

INDEPENDENT BANK CORP /MI/

Form S-1

July 08, 2010

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As filed with the Securities and Exchange Commission on July 8, 2010

Registration No. 333- \_\_\_\_\_

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**Independent Bank Corporation  
(Exact name of registrant as specified in its charter)**

**Michigan  
(State or other jurisdiction of  
incorporation or organization)**

**6021  
(Primary Standard Industrial  
Classification Code Number)  
230 West Main Street  
Ionia, Michigan 48846  
(616) 527-5820**

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

(Address, including zip code, and telephone number, including area code,  
of registrant's principal executive offices)

**Robert N. Shuster  
Chief Financial Officer  
230 West Main Street  
Ionia, Michigan 48846  
(616) 527-5820**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*

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**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this registration statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement

for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer     
  Accelerated filer     
  Non-accelerated filer     
  Smaller reporting company

(Do not check if a smaller reporting company)

**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, no par value per share	\$126,500,000 <sup>(1)(2)</sup>	\$9,019.45 <sup>(3)</sup>

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (the Securities Act).

(2) Includes offering price of shares that the underwriters have the option to purchase to cover over-allotments, if any.

(3) The registrant previously paid a registration fee of \$4,682.29 in connection with a registration statement on Form S-4, File No. 333-164546, initially filed on January 27, 2010. Pursuant to Rule 457(p) of the

Securities Act, \$3,154.45 of the previously paid registration fee is offset against the registration fee otherwise due for this registration statement. The balance of \$5,865 has been paid in connection with the initial filing hereof.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. We may not complete this offer and sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED JULY 8, 2010****PROSPECTUS**

[ ] Shares  
Common Stock

We are offering [ ] shares of our common stock. Our common stock is listed on the Nasdaq Global Select Market under the symbol **IBCP**. As of July 7, 2010, the closing sale price for our common stock on the Nasdaq Global Select Market was \$0.35 per share. However, there is a risk our common stock could be delisted from the Nasdaq Global Select Market in the near future. Please see **Market Price and Dividend Information** on page 45 for more information.

**Investing in our common stock involves risks. We encourage you to read and carefully consider this prospectus in its entirety, in particular the risk factors beginning on page 25, for a discussion of factors that you should consider with respect to this offering.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$ 110,000,000
Underwriting discounts and commissions	\$	\$
Proceeds to us (before expenses)	\$	\$

This is a firm commitment underwriting. The underwriters have the option to purchase up to an additional [ ] shares of our common stock at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus solely to cover over-allotments, if any.

The underwriters expect to deliver the common stock in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about [ ], 2010.

**The shares of common stock offered are not savings accounts, deposits, or other obligations of any of our bank or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

**Neither the Securities and Exchange Commission, any state securities commission, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**Joint Lead Managing Underwriters and Joint Book-Running Managers**

**Stifel Nicolaus**

**FBR Capital Markets & Co.**

**The date of this prospectus is [ ], 2010.**

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**You should rely only on the information contained in this prospectus and any free writing prospectus we authorize to be delivered to you. We have not, and the underwriters have not, authorized anyone to provide**

**you with additional information or information different from that contained in this prospectus and any such free writing prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, our common stock only in jurisdictions where those offers and sales are permitted. The information contained in this prospectus and any such free writing prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.**

This prospectus describes the specific details regarding this offering and the terms and conditions of the common stock being offered and the risks of investing in our common stock. You should read this prospectus and the additional information about us described in the section entitled *Where You Can Find More Information* before making your investment decision.

As used in this prospectus, the terms *we*, *our*, *us*, and *IBC* refer to Independent Bank Corporation and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to *our bank* or *Independent Bank* in this prospectus, we are referring to Independent Bank, a Michigan banking corporation and wholly-owned subsidiary of Independent Bank Corporation.

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**WHERE YOU CAN FIND MORE INFORMATION**

This prospectus, which forms a part of a registration statement filed with the SEC, does not contain all of the information set forth in the registration statement. For further information with respect to us and the securities offered, reference is made to the registration statement.

We file annual, quarterly, and current reports, proxy statements, and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You can also request copies of the documents, upon payment of a duplicating fee, by writing the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC's web site at <http://www.sec.gov>.

**FORWARD-LOOKING STATEMENTS**

Discussions and statements in this prospectus that are not statements of historical fact, including, without limitation, statements that include terms such as will, may, should, believe, expect, forecast, anticipate, project, intend, 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, and projections of our future revenue, earnings or other measures of economic performance (including our projected pre-provision earnings, projected capital, projected provision for loan losses, and projected Mepco counterparty expenses set forth under Summary Our Projections ), 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 2010, and our expectations regarding a decrease in payment plan receivables held by Mepco and the resulting effect on our net interest margin. 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 the risks and uncertainties detailed under Risk Factors set forth in this prospectus and the following:

our ability to successfully raise new equity capital in this offering, effect a conversion of our outstanding preferred stock held by the U.S. Treasury into our common stock, and otherwise implement our Capital 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;

increased competition for deposits and loans which could affect portfolio compositions, rates, and terms;

changes in the levels of prepayments received on loans and investment securities that adversely affect the yield and value of our earning assets;

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;



further adverse developments in the vehicle service contract industry, whose current turmoil has increased the credit risk and reputation risk for our subsidiary, Mepeco;

potential limitations on our ability to access and rely on wholesale funding sources;

the continued services of our management team, particularly as we work through our asset quality issues and the implementation of our Capital Plan;

adoption and implementation of legislation, regulations, or programs to address capital and liquidity issues in the banking system, 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;

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the impact of compensation and other restrictions imposed under the TARP until the Treasury ceases to own any of our debt or equity securities acquired pursuant to the Exchange Agreement or the amended and restated Warrant;

changes in the scope and cost of FDIC insurance, increases in regulatory capital requirements, and changes in the TARP's CPP;

the impact of legislative and regulatory changes, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application of such laws, regulations, and policies by regulators;

the potential loss of core deposits if the challenging banking environment persists or the economy significantly deteriorates;

changes in accounting principles, policies, and guidelines applicable to bank holding companies and the financial services industry;

the risk that sales of our capital stock in this offering and/or other transfers of our capital 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 risk that our common stock may be delisted from the Nasdaq Global Select Market;

the ability to manage the risks involved in the foregoing; and

other factors and risks described under "Risk Factors" in this prospectus, which we urge you to read carefully.

In addition, other factors not currently anticipated may also materially and adversely affect our results of operations, cash flows, financial position, and prospects. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this prospectus 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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**SUMMARY**

*This summary does not contain all of the information that may be important to you or that you should consider before investing in our common stock. You should read this entire prospectus, including the Risk Factors section. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus assumes that the underwriters do not exercise their option to purchase additional shares of our common stock to cover over-allotments, if any.*

**Investment Highlights**

This Summary section contains an overview of our company and the investment opportunity described in this prospectus. Key highlights of the investment opportunity are as follows:

We are a regional bank holding company with total assets of approximately \$2.9 billion. Our subsidiary bank, Independent Bank, is one of the oldest banks in Michigan and operates 105 banking offices across the lower peninsula of Michigan. We are founded on a community banking philosophy and emphasize service and convenience as a principal means of competing in the delivery of financial services.

This offering is a critical component of a capital plan we recently adopted. The primary objective of our capital plan is to raise sufficient capital so that our bank will continue to remain well-capitalized and be in a position to take advantage of opportunities within Michigan as market conditions stabilize and improve.

We believe there have been some early, positive trends in the Michigan economy, including signs that may show a stabilization of unemployment rates and housing values. While we continue to exercise prudence in monitoring our loan portfolios, we are optimistic that our asset quality trends reflect both our disciplined approach to the credit problems we face as well as improving market conditions within Michigan.

On a short term basis, the capital raised in this offering will have an immediate and favorable impact on our net interest margin by allowing us to restructure our balance sheet to pay down higher-cost funding sources we have accessed recently to enhance our liquidity position. On a longer term basis, we believe the capital will allow us to opportunistically take advantage of FDIC-assisted and traditional acquisitions within Michigan that strategically make sense for our core banking franchise.

We believe our competitive strengths include our historically strong core earnings, our core deposit base, our experienced management team, our successful acquisition and integration history, and our position as a local community bank within our multiple banking markets.

We have deleveraged our loan portfolios and intend to employ our enhanced credit policies to focus our loan origination efforts on high quality, profitable commercial loan segments and residential mortgage loans eligible for sale in the secondary market.

Our nonperforming loans are down 24% in the first quarter of 2010 from their peak in the first quarter of 2009. Nonperforming commercial loans have declined for the past five quarters, and nonperforming retail loans have shown three quarters of improvement.

We engaged independent third parties to perform a review ( stress test ) on our commercial and retail loan portfolios to confirm that the similar analyses we performed were reasonable and do not materially understate our projected loan losses. Based on the conclusions of these reviews, we determined that we did not need to modify our projections used for purposes of our capital plan.

Mepco Finance Corporation ( Mepco ) is a wholly owned subsidiary of our bank that operates a vehicle service contract payment plan business throughout the United States. Mepco has recently experienced significant losses as a result of the failure of one of its counterparties and other adverse changes in its market. However,

we believe the current amount of reserves we have established for Mepco's business are appropriate given our estimate of probable incurred losses. In addition, we have begun to significantly reduce the size of Mepco's business. Although such reduction is likely to have a material adverse impact on our earnings, we believe the reduction is desirable in order for us to reduce the risk associated with this business and return to our core banking competencies. As of March 31, 2010, the net payment plan receivables held by Mepco represented approximately 11.7% of our consolidated assets (down from 13.7% at December 31, 2009 and as high as 15.0% at July 31, 2009).

We reported a first quarter 2010 net loss applicable to our common stock of \$14.9 million, or \$0.62 per share, compared to a net loss applicable to our common stock of \$19.7 million, or \$0.84 per share, in the first quarter of 2009.

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Near the end of this Summary section is information regarding our projected earnings and capital level at December 31, 2011. We caution investors not to place undue reliance on these forward-looking statements given the inherently uncertain nature of projections, particularly in such an uncertain economic environment and in light of recent legislative efforts by the federal government. See Business Regulatory Developments below for additional information regarding these efforts.

## **About Independent Bank Corporation**

Independent Bank Corporation, headquartered in Ionia, Michigan, is a regional bank holding company providing commercial banking services to individuals, small to medium-sized businesses, community organizations, and public entities. Our wholly-owned banking subsidiary, Independent Bank, was founded in 1864 and operates 105 banking offices that are primarily located in mid-sized Michigan communities such as Grand Rapids, Battle Creek, Lansing, Troy, Bay City, and Saginaw, as well as more rural and suburban communities throughout the lower peninsula of Michigan.

Our bank provides a comprehensive array of products and services to individuals and businesses in the markets we serve. These products and services include checking and savings accounts, commercial loans, direct and indirect consumer financing, mortgage lending, and commercial and municipal treasury management services. Our bank's mortgage lending activities are primarily conducted through a separate mortgage bank subsidiary. In addition, Mepco acquires and services payment plans used by consumers to purchase vehicle service contracts and similar products provided and administered by third parties. We also offer title insurance services through a separate subsidiary of our bank and investment and insurance services through a third party agreement with PrimeVest Financial Services.

## **Background to the Offering**

Our bank began to experience rising levels of non-performing loans and higher provisions for loan losses in 2006 as the Michigan economy experienced economic stress ahead of national trends. Although our bank remained profitable through the second quarter of 2008, it has incurred seven consecutive quarterly losses since the third quarter of 2008, which have pressured its capital ratios. While our bank still remains well-capitalized under federal regulatory guidelines, we project that due to our elevated levels of non-performing assets, as well as anticipated losses in the future, an increase in equity capital is necessary in order for our bank to remain well-capitalized and take advantage of opportunities outlined in our business strategy below.

In 2009, we retained financial and legal advisors to assist us in reviewing our capital alternatives. We have since discontinued cash dividends on our common stock and exercised our right to defer all quarterly distributions on our outstanding trust preferred securities, as well as on all shares of preferred stock issued to the U.S. Department of the Treasury (the Treasury) pursuant to the Troubled Asset Relief Program (TARP). In December 2009, the board of directors of our bank adopted resolutions designed to enhance and strengthen our operations, performance, and financial condition. Importantly, alongside other resolutions aimed at improving asset quality, earnings, liquidity, and risk management, the resolutions require our bank to achieve and maintain a minimum Tier 1 leverage ratio of 8% and a minimum total risk-based capital ratio of 11% by September 30, 2010. As of March 31, 2010, these ratios were 6.4% and 10.4%, respectively.

In January 2010, our board of directors adopted a capital restoration plan (the Capital Plan) that documents our objectives and plans for meeting these target ratios. The three primary initiatives of our Capital Plan are the conversion of our shares of Series A Preferred Stock which we issued to the Treasury under the Capital Purchase Program (CPP) of TARP into shares of our common stock;

an offer to exchange shares of our common stock for our outstanding trust preferred securities; and

a public offering of our common stock, as described in this prospectus, in which we seek to raise approximately \$110 million of new equity capital.

The exchange of our trust preferred securities has not resulted, and the conversion of the preferred stock held by the Treasury into shares of common stock will not result, in any cash proceeds to us. However, both initiatives will give us additional tangible common equity and allow us to reduce our future interest expense and eliminate preferred dividend payments to the Treasury. The public offering of our common stock described in this prospectus will result in cash proceeds and a corresponding increase in our tangible common equity. We anticipate contributing all or

substantially all of the net proceeds from this offering to our bank in order to strengthen its capital ratios in accordance with the objectives of our Capital Plan and better position us to pursue our core business strategy and take advantage of opportunities in Michigan.

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To date, we have made progress on a number of initiatives to advance the Capital Plan:

On January 29, 2010, we held a special shareholder meeting at which our shareholders approved an increase in the number of shares of common stock we are authorized to issue from 60 million to 500 million. Our shareholders also gave the required shareholder approval for the conversion of preferred stock held by the Treasury into shares of our common stock and the issuance of shares of our common stock in exchange for our outstanding trust preferred securities.

On April 16, 2010, we closed an Exchange Agreement with the Treasury pursuant to which the Treasury exchanged \$72 million in aggregate liquidation value of our Series A Preferred Stock issued to the Treasury under TARP, plus approximately \$2.4 million in accrued but unpaid dividends on such shares, into mandatory convertible preferred stock (new Series B Convertible Preferred Stock). As part of this exchange, we also amended and restated the terms of the Warrant issued to the Treasury in December 2008 to purchase 3,461,538 shares of our common stock in order to adjust the initial exercise price of the Warrant to be equal to the conversion price applicable to the Series B Convertible Preferred Stock.

The shares of Series B Convertible Preferred Stock are convertible into shares of our common stock. Subject to the receipt of applicable approvals, the Treasury has the right to convert the Series B Convertible Preferred Stock into our common stock at any time. We have the right to compel a conversion of the Series B Convertible Preferred Stock into our common stock at any time provided the following conditions are met:

- (1) we receive appropriate approvals from the Federal Reserve;
- (2) at least \$40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock;
- (3) we complete a new cash equity raise of not less than \$100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share); and
- (4) we make any required anti-dilution adjustments to the rate at which the Series B Convertible Preferred Stock is converted into our common stock, to the extent required. (See Description of Our Capital Stock below.)

Once we meet the conditions described above, which we expect will occur if we are successful in raising capital in this offering, we intend to immediately convert the Series B Convertible Preferred Stock into shares of our common stock. For each share of Series B Convertible Preferred Stock with a \$1,000 liquidation value, we will issue a number of shares of common stock equal to \$750 divided by a conversion price of \$0.7234, subject to any necessary anti-dilution adjustments. Unless earlier converted, the Series B Convertible Preferred Stock will convert into shares of our common stock on a mandatory basis on April 16, 2017, subject to the prior receipt of any required regulatory and shareholder approvals. In that case, the shares of preferred stock will convert based on the full \$1,000 liquidation value per share (i.e., there will be no 25% discount to the liquidation value, as there will be for an early conversion by us or the Treasury).

On June 23, 2010, we completed the exchange of an aggregate of 51,091,250 newly issued shares of our common stock for \$41.4 million in aggregate liquidation amount of our outstanding trust preferred securities. As a result, we have satisfied the condition to our ability to compel a conversion of the Series B Convertible Preferred Stock held by the Treasury that at least \$40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock.

The offering described in this prospectus is a critical step to our ability to achieve the target capital ratios set forth in our Capital Plan. While we are not currently subject to a regulatory agreement or enforcement action and while our bank remains well capitalized under federal regulatory standards, we believe our bank is likely to fall below the standards necessary to remain well-capitalized during the third or fourth quarter of 2010 if we are unable to raise

additional capital in this offering. We expect this would have a number of material and adverse consequences, as discussed in our Risk Factors section below. In addition to our goal of remaining well-capitalized, we believe an injection of capital from this offering will allow us to pursue the strategies described below and optimize our community bank franchise to take advantage of opportunities within Michigan as market conditions stabilize.



