



Photograph by Rich Sanders

Assets

Under Management



Base of Business—Mike Schwenker (left), a chartered life underwriter and chartered financial consultant for F&M Bank, and John Wagner, who heads up the bank's wealth management department, help ensure that customers have all their financial management needs met.

*Step by step,
an Iowa community bank
assembles a successful
wealth management program*

BY KRISTINE NEWKIRK

Outside the Quad Cities in the heart of the Midwest is a family-owned community bank that has been serving the community of Burlington, Iowa, for more than 90 years. As its name implies, Farmers & Merchants Bank & Trust has historically offered banking and trust services.

But for 50 years, trust services at F&M Bank were a loss leader, available as a convenience for existing clients only. Then in 2001, the bank's board of directors approved a plan for expanding trust services into a profit center. Since then, the bank's wealth management services have grown to include full-service brokerage, insurance and financial planning.

John Wagner, who was appointed as trust department manager in 2001, oversaw the bank's wealth management expansion. He and his eager team felt F&M Bank was behind the times in taking advantage of essential new market opportunities. "We were giving the business away and weren't seeking new business," he says.

Convinced that F&M Bank had to expand its offerings to stay relevant with today's depositors, the board of directors stood firmly behind the expansion plans. And with over \$16 trillion in baby boomer retirement dollars expected to change hands over the next decade, Wagner says, the community bank's management wanted to move into position to capture more of those assets.

F&M Bank's new, fully-integrated wealth management division emphasizes financial planning as the key to bringing in more of a client's financial assets. Clients can test-drive wealth management services and get a customized plan designed to meet their financial goals, whether those goals are funding an education, a home, a retirement or anything in between. At F&M Bank, all clients with wealth management goals—regardless of their income or assets—have access to financial planning resources, Wagner says.

According to Bill Reid, president of ICBA Financial Services, ICBA's Memphis-based retail financial services corporation for community banks, Wagner and his colleagues have engineered a wealth management model that utilizes a salaried staff to offer customers an integrated product mix that covers a lifetime's worth of financial needs. That model has the bank primed to capture the entire customer relationship—and the extra non-interest revenue streams that go with it. "They are asking for business that people want," Reid says.

The design and integration of a wealth management center at F&M Bank has unfolded over the last seven years. *ICBA Independent Banker* takes a look here at some of the steps that the community bank has taken to turn its once sleepy trust department into a blossoming relationship-building profit center.

Building on Trust

Before any changes were made, Wagner and his team did their homework. They canvassed bigger wealth management operations for recommendations, gathered information at conventions and read up on how best to complement traditional bank offerings with wealth management services. After a thorough review, Wagner and the F&M Bank crew began to implement the best of what they saw.

In the bank's trust department, beginning in 2001, the fee schedule was revamped to bring trust services in line with industry standards of nearly 1 percent. Notably, Wagner says, not a single customer was lost over increased fees—a reflection of the quality care already being delivered to clients, he says.

The trust department was renamed Trust Services, and all five staff members were given the title of relationship manager to make the trust unit more approachable. In 2002, the Trust Services department began to shore up partnerships. All existing contracts were scrutinized and augmented or scrapped in favor of partners that could bring the best outside expertise to the fifth floor. And other partners were added.

All F&M Bank clients with wealth management goals, regardless of their income or assets, have access to financial planning resources.

Within a year, Atlanta-based ValuBond was added to the mix of available bond brokers, and Farmers National Co. in Omaha, Neb., was enlisted as the farm manager for trust services. A new investment manager, Wright Investor Services of Milford, Conn., was brought on board to manage the investments of many fiduciary accounts.

Change continued in 2004 when a new bond and equity custodian was established in an attempt to save time and money. And an investment scorecard solution was added to provide performance measurements.

As an added bonus, Wagner says, a number of these partners now provide regular training sessions in their areas of expertise through F&M Bank's educational arm, North Star University, for both bank personnel and clients' continuing education.

Brokering New Services

In January 2003, full brokerage services were added to F&M Bank through a merger with a local community bank, West Burlington Bank, which already had a staff broker and an existing book of business. Wagner and his team were charged with integrating brokerage and trust services under the umbrella of Integrated Financial Resources, a newly coined marketing name used to represent the

By the Numbers

The development of Farmers & Merchants Bank & Trust's wealth management services over time:

Trust Services	2006	2007	2008 (b)
Income	\$456,000	\$513,000	\$600,000
Assets under management	\$84.2 million	\$95 million	\$101 million
Four Points Financial			
Income	\$59,000	\$197,000	\$208,000
Assets under management	\$12.3 million	\$24.4 million	\$35 million
New accounts	+192	+222	+200

Source: F&M Bank & Trust in Burlington, Iowa



United Front—The success of the wealth management program at F&M Bank is a tribute to the bank's dedicated staff. Pictured, left to right: C.L. Walsh, executive vice president; Mike Schwenker; C.E. Walsh, president & CEO; and John Wagner.

emerging suite of wealth management services that includes trust, investment and insurance at F&M Bank & Trust.

Concurrently with the merger, all trust and brokerage employees were put on salary to eliminate any self-dealing that commissions can create. Wagner says a salaried compensation schedule—although unusual in the brokerage business—left staff free to build financial plans and suggest products and services in the best interest of clients, not around the highest commission products.

“We work as a team in financial planning to determine client needs and how we are going to meet them.”

