This is the bust in the boomtown that banks built

Beneath Charlotte's shiny skyline, 'a new humility'

By Binyamin Appelbaum
Wednesday, October 21, 2009

CHARLOTTE -- A monument to the financial crisis is rising amid this city's thicket of skyscrapers: a gleaming, glass-walled trophy tower that was intended as a fitting headquarters for Wachovia's national banking empire.

It will open instead as the headquarters of a regional power company. Wachovia, unable to survive a run of bad decisions, was swallowed by San Francisco-based Wells Fargo during the depths of the crisis last year.

Few American cities prospered more over the past two decades than Charlotte, its growth propelled and gilded by Wachovia and its crosstown rival, Bank of America. Executives shoehorned gaudy mansions into old neighborhoods around downtown. Workers poured into vast subdivisions on the city's ever-expanding periphery. With coffers overflowing, giddy public officials spent tax dollars on a manmade river for whitewater rafting.

Now Charlotte is suffering. Unemployment has spiked to 12 percent, well above the national average. Subdivisions sit unfinished. Mansions cannot be sold. The school system, which for years had recruited teachers from shrinking cities such as Detroit, laid off more than 1,000 employees this summer.

The crisis that shattered several of the nation's largest banks and left many of the survivors struggling to recover has also damaged the bank towns, the smaller cities that became financial centers in recent years -- less celebrated than New York but even more dependent on the industry.

The unemployment rate in Wilmington, Del., the nation's credit card capital thanks to lender-friendly state laws, has spiked above 11 percent. In California's Orange County, formerly the epicenter of subprime mortgage lending, the office vacancy rate stands at almost 17 percent. Other cities less focused on financial services also have taken hits, including Cleveland, which lost its largest bank, National City, and Seattle, home to the giant mortgage lender Washington Mutual, which became the largest bank to fail in U.S. history.

In Charlotte, the number of people served by the soup kitchen at Urban Ministry, a local charity, has increased 22 percent since August 2007, while the number of private airplanes arriving and departing from Charlotte-Douglas International Airport has dropped by 38 percent.

A city that for years proudly billed itself as the nation's second-largest banking center now is home to just one bank of any size. After Bank of America, the next-largest institution still headquartered in Charlotte has six branches and 49 employees.

"I think there's a new humility to Charlotte," said Bob Morgan, president of the city's Chamber of Commerce. "We didn't worry too much about the things being done in Dallas, Atlanta, San Francisco," he said, when banks in those cities were swallowed by Charlotte's giants. "We are now living it ourselves."

Grady Parker, who has shined the shoes of bankers for 23 years in a retail arcade across from Wachovia's former headquarters, said days now pass without a single customer climbing into one of his worn leather chairs.

"It used to be that you'd know you'd been to work," Parker said. "Now I'm just trying to hold on."

Charlotte rose as a financial center thanks to deregulation. Until the 1980s, long-standing rules limited the ability of banks to operate in multiple states, and the largest banks were located in the largest cities. But as the government lifted those barriers, banks in smaller cities saw a chance to compete by clumping together.

The companies that became Bank of America and Wachovia took particular advantage. Their chief executives, Hugh McColl and Edward Crutchfield, raced each other around the Sun Belt, buying dozens of rivals to build vast networks of bank branches. By the turn of the century, the sum total of loans and other assets held by Charlotte's banks trailed only the concentration in New York. And the timing was beautiful. The financial industry was entering a period of unprecedented profitability.

Similar stories played out in Wilmington and Orange County. Deregulation allowed banks to avoid state caps on credit card interest rates by moving to states with lenient laws, such as Delaware and South Dakota. It also spurred mortgage lending by institutions other than banks. Some of the most successful non-bank lenders, including Ameriquest and Countrywide Financial, were based in Orange County.

Companies in other cities pursued the same opportunities, but as the decade rolled forward, Charlotte's banks continued to swallow rivals. Wachovia became the largest bank in the Southeast. Bank of America became the largest bank in the nation, in part by purchasing the largest credit card company in Wilmington, MBNA, and the largest mortgage lender in Orange County, Countrywide.

When Bank of America agreed to buy the investment bankMerrill Lynch in September 2008, the financial crisis started to seem like one more lucky break for Charlotte. Then, just three weeks later, rising loan losses forced Wachovia to sell itself to Wells Fargo.

"The economy was collapsing, the housing market was collapsing, and now Wachovia was going under. It was like a bunch of bombs going off," recalled Rusty Gibbs, a real estate agent whose company had just opened an office -- with concrete floors and bare branches in porcelain vases -- near Wachovia's headquarters, to focus on the market for downtown condominiums.

