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Small, midsize banks add financial advisory services to boost revenue

By Tom Henderson

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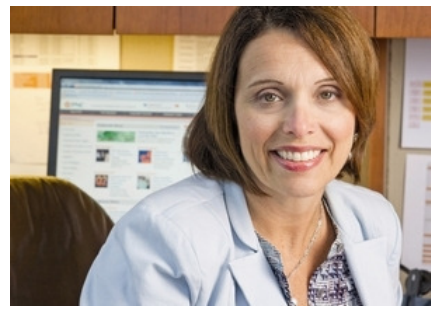

Yes, more baby boomers means more need for financial advice, says Lisa Sampson of PNC Bank. So does an era of low interest rates, where CDs don't cut it as an investment. "And you've got more people retiring now without pensions," Sampson said, meaning they must maximize the returns on their money.

When Rhode Island-based **Citizens Financial Group Inc.** announced in June that it was hiring financial advisers here and would soon have wealth managers available in 30 of its **Charter One** branches in Southeast Michigan, it joined a growing list of banks targeting fee-based services for their affluent customers.

Some large banks, like **Comerica** and **Chase**, have had robust wealth management operations for years. Chase, for example, has $204.4 billion under management and 1,850 private-client bankers firm-wide; in Michigan, it has $10.6 billion under management and 50 private-client bankers.

Comerica has $23.8 billion under management.

But now, midsize and even small community banks are looking to increase their noninterest income by fee-based financial advisory services.

Patrick Fehring

The same week Citizens announced it was launching wealth management and private banking services in Southeast Michigan, seven-branch, Farmington Hills-based **Level One Bank** announced it was targeting the affluent, too, and had hired two veterans of wealth management.

"It was part of the original plan when we launched the bank in 2009 to have a wealth management operation," said bank president and CEO Patrick Fehring. "We're primarily a business bank dealing with entrepreneurs. Most of them were already using money managers, so why not have them use us?" he said.

Fehring said the likely growth strategy for the business unit will be to acquire small financial advisory practices next year.

John Donnelly

"Focusing on wealth management is a great business model," said John Donnelly, managing director of the Grosse Pointe investment banking firm **Donnelly Penman & Partners** and a bank loan officer early in his career.

"Lending money is a high-risk, low-reward model. As a banker, you don't put any capital at risk with a wealth management operation. You get high returns with no risk. Take a client with a $1 million portfolio. You get 1 percent a year to manage it, which is $10,000 a year of recurring revenue with no risk."

Donnelly and area bankers say there are several reasons why it makes sense for banks now to have a strong focus on offering financial services to the affluent.

- Wealth management adds to what bankers say is a more holistic approach toward business clients. A bank's loans may have helped customers grow their businesses and, consequently, their net worth. Once customers have enough net worth to qualify for wealth-management services, why let other banks have that business?
- Aging baby boomer business owners held out from selling their companies at the bottom of the market during the recession or post-recession. Valuations are high again, and as owners sell for the kinds of earnings multiples that haven't been seen since before the recession, they suddenly have the net worth that qualifies for special attention.
- Baby boomers, in general, not just those in business, are retiring with more wealth than any previous generation. **Bank of America**'s **Merrill Lynch** operation has even created a wealth management position, director of financial gerontology, to oversee advisory services for the elderly.
- A low-interest-rate environment has put a squeeze on what bankers call the spread: the interest they pay to borrow money and the interest they charge to lend it. With lower returns on loans, banks need income from other sources.

"Five years ago, a five-year balloon mortgage might have been at 7 percent. Today, it might be 4 percent," said Tim Marshall, president and CEO of the **Bank of Ann Arbor**. "You do the arithmetic on a $5 million loan, that's $150,000 in lost income. So, you offset that two ways. You grow your balance sheet, and you add noninterest products such as wealth management and trust services."


Tim Marshall

Marshall said he focused on beefing up wealth management when he joined the bank in 2004, seeing growth there as a way to offset losses from the next down cycle. The bank then had a little more than $200 million under management.

Today, the Bank of Ann Arbor manages about $931 million.

"What we make from loans is very, very low, so banks have to figure out a way to make more money and keep the doors open," said Pete Gargasoulas, the Southfield-based vice president and senior portfolio manager of investment management and trust for the **Fifth Third Private Bank**.

"We've expanded wealth management in Michigan and across the Fifth Third footprint. We've added staff here in the last year, and we expect to continue adding staff the next two or three years. We've got more than $1 billion under management in Southeast Michigan now, and we're going to grow aggressively."

"There are a lot of baby boomers retiring with a lot of wealth, which creates more need for advisory services," said Lisa Sampson, senior vice president and managing director of wealth management for **PNC Bank** in Southeast Michigan and Ann Arbor.

Sampson is a 28-year veteran at PNC who has spent 17 years in wealth management, the past year in her current position. Thirty-three bankers report to her, with the bank preferring its wealth management customers have at least $1 million in liquidity.

Sampson said the low-interest-rate environment helps drive PNC's focus on wealth management but also drives the need for customers to seek professional advice. They no longer can just plunk money in CDs and make a decent return.

"And you've got more people retiring now without pensions," she said. Without that source of money coming in each month, she said you need to maximize the returns on the money you do have.

A mission for Sandy Pierce

Sandy Pierce

When Akron, Ohio-based **FirstMerit Corp.** bought Flint-based **Citizens Republic Bancorp Inc.** last year, Sandy Pierce, the former president of Michigan operations for Charter One who was hired as chairman and CEO of **FirstMerit Michigan**, said she knew what one of her first tasks had to be: growing a wealth management operation from scratch.

Citizens Republic didn't provide that service, which has been a focus for FirstMerit. In the 16 months since shareholders approved the sale, FirstMerit Michigan has recruited 42 financial advisers.

"We're absolutely continuing to grow that business," she said.

Pierce said the bank generally provides wealth management services to customers who have at least $1 million in total bank business, including loans, deposits and investible incomes.

FirstMerit Bank has $6.5 billion under wealth management. It doesn't break out numbers by state.

Brent Wilder, associate director of public relations for Columbus, Ohio-based **Huntington Bank**, said the company recently shifted the role of regional presidents from a concentration on commercial banking to a broader focus, "including direct-line engagement with The Huntington Private Client Group."

Wilder said that emphasis began last year when Jim Dunlap, president of the West Michigan region, was named director of the group.

Eric Dietz

"It's a space that hasn't been a focus for us," said Eric Dietz, senior vice president in the Birmingham office of the **Huntington Private Bank**. "We're trying to build a reputation as a relationship bank, so wealth management makes sense for us."

Dietz said that the bank's new focus is directly related to recent and ongoing M&A activity by its business customers.

"A lot of entrepreneurs are selling their businesses, and a lot of wealth is being generated. So it just makes sense for us to do this," he said.

Kirk Albert, Ann Arbor-based president of **KeyBank**'s Michigan operations, said the recession didn't just bring on a low-interest environment, it caused customers to pay down a lot of debt as fast as they could, which in turn cut down on what banks were making on loans.

"You have to look at other revenue sources, like trust, treasury management and wealth management," said Albert, who said the bank has about $3.5 billion under management in Michigan. "Michigan is one of the best markets in our footprint for wealth density."

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