

INDEPENDENT BANK CORP /MI/
Form 10-Q
May 09, 2012

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, 2012

Commission file number 0-7818

INDEPENDENT BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

38-2032782

(State or jurisdiction of Incorporation or Organization)

(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.

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Common stock, no par value
Class

8,575,471
Outstanding at May 9, 2012

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

INDEX

	Number(s)
PART I - Financial Information	
Item 1. <u>Condensed Consolidated Statements of Financial Condition March 31, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Operations Three-month periods ended March 31, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) Three-month periods ended March 31, 2012 and 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows Three-month periods ended March 31, 2012 and 2011</u>	6
<u>Condensed Consolidated Statements of Shareholders' Equity Three-month periods ended March 31, 2012 and 2011</u>	7
<u>Notes to Interim Condensed Consolidated Financial Statements</u>	8-54
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	55-84
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	85
Item 4. <u>Controls and Procedures</u>	85
PART II - Other Information	
Item 1A <u>Risk Factors</u>	86
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	86
Item 3b. <u>Defaults Upon Senior Securities</u>	86
Item 6. <u>Exhibits</u>	86

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 2012; 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, 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;

Index

- further adverse developments in the vehicle service contract industry;
- 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 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, 2011, 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 that 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.

Index

Part I - Item 1. INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

	March 31, 2012	December 31, 2011
	(unaudited)	
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	\$ 53,690	\$ 62,777
Interest bearing deposits	299,159	278,331
Cash and Cash Equivalents	352,849	341,108
Trading securities	69	77
Securities available for sale	303,658	157,444
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,828	20,828
Loans held for sale, carried at fair value	40,321	44,801
Loans		
Commercial	649,552	651,155
Mortgage	571,251	590,876
Installment	210,360	219,559
Payment plan receivables	103,544	115,018
Total Loans	1,534,707	1,576,608
Allowance for loan losses	(56,006)	(58,884)
Net Loans	1,478,701	1,517,724
Other real estate and repossessed assets	30,918	34,042
Property and equipment, net	63,417	62,548
Bank-owned life insurance	49,695	49,271
Other intangibles	7,337	7,609
Capitalized mortgage loan servicing rights	11,795	11,229
Prepaid FDIC deposit insurance assessment	11,788	12,609
Vehicle service contract counterparty receivables, net	28,925	29,298
Accrued income and other assets	18,977	18,818
Total Assets	\$ 2,419,278	\$ 2,307,406
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	\$ 519,819	\$ 497,718
Savings and interest-bearing checking	1,093,799	1,019,603
Retail time	524,694	526,525
Brokered time	46,000	42,279
Total Deposits	2,184,312	2,086,125
Other borrowings	33,039	33,387
Subordinated debentures	50,175	50,175
Vehicle service contract counterparty payables	6,813	6,633
Accrued expenses and other liabilities	39,907	28,459
Total Liabilities	2,314,246	2,204,779
Shareholders' Equity		
Convertible preferred stock, no par value, 200,000 shares authorized; 74,426 shares issued and outstanding at March 31, 2012 and December 31, 2011; liquidation preference: \$82,024 at March 31, 2012 and \$81,023 at December 31, 2011	80,913	79,857

Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 8,546,342 shares at March 31, 2012 and 8,491,526 shares at December 31, 2011	248,995	248,950
Accumulated deficit	(211,811)	(214,259)
Accumulated other comprehensive loss	(13,065)	(11,921)
Total Shareholders' Equity	105,032	102,627
Total Liabilities and Shareholders' Equity	\$ 2,419,278	\$ 2,307,406

See notes to interim condensed consolidated financial statements (unaudited)

Index

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three Months Ended	
	March 31, 2012	March 31, 2011
	(unaudited)	
	(In thousands, except per share amounts)	
Interest Income		
Interest and fees on loans	\$ 24,346	\$ 29,484
Interest on securities		