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We have a relationship-based, community bank model, with a 105-branch network that provides a full offering of banking products and services to retail and business customers in the Michigan markets we cover.

The table below presents the composition of our branch footprint and core deposit base as of March 31, 2010 by the regions of Michigan in which we operate:

(\$ in millions)				<b>Core</b>	<b>% of</b>
<b>Region</b>	<b>Representative Cities</b>	<b>Branches</b>	<b>Deposits<sup>(1)</sup></b>	<b>Deposits</b>	<b>Core</b>
East / Thumb	Bay City / Saginaw	37	\$ 626		32%
West	Ionia / Grand Rapids	26	517		27%
Central	Lansing / Battle Creek	21	364		19%
Northeast	Gaylord / Alpena / Tawas	14	284		15%
Southeast	Troy	7	148		7%
<b>Total</b>		<b>105</b>	<b>\$ 1,939</b>		<b>100%</b>

(1) Includes core deposits only. At March 31, 2010, core deposits accounted for approximately 78% of our total deposits of \$2.5 billion.

These regions have distinct demographic and economic characteristics, as summarized below:

*East / Thumb Region:* We have a substantial branch footprint in the eastern part of the state, which is primarily comprised of rural communities that provide strong core deposits and pricing leverage. Saginaw, Midland, and Bay counties are included in this region. The counties of Saginaw and Bay are well-known for their agricultural communities and manufacturing sector and are also home to a growing medical device and technology sector. Midland County includes the headquarters for Dow Chemical Company.

*West Region:* The west region includes our headquarters in Ionia and the Grand Rapids metropolitan statistical area. Grand Rapids is in Kent County, which has generally experienced lower levels of unemployment as compared to the Michigan state level. As of April 2010, Kent County had an unemployment rate of 10.9%, compared to 13.7% for the state of Michigan as a whole, on a seasonally unadjusted basis. Kent County is the home to several major employers, including Meijer, Steelcase, Spectrum Heath, Spartan Stores, Wolverine World Wide, and the world headquarters for Alticor Inc., the parent company of Amway.

*Central Region:* Our operations throughout the central part of Michigan are primarily located in Lansing and Battle Creek. Lansing, in Ingham County, is the state capital and home to Michigan State University, which provides the core of a stable employment base. Calhoun County, home to Battle Creek, includes the corporate headquarters for The Kellogg Company and maintains an unemployment rate below the state average.

*Northeast Region:* With branch locations throughout the northeast portion of the lower peninsula, we maintain a strong base of core deposits in our northeast region. Longer distances between communities and a loyal

customer base create distinct pricing advantages in these markets. Seasonal and tourism-related employment is significant in this region, which contains a large portion of the Great Lakes shoreline. The local economy also includes a small industrial base, including cement manufacturers and limestone and gypsum mining, and a small agricultural base of potato, dry bean, and grape farmers.

*Southeast Region:* A smaller portion of our franchise is in southeastern Michigan, primarily in Oakland County, which has attractive demographics. With a population of 1.2 million people, Oakland County has a strong median household income of over \$78,000, which is the second highest in the state. While the southeast region currently only accounts for approximately 7% of our deposit base, we believe Oakland County presents a good opportunity for future deposit growth and lending opportunities.

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### **Michigan Economic Update**

While the Michigan economy has been under stress for the past several years, we believe our markets are beginning to stabilize. Below is a summary of certain economic trends of our markets:

*Unemployment:* While Michigan has the second highest unemployment rate in the United States (as of May 2010), both the unemployment rate and nonfarm payrolls have showed positive trends for the past several quarters. On a seasonally-adjusted basis, the May unemployment rate of 13.6% for Michigan was the lowest monthly rate since June 2009. A number of our key counties have unemployment rates below the rate for the entire state, including Kent, Bay, Saginaw, Calhoun, Oakland and Ingham counties. After losing approximately 200,000 jobs in each of 2008 and 2009, the loss rate stabilized in the second half of 2009 and into the first part of 2010. In addition, University of Michigan economists expect positive private sector job growth in 2011, which would be the first year of positive private sector employment growth in a decade.

*Housing Market:* The Michigan housing market is beginning to see signs of stabilization. Based on U.S. Census data, Michigan housing building permits in March 2010 are up 93% from March 2009, pointing to early signs of a recovery in the Michigan housing market. In addition, during the past decade, Michigan did not experience as rapid of an increase in housing prices as compared to the rest of the United States. According to the Freddie Mac house price index, housing prices in Michigan were flat from March 2000 through March 2010, as compared to an increase of 54% for the United States as a whole.

*Reduced Dependence on Automotive Sector:* Over the past 10 years, the Michigan economy has significantly reduced its reliance on the automotive and other manufacturing sectors and shifted to service-based industries. According to the U.S. Bureau of Labor Statistics, the motor vehicle industry comprised 7.1% of nonfarm payrolls as of April 2000 as compared to 3.3% as of April 2010. Over the same time period, total manufacturing jobs decreased substantially, from 19.2% to 11.9%. Meanwhile, jobs in education and health services have increased by 25% over the 10-year period and now represent over 16% of Michigan's jobs as compared to approximately 11% in 2000. Trade, transportation, utilities and government now provide the largest contribution to the Michigan economy in terms of number of jobs. In addition, since our franchise is primarily located in the western and northern portions of Michigan, our markets are not as dependent on the U.S. auto industry as other parts of Michigan, such as Detroit and southeast Michigan.

*Other Economic Indicators:* The Michigan Economic Activity Index equally weighs nine, seasonally adjusted coincident indicators of real economic activity that reflect activity in the construction, manufacturing and service sectors as well as job growth and consumer outlays. The index is measured on a scale of 110. Although the index fell two points in April 2010, the April index level of 82 represents a 15% gain over April 2009 and marks the third consecutive double-digit increase in the index on a 12-month basis. Prior to the recession, the index ranged between approximately 93 and 105 between January 2000 and mid-2007.

Our asset quality trends are consistent with these recent positive economic trends for the state of Michigan. Although we posted a net loss in the first quarter of 2010, we believe we have made additional progress in improving asset quality, as reflected in a reduction of our nonperforming loans, classified assets, early stage delinquencies and provisions for loan losses. As of March 31, 2010, our levels of non-performing loans have now declined for four consecutive quarters, and our loans 30-89 days past due have consistently improved over the last three quarters. These indicators support our belief that our emphasis on managing asset quality and the beginning stabilization of the Michigan economy is resulting in improving asset quality metrics.

### **Our Business Strategy**

In response to difficult market conditions and the losses we incurred in the past two years, we have taken steps and initiated actions designed to increase our capital, improve our operations, and further augment our liquidity. The successful completion of our Capital Plan should enable us to withstand the current economic cycle, return to profitability, and better position our community bank franchise to take advantage of the improving market conditions in Michigan. With the successful implementation of our Capital Plan, our primary strategies are as follows:

*Restructure Balance Sheet to Improve Profitability and Net Interest Margin:* Over the past three quarters, we have taken steps to enhance our liquidity position in the face of current economic conditions by investing in shorter-term money market assets supported by higher-cost funding. This has negatively impacted our net interest margin during these periods. With the capital raised in this offering, we intend to take immediate steps to restructure our balance sheet in order to pay down higher-cost funding sources. This should have a relatively immediate, favorable impact on our net interest margin. In addition, the successful completion of other components of our Capital Plan should significantly decrease our interest expense and dividend costs.

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*Opportunistically Take Advantage of Market Disruption and FDIC-Assisted and Other Growth Opportunities:* As many of our largest competitors have exited, pulled back, or reduced their marketing efforts in Michigan, we believe opportunities exist to increase our lending and core deposit market share through organic growth. In addition, with additional capital, we intend to opportunistically take advantage of FDIC-assisted and traditional merger transactions within Michigan that strategically make sense for our core banking franchise. Our seasoned management team and our established infrastructure and statewide branch network provide us a solid platform from which to pursue these opportunities. We have a demonstrated history of successful and profitable bank and branch acquisitions.

*Renew Efforts to Strategically Grow Our Loan Portfolio:* Following the completion of this offering, we believe we will be well-positioned to take advantage of new opportunities in our markets to serve commercial clients, including by providing Small Business Administration (SBA) loans and other business loans through our well-developed branch network. In the near term, we expect our primary commercial lending opportunities to be in the form of commercial and industrial (C&I) loans, as opposed to commercial real estate loans. We have highly experienced teams of credit professionals and senior lenders to execute prudently our loan strategy, and we continue to invest in our credit and lending teams, through both hiring experienced commercial lenders and additional underwriting and credit monitoring training of our employees. In addition, we plan to continue our efforts in retail loan origination, with a focus on originating mortgage loans for sale, rather than portfolio lending.

*Continued Development of New Offerings, Particularly Technology-Based Products and Services to Grow Deposit Market Share:* We intend to continue our investment in and improve our online banking and other technology-based services. Recently, we introduced and launched online account creation, a competitive health savings account (HSA) product, and certain social media channels, such as Facebook, Twitter and a customer blog area on our website to offer support to current customers and to attract new deposit relationships. We also are developing a new mobile banking product that will provide our customers with a portable, secure, and increasingly popular channel with which to manage their finances. Our continued focus on technology, particularly in the context of our established, service-oriented, community banking model, should further strengthen our ability to maintain and grow the core deposit base within our markets.

*Focus on Credit Monitoring and Improvement of Asset Quality:* One of our top priorities is to continue to maintain a careful focus on our existing problem assets in order to minimize further credit losses and continue to reduce the level of our nonperforming assets. Beginning in 2007, we implemented initiatives to strengthen our credit oversight function, including the consolidation of our 4 bank subsidiaries into a single bank charter and the hiring of a new Chief Lending Officer who previously served as a Senior Vice President of a bank with over \$50 billion in assets. We also created a centralized special asset group to enable us to more effectively deal with problem credits. We developed and implemented best credit practices, including, among other credit initiatives, a comprehensive quarterly watch process, deal-by-deal real estate portfolio review, and independent risk ratings provided by experienced credit officers. Further, we engaged third parties to perform extensive independent loan reviews to identify potential problem areas, ensure the effectiveness of our quality controls, and stress test our loan portfolio. In addition, we regularly monitor the secondary market for potential sale of our non-performing loans; however, we have used this strategy on only a limited basis over the past 18 months as we are currently achieving much higher realization rates by managing the workouts internally. As market conditions improve, an increased capital base may allow us to consider bulk sales of non-performing assets. We believe we have a very disciplined and proactive approach in managing and pursuing workouts and other resolutions of non-performing loans, and we intend to continue to pursue these activities.

*Capitalize on Our Customer Service-Focused, Community Banking Model:* We believe our relationship-based, know your customer business model and our customer service culture, known within our organization as the

Eagle Experience, are appealing to customers in our market, particularly customers who value local bankers who understand their needs and have local decision-making authority. For example, in a recent J.D. Power and Associates 2010 Retail Banking Satisfaction Study (based on a survey of 48,000 consumers in January and February 2010 that measured customer satisfaction among 19 banks in Michigan and 4 nearby states), Independent Bank was one of two banks that received a perfect five Power Circle Rating for customer service. We believe our recognized brand, core franchise, and loyal customer base, as well as our cross-selling sales culture, help to differentiate us from many of our competitors, including larger banks that have reduced their presence or marketing efforts in Michigan, and should position us to further increase our lending and our strong core deposit market share within the communities we serve.

**Table of Contents****Our Competitive Strengths**

We believe we are well positioned to take advantage of opportunities in Michigan. Our key competitive strengths include:

*Strong Core Earnings:* We have historically had strong pre-tax, pre-provision earnings, which we believe is largely attributable to our community bank business model. Our loyal customer base has allowed us to price deposits competitively, contributing to a net interest margin that compares favorably to our peers even after removing the significant positive impact Mepco has had on our net interest margin. In addition, our non-interest income has historically been a significant element of our financial performance, and we are attempting to grow non-interest income in order to diversify our revenues within the financial services industry. Finally, we are focused on reducing non-interest expenses, such as moving towards a paperless operating environment, which allows for a more efficient business unit workflow, and working with our vendors to improve the pricings for the services and products they provide.

*Substantial Core Deposit Base:* We have a large, stable base of core deposits that provides cost-effective funding for our lending operations. We believe our full product suite of electronic banking and remote deposit capture is attractive to our customer base and allows us to efficiently attract new deposit relationships. At March 31, 2010, core deposits accounted for approximately 78% of our total deposits.

*Experienced Management Team:* Our management team includes executives with extensive experience in the banking industry, both at larger financial institutions and in the Michigan market. Michael M. Magee, our President and Chief Executive Officer, has over 32 years of banking experience and has been with us for 23 years. Four of the other five members of our executive management each have over 23 years of banking experience, a majority of which have been in our core Michigan markets. Our recently-hired General Counsel has over 25 years experience specializing in commercial law and creditors' rights and was hired as part of our comprehensive efforts to improve and make more cost-efficient our management of problem loans and other assets. Key roles within our management team are held by executives with extensive bank backgrounds:

<b>Name</b>	<b>Title</b>	<b>Years in Banking</b>	<b>Years at the Bank</b>
Michael M. Magee	President & CEO	32	23
Robert N. Shuster	EVP CFO	27	11
W. Brad Kessel	EVP COO	23 <sup>(1)</sup>	16
David C. Reglin	EVP Retail Banking	28	28
Stefanie M. Kimball	EVP Chief Lending Officer	28	3
Mark Collins	EVP General Counsel	25 <sup>(2)</sup>	1

(1) Experience includes positions within the financial services group at a large accounting firm.

(2) Experience includes specialization in commercial law

and creditors  
rights at a large,  
Grand  
Rapids-based  
law firm.

*Successful Acquisition and Integration History:* Over the past 20 years, we have made 12 acquisitions of depository institutions and branches. Our management team has a history of successfully integrating these acquisitions and delivering strong operating results. In 2007, following our most recent acquisition of 10 branches, we consolidated our 4 charters under Independent Bank to improve operational efficiency, credit and risk management processes, and reduce expenses. We believe our management team possesses the capabilities and experience to successfully pursue strategic opportunities in the future.

*Well-Positioned for Growth:* We have operated in the Michigan market for over 100 years and are one of the largest banks solely focused on the state of Michigan. We are positioned in the marketplace as a local community bank that is large enough to provide a wide range of banking services, yet small enough to deliver personalized service to our customer base. We have strong commercial lending capabilities, including an experienced credit administration team and group of senior lenders. We believe the completion of this offering will provide us the capital to pursue local, high quality commercial lending relationships.

*Proactive Approach to Credit:* We believe the improvements we made to our credit administration and risk management programs and processes since the second quarter of 2007 in response to deteriorating economic conditions allow us to better identify problem areas and respond quickly, decisively, and aggressively. We implemented industry best practices throughout the life cycle of a loan to include the loan origination, monitoring, and servicing as well as, if necessary, workout stages. Our philosophy of working with our clients as long as they are working with us has resulted in numerous successful restructured loans. As an example of our approach to the recent credit environment, we began curtailing new originations of commercial loans in the second quarter of 2007 and have reduced the construction, land, and land development segments of our commercial loan portfolio from approximately \$229 million at December 31, 2007 to \$82 million at March 31, 2010.



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### **Our Credit Strategy**

We believe we employ a prudent credit culture that includes sound underwriting, centralized credit and risk management functions, comprehensive loan review processes, and diligent asset workout and collection efforts. Highlights of our credit strategy are set forth below.

#### *Our Relationship Banking Approach*

Our credit strategy reflects the main principles of our community banking model which emphasize development of a full customer relationship. We emphasize a "know your customer" approach and seek to provide credit together with primary depository and cash management services. This strategy enables our bankers to listen closely to our clients in order to improve their understanding of our customers' needs and facilitate their ability to offer tailored banking solutions. We believe our recent, excellent J. D. Power ratings reflect our customers' appreciation and high satisfaction with the services we provide.

#### *Improvements to Our Credit Policy and Processes*

As Michigan began to experience economic stress and our asset quality deteriorated, we completed comprehensive reviews of our credit policy and processes and revised them as we believed appropriate for the current credit cycle, including:

We strengthened our credit team through key appointments and experienced hires from larger commercial banks, including a Chief Lending Officer, to oversee the implementation of best credit practices. We made key additions to our already experienced commercial lending team, including Senior Vice Presidents of Credit Processes, Special Assets, and Credit Administration, and a new Loan Review Manager. In our retail department, we made key appointments and realigned the critical collection function of two Senior Vice Presidents and two Vice Presidents. We also hired an in-house general counsel to specifically focus on workouts, provide legal guidance to our workout team, and improve our management of legal costs in the workout and other disposition processes.

