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Minimal bureaucracy works wonders for MB

FINANCE | Major mid-size banking player still manages to be nimble, offer personal touch

April 8, 2008 **TED PINCUS** theopincus@hotmail.com

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In commercial banking today, safety is paramount, growth is secondary. The number of red faces in executive suites at Citibank, Wachovia and other behemoths tell the story.

So, is it possible that a humdrum Chicago neighborhood bank could, in the last 10 years, explode into prominence as one of this market's top players while sidestepping the minefield of high-risk lending?

That seems to be the delicate dance being performed by Mitch Feiger at **MB Financial** (Nasdaq: MBFI). In that decade, he's managed to grow his collection of city and suburban banks from 13 to 73, capture the fifth spot in middle-market share, grow assets from \$1.3 billion to \$8 billion, and steadily build return on tangible equity to a record 21.1 percent for the year just ended. More importantly, he seems to have adroitly avoided the lure of subprime lending and big bets on loans to hot shot developers. Like Odysseus bound to the mast and his sailors' ears stuffed with wax as he sailed past the island of the sirens, Feiger has resisted most of the risky markets while aggressively pursuing the quality segment of corporate and real estate credits.

"We have virtually no exposure to the highly publicized subprime end of residential and commercial real estate," he tells me this week. "That means no CDOs [collateralized debt obligations sold in batches], and our \$500 million in loans to real estate developers represents only 8 percent of our total loans, and are with good caliber Chicago area firms. Meanwhile, we've been highly conservative in residential mortgages [6 percent of loans] and home-equity loans [6 percent of loans]."

Clients get direct access to top

Maybe one reason for the MB anomaly is that it's run not by a born banker but by a bean counter. Geiger, a 48-year-old native of Wilmette, became a CPA and joined Touche Ross & Co. after earning an MBA at University of Chicago. Enticed into banking in the '80s, he wound up heading the old Coal City National Bank here. After engineering its merger with Avondale Financial in 1998, he launched a bold series of acquisitions to gain more lending capital, beginning with Mid City Financial. This was followed by purchases of six others including First Oakbrook Bank in '06. In each case, Feiger says, he kept a close eye on middle-market corporate relationships and seasoned management.

All this catapulted MB into a middle-market position right behind the biggest -- LaSalle, Chase, Harris and Fifth Third. It also helped Feiger to amass a battle-proven crew of lending officers, (many alumni of American National and LaSalle) who now number 95 and have an average of 20 years experience.

"As we grow," Feiger says, "we're fighting fiercely to maintain our key competitive edge, which is a lean structure with minimal bureaucracy. This enables direct client access to senior management -- I'm personally involved in about 15 loans each month, and for some decisions we can act in minutes."

This has allowed MB to sustain a 55 percent efficiency ratio and hold non-interest expense to less than 2.3 percent of average assets. Although operating income has been flat for a couple of years and may be flat again this year at \$1.94 per share, according to street estimates, it still reflects a 32 percent operating margin, vs. a 22 percent average for the mid-sized bank industry. Moreover, in 2009, which may witness a continued tough climate for banking, the street sees earnings per share rising to a record \$2.17.

One reason is that MB's non-performing loans are at a minimal .44 percent of total loans, and last year's charge-offs were only .25 percent. Feiger has felt that the Chicago real estate market is decidedly overbuilt and used extra caution in lending. "For example, for a developer of 100 apartment units, we insisted on a minimum 15 percent equity investment by the developer and at least 50 percent of the units having pre-sale commitments." Today Feiger says he worries about five to six loans -- all construction -- which aggregate less than \$14 million.

The other reason Feiger may continue the momentum is new cherry-picking opportunities. "The Chicago metro area is the nation's least consolidated major bank market, with only a 40 percent share owned by the top three nationwide bank holding companies. That's our opening to find additional partners."

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