mb financial

March 6, 2009

Neil M. Barofsky
Special Inspector General - Troubled Asset Relief Program
1500 Pennsylvania Avenue, NW; Suite 1064
Washington, DC 20220

RE: Electronically to SIGTARP.response@do.treas.gov
Original signed and other supporting documentation mailed

Dear Mr. Barofsky,

In response to your request of February 6, 2009, MB Financial Inc. and MB Financial Bank, N.A. have prepared the following narrative and enclosed report outlining our use of Troubled Asset Relief Program Capital Purchase Program ("TARP") funds and our compliance with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008.

On December 5, 2008, MB Financial, Inc. ("MB") received a capital investment of $196 million under TARP. As required by the TARP Securities Purchase Agreement, MB is employing the TARP funds with the following objectives:

- To expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy; and

- To work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market.

MB Financial, Inc. is the Chicago-based holding company for our only bank, MB Financial Bank, N.A., also headquartered in Chicago. As of December 31, 2008, our loans and leases totaled $6.2 billion, representing a 10.9% increase from December 31, 2007. The Treasury Department's purchase of $196 million of MB Financial, Inc. preferred stock and warrants strengthened our already strong capital position; our total risk-based capital ratio increased to 14.08% at December 31, 2008, compared to 11.65% at September 30, 2008. MB offers a wide array of commercial and personal banking products and services, lending money primarily to small and mid-sized businesses and to consumers. MB is also among a small number of banks that work closely with leasing companies to provide debt, equity and bridge financing.

MB is proud to have maintained an overall Outstanding CRA rating as determined by our primary banking regulator, the OCC, since 2003. MB Financial Community Development Corporation, a subsidiary of MB, and MB Financial Charitable Foundation provide additional resources used for the well-being of communities we serve.

Section 1: Use of TARP Funds

(b) (4) [redacted]

a. Your anticipated use of TARP funds. We have and intend to continue to use TARP funds as funding and capital to support loan growth.

b. Whether the TARP funds were segregated from other institutional funds. TARP funds were not segregated from other institutional funds. Although we can not specify whether our lending activity was funded by TARP funds or from growth in deposits or other sources of liquidity, we can report that we continue to lend and provide credit to creditworthy borrowers.

c. Your actual use of TARP funds to date. TARP funds from the issuance of preferred stock were received by MB Financial, Inc. on December 5, 2008 and have been used in the three months since that time as capital and funding to support loan growth and purchases of investment securities, specifically mortgage backed securities and municipal bonds. Details are provided below and in the attached summary.

(b) (4) [redacted]

We continue to lend to "Main Street" companies and consumers to support projects that are particularly supportive of efforts to promote growth of the economy. Some examples include:

- We originated a $100,000 expansion loan for a local company that was turned down by a New York-based national bank. The company employs 16 people on the west side of Chicago. We received favorable local television coverage regarding the loan. (See attached transcript.)

- We originated a $1.3 million term loan to fund a public infrastructure to a condominium project located in a local Tax Increment Financing ("TIF") district. This project will redevelop a vacant and abandoned property.

- We provided a $2.6 million mortgage and a $750,000 line of credit to a local contract manufacturer (wire harness assembly). The financing allowed the company to continue operating following the death of the owner. The company employs 90 people in Illinois.

- To prevent foreclosure, we extended a $1.1 million loan via a forbearance agreement to a real estate developer who significantly paid down his loan and brought in additional capital.

In addition to the lending and investment activities listed above, on February 27, 2009, MB was selected by the FDIC to acquire $168 million of loans and assume $213 million of deposits (all deposits, including uninsured deposits) of Heritage Community Bank, which was closed by State of Illinois financial regulators. This type of transaction is the preferred resolution method for the FDIC, providing the least impact on the failed bank's deposit customers as well as to the FDIC deposit insurance fund. MB was able to provide bank customers with prompt access to their deposits and to promote continued confidence and stability in the nation's banking system. Our strong capital position as a result of having TARP funds gave us the confidence to pursue this transaction.

d. Your expected use of unspent TARP funds. While we have not segregated TARP funds and cannot effectively determine when TARP funds are used, we can say that having TARP capital has given us the confidence to do the following:

- Continue to grow our loan commitments and loans outstanding. MB has a long history of growing loans. A couple of examples of loans that have been approved by our loan committee, but not yet funded include:

  - A $25 million commitment for an industrial revenue bond and line of credit to a non-profit organization that was unable to obtain funding in the bond market. This organization employs approximately 550 people in Illinois.