We enhanced our training to provide comprehensive and ongoing in-house credit, underwriting, and risk management training programs that leverage our systems and infrastructure. Further, we implemented a process to provide ongoing coaching of our lenders in negotiations, customer communication, problem credit resolution, and development of specific action plans.

We implemented a range of credit initiatives designed to strengthen our credit oversight and risk management function, minimize losses from our legacy portfolio and reduce the level of our non-performing assets. In addition to the consolidation of our 4 bank charters, we implemented a new process to increase the coordination between our retail and commercial operations as they relate to underwriting, loan review and oversight, and problem credit resolution. We also expanded our quality control function that monitors new retail loan originations.

#### *Realignment of Credit Portfolios*

For the past two years, we have pursued a conservative credit strategy of net deleveraging in order to meet the challenges of this credit cycle. In response to the changing economic circumstances and opportunities in Michigan, we shifted our strategic direction in portfolio lending towards high quality loan segments and sustainable organic growth in the markets we serve. Since 2007, we have significantly reduced our exposure to commercial real estate (CRE). Our CRE portfolio (excluding owner occupied) was \$443.7 million at March 31, 2010, down from \$607.2 million in the fourth quarter of 2007. We have also de-emphasized other high risk segments, such as land, land development, and construction loans, which currently represent less than 4% of our total loan portfolio. As a result of these efforts and the curtailment of originations in recent years, our income producing portfolio is more seasoned and diversified. We continue to focus our loan origination efforts on high quality, profitable commercial loan segments such as small business and middle market loans generated through our branch and referral networks. We utilize government guarantee programs, such as the SBA program, where appropriate. We also intend to continue our focus on building relationships with C&I clients as an attractive target customer segment. We believe we underwrite consumer loans for boats, autos, and home improvements on a conservative basis. We have focused our retail mortgage loan efforts on originating loans for sale, which are attractive for their associated gains on sales. Our strategy is to sell the majority of

our first mortgage loans into the secondary market and selectively retain in our portfolio adjustable rate mortgage (ARM) products with strong underwriting metrics. In addition, as described in more detail below, we have implemented a strategy to significantly reduce the payment plan receivables generated by Mepco in light of losses Mepco has recently incurred, increased risks in the vehicle service contract industry, and our desire to return our focus to our core banking competencies.

**Table of Contents***Our Proactive Management of Troubled Loans*

We proactively manage troubled loans and have focused on early loss recognition throughout the current credit cycle. In response to challenges in this credit cycle, we have implemented a comprehensive foundation of credit best practices. Highlights include:

Formation of a special assets team of experienced lenders and collection personnel to ensure effective management of the substandard and nonaccrual loans;

Comprehensive review and enhancement of our portfolio analytics, specifically as they relate to segment reporting, migration analysis, and stress testing;

Implementation of independent risk ratings designed to ensure consistent risk measurement;

Adherence to a disciplined quarterly watch process to manage high-risk loans;

Strengthening of our collateral monitoring process for CRE, construction loans, and C&I lending, with centralized monitoring and reporting functions;

Regular analysis of portfolio migration to establish the appropriate level of general reserves for each loan grade;

Establishment of key vendor relationships with realtors, property managers, and other real estate management service providers to obtain up-to-date market feedback and for assistance in the workout and disposition process;

Regular acquisition and review of new credit bureau scores on our retail portfolios to aid collection efforts and guide retail loss forecasts;

Implementation of retail collection initiatives and loss mitigation programs to increase home retention, avoid unnecessary foreclosures, and minimize associated costs; and

Regular monitoring of the secondary market for potential sale of our non-performing loans, which we will consider as market conditions warrant.

Our approach is to work with our clients as long as they are working with us. We believe this customized approach to our clients' lending needs has produced, and should continue to produce, better results for us than if we used the less personalized approaches of some of our competitors. One indicator of the success of our approach is, for example, that approximately 78% of our retail restructured loans remained performing six months after modification as of April 30, 2010.

**Loan Quality Update and Trends**

We believe our asset quality metrics and credit trends have started to show signs of improvement over the last several quarters. Our non-performing loans (NPLs) decreased 24.0% in the first quarter of 2010 from their peak in the first quarter of 2009 and declined 10.9% from the fourth quarter of 2009. A breakdown of NPLs (excluding loans classified as troubled debt restructurings (TDRs) that are still performing) by loan type is as follows:

	March 31, 2010	Dec. 31, 2009	March 31, 2009
	(\$ in millions)		
Loan Type			
Commercial	\$ 43.9	\$ 50.4	\$ 68.9
Consumer/installment	7.8	8.4	6.8

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Mortgage	43.2	48.0	50.8
Payment plan receivables <sup>(1)</sup>	3.4	3.1	2.5
Total	\$ 98.3	\$ 109.9	\$ 129.0
Ratio of non-performing loans to total portfolio loans	4.56%	4.78%	5.27%
Ratio of non-performing assets to total assets	4.78	4.77	5.25
Ratio of the allowance for loan losses to non-performing loans	77.48	74.35	45.18
Ratio of 30-89 days past due loans to total portfolio loans	2.57	2.81	2.55

(1) Represents payment plans for which no payments have been received for 90 days or more and for which Mepco has not yet completed the process to charge the applicable counterparty for the balance due to Mepco.

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The decrease in NPLs since year-end 2009 is due principally to declines in non-performing commercial loans and residential mortgage loans. These declines primarily reflect net charge-offs of loans, negotiated transactions, and the migration of loans into other real estate (ORE). Non-performing commercial loans largely relate to delinquencies caused by cash flow difficulties encountered by real estate investors. Non-performing commercial loans have declined for the past five quarters. The elevated level of non-performing residential mortgage loans is primarily due to delinquencies reflecting both weak economic conditions and soft residential real estate values in many parts of Michigan. However, retail NPLs have shown three quarters of improvement and are now at their lowest level since the first quarter of 2009.

Loans classified as troubled debt restructurings (TDRs) are loans for which we have modified the terms. A TDR loan that continues to perform after being modified is not included in our NPLs, except with respect to certain retail loans, as noted in footnote (2) to the table below. However, NPLs do include TDRs that are no longer performing, including TDRs that are on non-accrual or are 90 days or more past due. A breakdown of our TDRs as of March 31, 2010, is as follows (in 000 \$):

	Commercial	Retail	Total
Performing TDRs	\$ 16,668	\$ 78,483	\$ 95,151
Non-performing TDRs <sup>(1)</sup>	7,211	18,049 <sup>(2)</sup>	25,260
Total	\$ 23,879	\$ 96,532	\$ 120,411

(1) Included in NPL table above.

(2) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

The majority of our TDRs are accruing as they have a demonstrated ability to pay. Our approach to residential mortgage TDRs is to re-underwrite the loan with relatively conservative credit criteria. Almost 80% of these modified mortgage loans continue to pay six or more months after the modifications. On the commercial side, we perform a detailed analysis to determine TDR status. We restructure commercial TDR loans to right-size the debt to a level that can be supported by the cash flow and meet other more conservative credit criteria. We re-evaluate performance on a quarterly basis and update TDR status as warranted.

Non-performing assets (NPAs) declined 10.3% in the first quarter of 2010 from their peak in the first quarter of 2009 and decreased 1.24% from the fourth quarter of 2009. Our commercial NPAs have declined in each of the past five quarters.

Our 30-89 day past due loans are down 28.1% at March 31, 2010 from their peak in the second quarter of 2009, exhibiting three consecutive quarters of improvement. Commercial 30-89 day past due loans have remained stable at 1.68% of the commercial loan portfolio as of March 31, 2010. Our retail 30-89 day past due credits show three quarters of improvement as of March 31, 2010, and are now at their lowest level since the end of 2007. Our level of watch credits has been relatively stable over the past four quarters. Classified assets as of March 31, 2010 are also showing three quarters of improvement and are down 7% from their peak in the second quarter of 2009. Both retail

and commercial nonaccruals are decreasing.

We believe we have a focused and disciplined approach to managing ORE that leverages our networks and knowledge of the communities we serve. While we have explored bulk sale transactions from time to time, we have found that our approach of dealing with each property on an individual basis is more likely to result in a higher recovery. ORE and repossessed assets totaled \$40.3 million at March 31, 2010, compared to \$31.5 million at December 31, 2009, and \$26.1 million at March 31, 2009. As we expected, our commercial ORE increased slightly in the first quarter of 2010 as new inflows exceeded sales. Retail ORE transfers also outpaced ORE sales in the first quarter of 2010; however, our average holding period for retail ORE remains at approximately six months. We have a focused disposition process, which targets core interested investors and local realtors followed by sales through the auction channel. We expect ORE to continue to rise throughout 2010 as workout loans move through the cycle. Recent sales activity shows a realization equal to approximately 90% to 100% of our adjusted book value evidencing conservative mark-downs and some stabilization trends we are seeing in our markets.

Our provision for loan losses decreased by \$13.0 million, or 43.2%, in the first quarter of 2010 compared to the year-ago level, primarily reflecting a reduction in non-performing loans, a lower level of watch credits and an overall decline in total loan balances. The provision for loan losses was \$17.1 million and \$30.0 million in the first quarters of 2010 and 2009, respectively. The level of the provision for loan losses in each period reflects our overall assessment of the allowance for loan losses, taking into consideration factors such as loan mix, levels of non-performing and classified loans and loan net charge-offs. Loan net charge-offs were \$22.6 million (4.10% annualized of average loans) in the first quarter of 2010, compared to \$29.7 million (4.91% annualized of average loans) in the first quarter of 2009. The decline in first quarter 2010 loan net charge-offs compared to year ago levels is primarily due to an \$8.1 million decline in commercial loan net charge-offs. At March 31, 2010, the allowance for loan losses totaled \$76.1 million, or 3.53% of portfolio loans, compared to \$81.7 million, or 3.55% of portfolio loans, at December 31, 2009. Our portfolio of commercial loans on nonaccrual status have been written down, or reserved for, approximately 61% from the original loan balance.

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We are optimistic that our team's continued efforts in managing our commercial and retail loan portfolios will yield further improvements in asset quality.

**Recent Credit Reviews in Advance of This Offering**

In advance of this offering, we conducted a series of loan portfolio analyses, both internally and externally through third parties, to assist in our projections for potential future provisions for loan losses.

*Third Party, External Loan Reviews and Stress Testing*

In connection with the preparation of our Capital Plan, we engaged a third party to perform a review (a stress test) on our commercial loan portfolio and a separate third party to perform a similar review of our retail loan portfolio. Approximately \$1.8 billion of our \$2.3 billion commercial and retail loan portfolios was subjected to a detailed loan review, with extrapolation for the remainder of the portfolios plus random testing of loan files from the minority segments. The loan reviews were conducted at the loan level for the commercial portfolio and at the pool level for our retail portfolio. These external stress tests were concluded in January 2010. The analyses of the loan portfolio conducted by these independent parties included different scenarios based on a set of expectations of future economic conditions.

The external review of our commercial loan portfolio included a detailed review of 69% of the total portfolio outstanding (1,056 individual loan files), supplemented by an extrapolation for the remaining 31% of the portfolio. The review included key credit processes and a comparison of the external firm's loss forecasts to those conducted internally by management. The external firm's methodology resulted in a loan-by-loan loss forecast over an estimated 30-month time period ending April 30, 2012.

The external review of our retail loan portfolio covered the entire real estate portion of our portfolio and examined three retail loan pools of (1) owned residential mortgages, (2) real estate secured installment loans, and (3) home equity lines of credit. The external firm's methodology modeled, under various economic stress environments, risk-adjusted prepayment curves, default curves, and loss severity curves for each loan based on its borrower, recent FICO score, product type, property, and other risk characteristics and developed a loan loss forecast over a 60-month period ending December 31, 2014.

We engaged these external reviews in order to ensure that the similar analyses we performed internally in 2009, on which we based our projections in our Capital Plan for future potential loan losses, were reasonable and did not materially understate such projections. Based on the conclusions of these third party reviews, we determined that we did not need to modify our projections used for purposes of our Capital Plan.

The analyses conducted by the independent third parties were limited to our commercial and retail loan portfolios and did not include any analysis of potential losses associated with Mepco's payment plan business or any other asset category.

*SCAP Stress Testing*

In May 2009, the Federal Reserve announced the results of the Supervisory Capital Assessment Program, or SCAP, of the near-term capital needs of the 19 largest U.S. bank holding companies. The SCAP process involves the projections of losses on loans, assets held in investment portfolios, and trading related exposure over a two year time period (2009 and 2010). Although we were not subject to the Federal Reserve's review under the SCAP, we conducted, with assistance from our financial advisors, our own internal cumulative loss analysis or stress test of our loan portfolio and resulting capital position at March 31, 2010, using the same methodologies as the SCAP. Our analysis used a baseline scenario and a more adverse scenario as provided in the SCAP methodology. The SCAP baseline scenario was developed to reflect consensus expectations of economic forecasters in early 2009 on the depth and duration of the economic recession. The more adverse scenario was designed to characterize a recession that is longer and more severe than consensus expectations.

We performed our analysis by applying the SCAP guidelines under both the baseline and more adverse economic scenarios to our year-end 2008 loan balances. As of March 31, 2010, we compared the losses that would have been projected by the SCAP methodology in our loan portfolio over 2009 and 2010 to our actual loan losses over 2009 and the first quarter of 2010. Based on this methodology, our cumulative losses for 2009 and 2010 predicted by the SCAP analysis would have been \$132 million under the midpoint of the baseline case and \$206 million under the midpoint of the more adverse case. In comparison, based on our actual net charge-offs during 2009 and first quarter of 2010

(\$102.1 million) as well as our internal projections of remaining net charge-offs for 2010 (\$57.6 million), our losses over that comparable two year period would have been approximately \$160 million. See Our Projections Projected Provision for Loan Losses below.

The results of this SCAP analysis are hypothetical and are not indicative of losses we expect to incur, but rather show potential losses in our loan portfolio during a specific period of time based on the U.S. Treasury SCAP framework.

Based on the results of the SCAP analysis, we believe our projections for our provision for loan losses through the end of 2011, set forth under Our Projections Our Projected Provision for Loan Losses below, are reasonable.



**Table of Contents****Mepco Finance Corporation**

Mepco is a wholly-owned subsidiary of our bank. At the time we acquired Mepco in April of 2003, Mepco was engaged in its current vehicle service contract payment plan business (described below) and more traditional insurance premium financing. Mepco sold its insurance premium financing business in January 2007. As a result, Mepco's sole business activity is its vehicle service contract payment plan business.

*Description of Payment Plan Business*

Vehicle service contracts are contracts purchased by consumers to cover the cost of certain vehicle repairs. They have historically been known as after-market extended automobile warranties and are sometimes still referred to as such. The service contracts are written and provided by parties commonly referred to in the industry as administrators. The administrators are generally not affiliated with any automobile manufacturer. In most states, the administrator is required to purchase a contractual liability insurance policy (CLIP) from an insurance company or a risk retention group that guarantees performance of the service contract to the consumer in the event the administrator fails to perform the service contract. The administrators sell the service contracts through a network of third party marketing companies and/or through automobile dealers.

Vehicle service contracts typically cost between \$1,000 and \$2,500. Of this purchase price, a portion is paid to the insurer for providing the CLIP, a portion is paid to the administrator for administering the service contract and maintaining required reserves for potential claims, and a portion is paid to the seller of the service contract as a sales commission and for providing customer service. While the full purchase price of the service contract is sometimes paid by the consumer at the time of purchase, the administrators and sellers of the service contracts (which we refer to as Mepco's counterparties) generally also allow the consumer to pay the cost of the coverage on a monthly basis, through a payment plan.

Mepco acquires the payment plans from its counterparties at a discount from the face amount of the payment plan. Each payment plan permits a consumer to purchase a service contract by making monthly payments, generally for a term of 12 to 24 months. Mepco thereafter collects the payments from consumers. In acquiring the payment plan, Mepco generally funds a portion of the cost to the seller of the service contract and a portion of the cost to the administrator of the service contract. The administrator, in turn, pays the necessary CLIP premium to the insurer or risk retention group.

Consumers are allowed to voluntarily cancel the service contract at any time and are generally entitled to receive a refund from the administrator of the unearned portion of the service contract at the time of cancellation. As a result, while Mepco does not owe any refund to the consumer, it also does not have any recourse against the consumer for nonpayment of a payment plan and therefore does not evaluate the creditworthiness of the individual consumer. If a consumer stops making payments on a payment plan or exercises the right to voluntarily cancel the service contract, the service contract seller and administrator are each obligated to refund to Mepco the amount necessary to make Mepco whole as a result of its funding of the service contract. As described below, the insurer or risk retention group that issued the CLIP for the service contract often guarantees all or a portion of the refund to Mepco.

