

15 MINUTES WITH ...

W. HENRY WALKER, CEO, FARMERS & MERCHANTS BANK

By Tiffany Rider - Senior Writer

November 8 - W Henry Walker, CEO of Farmers & Merchants Bank (F&M), has a personal philosophy about life: enjoy what you do well, but know that to do something well takes a lot of hard work.



Based on his philosophy, Walker said he could have gone into any industry and would have enjoyed working just the same. In today's world, when the average person changes jobs or career paths multiple times in his or her lifetime, Walker's commitment to F&M is somewhat of a rarity.

"It's because people don't have the patience to wait through that really boring, mediocre time when you don't really do something well and every day is just a lot of hard work," Walker said. "You've got to get through that flat spot of every career to get to the other side, to where you are knowledgeable and capable about your business or your profession. More simply put, I tell my children, 'Strive to be great at something and you'll always live a comfortable life. There are no guarantees of being rich, but you'll probably be comfortable.'"

F&M is a family business, founded in Long Beach in November of 1907 by Walker's great-grandfather. Walker said he chose to go into banking because it was most accessible to him. He began his career on the teller line nearly 30 years ago while pursuing a bachelor's degree in business administration from Pepperdine University. He graduated one year into his career with F&M, working his way up the ranks to hold the positions of chief credit officer, corporate secretary and executive vice president.

In addition to his personal philosophy, Walker credits his brother Daniel Walker – president and chairman of the board – for the opportunity to step into the role of CEO in March 2008. Walker continues to serve as F&M's chief credit officer and corporate secretary, actively involved in all areas of management for the 22 banking offices in Long Beach, the South Bay and Orange County.

For more than 100 years, generations of Walkers have kept the community bank a successful family business. In this interview, Walker discusses the bank's successes, the benefits of community banking, how governmental regulation has impacted the industry and what he thinks Long Beach residents can do to help make the city a more business-friendly place.

LBBJ: F&M Bank has a 100-year history of community banking. What is it that has kept F&M going strong?

Walker: Sticking to core philosophies from our founders. Those core philosophies are: honesty, integrity, the home, the church and service above self.

LBBJ: What is F&M bank doing today to make sure it will withstand the next 100 years?

Walker: Every day we execute our business plan of safety and soundness, of relationship banking, of safeguarding our brand of safety and service. We look to continue our expansion into L.A. County and we've almost completed our expansion into Orange County at this point. We continue to build our management teams.

LBBJ: Is maintaining the community banking focus part of that plan?

Walker: Yes. You want to maintain the touch, the feel of a community bank. You do that for a lot of reasons. When you have the financial strength that we have, the size that we have and the back-office support that we have, you don't want to have the feel of a big bank. You want to use those to complement a community-banking feel. The big banks are certainly a choice by default. People are with them. Most people don't have anything nice to say about them, and they want to be with a community bank. But for some reason, they just have this sense that it's going to be inconvenient. Well, community banking isn't inconvenient. It's just as convenient as the big banks. People just have to understand the pluses over the minuses.

LBBJ: Are personal relationships with bankers still important in today's digital world? Why or why not?

Walker: Personal banking relationships are still important. For the average consumer that doesn't really have many needs other than just moving a little bit of money from here to there, processing their paycheck and paying the bills, the electronic age is very convenient to them and probably satisfactory. However, when it steps above that to where they actually have other requirements – bigger bills to pay, family obligations, saving for children, retirement funds, a dream of running a business – they need to become aligned with a bank that can help them realize those dreams, and they need a personal relationship. That is when a community bank becomes more important. If you put all the banks on a corner, people who just want electronic banking are indifferent to whom they bank with. But as soon as they have a problem, as soon as they have a need, then a relationship becomes more important. We do that better than most banks because we maintain our staff.

LBBJ: How has the Dodd-Frank Wall Street Reform Act of 2010 impacted F&M customers?