- A $5 million mortgage loan and $500,000 operating line of credit for a senior independent living facility that a large national bank refused to renew and had started foreclosure proceedings. The facility is home to 119 senior citizens and the company employs approximately 80 people in Illinois.

- Continue working with borrowers to keep them in their homes through our loan modification and loss mitigation activities. Since midyear 2008, we modified loans for 8 borrowers following prudent underwriting guidelines, enabling these families to stay in their homes or small businesses to continue to operate in their buildings. During this time period, we also allowed reinstatements for 6 borrowers to prevent foreclosure. Our loss mitigation efforts also included short sales, deeds-in-lieu of foreclosure and modified payment plans. Our overall loss mitigation actions helped 64 borrowers, outnumbering the number of foreclosures filed of 25. MB has also extended its loss mitigation efforts to include investor-owned mortgages that we service. Specifically, our loss mitigation efforts have helped an additional 134 of these borrowers versus the ten foreclosures filed during that time period.

- MB Financial Community Development Corporation ("CDC") will continue to compliment MB Financial Bank's lending and investment activities by managing high-quality equity and debt transactions, while maximizing opportunities to leverage conventional lending throughout our local communities. An example of our community development lending is a $20 million commitment (proportional share of a $65 million facility) to finance two industrial revenue bonds used to construct three charter schools within an existing industrial building located in a moderate-income neighborhood of Chicago.

- The President of our CDC, an MB executive officer, has been part of the leadership team for the Home Ownership Preservation Initiative (HOPI), since its founding in 2003. HOPI is a partnership between the City of Chicago, Neighborhood Housing Services of Chicago ("NHS"), the Federal Reserve Bank of Chicago and leading financial institutions conducting business in Chicago. The partnership seeks to preserve homeownership whenever possible and keep families in their homes through counseling, loss mitigation and loan workouts. When foreclosure is unavoidable, the partners seek to preserve the vacant properties as neighborhood assets. MB has a [redacted] participation in a [redacted] warehouse line of credit with [redacted] that is used in part to fund homeownership preservation loans. MB has also committed [redacted] to fund a new [redacted] warehouse line of credit for [redacted] that is expected to close in 2009.

- The MB Financial Charitable Foundation is dedicated and will continue to be dedicated to strengthening the communities where we work and live, with a special emphasis on low- and moderate-income communities and households.

Our Foundation has been involved and will continue to be involved in providing technical assistance to financial institutions engaged in creating new mortgage products and strategies. In October 2008, our Foundation was the recipient of a $250,000 grant from the John D. and Catherine T. MacArthur Foundation to support these efforts.

Without TARP capital our company would likely have been required to greatly reduce new loan originations or cease them all together in 2009 to maintain acceptable levels of capital relative to the risk in our balance sheet as best captured by our regulatory capital ratios. Our portfolio of loans and leases (as of January 31, 2009) has grown $198 million from the August levels due directly or indirectly from the $196 million of TARP funds.

Section 2: Executive Compensation

MB's executive management team and our Board of Director's Organization and Compensation Committee ("Committee") conducted a thorough review of compensation practices to ensure adherence to the requirements of the TARP Securities Purchase Agreement and the applicable sections of the Emergency Economic Stabilization Act of 2008 as implemented by the October 2008 U.S. Treasury Department guidance (the "TARP Rules"). Specifically, MB has taken the following actions:

- Our executive officers entered into agreements and executed waivers consenting to the restrictions and limitations required by the TARP Rules;
- We made changes to the effect of a change in control on our long-term incentives and certain retirement benefits in order to preserve the objectives of those incentives and benefits;
- The Committee conducted a review of our incentive compensation programs and concluded that they do not encourage unnecessary or excessive risk; and
- We established procedures to limit the tax deductions we take for 2008 and subsequent years with respect to compensation earned by certain Senior Executive Officers ("SEOs") to the $500,000 deduction limit under the TARP Rules.

