

FIRST MERCHANTS CORP  
Form 8-K  
August 04, 2009  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

---

DATE OF REPORT (Date of earliest event reported): August 4, 2009

---

## **FIRST MERCHANTS CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

---

INDIANA  
(State or other jurisdiction  
of incorporation)

0-17071  
(Commission File Number)

35-1544218  
(IRS Employer Identification No.)

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

200 East Jackson Street

P.O. Box 792

Muncie, IN 47305-2814

(Address of Principal Executive Offices, including Zip Code)

(765) 747-1500

(Registrant's Telephone Number, including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

**ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

On August 4, 2009, First Merchants Corporation will conduct a second quarter earnings conference call and web cast on Tuesday, August 4, 2009 at 2:30 p.m. (ET). A copy of the slide presentation that will be utilized on the conference call is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

**ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.**

(a) Not applicable.

(b) Not applicable.

(c) Exhibits.

Exhibit 99.1 Slide presentation that will be utilized August 4, 2009, during a conference call and web cast by First Merchants Corporation

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DATE: August 4, 2009

FIRST MERCHANTS CORPORATION

By: /s/Mark K. Hardwick

Mark K. Hardwick,

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Executive Vice President and

Chief Financial Officer

---

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Exhibit Index

Exhibit No.

Description

Exhibit 99.1 Slide presentation that will be utilized August 4, 2009, during a conference call and web cast by First Merchants Corporation

---

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

First Merchants Corporation

Exhibit No. 99.1

Presentation Slides that will be utilized August 4, 2009

First Merchants Corporation

2<sup>nd</sup> Quarter 2009

Earnings Call

August 4, 2009

1

Michael C. Rechin

President

and Chief Executive Officer

**F I R S T M E R C H A N T S C O R P O R A T I O N**

2

### Forward-looking Statement

The Corporation may make forward-looking statements about its relative business outlook. These forward-looking statements and all other statements made during this meeting that do not concern historical facts are subject to risks and uncertainties that may materially affect actual results.

Specific forward-looking statements include, but are not limited to, any indications regarding the financial services industry, the economy and future growth of the balance sheet or income statement.

Please refer to our press releases, Form 10-Qs and 10-Ks concerning factors that could cause actual results to differ materially from any forward-looking statements.



Loss of \$1.48 per diluted share for the quarter ended June 30, 2009, reflects the company's focused efforts to build appropriate allowance for loan loss reserve and to address loan portfolio stress.

Allowance for loan losses increased to 2.16% of loans, "well reserved", with year-to-date \$72 million provision for loan losses, exceeding net charge-offs by ~ \$26MM.

Year-to-date net loan charge-offs totaled \$46 million, or an annualized 2.53%, of average loans. Resultant non-performing asset levels are essentially flat with 1<sup>st</sup> quarter.

Capital levels soundly in excess of "well capitalized" thresholds.

Key Points for 2<sup>nd</sup> Quarter

Solid underlying business performance produces pre-tax pre-provision run rate averaging ~ \$16 million per quarter.

Bank charter combination planned for 3<sup>rd</sup> quarter completion maximizes efficiency.

Achievement update on year one targets for Lincoln Bank acquisition:

Branding

Core operation conversion

Expense savings capture

Credit quality

“Well Positioned”

5

**F I R S T M E R C H A N T S C O R P O R A T I O N**

Mark K. Hardwick

Executive Vice President

and Chief Financial Officer

6

**FIRST MERCHANTS CORPORATION**

Financial Performance

7

## Total Assets

	<u>2007</u>	<u>2008</u>	<u>Q1-'09</u>	<u>Q2-'09</u>		
1.						
Investments		\$ 451	\$ 482	\$ 446	\$ 631	
2. Loans				2,877	3,722	3,654 3,554
3.						
Allowance			(28)	(50)	(59)	(77)
4.						
CD&I & Goodwill		136	166		163	161
5. BOLI				71	93	94
94						
6. Other				<u>275</u>	<u>371</u>	<u>589</u> <u>354</u>
7.						
Total Assets		\$3,782		\$4,784	\$4,887	\$4,717

