# GOODBYE GOTHAM: SHOULD BANKS ESCAPE FROM NEW YORK?

Veteran analyst wonders why they stay to be abused

* * *

UNconventional Wisdom is a periodic guest blog, where authors hold up the so-called conventional wisdom to a fresh perspective, or apply common principles in new ways. To propose a guest blog, email Steve Cocheo, executive editor & digital content manager.

-

By Richard X. Bove, vice-president, equity research/financial sector, Rochdale Research

There was a time when New York was the envy of America.

My own family came to this country in the 1860s. They settled in the "City" and thrived.

My father loved New York almost as much as he did his family. But times change and New York is no longer what it once was. Major industries do not look first at locating in New York before going elsewhere in the United States.

They probably do not even consider New York.

Financial industry under attack

The fact that the financial industry is located in New York is an anachronism.

It is there because it has always been there and it has always been there because the city was the nation's trading hub.

Edwin Burrows and Mike Wallace's 1,300 page manuscript entitled Gotham: A History of New York City to 1898 does an excellent job of explaining why the city thrived.

The question needs to be asked as to why the financial industry stays in New York. For the past decade the state has made war on the industry:

• Eliot Spitzer was consorting with ladies of the night while he was fighting to fine and penalize New York financial institutions. He was made governor.

• Andrew Cuomo, more than any other individual, began the subprime lending crisis when he was Secretary of Housing and Urban Development at the federal level. He came to New York and then sued the firms who were deeply involved in subprime lending. He was made governor.

• Eric Schneiderman, the current Attorney General, is now carrying the torch of his predecessors and is suing JPMorgan Chase. What makes this suit unique is that Mr. Schneiderman is suing the bank for something it did not even do and he may be looking to gain $22 billion.

Consolidation shrinks ranks, but not exclusively

When I grew up there were a large number of big banks in the city. There was a Chemical Corn Exchange Bank, Marine Midland, Manufacturers Hanover, Chase Manhattan, J.P. Morgan, Bank of New York, and the First National City Bank. Only two of these remain. One is the Chemical Corn Exchange Bank (now called JPMorgan Chase).

There were also too many brokerage companies to mention. These are also gone and there are only two of these left.

One might argue that the natural forces of consolidation forced the downsizing of players in the industry.

However, banks have thrived elsewhere in the nation as New York has shrunk and New York did nothing to assist the unsuccessful companies in staying alive. Moreover, the banks that are remaining in New York are moving employees elsewhere in the country and the world to find the business that is no longer available in New York.

Sunken costs bind to Gotham

The financial industry that is left remains committed to New York because it has sunk cost there and because of proximity among firms. However, if financial companies are going to continually be sued for billions and even tens of billions of dollars, the legal costs of remaining in New York exceeds the sunk cost in buildings and equipment.

The data on employment is not available. But it is my impression that every major bank in the city is moving people to other locations in the world because technology has eliminated the need for all of the financial companies to stay in one place. Bank of New York has even gotten rid of the name New York because it does not want to be associated with the state.

Management should consider the benefits of moving their headquarters elsewhere. Shareholders should not be forced to pay for continuous lawsuits because these banks are in New York. If the industry was located in Charlotte, N.C., it would not be facing constant hostility. Indeed, it would be supported by a government that wants its business.

Eroding your own foundations

I am constantly struck by these facts:

• Michigan does not sue the auto industry.

• Texas is not suing the oil industry;

• California is not suing the entertainment industry.

• Florida is not suing the tourism industry.

• They do not sue farmers in Iowa.

Yet New York never stops suing the financial industry.

Why? What do these other states understand that New York does not?