

CHAPTER 9

Los Angeles, California | 1926

In 1926, Chadwick Hollister replaced his uncle suffering increased health problems as Executive Vice President & Chief Operating Officer of Hollister Financial. With Chadwick's successful expansion of the Bank's operations in the West, his anticipated succession to replace his seventy-three-year-old father as CEO was no longer a question.

Spending most of his time in Los Angeles growing the firm's reach in the West, he became a prominent figure in Los Angeles. A wealthy power player in business and politics. Known to everyone. Loathed by many and feared by those who dealt with him in business, Chadwick Hollister possessed no real friends. He held no illusions about how people felt about him, nor did he much care. He measured his life in terms of power and gratification.

His role in the nefarious dealings years earlier in bringing water to Los Angeles by effectively stealing it from Owens Valley agricultural interests became public over time. That it unflatteringly portrayed Hollister as being in the company of the great robber barons of industry and finance of the time pleased him.

His social circle consisted of acquaintances tolerating Hollister for various reasons. Those engaging in personal dealings disliked him or tolerated his arrogance to serve their own interests. Not

only ruthless in business, Hollister's unpleasant personality carried over into every aspect of his life.

However, his success since coming to Los Angeles unquestionably transformed Hollister Financial. The venerable Wall Street investment bank had been losing ground to competition since the turn of the century. Having developed the firm from its provincial commercial banking origins forty years earlier, Hollister's father eventually rested on his accomplishments. Acceding to his son's ambitions to exploit Southern California resurrected the firm's stature.

With success in Los Angeles, Chadwick expanded Hollister Financial's reach. From headquarters in Manhattan, with satellite offices in Boston and Philadelphia, he established a presence in other locations in the West and Midwest. Functioning with little interference from his father, Chadwick personally directed all operations outside of the original east coast locations. Headquartered in Los Angeles he now oversaw offices in San Francisco, Seattle, Denver, Chicago, St. Louis, and Houston. Collectively these locations yielded 60% of Hollister Financial profits the previous year.

In Los Angeles Chadwick Hollister moved in the upper strata of business and political influence. He was a member of both the California Club and the Jonathan Club. Harry Chandler, publisher of the *Los Angeles Times* and fellow member of both prestigious organizations remarked to Hollister, "The people that *run* Los Angeles belong to the Jonathan Club. The people that *own* Los Angeles belong to the California Club."

While the Bradbury Building was a uniquely elegant building and although occupying the entire fifth floor, Hollister Financial still needed more space. As a member of the Jonathan Club, Hollister learned of the Club's plans for moving to more elegant accommodations on South Figueroa. Fellow member and longtime acquaintance Harry Huntington and president of the Southern Pacific Railroad owned the club's present building location, the Pacific Electric Building located at 610 S. Main just five blocks from the Bradbury. Huntington readily agreed to lease Hollister the top eighth and ninth floors when the Jonathan Club vacated.

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The building sat above the Main Street trolley station serving as the interurban terminal for the city trolley system. The Big Red trolley cars discharged close to 100,000 passengers each workday as many reconnected to travel in all directions. A bustling hub of activity promoted the prominence of Hollister Financial while providing easy accessibility for its growing number of employees.

Although Hollister was part of the Los Angeles elite, he indulged in habits far removed from lavish offices and expensive restaurants. He liked quality liquor, high stakes poker, and women. Not necessarily in that order. Liquor and poker were easy to find. Women not so easy unless your tastes ran to prostitutes.

Unattached women rarely frequented his social circle. The few that did quickly found his egocentric character unappealing. For the occasional mature woman seduced by his money and association with moviemaking, the liaison became short lived.

Common prostitutes were out of the question. However, years earlier, Hollister discovered the means for satisfying his sexual needs. Through his networking, he became associated with Charles H. Crawford, overlord of Los Angeles vice.

However, Charlie Crawford was far more than just involved with illegal vice. Crawford and his associates were known as the *City Hall Gang*. The congenial Crawford developed connections within the city government and police department. Politically savvy, those connections extended from beat cops up to the mayor's office. It provided a cozy arrangement for bribery in exchange for protection for bootlegging, gambling, prostitution, and every conceivable illegal activity. No public sector was immune to the pervasive corruption of Crawford's loose-knit organization.