If a service contract is cancelled, Mepco typically recovers a portion of the unearned cost of the service contract from the seller and a portion of the unearned cost from the administrator (who, in turn, receives unearned premium from the insurer involved). However, the administrator is generally obligated to refund to Mepco the entire unearned cost of the service contract, including the portion Mepco typically collects from the seller. In addition, as of May 31, 2010, approximately 67% of the aggregate amount of Mepco's outstanding payment plan receivables relate to programs in which a third party insurer or risk retention group is obligated to pay Mepco the full refund owing upon cancellation of the related service contract (including with respect to both the portion funded to the service contract seller and the portion funded to the administrator). Another approximately 15% of Mepco's outstanding payment plan receivables as of May 31, 2010, relate to programs in which a third party insurer or risk retention group is obligated to Mepco to pay the refund owing upon cancellation only with respect to the unearned portion previously funded by Mepco to the administrator (i.e., but not to the service contract seller). The balance of Mepco's outstanding payment plan receivables relate to programs in which there is no insurer guarantee of any portion of the refund amount.

In some cases, Mepco requires collateral or guaranties by the principals of the counterparties to secure these refund obligations; however, this is generally only the case when no rated insurance company is involved to guarantee the

repayment obligation of the seller and administrator counterparties. In most cases, there is no collateral to secure the counterparties' refund obligations to Mepco, but Mepco has the contractual right to offset unpaid refund obligations against amounts Mepco would otherwise be obligated to fund to the counterparties. In addition, even when other collateral is involved, the refund obligations of these counterparties are not fully secured. Mepco incurs losses when it is unable to fully recover funds owing to it by counterparties upon cancellation of the underlying service contracts.

Mepco presently does business with approximately 200 different sellers (direct marketers and automobile dealerships). However, as of May 31, 2010, Mepco's top 15 current seller counterparties (which do not include the seller counterparty described below that declared bankruptcy in March 2010) represent approximately 85% of the total monthly payment plan volume, with the largest single seller counterparty generally representing approximately 20% of such volume. Each seller generally sells vehicle service contracts issued by a number of different administrators and insurance companies. See footnote 20 to our audited financial statements on page F-78 for more information about the concentrations in Mepco's business.

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Mepco's new payment plan volume for the five months ended May 31, 2010 was approximately 65% lower than the same period in 2009. This decline reflects our intention to reduce payment plan receivables as a percentage of total assets as well as general industry conditions (which include a decline in the volume of sales of vehicle service contracts). In addition to reducing the size of this business, given recent losses incurred by Mepco, we have begun implementing changes to the funding policies followed by Mepco (i.e., the amounts and timing of funds advanced by Mepco to the sellers of the service contracts) as a way of further reducing the risk associated with this business segment by decreasing the amount Mepco will need to recover from its counterparties upon cancellation of a vehicle service contract.

*Presentation in Consolidated Financial Statements*

The aggregate net amount of outstanding payment plans held by Mepco is recorded on our consolidated statements of financial condition as payment plan receivables (formerly referred to as finance receivables). Net payment plan receivables totaled \$340.7 million, or 11.7% of total assets at March 31, 2010 compared to \$406.3 million, or 13.7% of total assets at December 31, 2009. The \$65.6 million decline in net payment plan receivables during the first quarter of 2010 represents an annualized decline of 64.6% and is consistent with our goal, noted above, of reducing payment plan receivables as a percentage of total assets.

The aggregate amount of obligations owing to Mepco by counterparties (triggered by the cancellation of the related service contracts), net of write-downs made through the recognition of vehicle service contract counterparty contingency expense, is recorded on our consolidated statements of financial condition in accrued income and other assets. At March 31, 2010, this amount totaled \$10.0 million (compared to \$1.2 million at March 31, 2009). As a result, upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of payment plan receivables and an increase in the amount of accrued income and other assets until such time as the amount due from the counterparty is collected. These amounts represent funds actually due to Mepco from its counterparties for cancelled service contracts, as opposed to estimated incurred losses associated with payment plan receivables that are still outstanding (which estimated incurred losses are recorded as vehicle service contract counterparty contingencies expense, described below).

Mepco purchases the payment plans (which are non-interest bearing) at a discount. This discount is initially recorded as unearned revenue and is netted against payment plan receivables in our consolidated statements of financial condition. At March 31, 2010, this unearned discount totaled \$23.8 million (compared to \$28.1 million at March 31, 2009). This discount or unearned revenue is then accreted into earnings using a level yield method over the life of the payment plan. This discount accretion is recorded as interest and fees on loans in our consolidated statements of operations.

We record estimated incurred losses associated with the administration of Mepco's vehicle service contract payment plans in our provision for loan losses and establish a related allowance for loan losses. We record estimated incurred losses associated with defaults by Mepco's counterparties as vehicle service contract counterparty contingencies expense, which is included in non-interest expenses in our consolidated statements of operations. These expenses are described in more detail below.

*Calculation of the Allowance for Loan Losses*

Mepco's allowance for loan losses is determined in a similar manner to that of Independent Bank and primarily takes into account historical loss experience and other subjective factors deemed relevant to Mepco's payment plan business. Estimated incurred losses associated with the administration of Mepco's vehicle service contract payment plans are included in the provision for loan losses. Mepco recorded a credit of \$0.1 million for its provision for loan losses in the first quarter of 2010 due primarily to a significant decline (\$65.6 million) in the balance of payment plan receivables. This compares to a provision for loan losses of \$0.2 million in the first quarter of 2009. Mepco's allowance for loan losses totaled \$0.7 million and \$0.8 million at March 31, 2010, and December 31, 2009, respectively. Mepco has established procedures for vehicle service contract payment plan servicing, administration and collections, including the timely cancellation of the vehicle service contract, in order to protect our setoff position in the event of payment default or voluntary cancellation by the customer. Mepco has also established procedures to attempt to prevent and detect fraud since the payment plan origination activities and initial customer contact is done entirely through unrelated third parties (vehicle service contract administrators and sellers or automobile dealerships).

However, there can be no assurance that the aforementioned risk management policies and procedures will prevent us from the possibility of incurring significant credit or fraud related losses in this business segment.

*Calculation of Vehicle Service Contract Counterparty Contingencies Expense*

Our estimate of vehicle service contract counterparty contingencies expense (probable incurred losses for estimated defaults by Mepco's counterparties) requires a significant amount of judgment because a number of factors can influence the amount of loss Mepco may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in

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connection with their contractual obligations to us. We apply a rigorous process, based upon observable contract activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses. As a result, actual future losses associated with in these receivables may exceed the charges we have taken.

In 2009, we recorded a total of \$31.2 million in vehicle service contract counterparty contingencies expense. For the first quarter of 2010, we recorded \$3.4 million in vehicle service contract counterparty contingencies expense.

*Risk Inherent in Calculation of Estimated Probable Incurred Losses*

The vehicle service contract counterparty contingencies expense represents our estimate of the probable incurred losses of Mepco as a result of its inability to fully recover on the contractual rights it has against its counterparties and any guarantors upon cancellation of service contracts. One of the most significant risks we face is the possibility we have underestimated these probable incurred losses. As noted above, our estimate of these probable incurred losses requires a significant amount of judgment because there are a number of factors that can influence the amount of the loss. In addition, it is only since mid- to late-2009 that events have occurred that have led to a significant increase in vehicle service contract counterparty contingencies expense. The aggregate amount of vehicle service contract counterparty contingencies expense recorded in past years has grown from \$0 in 2007, to \$1.0 million in 2008, to \$31.2 million in 2009 (and was \$3.4 million during the first quarter of 2010). As a result, Mepco does not have much historical data to draw from in making the assumptions necessary to predict probable incurred losses (such as the ability to successfully recover from service contract administrators amounts funded by Mepco to the service contract seller). Finally, the difficulty of estimating such losses is exacerbated by the potential magnitude of the losses, which may threaten the viability of counterparties owing obligations to Mepco.

Of the aggregate \$34.7 million of vehicle service contract counterparty contingencies charges recorded since January 1, 2009, \$19.5 million relates to a single counterparty that declared bankruptcy on March 1, 2010. The amount of payment plans purchased from this counterparty and outstanding at May 31, 2010 totaled approximately \$110.8 million (compared to \$147.4 million and \$206.1 million at March 31, 2010 and December 31, 2009, respectively). In addition, as of May 31, 2010, this counterparty owed Mepco \$34.6 million for previously purchased payment plans associated with cancelled service contracts. We added approximately \$0.5 million in May 2010 to the \$19.5 million reserve that was previously established as of March 31, 2010, for the relationship with this counterparty given a review of all relevant factors. The amount of this reserve was calculated making assumptions about a number of factors. The primary assumptions made are as follows:

*Cancellation Rates.* We have assumed the cancellation rate for outstanding payment plans for the book of business with this counterparty will be similar to cancellation rates historically experienced with this counterparty. We believe this is a reasonable assumption because the failure of this counterparty does not affect the validity of the related service contract, which continues to be administered by a third party administrator and backed by a third party insurer. Higher cancellation rates increase the amount of funds Mepco needs to recover from its counterparties to be made whole. To date, actual cancellation rates for this program have generally been in line with our assumptions. We have no reason to believe cancellation rates will materially increase; however, there are events that could occur that could cause cancellation rates to increase. For example, weaker economic conditions generally cause an increase in cancellation rates as consumers seek to reduce their monthly expenses and choose to voluntarily cancel their service contracts or simply cannot continue to make payments. In addition, it is possible that a court or regulatory authority could attempt to force a mass cancellation of all outstanding payment plans originated by this counterparty (e.g., if it alleged the service contracts had been marketed or sold in a fraudulent matter or if it had reason to believe the continued performance of the service contract by the administrator was in question). If cancellation rates are higher than assumed, the aggregate exposure faced by Mepco increases, and actual losses may exceed the charges taken for probable incurred losses as of March 31, 2010. As of May 31, 2010, \$0.5 million of additional reserves have been added thus far in the second quarter due primarily to slightly higher actual cancellation rates than what had been previously projected.

*Recoveries from Collateral.* While Mepco generally does not maintain collateral for its counterparties' refund obligations, Mepco does have certain collateral for this counterparty's obligations as a result of the amount of business conducted with this counterparty and actions taken when the financial viability of this counterparty came into question. The estimated amount of probable incurred losses for this counterparty includes assumptions regarding our ability to realize upon and liquidate certain collateral securing the obligations of this counterparty. In making these assumptions, we applied liquidation and other discounts to the value of this collateral and also deducted holding and sales costs. However, we may be unable to liquidate the collateral at the levels we have assumed or our costs in doing so may be higher than expected. It is also possible that Mepco's claims as a secured and unsecured creditor in this counterparty's bankruptcy proceeding may result in additional recoveries. We have currently assumed no recovery from the bankruptcy estate as a result of these claims, but we currently believe there may be substantial assets available for recovery by Mepco. It will be some period of time before we are able to assess the magnitude and likelihood of any such recovery.

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*Recoveries from Counterparties.* As noted above, the administrator of a service contract is generally obligated to refund to Mepco not only the unearned portion of the amount previously advanced by Mepco to the administrator, but also the unearned portion of the amount previously advanced by Mepco to the seller of the service contract. Historically, Mepco has not had to collect the entire unearned cost from the administrator as it has been successful in collecting refunds from the seller of the service contract. Given the failure of this seller counterparty, Mepco intends to pursue collection of the amount it previously funded to this service contract seller from the administrators and third party insurance companies involved. Mepco currently expects it may need to file lawsuits against one or more of these administrators and insurers in order to recover amounts owing to Mepco. There are more than 25 administrators and more than 10 insurers that have refund obligations owing to Mepco as a result of the failure of this counterparty. We estimate that over 70% of the aggregate amount to be collected as a result of this counterparty's failure will be owed by only six different administrators and, of this amount, approximately 70% is guaranteed by insurers. In addition to challenges and delays associated with pursuing collection through litigation, the amounts owing with respect to the failure of this large counterparty could be catastrophic to one or more of these administrators or insurance companies. Mepco intends to vigorously pursue collection of the full amount owing from each obligor of amounts owed by this counterparty. However, in making assumptions regarding recovery from these counterparties, we applied discounts from the full amount owed to take into account the factors described above and potential litigation expenses and the possibility that payment of the full amount owed to Mepco, together with other obligations owing by these parties as a result of the failure of this counterparty, could threaten the continued financial viability of one or more of these parties.

The balance of the vehicle service contract counterparty contingencies expense incurred since January 1, 2009 (approximately \$15.1 million) relates to estimated probable incurred losses associated with Mepco's relationships with its counterparties other than the large counterparty described above. In calculating our estimate of incurred probable losses if counterparties fail to fulfill their contractual repayment obligations to Mepco, we have made a number of assumptions similar to those described above, namely:

The amount of collateral held by Mepco to secure such obligations and the likelihood of realizing upon and liquidating such collateral;

The ability of Mepco to fully recover on its contractual rights against other counterparties (i.e., administrators and insurance companies) involved; and

Cancellation rates of the underlying payment plans.

We believe our assumptions regarding these factors are reasonable, and we based them on our good faith judgments using data currently available. As a result, we believe the current amount of reserves we have established and the vehicle service contract counterparty contingencies expense that we have recorded are appropriate given our estimate of probable incurred losses at the applicable balance sheet date. However, because of the uncertainty surrounding the numerous and complex assumptions made, actual losses could exceed the charges we have taken to date. See *Risk Factors* below.

**First Quarter 2010 Earnings Overview**

We reported a first quarter 2010 net loss applicable to our common stock of \$14.9 million, or \$0.62 per share, compared to a net loss applicable to our common stock of \$19.7 million, or \$0.84 per share, in the first quarter of 2009. The reduced loss was primarily due to a decline in the provision for loan losses, partially offset by a decline in net interest income and an increase in non-interest expense.

Our net interest income was \$30.0 million for the first quarter of 2010, a decrease of \$4.3 million or 12.6% from the year-ago period, and a decrease of \$3.4 million or 10.1% from the fourth quarter of 2009. Our annualized net interest income as a percent of our average interest-earning assets (our net interest margin) was 4.45% during the first quarter of 2010 compared to 5.03% in the year ago period, and 4.78% in the fourth quarter of 2009. The decrease in our net interest margin is primarily due to a change in asset mix as higher yielding loans declined and lower yielding overnight investments at the Federal Reserve Bank increased. This change in asset mix principally reflects our current

strategy of maintaining significantly higher balances of overnight investments to enhance liquidity and our reduction in payment plan receivables attributable to our Mepco business. Average interest-earning assets declined to \$2.73 billion in the first quarter of 2010 compared to \$2.75 billion in the year ago quarter and \$2.78 billion in the fourth quarter of 2009.

Pre-tax, pre-provision core operating earnings, as defined by management, represents our income (loss) excluding: income tax expense (benefit), provision for loan losses, securities gains or losses, vehicle service contract counterparty contingencies, and any impairment charges (including loan servicing rights, goodwill, losses on ORE or repossessed assets, and certain fair-value adjustments) and elevated loan and collection costs incurred in the current economic cycle. The decline in our pre-tax, pre-provision core operating earnings in the first quarter of 2010 is principally due to a decrease in our net interest income as described above.



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Pre-Tax, Pre-Provision Core Operating Earnings <sup>(1)</sup>	3/31/10	Quarter Ended	
		12/31/09	3/31/09
		(in thousands)	
Net loss	\$ (13,837)	\$ (48,155)	\$ (18,597)
Income tax expense (benefit)	(264)	(1,456)	293
Provision for loan losses	17,070	25,116	30,038
Securities (gains) losses	(147)	26	581
Vehicle service contract counterparty contingencies	3,418	19,506	800
Impairment (recovery) charge on capitalized loan servicing	(145)	(890)	697
Impairment charge on goodwill		16,734	
Loss on ORE and repossessed assets	2,029	1,796	1,261
Elevated loan and collection costs <sup>(2)</sup>	3,536	2,584	2,788
<b>Pre-Tax, Pre-Provision Core Operating Earnings</b>	<b>\$ 11,660</b>	<b>\$ 15,261</b>	<b>\$ 17,861</b>

(1) This table reconciles consolidated net income (loss) presented in accordance with U.S. generally accepted accounting principles (GAAP) to pre-tax, pre-provision core operating earnings. Pre-tax, pre-provision core operating earnings is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income (loss) under GAAP. Pre-tax, pre-provision core operating

earnings has limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP.

However, we believe presenting pre-tax, pre-provision core operating earnings provides investors with the ability to gain a further understanding of our underlying operating trends separate from the direct effects of any impairment charges, credit issues, certain fair value adjustments, securities gains or losses, and challenges inherent in the real estate downturn and other economic cycle issues, and displays a consistent core operating earnings trend before the impact of these challenges.

(2)

Represents the excess amount over a normalized level (experienced prior to 2008) of \$1.25 million quarterly.

