured they'd say no. They said, 'No problem,'" Franko recalled during a recent interview at Beach Business Bank's Manhattan Beach headquarters on the ground floor of a twin, six story office building on Rosecrans Ave.

He chose to locate the bank in Manhattan Beach, he told regulators, because Manhattan Beach demographics are nearly identical to Beverly Hills, but with one-third the number of banks branches. He told his wife Melissa the reason was it's within jogging distance of their Manhattan Beach home.

Getting in on the ground floor

Last month, one year after Beach Business Bank's opening, Franko stood before a roomful of prospective investors at the Ayres Hotel on Rosecrans, a mile down the street from his bank. The investors had been invited to participate in a new, \$15 million offering for Beach Business Bank and The Doctors Bank, a division of Beach Business Bank.

The offering of 1.5 million shares at \$10 each was not because the new bank was running out of cash – regulators currently classify the bank as "Well Capitalized" -- but because the bank's growth is outpacing its projections, Franko said.

His Power Point presentation included a Jan. 1, 2005 *Los Angeles Times* chart that compared the performance of California community banks in 2004 to other investments with similar risks. The chart showed that the Dow Industrials climbed just 3.2 percent in 2004. NASDAQ and the NYSE composite grew a respectable 8.6 percent and 12.6 percent, respectively.

California Community banks in 2004 grew, on average, a bell ringing 52.7 percent, according to the *Times* chart.

And Beach Business Bank, Franko, said, would not settle for being average.

In its first year its assets had grown from just over \$10 million to nearly \$50 million. It had taken in more than \$37 million in deposits and funded more than \$32 million in loans.

In the last quarter of 2004 Beach Business Bank was ranked 25th out of the Los Angeles region's 82 banks in SBA loan originations and 11th in SBA dollar volume. It was the only new bank on the list.

The almost scary performance of California community banks like Beach Business Bank has not escaped the investment community's notice, Franko said. In recent months he had attempted to subscribe to two bank offerings, and had his checks returned. The offerings had been oversubscribed, as has every one of California's past 25 bank offerings.

Supply demanded

To put the Beach Business Bank's offering in a statewide perspective, Franko introduced Ed Carpenter, whose company had been retained to managing the offering.

In contrast to Franko's lean, runner's look, Carpenter is short, bespectacled and unimposing in appearance. But his resume reveals him to be the dean of California banking.

Since 1972, his firm has managed over 900 bank offerings and mergers, or just about every new bank and every bank merger of the past three decades in California.

All 25 of the most recent offerings he has managed were oversubscribed, Carpenter noted.

Carpenter and Company also publishes the California industry bible, the "State of the Industry Joint Report on the Condition of California Commercial Banking."

The 2005 edition reports that the California bank index experienced a compound annual increase of 31.6 percent each year since 1998, a period when the S&P 500 and NASDAQ had negative growth rates. In 2004, California banks were up 37 percent while the S&P was up 8.99 percent.

Carpenter relaxed his audience with a story about his second ever bank offering. It took place in 1972, at the Lakeside country club, for a bank backed by Bob Hope. Every table had a magnum of champagne.

"Hope told me if I got in trouble to wave the microphone toward the back of the room and he'd bail me out. I had barely started speaking when he ran up the aisle, grabbed the mike and asked for questions from the audience."

"James Garner, the poker playing star of "Maverick," shouted out, 'Bob, exactly how much of a return will I get next year?'"

"Hope hollered back, 'Jim, I promise you a 100 percent return, or less.'"

Carpenter then began building on the foundation Franko had laid for why the South Bay financial market is a vacuum waiting for a new community bank.

California, he said, is the most attractive state in the nation for bank acquisitions, in part because it has the largest number of people per bank in the nation.

Over the past 10 years, the number of banks headquartered in California has dropped 37 percent, from 404 to 267.

During the same time period California's population per bank increased 75 percent, from 77,000 to 135,000 per bank.

In 1994, the South Bay had 17 locally headquartered banks, including such familiar names as Imperial, Home, Harbor, Republic and Farmers and Merchants.

