

MACATAWA BANK CORP
Form 10-K
March 11, 2009

FORM 10-K
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-25927

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

MICHIGAN
(State or other jurisdiction of incorporation or organization)

38-3391345
(I.R.S. Employer Identification No.)

10753 Macatawa Drive, Holland, Michigan 49424
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (616) 820-1444

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class
Common Stock

Name of each exchange on which registered
The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, as of June 30, 2008 was \$124,508,264 based on the closing sale price of \$8.00 as reported on the National Association of Securities Dealers Automated Quotation System. There were 17,161,515 outstanding shares of the Company's common stock (no par value) as of March 5, 2009.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held April 23, 2009 are incorporated by reference into Part II and Part III of the Report.

**MACATAWA BANK CORPORATION
FORM 10-K ANNUAL REPORT
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PART I

ITEM 1: Business

As used in this Annual Report, the terms we, us, our and Macatawa mean Macatawa Bank Corporation and its subsidiaries, unless the context indicates another meaning.

General

Macatawa Bank Corporation is a Michigan corporation and is the bank holding company for its wholly owned banking subsidiary, Macatawa Bank, as well as Macatawa Statutory Trust I and Macatawa Statutory Trust II. Effective November 1, 2006, Macatawa Investment Services, Inc., which was a subsidiary of the holding company, ceased doing business as a registered broker-dealer. On November 1, 2006 Macatawa Bank began offering brokerage services to its customers through an arrangement with Infinex Investments, Inc. (Infinex). Infinex is a full service investment provider, a registered broker-dealer and a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). As more fully discussed in our Form 8-K dated October 11, 2006, Macatawa Bank Corporation entered into an Agreement and Plan of Merger with the Smith & Associates investment advisory firm based in Holland, Michigan. The Smith & Associates acquisition became effective on January 1, 2007 and that business is now part of Macatawa Bank. Macatawa Bank commenced operations on November 25, 1997. Grand Bank was formed in 1987 and operated from a single location in Grand Rapids, Michigan. Grand Bank became a wholly owned subsidiary effective April 1, 2002 upon the completion of the acquisition of Grand Bank Financial Corporation (GBFC), and its results are included in the consolidated statements of income since this effective date. To achieve further synergies from the Grand Bank acquisition, we merged Grand Bank into Macatawa Bank effective January 1, 2003 with the combined bank named Macatawa Bank. At the same time, Grand Bank Mortgage Company was merged into Macatawa Bank Mortgage Company.

Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The bank operates twenty-six branch offices and a lending and operational service facility offering commercial and personal banking services, including checking, savings and certificates of deposit accounts, cash management, safe deposit boxes, travelers checks, money orders, trust services and commercial, mortgage and consumer loans in Kent County, Ottawa County, and northern Allegan County, Michigan. Other service delivery channels we offer include ATMs, internet banking, telephone banking and debit cards. Macatawa Bank provides various brokerage services including discount brokerage through Infinex, personal financial planning and consultation regarding mutual funds. Macatawa Statutory Trust I is a grantor trust that issued a pooled trust preferred security in July, 2003. Macatawa Statutory Trust II is a grantor trust that issued a pooled trust preferred security in March, 2004. Macatawa Bank Mortgage Company, a subsidiary of Macatawa Bank, originates and sells residential mortgage loans into the secondary market on a servicing released basis. As of December 31, 2008, we had total assets of \$2.15 billion, total deposits of \$1.67 billion, approximately 102,000 deposit accounts and shareholders equity of \$149.2 million.

Our headquarters and administrative offices are located at 10753 Macatawa Drive, Holland, Michigan 49424, and our telephone number is (616) 820-1444. Our internet website address is www.macatawabank.com. We make available free of charge through this website our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after filing such reports with the Securities and Exchange Commission. The reference to our website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Products and Services

Deposit Services. We offer a broad range of deposit services, including checking accounts, savings accounts and time deposits of various types. Transaction accounts and savings and time certificates are tailored to the principal market area at rates competitive with those offered in the area. All deposit accounts are insured by the FDIC up to the maximum amount permitted by law. In the fourth quarter of 2008, we also elected to participate in the FDIC's Temporary Liquidity Guarantee Program which provides insurance on all noninterest-bearing deposits and certain interest-bearing deposits. We solicit deposit services from individuals, businesses, associations, churches, nonprofit organizations, financial institutions and government authorities. We may also use alternative funding sources as needed, including short-term borrowings, advances from the Federal Home Loan Bank of Indianapolis or the Federal Reserve Bank of Chicago, securities sold under agreements to repurchase (repo borrowings) and certificates of deposit purchased from brokers and the packaging of loans for securitization and sale.

Deposits are gathered primarily from the communities we serve through our network of 26 branches. We offer business and consumer checking accounts, regular and money market savings accounts, and certificates of deposit with many term options.

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We set our deposit pricing to be competitive with other banks in our market area. We periodically purchase brokered deposits to supplement funding needs. These are time accounts originated outside of our local market area. Brokered deposits comprised approximately 20% of total deposits at December 31, 2008 and approximately 13% at December 31, 2007. We operate in a very competitive environment, competing with other local banks similar in size and with significantly larger regional banks. We monitor rates at other financial institutions in the area to ascertain that our rates are competitive with the market. We also attempt to offer a wide variety of products to meet the needs of our customers.

Deposit Portfolio Composition. The following table sets forth the average deposit balances and the weighted average rates paid thereon.

