



New product for Bankers Financial

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By Michael Lovell, michaellovell@bpcdm.com

Bankers Financial Services Corp. is developing a series of products it believes can help community banks retain more money from their depositors.

For at least 15 years, banks have been losing their customers' investment dollars to money management organizations and insurance companies. Banks are traditionally too expensive and too conservative, and haven't offered investment products that match the returns earned by mutual funds or annuities.

Until recently, banks had little more to offer clients than passbook savings accounts, standard certificates of deposit and interest-bearing checking accounts. Now that's changing. Bankers Financial, a subsidiary of Broker Dealer Financial Services Corp., is rolling out a new breed of certificates of deposit whose returns are linked to various benchmarks, including the performance of the Dow Jones industrial average and other stock market indexes.

Large banks, including Citibank and J.P. Morgan Chase, have had access to similar products for some time and have typically sold them to high-net-worth clients. The products require about \$5 million in capital to work, and that amount of money has proven to be a stumbling block for community banks. Bankers Financial's twist is to make the products available to small community banks by pooling deposits from several banks. And it has big plans for how far the idea can be taken.

"This is not a product that's prevalent in Iowa banking circles," said Mike Sherzan, president and chief executive of Broker Dealer Financial Services, whose subsidiaries include Bankers Financial, IBA Securities and BDF Investments. "For the first time, community banks will be able to raise deposits with equity-based instruments."

Though certificates of deposit typically pay miserly returns, they have one great advantage: Both the investment's return and the principal are protected by federal insurance up to \$100,000. The equity-based CDs will have similar insurance.

The characteristics of the new products are key for banks of all kinds, but particularly small banks that typically don't have the resources to offer complicated investment products. In 1987, banks controlled 85 percent of the nation's total deposits, or about \$4.1 trillion. The mutual fund industry controlled just \$753 million. By 2003, the tables had turned. The amount of money under control by mutual funds had grown to \$7.1 trillion, or about 55 percent of total deposits.

So far, six Iowa banks are selling the index-based CDs, including Pella's Leighton State Bank, the Community State Bank of Spencer, Knoxville's Iowa State Bank and Adair's Exchange State Bank.

Bankers Financial, led by Lisa Smith, is now stepping up its marketing efforts. It has attracted 11 banks to participate in an event later this month to learn more about the products. Broker Dealer, which has 240 employees and a sales staff that is networked to hundreds of financial institutions across the country, is hoping to use that network to help sell the new product, and in the process give small banks a new edge to raise deposits.

"How many Edward D. Jones branches do we have in this state?" Sherzan said. "This is the one thing community banks can use to fight back."