All 17 have been acquired, except Farmers and Merchants. Only two other banks are currently headquartered in the South Bay -- First Coastal and Beach Business Bank.

(Other familiar South Bay financial institutions, such as Malaga Bank and Commercial Capital Bank, which acquired Hawthorne Savings last year, are thrifts, which tend to focus more on residential lending than the business lending emphasized by commercial banks.)

Nationwide, Carpenter said, small banks hold 19 percent of deposits; statewide they hold six percent of deposits and in the South Bay just three percent.

His comments pointed either to local community banks becoming extinct, or to enormous opportunity.

Carpenter argued it's the latter. One sign, he said, is the fact that ever year for the past 15 years, bank mergers have outnumbered new bank openings in California.

Carpenter attributed the scarcity of new banks to tougher licensing requirements instituted after the disastrous bank failures of the early 1990s. Chief among these new requirements, he said, is the requirement that new bank presidents have CEO experience.

"It's a narrow gene pool," he said.

With Franko at the helm, Carpenter added, Beach Business Bank cleared that hurdle with room to spare.

Drilling for dollars

Franko grew up in modest circumstances in Pittsburgh. His father had a small soft drink distribution company, his mother was a schoolteacher. She insisted her four children get the best education available, which in the case of a Catholic family meant attending the University of Notre Dame. The fact that he arrived at Notre Dame with only enough money to pay for his first semester simply meant he'd have to work.

After working his way through Notre Dame and receiving a degree in biology and chemistry, Franko entered dental school at the University of Pittsburgh. But drawing blood at night in a hospital didn't cover the bills. So after two years he dropped out and began selling medical supplies.

His sales success prompted him to pursue a master's degree in business management at Central Michigan University and to follow that up with an MBA from the Thunderbird School of International Management in Phoenix.

In Phoenix, he met Melissa, his future wife, who by coincidence had attended St. Mary's College, Notre Dame's sister school in South Bend.

Franko planned to devote his business efforts to the management consulting firm he had founded while earning his MBA. But on a visit home to Pittsburgh he ran into the dean of the University of Pittsburgh Dental School, who convinced him to finish dental school.

After practicing dentistry for a year in Pittsburgh, he sold his practice and he and Melissa moved back to Phoenix.

In deciding to abandon dentistry to manage the Phoenix bank, Franko discovered he had an intuitive understanding of the arcane banking equations that transform simple deposits into profits for the depositors, borrowers and, of course, the bankers.

Franko was so successful in turning around the Phoenix bank that after two years Citibank bought it from its Kuwaiti owners. While in London helping to negotiate the sale, Franko met G. Ware Travelstead, the visionary head of First Boston Real Estate. Travelstead was attempting to transform the dilapidated West India Docks, several miles outside of London, into Canary Wharf, a \$5 billion, 12.2 million-square-foot real estate development, the largest in the world.

He asked Franko to be his chief financial officer. Faced with the alternative of moving to New York and disappearing in Citibank's bureaucracy, Franko accepted the challenge, despite his limited financial background.

"Travelstead had lots of talented CPA's. What he needed was someone on the finance side to pull the pieces together," Franko said.

For the next two years, Franko commuted between London and Phoenix, where his wife remained and he still served on the board of his first bank.

By the end of those two years Canary Wharf had outgrown First Boston's resources and Franko was called on to negotiate its sale to Olympia and York, developers of World Financial Center in New York, across from the World Trade Center.

After the Canary Wharf sale Franko returned to the U.S. and settled in Orange County, where he managed the \$100 million portfolio of prominent Hong Kong and Orange County developer Ronnie Chan. But Franko's

transcontinental commutes weren't over. Chan asked him to found a bank in Gibraltar, drawing on his Canary Wharf experience. Gibraltar banks are regulated by the Bank of England.

Franko estimates that by the time his first daughter was two-years-old she had logged over 100 airplane flights during hops across the U.S. and across the Atlantic.