	(Dollars in thousands)					
	Average for the Year					
	2008		2007		2006	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
Noninterest bearing demand	\$ 171,425	--	\$ 165,059	--	\$ 167,144	--
Interest bearing demand	238,633	1.2%	268,999	2.8%	232,577	2.5%
Savings and money market accounts	411,645	1.6%	476,681	3.7%	463,799	3.4%
Time	777,086	4.1%	696,759	4.9%	710,924	4.5%
Total deposits	\$ 1,598,789	2.6%	\$ 1,607,498	3.7%	\$ 1,574,444	3.4%

The following table summarizes time deposits in amounts of \$100,000 or more by time remaining until maturity as of December 31, 2008:

(Dollars in thousands)	Amount
Three months or less	\$ 85,732
Over 3 months through 6 months	97,093
Over 6 months through 1 year	129,022
Over 1 year	263,014
Total	\$ 574,861

Lending Activities.

Loan Portfolio Composition. The following table reflects the composition of our loan portfolio and the corresponding percentage of our total loans represented by each class of loans as of the dates indicated.

	(Dollars in thousands)									
	Year Ended December 31									
	2008		2007		2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate	\$ 843,359	48%	\$ 855,882	49%	\$ 875,717	51%	\$ 793,919	51%	\$ 676,637	48%
Residential real estate	292,702	16%	266,325	15%	224,836	13%	223,390	15%	218,999	16%
Other commercial	447,352	25%	438,743	25%	416,135	25%	359,036	23%	338,398	24%
Consumer	190,650	11%	189,682	11%	194,762	11%	171,534	11%	162,353	12%
Total loans	\$ 1,774,063	100%	\$ 1,750,632	100%	\$ 1,711,450	100%	\$ 1,547,879	100%	\$ 1,396,387	100%
Less:										
Allowance for loan losses	(38,262)		(33,422)		(23,259)		(20,992)		(19,251)	

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(Dollars in thousands)

Year Ended December 31

Total loans receivable, net	\$ 1,735,801	\$ 1,717,210	\$ 1,688,191	\$ 1,526,887	\$ 1,377,136
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Nonperforming Assets. The following table shows the composition and amount of our nonperforming assets.

(Dollars in thousands)	December 31				
	2008	2007	2006	2005	2004
Nonaccrual loans	\$ 89,049	\$ 70,999	\$ 5,811	\$ 3,977	\$ 3,249
Loans 90 days or more delinquent and still accruing	3,200	2,872	16,479	227	772
Restructured loans	21	38	--	--	--
Total nonperforming loans	\$ 92,270	\$ 73,909	\$ 22,290	\$ 4,204	\$ 4,021
Foreclosed assets	19,516	5,704	3,212	527	1,850
Reposessed assets	306	172	81	165	--
Total nonperforming assets	\$ 112,092	\$ 79,785	\$ 25,583	\$ 4,896	\$ 5,871
Nonperforming loans to total loans	5.20%	4.22%	1.30%	.27%	.29%
Nonperforming assets to total assets	5.21%	3.75%	1.23%	.26%	.35%

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The increase in nonperforming loan balances in 2008 is more fully discussed under the section Loan Portfolio and Asset Quality included in the Management Discussion and Analysis of Results of Operations and Financial Condition.

Loan Loss Experience. The following is a summary of our loan balances at the end of each period and the daily average balances of these loans. It also includes changes in the allowance for loan losses arising from loans charged-off and recoveries on loans previously charged-off, and additions to the allowance which we have expensed.

(Dollars in thousands)	December 31				
	2008	2007	2006	2005	2004
Loans:					
Average daily balance of loans for the year	\$ 1,762,102	\$ 1,725,453	\$ 1,635,391	\$ 1,471,404	\$ 1,290,338
Amount of loans outstanding at end of period	1,774,063	1,750,632	1,711,450	1,547,879	1,396,387
Allowance for loan losses:					
Balance at beginning of year	\$ 33,422	\$ 23,259	\$ 20,992	\$ 19,251	\$ 16,093
Addition to allowance charged to operations	37,435	15,750	7,715	3,675	7,890
Loans charged-off:					
Commercial	(32,405)	(5,065)	(5,601)	(1,842)	(4,833)
Residential Real Estate	(228)	(139)	(43)	(24)	(21)
Consumer	(684)	(716)	(410)	(371)	(91)
Recoveries:					
Commercial	666	263	399	261	180
Residential Real Estate	28	2	10	17	11
Consumer	28	68	197	25	22
Balance at end of year	\$ 38,262	\$ 33,422	\$ 23,259	\$ 20,992	\$ 19,251
Ratios:					
Net charge-offs to average loans outstanding	1.85%	0.32%	0.33%	0.13%	0.37%
Allowance for loan losses to loans outstanding at year end	2.16%	1.91%	1.36%	1.36%	1.38%

Allocation of the Allowance for Loan Losses. The following table shows the allocation of the allowance for loan loss at the dates indicated to the extent specific allocations have been determined relative to particular loans.

(Dollars in Thousands)	Year Ended December 31				
	2008	2007	2006	2005	2004
	% of Each Category to Total Loans	% of Each Category to Total Loans	% of Each Category to Total Loans	% of Each Category to Total Loans	% of Each Category to Total Loans
Allowance Amount	Allowance Amount	Allowance Amount	Allowance Amount	Allowance Amount	Allowance Amount