(Millions \$)

8

Loan Composition as of 6/30/09

Yield = 5.96%

9

\$631 Million Balance

Average duration - 4.0 years

Tax equivalent yield of 4.90%

No private label MBS exposure

Trust Preferred Pools with book balance of \$11.1 million and a market value of \$2.0 million

Net unrealized loss of the entire portfolio totals \$5 million

Investment Portfolio

10

## Total Liabilities and Capital

	<u>2007</u>	<u>2008</u>	<u>Q1-'09</u>	<u>Q2-'09</u>		
1.						
Customer Deposits*			\$2,605	\$3,242	\$3,275	\$3,278
2. Brokered Deposits				239	477	
						410 313
3.						
Bank-Level Borrowings			483	507		485 483
4.						
Other Liabilities				29	51	98
59						
5.						
Hybrid Capital					86	111
111						111
5. Preferred Stock (CPP)			0	0		112 112
6. Common Equity				<u>340</u>	<u>396</u>	
<u>396</u>	<u>361</u>					
7.						
Total Liabilities and Capital			\$3,782	\$4,784	\$4,887	\$4,717

\* Total deposits less brokered deposits

(\$ in Millions)



Deposits as of 6/30/09

\$836M

\$383M

\$1,198M

\$740M

Cost of Funds = 2.05%

12

mp;n

bsp;

mp;n

bsp;

2007

2008 Q1-'09 Q2-'09

1.

Total Risk-Based Capital Ratio	10.55%	10.24%	12.97%	12.56%
--------------------------------	--------	--------	--------	--------

2.

Tier 1 Risk-Based Capital Ratio	8.75%	7.71%	10.47%	10.01%
---------------------------------	-------	-------	--------	--------

3.

Leverage Ratio			7.19%	8.16%	9.17%	8.31%
----------------	--	--	-------	-------	-------	-------

4.

TCE/TCA				5.72%	5.01%	4.89%	4.42%
---------	--	--	--	-------	-------	-------	-------

Capital Ratios

13

Net Interest Margin

\$117

\$133

\$158

\$159

\$3,309

\$3,463

\$4,298

\$4,384

%

%

%

%

14

Costs of Credit

(\$ in Millions)

15

## Non-Interest Income

			<u>2007</u>	<u>2008</u>	<u>Q1-'09</u>	<u>Q2-'09</u>
1.						
Service Charges on Deposit						
Accounts					\$12.4	
\$13.0	\$3.5	\$3.9				
2. Trust Fees	8.4		8.0	2.1		1.7
3.						
Insurance Comm. Income			5.1	5.8		2.1
						1.7
4.						
Cash Surrender Value of Life Ins.	3.7	(0.3)	0.3		0.3	
5.						
Gains on Sales Mortgage Loans	2.4	2.5			1.4	1.7
6.						
Securities Gains/Losses			0	(2.1)		2.3
						(0.9)
7. Other						;; <u>8.6</u>
<u>9.5</u>	<u>2.8</u>	<u>3.1</u>				
8. Total	\$40.6	\$ 36.4			\$ 14.5	\$ 11.5

(\$ in Millions)

Non-Interest Expense

	<u>Q1-'09</u>		<u>Q2-'09</u>		<u>2007</u>		<u>2008</u>		
1. Salary & Benefits			\$58.8	\$ 63.0	\$ 20.0		\$ 19.7		
2. Premises & Equipment	13.4	14.4			4.4		4.4		
3. Core Deposit Intangible	3.2	3.2			1.3		1.3		
4. Professional Services	2.0	2.6			1.1	0.9			
6. OREO Expense			1.0	2.8		0.5	1.6		
7.									
FDIC Expense					1.5	1.7	0.8	3.7	
8.									
Other									
<u>22.3</u>	<u>21.1</u>		<u>6.6</u>	<u>6.6</u>					
Total						\$102.2	\$ 108.8	\$34.7	\$
38.2									

