

INDEPENDENT BANK CORP /MI/  
Form 10-Q  
May 05, 2014

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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, 2014

Commission file number 0-7818

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

Michigan 38-2032782  
(State or jurisdiction of (I.R.S. Employer Identification  
Incorporation or Organization) 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 22,924,740  
Class Outstanding at May 5, 2014



## INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Discussions and statements in this report that are not statements of historical fact, including statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “intend,” “likely,” “plan” and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions, 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; statements about our business and growth strategies; and expectations about economic and market conditions and trends. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals. They are based on assumptions, estimates, and forecasts that, although believed to be reasonable, may turn out to be incorrect. Actual results could differ materially from those discussed in the forward-looking statements for a variety of reasons, including:

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business; economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for loan losses; 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;
- increased competition in the financial services industry, either nationally or regionally;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- the continued services of our management team; and
- implementation of new legislation, which may have significant effects on us and the financial services industry.

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 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, 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.

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Part I - Item 1.

## INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

	March 31, 2014 (unaudited)	December 31, 2013
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	\$53,815	\$48,156
Interest bearing deposits	78,125	70,925
Cash and Cash Equivalents	131,940	119,081
Interest bearing deposits - time	16,875	17,999
Trading securities	610	498
Securities available for sale	522,935	462,481
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	23,419	23,419
Loans held for sale, carried at fair value	14,700	20,390
Loans		
Commercial	642,051	635,234
Mortgage	475,580	486,633
Installment	188,337	192,065
Payment plan receivables	54,544	60,638
Total Loans	1,360,512	1,374,570
Allowance for loan losses	(30,437 )	(32,325 )
Net Loans	1,330,075	1,342,245
Other real estate and repossessed assets	18,001	18,282
Property and equipment, net	47,872	48,594
Bank-owned life insurance	52,571	52,253
Deferred tax assets, net	55,248	57,550
Capitalized mortgage loan servicing rights	13,273	13,710
Vehicle service contract counterparty receivables, net	7,096	7,716
Other intangibles	3,029	3,163
Accrued income and other assets	21,995	22,562
Total Assets	\$2,259,639	\$2,209,943
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	\$531,355	\$518,658
Savings and interest-bearing checking	958,486	910,352
Reciprocal	77,082	83,527
Retail time	358,588	358,800
Brokered time	13,231	13,469
Total Deposits	1,938,742	1,884,806
Other borrowings	12,943	17,188
Subordinated debentures	40,723	40,723
Vehicle service contract counterparty payables	3,761	4,089
Accrued expenses and other liabilities	26,884	31,556
Total Liabilities	2,023,053	1,978,362

Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized; none issued or outstanding	-	-
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 22,921,774 shares at March 31, 2014 and 22,819,136 shares at December 31, 2013	351,439	351,173
Accumulated deficit	(107,209 )	(110,347 )
Accumulated other comprehensive loss	(7,644 )	(9,245 )
Total Shareholders' Equity	236,586	231,581
Total Liabilities and Shareholders' Equity	\$2,259,639	\$2,209,943

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, 2014    2013 (unaudited) (In thousands)	
Interest Income		
Interest and fees on loans	\$18,215	\$20,710
Interest on securities		
Taxable	1,383	670
Tax-exempt	262	238
Other investments	423	332
Total Interest Income	20,283	21,950
Interest Expense		
Deposits	1,293	1,529
Other borrowings	512	865
Total Interest Expense	1,805	2,394
Net Interest Income	18,478	19,556
Provision for loan losses	428	(691 )
Net Interest Income After Provision for Loan Losses	18,050	20,247
Non-interest Income		
Service charges on deposit accounts	3,055	3,406
Interchange income	1,941	1,757
Net gains on assets		
Mortgage loans	1,144	3,637
Securities	112	84
Mortgage loan servicing	264	622
Title insurance fees	274	484
Increase in fair value of U.S. Treasury warrant	-	(1,045 )
Other	2,165	2,123
Total Non-interest Income	8,955	11,068
Non-Interest Expense		
Compensation and employee benefits	11,238	11,307
Occupancy, net	2,483	2,424
Data processing	2,086	1,916
Loan and collection	1,465	2,226
Furniture, fixtures and equipment	1,069	1,032
Communications	789	780
Advertising	519	570
FDIC deposit insurance	417	630
Interchange expense	402	410
Legal and professional	401	692
Credit card and bank service fees	263	334
Vehicle service contract counterparty contingencies	68	127
Costs (recoveries) related to unfunded lending commitments	10	(19 )
Provision for loss reimbursement on sold loans	(481 )	663
Net (gains) losses on other real estate and repossessed assets	(87 )	652