The arrival of the terrible twos signaled to Franko and his wife an end to his itinerant banking days. He accepted an offer from South Bay banking legend George Graziadio to become Imperial Bank's chief financial officer and moved his family to Manhattan.

In Graziadio, Franko found a mentor possessed of that rare combination of banker and entrepreneur. Graziadio co-founded Imperial Bank in 1963 by raising 1.2 million in capital. He sold it in 2001 to Comerica for \$1.2 billion, shortly before his death at the age of 84.

Graziadio started out as a shopping center developer and became a banker for the same reason Franko did. He was fed up with shoddy service. He and partner George Eltinge built over 100 K-Mart centers in the western United States.

"We were borrowing a lot of money from Southwest Bank," he recalled in a 2001 interview with *Peninsula People* magazine, "and they were extremely accommodating. But they sold out to United California Bank. We had to deal with all new people who found it easier to say no than yes to a loan request because they didn't understand real estate development."

One day over lunch at DuPars, their favorite coffee shop, Graziadio and Eltinge decided that the solution to their financing problems was to start their own bank. (Ironically, though the two continued to develop shopping centers, they never took a loan from their own bank.)

Graziadio's license plate, as well as paper weights he was fond of handing out, read, "TNT," – Today, Not Tomorrow.

"I'm not sure he graduated from high school. But as an entrepreneur he understood if you put something off until tomorrow, it won't happen. Focus on it today, and it may not get done today, but it will get done," Franko said.

Another, important lesson Franko said he learned at Imperial was on a sign over Graziadio's door. It read, "Our people make the difference."

At Imperial, Franko became the founding CEO of his second bank, Crown American. The bank had a single branch next to Wolfgang Puck's Restaurant on Rosecrans Ave. and dealt exclusively with SBA loans.

After four years at Imperial, Franko was asked to help found a third bank, this time by Jim Gray, founder of Harbor Bank, which had recently been acquired by City National Bank of Beverly Hills. Just two years passed before Franko was negotiating the merger of their new bank, Generations Trust Bank with First National Bank of San Diego.

During this period, in 2002, he was approached by the group of dentists who wanted him to organize a bank for them.

Franko had impressed the doctors by designing a retirement program that protected their income not only from the IRS, but from the doctors themselves and their propensity for impulse purchases of Porsches and similar low return investments.

Not for the faint of heart

Banks can go bad, as Manhattan Beach civic leaders who proudly invested in Bank of Manhattan discovered in 1983. Bank of Manhattan was founded in 1980 with \$2.5 million in capital. It had a fountain in the lobby and, according to its 1981 annual report, \$27 million in deposits from 7,000 depositors, and had funded \$20 million in loans. Its stock soared from \$10 to \$34 in just 14 months. And then regulators discovered that one-quarter of its loans were in default and unsecured. Less than three years after it opened, shareholders eagerly accepted \$5 a share from Home Bank.

"The only valid reason to reject the Home offer," then-Manhattan city councilman Russ Lesser said at the stockholders meeting where the Home's offer was announced, "is to force the directors to lose their money. And I'm disgusted enough to have thought of that. But I'm one of the dummies who bought 6,000 shares at 12.5, after the split."

Coincidentally, one of Bank of Manhattan's biggest victims was Imperial Bank, which had lent approximately \$4 million to the owner of the Manhattan Country Club, a Bank of Manhattan director. The loan was secured by money he reportedly had on deposit in the Bank of Manhattan.

At the Ayres investors' meeting Franko stressed that all Beach Business Bank loans are secured, 90 percent of them by commercial real estate.

Mindful of Graziadio's emphasis on people making the difference, and Imperial's success with SBA loans Franko noted that Beach Business Bank had hired the former Imperial Bank's entire SBA team, including its head, Girish Bajai.

Their job is to generate the loans that account for a substantial amount of the bank's profits, he said.

Then he introduced Phil Bond, the bank's chief credit officer, whose job it is to make sure the loans get paid back.

