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Why Wells Fargo's San Francisco downsizing is bad news for California banking

Wells Fargo, California's most prominent financial institution, has been tied to San Francisco since its Gold Rush-era founding in 1852. Above, a bank in the city. (Paul Sakuma / Associated Press)

By Laurence Darmiento Staff Writer - Dec. 12, 2024

- Wells Fargo is selling its longtime headquarters in San Francisco's Financial District and moving to leased offices nearby, raising questions about its commitment to the city.
- The move follows mergers that have created the nation's fourth largest bank, with employees scattered around the nation and an executive staff in New York.

When news broke last week that Wells Fargo would be selling its longtime San Francisco headquarters and relocating to leased digs down the street, some viewed it as a gentle breakup — letting someone down easy only to eventually hit them with the hard truth.

California's most prominent financial institution has been intimately tied to the city since its Gold Rush-era founding in 1852. But over the last several decades Wells Fargo has gobbled up rivals, making it the nation's fourth-largest bank and leaving it with far-flung operations across the country — and an executive team nearly 3,000 miles away.

Chief Executive Charles Scharf, tapped to turn Wells Fargo around after the bank's accounts scandals of the last decade, has been steering the company from New York City — nowhere near the 12-story tower at 420 Montgomery St. in San Francisco's Financial District, its headquarters since 1960, where a fabled stagecoach that recalls its historic logo is on display.

The announcement has prompted speculation that the company's downsizing in the Bay Area is only a prelude to an eventual move of its official corporate headquarters to a lower-cost location such as Dallas or Charlotte, N.C., while its executive team stays on Wall Street — though Wells Fargo denies that.

"It's a sign to folks that it's just not a California-headquartered bank anymore," said Gerard Cassidy, a banking analyst with RBC Capital Markets. "They are building a universal bank under the Wells Fargo name."

Whatever the eventuality, Wells Fargo's departure from its longtime headquarters underscores the diminished role the state and city play as financial centers even as the Bay Area has transformed itself over the last half century into the world's leading tech center, replete with scores of venture capital firms.

In 1998, San Francisco was stunned when Bank of America, whose origins date to the early 1900s, announced it was merging with NationsBank and moving its corporate headquarters to Charlotte amid the same wave of industry consolidation that transformed its crosstown rival.

Wells Fargo downplayed its move, issuing a statement last week that it planned to remain in the city and the decision was part of a "multiyear effort to build a stronger, more efficient Wells Fargo" and to move to a "more modern building that can deliver a better experience for our employees and customers."

However, skepticism has abounded given the Bay Area's recent experience with Chevron, which sold its vast San Ramon headquarters in 2022 and moved to a smaller campus in nearby Bishop Ranch — only to announce in August it was packing up and moving to Houston. Another blow to San Francisco came last summer when Elon Musk announced he was moving the social media platform X, formerly known as Twitter, to Texas.

William Deverell, a professor of history at USC, said there is no doubt that if Wells Fargo were to move out of state (where it employs 23,000), it would be a blow given the bank's close identity with California as exemplified by its stagecoach branding — even though many other well-known corporations already have moved on.

“It’s a loss to California, though they’ll still have a prominent presence here,” he said. “The iconic nature of the branding speaks to the institutional power that the bank has created and fostered.”

Striking gold

When Henry Wells and William Fargo founded Wells Fargo & Co. in March 1852, they saw a business opportunity providing secure communication, freight shipping and banking services to the hundreds of thousands of people who rushed to California after gold was discovered four years earlier at Sutter’s Mill in the foothills of the Sierra Nevada.

Although the Gold Rush petered out, the two businessmen struck their own gold as the company’s distinctive red-and-gold stagecoaches traversed the West carrying precious metals, cash and other valuables from one location to another. The service became so closely associated with the West that a Wells Fargo trunk stuffed with payroll makes a cameo appearance just five minutes into the classic 1939 Western “Stagecoach.”

Some observers think that Wells Fargo might eventually move its headquarters to the Dallas area or Charlotte, N.C. (Gene J. Puskar / Associated Press)

However, as the West was settled and the stagecoaches became obsolete, it was the company’s banking arm that steadily grew as millions more immigrants poured into California. During the 20th century, the company bulked up with a series of acquisitions, including the blockbuster $13.3-billion purchase of L.A.’s own First Interstate Bancorp in 1996.