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Other	1,758	1,729
Total Non-interest Expense	22,400	25,473
Income Before Income Tax	4,605	5,842
Income tax expense	1,467	35
Net Income	\$3,138	\$5,807
Preferred stock dividends and discount accretion	-	(1,095 )
Net Income Applicable to Common Stock	\$3,138	\$4,712
Net Income Per Common Share		
Basic	\$0.14	\$0.51
Diluted	\$0.13	\$0.27
Dividends Per Common Share		
Declared	\$-	\$-
Paid	\$-	\$-

See notes to interim condensed consolidated financial statements (unaudited)



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## INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

	Three months ended March 31, 2014 2013 (unaudited) (In thousands)	
Net income	\$3,138	\$5,807
Other comprehensive income, before tax		
Available for sale securities		
Unrealized gain arising during period	2,250	974
Change in unrealized losses for which a portion of other than temporary impairment has been recognized in earnings	119	33
Reclassification adjustment for other than temporary impairment included in earnings	-	-
Reclassification adjustments for losses included in earnings	-	7
Unrealized gains recognized in other comprehensive income on available for sale securities	2,369	1,014
Income tax expense	830	-
Unrealized gains recognized in other comprehensive income on available for sale securities, net of tax	1,539	1,014
Derivative instruments		
Unrealized loss arising during period	-	(3 )
Reclassification adjustment for expense recognized in earnings	-	94
Reclassification adjustment for accretion on settled derivatives	95	-
Unrealized gains recognized in other comprehensive income on derivative instruments	95	91
Income tax expense	33	-
Unrealized gains recognized in other comprehensive income on derivative instruments, net of tax	62	91
Other comprehensive income	1,601	1,105
Comprehensive income	\$4,739	\$6,912

See notes to interim condensed consolidated financial statements (unaudited)

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## INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Three months ended March 31,	
	2014	2013
	(unaudited - In thousands)	
Net Income	\$3,138	\$5,807
Adjustments to Reconcile Net Income to Net Cash from Operating Activities		
Proceeds from sales of loans held for sale	48,232	131,495
Disbursements for loans held for sale	(41,398)	(117,925)
Provision for loan losses	428	(691 )
Deferred federal income tax expense	2,302	-
Deferred loan fees	(5 )	133
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans	373	(1,040 )
Net gain on sale of property and equipment	-	(1 )
Net gains on mortgage loans	(1,144 )	(3,637 )
Net gains on securities	(112 )	(84 )
Net (gains) losses on other real estate and repossessed assets	(87 )	652
Vehicle service contract counterparty contingencies	68	127
Share based compensation	255	236
(Increase) decrease in accrued income and other assets	(176 )	2,573
Increase (decrease) in accrued expenses and other liabilities	(4,513 )	823
Total Adjustments	4,223	12,661
Net Cash From Operating Activities	7,361	18,468
Cash Flow used in Investing Activities		
Proceeds from the sale of securities available for sale	-	1,800
Proceeds from the maturity of securities available for sale	15,030	22,820
Principal payments received on securities available for sale	17,852	6,487
Purchases of securities available for sale	(91,556)	(103,259)
Purchases of interest bearing deposits	-	(6,986 )
Proceeds from the maturity of interest bearing deposits	1,090	-
Net decrease in portfolio loans (loans originated, net of principal payments)	13,221	26,729
Net cash from branch sale	-	3,292
Proceeds from the collection of vehicle service contract counterparty receivables	256	169
Proceeds from the sale of other real estate and repossessed assets	1,195	3,511
Proceeds from the sale of property and equipment	-	3
Capital expenditures	(964 )	(2,119 )
Net Cash used in Investing Activities	(43,876)	(47,553)