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## Scarcity Value Drives Pricing of Latest Chicago Deal

By Jackie Stewart  
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For MB Financial in Chicago, the good news is that it finally landed its top acquisition target.

The bad news is that the \$15 billion-asset company is running out of ways to quickly bulk up in the Windy City, a fragmented market filled with smaller community banks.

Those factors seemed to have spurred MB Financial to pay \$449 million for American Chartered Bancorp, a price that equates to a healthy 219% premium to the \$2.8 billion-asset seller's tangible book value.

"MB has played it differently than other acquirers and has waited for larger, strategic deals," said Brian Martin, an analyst at FIG Partners. "They're likely to stick with their current strategy, but there's not a lot left in the Chicago market. That maybe explains part of the pricing."

MB's last bank acquisition came last year when it bought the \$5.9 billion-asset Taylor Capital Group. Since then, area rivals have been willing to roll up smaller banks.

The \$9.7 billion-asset First Midwest Bancorp, for instance, has deals in place to buy the \$647 million-asset NI Bancshares and the \$108 million-asset Peoples Bancorp. The \$21.1 billion-asset Wintrust Financial has completed eight open-bank deals since 2011, with no seller larger than \$471 million in assets.

First Midwest and Wintrust could have taken a look at American Chartered, industry experts said. First Midwest, in particular, could have benefited from a deal that would have vaulted it past \$10 billion of assets (where it would face more regulatory scrutiny), though the company would have likely faced substantial dilution to make a deal work.



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Representatives for Wintrust and First Midwest did not return requests for comment.

Executives at MB Financial haven't been "interested in cobbling together many smaller deals because they're distracting and need to be large enough to be worth doing," said Kevin Fitzsimmons, an analyst Hovde Group.

Smaller banks are often unattractive because they lack the low-cost deposits, talent or a specific niche, said Michael Iannaccone, a managing director at FinPro Capital Advisors.

American Chartered "is a great earner," Iannaccone said. "I think this deal is a clear sign that people want to grab market share, but it's still not growth for the sake of growth."

Mitchell Feiger, MB Financial's president and chief executive, made it clear during a conference call Monday to discuss the deal that American Chartered had been his company's primary acquisition priority. He noted that American Chartered, which has been adding loans at an 8%-10% annual clip since 2012, had a 1.18% year-to-date return on assets.

"This is a fantastic day," Feiger said. "There are not a lot of banks in Chicago anymore that are over a billion dollars that would fit with MB. It's just a handful."

MB Financial should be pleased with its latest deals because American Chartered and Taylor addressed its challenges adding earning assets, industry experts said.

"MB is addressing its Achilles' heel by merging its incredible deposit base ... with two strong asset generators," said Christopher McGratty, an analyst at Keefe, Bruyette & Woods.

Only three independent banks based in Chicago have \$1 billion to \$3 billion in assets, based on data from the Federal Deposit Insurance Corp.

As a result, MB Financial may have to focus on nonbank acquisitions in areas such as leasing and asset management to generate fee income, Fitzsimmons said. Last month, MB Financial agreed to buy asset manager MSA Holdings.

MB Financial plans to take "a pause" from bank deals until it integrates American Chartered, Feiger said, adding that it could take at least nine months to do that. He said that such a break would not apply to nonbanks as long as "they are not demanding of material integration resources."

Bigger community banks in the Chicago metro area will take note of American Chartered's premium, though it is unlikely to accelerate consolidation in the market, Fitzsimmons said.

American Chartered seemed to have specific reasons to sell.

American Chartered's senior management — including Chairman Robert Riter and President Dan Miller, who helped found the bank in 1987 — is aging and seemed ready to consider retirement, Feiger said. The company also has private-equity investors, though it did not seem as though those shareholders had been pushing for a sale.