In February 2009, the Committee met with staff members responsible for risk management to review our incentive compensation programs for the purpose of determining whether they encourage excessive or unnecessary risk-taking by our SEOs. As part of its review, the Committee received, reviewed, and approved a presentation regarding key enterprise risks to which the Company is subject, including strategic, market, liquidity, interest rate, operational, financial, credit quality and other risks. The Committee also received and reviewed an assessment of the controls and actions taken to mitigate those risks, as well as the provisions of the Company's executive compensation program and where those provisions fall within the spectrum of contributing to or alleviating risk. In reaching the conclusion that the Company's executive compensation program does not encourage Company SEOs to take excessive or unnecessary risks, the Committee and management's senior risk personnel noted:

(b) (4)

[redacted]

As noted earlier, MB's executive officers entered into the waiver required by the Securities Purchase Agreement and entered into agreements consenting to the restrictions and limitations required by TARP Rules. The waiver and agreement acknowledge the provisions of the TARP Rules relating to recovery ("clawback") of bonus or incentive compensation payments if such payments were based on materially inaccurate financial statements or other materially inaccurate performance metrics, limitations on severance pay and changes warranted by the risk review.

None of our responses regarding executive compensation address the requirements of the American Recovery and Reinvestment Act of 2009 ("ARRA"). Upon receiving guidance from the U.S. Treasury Department, company management and the Committee will review the effect compliance with ARRA limitations will have on MB's competitive position and ability to retain and motivate our high-performing executives and employees. Prohibiting annual cash incentive or long-term performance awards may materially reduce MB's competitiveness, reduce our ability to meet our strategic objectives, adversely affect our ability to meet community credit needs, and impair our ability to retain top performing sales staff.

In conclusion, MB and its staff are committed to fulfilling the original intent of TARP, including expanding the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy as well as working diligently to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market. This has long been MB's mission and practice. Having TARP allows us to continue that mission with confidence.

If you have any questions, please contact me at mfeiger@mbfinancial.com or my direct line at [redacted]

Sincerely,

Mitchell Feiger
President and Chief Executive Officer
MB Financial, Inc.

I, Mitchell Feiger, certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Mitchell Feiger
President and Chief Executive Officer
MB Financial, Inc.

Enclosures
Snapshot of Lending and Investment Activity (December 2008, January 2009)
Recovery Done Right: Chicago Bank Helps Business (text of CBS2 News Story)

Lending and Investment Activity
MB Financial Bank, N.A.

CONSUMER LENDING (Thousands $)	December-08	January-09	Total	Comments
	$	$	$	
1. First Mortgage		(b) (4) [redacted]	(b) (4) [redacted]	This activity consists of 1-4 family residential mortgages generated through out the bank. The majority of these loans are sold into the secondary market.
a. Total Loan Balance (Outstanding Month End)	*$295,336*	[redacted]	[redacted]	
b. Total Originations	$1,526	[redacted]	[redacted]	
(1) Refinancings	$727	[redacted]	[redacted]	
(2) New Home Purchases	$799	[redacted]	[redacted]	
2. Home Equity		[redacted]	[redacted]	This activity includes home equity lines of credit and closed end home equity loans.
a. Total Loan Balance (Outstanding Month End)	*$401,029*	[redacted]	[redacted]	
b. Originations	$7,228	[redacted]	[redacted]	
c. Renewal of Existing Accounts	$986	[redacted]	[redacted]	
d. Total Unused Home Equity Lines of Credit (Month End)	*$396,411*	[redacted]	[redacted]	
3. Installment Loans		[redacted]	[redacted]	This activity consists of consumer loans originated throughout the bank.
a. Total Loan Balance (Outstanding Month End)	*$59,512*	[redacted]	[redacted]	
b. Originations	$2,031	[redacted]	[redacted]	
c. Renewal of Existing Accounts	$2,136	[redacted]	[redacted]	
4. Indirect Vehicle		[redacted]	[redacted]	The majority of the vehicles financed were new motorcycles, financed through our approved dealer network.
a. Total Loan Balance (Outstanding Month End)	*$189,227*	[redacted]	[redacted]	
b. Originations	$4,639	[redacted]	[redacted]	

