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# Mercantile Bancorp hopes to bounce back from rough 2008

by Bob Gough, editor, QuincyNews.org

Ted Averkamp wants people to understand there is a difference between Mercantile Bancorp and Mercantile Bank.

"Mercantile Bank is just one of the banks that make up Mercantile Bancorp," Averkamp said in an interview with QuincyNews.org earlier this week. "While we were directly affected by what happened in the deterioration of the financial sectors, it was our other banks in a couple of markets that had the most affect on us."

Averkamp described 2008 as a "perfect storm" with rapidly-dropping rates, the real estate valuation collapse in some markets, and the overall economy stagnating. He said the banking market in the Quincy-area hasn't been affected as much as the urban areas in the country where Mercantile was starting to reach into.

"There's a lot of pain out there and we're feeling some of that," Averkamp said. "But at the local bank level, we're still loaning money and we're meeting our well-capitalized levels everywhere. We've a couple of cases were the housing market bottomed out and we were affected by that. Our overall results were disappointing."

On Wednesday, Mercantile Bancorp reported a net loss of \$8.8 million for 2008 following a year when the company had a net income of \$10 million in 2007.

"There are no bonuses or raises this year, I can assure you," he said. "And we are looking at open positions and, in some cases, not filling them."

Heartland Bank, which Mercantile Bancorp owns a 56 percent interest in, experienced losses and increased non-performing loans with business it has in the Atlanta area. Heartland's non-performing loans were \$14 million, or 37 percent of the company's total non-performing loans last year.

"Heartland had a lot of loans in the Atlanta market," Averkamp said. "Atlanta might have been the epicenter of this thing dropping off."

Mercantile's Bancorp's Royal Palm Bank of Florida subsidiary was also a drag on the company's performance with \$11.8 million, or 31 percent of the company's total non-performing loans.

Mercantile Bancorp purchased Royal Palm in 2006 for \$42.7 million. Averkamp said the acquisition made sense at the time.

"There were several interested parties who looked at that bank," Averkamp said. "You walked in there (Royal Palm), looked at their operation, looked at the facility and it was something we wanted. Hindsight is always 20/20. What are we guilty of? Poor timing. We

own the bank and we just have to work through it."

Awerkamp said a new management team installed in March 2008 has made progress and he believes as the Florida economy improves, Royal Palm will be a solid producer for the company.

"When your earnings stream is not going into earnings, you are building your loan-loss reserves," Awerkamp said. "This is a \$170 million bank. We've diverted monies to shore up those reserves. We've decided it is going to be a difficult year so let's build up the reserves and get through it in 2009. The regulators think we're well reserved."

Awerkamp said real estate sales are on the way back up in the Florida counties Royal Palm serves, but that's in quantity of sales, not in the dollar value amount.

Total assets for Mercantile Bancorp were a record \$1.8 billion for 2008 compared with \$1.6 billion the prior year. Loans grew from \$1.2 billion to \$1.3 billion in 2008 and deposits were at \$1.5 billion at the end of 2008 compared with \$1.3 billion at the end of 2007.

Awerkamp said the government is requiring more capital calls and more regulations in light of recent events.

"You take a bank with \$100 million in deposits and that is a \$200,000 cost," Awerkamp said. "I'm not criticizing the feds, they are doing what they have to do to shore up the industry."

On February 26, Mercantile shareholders authorized the company's board of directors to create and issue one or more classes of up to 100,000 preferred shares, and to add an additional 2 million shares to its common share base.

Mercantile's shareholders also gave approval for the company to take a look at private capital and/or public offerings of its equity securities, including participation in programs of the U.S. Treasury (TARP) to inject capital into banking institutions.

"We're going to get some investment banker advice and lay out the options so the board can make the best decision for all of the shareholders," Awerkamp said. "What makes sense or what is necessary? If \$15 million is enough to give us a cushion, what if you can attract \$60 million and put yourself in a position for future opportunities. There are entities that are not going to be able to get private capital.

"Our general feeling is we will try to avoid the government money if the private capital is there, but we want to explore all of the options."

Mercantile's Board of Directors also elected to suspend the company's common stock dividend. Awerkamp said the move was a difficult, but necessary, thing to do.

"The top priority of a bank holding company is to act as a source of strength to its affiliate banks, meet or exceed well-capitalized status in those affiliate banks, therefore assuring an uninterrupted ability to meet its customers' borrowing needs, and to keep current its debt obligations," Awerkamp said in the company's news release. "The board's action provides the company with maximum flexibility to protect capital adequacy in uncertain economic conditions. As always, the board will revisit this decision each quarter, and will return to paying a dividend as quickly as is feasible."

**[For a complete look at Mercantile Bancorp's 2008 report, click here.](#)**

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