### **Our Projections**

Set forth below is our projection of our tangible common equity and related capital measures as of December 31, 2011. These projections are based on our projected pre-provision earnings for the period from March 31, 2010, to December 31, 2011, our projected provisions for loan losses during that period, and our projected contingency expenses at Mepco during that period. Those projections, in turn, are based on a number of assumptions, including the key assumptions described below.

We caution investors that projections are inherently uncertain. Our actual capital adequacy, results of operations, and performance may differ significantly from our current estimates due to the inaccuracy or non-realization of the assumptions upon which our projections are based, as well as other uncertainties and risks related to our business, including those described under Risk Factors beginning on page 25 and elsewhere in this prospectus. Our projections constitute forward-looking statements as described under Forward-Looking Statements on page 1 of this prospectus and are not a guarantee by us of our future capital adequacy, results of operations, or performance. Key assumptions upon which various of our projections are based are summarized under Our Projected Earnings, Our Projected Provision for Loan Losses, and Our Projected Mepco Counterparty Expenses below. We do not intend to issue any update to our projections at any time in the future.

#### *Our Projected Capital*

As of March 31, 2010, our tangible common equity was \$17.9 million, or \$0.75 per share. Taking into account various factors and current assumptions that we believe are reasonable, we currently project, as set forth in the table below, that our tangible book value per share will be approximately \$0.58 as of December 31, 2011. This does not take into account any proceeds from this offering, although (as noted below) it does take into account the conversion of our Series B Convertible Preferred Stock at 75% of par, which is contingent on our completion of a new cash equity raise of not less than \$100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share).

Our projection of our tangible book value per share of \$0.58 at December 31, 2011:

Is based on various assumptions we have made, including those described under Our Projected Earnings, Our Projected Provision for Loan Losses, and Our Projected Mepco Counterparty Expenses below, as well as the accuracy of our projected pre-provision earnings or loss, provision expenses, and Mepco counterparty contingency expenses for the period from April 1, 2010 to December 31, 2011, as described in greater detail below;

Includes the issuance of 51.1 million shares of our common stock in exchange for \$41.4 million in aggregate liquidation amount of our trust preferred securities, which was completed on June 23, 2010, and the issuance of 78.2 million shares of our common stock upon conversion of all of our Series B Convertible Preferred Stock held by the Treasury, which we expect to occur immediately after this offering;

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Reflects the benefit of a reduction in our future interest expense and dividend payments and the addition of equity capital (resulting from the issuance of new shares plus the associated after-tax gain) on the two transactions described in the preceding bullet point; and

Does not include the net cash proceeds to us as a result of this offering, which will further significantly strengthen our capital position; however, we did assume use of such proceeds in projecting our pre-provision earnings through the end of 2011. The last column in the following table reflects the addition of the net proceeds to our pro forma tangible common equity and resulting capital ratios.

(Dollars in millions, except per share amounts)	Projected Pro Forma as of December 31, 2011			
	As Reported March 31, 2010	Conversion of Trust Preferred Securities <sup>(1)</sup> and Preferred Stock <sup>(2)</sup> , plus Projected 2010-2011 Earnings and Credit Costs, plus Capital Raise	Conversion of Trust Preferred Securities <sup>(1)</sup> and Preferred Stock <sup>(2)</sup> , plus Projected 2010-2011 Earnings and Credit Costs	Conversion of Trust Preferred Securities <sup>(1)</sup> and Preferred Stock <sup>(2)</sup> , plus Projected 2010-2011 Earnings and Credit Costs, plus Capital Raise
Tangible Common Equity <sup>(3)</sup>	\$ 17.9	\$ 17.9	\$ 17.9	\$ 17.9
Pre-Provision Projected GAAP Earnings <sup>(4)</sup>			59.8	59.8
Amortization of Intangible Assets included in Pre-Provision Projected GAAP Earnings <sup>(4)</sup>			2.3	2.3
Projected Provision Expenses <sup>(5)</sup>			(98.0)	(98.0)
Projected Mepco Counterparty Contingency Expense			(6.9)	(6.9)
Adjusted Tangible Common Equity	17.9	17.9	(24.9)	(24.9)
Common Equity Created Through Conversions		114.0	114.0	114.0
Common Equity From this Offering <sup>(6)</sup>				103.0
Pro Forma Tangible Common Equity	\$ 17.9	\$ 131.9	\$ 89.1	\$ 192.1
Shares Outstanding (mm)	<b>24.032</b>	<b>153.346</b>	<b>153.346</b>	<b>TBD</b>
Tangible Book Value/Share	\$ <b>0.75</b>	\$ <b>0.86</b>	\$ <b>0.58</b>	<b>TBD</b>
Tangible Common Equity/Tangible Assets	0.62%	4.56%	3.70%	7.97%
Tier 1 Common Ratio	1.04	4.93	4.23	8.51

Tier 1 Leverage Ratio	4.67	6.60	5.76	10.54
Tier 1 Risk Based Capital Ratio	6.64	9.36	7.50	13.71
Total Risk Based Capital Ratio	10.49	10.65	9.40	14.97

(1) Reflects our issuance of 51.1 million shares of common stock in exchange for \$41.4 million in aggregate liquidation amount of trust preferred securities, which exchange occurred June 23, 2010.

(2) Reflects our issuance of \$74.4 million in aggregate liquidation amount of Series B Convertible Preferred Stock in exchange for \$72.0 million in aggregate liquidation amount of Series A Preferred Stock held by the Treasury plus approximately \$2.4 million in accrued and unpaid dividends on such shares, which exchange occurred April 16, 2010. Also assumes the conversion on July 1, 2010 of all of such

Series B  
Convertible  
Preferred Stock  
at 75% of par,  
plus  
approximately  
\$0.8 million in  
accrued and  
unpaid  
dividends as of  
June 30, 2010,  
at a reference  
price of \$0.7234  
per share, which  
conversion is  
subject to  
certain  
conditions  
described  
above, resulting  
in the issuance  
of 78.2 million  
shares of our  
common stock  
to the Treasury.

- (3) Includes a net deferred tax asset of \$1.2 million.
- (4) Assumes cumulative pre-provision earnings from April 1, 2010 through December 31, 2011 based on our internal projections and assuming we have access to the expected proceeds of this offering. This excludes any gains on the conversion transactions, which are

included in  
Common Equity  
Created  
Through  
Conversions.

- (5) Assumes cumulative provisions from April 1, 2010 through December 31, 2011 based upon our internal projections of losses and ending ALLL / Total Loans ratio of 2.32% at December 31, 2011.

- (6) Assumes \$110 million gross proceeds from this offering.

*Our Projected Earnings*

Taking into account various factors and current assumptions that we believe are reasonable, including those set forth below, we currently project our pre-provision earnings to be approximately \$59.8 million for the period from April 1, 2010, to December 31, 2011. As set forth in the preceding table, we expect these projected pre-provision earnings will offset a significant portion of our projected future loan losses and Mepco counterparty expenses during the same period.

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Our projections are based upon numerous complex assumptions, estimates, and judgments, which may or may not be realized, including the following:

*Net Interest Margin:* In 2008 and 2009, our net interest margin was 4.63% and 5.08%, respectively. During the first quarter of 2010, our net interest margin declined to 4.45% due to our increased reliance on higher-cost wholesale funding sources as a means of building reserve liquidity and our reduction in payment plan receivables attributable to our Mepco business. Following the completion of this offering, we intend to repay some of our higher-cost wholesale funds and continue to build our core deposits. We believe doing so will have a relatively immediate and favorable impact on our net interest margin, which we project will continue to improve over 2010 and 2011. In addition, we intend to opportunistically increase our investments in long-term, fixed-rate agency mortgage backed securities, which we believe could present attractive returns. Further, the conversion of \$41.4 million in aggregate liquidation amount of trust preferred securities into our common stock in June 2010 will reduce future interest expense by \$3.5 million annually.

*Realignment of Loans to Deposits:* We expect our core deposit base to grow 2% to 3% per year reflecting our view of the opportunities in the markets we serve and the overall macroeconomic environment in Michigan in 2010 and 2011. We plan to continue our focus to realign our ratio of loans to deposits to be approximately 95%, as set forth in federal regulatory guidance. This compares to our loan to deposit ratios in 2008 and 2009 of 119.02% and 89.62%, respectively.

*Managed Loan Growth:* We intend to continue to grow certain high quality segments of our commercial portfolio. We expect we will be able to grow our commercial portfolio at a rate of approximately 5% in 2011 as the environment for commercial credit underwriting improves and we redeploy personnel to loan origination in select loan segments. We expect to continue to make select consumer loans as market opportunities warrant. We expect to see some further decline in consumer loans over 2010 with stabilization and an eventual turnaround point in mid-2011. We expect our portfolio mortgage lending volume to continue to be modest due to our focus on originating only mortgage loans eligible for sale in the secondary market, which are attractive for their associated gains on sale.

*Smaller Mepco Business:* We expect to continue to see payment plan receivables run off as management continues reducing the size of this portfolio and strategically focuses on reducing our risk exposure at our Mepco subsidiary. We have projected outstanding payment plan receivables to be \$271.7 million and \$245.3 million at December 31, 2010, and December 31, 2011, respectively.

*Modest Growth of Non-Interest Income:* We expect to benefit from some modest growth in non-interest income. While we expect service charges on deposits to decline in 2010 and 2011 from their 2009 level due to new legislation regarding overdraft fees, we believe we will see some modest growth by 2012. There is additional uncertainty with respect to interchange fee income in light of recent legislative efforts by the federal government. See Business Regulatory Developments below for additional information regarding these efforts.

*Cost Reduction Initiatives:* We anticipate realizing cost savings of \$23.9 million in 2011, thus reducing our expenses by approximately 17% over 2010. We are currently reviewing the efficiency of our operations and exploring ways to lower our costs through a variety of initiatives. We believe our focus to date on problem credit workouts and our continued work on managing dispositions on a cost-effective basis will translate into significantly lower credit related costs in the future. We expect our credit related costs such as loan and collection costs, losses on sale of ORE, and vehicle service contract counterparty contingency costs to decline by approximately \$20.3 million in 2011 from \$32.9 million in 2010. We also expect our FDIC insurance expense to decline modestly due to the projected expiration of the FDIC Transaction Account Guarantee Program, or TAGP, on December 31, 2010. We believe other potential areas of cost savings are a reduction in occupancy and equipment costs, data processing costs, and some reduction in salaries and benefits. However,



to motivate our personnel, we plan to partially reinstate several benefit programs in 2011, including the reinstatement of a 401(k) match of 2%, an ESOP contribution of 3%, threshold incentive payments, and merit pay increases of 2%. On an aggregate basis, we expect the reinstatement of these benefits to lead to a \$5.4 million increase in salaries and benefits in 2011 over 2010.

*No Tax Effect:* Our projections do not include any provision for federal income tax expense or benefit. We currently have a valuation allowance against the majority of our deferred tax assets, including net operating loss carryforwards. Reversal of the valuation allowance will occur at such time that we determine these deferred tax assets could be realized, but we do not expect any such reversal prior to December 31, 2011. Our current capital raising efforts may result in an ownership change for tax purposes, which could limit our ability to realize some of the deferred tax assets.

*No Extraordinary Transactions.* Our projections assume we will not engage in any acquisitions, divestitures, or other transactions outside the ordinary course of business.

**Table of Contents***Our Projected Provision for Loan Losses*

We have projected approximately \$98 million of provision expenses between April 1, 2010 and December 31, 2011. Taking into account various factors and current assumptions that we believe are reasonable, including those set forth below and also described above under *Our Projected Earnings*, the table below presents our current projections for provision expenses, net charge offs, and our allowance for loan losses for fiscal years 2010 and 2011, as compared to our actual results for the years ended December 31, 2007, 2008, and 2009.

	2007	2008	2009	2010P	2011P
			(\$ in millions)		
Provision expense	\$43.2	\$71.3	\$103.0	\$73.2	\$41.9
% of Total Loans	1.71%	2.80%	4.25%	3.86%	2.35%
Net Charge Offs	\$24.7	\$58.5	\$79.5	\$80.2	\$72.2
% Loss Rate	0.98%	2.30%	3.28%	4.24%	4.06%
Allowance	\$45.3	\$57.9	\$81.7	\$74.6	\$44.4
% of Loans	1.80%	2.35%	3.55%	3.94%	2.32%

Our provision projections take into consideration the extensive internal and external analyses performed on our loan portfolio and are established based on what we believe to be reasonable assumptions of little to no improvement in the Michigan economy in 2010 with stabilization in 2011.

Our net charge-offs in 2007, 2008, and 2009 were \$24.7 million (0.98% loss rate), \$58.5 million (2.30% loss rate), and \$79.5 (3.28% loss rate), respectively. We project net charge-offs to be approximately \$80.2 million (3.84% loss rate) in 2010 and \$72.2 million (3.74% loss rate) in 2011.

In developing our net charge-off projections for 2010 and 2011, we followed a methodology that predicates commercial loss projections on a probability of default (PD) and loss given default (LGD) based on our actual historical experience during the last 12 months applied against March 31, 2010 loan balances. Another component of our commercial loan loss forecast methodology is the inclusion of an adjustment factor that assumes further declines in the Michigan commercial real estate market. We assume stabilization of commercial real estate values and default rates in Michigan in 2011.

Our retail loan loss forecast for 2010 and 2011 was developed based on a segmentation analysis of the portfolio by product type and updated FICO scores reflecting retail loan balances as of March 31, 2010. We developed our retail loss forecast over the next 36 months utilizing both default tables for FICO scores and our actual recent historical loss rates.

At the end of 2009, our allowance for loan and lease losses amounted to \$81.7 million (3.55% of total loans), compared to \$57.9 million (2.35% of total loans) for 2008 and \$45.3 million (1.80% of total loans) in 2007. Our forecasts anticipate our allowance for loan and lease losses to be approximately \$74.6 million (3.94% of total loans) at end of 2010 and \$44.4 million (2.32% of total loans) at the end of 2011. We expect our allowance, compared to total loans, to decrease in percentage terms in 2011 reflecting our expectations of a more normalized credit environment in Michigan in 2011, with stabilization in real estate values, no further increase in default levels, and a seasoning of our legacy portfolios.

*Our Projected Mepco Counterparty Expenses*

In addition to expected provision expenses for loan losses, we expect to incur additional expenses at Mepco related to our counterparty exposure. We incurred \$34.7 million of aggregate counterparty expenses in 2009 and the first quarter of 2010. Taking into account various factors, including those described above under *Mepco Finance Corporation*, and current assumptions that we believe are reasonable, including those described above under *Our Projected Earnings*, we currently project to incur additional expenses of \$6.9 million from April 1, 2010 through the December 31, 2011.

**Corporate Information**

Our principal executive offices are located at 230 West Main Street, Ionia, Michigan 48846, and our telephone number at that address is (616) 527-5820.

Our common stock trades on The NASDAQ Global Select Market under the ticker symbol IBCP.

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**The Offering**

**Common stock offered**

[ ] shares ([ ] shares if the underwriters exercise their over-allotment option in full).

**Common stock outstanding after the offering<sup>(1), (2)</sup>**

[ ] shares ([ ] shares if the underwriters exercise their over-allotment option in full).

**Net proceeds**

Our estimated net proceeds from this offering are approximately \$[ ] million, or approximately \$[ ] million if the underwriters exercise their over-allotment option in full, after deducting the underwriting discounts and commissions and other estimated expenses of this offering.

**Use of proceeds**

We intend to contribute all or substantially all of the net proceeds from this offering to our bank to strengthen its regulatory capital ratios. We expect to use any remaining net proceeds for general working capital purposes.

**No dividends on common stock**

We are not currently paying any cash dividends on our common stock and our ability to pay cash dividends in the near term is significantly restricted by the factors described below. See Dividend Policy below for more information.

**Market trading**

Our common stock is currently traded on the Nasdaq Global Select Market under the symbol IBCP. The last reported closing price of our common stock on July 7, 2010, the last trading day prior to the date of this prospectus, was \$0.35 per share.

As noted above, our common stock is currently listed on the Nasdaq Global Select Market. However, on June 23, 2010, we received a letter from The Nasdaq Stock Market notifying us that we no longer meet Nasdaq's continued listing requirements under Listing Rule 5450(a)(1) because the bid price for our common stock had closed below \$1.00 per share for 30 consecutive business days. We have until December 20, 2010 to demonstrate compliance with this bid price rule by maintaining a minimum closing bid price of at least \$1.00 for a minimum of 10 consecutive business days. If we are unable to establish compliance with the bid price rule within such time period, our common stock will be subject to delisting from the Nasdaq Global Select Market. However, in that event, we may be eligible for an additional grace period by transferring our common stock listing from the Nasdaq Global Select Market to the Nasdaq Capital Market. This would require us to meet the initial listing criteria of the Nasdaq Capital Market, other than with respect to the minimum closing bid price requirement. If we are then permitted to transfer our listing to the Nasdaq Capital Market, we expect we would be granted an additional 180

calendar day period in which to demonstrate compliance with the minimum bid price rule. On April 27, 2010, our shareholders approved a reverse stock split. If implemented, this reverse stock split would likely have the effect of raising our stock price above the \$1.00 per share minimum; however, there is no assurance the price would be maintained at a level necessary for us to meet the bid price rule discussed above. Please see **Risk Factors** below.