Walker: It was very interesting being back in Washington. You know, there are portions of the Dodd-Frank Act that may be unconstitutional and are being challenged. [International law firm] O'Melveny and Myers is going to bring a constitutional action against portions of the Dodd-Frank Act, particularly the Consumer Financial Protection Bureau, [which is] ... an independent body to regulate consumer protection against businesses in this country. It is funded directly from the U.S. Treasury and receives no budgetary allocation from Congress. One person rules it; it has no board of directors.

The bureau has the ability to shut down institutions within a 24-hour period. The only thing that can stop it is if the U.S. Department of Justice objects. If they don't object, or they don't find the piece of paper on their table, they have all the rights to shut down businesses.

LBBJ: Is that similar to the way the Federal Deposit Insurance Fund can shut down banks if they fail?

Walker: No. This is if they perceive that you are in violation of some constitutional law. It is pure socialism. But that is just some of what has been brought in with this Democratic Congress, when you've got everything out of balance. When you have Nancy Pelosi stand up and say – I can't remember if this was about Obamacare or Dodd-Frank – "We need to pass this now. We don't have time to read it," with that kind of pervasive attitude, it's unfathomable. The Dodd-Frank Act was designed to reduce the concentration of power in the largest banks in the U.S. It didn't happen. Here at F&M, we try to make regulations as transparent to the customers as we can. Slowly but surely, it starts creeping in and the pot just gets hotter and hotter. They just don't know how hot the pot is. Regulations, including Dodd-Frank, have restricted our ability to run what should be a free enterprise business. We have a much more difficult time working with any borrowers that need special attention and just servicing day-to-day needs.

What you hear from the regulatory world is they're still studying Dodd-Frank and trying to figure out how to enact it. The sad thing is that regulators, the government and the Federal Reserve are emotionally ambivalent to the new regulation. It's just their job to implement, regardless of the damages it causes. That is something that was very clear from our trip to Washington. We heard different regulatory bodies say, "Don't tell us about the problems with Dodd-Frank. Tell us how we can implement it effectively."

When you go around Washington, you see they aren't even at 30,000 feet. They are at 80,000 feet. They have no clue about what is happening on the ground as they run around their kingdom. It feels like Rome when you're there. Whatever Rome was like in the day, this is what Washington felt like to me. As the Caesars come and go in the senate, with their control and the partying and the lifestyle – it's so opulent it's unbelievable . . . they're making decisions so far above the Earth that they have no clue of the effect at the ground level.

There are some good senators and congressmen out there who try, but if you destroy business in this country like they have, there aren't going to be any jobs. They keep asking banks, "Are you going to lend to jobs?" There's no lending because businesses aren't getting any orders. They can't get any orders because there's nobody to buy. There's nobody to buy because there are no jobs. They've destroyed business. They don't get it. And then they come back to the banks and say, "Why aren't you lending?" We're reflective of what's going on in the whole marketplace. We can't lend because the businesses can't get any orders. When the businesses can manufacture and get orders, then we have somebody to lend to. We are complementary to the whole economy; we're not the economy. They act like we're the economy. No. That's a level of confusion, and it's part of this 80,000-foot level perspective. Lawns are manicured like its Disneyland. Helicopters are flying in and out. You can just see the money that's being spent and it is really crazy.

LBBJ: Why do you think big banking institutions are charging debit fees at a time when consumers are struggling?

Walker: Big banks are charging debit fees because they can. It is easy money for them to pick up, and consumers don't vote with their feet and walk from the institutions. They know that. The vast majority of consumer accounts are not profitable. So they charge the debit fees, knowing that if the vast majority of their accounts walk they lose unprofitable accounts. That's probably the reality of their analysis. The majority of the big banks pay for unprofitable accounts through overdraft fees and fees on accounts that are not managed.

LBBJ: What other banking fees do you think are on the horizon?