(\$ in Millions)

## Earnings

	<u>2007</u>	<u>2008</u>	<u>Q1-'09</u>	<u>Q2-'09</u>	mp;n	
1.						
Net Interest Income-FTE			\$117.2	\$133.1	\$39.6	\$ 39.8
2. Non Interest Income <sup>1</sup>				40.6	38.5	12.2 12.4
3.						
Non Interest Expense <sup>2</sup>			101.2	108.6	34.2	33.6
<b>4.</b>						
<b>Pre-Tax Pre-Provision Earnings</b>			<b>\$ 52.5</b>	<b>\$ 61.9</b>	<b>\$16.5</b>	<b>\$17.2</b>
5. Provision						8.5 28.2
12.9 59.0						
6. Adjustments						1.1 5.0
(1.7) 5.4						
7.						
Taxes - FTE					15.4	11.8 2.3
(16.1)						
<u>8.</u>						
CPP Dividend					<u>0</u>	<u>0</u>
<u>.6</u> <u>1.5</u>						
9. Net Income Avail. for Distribution			\$31.6	\$20.6	\$3.5	(\$31.2)
10. EPS						\$1.73
\$1.14 \$0.17 (\$1.48)						

<sup>1</sup>Adjusted for Bond Gains & Losses

<sup>2</sup>Adjusted for FDIC Assessment & OREO Expense & Credit Related Professional Services

(\$ in Millions)

**F I R S T M E R C H A N T S C O R P O R A T I O N**

John J. Martin

Senior Vice President

Chief Credit Officer

19



## Portfolio Overview

### Quarterly Highlights

Non-Performing assets totaled \$140 million or 2.90% of assets for the quarter. This compares to \$138 million as of March 31, 2009 and \$112 million as of year-end.

OREO declined \$1.85 million to \$20.2 million from the prior quarter of \$22.1 million.

90 days delinquent loans fell to \$3.6 million from the prior quarter of \$7.7 million.

Restructured loans totaled \$4.2 million as of quarter-end.

Total construction and development loans outstanding declined to \$162 million from \$208 million during the quarter.

Impaired loan portfolio is marked by 36% (specific reserves and charge-offs).

Portfolio Overview

Charge-Off Review

2<sup>nd</sup> Quarter charge-offs totaled \$40 million and provision expense totaled \$59 million.

16 loans with charge-offs greater than \$500,000 comprise \$35 million of the \$40 million in 2<sup>nd</sup> Quarter charge-offs.

Charge-off of one commercial loan of \$10.2 million or ~25% of total charge-offs which was taken as a result of fraudulent financial statements provided by a large commercial and industrial borrower.

21

**(\$000)**

**C & I**

**Commercial**

**Mortgage**

**Land and**

**Lot**

**Ag**

**Total**

**Commercial**

**Residential**

**Mortgage**

**Home Equity**

**Other**

**Consumer**

**Total**

**Consumer**

**Total**

**Consumer**

**And**

**Commercial**

# of Loan

7

2

6

0

15

0

1

0

1

16

(\$000)