Crawford developed a reputation for his political shrewdness. His instincts proved so predictive that he could heavily influence contributions from wealthy donors to political candidates and office holders. That gave Crawford the ability to install office holders indebted to his patronage at all levels of city and county government.

Hollister became a confidant of Crawford to enhance his own political influence. He regularly frequented one of Crawford's downtown establishments. The Maple Bar, located at 501 S. Maple

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just south of Fifth Street, offered a bar with good liquor, poker tables, and slot machines on the ground floor. The second floor offered craps and roulette tables. Crawford made his office on the third floor that also contained five small bedrooms serving as a bordello.

Hollister mostly frequented the establishment's basement. Crates of liquor, barrels of beer, and a gun cabinet occupied much of the space with a single large round table in the center. Crawford ran high stakes poker games here by invitation only. Several well-armed thugs were always in attendance for security.

Crawford's other establishment was the Clover Club, a Victorian mansion among others located in the Bunker Hill neighborhood. Essentially a bordello with nine bedrooms supervised by a madam. While Chadwick Hollister's sexual appetites do not run to common prostitutes.

Charlie Crawford was in the business of serving his clientele whatever they wanted.

In the business of sex trafficking, Crawford diversified to serve a more affluent clientele. Southern California abounded in beautiful young women. Many coming with hopes of becoming movie actresses. Others coming to escape dead end lives from all over the country to a vibrantly growing place in the sun. Crawford found that some of these young women could command astounding fees in exchange for sex to a discriminating wealthy clientele. He therefore created *Los Angeles Business Services*, an innocuous sounding name of his escort service.

Operating out of a small office with no name on the door, the operation consisted of a staff of three women that worked the telephones. Well trained to deflect inquiries related to actual business, they managed arrangements and collected payments. Unlike normal payment in cash prior to sexual services from prostitutes, payment for these call girls was by check mailed to the escort service. For the client, explainable as a legitimate business expense. For Crawford, a way to prevent skimming of profits. Seemingly offering sex on credit, there were never delinquencies in payments. The inherent fear of blackmail ensured prompt payments.

Chadwick Hollister exited his Pierce Arrow at the Maple Bar on a Saturday night in early February. Driving the elegant beige with contrasting black fenders luxury touring car was Hollister's bodyguard. Hollister had no need for a bodyguard other than it made him feel important, especially when frequenting Crawford's Maple Bar.

He was here to play poker. Although Crawford's stationed armed thugs to watch over the high stakes games played in the basement, he allowed Hollister's bodyguard to accompany him. Having his own hired muscle provided Hollister with a sense of superiority in this environment of Los Angeles' underbelly.

Intimidating-looking Kurt Gerhardt was far more than a bodyguard. His function better described as that of a *fixer*. Hollister needed someone that could get his hands dirty engaging in various illegal activities. Gerhardt served eight years in the U.S. Army, fighting in the Philippine-American War. Leaving the army in 1906, Gerhardt joined the Los Angeles Police Department.

In 1916, Gerhardt caught the attention of Charles Crawford as an ambitious cop that sought out opportunities for engaging in illegal activities for money. Crawford eventually recommended Gerhardt to Hollister. For twice the pay even after considering bribes, Gerhardt left the LAPD.

Both Hollister and Gerhardt approached the front door. Gerhardt knocked and the small peep door opened. Gerhardt simply said, "Mr. Hollister."

The door opened and Gerhardt followed Hollister inside. The stocky fellow opening the door wore a suit that was too tight leaving no question that he carried a gun in a shoulder holster. In contrast, Kurt Gerhardt was tall with a lean but muscular build. He also carried his army issue Colt M1911 .45 semiautomatic in a shoulder holster better concealed under a tailored suit jacket.

"I'll tell Mr. Crawford you are here," the doorman said.

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Hollister and Gerhardt found a place at the bar. In the background above the noise of the slots and the din of noisy gamblers, Marcus "Nine Fingers" Jackson played jazz on the piano.

