

MACATAWA BANK CORP
Form 10-Q
October 24, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-25927

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

Michigan 38-3391345
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

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

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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):

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
27,261,325 shares of the Company's Common Stock (no par value) were outstanding as of October 24, 2013.

Forward-Looking Statements

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and Macatawa Bank Corporation. Forward-looking statements are identifiable by words or phrases such as "outlook", "plan" or "strategy"; that an event or trend "may", "should", "will", "is likely", or is "probable" to occur or "continue", has "begun" or "is scheduled" or "on track" or that the Company or its management "anticipates", "believes", "estimates", "plans", "forecasts", "intends", "predicts", "projects", or "expects" a particular result, or is "committed", "confident", "optimistic" or has an "opinion" that an event will occur, or other words or phrases such as "ongoing", "future", "signs", "efforts", "tend", "exploring", "appearing", "until", "near term", "going forward", "starting", "initiative," "trend" and variations of such words and similar expressions. Such statements are based upon current beliefs and expectations and involve substantial risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These statements include, among others, statements related to stabilization of our loan portfolio, trends in credit quality metrics, future capital levels and capital needs, including the impact of Basel III, real estate valuation, future levels of repossessed and foreclosed properties and nonperforming assets, future levels of losses and costs associated with the administration and disposition of repossessed and foreclosed properties and nonperforming assets, future levels of loan charge-offs, future levels of other real estate owned, future levels of provisions for loan losses, the rate of asset dispositions, future dividends, future growth and funding sources, future cost of funds, future liquidity levels, future profitability levels, future FDIC assessment levels, future net interest margin levels, building and improving our investment portfolio, diversifying our credit risk, the effects on earnings of changes in interest rates, future economic conditions, future effects of new or changed accounting standards, future loss recoveries, future balances of short-term investments, future loan demand and loan growth, future levels of mortgage banking revenue and the future level of other revenue sources. Management's determination of the provision and allowance for loan losses, the appropriate carrying value of intangible assets (including deferred tax assets) and other real estate owned, and the fair value of investment securities (including whether any impairment on any investment security is temporary or other-than-temporary and the amount of any impairment) involves judgments that are inherently forward-looking. All statements with references to future time periods are forward-looking. All of the information concerning interest rate sensitivity is forward-looking. Our ability to sell other real estate owned at its carrying value or at all, successfully implement new programs and initiatives, increase efficiencies, maintain our current levels of deposits and other sources of funding, maintain liquidity, respond to declines in collateral values and credit quality, increase loan volume, originate high quality loans, maintain or improve mortgage banking income, realize the benefit of our deferred tax assets, resume payment of dividends and improve profitability is not entirely within our control and is not assured. The future effect of changes in the real estate, financial and credit markets and the national and regional economy on the banking industry, generally, and Macatawa Bank Corporation, specifically, are also inherently uncertain. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. Macatawa Bank Corporation does not undertake to update forward-looking statements to reflect the impact of circumstances or events that may arise after the date of the forward-looking statements.

Risk factors include, but are not limited to, the risk factors described in "Item 1A - Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2012. These and other factors are representative of the risk factors that may emerge and could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

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Part I Financial Information

Item 1.

MACATAWA BANK CORPORATION

CONSOLIDATED BALANCE SHEETS

As of September 30, 2013 (unaudited) and December 31, 2012

	September 30, 2013	December 31, 2012
(dollars in thousands, except per share data)		
ASSETS		
Cash and due from banks	\$35,592	\$33,556
Federal funds sold and other short-term investments	178,263	192,802
Cash and cash equivalents	213,855	226,358
Interest-bearing time deposits in other financial institutions	25,000	---
Securities available for sale, at fair value	135,439	123,497
Securities held to maturity (fair value 2013 - \$19,444 and 2012 - \$4,301)	18,995	4,300
Federal Home Loan Bank (FHLB) stock	11,236	11,236
Loans held for sale, at fair value	2,983	8,130
Total loans	1,028,793	1,052,348
Allowance for loan losses	(21,272)	(23,739)
Net loans	1,007,521	1,028,609
Premises and equipment – net	52,916	53,576
Accrued interest receivable	3,250	3,411
Bank-owned life insurance	27,343	26,804
Other real estate owned	42,796	51,582
Net deferred tax asset	16,859	18,780
Other assets	4,487	4,435
Total assets	\$1,562,680	\$1,560,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$352,879	\$339,520
Interest-bearing	935,162	946,741
Total deposits	1,288,041	1,286,261
Other borrowed funds	89,991	91,822
Long-term debt	41,238	41,238
Subordinated debt	---	1,650
Accrued expenses and other liabilities	7,903	9,240
Total liabilities	1,427,173	1,430,211
Commitments and contingent liabilities	---	---
Shareholders' equity		
Preferred stock, no par value, 500,000 shares authorized; Series A Noncumulative Convertible Perpetual Preferred Stock, liquidation value of \$1,000 per share, 31,290 shares issued and outstanding at September 30, 2013 and December 31, 2012		
	30,604	30,604
	2,260	2,560