**Risk factors**

See **Risk Factors** beginning on page 25 and other information included in this prospectus for a discussion of factors you should consider before investing in our common stock.

- (1) The number of our shares outstanding immediately after the closing of this offering is based on [ ] shares of our common stock outstanding as of [ ], 2010.
  
- (2) Unless otherwise indicated, the number of shares of common stock stated to be outstanding in this prospectus excludes (a) [ ] shares issuable upon exercise of the underwriters over-allotment option, (b) [ ] shares of common stock issuable upon exercise of outstanding stock options as of [ ], 2010 (with a weighted average exercise price of \$[ ]), (c) [ ] shares issuable

pursuant to potential future awards under our equity compensation plans, (d) 3,461,538 shares issuable upon exercise of the amended and restated Warrant (as such number may be adjusted pursuant to the terms of the amended and restated Warrant) held by the Treasury, and (e) all shares issuable upon conversion of our Series B Convertible Preferred Stock held by the Treasury.

**Table of Contents****SELECTED FINANCIAL DATA**

The following tables set forth selected consolidated financial data for us at and for each of the years in the five-year period ended December 31, 2009 and at and for the three-month periods ended March 31, 2010 and 2009.

The selected financial data as of and for the years ended December 31, 2009, 2008 and 2007, has been derived from our audited financial statements included in this prospectus beginning on page F-39. The selected financial data as of and for the years ended December 31, 2006 and 2005 has been derived from our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2006.

The selected financial data as of and for the three months ended March 31, 2010 and 2009 has been derived from our unaudited interim financial statements included in this prospectus beginning on page F-2. In the opinion of our management, these financial statements reflect all necessary adjustments (consisting only of normal recurring adjustments) for a fair presentation of the data for those periods. Historical results are not necessarily indicative of future results and the results for the three months ended March 31, 2010 are not necessarily indicative of our expected results for the full year ending December 31, 2010 or any other period.

You should read this information in conjunction with our consolidated financial statements and related notes included at page F-1 below, from which this information is derived.

(\$ in 000 s, except per share amounts)	3-Months Ended		Year Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
	(Unaudited)		(Audited)				
<b>SUMMARY OF OPERATIONS</b>							
Interest income	\$ 41,244	\$ 47,565	\$ 189,056	\$ 203,736	\$ 223,254	\$ 216,895	\$ 193,035
Interest expense	11,213	13,218	50,533	73,587	102,663	93,698	63,099
Net interest income	30,031	34,347	138,523	130,149	120,591	123,197	129,936
Provision for loan losses	17,070	30,038	103,032	71,321	43,160	16,344	7,806
Net gains (losses) on securities	147	(581)	3,744	(14,961)	(705)	171	1,484
Other non-interest income	11,870	12,159	54,915	44,682	47,850	44,679	41,342
Non-interest expenses	39,079	34,191	187,587	177,150	115,724	106,216	101,785
Income (loss) from continuing operations before income tax	(14,101)	(18,304)	(93,437)	(88,601)	8,852	45,487	63,171
Income tax expense (benefit)	(264)	293	(3,210)	3,063	(1,103)	11,662	17,466
Income (loss) from continuing operations	(13,837)	(18,597)	(90,227)	(91,664)	9,955	33,825	45,705
Discontinued operations, net of tax					402	(622)	1,207
Net income (loss)	(13,837)	(18,597)	(90,227)	(91,664)	10,357	33,203	46,912
Preferred dividends	1,077	1,075	4,301	215			
Net income (loss) applicable to common stock	\$ (14,914)	\$ (19,672)	\$ (94,528)	\$ (91,879)	\$ 10,357	\$ 33,203	\$ 46,912

**PER COMMON SHARE DATA(1)**

Income (loss) per common share from continuing operations

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Basic	\$	(0.62)	\$	(0.84)	\$	(3.96)	\$	(4.00)	\$	0.44	\$	1.48	\$	1.96
Diluted		(0.62)		(0.84)		(3.96)		(4.00)		0.44		1.45		1.92
Net income (loss) per common share														
Basic	\$	(0.62)	\$	(0.84)	\$	(3.96)	\$	(4.00)	\$	0.46	\$	1.45	\$	2.01
Diluted		(0.62)		(0.84)		(3.96)		(4.00)		0.45		1.43		1.97
Cash dividends declared		0.00		0.01		0.03		0.14		0.84		0.78		0.71
Book value		1.16		4.53		1.69		5.49		10.62		11.29		10.75

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	3-Months Ended March 31,		Year Ended December 31,				
	2010 (Unaudited)	2009 (Unaudited)	2009	2008	2007 (Audited)	2006	2005
<b>SELECTED BALANCES</b>							
Assets	\$ 2,900,770	\$ 2,952,981	\$ 2,965,364	\$ 2,956,245	\$ 3,247,516	\$ 3,406,390	\$ 3,348,700
Liabilities	2,155,598	2,446,959	2,299,372	2,459,529	2,518,330	2,459,887	2,365,100
Provision for loan losses	76,132	58,305	81,717	57,900	45,294	26,879	22,400
Deposits	2,497,542	2,161,028	2,565,768	2,066,479	2,505,127	2,602,791	2,474,200
Shareholders' equity	97,211	177,436	109,861	194,877	240,502	258,167	248,200
Short-term debt - FHLB advances	122,372	276,705	94,382	314,214	261,509	63,272	81,500
Subordinated debentures	92,888	92,888	92,888	92,888	92,888	60,888	60,800
<b>SELECTED RATIOS</b>							
Interest income to average interest earning assets	4.45%	5.03%	5.00%	4.48%	4.26%	4.41%	4.41%
Income (loss) from continuing operations to(2)							
to average common equity	(184.46)	(62.73)	(90.72)	(39.01)	3.96	13.06	18.06
to average assets	(2.06)	(2.68)	(3.17)	(2.88)	0.31	0.99	1.06
Income (loss) to(2)							
to average common equity	(184.46)	(62.73)	(90.72)	(39.01)	4.12	12.82	19.06
to average assets	(2.06)	(2.68)	(3.17)	(2.88)	0.32	0.97	1.06
Loan to average shareholders' equity to average assets	3.48	6.58	5.80	7.50	7.72	7.60	7.60
Loan to average assets	4.67	7.97	5.27	8.61	7.44	7.62	7.60
Performing loans to portfolio loans	4.56	5.27	4.78	5.09	3.07	1.59	0.00

(1) Per share data has been adjusted for 5% stock dividends in 2006 and 2005.

(2) These amounts are calculated using income (loss) from continuing operations applicable to common stock and net income (loss) applicable to common stock.



**Table of Contents****RISK FACTORS**

*An investment in our common stock involves risks. You should carefully consider all of the information contained in this prospectus, including the risks described below, before investing in our common stock. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. The risk factors described in this section, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties, and events that could have a material adverse effect on our business, including our operating results and financial condition. This prospectus also contains forward-looking statements that involve risks and uncertainties. These risks could cause our actual results to differ materially from the expectations that we describe in our forward-looking statements. See Forward-Looking Statements.*

**RISKS RELATED TO OUR BUSINESS****Our results of operations, financial condition, and business may be materially and adversely affected if we are unable to successfully implement our Capital Plan.**

Our Capital Plan, which is described in more detail under Capital Plan and This Offering below, contemplates three primary initiatives that have been undertaken in order to increase our common equity capital, decrease our expenses, and enable us to better withstand and respond to current market conditions and the potential for worsening market conditions. Those three initiatives are the offer to exchange our common stock for our outstanding trust preferred securities, a conversion of the preferred stock held by the Treasury into shares of our common stock, and a public offering of our common stock for cash as described in this prospectus. We cannot be sure we will be able to successfully execute on the public offering of our common stock in a timely manner or at all. The successful implementation of our Capital Plan is, in many respects, largely out of our control as it primarily depends on our success in this offering, which depends on factors such as the stability of the financial markets, other macro economic conditions, and investors' perception of the ability of the Michigan economy to continue to recover from the current recession.

If we are unable to achieve the minimum capital ratios set forth in our Capital Plan in the near future, it would likely materially and adversely affect our business, financial condition, and the value of our securities. An inability to improve our capital position would make it very difficult for us to withstand continued losses as a result of continued economic difficulties in Michigan and other factors, as described elsewhere in this Risk Factors section.

In addition, we believe that if we are unable to achieve the minimum capital ratios set forth in our Capital Plan as a result of our inability to raise sufficient capital in this offering and if our financial condition and performance otherwise fail to improve significantly, it is likely our bank's capital will fall below the levels necessary to remain well-capitalized under federal regulatory standards during 2010. In that case, our primary bank regulators may impose regulatory restrictions and requirements on us through a regulatory enforcement action. If our bank fails to remain well-capitalized under federal regulatory standards, it will be prohibited from accepting or renewing brokered deposits without the prior consent of the FDIC, which would likely have a material adverse impact on our business and financial condition. If our regulators take enforcement action against us, it would likely increase our expenses and could limit our business operations, as described under Capital Plan and This Offering below. There could be other expenses associated with a continued deterioration of our capital, such as increased deposit insurance premiums payable to the FDIC.

Because of our financial condition at March 31, 2010, we received a letter from Fannie Mae in May 2010 advising us that we were in breach of our selling and servicing contract with Fannie Mae. The letter states that if this breach is not remedied as evidenced by our call report as of June 30, 2010, Fannie Mae will suspend our servicing contract. The suspension of our contract with Fannie Mae could have a material adverse impact on our financial condition and results of operations. We are in discussions with Fannie Mae to address the concerns in its May 2010 letter and avoid any suspension of our contract; however, this matter remains unresolved and the risk exists that Fannie Mae may require us to very quickly sell or transfer mortgage servicing rights to a third party or unilaterally strip us of such servicing rights if we cannot complete an approved transfer. Depending on the terms of any such transaction, this forced sale or transfer of such mortgage loan servicing rights could have a material adverse impact on our financial condition and future earnings prospects. Although we have not received any notice from Freddie Mac similar to the notice we received from Fannie Mae, a similar type of action could be taken by Freddie Mac.

Additional restrictions would make it increasingly difficult for us to withstand the current economic conditions, any continued deterioration in our loan portfolio, or any additional charges related to estimated potential losses for Mepco from vehicle service contract counterparty contingencies. We could then be required to engage in a sale or other transaction with a third party or our bank could be placed into receivership by bank regulators. Any such event could be expected to result in a loss of the entire value of our outstanding shares of common stock, including any common stock issued in this offering, and it could also result in a loss of the entire value of our outstanding trust preferred securities and preferred stock.

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**We may not achieve results similar to the financial projections contained in this prospectus.**

This prospectus contains various projections and related assumptions regarding our future financial performance and condition. These projections and assumptions were based on information about circumstances and conditions existing as of the date of this prospectus. The projections and estimated financial results are based on estimates and assumptions that are inherently uncertain and, though considered reasonable by us, are subject to significant business, economic, and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control. Accordingly, there can be no assurance that the projected results will be realized or that actual results will not be significantly different than projected. We do not intend to update the projections. Neither we nor any other person or entity assumes any responsibility for the accuracy or validity of the projections, as the projections are not, and should not be taken as, a guarantee of our future financial performance or condition.

**We have credit risk inherent in our asset portfolios, and our allowance for loan losses may not be sufficient to cover actual loan losses, despite analyses that have been conducted (both internally and externally by independent third parties) to assess the adequacy of our allowance.**

Our loan customers may not repay their loans according to their respective terms, and the collateral securing the payment of these loans may be insufficient to cover any losses we may incur. We have experienced and may continue to experience significant credit losses which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the size of the allowance for loan losses, we rely on our experience and our evaluation of current economic conditions. If our assumptions or judgments prove to be incorrect, our current allowance for loan losses may not be sufficient to cover certain loan losses inherent in our loan portfolio, and adjustments may be necessary to account for different economic conditions or adverse developments in our loan portfolio. Material additions to our allowance would adversely impact our operating results. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs required by these regulatory agencies would have a material adverse effect on our results of operations and financial condition.

We have performed internal stress testing of our loan portfolio and resulting capital position at March 31, 2010, using the same methodologies as used by the Federal Reserve in the Supervisory Capital Assessment Program (SCAP). We performed the SCAP test based on our December 2008 loan portfolio and took into account actual losses/charge-offs during 2009 and first quarter 2010. We also engaged independent third parties to perform a stress test on each of our commercial and retail loan portfolios. See the discussions of these analyses under Summary Recent Credit Reviews in Advance of this Offering above for more details.

Although we have performed internal and external testing of our loan portfolio to help ensure the adequacy of our allowance for loan losses, if the assumptions or judgments used in these analyses prove to be incorrect, our current allowance for loan losses may not be sufficient to cover loan losses inherent in our loan portfolio. Material additions to our allowance would adversely impact our operating results. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional loan charge-offs, notwithstanding any internal or external analysis that has been performed.

**Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally, and particularly by economic conditions in Michigan.**

Our success depends to a great extent upon the general economic conditions in Michigan's lower peninsula. We have in general experienced a slowing economy in Michigan since 2001. Unlike larger banks that are more geographically diversified, we provide banking services to customers primarily in Michigan's lower peninsula. Our loan portfolio, the ability of the borrowers to repay these loans, and the value of the collateral securing these loans will be impacted by local economic conditions. The economic difficulties faced in Michigan have had and may continue to have many adverse consequences, including the following:

Loan delinquencies may increase;

Problem assets and foreclosures may increase;

Demand for our products and services may decline; and

Collateral for our loans may decline in value, in turn reducing customers' borrowing power and reducing the value of assets and collateral associated with existing loans.

Additionally, the overall capital and credit markets have experienced unprecedented levels of volatility and disruption since the start of the U.S. recession. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. As a consequence of the U.S. recession, business activity across a wide range of industries faces serious difficulties due to the lack of consumer spending and the extreme lack of liquidity in the global credit markets. Unemployment has also increased significantly and may continue to increase. In particular, according to data published by the federal Bureau of Labor Statistics, Michigan's unemployment rate of 13.6% as of May 2010 is the second highest among all states.

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While we believe we have started to see some positive trends in the Michigan economy (as described under Summary above), the general business environment has continued to have an overall adverse effect on our business during the past year. If conditions do not show some meaningful and sustainable improvement, our business, financial condition, and results of operations will likely continue to be adversely affected by economic conditions.

**Current market developments, particularly in real estate markets, may adversely affect our industry, business and results of operations.**

Dramatic declines in the housing market in recent years, with falling home prices and increasing foreclosures and unemployment, have resulted in, and may continue to result in, significant write-downs of asset values by us and other financial institutions. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. As a result of these conditions, many lenders and institutional investors have reduced, and in some cases ceased to provide, funding to borrowers including financial institutions.

Although we believe the Michigan economy has shown signs of stabilization recently (as described under Summary above), it is possible conditions will not stabilize or recover at or even close to the pace expected.

This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and widespread reduction of business activity generally. The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets, and reduced business activity could materially and adversely affect our business, financial condition and results of operations.

Further negative market developments may continue to negatively affect consumer confidence levels and may continue to contribute to increases in delinquencies and default rates, which may impact our charge-offs and provisions for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

**Events in the vehicle service contract industry over the past year have increased our credit risk and reputation risk and could expose us to further significant losses.**

One of our subsidiaries, Mepco, is engaged in the business of acquiring and servicing payment plans for consumers who purchase vehicle service contracts and similar products. The receivables generated in this business involve a different, and generally higher, level of risk of delinquency or collection than generally associated with the loan portfolios of our bank. Upon cancellation of the payment plans acquired by Mepco (whether due to voluntary cancellation by the consumer or non-payment), the third party entities that provide the service contracts or other products to consumers become obligated to refund Mepco the unearned portion of the sales price previously funded by Mepco. The refund obligations of these counterparties are not fully secured.

In addition, several of these providers, including the counterparty described in the next risk factor below and other companies from which Mepco has purchased payment plans, have been sued or are under investigation for alleged violations of telemarketing laws and other consumer protection laws. The actions have been brought primarily by state attorneys general and the Federal Trade Commission (FTC) but there have also been class action and other private lawsuits filed. In some cases, the companies have been placed into receivership, filed bankruptcy, or discontinued their business. In addition, the allegations, particularly those relating to blatantly abusive telemarketing practices by a relatively small number of marketers, have resulted in a significant amount of negative publicity that has adversely affected and may in the future continue to adversely affect sales and customer cancellations of purchased products throughout the industry, which have already been negatively impacted by the economic recession. It is possible these events could also cause federal or state lawmakers to enact legislation to further regulate the industry.