"Good evening, Mr. Hollister. What'll it be?" the bartender asked.

"Your best Scotch. Make it neat with a soda back. What about you, Kurt?"

"A beer," Gerhardt said. After a couple of beers, he would switch to coffee to keep him alert. A long boring night ahead as he watched Hollister play poker.

As the bartender served them their drinks, affable Charles Crawford approached. "Chadwick, good to see you," shaking Hollister hand then Gerhardt's. "Kurt, how are things?"

"Just fine, Mr. Crawford." Crawford might appear good-natured, but Gerhardt knew him to be tough and exceptionally powerful throughout Los Angeles from City Hall to the LAPD, and every corner of the city's underworld.

Turning to Hollister, "Got a good game lined up for you. Four guys from Houston, all in the oil business."

"What's the buy in, Charlie?"

"Twenty grand."

Hollister pulled out a checkbook and scribbled a check handing it to Crawford. He allowed only players he knew that had the ability to cover large amounts to write checks. As the house, he issued each player chips less his ten percent.

"The other four are here already. Come downstairs and I will introduce you."

Hollister knew the names of two of the Texans from recent newspaper articles. Sheridan Lewis and Jacob Berman just bought beleaguered Julian Petroleum last year. The founder C. C. Julian spent years defending legal accusations of selling oversubscribed shares in Southern California oil drilling. Julian finally bowed out by selling his position in the financially troubled company to his Houston partners at a depressed price.

Hollister sat down as Crawford brought him his stack of chips. "How is the oil business, gentlemen?"

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Sheridan Lewis said, "California is just getting started. Plenty of reserves. Just need to manage drilling operations more effectively."

Hollister was no expert in oil drilling but understood each oil field could not yield profits infinitely. Oil was not a renewable resource. Newspaper accounts alleged Julian Petroleum engaged in the oversubscription of selling shares. That diluted individual share-yields and promoted over-drilling. Public accusations suggested Julian Petroleum was running a swindle. Something akin to a Ponzi scheme as the sale of new shares paid dividends on early shares. Yet the State of California had yet to file criminal charges. Hollister viewed oil drilling speculation as a sucker investment geared to those uninformed and desperate to make a killing. Yet here were these guys playing high stakes poker when their company was on the verge of insolvency and facing legal problems.

Four hours later, one of the Texans was already down to only a few chips. The Julian Petroleum guys were not much better. None of them were good poker players. Hollister and the remaining Texan had about equal piles of chips. Hollister was an exceptionally good poker player. After the one Scotch when he arrived, he stuck to coffee and mineral water staying focused. The more successful Texan continued to sip Bourbon. By one o'clock in the morning, he was showing the effects. Finally declared he was calling it quits.

The two guys from Julian Petroleum seemed relieved to call it a night and cut their losses. However, the Texan down with his stack of chips wanted to continue. "What the fuck? I need a chance to recoup my losses." Pointing to the other Texan and Hollister, "You two been getting all the best hands."

Hollister responded, "Not better hands, just better played hands."

"Fuck you! Been playing poker all my life. You saying I don't know what I am doing?"

"I'm saying you're not good enough to play against those that are better."

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The losing Texan, having also drank a fair amount of Bourbon stood up pushing back his chair.

Bad move. Before one of Crawford's goons could respond, Kurt Gerhardt quickly came alongside the Texan grabbing his arm saying, "Cash in your chips and leave before you do anything stupid."

The Texan pulled away from Gerhardt and swung a misguided left hook directed at Gerhardt's head. Backing away a step, Gerhardt pulled out his .45. The Texan looked at the weapon and took a deep breath but made no further move.

"Easy, Kurt," Hollister said. To Crawford's two men, he said, "Better get Charlie. The game seems to be over."

Hollister thoroughly enjoyed the evening. Leaving as a winner while rewarded with unexpected entertainment made his night.



While the fortunes of Hollister Financial in Los Angeles still derived largely from real estate ventures, Chadwick Hollister began investing in the movie business years earlier. There was a natural bias against banks investing in this new business segment where it was difficult to access financial risk. The movie studios originated predominately by Jewish entrepreneurs having started as nickelodeon proprietors. That business focused on ventures showing minutes-long one-reel films geared to the working class. Hence the name nickelodeon for the five-cent ticket price.