Bank of America was soon in trouble, too. Rising losses at Merrill Lynch led chief executive Kenneth D. Lewis to accept a federal bailout, and then to announce last month that he would retire at the end of this year.

At the peak of the boom, Bank of America and Wachovia employed about 35,000 people in Charlotte. Bankers made up 10 percent of the city's workforce. And the richly rewarded bankers collected 22 percent of the city's wages -- well more than $1 billion pumping into the local economy each year.

As they expanded, the banks built skyscraper clusters at opposite ends of Charlotte's downtown. Half of the floors were typically filled with lawyers, accountants and other professionals who worked for firms that worked for the banks.

Thousands of low-wage workers also depended on the banks, working the lunch spots and sundries shops that filled the stores at the feet of the towers. One store is wholly devoted to objects emblazoned with the Bank of America logo, from T-shirts and golf balls to document shredders.

As the banks struggled, all of those workers felt the pain. Wages in Charlotte fell by more than $1.2 billion, or 16 percent, in the first quarter of the year, according to data from the Employment Security Commission of North Carolina. Compensation for bankers fell twice as fast. The banks also slashed dividends on their stock, a major source of local income.

Donations plunged to charities and cultural groups. The Arts and Science Council, which historically relied on the banks for half its funding, reported that contributions fell by 37 percent for its most recent campaign.

A Bank of America executive convinced McColl years ago that the company should invest in downtown Charlotte to impress visitors and attract employees. Ever since, the bank has combined its development of office space with urban amenities including a performing arts center, a crafts museum and a central bus station. When the city decided to build a new arena to lure an NBA team, the banks together pledged $100 million in interest-free financing.

This month, in what may be a last hurrah, Charlotte is opening an African American arts and culture center developed as part of Wachovia's headquarters complex. The art collection that is the centerpiece of the museum was donated by Bank of America.

In a sense, the recession has hit Charlotte twice. The boom in consumer lending allowed people in Charlotte to live beyond their means just like everyone else, while the profits from those loans accumulated in Charlotte. As a result, many of the city's residents have lost their income and borrowing power simultaneously.

The consequences can be seen in the new subdivisions on the edges of the city, landscapes of curving streets lined with vinyl-sided homes, their identical mailboxes glinting in the sunshine because the trees have not had time to grow. Many of the homes are now for sale, or foreclosed.

Matt O'Gorman, 48, moved his family in August to Withrow Downs, a new development on the city's northern edge.

"I'd be riding my motorcycle around and I'd pass a sign that said 'Homes from $180,000' and then the next week it said 'Homes from $160,000' and then '$140,000' and when it got to $130,000 I said, 'You know what? It's time to buy,' " O'Gorman said.

The problems are even worse downtown, where high-rise condominiums joined the office towers during the boom. Work has stopped on one building, and its exposed frame is starting to rust. Construction on a luxury tower already more than 40 stories off the ground stopped this summer and a crane was dismantled, but the developers now say they plan to resume building later this month.

Rob McCrorey, a sales agent for that building, known as the Vue, said that sales had slowed as Bank of America's stock price declined.

"This will be the last building like this for at least a decade," McCrorey said.

The prevailing sentiment in Charlotte, where downtown is called Uptown because it sounds better, is that the city will again prosper. The city sits in the Sun Belt. It still has cheap land, decent public schools, good weather and a US Airways hub.

The optimists point particularly to the arrival of several other financial firms -- including GMAC Financial, Morgan Stanley andU.S. Bancorp --

that have seized the chance to expand in Charlotte by hiring away executives from Wachovia and Bank of America.

GMAC has mounted the most aggressive push. The company's chief executive, Al de Molina, previously worked as Bank of America's chief financial officer. While the company says that its headquarters remains in Detroit, de Molina now works in Charlotte, and the company is hiring some 200 employees for a new Charlotte office. "This is a great city with a deep talent pool," de Molina said in announcing the expansion.

Some local leaders have suggested that Charlotte diversify its economy. But it is much more common to find people who say the city's destiny as a financial center has simply been postponed.

In April, the Chamber of Commerce mailed a letter from McColl, a legendary figure in the banking industry, to several thousand financial executives in higher-cost cities including Minneapolis, Chicago and Boston.

"Charlotte has been a good home for Bank of America," the pitch letter said. "If Charlotte can help you manage a more profitable business, we would like to talk to you."