Walker: Again, the ridiculous thing is this is a reaction to overregulation, for sure, on the Durbin Amendment. What it does is it causes everybody to re-craft how they do business. But, again, the people that Congress was trying to protect, supposedly the poor and naive, [are the ones who] end up paying for it anyway. It's not too different from raising taxes on the wealthy. Those who pay for the taxes on the wealthy are still going to be the poor, so it doesn't do any good to tax the wealthy more. They just change the benefits they provide in their companies, or they layoff a few people and have the others work harder. One way or another, the poor person is going to end up paying for it. This is the same deal.

LBBJ: It seems to be the pyramid structure of these institutions.

Walker: Yes.

LBBJ: If you were able to implement or change one banking law, what would it be and why?

Walker: If I could change one thing, it's ... how the country functions ... I couldn't pick a single law. I couldn't pick one regulation. What I could pick on is the overriding philosophy that people are not responsible for the decisions they make. This has to change ... for us to move forward. The common person, the regular Joe, the businessman, the well to do – they all need to be responsible for the decisions they make. They shouldn't have the right to run to an attorney to sue somebody for a bad decision they make, and the government shouldn't be backing the bad decisions they make. If they borrow too much money, and their home loses value, they either pay their debt or give up their home. That was a decision they made. They shouldn't get to stay in their home for free and not make any payments, and make the businessman wait to get a hold of the collateral. The bank has already taken a loss, but somebody's got to be responsible for that ultimate decision. They knew their financial situation when they borrowed the money. If you buy a cup of coffee and you burn yourself with it because it's hot, that was your decision. Nobody deserves to get sued on that cup of coffee. But in today's age, it wasn't your fault for buying hot coffee and letting it burn you.

... Government needs to come back and reassess its position as a whole. We need tort reform ... That would be what I would love to see changed. If you eat fast food every day and you're overweight and you're a diabetic and have too much cholesterol, that's your fault. You made the choice. And there was enough literature out there. [Just] because they didn't outright tell you that you were damaging yourself, it's still your fault. People have to be responsible for the decisions they make.

All of the consumer laws that we have today are overregulation, with disclosures on everything from credit cards to home mortgages. We can't even fund a loan for X amount of days because you "have to have time to think if you really want the money." How stupid is that? After you're approved there's a writer rescission period because you could decide within those last three days that you just don't want the money. Well, you know what? You should have made that decision 45 days ago when you were applying for the loan.

LBBJ: How well situated do you think the Long Beach economy is today for the future?

Walker: Long Beach and Los Angeles and Orange County have a certain level of immunity to the systemic problems throughout the state because of our geographic location, our access to the ports and because we are a pathway for the rest of the country. But we still have problems. We need a state that is business friendly. I recently spoke to a customer whose company has been in manufacturing in Compton for 75 years. He said, "I'm leaving and I will never be back because this state is so unfriendly to business." He said he would wind down the balance of his 50-plus manufacturing jobs, keep an office here for just professional staff and his business will be in Mexicali, in Texas and in Shanghai. He will never be back. The politicians don't get it and the electorate doesn't get it.

I've always wanted to run the campaign for the elections with the slogan "If it's good for business, it's good for your paycheck." The common voting person ... [seems to] think that they think they're "sticking it to the man" when they vote for the liberal politicians, but at the end of the day, I promise you, they stick it to themselves first. They just don't get it.

LBBJ: Do you think it could be that faith in the political system is lost?

Walker: In Long Beach, we need to vote in a conservative city council. We have people who got voted in in council districts with less than 10 percent of the district voting, and they're winning by a couple hundred votes. Nobody's voting. Long Beach has a thriving community of local businesses, many of which are part of the city's legacy. It is imperative that residents vote for candidates who not only support business-friendly legislation but have real-world business experience to spur job growth and stimulate the ailing economy. Local elections are the platform for decisions that are made on the state level and require the attention and investment of every citizen to ensure the government is leading the way for our city to grow and thrive despite the challenging economic landscape.