25,846

\$

1,970

\$

6,911

\$

-

\$

34,727

\$

-

\$

500

\$

-

\$

500

\$

35,227

\$

Charge-Off Composition as of June 30, 2009

22

**(\$000)**

**C & I**

**Commercial**

**Mortgage**

**Land and Lot**

**Ag**

**Total**

**Commercial**

**Residential**

**Mortgage**

**Home Equity**

**Other**

**Consumer**

**Total**

**Consumer**

**Total**

**Consumer**

**And**

**Commercial**

**Loan Balances**

\$ 874,671

\$ 1,114,484

\$ 162,765

\$ 262,459

\$ 2,414,379

\$ 723,830

\$ 229,954

\$ 209,136

\$ 1,162,920

\$ 3,577,299

**% of total**

24.5%

31.2%

4.5%

7.3%

67.5%

20.2%

6.4%

5.8%

32.5%

**Net Charge-offs YTD**

25,115

\$

8,253

\$

7,264

\$

101

\$

40,733

\$

2,413

\$

965

\$

2,269

\$

5,647

\$

46,380

\$

**Net Charge-off ratio\***

5.73%

1.48%

8.93%

0.08%

3.37%

0.67%

0.84%

2.19%

0.97%

2.59%

**\*Annualized based on ending balances**

Non-Performing Assets Composition as of June 30, 2009

23

**(\$000)**

**C & I**

**Commercial**

**Mortgage**

**Land and Lot**

**Ag**

**Total**

**Commercial**

**Residential**

**Mortgage**

**Home Equity**

**Other**

**Consumer**

**Total**

**Consumer**

**Total**

**Consumer**

**And**

**Commercial**

**Loan Balances**

\$ 874,671

\$ 1,114,484

\$ 162,765

\$ 262,459



\$ 2,414,379

\$ 723,830

\$ 229,954

\$ 209,136

\$ 1,162,920

\$ 3,577,299

**% of total**

24.5%

31.2%

4.5%

7.3%

67.5%

20.2%

6.4%

5.8%

32.5%

**NPA's**

26,838

\$

47,784

\$

33,085

\$

8,105

\$

115,812

\$

22,131

\$

2,012

\$

305

\$

24,448

\$

140,260

\$

**NPA Ratio**

3.06%

4.29%

20.33%

3.09%

4.79%

3.06%

0.87%

0.15%

2.11%

3.92%

OREO Composition as of June 30, 2009

24

**(\$000)**

**CRE**

**Land and**

**Construction**

**1-4 Family**

**Ag**

**Total**

Book Balance

8,362

\$

6,927

\$

4,823

\$

115

\$

20,227

\$

% or ORE

41%

34%

24%

1%

100%



Portfolio Risk Drivers

**Delinquencies**

**Problem Assets**

**Charge-offs**

**Allowance**

3<sup>rd</sup> - 4<sup>th</sup> Quarters '08

3<sup>rd</sup> - 2<sup>d</sup> Quarters '08-'09

**Decline in Real Estate  
Prices/Oil Price Spike**

**Results**

Current Situation

**Economic Recession**

Sectors effected:

Construction and Land  
Development

Agricultural Inputs

Energy Producers

Metal dependent mfg.

Losses and non-performing loans due to:

Stalled Construction and Land  
Development

Increasing residential home foreclosures

Declining automobile sales and  
manufacturing

Insufficient alternative sources of  
refinancing

Increase in fraudulent activity

Sectors effected:

Consumer Demand

Housing

General Manufacturing

Automobile Suppliers

Dealer Floor Plan

25

Michael C. Rechin

President

and Chief Executive Officer

**F I R S T M E R C H A N T S C O R P O R A T I O N**

26

Tactical Action Plan and Business Update

Asset Quality Improvement & Capital Preservation

Non-Performing Loan and OREO Disposition

Enhanced Corporate Special Asset Team

Executive Team working on NPA Sale Alternatives

Second Quarter Dividend Reduction

Non-Strategic Asset Reduction

Charter Consolidation

“Well Capitalized – Well Reserved – Well Positioned”

27



Stakeholder Focused

Shareholders

Communities

Customers

Employees

28

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

First Merchants Corporation common stock is traded on the NASDAQ Global Select Market under the symbol FRME.

Additional information can be found at

[www.firstmerchants.com](http://www.firstmerchants.com)

Investor inquiries:

Mark K. Hardwick

Executive Vice President-Chief Financial Officer

Telephone: 765.751.1857

[mhardwick@firstmerchants.com](mailto:mhardwick@firstmerchants.com)

Contact Information

29