"To lure Phil away from City National, we appealed to his entrepreneurial spirit by promising him less pay, longer hours and more fun," Franko said.

Taking a page from his schoolteacher mother, he outlined the bank's three part business strategy.

The South Bay's 1.2 million population, he noted, is equal to or greater than the populations of San Francisco, Boston, Dallas, Denver and Washington, DC.

The South Bay is home to 31,000 businesses, 30,000 of which have fewer than 100 employees. Big banks won't sit down with small business owners, whose loans are typically difficult to finance, if for no other reason than the fact that the bank's decision maker is at headquarters in San Francisco (in the case of B of A) or South Dakota, he argued.

"We have to explain to people how to find the building we're in. And then we have to explain how to find where we are in the building. But when they do find us, we have their cash ready. And we'll also pick up their deposits," he said.

But community banks are vulnerable to downturns in the local economy, he acknowledged. Even Imperial Bank was rocked during the perfect storm of the early 1990s when real estate nationwide and the local aerospace industry collapsed simultaneously.

Beach Business Bank's focus on doctors' deposits offers insurance against a local downturn because the doctors' deposits come from across the country. The bank's largest shareholder, retired dentist John Phillips, lives in North Carolina, he said.

Protecting the bank from the risks of niche depositors, he said is its third arm, its SBA loan department.

Beach Business Bank recently became the first bank to receive "preferred lender" status in its first year from the SBA, the agency's highest level of lending authority.

"When you pick a heart surgeon, you don't want a doctor who does one a month. You want someone who does a dozen a week," Franko said.

The wish list

Prior to opening in June 2004, Beach Business Bank lost approximately \$829,000. It lost another \$1.26 million in its first seven months of operation. But the bank is on track to be profitable by next May, well ahead of the three years it takes most banks to get out of the red, Franko said.

The bank anticipates that the \$15 million in new capital will help the bank accelerate its growth by allowing it to accept more deposits. The FDIC encourages banks to have capital equal to about 10 percent of its assets, a limit Beach Business Bank believes it will reach within the coming year. And because regulators want banks to limit loan total to an amount equal to approximately 85 percent of their deposits, an increase in deposits can enable the bank to increase its loans, and the profit it makes from loans.

The new capital will also lift the bank's legal lending limit on secured loans from approximately \$2.6 million to \$6.2 million and satisfy FDIC capital requirements for opening a second branch in Long Beach, where the bank's chairman Jim Gray ran Harbor Bank for 25 years.

After recounting how he personally had been rebuffed twice in recent months in his attempts to purchase stock in new banks, Franko explained why the local businessmen and women in the room had been invited to participate in the offering, which closes July 15. (Offering circulars are available at the bank.)

"There are plenty of institutions that would buy our stock. But we don't want just institutions as depositors. Our business model is driven by shareholders who become depositors. We are offering you an opportunity to invest where you bank," he explained.

Imperial goal

During an interview after the presentation, Franko made clear that if Graziadio was his mentor, Imperial Bank is his model.

Presently, Beach Business Bank has approximately 300 "relationships," or customers with a combination of checking, CD and IRA accounts. But its deposits total nearly \$30 million, or an average of over \$100,000 per "relationship." Imperial Bank, Franko said, had only 6,000 major "relationships." But it had \$6 billion in deposits, or an average of \$1 million per relationship.

Franko foresees Beach Business Bank becoming a billion dollar business.

"My intellectual satisfaction comes from understanding what makes banks run well. I want Beach Business Bank to be the best performing bank in the South Bay," Franko said.

But there's a downside to success.

"There's the emotional satisfaction that comes from helping a person's business go from the garage, to the street, to Wall Street. The problem is that as the bank grows, it no longer remains possible for the bank president to sit down, face to face with a customer who wants a \$2 million loan," Franko said.

"Banks," he said, "are like trees. They grow until the boughs get too heavy for the trunk. Then the tree needs new support, while the fruit that is shaken loose falls to the ground and sprouts new trees.

"That's the model I've seen and I don't see that model changing," Franko said. **SBP**