FEDERAL RESERVE SYSTEM

Mercantile Bancorp, Inc.
Quincy, Illinois

Order Approving the Acquisition of a Bank Holding Company

Mercantile Bancorp, Inc. ("Mercantile"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act[1] to acquire HNB Financial Services, Inc. ("HNB") and thereby acquire its subsidiary bank, HNB National Bank ("HNB Bank"), both of Hannibal, Missouri.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (72 Federal Register 33,506 (2007)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

Mercantile, with total consolidated assets of approximately $1.4 billion, controls eight subsidiary banks that operate in Florida, Illinois, Kansas, and Missouri. Mercantile is the 60th largest depository organization in Missouri, controlling deposits of $290.7 million, which represent less than 1 percent of total deposits of insured depository institutions in Missouri ("state deposits").[2]

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1 12 U.S.C. § 1842.

2 Asset data are as of March 31, 2007; statewide deposit and ranking data are as of June 30, 2006, and reflect merger activity through July 6, 2007. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

HNB, with total consolidated assets of $164.9 million, is the 111th largest depository organization in Missouri, controlling deposits of approximately $133.3 million. On consummation of this proposal, Mercantile would become the 35th largest depository organization in Missouri, controlling deposits of approximately $424 million, which represent less than 1 percent of state deposits.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the bank holding company's home state if certain conditions are met. For purposes of the BHC Act, the home state of Mercantile is Illinois,[3] and HNB is located in Missouri.[4]

Based on a review of all the facts of record, including relevant state statutes, the Board finds that the conditions for an interstate acquisition enumerated in section 3(d) of the BHC Act are met in this case.[5] In light of all the facts of

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[3] See 12 U.S.C. § 1842(d). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

[4] For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. §§ 1841(o)(4)-(7) and 1842(d)(1)(A) and 1842(d)(2)(B).

[5] 12 U.S.C. §§ 1842(d)(1)(A)-(B) and 1842(d)(2)(A)-(B). Mercantile is adequately capitalized and adequately managed, as defined by applicable law. HNB Bank has been in existence and operated for the minimum period of time required by Missouri state law (five years). See Mo. Rev. Stat. § 362.077.1. On consummation of the proposal, Mercantile would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States. Mercantile also would comply with the state deposit cap in Missouri, where it will control less than 13 percent of state deposits. See Mo. Rev. Stat. § 362.915. All

record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a bank acquisition that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[6]

Mercantile and HNB have subsidiary depository institutions that compete directly in two banking markets: St. Louis, Missouri-Illinois; and Hannibal, Missouri. The Board has reviewed carefully the competitive effects of the proposal in each banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the markets, the relative shares of total deposits in depository institutions in the markets ("market deposits") controlled by Mercantile and HNB,[7] the concentration

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other requirements of section 3(d) of the BHC Act would be met on consummation of the proposal.

6 12 U.S.C. § 1842(c)(1).

7 Deposit and market share data are as of June 30, 2006, adjusted to reflect mergers and acquisitions through July 6, 2007, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386, 387 (1989); National City Corporation, 70 Federal Reserve Bulletin 743, 744 (1984). Thus, the Board

level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"),[8] and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ guidelines in the St. Louis market.[9] On consummation of the proposal, there would be no increase in concentration

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regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52, 55 (1991).

[8] Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice ("DOJ") has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher-than-normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

[9] The St. Louis banking market is defined as: (1) in Missouri – the City of St. Louis; Franklin, Jefferson, Lincoln, Saint Charles, St. Louis, Warren, and Washington Counties; Roark, Boeuf, Canaan, and Brush Creek townships and the cities of Hermann and Owensville, all in Gasconade County; Boone township in Crawford County; and Loutre township in Montgomery County; and (2) in Illinois – Bond, Calhoun, Clinton, Jersey, Macoupin, Madison, Monroe, and St. Clair Counties; the western part of Randolph County (defined by Route 3 on the east and the Kaskaskia River on the south), including the cities of Red Bud, Ruma, and Evansville; Washington County, excluding Ashley and Du Bois townships; and the City of Centralia.

and the St. Louis market would remain unconcentrated as measured by the HHI. In addition, numerous competitors would remain in the market.[10]

The Hannibal banking market[11] warrants a detailed review of the competitive effects because the post-consummation concentration level would exceed the threshold levels in the DOJ Guidelines. In the Hannibal banking market, Mercantile is the largest depository organization, controlling deposits of approximately $106.3 million, which represent approximately 19 percent of market deposits. HNB is the second largest depository organization in the market, also controlling deposits of approximately $106.3 million. On consummation of the proposal, Mercantile would remain the largest depository organization in the market, controlling deposits of approximately $212.6 million, which represent approximately 37.9 percent of market deposits. The HHI would increase 718 points to 1972.

