

Market creates opportunities, execs say

By Paul Gores of the Journal Sentinel
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Long known as a mortgage and consumer lender, Bank Mutual Corp. is diversifying its business by beefing up its commercial lending capabilities.

The Brown Deer-based financial institution has been hiring seasoned business lenders who have worked for competitors in Wisconsin markets, creating a team that Bank Mutual President David A. Baumgarten hopes will make the bank a lender that companies with credit needs will feel compelled to contact.

"If a client of another bank thinks about making a change, I want Bank Mutual to be one of the two or three banks they want to talk to. That's my goal," said Baumgarten, a former Associated Bank and U.S. Bank executive who joined Bank Mutual about a year ago.

The bank has brought in at least seven commercial bankers so far and expects to hire more, Baumgarten said.

"We're doing this for the long term," Baumgarten said. "This isn't something we're doing for the next year and a half and then we're going to move onto a different strategy. We're confident this new line of business can be a very significant piece of the bottom line of this organization for a long time going forward."

Baumgarten and Michael T. Crowley Jr., Bank Mutual's chairman and chief executive, said the current banking and regulatory environment makes it an opportune time to seek lending relationships with businesses. Regulators have been pressing banks to reduce high concentrations in certain industries, meaning sometimes banks have to end relationships with quality borrowers who then are left looking for a new bank.

"You have regulators coming into some of these institutions and saying, 'These aren't bad borrowers, but we just don't want to see you concentrated so much with Mr. A or Mr. B or Mr. C,' " Crowley said. "And reluctantly, some of the larger institutions are being encouraged to kind of spin off some of those dollars, and that opens up a whole opportunity for place like Bank Mutual because of the capacity we have and the new relationship managers we've hired."

Delinquent loans

The strategy, which other mortgage-oriented lenders have tried with various degrees of success over the years, could be a good one for Bank Mutual - especially with the pending acquisition of M&I Bank by BMO Financial Group and the customer disruption it might cause, said Ken Brusda, president of North Star Assent Management Inc. in Menasha.

"It makes sense for them to try to diversify the type of lending they do, and they have an opportunity," Brusda said.

But Brusda noted the strategy also is coming at a time when Bank Mutual is dealing with a relatively high number of delinquent loans and could have trouble turning quarterly profits. Bank Mutual Corp. posted a loss of \$72.6 million for 2010, a figure elevated by the strategic early repayment of borrowings from the Federal Home Loan Bank of Chicago. It had a \$1 million profit in the first quarter of this year.

Bank Mutual has enough capital to get through its issues with noncurrent loans, but having to handle bad loans tends to blunt a bank's other growth efforts, Brusda said.

Crowley acknowledged the delinquent loans, citing the bank's high levels of capital as a strength as it works through problems in the loan portfolio.

"The fact of the matter is the recession has dragged on far longer than anybody ever would have imagined," Crowley said. "And some of our really good borrowers have been trying to keep their heads above water, but everybody is going to get tapped out at some point."

Jon C. Bruss, chief executive of Fortress Partners Capital Management Ltd. in Hartland, said the diversification into commercial lending is overdue at Bank Mutual.

"Broadening the strategy into commercial and industrial loans is something they should have done before they went public," Bruss said.

Bank Mutual transitioned to a publicly traded stock company in two stages between 2000 and 2003, acquiring almost \$500 million in capital in the process.

The bank's stock held up better than many during the worst stretch of the recession, but now is trading at less than half its price from this time two years ago - a price Brusda said reflects its recent earnings and the delinquencies on its books.

"Those don't just disappear quickly," he said.

Acquisition strategy

Yet, Brusda said, Bank Mutual likely is on the radar screen of bigger banks looking to expand in or enter Wisconsin. With assets of \$2.6 billion, it is the fifth-largest bank based in Wisconsin and it has 79 branches, many of them in prime locations in the state.

Crowley and Baumgarten said, however, that it's Bank Mutual that may be hunting for banks to buy as a way to grow and fill in gaps in its branch network.

"I think selectively we'd look. But today we're not in La Crosse and we don't have as large a presence in Madison as we'd like," Baumgarten said. "There are selected communities in the southeastern part of the state that we'd like to have more in than we do."

While keeping their eyes peeled for acquisitions, Crowley and Baumgarten say they have been concentrating on getting more production out of Bank Mutual's branches and have improved consumer offerings such as the bank's ATM network and its bill-payment product. They've also upgraded services, such as treasury management services and international banking, for commercial borrowers in anticipation of new relationships they're targeting - generally firms with annual sales of from \$10 million to \$100 million.

"If you look at what it takes to be successful in that piece (commercial lending), I think there's probably three things that a client will tell you: 'I want a quality relationship manager; I want a bank that has quality products that can handle my needs; and I want local decision-making,' " Baumgarten said. "They want to know who's the decision-maker and they want a quick response. We've addressed each of those areas."