As technology advanced, the industry matured from one-reel of fifteen minutes to lengthy feature movies of multiple reels elaborately staged and displayed on giant screens in specially built theaters. By 1926, there were tens of thousands of movie theaters in the country. Even small towns boasted a theater. No longer catering to poorly produced short curiosities targeting the working class, the middle class demanded sophisticated content. Yet the profit potential of the product rested on the whims of the viewing public. Difficult to predict revenues in advance of totally

committing serious capital for production. Each film therefore became a project.

The client base was comparatively small. Five major film studios not only produced 90% of the domestic American movies but also owned 50% of the theaters in the country in 1926. Three other independent studios comprised the remaining share of movie production but did not own theaters. Hollister saw the opportunity years earlier. Local commercial banks shied away from lending to movie studios because of the difficulty in assessing lending risk.

However, the movie business captured Hollister's interest. Beautiful people acting out captivating stories told through spectacular imagery. Domestic movie production was almost exclusively now located in Hollywood. The personal attraction for Hollister was enough to seriously pursue moviemaking financing.

With the ever-expanding western operations of Hollister Financial, Hollister sought to add to his staff someone experienced in financing the entertainment industry. The largest investment banking competitor was Goldman Sachs in New York. Four years earlier on a trip to New York, Hollister successfully pirated a mid-level executive with Goldman Sachs' entertainment business sector. Nathan Schachter was a perfect fit. Harvard degrees in law and finance. Twenty-nine at the time. Intelligent, articulate, young, and ambitious. Schachter jumped at the chance to come to sunny Los Angeles at double his current compensation.

Although Hollister deluded himself into believing the success of the firm's venture into entertainment financing in a big way was due to his efforts, it was the creativity of Schachter. Years earlier, Schachter explained his strategy for developing an entertainment industry clientele for Hollister Financial. "The motion picture industry carries excellent profit potential but with risk more difficult to determine. Funding production expenses is no different from any corporation. What differentiates movie making is the product. Not only does each movie represent a unique product, but one that is produced with the inability to project revenue. A product subject to uncertain demand only after expending

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substantial production funds. High risk by any definition. Puts off most commercial banking for that reason alone.

"Providing capital therefore becomes largely the domain for larger investment banks. Goldman Sachs and J. P. Morgan & Company are currently the largest players. Between them they finance the Big Five film studios. Bear in mind, these operations also include the distribution channels consisting of thousands of theaters around the country. Obviously, I am most familiar with Goldman Sachs. They fund the two largest of the Big Five."

"Which ones?"

"Metro-Goldwyn-Meyer. Guy with the controlling interest is Marcus Loew. Loew controls budgets and contracts under his from New York based Loews, Inc. that holds controlling interest in MGM. Hollywood operations are run by Louis Meyer. The other is Famous Players-Laskey, better known as Paramount Studios. The Managing partner is Adolph Zukor, also based in New York."

"You know these studio heads personally?"

"Oh yes. As assistant to the entertainment sector manager. The manager was an established executive with Goldman Sachs. Competent fellow with numbers but lacked the skills necessary to close deals. I became the principal client interface. Marcus Loew and Adolph Zukor could not be more different personalities, including their approach to business."

"In what way?"

Schachter gave a short laugh. "Marcus Loew is a low-key thoroughly likeable fellow. Everyone likes him. Loew is an astute businessman, however. In contrast, Adolph Zukor is blunt and ruthless, perhaps a bit paranoid. Those closest to him call him *creepy* behind his back."

Schachter paused to show a smile. "Bitter business rivals yet forced into a personal relationship. By some perverse twist of fate, Zukor's beloved daughter Mildred married Loew's son Arthur."

"You think you can entice these two major studios away from Goldman Sachs?"

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"With the right offering, we can make a strong run at them. An offer they must consider. Of course, we must be able to negotiate when Goldman Sachs counters."

Once Hollister got something in his mind, he was tenacious. "Very well, what are you suggesting?"