The deal, the largest in U.S. banking history at the time, married two of the nation's largest regional banks. But it was eclipsed just two years later when Minneapolis-based Norwest Corp. acquired Wells Fargo in a $32-billion combination that created the nation's seventh-largest bank, with branches across 21 states in the West and Midwest.

Norwest, the country's largest mortgage lender, assumed Wells Fargo's storied brand and moved to San Francisco, but about 11,000 employees remain in Minneapolis, the bank said. That same year Bank of America moved its headquarters to Charlotte after its $60-billion merger with NationsBank. Other large mergers at the time included Washington Mutual and Great Western.

The mergers followed the passage in 1994 of the Riegle-Neal Interstate Banking and Branching Efficiency Act, which removed obstacles preventing banks from operating branches across state lines.

"In the early 1980s, our country had over 18,000 banks and thrifts. Today, we are down to about 4,600, so it had a tremendous impact on the consolidation of the industry," Cassidy said. "Philadelphia, Los Angeles, Chicago, Boston — all had very large regional banks headquartered in those cities. They're not there anymore."

It wasn't until a decade later later that Wells Fargo completed another huge acquisition, this time during the financial crisis when other banks were struggling. It spent $11.7 billion to acquire Wachovia Corp., a faltering Charlotte-based regional giant that had thousands of branches in the Southeast. The bank now employs 33,000 workers in North Carolina, more than in California, Wells Fargo said.

The acquisition more than doubled the size of Wells Fargo, giving it some $1.4 trillion in assets and offices in 39 states and Washington, D.C. It became the nation's fourth-largest bank — but its ascendancy didn't last long.

Financial scandals

In 2013, The Times reported about Wells Fargo's aggressive sales culture, in which employees were given nearly impossible sales goals. Chief Executive John Stumpf's motto was "Eight is great," meaning employees should try to sign up customers for eight products such as credit cards, saving accounts and loans.

The sales goals exploded into a scandal that forced out Stumpf and other executives when regulators in 2016 fined the bank $185 million, alleging that more than 2 million bank accounts or credit cards were opened or applied for without customers' knowledge or permission — a number later found to be an undercount.

Further investigations into the so-called "fake accounts" scandal uncovered other alleged wrongdoing, including illegally repossessing service members' cars, hitting mortgage holders with unwarranted fees and charging auto loan borrowers for insurance even if they had it.

The company was hit with a $1-billion fine and in 2018 the Federal Reserve capped its assets at $1.95 trillion until the bank changed its practices, prompting the board to bring on Scharf, previously the chairman and chief executive of the Bank of New York Mellon to clean up the mess.

Wells on the Hudson

Scharf moved into new offices the bank had built for its securities business at the $25-billion Hudson Yards office complex on the Hudson River. The bank has said the offices will be expanded to house an additional 2,300 employees in Manhattan.

In 2022, Wells Fargo was hit with a $3.7-billion assessment by the Consumer Financial Protection Bureau for various illegal actions involving more than 16 million consumer accounts.

Analysts now think Wells Fargo has moved past its troubles, with the Federal Reserve possibly lifting the asset cap next year. That will give Scharf more flexibility to pursue his strategy of growing the credit card business and investment-banking operations. “They can consider doing acquisitions,” Cassidy said.

As to where the corporate headquarters may end up, Cassidy thinks Charlotte makes a lot of sense, while corporate site selection specialist John Boyd thinks it may be the Dallas area, where Wells Fargo is building a $455-million office complex to add to its already large presence there.

The attraction of low-cost states like Texas, which doesn’t levy a corporate tax, is powerful — and not just for saving on corporate expenses but in recruiting employees, who don’t have to pay personal income taxes either, said Boyd, principal of the Boyd Co.

He cautioned that Wells Fargo may keep its official headquarters in California indefinitely for any number of reasons, including the state’s giant economy, its status as a gateway to Asia and the strong historical links. “They may feel that San Francisco is so much part of their brand,” he said.

Even so, California’s days as a leading U.S. financial center are over, said David Bahnsen, founder of Newport Beach-based investment manager the Bahnsen Group.

“I think it plays almost no role, and I think it’s a tragedy,” he said.