

# M&I to sell Treasury \$1.7 billion in preferred stock

*By Paul Gores of the Journal Sentinel*

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Marshall & Ilesley Corp. expects to receive about \$1.7 billion the federal government is investing to help shore up the nation's troubled banking system - money analysts said will strengthen M&I and could help it to eventually acquire other financial institutions.

Milwaukee's M&I, Wisconsin's biggest bank and 19th-largest in the United States, said it's been given preliminary approval to sell \$1.7 billion in preferred stock to the U.S. Treasury, paying the government a 5% dividend for the first five years and 9% thereafter.

After the announcement, shares of M&I closed up \$2.96, or 19.4%, at \$18.22.

The cash from the government will raise M&I's core capital ratio, which is a measure of a bank's strength, to 10.9%. Although M&I's ratio of 7.9% already was above the 6% level for a bank to be considered well-capitalized, the new money positions the bank to more easily weather shaky residential construction loans on its books in Arizona, and it likely sets M&I up to eventually take over another bank that isn't faring as well, analysts said.

"The intention is for the capital to be used either for growth or investment in others, such as an acquisition," said Thane Bublitz, a bank analyst with Thrivent Asset Management in Appleton.

M&I is among the initial 35 banks - and the first in Wisconsin - to announce they will let the government take an ownership stake in their companies as part of plans to bolster the nervous banking system. Many more banks are expected to follow.

Bublitz said M&I's quick approval for the capital shows it is a bank that the government considers strategic "to help us out of the financial crisis we're in." He said the state's second-biggest bank, Green Bay's Associated Banc-Corp, also seems like the kind of bank the government would want to invest in.

M&I's chief financial officer, Greg Smith, stressed in an interview Tuesday that the bank was "in a very strong capital position before this."

"It's a nice recognition of the health of M&I because you've got to remember, in the whole context of this plan, the banking regulators and the Treasury Department are really encouraging all healthy banks to participate," Smith said.

## **Arizona, Florida loans**

Although M&I was considered well-capitalized, the housing slump in some of its markets, especially Arizona and Florida, has taken a toll. Earlier this month, M&I reported earnings that were down 62% from the third quarter a year earlier. In the second quarter, the bank had recorded a nearly \$394 million loss.

"Having that capital, from a defensive standpoint, puts them in good shape to withstand a recession and Arizona," said Kenneth Brusda, president of North Star Asset Management in Menasha. "If all goes well with that, it puts them in a position to make some acquisitions."

At 5%, the rate banks will pay for the infusion is a bargain, Brusda said. It would cost at least twice as much to raise such money on the open market, he said.

Brusda said he believes that as the government tries to revive the banking system, it prefers that stronger banks acquire weaker banks than for the weak banks to be closed by regulators. He said he thinks despite what regulators say, consolidation of banks is one of the key

intentions of the plan, and at some point, M&I will be encouraged by regulators to take over a weaker institution.

"It's much less traumatic for the country as opposed to having bank failures," Brusda said. "Bank failures scare people. You can have a run on other banks. I think this is a much more desirable way."

## **Not in a hurry to acquire**

M&I's Smith, however, indicated the bank isn't in a hurry to acquire anyone.

"We look at this capital as an opportunity to continue serving our customers and our communities through lending, etc., in an uncertain environment. Is it an acquisition tool for us? I guess that's not really where our head is at the moment," Smith said.

The White House and Treasury on Tuesday urged banks receiving the cash to make sure they use it to revive lending.

"What we're trying to do is get banks to do what they are supposed to do, which is support the system that we have in America. And banks exist to lend money," White House press secretary Dana Perino said.

The Treasury, which is overseeing the massive capital injection program along with the rest of the financial system rescue plan, will pour \$125 billion into nine of the country's largest banks, which account for 50% of all U.S. deposits. Anthony Ryan, Treasury's acting undersecretary for domestic finance, said the first payments went out Tuesday. An additional \$125 billion will start flowing to other banks within days, he said.

"As these banks and institutions are reinforced and supported with taxpayer funds, they must meet their responsibility to lend, and support the American people and the U.S. economy," Ryan told the annual meeting of the Securities Industry and Financial Markets Association. "It is in a strengthened institution's best financial interest to increase lending once it has received government funding."

Any bank that takes money from the Treasury can't raise its dividend for the first three years that the Treasury owns shares without permission. M&I's quarterly dividend is 32 cents and has been increased every year for 36 years. M&I recently told shareholders in a letter that it was reviewing its dividend policy.

## **Option to buy more**

The deal with M&I, under the standards applied to all banks that receive a capital infusion, also gives the government the right to buy a limited number of shares of M&I common stock in the future at a market price from autumn of 2008.

Jon C. Bruss, chief executive of Fortress Partners Capital Management in Hartland, said there is enough money in the Treasury's plan for all banks in the U.S. to receive an investment. But it will become apparent which banks regulators consider healthiest and most important as they buy preferred stock in some but not others.

"I think the Treasury has made it pretty doggone clear that banks that qualify are going to be stronger banks that will be made even stronger and safer by this investment," Bruss said.

Taking government money also requires banks to abide by rules that place some limits on compensation for top executives. It was not immediately known Tuesday what effect that might have on M&I's leaders.

"M&I has always been very generous with their compensation plan over the years, and so there could be a handful impacted by this," Bruss said.

## **Capital infusion for M&I**

### **How it works**

The U.S. Treasury will buy \$1.7 billion in preferred stock from the bank and in return receive a 5% dividend for five years and 9% thereafter, terms analysts say are very favorable for banks looking to raise capital right now. The Treasury also will have the right to buy a limited amount of M&I common stock in the future at roughly today's prices.

### **What it does**

Immediately boosts the capital ratio of the bank, making it stronger and helping it to more easily weather an economic downturn. It encourages the bank to continue lending even during tough times. It also increases its ability to make acquisitions of weaker banks - something analysts believe the federal government wants.