— John Wagner, F&M Bank

By the summer of 2005, Wagner replaced West Burlington's broker, who had left F&M Bank following the merger, with Mike Schwenker, a sales-oriented chartered life underwriter and chartered financial consultant adept at advising clients on investment and insurance needs. Together, Schwenker and Wagner tackled the job of making sure the right brokerage partners were in place.

After interviewing a dozen broker-dealers, in 2006, the duo selected Sorrento Pacific Financial LLC, ICBA Financial Services' registered broker-dealer in San Diego, Calif., to help provide F&M Bank & Trust with backroom support. Sorrento Pacific's selling points included its paperless, compliance-driven operating system and a customer profile page that allows users access to an entire customer profile on a single screen. Even items that must originate on paper are scanned and available in an electronic customer file through Sorrento Pacific's system. Plus Wagner says the Sorrento Pacific system prompts staff to collect signatures when necessary and complete all compliance paperwork before proceeding to the next step in a transaction.

Additionally, a new, private-label name, Four Points Financial, was introduced for brokerage services in 2006. Wagner says the logo of a compass plays well with the larger bank's tagline of “leading the way.”

And in many ways, brokerage services are now leading the way to new customers. “The brokerage area is the gatekeeper,” Schwenker explains. More than 90 percent of clients that come into Integrated Financial Resources at F&M Bank & Trust are really in need of brokerage services. “There is a very good chance that, over time, they will bring their banking business too,” he says.

Financial Planning

To handle additional business, staff at Integrated Financial Resources has doubled since 2001. One trust officer, two brokers and

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For more information, call (800) 786-0223 or visit www.icbafinancial.com.



Photograph by Rich Sanders

Serving Customers—F&M Bank strives to construct financial plans in the best interest of individual clients, not in the pursuit of the highest commissions. Here, Mike Schwenker and John Wagner of F&M Bank discuss retirement planning with customers Linda and Tom Cameron.

two assistants have been added, bringing the total number of employees at the wealth management services unit to 10.

F&M Bank staff was also cross-trained to be of further assistance to customers. Two trust officers became certified trust and financial advisors, qualifying them to counsel clients on tax law, investment management, personal finance and insurance, estate planning, and fiduciary and trust activities. A third employee received her Certified Financial Planning certification to provide financial planning services to clients.

Building a financial roadmap for each client is the cornerstone of what the wealth management division does, explains Wagner. “We work as a team in financial planning to determine client needs and how we are going to meet them.”

Joint staff meetings allow all members of the wealth management division to weigh in with recommendations for individual clients. The financial planner layers on financial projections to customer pro-

efforts for the bank’s newest business lines. “We added 65 more people to our sales team by letting bank staff know what we are doing.”

And with salaried employees, all 75 employees at F&M Bank stand ready to refer customers from area to area based on their financial needs. Brokerage clients in need of mortgages are referred to the bank’s loan department, while depositors with liquidity that could use investment services are sent to Four Points Financial.

Wealth management services naturally complement traditional bank offerings, allowing F&M to offer the right mix of financial instruments to its clients. “The bank is uniquely positioned to handle the financial needs of customers in every stage of their life,” Wagner says.

By meeting more of a client’s financial needs, F&M Bank & Trust is expanding its financial relationships and revenue streams. According to Reid, the easiest rule of thumb for assessing profitability in a brokerage center is to take the last three

files, then the team designs a plan for the client with investment, banking, trust and insurance product recommendations—all designed to work together to fulfill the client’s strategic financial goals.

An Integrated Team

Marrying wealth management services to traditional bank offerings has allowed F&M Bank to solidify relationships with customers by handling more of those customers’ financial needs. Among the bank’s 65 employees outside the wealth management unit, Wagner says, all have been trained to spot holes in client portfolios that could be filled with brokerage, insurance and trust services, magnifying outreach

Rules of Separation

Guiding Principles of Farmers & Merchants Bank & Trust’s wealth management division:

- 1. Provide financial solutions, not products;**
- 2. Present comprehensive plans;**
- 3. Always do what is in the best interest of the customer;**
- 4. Teach bank employees where to refer their customers;**
- 5. Emphasize the team over the individual; and**
- 6. Secure third-party relationships for expertise the bank lacks in-house.**

digits off asset footings. For F&M Bank, a \$216 million asset bank, that means generating \$216,000 from brokerage services, a benchmark that the bank plans to pass this year. In 2007, the bank's total Integrated Financial Resources fee income was \$661,000 for financial planning, brokerage, insurance and trust services—three times the industry benchmark.

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— *John Wagner, F&M Bank*

More importantly, assets under management for both brokerage and trust services continue to grow significantly, despite the recent economic slowdown. Four Points finished 2006 with \$12 million

in assets under management. That number doubled in 2007 to \$24 million with the opening of an additional 222 new accounts—that's an average of 18.5 new accounts each month.

Wagner says trust services at F&M Bank are on track to meet projected 2008 assets under management of \$101 million, up 50 percent from the \$66 million in 2001 when expansion plans kicked off. With both trust and brokerage gaining traction, the wealth management department at F&M Bank has set a few goals—to increase profitability, advance customer relationships and develop a higher-profile in the community—in anticipation of the bank's upcoming 100th birthday. Each step forward just seems to further justify management's decision seven years prior to pursue a wealth management profit center. “We are positioned right where we need to be,” Wagner says. 

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