

INDEPENDENT BANK CORP /MI/
Form 10-Q
May 09, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2011

Commission file number 0-7818

INDEPENDENT BANK CORPORATION
(Exact name of registrant as specified in its charter)

Michigan
(State or jurisdiction of Incorporation or Organization)

38-2032782
(I.R.S. Employer Identification Number)

230 West Main Street, P.O. Box 491, Ionia, Michigan 48846
(Address of principal executive offices)

(616) 527-5820
(Registrant's telephone number, including area code)

NONE
Former name, address and fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)
YES NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or smaller reporting company.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date.

Common stock, no par value
Class

8,274,057
Outstanding at May 6, 2011

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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Discussions and statements in this report that are not statements of historical fact, including, without limitation, statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “likely,” “optimistic” and “plan,” and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; predictions as to our Bank’s ability to maintain certain regulatory capital standards; our expectation that we will have sufficient cash on hand to meet expected obligations during 2011; and descriptions of steps we may take to improve our capital position. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including, among others:

- our ability to successfully raise new equity capital through a public offering of our common stock, effect a conversion of our outstanding preferred stock held by the U.S. Treasury into our common stock, and otherwise implement our capital restoration plan;
- the failure of assumptions underlying the establishment of and provisions made to our allowance for loan losses;

- the timing and pace of an economic recovery in Michigan and the United States in general, including regional and local real estate markets;
- the ability of our Bank to remain well-capitalized;
- the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;

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- further adverse developments in the vehicle service contract industry, whose recent turmoil has increased the credit risk and reputation risk for our subsidiary, Mepco Finance Corporation;
 - potential limitations on our ability to access and rely on wholesale funding sources;
- the risk that sales of our common stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes;
- the continued services of our management team, particularly as we work through our asset quality issues and the implementation of our capital restoration plan;
- implementation of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act or other new legislation, which may have significant effects on us and the financial services industry, the exact nature and extent of which cannot be determined at this time; and
 - the risk that our common stock may be delisted from the Nasdaq Global Select Market.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all inclusive. The risk factors disclosed in Part I – Item A of our Annual Report on Form 10-K for the year ended December 31, 2010, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

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Part I - Item 1.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

	March 31, 2011	December 31, 2010
	(unaudited)	
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	\$50,926	\$48,933
Interest bearing deposits	337,064	336,441
Cash and Cash Equivalents	387,990	385,374
Trading securities	105	32
Securities available for sale	111,936	67,864
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	23,630	23,630
Loans held for sale, carried at fair value	20,351	50,098
Loans		
Commercial	689,772	707,530
Mortgage	639,372	658,679
Installment	232,700	245,644
Payment plan receivables	170,626	201,263
Total Loans	1,732,470	1,813,116
Allowance for loan losses	(66,135)	(67,915)
Net Loans	1,666,335	1,745,201
Other real estate and repossessed assets	37,513	39,413
Property and equipment, net	67,033	68,359
Bank-owned life insurance	48,347	47,922
Other intangibles	8,637	8,980
Capitalized mortgage loan servicing rights	15,531	14,661
Prepaid FDIC deposit insurance assessment	14,751	15,899
Vehicle service contract counterparty receivables, net	40,592	37,270
Accrued income and other assets	33,453	30,545
Total Assets	\$2,476,204	\$2,535,248
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	\$444,707	\$451,856
Savings and NOW	1,005,756	995,662
Retail time	522,338	530,774
Brokered time	250,166	273,546
Total Deposits	2,222,967	2,251,838
Other borrowings	46,015	71,032
Subordinated debentures	50,175	50,175
Vehicle service contract counterparty payables	13,668	11,739
Accrued expenses and other liabilities	30,441	31,379
Total Liabilities	2,363,266	2,416,163
Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized; 74,426 shares issued and outstanding at March 31, 2011 and December 31, 2010; per share liquidation preference:	76,708	75,700

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\$1,049 at March 31, 2011 and \$1,036 at December 31, 2010

Common stock, no par value—authorized: 500,000,000 shares at March 31, 2011 and December 31, 2010; issued and outstanding: 8,123,969 shares at March 31, 2011 and 7,860,483 shares at December 31, 2010	247,406	246,407
Accumulated deficit	(198,311)	(189,902)
Accumulated other comprehensive loss	(12,865)	(13,120)
Total Shareholders' Equity	112,938	119,085
Total Liabilities and Shareholders' Equity	\$2,476,204	\$2,535,248

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
 Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
	2011	2010
	(unaudited)	
	(In thousands, except per share data)	
Interest Income		
Interest and fees on loans	\$29,484	\$39,027
Interest on securities		
Taxable	467	