"First off, pitch this as partly a risk sharing financial participation in their feature films. We offer a conventional credit facility to fund production, overhead, marketing, and distribution for the entire operation with specifically designated films separated out for specific financing. On these selected major projects, the bank shares in 15% of the profits. Over three times the probable interest rate of the credit line. If the movie fails to make a profit, the Bank receives no interest on the loan. We further offer attractive terms of repayment on these selected loan amounts beginning six months after the first draw of funds and payable over twelve months.

Hollister asked, "I imagine movie productions are susceptible to cost overruns. We can't control that so how is that managed?"

"Good question. Costs exceeding the agreed budget become the studios responsibility and become absorbed into general expenses funded through the general credit line."

"How do we select which of these scripts to fund? Not like other investments where benchmarks exist."

"I propose we use experts to advise us on the box office prospects of a given script considering the cast and director. Movie critics perhaps. Not foolproof but it gives us an edge. For those movies they enthusiastically recommend, we can rely on good reviews when the movie is released. For example, I am personally on good terms with the New York Times movie critic. These guys should jump at the opportunity to review scripts in advance."

Hollister offered, "The Los Angeles Time publisher is a friend. I'm sure I can make the same arrangement."

Weeks later Schachter produced the final iteration of a detailed proposal to go after MGM and Paramount. Hollister surprised him instead by asking about the smaller independent studios that did not own distribution.

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“Universal is the oldest beginning operations in 1912. United Artists in 1919. Started by the biggest names in the industry. Director D. W. Griffith, Charlie Chaplin, Mary Pickford, and Douglas Fairbanks. The youngest is Columbia Pictures founded just two years ago. All these studios are headquartered locally. None of these own theaters.”

“Why not begin with these studios? Might they be not more anxious to share risk and solidify their access to operating capital?”

Schachter didn't think of this first because he wanted to see if he could engineer a coup by unseating Goldman Sachs. He did not realize Hollister's interest transcended mere financial interests. Hollister desperately wanted to become part of moviemaking. Socializing with celebrity stars in a glamorous industry even if it did not prove exceptionally profitable. The ability to see and be seen with them was priceless. A substantial part of the larger corporations' business involved distribution and theaters. No glamour there.

“We can initially pursue them if that's what you wish, Sir. I know enough about MGM and Paramount to understand the risk. I'll need to do more research to understand these other studios in more detail.”

“Well, do that, Nate. I'm inclined to start there.”

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Within three years, Schachter made good on capturing a significant segment of major studio financing. First came United Artists. They were the most receptive. The deal removed the constant need for micromanagement of finances by their traditional lenders. Easiest for Hollister Financial to take the plunge with the three highest grossing stars making their own movies thereby reducing investment risk. It also forced producer D. W. Griffith to pay closer attention to budgets and avoid overruns. Next came Columbia Pictures with little financial history, making them eager to find solid financial backing. Lastly Universal also went with the

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better deal offered by Hollister if for no other reason than to remain competitive.

For the larger players, it took more work. The details for more complicated when assessing the formulas for accounting for the vertical integration of the distribution side of the business. MGM was the first to move from Goldman Sachs. Paramount followed as Zukor saw it as a better deal and forever saw Marcus Loew as his principal competitor.

First National Pictures based in Burbank remained with J. P. Morgan & Company citing they were happy with Morgan's longstanding service.

Fox Films also remained with J.P. Morgan. Schachter was disappointed. At an initial meeting, Schachter and Hollister met face to face with William Fox in Fort Lee, New Jersey. It quickly became clear that Fox did not like Hollister. Subsequent telephone conversations only confirmed there was never going to be a deal.

By 1926, Hollister Financial became the largest financial lender to the movie industry. Profits were steady with the widely distributed risk among many clients and movie projects. More importantly, Chadwick Hollister gained immense stature. Not only was Hollister Financial the largest commercial real estate owner in the City of Los Angeles but became better known for his business patronage of the city's most famous industry, Hollywood. Hollister achieved his personal ambition of becoming an integral part of moviemaking. A perfect environment in which to nurture his vanity by publicly socializing with famous and beautiful movie stars.