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Series B Noncumulative Convertible Perpetual Preferred Stock, liquidation value of \$1,000 per share, 2,300 shares issued and outstanding at September 30, 2013 and 2,600 shares issued and outstanding at December 31, 2012

Common stock, no par value, 200,000,000 shares authorized; 27,261,325 shares issued and outstanding at September 30, 2013 and 27,203,825 shares issued and outstanding at

December 31, 2012	188,112	187,718
Retained deficit	(84,020)	(91,335)
Accumulated other comprehensive income (loss)	(1,449)	960
Total shareholders' equity	135,507	130,507
Total liabilities and shareholders' equity	\$1,562,680	\$1,560,718

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOMEThree and Nine Month Periods Ended September 30, 2013 and 2012
(unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
(dollars in thousands, except per share data)				
Interest income				
Loans, including fees	\$ 10,995	\$ 15,532	\$ 34,156	\$ 42,295
Securities				
Taxable	476	414	1,352	1,116
Tax-exempt	211	102	508	210
FHLB Stock	98	84	294	252
Federal funds sold and other short-term investments	139	137	349	394
Total interest income	11,919	16,269	36,659	44,267
Interest expense				
Deposits	953	1,396	3,020	4,570
Debt and other borrowed funds	842	981	2,568	3,203
Total interest expense	1,795	2,377	5,588	7,773
Net interest income	10,124	13,892	31,071	36,494
Provision for loan losses	(1,500)	(1,250)	(3,250)	(6,600)
Net interest income after provision for loan losses	11,624	15,142	34,321	43,094
Noninterest income				
Service charges and fees	1,029	810	2,917	2,381
Net gains on mortgage loans	612	940	2,145	2,192
Trust fees	584	595	1,797	1,802
Gain on sale of securities	---	14	80	73
ATM and debit card fees	1,104	1,049	3,212	3,094
Other	622	698	1,974	2,275
Total noninterest income	3,951	4,106	12,125	11,817
Noninterest expense				
Salaries and benefits	5,834	5,621	17,359	17,065
Occupancy of premises	908	948	2,759	2,860
Furniture and equipment	819	806	2,414	2,491
Legal and professional	192	160	565	551
Marketing and promotion	245	213	738	634
Data processing	326	269	1,029	988
FDIC assessment	317	504	1,133	1,692
ATM and debit card processing	315	316	967	912
Bond and D&O Insurance	187	213	555	696
FHLB Advance prepayment penalty	---	322	---	322

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Losses on repossessed and foreclosed properties	1,059	706	1,412	4,236
Administration and disposition of problem assets	752	1,018	2,660	3,737
Other	1,408	1,292	4,227	4,196
Total noninterest expenses	12,362	12,388	35,818	40,380
Income before income tax	3,213	6,860	10,628	14,531
Income tax expense	975	275	3,313	275
Net income	2,238	6,585	7,315	14,256
Dividends declared on preferred shares	---	---	---	---
Net income available to common shares	\$ 2,238	\$ 6,585	\$ 7,315	\$ 14,256
Basic earnings per common share	\$ 0.08	\$ 0.24	\$ 0.27	\$ 0.53
Diluted earnings per common share	\$ 0.08	\$ 0.24	\$ 0.27	\$ 0.53
Cash dividends per common share	\$ ---	\$ ---	\$ ---	\$ ---

See accompanying notes to consolidated financial statements.

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MACATAWA BANK CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three and Nine Month Periods Ended September 30, 2013 and 2012

(unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
(dollars in thousands)				
Net income	\$ 2,238	\$ 6,585	\$ 7,315	\$ 14,256
Other comprehensive income (loss):				
Unrealized gains (losses):				
Net change in unrealized gains (losses) on securities available for sale	(23)	703	(3,626)	1,225
Tax effect	8	(246)	1,269	(429)
Net change in unrealized gains (losses) on securities available for sale, net of tax	(15)	457	(2,357	