These events have had and may continue to have an adverse impact on Mepco in several ways. First, we face increased risk with respect to certain counterparties defaulting in their contractual obligations to Mepco which could result in additional charges for losses if these counterparties go out of business. In 2009 and in the first quarter of 2010, we recorded \$31.2 million and \$3.4 million of charges, respectively, related to estimated potential losses for vehicle service contract counterparty contingencies. We may incur similar charges in the future. In addition to these potential losses, the recent events within the vehicle service contract industry have negatively affected sales and customer cancellations, which has had and is expected to continue to have a negative impact on the profitability of

Mepco's business. Largely as a result of these events, at the end of 2009, we wrote down all of the \$16.7 million of goodwill associated with Mepco that was being carried on our balance sheet. In addition, if any federal or state investigation is expanded to include finance companies such as Mepco, Mepco will face additional legal and other expenses in connection with any such investigation. An increased level of private actions in which Mepco is named as a defendant will also cause Mepco to incur additional legal expenses as well as potential liability. Finally, Mepco has incurred and will likely continue to incur additional legal and other expenses, in general, in dealing with these industry problems, including efforts to collect amounts owed to Mepco by its counterparties.



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**Mepco has significant exposure to a single counterparty that recently filed bankruptcy. The charges we have taken for expected losses related to the failure of this counterparty have had a material adverse effect on our financial condition and results of operations. If actual losses exceed the charges we have taken, we may incur additional losses that could be material.**

Approximately 40% of Mepco's current outstanding payment plans were purchased from a single counterparty. Beginning in the second half of 2009, this counterparty experienced decreased sales (and ceased all new sales in December 2009) and significantly increased levels of customer cancellations. Customer cancellations trigger an obligation of this counterparty to repay us the unearned portion of the sales price for the payment plan previously advanced by us to this counterparty. In addition, this counterparty is subject to a multi-state attorney general investigation regarding certain of its business practices and multiple civil lawsuits. These events have increased costs for this counterparty, putting further pressure on its cash flow and profitability. This counterparty filed for bankruptcy on March 1, 2010.

Mepco is actively working to reduce its credit exposure to this counterparty. The amount of payment plan receivables (formerly referred to as finance receivables) purchased from this counterparty and outstanding at May 31, 2010 totaled approximately \$110.8 million (compared to approximately \$147.1 million at March 31, 2010, and \$206.1 million at December 31, 2009). In addition, as of May 31, 2010, this counterparty owed Mepco \$34.6 million for previously cancelled payment plans. The bankruptcy filing by this counterparty is likely to lead to substantial potential losses as this entity will not be in a position to honor its obligations to Mepco for previously cancelled payment plans and outstanding payment plans that cancel prior to payment in full. Mepco will seek to recover amounts owed by this counterparty from various co-obligors and guarantors and through the liquidation of certain collateral held by Mepco. However, we are not certain as to the amount of any such recoveries. In 2009, Mepco recorded an aggregate \$19.0 million expense (as part of vehicle service contract counterparty contingencies expense that is included in non-interest expense) to establish a reserve for losses related to this counterparty. In 2010, this reserve was increased by approximately \$0.5 million due primarily to actual payment plan cancellation rates being slightly higher than what was originally projected. In calculating the amount of the reserve in 2009, we took into account the significant likelihood that this counterparty would file for bankruptcy protection. As a result, we currently do not expect to materially increase the amount of our reserve solely as a result of the bankruptcy filing. However, Mepco has committed to provide financing to this counterparty while it is in bankruptcy of up to an aggregate of approximately \$4 million. This was done as part of Mepco's overall efforts to minimize the loss associated with this counterparty. At June 30, 2010, approximately \$2.8 million of the \$4 million commitment had been advanced. We believe the orderly wind-down of this counterparty's business is critical as it allows this counterparty to continue providing customer service to consumers to whom it sold vehicle service contracts. As described in the following risk factor, there is a risk that the reserves we have established related to the failure of this counterparty will not be sufficient to absorb the actual losses we may incur.

**The assumptions we make in calculating estimated potential losses for Mepco may be inaccurate, which could lead to losses that are materially greater than the charges we have taken to date.**

We make a number of key assumptions in calculating the estimated potential losses for Mepco, including the likelihood that a counterparty could discontinue its business operations, the cancellation rates for outstanding payment plans, the value of and our ability to collect any collateral securing the amounts owed to Mepco upon cancellation of outstanding payment plans, and our ability to collect such amounts from other counterparties obligated to Mepco. It is only within the approximately past 12 months that events have occurred that have led to a significant increase in vehicle service contract counterparty contingencies expense. The aggregate amount of vehicle service contract counterparty contingencies expense recorded in past years has grown from \$0 in 2007, to \$1.0 million in 2008, to \$31.2 million in 2009 (and was \$3.4 million during the first quarter of 2010). As a result, Mepco does not have much historical data to draw from in making the assumptions necessary to predict probable incurred losses (such as the ability to successfully recover from service contract administrators amounts funded by Mepco to the service contract seller). If actual cancellation rates are higher than we estimated or if actual counterparty repayments are less than we estimated, the amount of our reserves may be insufficient to cover our actual losses, and the additional losses we incur could be significant. Moreover, we may be forced to bring suit against counterparties in order to collect amounts owed

to Mepco, which adds further uncertainty to our assumptions. These assumptions are very difficult to make, and actual events could be materially different from any one or more of our assumptions. In that case, we may incur additional, and possibly material, losses in excess of the charges we have taken.

**Mepco has historically contributed a meaningful amount of profit to our consolidated results of operations, but we expect the size of its business to shrink significantly in 2010 and beyond.**

For 2008 and 2007, Mepco had net income of \$10.7 million and \$5.5 million, respectively. With the counterparty losses experienced by Mepco late in 2009 (including those related to the counterparty described above) and a \$16.7 million goodwill impairment charge, Mepco incurred an \$11.7 million loss in 2009. For the first quarter of 2010, Mepco reported net income of \$0.7 million.

As of March 31, 2010, the net payment plan receivables held by Mepco represented approximately 11.7% of our consolidated assets (down from 13.7% at December 31, 2009 and as high as 15.0% at July 31, 2009). As a result of the loss of business with the counterparty described above as well as our desire to reduce payment plan receivables as a percentage of total assets, we expect Mepco's total earning assets to decrease by approximately 50% in 2010 over the 2009 year-end level. As a result, the reduction in the size of Mepco's business will adversely affect our financial results as compared to our historical results and make it more difficult for us to be profitable on a consolidated basis in the

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near future. Historically, Mepco has had a significant positive impact on our net interest margin. Without Mepco, our net interest margin would have been lower by approximately 0.65%, 1.40%, and 1.25% in 2008, 2009, and the first quarter of 2010, respectively. As the size of Mepco's business shrinks, it will have a negative impact on our net interest margin. We are considering strategic options for Mepco, which could include a sale or wind-down of this business.

**Mepco's business is highly specialized and presents unique operational and internal control challenges.**

Mepco faces unique operational and internal control challenges due to the relatively rapid turnover of its portfolio and high volume of new payment plans. Mepco's business is highly specialized, and its success depends largely on the continued services of its executives and other key employees familiar with its business. In addition, because financing in this market is conducted primarily through relationships with unaffiliated automobile service contract direct marketers and administrators and because the customers are located nationwide, risk management and general supervisory oversight is generally more difficult than in our bank. The risk of third party fraud is also higher as a result of these factors. Acts of fraud are difficult to detect and deter, and we cannot assure investors that the risk management procedures and controls will prevent losses from fraudulent activity. Although we have an internal control system at Mepco, we may be exposed to the risk of material loss in this business.

**Our operations may be adversely affected if we are unable to secure adequate funding. Our use of wholesale funding sources exposes us to liquidity risk and potential earnings volatility.**

We rely on wholesale funding, including Federal Home Loan Bank borrowings, brokered deposits, and Federal Reserve Bank borrowings, to augment our core deposits to fund our business. As of March 31, 2010, our use of such wholesale funding sources amounted to approximately \$680.6 million or 25.6% of total funding. Because wholesale funding sources are affected by general market conditions, the availability of funding from wholesale lenders may be dependent on the confidence these investors have in our commercial and consumer banking operations. The continued availability to us of these funding sources is uncertain, and brokered deposits may be difficult for us to retain or replace at attractive rates as they mature. Our liquidity will be constrained if we are unable to renew our wholesale funding sources or if adequate financing is not available in the future at acceptable rates of interest or at all. We may not have sufficient liquidity to continue to fund new loans, and we may need to liquidate loans or other assets unexpectedly, in order to repay obligations as they mature.

The constraint on our liquidity would be exacerbated if we were to experience a reduction in our core deposits, and we cannot be sure we will be able to maintain our current level of core deposits. In particular, those deposits that are currently uninsured or those deposits in the TAGP, which is set to expire on December 31, 2010 for participating institutions that have not opted out, may be particularly susceptible to outflow. At March 31, 2010, \$1.423 billion of our deposits (compared to \$1.394 billion at December 31, 2009), were in account types from which the customer could withdraw the funds on demand.

As a result of these liquidity risks, we have increased our level of overnight cash balances in interest-bearing accounts to \$323.5 million at March 31, 2010 from \$223.5 million at December 31, 2009 and \$7.2 million at March 31, 2009. We have also issued longer-term (two to five year) callable brokered CDs and reduced certain secured borrowings (such as from the Federal Reserve) to increase available funding sources. We believe these actions will assist us in meeting our liquidity needs during 2010. However, these actions have had (in the first quarter of 2010) and are expected to continue to have an adverse impact on our 2010 net interest income and net interest margin. Net interest income totaled \$30.0 million during the first quarter of 2010, which represents a \$4.3 million or 12.6% decrease from the comparable quarter in 2009. The decrease in net interest income in 2010 compared to 2009 reflects a 58 basis point decline in our net interest margin as well as a \$28.5 million decrease in average interest-earning assets.

In addition, if we fail to remain well-capitalized under federal regulatory standards, which is likely if we are unable to successfully implement our Capital Plan (as discussed under Capital Plan and This Offering below), we will be prohibited from accepting or renewing brokered deposits without the prior consent of the FDIC. As of March 31, 2010, we had brokered deposits of approximately \$523 million. Approximately \$86 million of these brokered deposits mature by March 31, 2011. As a result, any such restrictions on our ability to access brokered deposits is likely to have a material adverse impact on our business and financial condition.

Moreover, we cannot be sure we will be able to maintain our current level of core deposits. Our deposit customers could move their deposits in reaction to media reports about bank failures in general or, particularly, if we are unable

to successfully complete our Capital Plan. A reduction in core deposits would increase our need to rely on wholesale funding sources, at a time when our ability to do so may be more restricted, as described above.

Our financial performance will be materially and adversely affected if we are unable to maintain our access to funding or if we are required to rely more heavily on more expensive funding sources. In such case, our net interest income and results of operations would be adversely affected.

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**Dividends being deferred on our outstanding trust preferred securities and our outstanding preferred stock are accumulating as a liability on our balance sheet, and this liability is expected to continue to increase as we have no current plans to resume such dividend payments at any time in the near future.**

We are currently deferring payment of quarterly dividends on our preferred stock held by the Treasury, which pays cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. In addition, we have exercised our right to defer all quarterly interest payments on the subordinated debentures we issued to our trust subsidiaries. As a result, all quarterly dividends on the related trust preferred securities are also being deferred. We may defer such interest payments for a total of 20 consecutive calendar quarters without causing an event of default under the documents governing these securities. After such period, we must pay all deferred interest and resume quarterly interest payments or we will be in default.

We do not have any current plans to resume dividend payments on our outstanding trust preferred securities or our outstanding preferred stock. If and when either of such payments resume, however, the accrued amounts must be paid and made current. As of June 30, 2010, the amount of these accrued but unpaid dividends on our outstanding trust preferred securities and our outstanding Series B Convertible Preferred Stock was \$20.0 million.

**We face uncertainty with respect to legislative efforts by the federal government to help stabilize the U.S. financial system, address problems that caused the recent crisis in the U.S. financial markets, or otherwise regulate the financial services industry.**

Beginning in the fourth quarter of 2008, the federal government enacted new laws intended to strengthen and restore confidence in the U.S. financial system. See Business Regulatory Developments below for additional information regarding these developments. There can be no assurance, however, as to the actual impact that such programs will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of these and other programs to stabilize the financial markets and a continuation or worsening of depressed financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit, or the trading price of our common stock.

In addition, additional legislation or regulations may be adopted in the future that could adversely impact us. For example, on May 20, 2010, the U.S. Senate passed a bill, a version of which the U.S. House of Representatives passed in December 2009, that proposes broad changes to the U.S. financial system. As released on June 25, 2010, the reconciled version of the bill or conference report, now known as the Dodd-Frank Wall Street Reform and Consumer Protection Act, includes the creation of a new Consumer Financial Protection Bureau with power to promulgate and, with respect to financial institutions with more than \$10 billion in assets, enforce consumer protection laws, the creation of a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk, provisions affecting corporate governance and executive compensation of all companies whose securities are registered with the Securities and Exchange Commission, a provision that would broaden the base for FDIC insurance assessments, a provision under which interchange fees for debit cards would be set by the Federal Reserve under a restrictive reasonable and proportional cost per transaction standard, a provision that would require bank regulators to set minimum capital levels for bank holding companies that are as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for financial institutions with less than \$15 billion in assets as of December 31, 2009, and new restrictions on how mortgage brokers and loan originators may be compensated. On June 30, 2010, the U.S. House of Representatives passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. This legislation, if enacted into law, as well as other similar federal initiatives could have a material adverse impact on our business.

**We have credit risk inherent in our securities portfolio.**

We maintain diversified securities portfolios, which include obligations of the Treasury and government-sponsored agencies as well as securities issued by states and political subdivisions, mortgage-backed securities, and asset-backed securities. We also invest in capital securities, which include preferred stocks and trust preferred securities. We seek to limit credit losses in our securities portfolios by generally purchasing only highly rated securities (rated AA or higher by a major debt rating agency) or by conducting significant due diligence on the issuer for unrated securities. However, gross unrealized losses on securities available for sale in our portfolio totaled approximately \$7 million as of March 31, 2010 (compared to approximately \$10 million as of December 31, 2009). We believe these unrealized

losses are temporary in nature and are expected to be recovered within a reasonable time period as we believe we have the ability to hold the securities to maturity or until such time as the unrealized losses reverse. However, we evaluate securities available for sale for other than temporary impairment (OTTI) at least quarterly and more frequently when economic or market concerns warrant such evaluation. Those evaluations may result in OTTI charges to our earnings. In addition to these impairment charges, we may, in the future, experience additional losses in our securities portfolio which may result in charges that could materially adversely affect our results of operations.

**Our mortgage-banking revenues are susceptible to substantial variations dependent largely upon factors that we do not control, such as market interest rates.**

A portion of our revenues are derived from gains on the sale of real estate mortgage loans. For first quarter 2010 and the year 2009, these gains represented over 3% and over 4% of our total revenues, respectively. These net gains primarily depend on the volume of loans we sell, which

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in turn depends on our ability to originate real estate mortgage loans and the demand for fixed-rate obligations and other loans that are outside of our established interest-rate risk parameters. Net gains on real estate mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates. Consequently, they can often be a volatile part of our overall revenues.

**Fluctuations in interest rates could reduce our profitability.**

We realize income primarily from the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. Our interest income and interest expense are affected by general economic conditions and by the policies of regulatory authorities. While we have taken measures intended to manage the risks of operating in a changing interest rate environment, there can be no assurance that these measures will be effective in avoiding undue interest rate risk. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this gap will work against us, and our earnings may be negatively affected.

We are unable to predict fluctuations of market interest rates, which are affected by, among other factors, changes in the following:

inflation or deflation rates;

levels of business activity;

recession;

unemployment levels;

money supply;

domestic or foreign events; and

instability in domestic and foreign financial markets.

**Changes in accounting standards could impact our reported earnings.**

Financial accounting and reporting standards are periodically changed by the Financial Accounting Standards Board (FASB), the SEC, and other regulatory authorities. Such changes affect how we are required to prepare and report our consolidated financial statements. These changes are often hard to predict and may materially impact our reported financial condition and results of operations. In some cases, we may be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

In particular, in May 2010, the FASB issued an exposure draft of a proposed accounting standards update that would materially affect the accounting for financial instruments. The proposed accounting changes would force us to use market prices to value almost all of our financial instruments ( mark-to-market ), including our loan portfolio, and record any changes on our balance sheet. Our loans (other than certain mortgage loans intended for sale into the secondary market) are recorded on our balance sheet at their amortized or historical cost. If these proposed accounting changes are implemented, it would likely have a material adverse effect on our business.