COMMERCIAL LENDING (Thousands $)	December-08	[redacted]	[redacted]	Comments
	$	[redacted]	[redacted]	
1. C & I		[redacted]	[redacted]	Commercial and industrial loans
a. Total Loan Balance (Outstanding Month End)	*$1,522,380*	[redacted]	[redacted]	
b. New Commitments	*$53,977*	[redacted]	[redacted]	
c. Renewal of Existing Accounts	$70,490	[redacted]	[redacted]	
d. Unused Commitments (Outstanding Month End)	*$861,881*	[redacted]	[redacted]	
2. Commercial Real Estate		[redacted]	[redacted]	Commercial real estate and construction loans.
a. Total Loan Balance (Outstanding Month End)	*$3,111,162*	[redacted]	[redacted]	
b. New Commitments	$45,620	[redacted]	[redacted]	
b. Renewal of Existing Accounts	$112,129	[redacted]	[redacted]	
d. Unused Commitments (Outstanding Month End)	*$213,252*	[redacted]	[redacted]	
3. Lease		[redacted]	[redacted]	Lease loans
a. Total Loan Balance (Outstanding Month End)	*$649,918*	[redacted]	[redacted]	
b. New Commitments	$67,306	[redacted]	[redacted]	

OTHER ACTIVITIES (Thousands $)	December-08	[redacted]	[redacted]	Comments
	$	[redacted]	[redacted]	
1. Security Purchases		[redacted]	[redacted]	Figures represent gross purchases.
a. Mortgage Backed Securities	$147,175	[redacted]	[redacted]	
b. Municipal Bonds	$0	[redacted]	[redacted]	

Recovery Done Right: Chicago Bank Helps Business


Reporting

Vince Gerasole
CHICAGO (CBS) —
Many Americans are frustrated by the economic recovery so far. The government set aside $700 billion for banks, yet credit still seems tight.

The money that was meant to again open up credit for businesses and consumers is often referred to as TARP funds, which stands for Troubled Asset Relief Program.

And even though it's not necessarily as widespread as some would hope, CBS 2's Vince Gerasole reports some banks are helping the local economy, just as the government hoped they would.

Hot tamales have turned into good business for Isidro Martinez.

"We started making in the house, in my basement," Martinez, of Isidro's Tamales, said. "I got two kids and I show all kids how to make tamales."

Last fall, as Washington approved billions in rescue funds, he went to a New York-based national bank for an expansion loan and was turned down.

"You have your dream you think go up and they tell you 'no' and they send you back again," Martinez said.

Chicago's smaller MB Financial Bank said yes, in part, according to managers, because local banks may have a better understanding of the area's economy.

"They may not have seen the heart of the leadership of this company," said MB Financial Bank Executive Vice President Thomas Fitzgibbon.

TARP funds didn't directly give MB more money to help Martinez, but they did make a difference.

"Basically it's a confidence factor, the confidence to continue to do what we've always done," Fitzgibbon said.

One hundred percent of every government dollar that went to a bank wasn't expected to be turned into a loan, but is was supposed to help banks solve their internal financial problems, so at least some of that money could be loaned out to main street America.

CBS 2 found evidence that some banks are lending by examining the increase in loan totals of some smaller local institutions for the last quarter of 2008.

Park National, which received $100 million from the government, loaned out $248 million. Marquette

Bank received $35 million, and extended $15 million in last-quarter credit. And MB Financial, which received $196 million, registered $132 million in increased business.

It was a key ingredient helping Martinez realize his expansion dreams.

The Obama Administration has now renamed TARP, including it in its overall financial stability plan.

Any way you look at it, there are many more businessmen like Martinez out there still waiting to feel its benefits.