One thrift institution operating in the market serves as a significant source of commercial loans and provides a broad range of consumer, mortgage, and other banking products. Competition from this thrift institution closely approximates competition from a commercial bank. Accordingly, the Board has concluded that deposits controlled by this institution should be weighted at

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[10] On consummation of the proposal, the HHI would remain unchanged at 665 for the St. Louis market. Mercantile operates the 63rd largest depository organization in the market, controlling deposits of approximately $100.4 million, which represent less than 1 percent of market deposits. HNB operates the 114th largest depository organization in the market, controlling deposits of approximately $27.1 million. After consummation, Mercantile would operate the 56th largest depository organization in the market, controlling deposits of approximately $127.5 million, which represent less than 1 percent of market deposits. One hundred thirty-nine depository institutions would remain in the banking market.

[11] The Hannibal banking market is defined as Marion and Ralls Counties and the Monroe township in Monroe County, all in Missouri.

100 percent in market-share calculations.[12] Accounting for the revised weighting of these deposits, Mercantile would control approximately 34.6 percent of market deposits on consummation of the proposal, and the HHI would increase 599 points to 1871.

The Board has considered carefully whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would have a significantly adverse effect on competition in the market. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase and the resulting level of concentration in the banking market.[13]

In this market, the record indicates that the proposal would not have a significant adverse impact on competition. After consummation of the proposal, ten other depository organizations would continue to operate in the market. In addition, the second largest competitor in the market would have a branch network comparable to Mercantile's branch network.

The Board also has concluded that the activities of a community credit union in the market exert a sufficient competitive influence to mitigate, in part, the potential adverse competitive effects of the proposal. The credit union offers a wide range of consumer products, operates street-level branches, and has

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[12] The Board previously has indicated that it may consider competition from a thrift institution at a level greater than 50 percent of its deposits when appropriate. See, e.g., Banknorth Group, Inc., 75 Federal Reserve Bulletin 703 (1989). The thrift in the Hannibal banking market has a ratio of commercial and industrial loans to assets of more than 10 percent, which is comparable to the national average for all commercial banks. See First Union Corporation, 84 Federal Reserve Bulletin 489 (1998).

[13] See NationsBank Corporation, 84 Federal Reserve Bulletin 129 (1998).

membership open to all the residents in the market.[14] This active community credit union controls approximately $10.8 million in deposits in the market, which represent approximately 1 percent of market deposits on a 50 percent weighted basis. Accounting for the revised weighting of these deposits, Mercantile would control approximately 34.3 percent of market deposits on consummation of the proposal, and the HHI would increase 588 points to 1839.

The DOJ has conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that consummation of the transaction would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, including the number of competitors that would remain in the Hannibal banking market after consummation, the branch networks of competitors, the presence of an active credit union, and other data, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in either banking market where Mercantile and HNB compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository

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[14] The Board previously has considered competition from similarly active credit unions as a mitigating factor. See, e.g., The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006); F.N.B. Corporation, 90 Federal Reserve Bulletin 481 (2004); Gateway Bank & Trust Co., 90 Federal Reserve Bulletin 547 (2004).

institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary federal and state supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by Mercantile.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved both on a parent-only and on a consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has considered carefully the financial factors of the proposal. Mercantile, HNB, and their subsidiary depository institutions currently are well capitalized and would remain so on consummation of the proposal. Based on its review of the record, the Board also finds that Mercantile has sufficient financial resources to effect the proposal. The proposed transaction is structured as a cash purchase that would be funded from the proceeds of issuing trust-preferred securities and debt.

The Board also has considered the managerial resources of Mercantile, HNB, and their subsidiary depository institutions. The Board has reviewed the examination records of these institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking laws and with anti-money laundering laws. The Board also has considered Mercantile's plans for implementing the proposal, including the proposed management after consummation.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[15] All of Mercantile's banks received "outstanding" or "satisfactory" ratings at their most recent CRA performance evaluations by the banks' primary federal supervisors. HNB Bank received a "satisfactory" rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of July 14, 2003. After consummation of the proposal, Mercantile plans to integrate its CRA program with HNB Bank's operations. Mercantile has represented that consummation of the proposal would allow it to provide a broader range of financial products and services over a larger area. Based on all the facts of record, the Board concludes that considerations relating to the convenience and

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[15] 12 U.S.C. § 2901 et seq.; 12 U.S.C. § 1842(c)(2).

needs of the communities to be served and the CRA performance records of the relevant depository institutions are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by Mercantile with the conditions imposed in this order and the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,[16] effective August 7, 2007.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

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[16] Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.