**We rely heavily on our management team, and the unexpected loss of key managers may adversely affect our operations and the ability to implement our Capital Plan and business strategies.**

The continuity of our operations is influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services. Our ability to retain executive officers and the current management teams of each of our lines of business will continue to be important to successful implementation of our Capital Plan and our strategies. We do not have employment or non-compete agreements with any of our executives or other key employees. In addition, we face restrictions on our ability to compensate our executives as a result of our participation in the CPP under TARP. Many of our competitors do not face these same restrictions. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have a

material adverse effect on our business and financial results.

**Competition with other financial institutions could adversely affect our profitability.**

We face vigorous competition from banks and other financial institutions, including savings banks, finance companies, and credit unions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems, and a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, and insurance companies, which are not subject to the same degree of regulation as that imposed on bank holding companies. As a result, these non-bank competitors may have an advantage over us in providing certain services, and this competition may reduce or limit our margins on banking services, reduce our market share, and adversely affect our results of operations and financial condition.



**Table of Contents****Even if we are successful in raising capital in this offering, we will face challenges in our ability to achieve future growth in the near term.**

Our current capital position has prevented us from pursuing any meaningful growth initiatives, and we have taken actions to shrink our balance sheet. If we are successful in raising at least \$100 million of net proceeds in this offering and otherwise restoring our capital levels in accordance with the targets established in our Capital Plan, we believe we will be well-positioned to take advantage of growth opportunities that strategically make sense for our core banking franchise, particularly opportunities created as a result of competitive entities exiting or reducing their resources in the Michigan market. However, we cannot be sure that these opportunities will exist or that we will have sufficient capital or other resources to effectively pursue them. In addition, other competitors may have the same strategy, which may prevent us from realizing these opportunities or may increase our costs of pursuing these opportunities. These factors and others may impede our ability to effectively deploy capital raised in this offering and achieve growth in the near term.

**We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.**

We are generally subject to extensive regulation, supervision, and examination by federal and state banking authorities. The burden of regulatory compliance has increased under current legislation and banking regulations and is likely to continue to have a significant impact on the financial services industry. Recent legislative and regulatory changes as well as changes in regulatory enforcement policies and capital adequacy guidelines are likely to increase our cost of doing business. In addition, future legislative or regulatory changes could have a substantial impact on us. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority, and operations; increase our costs of doing business; and, as a result, give an advantage to our competitors who may not be subject to similar legislative and regulatory requirements. Further, regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory power may have a negative impact on our results of operations and financial condition.

**There have been numerous media reports about bank failures, which we expect will continue as additional banks fail. These reports have created concerns among certain of our customers, particularly those with deposit balances in excess of deposit insurance limits.**

We have proactively sought to provide appropriate information to our deposit customers about our organization in order to retain our business and deposit relationships. To date, we have not experienced a meaningful loss of core deposits, nor have we had to offer above market interest rates in order to retain our core deposits. However, we cannot be sure we will continue to be successful in maintaining the majority of our core deposit base. The outflow of significant amounts of deposits could have a material adverse impact on our liquidity and results of operations.

**Increases in FDIC insurance premiums may have a material adverse effect on our earnings.**

As an FDIC-insured institution, we are required to pay deposit insurance premium assessments to the FDIC. Due to higher levels of bank failures beginning in 2008, the FDIC has taken numerous steps to restore reserve ratios of the deposit insurance fund. Our deposit insurance expense increased substantially in 2009 compared to prior periods, reflecting higher rates and a special assessment of \$1.4 million in the second quarter of 2009. This industry-wide special assessment was equal to 5 basis points on our total assets less our Tier 1 capital. In addition, our balance of total deposits increased during 2009. During 2007, we fully utilized the assessment credits that reduced our expense during that year.

Under the FDIC's risk-based assessment system for deposit insurance premiums, all insured depository institutions are placed into one of four categories and assessed insurance premiums based primarily on their level of capital and supervisory evaluations. Insurance assessments ranged from 0.12% to 0.50% of total deposits for the first quarter 2009 assessment. Effective April 1, 2009, insurance assessments ranged from 0.07% to 0.78%, depending on an institution's risk classification and other factors. As a result, our deposit insurance expense will increase if our financial condition worsens and our Tier 1 capital continues to deteriorate. The amount of deposit insurance that we are required to pay is also subject to factors outside of our control, including bank failures and regulatory initiatives. Such increases may adversely affect our results of operations.

**RISKS RELATED TO OUR EFFORTS TO RAISE CAPITAL**

**If successful, the initiatives set forth in our Capital Plan will be highly dilutive to our existing common shareholders.**

Our Capital Plan contemplates capital raising initiatives that involve the issuance of a significant number of shares of our common stock. You should read Capitalization and Capital Plan and This Offering below for more information. The completion of any of these capital raising transactions will be highly dilutive to our existing common shareholders and their voting power. The market price of our common stock could decline as a result of the dilutive effect of the capital raising transactions we may enter into or the perception that such transactions could occur.

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### **The capital raising initiatives we are pursuing would result in the Treasury or one or more private investors owning a significant percentage of our stock and having the ability to exert significant influence over our management and operations.**

One of the primary capital raising initiatives set forth in our Capital Plan consists of the conversion of the preferred stock held by the Treasury into shares of our common stock. As described under Capital Plan and This Offering below, the Series B Convertible Preferred Stock currently held by the Treasury is convertible into shares of our common stock. Any such conversion is likely to result in the Treasury owning a significant percentage of our outstanding common stock, perhaps over 50%.

Except with respect to certain Designated Matters, Treasury has agreed in the Exchange Agreement to vote all shares of our common stock acquired upon conversion of the Series B Convertible Preferred Stock or upon exercise of the amended and restated Warrant that are beneficially owned by it and its controlled affiliates in the same proportion (for, against or abstain) as all other shares of our common stock are voted. Designated Matters means (i) the election and removal of our directors, (ii) the approval of any merger, consolidation or similar transaction that requires the approval of our shareholders, (iii) the approval of a sale of all or substantially all of our assets or property, (iv) the approval of our dissolution, (v) the approval of any issuance of any of our securities on which our shareholders are entitled to vote, (vi) the approval of any amendment to our organizational documents on which our shareholders are entitled to vote, and (vii) the approval of any other matters reasonably incidental to the foregoing as determined by the Treasury.

It is also possible that one or more investors, other than the Treasury, could end up as the owner of a significant portion of our common stock. This could occur, for example, if the Treasury transfers shares of the Series B Convertible Preferred Stock it holds or, upon conversion of such stock, transfers to a third party the common stock issued upon conversion. It also could occur if one or more large investors makes a significant investment in our common stock in this offering.

Subject to the voting limitations applicable to the Treasury and its controlled affiliates described above, any such significant shareholder could exercise significant influence on matters submitted to our shareholders for approval, including the election of directors. In addition, having a significant shareholder could make future transactions more difficult or even impossible to complete without the support of such shareholder, whose interests may not coincide with interests of smaller shareholders. These possibilities could have an adverse effect on the market price of our common stock.

In addition to the foregoing, the Series B Convertible Preferred Stock we issued to the Treasury contains a provision that automatically increases the size of our board of directors by two persons and allows the Treasury to fill the two new director positions at such time, if any, as dividends payable on the Series B Convertible Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether or not consecutive. We are currently deferring quarterly dividends on the Series B Convertible Preferred Stock. If we continue to defer dividends each quarter, the Treasury would have the right to appoint these two directors beginning in approximately August 2011. Assuming we are successful in raising capital in this offering, we intend to exercise our right to convert the Series B Convertible Preferred Stock held by the Treasury into shares of our common stock immediately after this offering. However, if we are unable to do so for any reason, this risk of the Treasury having the right to appoint two directors to our board will continue.

### **We expect that the sale of our common stock in this offering will trigger an ownership change under federal tax law that will negatively affect our ability to utilize net operating loss carryforwards and other deferred tax assets in the future.**

As of March 31, 2010, we had a federal net operating loss carryforward of approximately \$53.5 million. Under federal tax law, our ability to utilize this carryforward and other deferred tax assets is limited if we are deemed to experience a change of ownership pursuant to Section 382 of the Internal Revenue Code. This would result in our loss of the benefit of these deferred tax assets. Please see the more detailed discussion of these tax rules under Results of Operations - Income Tax Expense (Benefit) below.

### **We will retain broad discretion in using the net proceeds from this offering.**

We intend to contribute all or substantially all of the net proceeds from this offering to our bank to strengthen its regulatory capital ratios. We expect to use any remaining net proceeds for general working capital purposes, which may include repaying certain of our funding obligations, and business acquisitions and combinations. Accordingly, our management will retain broad discretion to allocate the net proceeds of this offering. Our management may use the proceeds for corporate purposes that may not increase our market value or make us more profitable. In addition, it may take us some time to effectively deploy the proceeds from this offering. Until the proceeds are effectively deployed, our return on equity and earnings per share may be adversely impacted. Management's failure to use the net proceeds of this offering effectively could have a material adverse effect on our business, financial condition, and results of operations.

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**RISKS RELATED TO THE MARKET PRICE AND VALUE OF THE COMMON STOCK OFFERED**

**You may not receive dividends on the shares of common stock you purchase in this offering at any time in the near future.**

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are currently prohibited from paying any cash dividends on our common stock. Even when such prohibitions end (which we do not expect to occur in the near term, even upon completion of the offering described in this prospectus), there are restrictions on our ability to pay cash dividends that will likely continue to materially limit our ability to pay cash dividends. We cannot provide any assurances of when we may pay cash dividends in the future. Furthermore, our common shareholders are subject to the prior dividend rights of any holders of our preferred stock. See Dividend Policy below for more information.

**The trading price of our common stock may be subject to continued significant fluctuations and volatility.**

The market price of our common stock could be subject to significant fluctuations due to, among other things:

actual or anticipated quarterly fluctuations in our operating and financial results, particularly if such results vary from the expectations of management, securities analysts, and investors, including with respect to further loan losses or vehicle service contract counterparty contingencies expenses we may incur;

announcements regarding significant transactions in which we may engage, including this offering and the other initiatives that are part of our Capital Plan;

market assessments regarding such transactions, including the timing, terms, and likelihood of success of this offering;

developments relating to litigation or other proceedings that involve us;

changes or perceived changes in our operations or business prospects;

legislative or regulatory changes affecting our industry generally or our businesses and operations;

the failure of general market and economic conditions to stabilize and recover, particularly with respect to economic conditions in Michigan, and the pace of any such stabilization and recovery;

the possible delisting of our common stock from Nasdaq or perceptions regarding the likelihood of such delisting;

the operating and share price performance of companies that investors consider to be comparable to us;

future offerings by us of debt, preferred stock, or trust preferred securities, each of which would be senior to our common stock upon liquidation and for purposes of dividend distributions;

actions of our current shareholders, including future sales of common stock by existing shareholders and our directors and executive officers; and

other changes in U.S. or global financial markets, economies, and market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets in general, and our common stock in particular, have experienced significant volatility since October 2007 and continue to experience significant price and volume volatility. As a result, the market price of our common stock, which has ranged from \$0.34 per share to \$14.12 per share during this period, may continue to be subject to similar market fluctuations that may or may not be related to our operating performance or prospects. Increased volatility could result in a decline in the market price of our common stock.

In addition, on April 27, 2010, our shareholders approved a 1-for-10 reverse stock split. If implemented, such reverse stock split could have a significant effect on the market price of our common stock. The primary objective of the reverse stock split is to raise the per share trading price of the Company's common stock sufficiently above the \$1.00 minimum bid price requirement imposed by Nasdaq listing standards so that our common stock can continue to be listed on the Nasdaq Global Select Market. However, there is no assurance that, if made effective, the reverse stock split will result in our ability to comply with the Nasdaq minimum bid price rule in the long term.

We urge you to obtain current market quotations for our common stock when you consider this offering.

**Table of Contents****Our common stock trading volumes may not provide adequate liquidity for investors.**

Shares of our common stock are listed on the Nasdaq Global Select Market; however, the average daily trading volume in our common stock is less than that of many larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. This capital offering is likely to positively impact the liquidity in our common stock; however, we cannot be sure this expectation will materialize. Given the current daily average trading volume of our common stock, if there is no change in liquidity as a result of this offering, significant sales of our common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of the stock.

**Our common stock could be delisted from Nasdaq.**

Our common stock is currently listed on the Nasdaq Global Select Market. However, on June 23, 2010, we received a letter from The Nasdaq Stock Market notifying us that we no longer meet Nasdaq's continued listing requirements under Listing Rule 5450(a)(1) because the bid price for our common stock had closed below \$1.00 per share for 30 consecutive business days. We have until December 20, 2010 to demonstrate compliance with this bid price rule by maintaining a minimum closing bid price of at least \$1.00 for a minimum of 10 consecutive business days. If we are unable to establish compliance with the bid price rule within such time period, our common stock will be subject to delisting from the Nasdaq Global Select Market. However, in that event, we may be eligible for an additional grace period by transferring our common stock listing from the Nasdaq Global Select Market to the Nasdaq Capital Market. This would require us to meet the initial listing criteria of the Nasdaq Capital Market, other than with respect to the minimum closing bid price requirement. If we are then permitted to transfer our listing to the Nasdaq Capital Market, we expect we would be granted an additional 180 calendar day period in which to demonstrate compliance with the minimum bid price rule.

The delisting of our common stock from Nasdaq, whether in connection with the foregoing or as a result of our future inability to meet any listing standards, would have an adverse effect on the liquidity of our common stock and, as a result, the market price of our common stock might become more volatile. Even the perception that our common stock may be delisted could affect its liquidity and market price. Delisting could also make it more difficult to raise additional capital.

If our common stock is delisted from the Nasdaq, it is likely that quotes for our common stock would continue to be available on the OTC Bulletin Board or on the Pink Sheets. However, these alternatives are generally considered to be less efficient markets and it is likely that the liquidity of our common stock as well as our stock price would be adversely impacted as a result.

One of the proposals voted upon at our annual meeting of shareholders on April 27, 2010 was a proposal to amend our Articles of Incorporation to effect a one 1-for-10 reverse split of our common stock. The primary objective of the reverse stock split is to raise the per share trading price of the Company's common stock sufficiently above the \$1.00 minimum bid price requirement for continued listing on the Nasdaq Global Select Market. Although our shareholders authorized this amendment to our Articles of Incorporation, there can be no assurance that, if made effective, the reverse stock split will result in our ability to comply or thereafter maintain compliance with the Nasdaq minimum bid price rule. We have not yet made a determination as to whether or when to implement this reverse stock split.

**Any future offerings of debt, preferred stock, or trust preferred securities, each of which would be senior to our common stock upon liquidation and for purposes of dividend distributions, and any future equity offerings may adversely affect the market price of our common stock.**

We may attempt to increase our capital resources, or we or our bank could be forced by federal and state bank regulators to raise additional capital, by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our outstanding shares of common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

Our board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of our shareholders. Our board of directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. Therefore, if we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.



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**Our Articles of Incorporation as well as certain banking laws may have an anti-takeover effect.**

Provisions of our Articles of Incorporation and certain federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

**Investors could become subject to regulatory restrictions upon ownership of our common stock.**

Under the federal Change in Bank Control Act, a person may be required to obtain prior approval from the Federal Reserve before acquiring the power to direct or indirectly control our management, operations, or policy or before acquiring 10% or more of our common stock. As a result, potential investors who seek to participate in this offering should evaluate whether they could become subject to the approval and other requirements of this federal statute.

**Table of Contents****NON-GAAP FINANCIAL MEASURES**

The following table presents computations of certain financial measures related to tangible common equity and Tier 1 common equity. The tangible common equity ratio has become a focus of some investors, and we believe this ratio may assist investors in analyzing our capital position absent the effects of intangible assets and preferred stock. Traditionally, the Federal Reserve and other banking regulators have assessed a bank's capital adequacy based on Tier 1 capital, the calculation of which is codified in federal banking regulations. More recently, the banking regulators have also supplemented their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. Because tangible common equity and Tier 1 common equity are not formally defined by generally accepted accounting principles (GAAP) or codified in the federal banking regulations, these measures are considered to be non-GAAP financial measures. Because analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to provide investors the ability to assess our capital adequacy on these same bases.

Tier 1 common equity is often expressed as a percentage of net risk-weighted assets. Under the risk-based capital framework, a bank's balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weight assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (net risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at Tier 1 common equity. Tier 1 common equity is also divided by net risk-weighted assets to determine the Tier 1 common equity ratio. The amounts disclosed as net risk-weighted assets are calculated consistent with banking regulatory requirements.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. To mitigate these limitations, we have procedures in place to ensure that these measures are calculated using the appropriate GAAP or regulatory components and to ensure that our capital performance is properly reflected to facilitate period-to-period comparisons. Although these non-GAAP financial measures are frequently used by investors in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

The following table provides reconciliations of the following: