

INDEPENDENT BANK CORP /MI/

Form S-4/A

March 12, 2010

As filed with the Securities and Exchange Commission  
on March 12, 2010

Registration No. 333-164546

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**AMENDMENT NO. 1 to**

**FORM S-4**

**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)**

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

**230 West Main Street**

**Ionia, Michigan 48846**

**(616) 527-9450**

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(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) 527-9450**

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

*Copies to:*

**Michael G. Wooldridge**  
**Varnum LLP**  
**333 Bridge Street, P.O. Box 352**  
**Grand Rapids, Michigan 49501-0352**  
**(616) 336-6000**

**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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

**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 the exchange offer and issue 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 is not permitted.

**SUBJECT TO COMPLETION, DATED MARCH 12, 2010**

**PROSPECTUS**

**Offers to Exchange**

**Up to 180,200,000 Shares of Common Stock of Independent Bank Corporation for any and all Trust Preferred Securities issued by IBC Capital Finance II, IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I**

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and in the related letter of transmittal, up to 180,200,000 newly issued shares of our common stock for properly tendered and accepted trust preferred securities issued by IBC Capital Finance II (Nasdaq: IBCPO), IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I.

**The exchange offers will expire at 11:59 p.m., Eastern Time, on [ ], 2010, unless extended or earlier terminated by us (such date and time, as it may be extended, the "Expiration Date"). In order to receive the applicable Early Tender Premium Value per Liquidation Amount shown in the table below, holders must tender by 5:00 p.m., Eastern Time, on [ ], 2010, unless that deadline is extended by us (such date and time, as it may be extended, the "Early Tender Premium Deadline"). Tenders may be withdrawn at any time prior to the Expiration Date.**

For each trust preferred security that we accept for exchange in accordance with the terms of the applicable exchange offer, we will issue a number of shares of our common stock having an aggregate dollar value (the "Exchange Value") set forth in the table below or, in the case of a trust preferred security tendered on or prior to the Early Tender Premium Deadline, having an aggregate dollar value equal to the applicable Exchange Value plus the Early Tender Premium Value set forth in the table below.

We refer to the number of shares of common stock we will issue for each trust preferred security we accept for exchange as the "exchange ratio." In determining the exchange ratio, the value per share of common stock will be the "Relevant Price," which is equal to the average volume weighted average price per share, or "Average VWAP," of our common stock for the five consecutive trading day period ending on and including the second trading day

immediately preceding the Expiration Date, as it may be extended (we refer to such five-day period as the "Pricing Period" and the second trading day immediately preceding the Expiration Date as the "Pricing Date"). We will announce the final exchange ratios (both for those trust preferred securities tendered before the Early Tender Premium Deadline and for those tendered after that deadline) by 9:00 a.m., Eastern Time, on the next trading day following the Pricing Date (the "Announcement Date"). Depending on the trading price of our common stock on the settlement date of an exchange offer compared to the price established by this procedure, the market value of the common stock we issue in exchange for each trust preferred security we accept for exchange may be less than, equal to, or greater than the applicable Exchange Value or Total Exchange Value referred to in the table below.

The table below sets forth certain information regarding the series of trust preferred securities that are the subject of the exchange offers. **You will be eligible to receive a number of shares of common stock with the Total Exchange Value set forth in the table below only if you validly tender your trust preferred securities on or prior to the Early Tender Premium Deadline and do not subsequently withdraw such trust preferred securities, subject to our completion of the applicable exchange offer pursuant to the terms described in this prospectus and the related letter of transmittal.**

CUSIP	Title of Securities	Issuer	Outstanding	Liquidation	Exchange	Early	Total
				Aggregate		Tender	Exchange
				Amount		per	Premium
				Trust			
				Liquidation		Value	Value
				Amount	Security		
					(per Liquidation Amount)		
44921B 20 8	8.25% Cumulative Trust Preferred Securities	IBC Capital Finance II	50,000,000	\$ 25	\$ [ ]	\$ [ ]	\$ [ ]
44921N AA 1	Floating Rate Trust Preferred Securities	IBC Capital Finance III	12,000,000	\$1,000	\$ [ ]	\$ [ ]	\$ [ ]
44921T AA 8	Floating Rate Trust Preferred Securities	IBC Capital Finance IV	20,000,000	\$1,000	\$ [ ]	\$ [ ]	\$ [ ]
N/A	Floating Rate Trust Preferred Securities	Midwest Guaranty Trust I	7,000,000	\$1,000	\$ [ ]	\$ [ ]	\$ [ ]

We intend to accept for exchange all trust preferred securities tendered in the exchange offers, and we believe we will be able to do so. As a result, the maximum number of trust preferred securities we will accept for exchange is as shown in the "Aggregate Liquidation Amount Outstanding" column in the table above. However, if both (a) the Relevant Price, which is based on the market price of our common stock as described above, is less than \$[ ], and (b) 100% of the outstanding trust preferred securities are tendered for exchange, we may need to accept trust preferred securities tendered on a prorated basis, as described on page 111 below. The minimum number of trust preferred securities of any class we will accept for exchange is zero, which will be the case if no preferred securities issued by a particular trust are tendered for exchange.

**We encourage you to read and carefully consider this prospectus in its entirety, in particular the risk factors beginning on page 15, for a discussion of factors that you should consider with respect to these offers.**

**The shares of common stock offered in the exchange offers 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 (the "SEC"), 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 the exchange offers or of the securities to be issued in the exchange offers or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Our obligation to complete the exchange offers is subject to a number of conditions that must be satisfied or, if permissible under applicable law, waived by us prior to the Expiration Date. Our obligation to complete the exchange offers is not subject to any minimum tender condition.

Our common stock is listed on the Nasdaq Global Select Market ("Nasdaq GSM") under the symbol "IBCP". As of March 11, 2010, the closing sale price for our common stock on the Nasdaq GSM was \$0.76 per share. We currently expect that the shares of common stock to be issued in this exchange offer will be approved for listing on the Nasdaq GSM. However, our common stock may be delisted from the Nasdaq GSM in the near future. Please see "Market Price, Dividend, and Distribution Information" on page 121 for more information.

None of IBC, the trustees of IBC Capital Finance II, IBC Capital Finance III, IBC Capital Finance IV, or Midwest Guaranty Trust I, the Dealer Manager, the Exchange Agent, the Information Agent, or any other person is making any recommendation as to whether you should tender all or any portion of your trust preferred securities. You must make your own decision after reading this prospectus and consulting with your advisors, if necessary.

**The date of this prospectus is March 12, 2010.**

**Dealer Manager**

Stifel, Nicolaus & Company, Inc.  
501 N. Broadway  
St. Louis, MO 63102  
Tel: (314) 342-4054

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## IMPORTANT

All of the trust preferred securities issued by IBC Capital Finance II, IBC Capital Finance III, and IBC Capital Finance IV were issued in book-entry form and are currently represented by one or more global certificates held for the account of The Depository Trust Company ("DTC"). You may tender any of these trust preferred securities by transferring them through DTC's Automated Tender Offer Program ("ATOP") or by following the other procedures described under "The Exchange Offers Procedures for Tendering" on page 113 below. The trust preferred securities issued by Midwest Guaranty Trust I were issued in physical certificate form and must be tendered by contacting D.F. King & Co., Inc., as exchange agent for the exchange offers (the "Exchange Agent"), at the phone numbers shown on the back cover page of this prospectus.

We are not providing for guaranteed delivery procedures and therefore you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of DTC on or prior to the Expiration Date of the exchange offers. If you hold your trust preferred securities through a broker, dealer, commercial bank, trust company, or other nominee, you should consider that such entity may require you to take action with respect to the exchange offers a number of days before the Expiration Date in order for such entity to tender trust preferred securities on your behalf on or prior to the Expiration Date. Tenders not received by the Exchange Agent on or prior to the Expiration Date will be disregarded and of no effect.

Unless otherwise indicated or unless the context requires otherwise, all references to "we," "us," "our," or similar references mean Independent Bank Corporation and its direct and indirect subsidiaries on a consolidated basis.

**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different. You should assume that the information contained in this prospectus is accurate only as of the date set forth above. We are not making an offer of these securities in any jurisdiction where such offer is not permitted.**

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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 to be exchanged, 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>.

The Exchange Agent for the exchange offers is:

### **D.F. King & Co., Inc.**

*By Facsimile (Eligible Institutions Only)*

(212) 809-8838

(provide call back telephone number on fax cover sheet for confirmation)

Confirmation: (212) 493-6996

*By Mail, Overnight Courier or Hand Delivery*

D.F. King & Co., Inc.

48 Wall Street, 22nd Floor

New York, New York 10005

Attn: Elton Bagley

Questions and requests for assistance related to the exchange offers or additional copies of this prospectus or the related letter of transmittal may be directed to the Information Agent at its address or telephone numbers set forth below. You may also contact your broker, dealer, commercial bank, trust company or other nominee for assistance concerning the exchange offers.

The Information Agent for the exchange offers is:

**D.F. King & Co., Inc.**

48 Wall Street, 22nd Floor

New York, New York 10005

Banks and Brokers call: (212) 269-5550 (Collect)

All others call Toll-free: (800) 431-9643

## QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFERS

The following are certain questions regarding the exchange offers that you may have as a holder of trust preferred securities and the answers to those questions. To fully understand the exchange offers and the considerations that may be important to your decision whether to participate, you should carefully read this prospectus in its entirety, including the section entitled "Risk Factors" beginning on page 15 below.

### **What are the exchange offers?**

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and in the related letter of transmittal, up to 180,200,000 newly issued shares of our common stock for properly tendered and accepted trust preferred securities issued by IBC Capital Finance II (Nasdaq: IBCPO), IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I.

### **What is the purpose of the exchange offers?**

The exchange offers are a part of a more comprehensive Capital Restoration Plan that has been adopted by our Board of Directors (the "Capital Plan") with the primary objective of increasing our capital and meeting certain minimum capital ratios established by our Board. Due to recent events affecting the national economy and the Michigan economy in particular, we believe additional equity capital is necessary to maintain and strengthen our capital base as the effects of these events impact our business over the coming months and years. Although our regulatory capital ratios remain at levels above federal regulatory "well capitalized" standards, because of the losses we have incurred in recent quarters, our elevated levels of non-performing loans and other real estate, and the ongoing economic stress in Michigan, we believe increasing our capital is very important to our future success.

You can find more detail regarding our Capital Plan under "The Exchange Offers - Capital Plan" beginning on page 108 below. In short, our Capital Plan contemplates the pursuit of three primary initiatives intended to strengthen our capital structure:

1. An offer to the United States Department of the Treasury (the "Treasury") to exchange the shares of Series A Preferred Stock we issued to the Treasury under the Capital Purchase Program (CPP) of the Troubled Asset Relief Program (TARP) for shares of our common stock;
2. The exchange offers described in this prospectus, in which we seek to exchange outstanding trust preferred securities for shares of our common stock; and
3. A public offering of our common stock for cash in which we currently intend to seek to raise up to \$150 million of new equity capital.

At this time, we cannot be sure that any of these three initiatives will be completed or, if they are completed, will be completed at levels that will allow us to achieve the objectives in our Capital Plan. However, we believe completion of the exchange offers described in this prospectus is a critical part of our Capital Plan and that a high level of participation in the exchange offers is very important to our ability to successfully implement the other two initiatives described above and otherwise successfully implement our Capital Plan. See "The Exchange Offers" beginning on page 107 below for more information.

### What are the key terms of the exchange offers?

We are offering to exchange up to 180,200,000 newly issued shares of our common stock for the outstanding trust preferred securities referenced in the table below on the terms set forth in such table, subject to the terms and conditions set forth in this prospectus and in the related letter of transmittal.

CUSIP	Title of Securities	Issuer	Aggregate Amount Outstanding	Liquidation Amount per Trust Preferred Security	Exchange Value (per Liquidation Amount)	Early Tender Premium Value	Total Exchange Value
44921B 208	8.25% Cumulative Trust Preferred Securities	IBC Capital Finance II	\$50,600,000	\$ 25	\$ [ ]	\$ [ ]	\$ [ ]
44921N AA 1	Floating Rate Trust Preferred Securities	IBC Capital Finance III	\$12,000,000	\$ 1,000	\$ [ ]	\$ [ ]	\$ [ ]
44921T AA 8	Floating Rate Trust Preferred Securities	IBC Capital Finance IV	\$20,000,000	\$ 1,000	\$ [ ]	\$ [ ]	\$ [ ]
N/A	Floating Rate Trust Preferred Securities	Midwest Guaranty Trust I	\$ 7,500,000	\$ 1,000	\$ [ ]	\$ [ ]	\$ [ ]



**What consideration is being offered in exchange for the trust preferred securities?**

We are offering to issue shares of our common stock in exchange for the trust preferred securities. The number of shares of our common stock you would be eligible to receive is explained in the next paragraph.

We refer to the liquidation amount of each of the trust preferred securities, as shown in the table above, as the "Liquidation Amount." The Liquidation Amount of each trust preferred security issued by IBC Capital Finance II is \$25. The Liquidation Amount of each trust preferred security issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I is \$1,000. For each Liquidation Amount of trust preferred securities that we accept for exchange in accordance with the terms of the exchange offers, we will issue a number of shares of our common stock having an aggregate dollar value (based on the Relevant Price, as described below) equal to the applicable Exchange Value set forth in the table above or, in the case of trust preferred securities tendered on or prior to the Early Tender Premium Deadline, having an aggregate dollar value (based on the Relevant Price) equal to the sum of the applicable Exchange Value plus the applicable Early Tender Premium Value set forth in the table above (such sum, the "Total Exchange Value"). We refer to the number of shares of our common stock we will issue for each Liquidation Amount of trust preferred securities we accept in the exchange offers as the "exchange ratio." We will round each exchange ratio down to four decimal places.

The "Relevant Price" is equal to the average volume weighted average price per share, or "Average VWAP," of our stock for the five consecutive trading day period ending on and including the second trading day immediately preceding the Expiration Date, as it may be extended (we refer to such five-day period as the "Pricing Period" and the second trading day immediately preceding the Expiration Date as the "Pricing Date").

Depending on the trading price of our common stock on the settlement date for the exchange offers compared to the Relevant Price described above, the market value of the shares of common stock we issue in exchange for each Liquidation Amount of trust preferred securities we accept for exchange may be less than, equal to, or greater than the applicable Exchange Value or Total Exchange Value.

**How did you determine the amount of consideration being offered?**

We established the Exchange Values being offered in consideration for the trust preferred securities by taking into account multiple considerations, including the fact that accrued and unpaid dividends will not be paid to holders of the trust preferred securities who participate in the exchange offers. We also reviewed comparable transactions that have recently been completed. Most importantly, we have set the Exchange Values at a level we believe will solicit a high level of participation from the holders of our trust preferred securities, given the importance of the exchange offers to the success of our Capital Plan (as discussed under "The Exchange Offers" below). We believe achieving the goals of our Capital Plan is in the best interests of our shareholders.

The Early Tender Premium Value represents an additional 5% of the applicable Liquidation Amount of the trust preferred securities. We determined to offer this Early Tender Premium Value to holders of trust preferred securities who tender their trust preferred securities prior to the Early Tender Premium Deadline in order to encourage early participation in the exchange offers, which we hope will have a beneficial effect on the overall level of participation in the exchange offers.

**How may I obtain information regarding the Relevant Price and applicable exchange ratio?**

Throughout the exchange offers, the indicative Average VWAP, the resulting indicative Relevant Price, and the indicative exchange ratios will be available at [www.independentbank.com/exchangeoffers](http://www.independentbank.com/exchangeoffers) and from our information agent, D.F. King & Co., Inc. (the "Information Agent") at one of its telephone numbers listed on the back cover page of this prospectus. We will announce the final exchange ratios (both for those trust preferred securities tendered before the Early Tender Premium Deadline and for those tendered after that deadline) by 9:00 a.m., Eastern Time, on the next trading day following the Pricing Date (the "Announcement Date"), and those final exchange ratios will also be available by that time at [www.independentbank.com/exchangeoffers](http://www.independentbank.com/exchangeoffers) and from the Information Agent.

**Will all trust preferred securities that I tender be accepted in the exchange offer?**

We believe we will be able to accept for exchange all trust preferred securities that are tendered in the exchange offers, but it is possible we may not be able to do so. We will issue no more than 180,200,000 shares of our common stock in the exchange offers. Of this 180,200,000 share limit, the maximum number of shares of our common stock we will issue in exchange for the trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I is 79,000,000 shares (which is to remain compliant with the terms of the proposal approved by our shareholders at the special shareholder meeting held on January 29, 2010). Depending on the amount of trust preferred securities tendered in the exchange offers and the final exchange ratios, we may have to prorate the trust preferred securities that we accept in the exchange offers to remain within these limits. Any trust preferred securities not accepted for exchange as a result of proration will be returned to tendering holders promptly after the final proration factor is determined. See "The Exchange Offers Terms of the Exchange Offers Proration" for more details.

**When are you going to resume making quarterly distributions on the trust preferred securities?**

Beginning in the fourth quarter of 2009, we suspended all quarterly dividend payments on our outstanding trust preferred securities. If you participate in the exchange offers, you will be giving up your right to all distribution payments on the trust preferred securities you tender, including any distributions that have accrued but not been paid as a result of our recent suspension of quarterly payments.

We do not know if or when we will resume making payments on our trust preferred securities. For the reasons described in this prospectus, we do not anticipate resuming payments in the foreseeable future.

**What happens to tendered securities that are not accepted for exchange?**

If your tendered securities are not accepted for exchange for any reason pursuant to the terms and conditions of the exchange offers, such securities will be returned without expense to you or, in the case of securities tendered by book-entry transfer, such securities will be credited to an account maintained at DTC designated by the participant who delivered such securities, in each case, promptly following the Expiration Date or the termination of the exchange offers.

**Will fractional shares be issued in the exchange offers?**

No. We will not issue fractional shares of our common stock in the exchange offers. Instead, the number of shares of our common stock received by each registered holder whose trust preferred securities are accepted for exchange in the exchange offers will be rounded down to the nearest whole number.

**Are the exchange offers subject to any minimum tender or other conditions?**

Our obligation to exchange shares of our common stock for trust preferred securities tendered in the exchange offers is not subject to any minimum tender condition. In other words, we currently intend to complete and close the exchange offers regardless of the number of trust preferred securities tendered for exchange.

However, our obligation to exchange shares of our common stock for trust preferred securities tendered in the exchange offers is subject to a number of conditions that must be satisfied or, if permissible under applicable law, waived by us on or prior to the Expiration Date, including, among others, that there must not have been any change or development that in our reasonable judgment may materially reduce the anticipated benefits to us of the exchange offers or that has had, or could reasonably be expected to have, a material adverse effect on us, our business, condition (financial or otherwise), or prospects. See "Conditions of the Exchange Offers" on page 111 below for other conditions that apply.

**How do I participate in the exchange offers?**

You may tender your trust preferred securities by transferring the trust preferred securities through ATOP or following the other procedures described under "Procedures for Tendering" on page 113 below. Contact the Information Agent at the phone number on the back cover of this prospectus if you have any questions.

**How do I participate if my trust preferred securities are held of record by a broker, dealer, commercial bank, trust company, or other nominee?**

If you wish to tender your trust preferred securities and they are held of record by a broker, dealer, commercial bank, trust company, or other nominee, you should contact such entity promptly and instruct it to tender the trust preferred securities on your behalf. In some cases, the nominee may request submission of such instructions on a beneficial owner's instruction form. Please check with your nominee to determine the procedures for such form.

You are urged to instruct your broker, dealer, commercial bank, trust company, or other nominee at least five business days prior to the Expiration Date in order to allow adequate processing time for your instruction.

In order to validly tender your trust preferred securities in the exchange offers, you or your broker, dealer, commercial bank, trust company, or other nominee must follow the procedures described under "Procedures for Tendering" on page 113 below.

We are not providing for guaranteed delivery procedures and therefore you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of DTC on or prior to the Expiration Date. If you hold your trust preferred securities through a broker, dealer, commercial bank, trust company or other nominee, you should consider that such entity may require you to take action with respect to the exchange offers a number of days before the Expiration Date in order for such entity to tender trust preferred securities on your behalf on or prior to the Expiration Date. Tenders not received by the Exchange Agent on or prior to the Expiration Date will be disregarded and of no effect.

**May I tender only a portion of the trust preferred securities that I hold?**

Yes. You do not have to tender all of your trust preferred securities to participate in the exchange offers.

**Is IBC or anyone else making a recommendation regarding whether I should tender in the exchange offers?**

No. Neither we, any trustee of our trust subsidiaries, the Dealer Manager, the Exchange Agent, the Information Agent, nor anyone else is making any recommendation regarding whether you should tender all or a portion of your trust preferred securities in the exchange offers. Accordingly, you must make your own determination as to whether to tender your trust preferred securities in the exchange offers and, if so, the number of trust preferred securities to tender. Before making your decision, we urge you to carefully read this prospectus in its entirety, including the information set forth in the section of this prospectus entitled "Risk Factors."

**When do the exchange offers expire?**

The exchange offers will expire at 11:59 p.m., Eastern Time, on [ ], unless extended or earlier terminated by us. We refer to such time and date, as it may be extended, as the "Expiration Date." The Early Tender Premium Deadline (the date by which you must tender in order to be eligible to receive the applicable Early Tender Premium Value per Liquidation Amount listed on the cover page of this prospectus) is 5:00 p.m., Eastern Time, [ ], unless we extend it.

**Under what circumstances can the exchange offers be extended, amended, or terminated?**

We do not currently intend to extend or amend the exchange offers. However, we reserve the right to extend any one or more of the exchange offers for any reason or no reason at all. We also reserve the right, at any time or from time to time, to amend the terms of any one or more of the exchange offers in any respect prior to the Expiration Date. We also reserve the right to terminate any one or more of the exchange offers at any time prior to the Expiration Date if any of the conditions to our completion of the exchange offers is not satisfied. If any of the exchange offers are terminated, no trust preferred securities for that exchange offer will be accepted for exchange and any trust preferred securities that have been tendered for that exchange offer will be returned to the holder promptly after the termination. For more information regarding our right to extend, amend, or terminate the exchange offers, see "Expiration Date; Extension; Termination; Amendment" on page 112 below.

**How will the Average VWAP be affected by an extension of the exchange offers?**

Even if we extend the exchange offers, the Average VWAP will still be determined using the arithmetic average of the daily per-share volume weighted average price of our common stock for each of the five consecutive trading days ending on and including the Pricing Date, which is currently expected to be [ ] (subject to revision if the Expiration Date is extended). For information about the fluctuations in the share price of our common stock, see below under "Risk Factors."

**How will I be notified if any exchange offer is extended, amended, or terminated?**

If any one or more of the exchange offers is extended, amended, or terminated, we will issue a timely public announcement. For more information regarding notification of extensions, amendments, or the termination of the exchange offers, see "Expiration Date; Extension; Termination; Amendment" on page 112 below.

**May I withdraw trust preferred securities that I tender in the exchange offers?**

You may withdraw any trust preferred securities that you tender at any time prior to the Expiration Date. You may withdraw any trust preferred securities in accordance with the terms of the exchange offers by following the procedures described under the caption "Withdrawal of Tenders" on page 116 below.

**With whom may I speak if I have questions about the exchange offers?**

If you have questions regarding the procedures for tendering your trust preferred securities in the exchange offers, require additional materials, or require assistance in tendering your trust preferred securities, please contact D.F. King & Co., Inc., our Information Agent for the exchange offers. You can call the Information Agent at one of its phone numbers listed on the back cover page of this prospectus. You may also write to the Information Agent at the address set forth on the back cover page of this prospectus.

## SUMMARY

This summary highlights the material information contained in this prospectus to help you understand our business and the exchange offers. It does not contain all of the information that may be important to you. You should carefully read this prospectus to understand fully the terms of the exchange offers, as well as the other considerations that are important to you in making your investment decision. You should pay special attention to the "Risk Factors" beginning on page 15.

### **About Independent Bank Corporation**

Independent Bank Corporation, headquartered in Ionia, Michigan, is a regional bank holding company providing commercial banking services in Michigan. We offer a wide range of banking products and services, including transaction and savings deposits, commercial, consumer and real estate loans, mortgage origination services, and retail brokerage services. We serve individuals, small to medium-sized businesses, community organizations, and public entities.

Our wholly-owned banking subsidiary, Independent Bank, has banking offices located throughout Michigan, and the offices are primarily located in or near the Grand Rapids, Battle Creek, Lansing, Detroit, Bay City, and Saginaw metropolitan areas. In total, Independent Bank serves its markets through its main office and a total of 105 branches, 4 drive-thru facilities, and 5 loan production offices.

Our bank's activities cover all phases of commercial banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing, mortgage lending, and safe deposit box services. Our bank's mortgage lending activities are primarily conducted through a separate mortgage bank subsidiary. In addition, Mepco Finance Corporation ("Mepco"), a subsidiary of our bank, acquires (on a full recourse basis) 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, Inc. Our bank does not offer trust services. Our principal markets are the rural and suburban communities across lower Michigan that are served by our bank's branch network.

Our principal executive offices are located at 230 West Main Street, Ionia, Michigan 48846, and our telephone number at that address is (616) 527-9450.

### **About the Trusts**



Each of IBC Capital Finance II, IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I (each one a "Trust," and collectively, the "Trusts") is a Delaware statutory trust. We are the sole holder of all the common securities of each of these Trusts. The sole asset and only source of funds to make payments on the trust preferred securities issued by each Trust are the junior subordinated debentures we issued to each Trust (the "Underlying Debentures"). To the extent that a Trust receives interest payments from us on the Underlying Debentures it holds, it is obligated to distribute those amounts to the holders of trust preferred securities of such Trust in the form of quarterly distributions. We have provided holders of the trust preferred securities of the Trusts a guarantee in support of each of the Trusts' obligation to make distributions on its trust preferred securities, but only to the extent such Trust otherwise has funds available for distribution.

We have currently suspended quarterly distributions on the trust preferred securities of the Trusts. We are unsure when distributions will resume. We have no plans to resume distributions in the near future.

### **Background to the Exchange Offers**

Our subsidiary bank began to experience rising levels of non-performing loans and higher provisions for loan losses in 2006. The bank remained profitable through the second quarter of 2008. However, since the third quarter of 2008, the bank has incurred six consecutive quarterly losses, which have pressured its capital ratios. Although our bank still remains well-capitalized under federal regulatory guidelines, we project that, due to our past losses, continuing economic stress in Michigan, and elevated levels of non-performing assets, an increase in equity capital is likely necessary in order for our bank to remain well-capitalized. Therefore, our Board recently adopted a Capital Restoration Plan (the "Capital Plan"). The Capital Plan documents our objectives for increasing our capital ratios and the various methods to be employed to reach those objectives. The Capital Plan is described in more detail under "The Exchange Offers - Capital Plan" below.

The three primary initiatives of our Capital Plan are as follows:

An offer we have made to the Treasury to issue shares of our common stock in exchange for up to the entire \$72 million in aggregate liquidation value of the shares of preferred stock held by the Treasury;

An offer to exchange shares of our common stock for our outstanding trust preferred securities, as described in this prospectus; and

A public offering of our common stock for cash in which we currently intend to seek to raise up to \$150 million of new equity capital.

We believe the exchange offers described in this prospectus are an important step to be taken prior to offering shares of our common stock for cash. If completed (i.e., we accept any trust preferred securities for exchange), the exchange offers would result in a reduction in our obligation to make quarterly distributions to holders of trust preferred securities and would result in an increase to the tangible common equity (TCE) of Independent Bank Corporation. The magnitude of such effects will depend on the amount of trust preferred securities validly tendered and accepted for exchange in the exchange offers. We also believe the more trust preferred securities tendered for exchange in these exchange offers, the better our opportunities will be to successfully raise new equity capital through a sale of our common stock. The sale of our common stock and the contribution of all or substantially all of the proceeds to our subsidiary bank will increase the capital ratios of the bank. The primary objective of our Capital Plan is for our bank to achieve the minimum capital ratios established by our Board of Directors, as described below.

## Recent Developments

The following is a very summary description of recent developments that should be considered in assessing our financial condition and the prospects for our future operating results. We encourage you to review this entire prospectus, including "The Exchange Offers" section below for more information.

In December of 2009, our Board of Directors adopted resolutions that prohibit us from, among other things, paying any dividends on our common stock, our preferred stock, or our trust preferred securities without, in each case, the approval of our federal and state banking regulators.

In December of 2009, the Board of Directors of our subsidiary bank adopted resolutions designed to enhance certain aspects of our operations, performance, and financial condition. Most importantly, these resolutions require our bank to achieve and thereafter maintain a minimum ratio of Tier 1 capital to average assets of 8% and a minimum ratio of total risk based capital to risk weighted assets of 11%. As of December 31, 2009, our bank had a Tier 1 capital ratio of 6.72% and a total risk based capital ratio of 10.36%. These resolutions were adopted in conjunction with discussions with our federal and state regulators and in response to issues highlighted in the most recent exam report issued by the Federal Reserve Bank, our bank's primary federal regulator. We may not rescind or materially modify any of these resolutions without notice to the federal and state banking regulators.

Beginning in the fourth quarter of 2009, we exercised our right to defer all quarterly distributions on our outstanding trust preferred securities and on all shares of preferred stock issued to the Treasury pursuant to the Troubled Asset Relief Program (TARP). We have also ceased any cash dividends on our common stock.

On January 29, 2010, we held a special shareholder meeting in Ionia, Michigan, where our shareholders approved the following three proposals: (1) approval of an amendment to our Articles of Incorporation to increase the number of shares of common stock we are authorized to issue from 60 million to 500 million, which will allow us to raise the additional equity capital necessary to comply with the Board resolutions described above; (2) approval to implement the exchange offers described in this prospectus for the trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I and the issuance of our common

stock in exchange for the outstanding shares of our preferred stock held by the Treasury; and (3) approval to implement an underwater option exchange program pursuant to which we will offer our current employees who hold eligible options (excluding our "named executive officers" and excluding our directors) to surrender such options in a value-for-value exchange for new options to purchase our common stock, which program is intended to motivate and retain key employees and to reinforce the alignment of our employees' interests with those of our shareholders. More details regarding these proposals can be found in the definitive proxy statement we filed with the SEC on December 18, 2009.

We made a proposal to the Treasury to exchange all shares of our preferred stock held by the Treasury for shares of our common stock with a value (based on market prices at the time of the exchange) equal to 75% of the \$72 million aggregate liquidation value of the preferred stock. We continue to have discussions with the Treasury regarding this proposal, but we do not know if the Treasury will agree to participate in such an exchange or, if they do agree to participate, on what terms and conditions.

As required by the Board resolutions adopted by our bank in December described above, we adopted a comprehensive Capital Restoration Plan in January 2010. The primary objective of our Capital Plan is to achieve the minimum capital ratios imposed by our Board of Directors in the resolutions adopted in December. The Capital Plan outlines three primary capital raising initiatives designed to improve our capital position and achieve these minimum capital ratios. These three capital initiatives are described above.

We expect that if we are unable to achieve the minimum capital ratios described above by or within a reasonable time after April 30, 2010, our bank's capital levels will fall below those necessary to remain "well-capitalized" under federal regulatory standards. In that case, we also expect that our federal and state banking regulators would impose additional regulatory restrictions and requirements on us through a regulatory enforcement action. These consequences would likely materially and adversely affect our financial condition and results of operations. We view the exchange offers described in this prospectus as critical to our ability to successfully implement our Capital Plan.

In March of 2010, a counterparty to which Mepco has significant exposure filed for federal bankruptcy protection. In 2009, Mepco recorded an aggregate \$19.0 million expense to establish a reserve for losses related to this counterparty. In calculating the amount of such reserve, we took into account the significant likelihood that the counterparty would file for bankruptcy protection. As a result, we currently do not expect to increase the amount of our reserve as a result of the bankruptcy filing. However, in connection with the bankruptcy filing, Mepco committed to provide financing to the counterparty of up to an aggregate of \$3 million. This was done as part of Mepco's overall efforts to minimize the loss associated with this counterparty. We believe the orderly wind-down of the counterparty's business is critical as it allows the counterparty to continue providing customer service to consumers who purchased vehicle service contracts from the counterparty. See "Risk Factors" below for more information.

More detail regarding these matters is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "The Exchange Offers" below.

## Summary of the Terms of the Exchange Offers

The following summary is provided solely for the convenience of holders of the trust preferred securities. This summary is not intended to be complete and should be read in conjunction with the information appearing elsewhere in this prospectus. Holders of trust preferred securities are urged to read this prospectus in its entirety.

### Terms of the Exchange Offers

Upon the terms and subject to the conditions set forth in this prospectus and the related letter of transmittal, we are offering to exchange up to 180,200,000 shares of our common stock for any and all of our outstanding trust preferred securities validly tendered and not properly withdrawn prior to the Expiration Date.

For each Liquidation Amount of trust preferred securities we accept for exchange in accordance with the terms of the exchange offers, we will issue a number of shares of our common stock having a value (based on the Relevant Price) equal to the applicable Exchange Value plus, if the trust preferred securities have been tendered prior to the Early Tender Premium Deadline referred to below, the applicable Early Tender Premium Value. The number of shares of our common stock that we will issue for each Liquidation Amount of trust preferred securities we accept in the exchange offers which we call the "exchange ratio" for that exchange offer will be an amount (rounded down to four decimals) equal to (i) the value calculated pursuant to the preceding sentence divided by (ii) the Relevant Price. The "Relevant Price" is equal to the Average VWAP of our common stock for the five consecutive trading day period ending on and including the second trading day immediately preceding the Expiration Date, as it may be extended (we refer to such five-day period as the "Pricing Period" and the second trading day immediately preceding the Expiration Date as the "Pricing Date").

We will accept properly tendered trust preferred securities for exchange at the applicable exchange ratio determined as described above, on the terms and subject to the conditions of the exchange offers. We will return any trust preferred securities that are not accepted for exchange promptly following the Expiration Date of the exchange offer or, in the event of termination of the exchange offer, promptly after such termination.

Depending on the trading price of our common stock on the settlement date for the exchange offers compared to the Relevant Price described above, the market value of the common stock we issue in exchange for each Liquidation Amount of trust preferred securities we accept for exchange may be less than, equal to, or greater than the applicable Exchange Value or Total Exchange Value, as applicable, listed in the table on the cover page of this prospectus.

### Early Tender Premium Deadline

In order to be eligible to receive the applicable Early Tender Premium Value listed on the cover page of this prospectus for each Liquidation Amount of trust preferred securities you tender, you must validly tender your trust preferred securities (and not subsequently withdraw them) by 5:00 p.m., Eastern Time, on [ ]. The term "Early Tender Premium Deadline" means such date and time or, if the Early Tender Premium

Deadline is extended, the latest date and time to which the Early Tender Premium Deadline is so extended.

Expiration Date and  
Withdrawal Rights

The exchange offers will expire at 11:59 p.m., Eastern Time, on [ ] (unless we extend this deadline or earlier terminate the exchange offer). The term "Expiration Date" means such date and time or, if the exchange offers are extended, the latest date and time to which the exchange offers are so extended. You may withdraw any trust preferred securities that you tender at any time prior to the Expiration Date by following the procedures described under the caption "Withdrawal of Tenders" on page 116 below.

Publication of Exchange Ratio Information	<p>Throughout the exchange offers, the indicative Average VWAP, the resulting indicative Relevant Price, and applicable indicative exchange ratios will be available at <a href="http://www.independentbank.com/exchangeoffers">www.independentbank.com/exchangeoffers</a> and from the Information Agent at the phone numbers listed on the back cover page of this prospectus. We will announce the final exchange ratios for the trust preferred securities (both for those tendered before the Early Tender Premium Deadline and those tendered after that deadline) by 9:00 a.m., Eastern Time, on the Announcement Date, and such final exchange ratios will also be available by that time at <a href="http://www.independentbank.com/exchangeoffers">www.independentbank.com/exchangeoffers</a> and from the Information Agent.</p>
Extensions; Waivers; Amendments; Termination	<p>Subject to applicable law, we reserve the right to (i) extend the Expiration Date, (ii) waive any and all conditions to or amend the exchange offers in any respect, and (iii) terminate the exchange offers if any of the conditions to our completion of the exchange offers is not satisfied by the Expiration Date. Any extension, waiver, amendment, or termination will be publicly announced as promptly as practicable. In the case of an extension, the public announcement will be issued no later than 9:00 a.m., Eastern Time, on the next business day after the last previously scheduled Expiration Date. See "Expiration Date; Extension; Termination; Amendment" on page 112 below.</p>
Conditions to the Exchange Offers	<p>Our obligation to exchange shares of our common stock for trust preferred securities in the exchange offers is not subject to any minimum tender condition.</p> <p>Our obligation to exchange shares of our common stock for trust preferred securities in the exchange offers is subject to a number of conditions that must be satisfied or, if permissible under applicable law, waived by us, including, among others that there must not have been any change or development that in our reasonable judgment may materially reduce the anticipated benefits to us of the exchange offers or that has had, or could reasonably be expected to have, a material adverse effect on us, our business, condition (financial or otherwise), or prospects.</p>
Settlement Date	<p>The "settlement date" for the exchange offers will be a date promptly following the Expiration Date. We currently expect the settlement date to be within three business days after the Expiration Date.</p> <p>On the settlement date, for each trust preferred security validly tendered, we will issue shares of common stock representing (i) the applicable Exchange Value to be issued in consideration for such trust preferred security, plus (ii) if such security was validly tendered and not withdrawn prior to the Early Tender Premium Deadline, the applicable Early Tender Premium Value. These shares will be delivered in accordance with the procedures described under "The Exchange Offers – Acceptance of Trust Preferred Securities for Purchase; Delivery of Common Stock" below.</p>
Fractional Shares	<p>We will not issue fractional shares of common stock in the exchange offers. Instead, the number of shares of our common stock received by each registered holder whose trust preferred securities are accepted for exchange in the exchange</p>

offers will be rounded down to the nearest whole number.

Procedures for Tendering Trust Preferred Securities

You may tender your trust preferred securities by transferring the trust preferred securities through ATOP or by following the other procedures set forth below and described in more detail under "The Exchange Offers Procedures for Tendering." If you are tendering trust preferred securities issued by Midwest Guaranty Trust I, you must contact the Exchange Agent at the phone numbers shown on the back cover page of this prospectus.

Any beneficial owner whose trust preferred securities are held of record by a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender trust preferred securities should contact such nominee promptly and instruct such nominee to tender trust preferred securities on such owner's behalf. In some cases, the nominee may request submission of such instructions on a beneficial owner's instruction form. Please check with your nominee to determine the procedures for such form.



**You are urged to instruct your broker, dealer, commercial bank, trust company or other nominee at least five business days prior to the Expiration Date in order to allow adequate processing time for your instruction.**

Should you have any questions as to the procedures for tendering your trust preferred securities, please call your broker, dealer, commercial bank, trust company or other nominee, or call our Information Agent, at its telephone number on the back cover page of this prospectus.

In order to validly tender your trust preferred securities in the exchange offers, you or your broker, dealer, commercial bank, trust company or other nominee must follow the procedures described under "The Exchange Offers Procedures for Tendering."

**We are not providing for guaranteed delivery procedures and therefore you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of DTC on or prior to the Expiration Date. Tenders not received by the Exchange Agent on or prior to the Expiration Date will be disregarded and of no effect.**

United States Federal Income  
Tax Considerations

Your exchange of trust preferred securities for shares of our common stock in the exchange offers will be treated as a recapitalization for U.S. federal income tax purposes. Therefore, you will not recognize any gain or loss upon consummation of the exchange offers. See "Material U.S. Federal Income Tax Consequences."

Consequences of Failure to  
Exchange

If there is not a high level of participation in the exchange offers described in this prospectus, it may be difficult or impossible for us to complete the other initiatives described in our Capital Plan and ultimately to achieve the minimum capital ratios set forth in the Capital Plan. In that case, we would likely not be able to remain well-capitalized under federal regulatory standards and we would also expect our primary bank regulators to impose additional regulatory restrictions and requirements on us through a memorandum of understanding or other, more formal enforcement action. These consequences would likely have a material adverse effect on our business and the value of our securities and make it increasingly difficult for us to withstand the current economic conditions and any continued deterioration in our loan portfolio. In that case, we may be required to engage in a sale or other transaction with a third party or our subsidiary 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 and could also result in a loss of the entire value of our outstanding trust preferred securities and preferred stock.

Trust Preferred Securities

In addition, depending on the amount of trust preferred securities that are accepted for exchange in the exchange offers, the trading market for the trust preferred securities issued by IBC Capital Finance II (Nasdaq: IBCPO) that remain outstanding after the exchange offers may be more limited. A reduced trading volume may decrease the price and increase the volatility of the trading price of such trust preferred securities that remain outstanding following the exchange offers.

We have currently suspended all distributions on the trust preferred securities in accordance with their terms. We are unsure when distributions will resume. We have no plans to resume distributions in the near future.

Comparison of the Rights of  
Common Stock and Trust  
Preferred Securities

There are material differences between the rights of a holder of our common stock and a holder of the trust preferred securities. See "Comparison of Rights Between the Trust Preferred Securities and Our Common Stock."

Market Trading

Our common stock is currently traded on the Nasdaq GSM under the symbol "IBCP". The last reported closing price of our common stock on March 11, 2010, the last trading day prior to the date of this prospectus, was \$0.76 per share. We will file an application with the Nasdaq GSM to list the common stock to be issued in the exchange offers. The trust preferred securities issued by IBC Capital Finance II are listed for trading on the Nasdaq GSM under the symbol "IBCPO." The last reported closing price of these trust preferred securities on March 11, 2010, the last trading day prior to the date of this prospectus, was \$15.25 per share.

As noted above, our common stock is currently listed on the Nasdaq GSM. However, on December 21, 2009, 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 approximately June 21, 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 GSM. However, in that event, we may be eligible for an additional grace period by transferring our common stock listing from the Nasdaq GSM 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.

Please see "Risk Factors" below.

Brokerage Commissions

You will not be required to pay brokerage commissions to the Dealer Manager, the Exchange Agent, the Information Agent, or us in connection with the exchange offers.

No Appraisal Rights

You will have no appraisal rights in connection with the exchange offers.

Dealer Manager

Stifel, Nicolaus & Company, Incorporated

Information Agent

D.F. King & Co., Inc.

Exchange Agent

D.F. King & Co., Inc.



## RISK FACTORS

You should carefully consider the risks described below and all of the information contained in this prospectus before you decide whether to participate in the exchange offers.

### 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 "The Exchange Offers - Capital Plan" below, contemplates three primary initiatives that have been or will be undertaken in order to increase our common equity capital, decrease our expenses, and enable us to withstand and better respond to current market conditions and the potential for worsening market conditions. Those three initiatives are the exchange offers described in this prospectus, an offer to the Treasury to convert the preferred stock it holds into our common stock, and a public offering of our common stock for cash. We cannot be sure we will be able to successfully execute on these identified initiatives in a timely manner or at all. The successful implementation of our Capital Plan is, in many respects, largely out of our control and depends on factors such as the aggregate amount of trust preferred securities tendered in these exchange offers, the willingness of the Treasury to exchange the shares of our preferred stock it holds for shares of our common stock, and our ability to sell our common stock or other securities for cash. These factors, in turn, may depend on factors outside of our control such as the stability of the financial markets, other macro economic conditions, and investors' perception of the ability of the Michigan economy 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 that we may incur and that may be increased or made more likely as a result of continued economic difficulties 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 by or within a reasonable time after the April 30, 2010 deadline imposed by our Board and if our financial condition and performance otherwise fail to improve significantly, it is likely we will not be able to remain well-capitalized under federal regulatory standards. In that case, we also expect our primary bank regulators would impose additional regulatory restrictions and requirements on us through a regulatory enforcement action. If we fail to remain well-capitalized under federal regulatory standards, we 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 "The Exchange Offers - Importance of the Exchange Offers" below. There could be other expenses associated with a continued deterioration of our capital, such as increased deposit insurance premiums payable to the FDIC.

These additional restrictions would make it increasingly difficult for us to withstand the current economic conditions and any continued deterioration in our loan portfolio. In that case, we may be required to engage in a sale or other transaction with a third party or our subsidiary 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 exchange for trust preferred securities in these exchange offers, and could also result in a loss of the entire value of our outstanding trust preferred securities and preferred stock.

**We have credit risk inherent in our asset portfolios, and our allowance for loan losses may not be sufficient to cover actual loan losses.**

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 assure repayment. 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 could have a material adverse effect on our results of operations and financial condition.

**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 the continued economic slowdown 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 continued economic difficulties faced in Michigan has 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 been experiencing unprecedented levels of volatility and disruption during the past two years. 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 in December 2009 of 14.6% was the worst among all states.

During the past year, the general business environment has continued to have an overall adverse effect on our business, and this environment is not expected to improve in the near term. Until conditions improve, we expect our businesses, financial condition and results of operations to continue to be adversely affected.

**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.

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.

**Recent events in the vehicle service contract industry have increased our credit risk and reputation risk and could expose us to significant losses.**

One of our subsidiaries, Mepco Finance Corporation, is engaged in the business of acquiring (on a full recourse basis) 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 or have discontinued 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, we recorded a \$31.2 million charge related to estimated potential losses for vehicle service contract counterparty contingencies. We may incur similar charges in the future. Second, these events have negatively affected sales and customer cancellations in the industry, 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, 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.

Mepco also 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 will depend 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 significant loss in this business.

As of December 31, 2009, the net finance receivables held by Mepco represented approximately 13.7% of our consolidated assets.

**Mepco has significant exposure to a single counterparty that recently filed bankruptcy. The failure of this counterparty is likely to have a material adverse effect on our financial condition and results of operations.**

Over 40% of Mepco's current outstanding receivables 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 us to repay the unearned portion of the sales price for the payment plan previously advanced by us to the counterparty. In addition, this counterparty is subject to a multi-state attorney general investigation regarding certain of the counterparty's business practices and multiple civil lawsuits. These events have increased costs for the 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 plans (finance receivables) purchased from this counterparty and outstanding at December 31, 2009 totaled approximately \$206.1 million (this amount had been reduced to \$170.3 million at February 28, 2010). In addition, as of December 31, 2009, this counterparty owed Mepco \$16.2 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 recourse obligations on payment plans that Mepco has purchased which are cancelled prior to payment in full. Mepco will seek to recover amounts owed by the 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 that is included in non-interest expense) to establish a reserve for losses related to this counterparty. In calculating the amount of such reserve, we took into account the significant likelihood that the counterparty would file for bankruptcy protection. As a result, we currently do not expect to increase the amount of our reserve as a result of the bankruptcy filing. However, in connection with the bankruptcy filing, Mepco committed to provide financing to the counterparty of up to an aggregate of \$3 million. This was done as part of Mepco's overall efforts to minimize the loss associated with this counterparty. We believe the orderly wind-down of the counterparty's business is critical as it allows the counterparty to continue providing customer service to consumers who purchased vehicle service contracts from the counterparty.

In calculating the amount of the reserve related to the failure of this counterparty, we made a number of assumptions regarding, among other things, the cancellation rates for outstanding payment plans, the value of and our ability to collect certain collateral securing the amounts owed to Mepco, and our success in recovering amounts owed from various co-obligors and guarantors. These assumptions are difficult to make, largely because of the significant size of the potential loss and the fact that Mepco does not routinely need to take these types of collection actions in the ordinary course of its business. If any one or more of our assumptions prove to be incorrect in any material respect, our actual loss with respect to this counterparty could be greater than the amount reserved, which would result in additional losses.

**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 beginning in 2010.**

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. As of December 31, 2009, the net finance receivables held by Mepco represented approximately 13.7% of our consolidated assets. However, as a result of the loss of business with the counterparty described above as well as our desire to reduce finance receivables as a percentage of total assets, we expect Mepco's total earning assets to decrease by approximately 50% in 2010. As a result, the reduction in the size of Mepco's business could adversely affect our financial results and make it more difficult for us to be profitable on a consolidated basis in the near future.

**We face uncertainty with respect to efforts by the federal government to help stabilize the U.S. financial system.**

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 current financial market conditions could materially and adversely affect our businesses, financial condition, results of operations, access to credit or the trading price of our common stock.

In addition, these statutes are relatively new initiatives and, as such, are subject to change and evolving interpretation. There can be no assurances as to the effects that any such changes will have on the effectiveness of the federal government's efforts to stabilize the credit markets or on our business, financial condition or results of operations. These federal initiatives could involve regulatory changes that may have an 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, 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 meaningful portion of our revenues are derived from gains on the sale of real estate mortgage loans. For 2009, these gains represented over 4% of our total revenues. These net gains primarily depend on the volume of loans we sell, which 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.

**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 December 31, 2009, our use of such wholesale funding sources amounted to approximately \$760 million. 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.

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 "Importance of the Exchange Offers" on page 109 below), we will be prohibited from accepting or renewing brokered deposits without the prior consent of the FDIC. As of December 31, 2009, we had brokered deposits of approximately \$629 million. 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 that 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 (as discussed in a separate Risk Factor below) or in reaction to negative publicity we may receive as a result of the pursuit of our capital raising initiatives or, particularly, if we are unable to successfully complete such initiatives. 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 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.

**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.**

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 these key employees. In addition, we face restrictions on our ability to compensate our executives as a result of our participation in the U.S. Treasury's Capital Purchase Program under the Troubled Asset Relief Program. 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 an 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.

**Our current capital position and the tough economic climate in Michigan will make future growth in the near term very challenging.**

We have recently taken certain actions to deleverage our balance sheet, which has had and is expected to continue to have an adverse impact on our net interest income. Although we have also undertaken actions intended to reduce our expenses and continue to do so, we may not be able to reduce our expenses on a basis commensurate with the reduction in our net interest income, which causes a negative impact on our financial results. In addition, even if we are successful in raising additional capital through the initiatives described in our capital plan, our ability to achieve future growth in the near term will be very challenging in the current economic environment in Michigan.

**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 and our bank and their operations. 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. The outflow of significant amounts of deposits could have an adverse impact on our liquidity and 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 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 "The Exchange Offers Capital Plan" and "Capitalization" below for more information. The completion of any of these capital raising transactions will be highly dilutive to our common shareholders, including participants in the exchange offers. The market price of our common stock could decline as a result of the dilutive effect of the exchange offers or other capital raising transactions we may enter into or the perception that such transactions could occur.

**The capital raising initiatives we are pursuing could 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 is a proposal to the Treasury to exchange the shares of our preferred stock it owns for newly issued shares of our common stock. If the Treasury agrees to participate in such exchange on the terms we have proposed (as described under "The Exchange Offers" below) and if such exchange was completed prior to the completion of the exchange offers described in this prospectus, the Treasury would end up owning over 67% of our outstanding common stock (based on our closing stock price of \$0.76 on March 11, 2010). We do not know whether the Treasury will be willing to participate in any such exchange or the terms and conditions upon which it may agree to participate. It is possible that we may agree to conditions and restrictions on our business imposed by the Treasury in order to complete such exchange, including limitations and requirements related to executive compensation and corporate governance. Many of our competitors may not be subject to similar conditions, limitations, and requirements, which could give them a competitive advantage over us.

It is also possible that one or more large 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 agrees to participate in the exchange offer and subsequently transfers the common stock acquired from us. It could also occur if one or more large investors makes a significant investment in our common stock in the public offering of our common stock we currently intend to conduct upon completion of the exchange offers described in this prospectus. 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.



**It is possible that one or more of the initiatives set forth in our Capital Plan could trigger an ownership change that will negatively affect our ability to utilize net operating loss carryforwards and other deferred tax assets in the future.**

As of December 31, 2009, we had federal net operating loss carryforwards of approximately \$42.8 million, and such amount may grow significantly prior to the Expiration Date. Under federal tax law, our ability to utilize these carryforwards and other deferred tax assets is limited if we are deemed to experience a change of ownership. 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 "Capitalization," beginning on page 38 below.

The exchange offers could cause a change of ownership under these rules. This is likely if a sufficient number of the holders of the trust preferred securities exchange such securities for shares of our common stock in the exchange offers. On the other hand, if we are successful in exchanging the shares of preferred stock held by the Treasury into shares of our common stock and are able to do so prior to the settlement of the exchange offers for the trust preferred securities, then we believe there will not be a deemed change of ownership. At this time, we do not know whether we will be successful in completing the proposed exchange offer with the Treasury and therefore do not know the likelihood of experiencing a change of ownership under these tax rules.

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

**Although the number of shares of our common stock offered in the exchange offers will be determined based on the Average VWAP of our common stock during the Pricing Period, the market price of our common stock may fluctuate. As a result, the market price of the common stock upon settlement of the exchange offers could be less than the Relevant Price used to determine the number of shares of common stock issued in exchange for trust preferred securities accepted for exchange.**

The number of shares of common stock issued in exchange for trust preferred securities tendered in the exchange offers will be determined based on the Average VWAP of our common stock during the Pricing Period and will not be adjusted regardless of any increase or decrease in the market price of the common stock or the trust preferred securities between the Expiration Date of the exchange offers and the settlement date. Therefore, the market price of the common stock at the time you receive your shares of common stock on the settlement date could be significantly less than the price used to determine the number of shares of common stock you will receive. The market price of our common stock has recently been subject to significant fluctuations and volatility.

**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:

- announcements regarding significant transactions in which we may engage, including these exchange offers and the other capital raising initiative that are part of our Capital Plan;
- market assessments regarding such transactions, including the timing, terms, and likelihood of success of these exchange offers;
- operating results that vary from the expectations of management, securities analysts, and investors, including with respect to further loan losses we may incur;
- 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 of debt, preferred stock, or additional trust preferred securities, each of which would be senior to our common stock upon liquidation and for purposes of dividend distributions; and
- other changes in 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 over approximately the past two years, and continue to experience significant price and volume volatility. As a result, the market price of our common stock 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.

We urge you to obtain current market quotations for our common stock when you consider the exchange offers.

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

Our common stock is currently listed on the Nasdaq GSM. However, on December 21, 2009, 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 approximately June 21, 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 GSM. However, in that event, we may be eligible for an additional grace period by transferring our common stock listing from the Nasdaq GSM 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.

**RISKS RELATED TO THE RIGHTS OF OUR COMMON STOCK COMPARED TO THE RIGHTS OF THE TRUST PREFERRED SECURITIES**

**The value of the common stock being offered in these exchange offers is lower than the Liquidation Amount of the trust preferred securities you would be tendering in exchange for the common stock.**

We are offering to exchange for outstanding trust preferred securities newly issued shares of our common stock having a value equal to only [ ]% (or [ ]% if the trust preferred securities are validly tendered before the Early Premium Tender Deadline and not subsequently withdrawn) of the Liquidation Amount of the trust preferred securities tendered for exchange. In addition, depending on the market value of our common stock on the settlement date of the exchange offers, the value of shares of common stock you receive could represent an even lower percentage of the Liquidation Amount of trust preferred securities you are surrendering.

**All of the trust preferred securities that remain outstanding after the exchange offers will have priority over our common stock with respect to payment in the event of a liquidation, dissolution, or winding-up and with respect to the payment of dividends.**

In any liquidation, dissolution or winding-up of IBC, our outstanding shares of common stock would rank below all debt claims against us and claims of all of our outstanding shares of preferred stock and other senior equity securities, including the trust preferred securities that are not exchanged for common stock in the exchange offers described in this prospectus. As a result, holders of our common stock, including holders of trust preferred securities whose securities are accepted for exchange in the exchange offers, will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding-up of IBC until after all our obligations to our debt holders have been satisfied and holders of senior equity securities have received any payment or distribution due to them.

**If we engage in any sale transaction or business combination after completion of these exchange offers, trust preferred securities not tendered for exchange may have a greater value than the shares of common stock to be received in the exchange offers.**

We do not currently intend to engage in any sale of our business or similar transaction. However, if we were to do so after completion of these exchange offers (which could be required if we are unable to successfully implement our Capital Plan, as discussed above in this "Risk Factors" section), the successor to our business would be required to assume all obligations on our outstanding trust preferred securities, including the obligation to make quarterly payments. The value of such trust preferred securities at that time may be greater than the value of the shares of our common stock you would receive if you tendered your trust preferred securities in these exchange offers. We currently believe, however, that such a sale transaction or other business combination is unlikely, due to current market conditions and due in part to the financial burden to any such acquirer associated with assuming all of the obligations with respect to our trust preferred securities.

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

We may attempt to increase our capital resources, or we or our banking subsidiary 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 the 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.

**Holders of trust preferred securities that participate in the exchange offers are giving up their right to future distributions on the trust preferred securities.**

If you tender your trust preferred securities and these securities are accepted by us for exchange in the exchange offers, you will be giving up your right to any future distribution payments that are paid on the trust preferred securities on or after the Expiration Date. We have currently exercised our right to defer quarterly payments on all outstanding trust preferred securities. At this time, we are unable to state with any degree of certainty if or when we may resume quarterly distributions on the trust preferred securities that are not exchanged for shares of our common stock in these exchange offers. We do not currently intend to resume such payments in the near term. Pursuant to the documents governing the rights of the outstanding trust preferred securities, we will effectively be considered in default of the trust preferred securities and the related Underlying Debentures if we defer quarterly distributions for more than 20 consecutive quarterly periods. If we resume quarterly payments on our trust preferred securities in the future, we will be required to pay all accrued but unpaid distributions, including those distributions currently being deferred. By participating in the exchange offers, you will be giving up any right to receive any such distributions.

**You may not receive dividends on the shares of common stock you receive in exchange for your trust preferred securities.**

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), 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.

**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.

**RISKS RELATED TO NOT PARTICIPATING IN THE EXCHANGE OFFERS**

**We do not know if or when we will resume quarterly payments on our trust preferred securities.**

Beginning in the fourth quarter of 2009, we exercised our right to defer quarterly interest payments on the Underlying Debentures held by each of the Trusts and, as a result, the Trusts were required to defer quarterly distributions to holders of outstanding trust preferred securities. We exercised this right in order to preserve our capital and reduce our interest expense. As described elsewhere in this prospectus, although we are pursuing several initiatives to increase our capital base, we expect to continue to face challenges in the near term in operating our business and resuming profitability. In addition, as described under "The Exchange Offers - Capital Plan" below, we are currently prohibited from paying quarterly dividends on our trust preferred securities without the prior consent of our federal and state bank regulators. As a result, we expect to continue to defer quarterly payments on the Underlying Debentures and the related trust preferred securities for the foreseeable future. We do not know if or when such payments will resume.

**As long as quarterly payments on the trust preferred securities are deferred, you will likely have taxable "original issue discount" (OID) income even though you are not receiving cash distributions on the trust preferred securities.**

There are complicated federal tax rules that apply when payments on instruments such as the trust preferred securities are deferred. These tax rules require the holder of the security to report a portion of the deferred quarterly payments as taxable income even though they are not receiving any cash distributions because of the deferral. For each year that we continue to exercise our right to defer payments on the trust preferred securities, you will be receiving IRS Form 1099-OID to reflect OID income that you should report to the IRS, and a copy of each IRS Form 1099-OID will be provided to the IRS annually. Failure to report taxable income, including OID, can subject taxpayers to penalties. See "Material U.S. Federal Income Tax Consequences" below for more information. Because these rules are complicated, we urge you to consult a competent tax advisor.

**If we do not realize a high level of participation in these exchange offers, or if any one or more of these exchange offers are not completed, we may be unable to implement our Capital Plan, which could result in a loss of all or substantially all of the value of your trust preferred securities.**

As described in more detail under "Importance of the Exchange Offers" beginning on page 109 below, we view these exchange offers as a critical step toward achieving the objectives of our Capital Plan. If there is not a high level of participation in these exchange offers or if any one or more of the exchange offers are not completed, it may not be possible for us to meet the objectives of our Capital Plan, which primarily consist of improving our capital position by achieving the minimum capital ratios imposed by our Board in such Capital Plan. If we fail to realize such objectives, our ability to withstand continued adverse economic conditions could be materially and adversely affected.

**The trust preferred securities issued by IBC Capital Finance II may be delisted from Nasdaq.**

As described above, we are at risk of having our common stock delisted from the Nasdaq GSM. If our common stock is delisted from Nasdaq, it would mean the trust preferred securities issued by IBC Capital Finance II (Nasdaq: IBCPO) would also be delisted. The delisting of these trust preferred securities from Nasdaq would have an adverse effect on the liquidity of such securities.

**If the exchange offers are successful, there may be a limited or no trading market for the trust preferred securities issued by IBC Capital Finance II (Nasdaq: IBCPO) and the market price for such trust preferred securities may be depressed.**

Depending on the amount of trust preferred securities that are accepted for exchange in the exchange offers, the trading market for the trust preferred securities issued by IBC Capital Finance II (Nasdaq: IBCPO) that remain

outstanding after the exchange offers may be more limited. A reduced trading volume may decrease the price and increase the volatility of the trading price of such trust preferred securities that remain outstanding following the exchange offers.

## **ADDITIONAL RISKS RELATED TO THE EXCHANGE OFFERS**

**We have not obtained a third-party determination that the exchange offers are fair to holders of the trust preferred securities.**

Neither we, the trustees of any of our trust subsidiaries, the Dealer Manager, the Exchange Agent, the Information Agent, nor anyone else is making a recommendation as to whether you should exchange all or any portion of your trust preferred securities in the exchange offers. We have not retained, and do not intend to retain, any unaffiliated representative to act on behalf of the holders of the trust preferred securities for purposes of negotiating the exchange offers or preparing a report concerning the fairness of the exchange offers. You must make your own independent decision regarding your participation in the exchange offers.

**Failure to complete the exchange offers successfully could negatively affect the price of our common stock.**

Several conditions must be satisfied or, if permissible under applicable law, waived in order to complete the exchange offers, including those described below under "The Exchange Offers Conditions of the Exchange Offers." One or more of these conditions may not be satisfied, and if not satisfied or waived (where permissible), the exchange offers may not occur or may be delayed. If the exchange offers are not completed or are delayed, we may be subject to the following material risks:

- the market price of our common stock may decline to the extent that the current market price of our common stock reflects a market assumption that the exchange offers have been or will be completed;
- the market price of our trust preferred securities may decline to the extent that the current market price of such trust preferred securities reflects a market assumption that the applicable exchange offers have been or will be completed;
- we may not be able to increase our Tier 1 common equity by an amount that may be necessary to keep us well capitalized in the near term; and
- our ability to successfully implement the other capital raising initiatives set forth in our Capital Plan may be adversely affected. For example, we believe our chances of being successful in raising additional equity through the sale of shares of our common stock increases with increased participation in these exchange offers.



**Holders of a significant Liquidation Amount of trust preferred securities who participate in the exchange offers could become subject to regulatory restrictions on ownership of our common stock.**

Under the federal Change in Bank Control Act, a person may be required to obtain prior approval from the FRB before acquiring the power to direct or indirectly control the management, operations, or policy of our Company or before acquiring 10% or more of our common stock. As a result, holders of a significant amount of trust preferred securities who seek to participate in the exchange offers should evaluate whether they could become subject to the approval and other requirements of this federal statute.

## 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," "anticipate," "estimate," "project," "intend," and "plan," and statements about future financial and operating results, plans, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements express management's current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although management believes 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 above. The key risks are summarized as follows:

- If we are unable to successfully raise new equity capital and otherwise implement our capital restoration plan, it will be extremely difficult for us to withstand current economic conditions and any further deterioration in our loan portfolio;
- Future loan losses could exceed the reserves we maintain for such losses;
- Economic conditions in Michigan are worse in many cases than national economic conditions and the ability of the Michigan economy to recover, and the pace of such recovery, is expected to have a material impact on our future financial success;
- Conditions in regional and local real estate markets are expected to have a material impact on our future financial success;
- Current turmoil in the vehicle service contract industry has increased the credit risk and reputation risk for our subsidiary, Mepco Finance Corporation, have led and may continue to lead to significant losses for Mepco, and will contribute to a decrease in the average earning assets of Mepco, which has historically operated at a profit and decreased the size of the losses we have incurred in recent periods;
- Legislative and regulatory changes could increase our expenses, decrease our income, and otherwise have a negative impact on our results of operations;
- Our use of wholesale funding sources exposes us to liquidity risk and potential earnings volatility;

- The continued services of our management team are critical as we work through our asset quality issues and the implementation of our capital restoration plan, yet our ability to compensate our executives is subject to restrictions that do not apply to many of our competitors;
- Media reports regarding ongoing bank failures and any negative publicity regarding our capital position could result in our loss of core deposits;
- Our capital raising initiatives will result in significant dilution to our current shareholders;
- Implementation of our capital plan could result in the U.S. Treasury or another large investor owning a significant percentage of our common stock, and such investor's interests could be different than the interests of our smaller shareholders;
- Our common stock may be delisted from the Nasdaq Global Stock Market;
- We have suspended all quarterly payments on our preferred stock and our trust preferred securities and we do not know if or when such payments will resume;
- We are currently prohibited from paying cash dividends on our common stock and will, for the foreseeable future, be subject to material restrictions on our ability to pay cash dividends; and
- The liquidity and market price of our common stock may be materially and adversely affected by our current financial condition and the capital raising initiatives we are pursuing.

You are urged to read the "Risk Factors" section carefully and not rely on the above summary.

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.

## 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 management believes 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:

- Total assets (GAAP) to tangible assets (non-GAAP)
- Total shareholders' equity (GAAP) to tangible common equity (non-GAAP)
- Total shareholders' equity (GAAP) to Tier 1 common equity (non-GAAP)



	2009	2008	December 31, 2007 (Unaudited)	2006	2005
(in 000's)					
<b>TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS</b>					
Total assets (GAAP)	\$ 2,965,364	\$ 2,956,245	\$ 3,247,516	\$ 3,406,390	\$ 3,348,707
Less: Goodwill		16,734	66,754	52,842	55,946
Less: Core deposit intangible assets (all other intangibles)	10,260	12,190	15,262	8,157	10,729
Less: Deferred taxes	691	6,892	18,572	10,597	7,509
Tangible assets (non-GAAP)	\$ 2,954,413	\$ 2,920,429	\$ 3,146,928	\$ 3,334,794	\$ 3,274,523
Total shareholders' equity (GAAP)	\$ 109,861	\$ 194,877	\$ 240,502	\$ 258,167	\$ 248,259
Less: Goodwill		16,734	66,754	52,842	55,946
Less: Core deposit intangible assets (all other intangibles)	10,260	12,190	15,262	8,157	10,729
Less: Deferred taxes	691	6,892	18,572	10,597	7,509
Less: Preferred stock	69,157	68,456	-	-	-
Tangible common equity (non-GAAP)	\$ 29,753	\$ 90,605	\$ 139,914	\$ 186,571	\$ 174,075
Tangible common equity to tangible assets ratio (non-GAAP)	1.01%	3.10%	4.45%	5.59%	5.32%
<b>PER 1 COMMON EQUITY</b>					
Total shareholders' equity (GAAP)	\$ 109,861	\$ 194,877	\$ 240,502	\$ 258,167	\$ 248,259
Less: Qualifying capital securities	41,880	72,751	80,309	62,350	62,350
Less: Goodwill		16,734	66,754	52,842	55,946
Less: Accumulated other comprehensive (loss) income	(15,745)	(23,318)	(339)	3,370	4,297
Less: Intangible assets	10,260	12,190	15,262	8,157	10,729
Less: Disallowed servicing assets	559	1,018			
Less: Net unrealized losses on equity securities			3,155		
Less: Other	(35)	(59)	(86)	(139)	(294)
Per 1 capital (regulatory)	156,702	261,063	236,065	256,287	239,931
Less: Qualifying capital securities	41,880	72,751	80,309	62,350	62,350
Less: Preferred stock	69,157	68,456	-	-	-
Per 1 common equity (non-GAAP)	\$ 45,665	\$ 119,856	\$ 155,756	\$ 193,937	\$ 177,581
Net risk-weighted assets (regulatory)	\$ 2,204,157	\$ 2,365,082	\$ 2,525,594	\$ 2,664,931	\$ 2,578,081
Per 1 common equity ratio (non-GAAP)	2.07%	5.07%	6.17%	7.28%	6.89%

## SELECTED FINANCIAL DATA

Set forth below are highlights from our consolidated financial data as of and for the years ended December 31, 2005 through 2009. 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.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
<b>(Dollars in thousands, except per share amounts)</b>					
<b>SUMMARY OF OPERATIONS</b>					
Interest income	\$ 189,056	\$ 203,736	\$ 223,254	\$ 216,895	\$ 193,035
Interest expense	50,533	73,587	102,663	93,698	63,099
Net interest income	138,523	130,149	120,591	123,197	129,936
Provision for loan losses	103,032	71,321	43,160	16,344	7,806
Net gains (losses) on securities	3,744	(14,961)	(705)	171	1,484
Other non-interest income	54,915	44,682	47,850	44,679	41,342
Non-interest expenses	187,587	177,150	115,724	106,216	101,785
Income (loss) from continuing operations before income tax	(93,437)	(88,601)	8,852	45,487	63,171
Income tax expense (benefit)	(3,210)	3,063	(1,103)	11,662	17,466
Income (loss) from continuing operations	(90,227)	(91,664)	9,955	33,825	45,705
Discontinued operations, net of tax			402	(622)	1,207
Net income (loss)	(90,227)	(91,664)	10,357	33,203	46,912
Preferred dividends	4,301	215			
Net income (loss) applicable to common stock	\$ (94,528)	\$ (91,879)	\$ 10,357	\$ 33,203	\$ 46,912
<b>PER COMMON SHARE DATA(1)</b>					
Income (loss) per common share from continuing operations					
Basic	\$ (3.96)	\$ (4.00)	\$ 0.44	\$ 1.48	\$ 1.96
Diluted	(3.96)	(4.00)	0.44	1.45	1.92
Net income (loss) per common share					
Basic	\$ (3.96)	\$ (4.00)	\$ 0.46	\$ 1.45	\$ 2.01
Diluted	(3.96)	(4.00)	0.45	1.43	1.97
Cash dividends declared	0.03	0.14	0.84	0.78	0.71
Book value	1.69	5.49	10.62	11.29	10.75



## SELECTED BALANCES

Assets	\$2,965,364	\$2,956,245	\$3,247,516	\$3,406,390	\$3,348,707
Loans	2,299,372	2,459,529	2,518,330	2,459,887	2,365,176
Allowance for loan losses	81,717	57,900	45,294	26,879	22,420
Deposits	2,565,768	2,066,479	2,505,127	2,602,791	2,474,239
Shareholders' equity	109,861	194,877	240,502	258,167	248,259
Long-term debt	0	0	1,000	3,000	5,000

## SELECTED RATIOS

Tax equivalent net interest income to					
average interest earning assets	5.08%	4.63%	4.26%	4.41%	4.85%
Income (loss) from continuing operations to (2)					
Average common equity	(90.72)	(39.01)	3.96	13.06	18.63
Average assets	(3.17)	(2.88)	0.31	0.99	1.42
Net income (loss) to (2)					
Average common equity	(90.72)	(39.01)	4.12	12.82	19.12
Average assets	(3.17)	(2.88)	0.32	0.97	1.45
Average shareholders' equity to average assets	5.80	7.50	7.72	7.60	7.61
Tier 1 capital to average assets	5.27	8.61	7.44	7.62	7.40
Non-performing loans to Portfolio Loans	4.78	5.09	3.07	1.59	0.70

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(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.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following selected unaudited pro forma financial information has been presented to give effect to and show the pro forma impact on our balance sheet as of December 31, 2009, and on our earnings for the fiscal year ended December 31, 2009, of the exchange offers for trust preferred securities described in this prospectus as well as our offer (the "CPP Exchange Offer") to exchange shares of our common stock for up to the entire \$72 million aggregate liquidation amount of our outstanding Series A Fixed Rate Cumulative Perpetual Preferred Stock, \$1,000 liquidation preference per share (the "CPP Preferred Shares"), issued to the Treasury under its Capital Purchase Program of the Troubled Asset Relief Program (TARP). The exchange offer described in this prospectus and the CPP Exchange Offer are collectively referred to as the "Capital Transactions."

As described in this prospectus, our Board currently proposes to engage in a public offering to issue shares of our common stock or securities convertible into shares of our common stock for cash, to raise as much as \$50 million to \$150 million in aggregate gross proceeds. However, we have not reflected any impact of such a public offering in the pro forma financial information set forth below.

The unaudited pro forma financial information is presented for illustrative purposes only and does not necessarily indicate the financial position or results that would have been realized had the Capital Transactions been completed as of the dates indicated or that will be realized in the future when and if the Capital Transactions are consummated. The selected unaudited pro forma financial information has been derived from, and should be read in conjunction with, our historical consolidated financial statements included in this prospectus.

Our unaudited pro forma consolidated balance sheets as of December 31, 2009 have been presented as if the Capital Transactions had been completed on December 31, 2009, and our pro forma consolidated statements of income have been presented as if the Capital Transactions had been completed on January 1, 2009.

**Primary Assumptions**

We have made a number of assumptions in preparing the pro forma information set forth below. The primary assumptions made are as follows:

- a. For each of the exchange offers for trust preferred securities described in this prospectus, we have assumed we will issue shares of our common stock having a dollar value equal to [ ]% of the Liquidation Amount of the trust preferred securities tendered and accepted for exchange. This assumes all trust preferred securities tendered for exchange would be tendered after the Early Premium Tender Deadline.

b. For the CPP Exchange Offer, we have assumed we will issue shares of our common stock having a dollar value equal to 100% of the liquidation value of the CPP Preferred Shares.

c. We have assumed that, for purposes of the Capital Transactions, the value per share of our common stock used to calculate the number of shares of our common stock to be issued in each such Capital Transaction is \$[ ]. This is the average volume weighted average price, or "Average VWAP," of our common stock assuming the Pricing Date for the determination of the Average VWAP ended on and including [ ], 2010. The Average VWAP of our common stock is the mathematical average of the volume weighted average price per share for the five consecutive trading days ending on and including the second trading day immediately preceding the Expiration Date. The closing price of our common stock on March 11, 2010, was \$0.76 per share.

d. We have assumed there will be no material effect on such pro forma financial statements from the potential limitations related to Section 382 of the Internal Revenue Code as we have already established a full tax valuation allowance on our net deferred tax assets.

We have shown the pro forma impact of the Capital Transactions under a "Low Range Alternative" and a "High Range Alternative," as follows:

- The "Low Range Alternative" assumes the tender and exchange of 25% of the outstanding trust preferred securities described in this prospectus for common stock, and no CPP Exchange Offer.
- The "High Range Alternative" assumes the tender and exchange of 75% of the outstanding trust preferred securities described in this prospectus for common stock, and the tender and exchange of the entire \$72 million of outstanding CPP Preferred Shares for common stock.

We have assumed the participation rates for the exchange offers for the trust preferred securities based on the results of recently concluded similar exchange offers by similarly situated issuers. We are only in preliminary discussions with the Treasury, as the sole holder of the CPP Preferred Shares, regarding the proposed CPP Exchange Offer. Although the pro forma financial information set forth below assumes we would exchange shares of our common stock with a value equal to 100% of the liquidation value of the CPP Preferred Shares in the proposed CPP Exchange Offer, we are negotiating with the Treasury to accept shares of our common stock with a value equal to 75% of the liquidation value of the CPP Preferred Shares because the CPP Preferred Shares are junior in priority to the trust preferred securities and we are offering less than 100% of par for the trust preferred securities. We have not received any indication from the Treasury as to its willingness to exchange any CPP Preferred Shares for shares of our common stock or the pricing or other terms upon which it would participate in any such exchange. There is no assurance the Treasury will agree to participate in the CPP Exchange Offer on terms acceptable to us or at all.

Additional assumptions are set forth in the footnotes to the tables below.

The inclusion of any particular Capital Transaction in the pro forma financial information does not necessarily indicate that such Capital Transaction is likely to occur or that it is likely to occur on the terms set forth below.

There can be no assurances that the foregoing assumptions will be realized in the future, including as to the amounts and percentages of trust preferred securities or CPP Preferred Shares that will be tendered in the Capital Transactions. If any one or more of the foregoing assumptions or assumptions in the footnotes to the tables below is not realized, it would likely result in a material impact on the pro forma information set forth below. **As a result, you should not place undue reliance on such pro forma information in deciding whether to tender your trust preferred securities in the exchange offers described in this prospectus or how many trust preferred securities to tender.**

**Independent Bank Corporation**

**Pro Forma Consolidated Balance Sheets (Unaudited)**

**Low Range Alternative (25% Trust Preferred Exchange and No CPP Exchange)**

(in thousands)	Actual December 31, 2009	Adjustments			Pro Forma December 31, 2009
		Institutional TP Exchange Offer (5)	Retail TP Exchange Offer (6)	CPP Exchange Offer (7)	
<b>ASSETS</b>					
Cash and due from banks	\$ 65,214	\$ -	\$ -	\$ -	\$ -
Interest bearing deposits	223,522				
Investment securities	164,205	-	-	-	-
FHLB and Federal Reserve	27,854	-	-	-	-
Bank stock					
Loans held for sale	34,234	-	-	-	-
Net portfolio loans	2,217,655	-	-	-	-
Premises and equipment	72,616	-	-	-	-
Bank owned life insurance	46,514	-	-	-	-
Other real estate and	31,534	-	-	-	-
repossessed assets					
Goodwill		-	-	-	-
Capitalized mortgage loan	15,273	-	-	-	-
servicing rights					
Other intangible assets	10,260	-	-	-	-
Prepaid FDIC deposit					
insurance					
assessment	22,047				
Other assets	34,436	(2)	(2)		
<b>Total assets</b>	<b>\$2,965,364</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>LIABILITIES</b>					
Total deposits	\$2,565,768	\$ -	\$ -	\$ -	\$ -
Other borrowings	131,182	-	-	-	-
Financed premiums payable	21,309	-	-	-	-
Other liabilities	44,356	-	-	-	-
Subordinated debentures	92,888	(1)	(1)		
<b>Total liabilities</b>	<b>2,855,503</b>				

Preferred stock	69,157			(1)
Common stock	225,481	(3)	(3)	(3)
Retained earnings (deficit)	(169,098)	(4)	(4)	(4)
Accumulated other comprehensive income (loss)	(15,679)	(2)		
Total shareholders' equity	109,861			
Total liabilities and shareholders' equity	\$2,965,364	\$	\$	\$

Note: The inclusion of the Capital Transactions in the pro forma financial information does not necessarily indicate that such transactions are likely to occur.

- (1) 25% of the carrying amount of the retired securities.
- (2) The estimated pro-rated adjustments related to the remaining unamortized debt issuance and hedge costs and the stock owned in the trust subsidiaries.
- (3) Value of newly issued common stock.
- (4) The excess of the carrying amount of the securities to be retired over the fair value of the common stock to be issued in the Capital Transactions, net of taxes (which are immaterial due to IBC's low effective tax rate as a result of its full valuation allowance against deferred tax assets). This amount would be recorded in the income statement for the period during which the Capital Transactions are consummated.

- (5) Represents the increase in common stock outstanding due to the participation of 25% of the outstanding trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I (a net aggregate principal amount of \$9.875 million) with an assumed exchange value of \$[ ] per \$1,000 Liquidation Amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (6) Represents the increase in common stock outstanding due to the participation of 25% of the outstanding trust preferred securities issued by IBC Capital Finance II (a net aggregate principal amount of \$12.65 million) with an assumed exchange value of \$[ ] per \$25 liquidation amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (7) Assumes no participation in the CPP Exchange Offer.

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**Independent Bank Corporation**

**Pro Forma Consolidated Balance Sheets (Unaudited)**

**High Range Alternative (75% Trust Preferred Exchange and 100% CPP Exchange)**

(in thousands)	Actual December 31, 2009	Institutional TP Exchange Offer (5)	Adjustments Retail TP Exchange Offer (6)	CPP Exchange Offer (7)	Pro Forma December 31, 2009
<b>ASSETS</b>					
Cash and due from banks	\$ 65,214	\$ -	\$ -	\$ -	\$
Interest bearing deposits	223,522				
Investment securities	164,205	-	-	-	
FHLB and Federal Reserve Bank stock	27,854	-	-	-	
Loans held for sale	34,234	-	-	-	
Net portfolio loans	2,217,655	-	-	-	
Premises and equipment	72,616	-	-	-	
Bank owned life insurance	46,514	-	-	-	
Other real estate and repossessed assets	31,534	-	-	-	
Goodwill		-	-	-	
Capitalized mortgage loan servicing rights	15,273	-	-	-	
Other intangible assets	10,260	-	-	-	
Prepaid FDIC deposit insurance assessment	22,047				
Other assets	34,436	(2)	(2)		
				-	
Total assets	\$ 2,965,364	\$	\$	\$ -	\$
<b>LIABILITIES</b>					
Total deposits	\$ 2,565,768	\$	\$	\$ -	\$
Other borrowings	131,182			-	
Financed premiums payable	21,309			-	
Other liabilities	44,356			-	
Subordinated debentures	92,888	(1)	(1)	-	
				-	
Total liabilities	2,855,503			-	
Preferred stock	69,157			(1)	
Common stock	225,481	(3)	(3)	(3)	
Retained earnings (deficit)	(169,098)	(4)	(4)	(4)	
Accumulated other comprehensive income (loss)	(15,679)	(2)		-	



Total shareholders' equity	109,861			-
Total liabilities and shareholders' equity	\$ 2,965,364	\$	\$	\$ - \$

Note: The inclusion of the Capital Transactions in the pro forma financial information does not necessarily indicate that such transactions are likely to occur.

- (1) 75% of the carrying amount of the retired securities.
- (2) The estimated pro-rated adjustments related to the remaining unamortized debt issuance and hedge costs and the stock owned in the trust subsidiaries.
- (3) Value of newly issued common stock.
- (4) The excess of the carrying amount of the securities to be retired over the fair value of the common stock to be issued in the Capital Transactions, net of taxes (which are immaterial due to IBC's low effective tax rate as a result of its full valuation allowance against deferred tax assets). This amount would be recorded in the income statement for the period during which the Capital Transactions are consummated.

- (5) Represents the increase in common stock outstanding due to the participation of 75% of the outstanding trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I (a net aggregate principal amount of \$29.625 million) with an assumed exchange value of \$[ ] per \$1,000 Liquidation Amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (6) Represents the increase in common stock outstanding due to the participation of 75% of the outstanding trust preferred securities issued by IBC Capital Finance II (a net aggregate principal amount of \$37.950 million) with an assumed exchange value of \$[ ] per \$25 Liquidation Amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (7) Represents the increase in common stock outstanding due to the participation in the CPP Exchange Offer of 100% of the outstanding CPP Preferred Shares (an aggregate principal amount of \$72.00 million) with an assumed exchange value of \$1,000 per \$1,000 liquidation amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.

**Independent Bank Corporation**

**Pro Forma Consolidated Statements of Operations (Unaudited)**

**Low Range Alternative (25% Trust Preferred Exchange and no CPP Exchange)**

(in thousands, except per share data)	Actual 2009	Institutional TP Exchange Offer (5)	Adjustments Retail TP Exchange Offer (6)	CPP Exchange Offer (7)	Pro Forma 2009
<b>INTEREST INCOME</b>					
Interest and fees on loans	177,948	\$ -	\$ -	\$ -	\$ -
Investments	11,108	-	-	-	-
Total Interest Income	189,056	-	-	-	-
<b>INTEREST EXPENSE</b>					
Deposits	35,405	-	-	-	-
Other borrowings	15,128	(1)	(1)	-	-
Total Interest Expense	50,533	-	-	-	-
<b>NET INTEREST INCOME</b>	138,523				-
Provision for loan losses	103,032				-
Net Interest Income After Provision for Loan Losses	35,491				-
<b>NON-INTEREST INCOME</b>	58,659	(2)	(2)	-	-
<b>GAIN ON EXTINGUISHMENT OF CAPITAL INSTRUMENTS</b>		(3)	(3)	-	-
<b>NON-INTEREST EXPENSE</b>	187,587				-
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(93,437)				-
Income tax expense (benefit)	(3,210)	(4)	(4)	-	-
<b>NET INCOME (LOSS)</b>	(90,227)				-
Preferred dividends	4,301				-
<b>NET INCOME (LOSS) APPLICABLE TO COMMON STOCK</b>	(94,528)			\$ -	-
<b>Per Common Share:</b>					
Basic	(3.96)			\$ -	-
Diluted	(3.96)			-	-
<b>Average Common Shares Outstanding:</b>					
Basic	23,865,525	(8)	(8)	-	-

Diluted	23,935,880	(8)	(8)	-
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Note: The inclusion of the Capital Transactions in the pro forma financial information does not necessarily indicate that such transactions are likely to occur.

- (1) Reduction in interest expense due to the exchange of the capital instruments for common stock assuming that the exchange occurred at the beginning of the period.
- (2) Reduction in other non-interest income due to decline in dividends paid to the parent company related to the stock owned in the trust subsidiaries.
- (3) One-time gain (net of unamortized debt issuance costs or hedge costs) from exchange of the capital instruments for common stock.
- (4) Taxes are expected to be immaterial due to IBC's low effective tax rate as a result of its full valuation allowance against deferred tax assets.
- (5) Represents the increase in common stock outstanding due to the participation of 25% of the outstanding trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I (a net aggregate principal amount of \$9.875 million) with an assumed exchange value of \$[ ] per \$1,000 liquidation amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (6) Represents the increase in common stock outstanding due to the participation of 25% of the outstanding trust preferred securities issued by IBC Capital Finance II (a net aggregate principal amount of \$12.65 million) with an assumed exchange value of \$[ ] per \$25 liquidation amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (7) Assumes no participation in the CPP Exchange Offer.
- (8) Represents common stock issued in the applicable transaction.

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**Independent Bank Corporation**

**Pro Forma Consolidated Statements of Operations (Unaudited)**

**High Range Alternative (75% Trust Preferred Exchange and 100% CPP Exchange)**

(in thousands, except per share data)	Actual 2009	Institutional TP Exchange Offer (5)	Adjustments Retail TP Exchange Offer (6)	CPP Exchange Offer (7)	Pro Forma 2009
<b>INTEREST INCOME</b>					
Interest and fees on loans	\$ 177,948	\$ -	\$ -	\$ -	
Investments	11,108	-			
Total Interest Income	189,056	-			
<b>INTEREST EXPENSE</b>					
Deposits	35,405				
Other borrowings	15,128	(1)	(1)		
Total Interest Expense	50,533				
<b>NET INTEREST INCOME</b>	138,523				
Provision for loan losses	103,032				
Net Interest Income After Provision for Loan Losses	35,491				
<b>NON-INTEREST INCOME</b>	58,659	(2)	(2)		
<b>GAIN (LOSS) ON EXTINGUISHMENT OF CAPITAL INSTRUMENTS</b>		(3)	(3)	(3)	
<b>NON-INTEREST EXPENSE</b>	187,587				
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(93,437)				
Income tax expense (benefit)	(3,210)	(4)	(4)		
<b>NET INCOME (LOSS)</b>	(90,227)				
Preferred dividends	4,301				(1)
<b>NET INCOME (LOSS) APPLICABLE TO COMMON STOCK</b>	(94,528)				
<b>Per Common Share:</b>					
Basic	(3.96)				
Diluted	(3.96)				

Average Common Shares Outstanding:

Basic	23,865,525	(8)	(8)	(8)
Diluted	23,935,880	(8)	(8)	(8)

Note: The inclusion of the Capital Transactions in the pro forma financial information does not necessarily indicate that such transactions are likely to occur.

- (1) Reduction in interest expense or preferred dividends due to the exchange of the capital instruments for common stock assuming that the exchange occurred at the beginning of the period or issuance date of the security, whichever is later.
- (2) Reduction in other non-interest income due to decline in dividends paid to the parent company related to the stock owned in the trust subsidiaries.
- (3) One-time gain (loss) (net of unamortized debt issuance costs or hedge costs) from exchange of the capital instruments for common stock.
- (4) Taxes are expected to be immaterial due to IBC's low effective tax rate as a result of its full valuation allowance against deferred tax assets.
- (5) Represents the increase in common stock outstanding due to the participation of 75% of the outstanding trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I (a net aggregate principal amount of \$29.625 million) with an assumed exchange value of \$[ ] per \$1,000 liquidation amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (6) Represents the increase in common stock outstanding due to the participation of 75% of the outstanding trust preferred securities issued by IBC Capital Finance II (a net aggregate principal amount of \$37.950 million) with an assumed exchange value of \$[ ] per \$25 liquidation amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (7) Represents the increase in common stock outstanding due to the participation in the CPP Exchange Offer of 100% of the outstanding CPP Preferred Shares (an aggregate principal amount of \$72.00 million) with an assumed exchange value of \$1,000 per \$1,000 liquidation amount and an Average VWAP of \$[ ], which we determined assuming the Pricing Date for the Average VWAP was [ ], 2010.
- (8) Represents common stock issued in the applicable transaction.

## USE OF PROCEEDS

We will not receive any cash proceeds from the exchange offers.

## CAPITALIZATION

The following tables set forth the carrying amount of our capitalization, as of December 31, 2009, on an actual basis and on a pro forma basis to reflect completion of the exchange offers described in this prospectus under both the Low Range Alternative and the High Range Alternative described under "Unaudited Pro Forma Financial Information" above. These tables should be read in conjunction with the information set forth under "Selected Financial Data" and "Unaudited Pro Forma Financial Information" and our consolidated financial statements for the years ended December 31, 2009 and 2008, which are included in this prospectus beginning at page F 1 below. The following tables do not reflect the potential dilution in connection with any future offering of our common stock for cash, even though a public offering is contemplated by our Capital Plan.

### No. of Shares to be Issued in Capital Transactions

#### Low Range Alternative

#### (25% Participation in Trust Preferred Exchange Offers and No CPP Exchange)

*(Based on Assumptions in Footnotes to Table)*

Relevant Price (1)	Institutional TP Exchange Offer (2)	Retail TP Exchange Offer (3)	Subtotal to be Issued: % of Total Outstanding(4)	CPP Preferred Exchange Offer (5)	Pro Forma Total to be Issued: % of Total Outstanding(4)
\$1.00					0
\$0.95					0
\$0.90					0
\$0.85					0
\$0.80					0
\$0.75					0
\$0.70					0
\$0.65					0
\$0.60					0

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- (1) When used in this table, Relevant Price is the price per share of our common stock used to determine the number of shares of common stock that would be issued in exchange for the tendered trust preferred securities and the CPP Preferred Shares. The actual Relevant Price to be used in the exchange offers will be determined as

described under "The Exchange Offers" on page 107 below. The actual price used in any exchange of common stock for the CPP Preferred Shares will be as negotiated with Treasury, but is likely to be based on the market value our common stock. The table contains only an estimated range of potential values for our common shares. The closing price of our common shares on the Nasdaq GSM on March 11, 2010, was \$0.76 per share.

- (2) Assumes that 25% of the outstanding trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I will be tendered for exchange and that for each \$1,000 Liquidation Amount tendered, a holder would receive common stock with a value equal to \$[ ], which is equal to [ ]% of the \$1,000 Liquidation Amount.
- (3) Assumes that 25% of the outstanding trust preferred securities issued by IBC Capital Finance II will be tendered for exchange and that for each \$25 Liquidation Amount of tendered, a holder would receive common stock with a value equal to \$[ ], which is equal to [ ]% of the \$25 Liquidation Amount.
- (4) Assumes the number of shares of common stock outstanding excluding shares to be issued in these Capital Transactions would be 24,028,505 (the number of shares of IBC common stock outstanding on December 31, 2009).
- (5) Assumes that Treasury will not agree to exchange any CPP Preferred Shares for common stock.



**No. of Shares to be Issued in Capital Transactions**

**High Range Alternative**

**(75% Participation in Trust Preferred Exchange Offers and 100% Participation in CPP Exchange Offer)**

*(Based on Assumptions in Footnotes to Table)*

Relevant Price (1)	Institutional TP Exchange Offer (2)	Retail TP Exchange Offer (3)	Subtotal to be Issued: % of Total Outstanding(4)	CPP Preferred Exchange Offer (5)	Pro Forma Total to be Issued: % of
					Total Outstanding(4)
\$1.00					
\$0.95					
\$0.90					
\$0.85					
\$0.80					
\$0.75					
\$0.70					
\$0.65					
\$0.60					

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- (1) When used in this table, Relevant Price is the price per share of our common stock used to determine the number of shares of common stock that would be issued in exchange for the tendered trust preferred securities and the CPP Preferred Shares. The actual Relevant Price to be used in the exchange offers will be determined as described under "The Exchange Offers" on page 107 below. The actual price used in any exchange of common stock for the CPP Preferred Shares will be as negotiated with Treasury, but is likely to be based on the market value our common stock. The table contains only an estimated range of potential values for our common shares. The closing price of our common shares on the Nasdaq GSM on March 11, 2010, was \$0.76 per share.
- (2) Assumes that 75% of the outstanding trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I will be tendered for exchange and that for each \$1,000 Liquidation Amount tendered, a holder would receive common stock with a value equal to \$[ ], which is equal to [ ]% of the \$1,000 Liquidation Amount.
- (3) Assumes that 75% of the outstanding trust preferred securities issued by IBC Capital Finance II will be tendered for exchange and that for each \$25 Liquidation Amount tendered, a holder would receive common stock with a value equal to \$[ ], which is equal to [ ]% of the \$25 Liquidation Amount.
- (4) Assumes the number of shares of common stock outstanding excluding shares to be issued in these Capital Transactions would be 24,028,505 (the number of shares of IBC common stock outstanding on December 31, 2009).
- (5) Assumes that Treasury will agree to exchange all CPP Preferred Shares (with an aggregate liquidation preference of \$72 million) for common stock with a value equal to \$72 million.
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Based on the assumptions described in the footnotes to the tables above, upon completion of the Capital Transactions, our existing shareholders would own between only [ ]% and [ ]% of our outstanding common stock. However, we have reserved the right to issue an even greater number of shares of our common stock (i.e., in the event one or more of the assumptions in the tables set forth above prove not to be true). We have reserved the right to issue up to 180.2 million of common stock in the exchange offers described in this prospectus and up to 144 million shares of common stock in the CPP Exchange Offer. Using these maximum numbers and the Relevant Prices set forth in the tables above, our current shareholders may end up owning only approximately [ ]% of our outstanding common stock.

In addition, the initiatives under consideration and referenced above or through other means, including the exchange offers for the trust preferred securities, may trigger an ownership change that would negatively affect our ability to utilize net operating loss carryforwards and other deferred tax assets in the future. As a result, we may suffer higher-than-anticipated tax expense, and consequently lower net income and cash flow, in those future years. As of December 31, 2009, we had federal net operating loss carryforwards of approximately \$42.8 million, and such amounts may grow significantly prior to the Expiration Date. Companies are subject to a change of ownership test under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), that, if met, would limit the annual utilization of tax losses and credits carrying forward from pre-change of ownership periods, as well as the ability to use certain unrealized built-in losses. Generally, under Section 382, the yearly limitation on our ability to utilize such deductions will be equal to the product of the applicable long-term tax exempt rate (presently 4.16%) and the sum of the values of our common shares and of our outstanding CPP Preferred Shares, immediately before the ownership change. In addition to limits on the use of net operating loss carryforwards, our ability to utilize deductions related to bad debts and other losses for up to a five-year period following such an ownership change would also be limited under Section 382, to the extent that such deductions reflect a net loss that was "built-in" to our assets immediately prior to the ownership change. Similar rules under Section 383 of the Code will also limit utilization of any capital loss and tax credit carryforwards. The amount of these carryforwards was not material at December 31, 2009, but may grow significantly prior to the expiration of the offers.

The exchange offers could cause a change of ownership under these rules. This is likely if a sufficient number of the holders of the trust preferred securities exchange such securities for shares of our common stock in the exchange offers. On the other hand, if we are successful in exchanging the shares of preferred stock held by the Treasury into shares of our common stock and are able to do so prior to the settlement of the exchange offers for the trust preferred securities, then we believe there will not be a deemed change of ownership. At this time, we do not know whether we will be successful in completing the proposed exchange offer with the Treasury and therefore do not know the likelihood of experiencing a change of ownership under these tax rules. The exchange offers described in this prospectus are not conditioned on any exchange of our common stock for the preferred stock held by the Treasury.

In addition, we currently have a valuation allowance intended to fully offset these net operating loss carryforwards and other deferred tax assets. As a result of this allowance, we do not expect these tax rules to cause a material impact to our net income or loss in the near term.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with the historical financial data included within this prospectus, including the consolidated financial statements (and notes thereto) beginning on page F-1 below and all other information set forth in this prospectus. Certain Selected Financial Data is set forth on page 29 above. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed in this prospectus. Please see "Forward-Looking Statements" above.

*Introduction.* Our success depends to a great extent upon the economic conditions in Michigan's lower peninsula. We have in general experienced a slowing economy in Michigan since 2001. In particular, Michigan's current unemployment rate of nearly 15% is the worst among all states. 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 continued economic difficulties faced in Michigan has had and may continue to have many adverse consequences as described below in "Portfolio Loans and asset quality."

Dramatic declines in the housing market in recent years, with falling home prices and elevated levels of 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.

Additionally, capital and credit markets have continued to experience elevated levels of volatility and disruption over the past two years. This market turmoil and tightening of credit have led to a lack of general consumer confidence and reduction of business activity.

In response to these difficult market conditions and the significant losses that we have incurred in the past two years that have depleted our capital, we have taken steps or initiated actions designed to restore our capital levels, improve our operations and augment our liquidity as described in more detail below.

On January 29, 2010, we held a special shareholders' meeting at which our shareholders approved an amendment to our Articles of Incorporation to increase the number of shares of common stock we are authorized to issue from

60 million to 500 million. They also approved the issuance of our common stock in exchange for certain of our trust preferred securities and in exchange for the shares of our preferred stock held by the U.S. Department of Treasury ("Treasury").

As described in more detail below under "Liquidity and capital resources," we adopted a capital restoration plan that contemplates three primary initiatives that have been or will be undertaken in order to increase our common equity capital, decrease our expenses, and enable us to withstand and better respond to current market conditions and the potential for worsening market conditions. Those three initiatives are: (i) the exchange offers described in this prospectus; (ii) an offer to the Treasury to convert the preferred stock it holds into our common stock, and (iii) a public offering of our common stock for cash. We cannot be sure we will be able to successfully execute on these identified initiatives in a timely manner or at all. The successful implementation of our capital restoration plan is, in many respects, largely out of our control and depends on factors such as the aggregate amount of trust preferred securities tendered in these exchange offers, the willingness of the Treasury to exchange the shares of our preferred stock it holds for shares of our common stock, and our ability to sell our common stock or other securities for cash. These factors, in turn, may depend on factors outside of our control such as the stability of the financial markets, other macro economic conditions, and investors' perception of the ability of the Michigan economy to recover from the current recession.

If we are not soon able to achieve the minimum capital ratios set forth in our capital restoration plan (as described below in "Liquidity and capital resources"), this inability would likely materially and adversely affect our business, our financial condition, and the value of our common stock. An inability to improve our capital position would make it very difficult for us to withstand continued losses that we may incur and that may be increased or made more likely as a result of continued economic difficulties and other factors.

In addition, we believe that if we are unable to achieve the minimum capital ratios set forth in our capital restoration plan by or within a reasonable time after the April 30, 2010, deadline imposed by our Board of Directors, and if our financial condition and performance otherwise fail to meaningfully improve, it is likely we will not be able to remain well-capitalized under federal regulatory standards. In that case, we expect our primary bank regulators would also impose additional regulatory restrictions and requirements through a regulatory enforcement action. If we fail to remain well-capitalized under federal regulatory standards, we will be prohibited from accepting or renewing brokered certificates of deposit ("Brokered CDs") without the prior consent of the Federal Deposit Insurance Corporation ("FDIC"), which would likely have a materially 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. There could be other expenses associated with a continued deterioration of our capital, such as increased deposit insurance premiums payable to the FDIC.

Additional restrictions would make it increasingly difficult for us to withstand the current economic conditions and any continued deterioration in our loan portfolio. We could then be required to engage in a sale or other transaction with a third party or our subsidiary 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 exchange for our preferred stock or trust preferred securities in any proposed exchange offers, and it could also result in a loss of the entire value of our outstanding trust preferred securities and preferred stock.

It is against this backdrop that we discuss our results of operations and financial condition in 2009 as compared to earlier periods.

## RESULTS OF OPERATIONS

*Summary.* We incurred a loss from continuing operations of \$90.2 million in 2009 compared to a loss of \$91.7 million in 2008 and compared to income from continuing operations of \$10.0 million in 2007. The net loss in 2009 and 2008 also totaled \$90.2 million and \$91.7 million, respectively, compared to net income of \$10.4 million. The net loss applicable to common stock was \$94.5 million and \$91.9 million in 2009 and 2008, respectively. The significant change in 2009 and 2008 compared to 2007 is due primarily to an increase in the provision for loan losses, impairment charges on goodwill, increases in vehicle service contract counterparty contingencies, loan and collection costs and losses on other real estate and repossessed assets, and a charge to income tax expense for a valuation allowance on most of our net deferred tax assets. These adverse changes were partially offset by an increase in net interest income.

On December 12, 2008 we issued 72,000 shares of preferred stock and 3,461,538 warrants to purchase our common stock (at a strike price of \$3.12 per share) to the Treasury in return for \$72.0 million under the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP"). (See "Liquidity and capital resources.") As a result, during periods in which this preferred stock remains outstanding, we will also be reporting our net income (loss) applicable to common stock.

On January 15, 2007, Mepco Insurance Premium Financing, Inc., now known as Mepco Finance Corporation ("Mepco"), a wholly-owned subsidiary of our bank, sold substantially all of its assets related to the insurance premium finance business to Premium Financing Specialists, Inc. ("PFS"). Mepco continues to own and operate its vehicle service contract payment plan business. The assets, liabilities and operations of Mepco's insurance premium finance business are reported as discontinued operations for 2007.

We completed the acquisition of ten branches with total deposits of approximately \$241.4 million from TCF National Bank on March 23, 2007 (the "branch acquisition"). These branches are located in or near Battle Creek, Bay City and Saginaw, Michigan. As a result of this transaction, we received \$210.1 million of cash. We used the proceeds from this transaction primarily to payoff higher costing short term borrowings and Brokered CDs. The acquisition of these branches resulted in an increase in non-interest income, particularly service charges on deposit accounts and VISA

check card interchange income during the last nine months of 2007 and in 2008 and 2009. However, non-interest expenses also increased due to compensation and benefits for the employees at these branches as well as occupancy, furniture and equipment, data processing, communications, supplies and advertising expenses. As is customary in branch acquisitions, the purchase price (\$28.1 million) was based on acquired deposit balances. We also reimbursed the seller \$0.2 million for certain transaction related costs. Approximately \$10.8 million of the premium paid was recorded as deposit customer relationship value, including core deposit value and will be amortized over 15 years (the remainder of the premium paid was recorded as goodwill). We also incurred other transaction costs (primarily investment banking fees, legal fees, severance costs and data processing conversion fees) of approximately \$0.8 million, of which \$0.5 million was capitalized as part of the acquisition price and \$0.3 million was expensed. In addition, the transaction included \$3.7 million for the personal property and real estate associated with these branches. In the last quarter of 2008 we determined that all of the goodwill at our Independent Bank reporting unit, including the goodwill recorded as a part of this branch acquisition, was impaired, and we recorded a \$50.0 million goodwill impairment charge. (See "Non-interest expenses.")

In September 2007, we completed the consolidation of our four bank charters into one. The primary reasons for this bank consolidation were:

- To better streamline our operations and corporate governance structure;

- To enhance our risk management processes, particularly credit risk management through more centralized credit management functions;

- To allow for more rapid development and deployment of new products and services; and

- To improve productivity and resource utilization leading to lower non-interest expenses.

During the last half of 2007, we incurred approximately \$0.8 million of one-time expenses (primarily related to the data processing conversion and severance costs for employee positions that were eliminated) associated with this consolidation. To date, the benefit of the reductions in non-interest expenses due to the bank consolidation have been more than offset by higher loan and collection costs and increased staffing associated with the management of significantly higher levels of watch credits, non-performing loans and other real estate owned. (See "Portfolio Loans and asset quality.")



**Key Performance Ratios**

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Income (loss) from continuing operations			
Average common equity	(90.72)%	(39.01)%	3.96%
Average assets	(3.17)	(2.88)	0.31
Net income (loss) to			
Average common equity	(90.72)%	(39.01)%	4.12%
Average assets	(3.17)	(2.88)	0.32
Income (loss) per common share from continuing operations			
Basic	\$ (3.96)	\$ (4.00)	\$ 0.44
Diluted	(3.96)	(4.00)	0.44
Net income (loss) per share			
Basic	\$ (3.96)	\$ (4.00)	\$ 0.46
Diluted	(3.96)	(4.00)	0.45

*Net interest income.* Net interest income is the most important source of our earnings and thus is critical in evaluating our results of operations. Changes in our tax equivalent net interest income are primarily influenced by our level of interest-earning assets and the income or yield that we earn on those assets and the manner and cost of funding our interest-earning assets. Certain macro-economic factors can also influence our net interest income such as the level and direction of interest rates, the difference between short-term and long-term interest rates (the steepness of the yield curve) and the general strength of the economies in which we are doing business. Finally, risk management plays an important role in our level of net interest income. The ineffective management of credit risk and interest-rate risk in particular can adversely impact our net interest income.

Tax equivalent net interest income totaled \$140.8 million during 2009, compared to \$134.7 million and \$126.7 million during 2008 and 2007, respectively. We review yields on certain asset categories and our net interest margin on a fully taxable equivalent basis. This presentation is not in accordance with generally accepted accounting principles ("GAAP") but is customary in the banking industry. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources. The adjustments to determine tax equivalent net interest income were \$2.3 million, \$4.6 million and \$6.1 million in 2009, 2008 and 2007, respectively, and were computed using a 35% tax rate. The increase in tax equivalent net interest income in 2009 compared to 2008 reflects a 45 basis point rise in our tax equivalent net interest income as a percent of average interest-earning assets ("net interest margin") that was partially offset by a \$138.2 million decrease in average interest-earning assets. The increase in tax equivalent net interest income in 2008 compared to 2007 reflects a 37 basis point rise in our net interest margin that was partially offset by a \$65.7 million decrease in average interest-earning assets. The decline in average interest-earning assets during 2009 and 2008 generally reflects our desire to reduce total assets in order to try to preserve our regulatory capital ratios in light of our recent losses.

From September 2007 to December 2008 the Federal Reserve Bank ("FRB") reduced the target federal funds rate from 5.25% to 0.25%, where it has since remained. In addition, the yield curve has steepened considerably. The current interest rate environment (lower short-term interest rates and steeper yield curve) has had a favorable impact on our net interest margin during 2008 and 2009 which more than offset the adverse impact of a declining level of average interest earnings assets, as described above. Our balance sheet during 2008 and much of 2009 was generally structured to benefit from lower short-term interest rates. For example, most of our Brokered CD's were callable which allowed us to call (retire) them and replace them at much lower interest rates. However, some of the benefits of the current interest rate environment are being partially offset by our increased level of non-accrual loans that create a drag on our net interest margin and tax equivalent net interest income. Average non-accrual loans totaled \$120.2 million, \$104.7 million and \$53.1 million in 2009, 2008 and 2007, respectively.

During the last half of 2009, we increased our level of lower-yielding interest bearing cash balances to augment our liquidity in response to our deteriorating financial condition (see "Liquidity and capital resources" below). In addition, due to the challenges facing Mepco (see "Noninterest expense" below), we expect the balance of finance receivables to decline by approximately 50% in 2010. These finance receivables are the highest yielding segment of our loan portfolio, with an average yield of approximately 13%. The combination of these two items (a higher level of lower-yielding interest bearing cash balances and a decline in the level of higher-yielding finance receivables) is expected to have an adverse impact on both our net interest income and net interest margin in 2010.

## Average Balances And Tax Equivalent Rates

	2009			2008			2007		
	Average Balance	Interest	Rate	Average Balance (Dollars in thousands)	Interest	Rate	Average Balance	Interest	Rate
<b>ASSETS (1)</b>									
Taxable loans	\$ 2,461,896	\$ 177,557	7.21%	\$ 2,558,621	\$ 186,259	7.28%	\$ 2,531,737	\$ 201,924	7.98%
Tax-exempt loans (2)	8,672	601	6.93	10,747	751	6.99	9,568	672	7.02
Taxable securities	111,558	6,333	5.68	144,265	8,467	5.87	179,878	9,635	5.36
Tax-exempt securities (2)	85,954	5,709	6.64	162,144	11,534	7.11	225,676	15,773	6.99
Cash interest bearing	72,606	174	0.24						
Other investments	28,304	932	3.29	31,425	1,284	4.09	26,017	1,338	5.14
Interest earning assets continuing operations	2,768,990	191,306	6.91	2,907,202	208,295	7.16	2,972,876	229,342	7.71
Cash and due from banks	55,451			53,873			57,174		
Taxable loans discontinued operations							8,542		
Other assets, net	157,762			227,969			218,553		
Total assets	\$ 2,982,203			\$ 3,189,044			\$ 3,257,145		
<b>LIABILITIES</b>									
Savings and NOW	\$ 992,529	5,751	0.58	\$ 968,180	10,262	1.06	\$ 971,807	18,768	1.93
Time deposits	1,019,624	29,654	2.91	917,403	36,435	3.97	1,439,177	70,292	4.88
Long-term debt				247	12	4.86	2,240	104	4.64
Other borrowings	394,975	15,128	3.83	682,884	26,878	3.94	205,811	13,499	6.56
Interest bearing liabilities continuing	2,407,128	50,533	2.10	2,568,714	73,587	2.86	2,619,035	102,663	3.92

operations

Demand deposits	321,802	301,117	300,886
Time deposits			
discontinued operations			6,166
Other liabilities	80,281	79,929	79,750
Shareholders' equity	172,992	239,284	251,308
Total liabilities and shareholders' equity	\$ 2,982,203	\$ 3,189,044	\$ 3,257,145
Net interest income	\$ 140,773	\$ 134,708	\$ 126,679
Net interest income as a percent of average interest earning assets	5.08%	4.63%	4.26%

(1) All domestic, except for \$5.1 million of finance receivables in 2009 included in taxable loans from customers domiciled in Canada.

(2) Interest on tax-exempt loans and securities is presented on a fully tax equivalent basis assuming a marginal tax rate of 35%.

**Change in Tax Equivalent Net Interest Income**

	2009 Compared to 2008			2008 Compared to 2007		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Increase (decrease) in interest income (1, 2)						
Taxable loans	\$ (6,989)	\$ (1,713)	\$ (8,702)	\$ 2,124	\$ (17,789)	\$ (15,665)
Tax-exempt loans (3)	(144)	(6)	(150)	82	(3)	79
Taxable securities	(1,865)	(269)	(2,134)	(2,031)	863	(1,168)
Tax-exempt securities (3)	(5,105)	(720)	(5,825)	(4,515)	276	(4,239)
Cash interest bearing	174	0	174			
Other investments	(119)	(233)	(352)	249	(303)	(54)
<b>Total interest income</b>	<b>(14,048)</b>	<b>(2,941)</b>	<b>(16,989)</b>	<b>(4,091)</b>	<b>(16,956)</b>	<b>(21,047)</b>
Increase (decrease) in interest expense (1)						
Savings and NOW	252	(4,763)	(4,511)	(70)	(8,436)	(8,506)
Time deposits	3,740	(10,521)	(6,781)	(22,342)	(11,515)	(33,857)
Long-term debt	(12)	0	(12)	(97)	5	(92)
Other borrowings	(11,046)	(704)	(11,750)	20,619	(7,240)	13,379
<b>Total interest expense</b>	<b>(7,066)</b>	<b>(15,988)</b>	<b>(23,054)</b>	<b>(1,890)</b>	<b>(27,186)</b>	<b>(29,076)</b>
<b>Net interest income</b>	<b>\$ (6,982)</b>	<b>\$ 13,047</b>	<b>\$ 6,065</b>	<b>\$ (2,201)</b>	<b>\$ 10,230</b>	<b>\$ 8,029</b>

- (1) The change in interest due to changes in both balance and rate has been allocated to change due to balance and change due to rate in proportion to the relationship of the absolute dollar amounts of change in each.
- (2) All domestic, except for \$0.5 million of interest income in 2009 on finance receivables included in taxable loans from customers domiciled in Canada.

- (3) Interest on tax-exempt loans and securities is presented on a fully tax equivalent basis assuming a marginal tax rate of 35%.

**Composition of Average Interest Earning Assets and Interest Bearing Liabilities**

	Year Ended December 31,		
	2009	2008	2007
As a percent of average interest earning assets			
Loans (1)	89.2%	88.4%	85.5%
Other interest earning assets	10.8	11.6	14.5
Average interest earning assets	100.0%	100.0%	100.0%
Savings and NOW	35.8%	33.3%	32.7%
Time deposits	14.1	23.9	21.9
Brokered CDs	22.7	7.7	26.5
Other borrowings and long-term debt	14.3	23.5	7.0
Average interest bearing liabilities	86.9%	88.4%	88.1%
Earning asset ratio	92.9%	91.2%	91.3%
Free-funds ratio	13.1	11.6	11.9

- (1) All domestic, except for 0.2% of finance receivables in 2009 from customers domiciled in Canada.

*Provision for loan losses.* The provision for loan losses was \$103.0 million during 2009 compared to \$71.3 million and \$43.2 million during 2008 and 2007, respectively. Changes in the provision for loan losses reflect our assessment of the allowance for loan losses. The significant increases in the provision for loan losses over the last three years principally reflect a rise in the level of net loan charge-offs and an elevated level of non-performing loans. While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors. (See "Portfolio Loans and asset quality.")

*Non-interest income.* Non-interest income is a significant element in assessing our results of operations. On a long-term basis we are attempting to grow non-interest income in order to diversify our revenues within the financial services industry. We regard net gains on mortgage loan sales as a core recurring source of revenue but they are quite cyclical and volatile. We regard net gains (losses) on securities as a "non-operating" component of non-interest income. As a result, we believe it is best to evaluate our success in growing non-interest income and diversifying our revenues by also comparing non-interest income when excluding net gains (losses) on assets (mortgage loans and securities).

Non-interest income totaled \$58.7 million during 2009 compared to \$29.7 million and \$47.1 million during 2008 and 2007, respectively. Excluding net gains and losses on mortgage loans and securities, non-interest income grew by 11.5% to \$44.1 million during 2009 and declined by 9.3% to \$39.5 million during 2008. These variances are primarily due to changes in the valuation allowance related to capitalized mortgage loan servicing rights.

### Non-Interest Income

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Service charges on deposit accounts	\$ 24,370	\$ 24,223	\$ 24,251
Net gains (losses) on assets			
Mortgage loans	10,860	5,181	4,317
Securities	3,826	(14,795)	295
Other than temporary loss on securities available for sale			
Total impairment loss	(4,073)	(166)	(1,000)
Loss recognized in other comprehensive loss	3,991		
Net impairment loss recognized in earnings	(82)	(166)	(1,000)
VISA check card interchange income	5,922	5,728	4,905
Mortgage loan servicing	2,252	(2,071)	2,236
Mutual fund and annuity commissions	2,017	2,207	2,072
Bank owned life insurance	1,615	1,960	1,830
Title insurance fees	2,272	1,388	1,551
Other	5,607	6,066	6,688
Total non-interest income	\$ 58,659	\$ 29,721	\$ 47,145

Service charges on deposit accounts totaled \$24.4 million during 2009, compared to \$24.2 million and \$24.3 million during 2008 and 2007, respectively. The overall level of service charges on deposits has remained relatively consistent for the past three years. In late 2009 the Federal Reserve Board adopted rules that will require a written opt-in from customers before a bank can assess overdraft fees on ATM or debit card transactions. These rules are effective July 1, 2010. We believe that such legislation will have an adverse impact on our present level of service charges on deposits accounts.

We realized net gains of \$10.9 million on the sale of mortgage loans during 2009, compared to \$5.2 million and \$4.3 million during 2008 and 2007 respectively. Effective January 1, 2008, we implemented fair value accounting for mortgage loans held for sale and on commitments to originate mortgage loans.

The volume of loans sold is dependent upon our ability to originate mortgage loans as well as the demand for fixed-rate obligations and other loans that we cannot profitably fund within established interest-rate risk parameters. (See "Portfolio Loans and asset quality.") Net gains on mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates and thus can often be a volatile part of our overall revenues. In 2009, mortgage loan origination and sales volumes increased from 2008 and 2007 reflecting generally lower interest rates that led to a significant increase in refinance volumes. Additionally, new tax credits for first-time home buyers during 2009 also spurred home sales and hence mortgage loan origination volume. These positive factors were partially offset by weak economic conditions, lower home values and more stringent underwriting criteria required by the secondary mortgage market, which reduced the number of applicants being approved for mortgage loans.



**Mortgage Loan Activity**

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>		
Mortgage loans originated	\$ 576,018	\$ 368,517	\$ 507,211
Mortgage loans sold	540,713	267,216	288,826
Mortgage loans sold with servicing rights released	55,495	51,875	47,783
Net gains on the sale of mortgage loans	10,860	5,181	4,317
Net gains as a percent of mortgage loans sold	2.01%	1.94%	1.49%
Fair value adjustments included in the Loan Sales Margin	0.07	0.36	(0.06)

Net gains as a percentage of mortgage loans sold (our "Loan Sales Margin") are impacted by several factors including competition and the manner in which the loan is sold (with servicing rights retained or released). Our decision to sell or retain real estate mortgage loan servicing rights is primarily influenced by an evaluation of the price being paid for mortgage loan servicing by outside third parties compared to our calculation of the economic value of retaining such servicing. The sale of mortgage loan servicing rights may result in declines in mortgage loan servicing income in future periods. Gains on the sale of mortgage loans were also impacted by recording fair value accounting adjustments. Excluding the aforementioned accounting adjustments, the Loan Sales Margin would have been 1.94% in 2009, 1.58% in 2008 and 1.55% in 2007. The improved Loan Sales Margin in 2009 was generally due to more favorable competitive conditions in 2009 as many mortgage brokers left the market during 2008.

We generated securities net gains of \$3.7 million in 2009. The 2009 securities net gains were primarily due to increases in the fair value and gains on the sale of our Bank of America preferred stock as well as gains on the sale of municipal securities. We sold all of our Bank of America preferred stock in June 2009. The 2009 gains were partially offset by \$0.1 million of other than temporary impairment recognized on one private label mortgage-backed security and one trust preferred security.

We incurred securities net losses of \$15.0 million in 2008. These net losses were comprised of \$7.7 million of losses from the sale of securities, \$2.8 million of unrealized losses related to declines in the fair value of trading securities that were still being held at year-end, \$0.2 million of other than temporary impairment charges and a \$6.2 million charge related to the dissolution of a security as described below. These losses were partially offset by \$1.9 million of gains on sales of securities (primarily municipal securities sales). 2008 was an unusual year as we historically have not incurred any significant net losses on securities. We elected, effective January 1, 2008, to measure the majority of our preferred stock investments at fair value. As a result of this election, we recorded an after tax cumulative reduction of \$1.5 million to retained earnings associated with the initial adoption of fair value accounting for these preferred stocks. This preferred stock portfolio included issues of Fannie Mae, Freddie Mac, Merrill Lynch and Goldman Sachs. During 2008 we recorded unrealized net losses on securities of \$2.8 million related to the decline in fair value of the preferred stocks that were still being held at year end. We also recorded realized net losses of \$7.6 million on the sale

of several of these preferred stocks. The 2008 securities net losses also include a write down of \$6.2 million (from a par value of \$10.0 million to a fair value of \$3.8 million) related to the dissolution of a money-market auction rate security and the distribution of the underlying Bank of America preferred stock. The conservatorship of Fannie Mae and Freddie Mac in September 2008 resulted in the market values of the preferred stocks issued by these entities plummeting to low single digit prices per share. Prices on other preferred stocks that we owned also declined sharply as the market for these securities came under considerable stress. These were the primary factors leading to the large securities losses that we incurred during 2008.

The \$0.7 million of securities net losses in 2007 include \$1.0 million of other than temporary impairment charges. These charges related to Fannie Mae and Freddie Mac preferred stocks. We also recorded securities gains of approximately \$0.3 million in 2007 primarily related to the sale of municipal securities.

**GAINS AND LOSSES ON SECURITIES**

	<b>Proceeds</b>	<b>Year Ended December 31,</b>		<b>Net</b>
		<b>Gains</b>	<b>Losses(1)</b>	
2009	\$ 43,525	\$ 3,957	\$ 213	\$ 3,744
2008	80,348	1,903	16,864	(14,961)
2007	61,520	327	\$ 1,032	(705)

- (1) Losses in 2009 include \$.08 million of other than temporary impairment charges while losses in 2008 include a \$6.2 million write-down related to the dissolution of a money-market auction rate security and the distribution of the underlying preferred stock, \$0.2 million of other than temporary impairment charges and \$2.8 million of losses recognized on trading securities still held at December 31, 2008 while losses in 2007 include \$1.0 million of other than temporary impairment charges.

VISA check card interchange income increased to \$5.9 million in 2009 compared to \$5.7 million in 2008 and \$4.9 million in 2007. The significant increase in 2009 and 2008 compared to 2007 is primarily due to the aforementioned branch acquisition (which occurred in March 2007). In addition, these results are also due to increases in the size of our card base due to growth in checking accounts as well as increases in the frequency of use of our VISA check card product by our customer base.

Mortgage loan servicing generated revenue of \$2.3 million and \$2.2 million in 2009 and 2007, respectively and an expense of \$2.1 million in 2008. These yearly comparative variances are primarily due to changes in the valuation allowance on capitalized mortgage loan servicing rights and the level of amortization of this asset. The period end valuation allowance is based on the valuation of the mortgage loan servicing portfolio and the amortization is primarily impacted by prepayment activity. In particular, mortgage loan interest rates declined significantly in December 2008 resulting in higher estimated future prepayment rates and a significant increase in the valuation allowance at the end of that year.

**Capitalized Mortgage Loan Servicing Rights**

<b>2009</b>	<b>2008</b>	<b>2007</b>
-------------	-------------	-------------

(In thousands)

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Balance at January 1,	\$ 11,966	\$ 15,780	\$ 14,782
Originated servicing rights capitalized	5,213	2,405	2,873
Amortization	(4,255)	(1,887)	(1,624)
(Increase)/decrease in valuation allowance	2,349	(4,332)	(251)
Balance at December 31,	\$ 15,273	\$ 11,966	\$ 15,780
Valuation allowance at December 31,	\$ 2,302	\$ 4,651	\$ 319

At December 31, 2009 we were servicing approximately \$1.73 billion in mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of 5.73% and a weighted average service fee of approximately 26 basis points. Remaining capitalized mortgage loan servicing rights at December 31, 2009 totaled \$15.3 million, representing approximately 89 basis points on the related amount of mortgage loans serviced for others. The capitalized mortgage loan servicing had an estimated fair market value of \$16.3 million at December 31, 2009.

Mutual fund and annuity commissions totaled \$2.0 million, \$2.2 million and \$2.1 million in 2009, 2008 and 2007, respectively. The decline in 2009 generally reflects difficult market conditions and reduced commission payouts on certain annuity products. The increase in 2008 is due to higher sales of these products as a result of growth in the number of our licensed sales representatives.

In August 2002 we acquired \$35.0 million in separate account bank owned life insurance on which we earned \$1.6 million, \$2.0 million and \$1.8 million in 2009, 2008 and 2007, respectively, principally as a result of increases in cash surrender value. Our separate account is primarily invested in agency mortgage-backed securities. The reduced crediting rate in 2009 generally reflects lower interest rates on mortgage-backed securities. The total cash surrender value of our bank owned life insurance was \$46.5 million and \$44.9 million at December 31, 2009 and 2008, respectively.

Title insurance fees totaled \$2.3 million in 2009, \$1.4 million in 2008 and \$1.6 million in 2007. The fluctuation in title insurance fees is primarily a function of the level of mortgage loans that we originated. The growth in 2009 reflects a significant increase in mortgage loan refinance volume.

Other non-interest income totaled \$5.6 million, \$6.1 million and \$6.7 million in 2009, 2008 and 2007, respectively. 2009 other non-interest income includes \$1.0 million related to foreign currency transaction gains associated with Canadian dollar denominated finance receivables. The Canadian dollar appreciated significantly compared to the U.S. dollar during 2009. Total Canadian dollar denominated finance receivables had declined to \$1.7 million at December 31, 2009. As a result, we would expect future foreign currency transaction gains or losses to be relatively minor. These foreign currency transaction gains were substantially offset by the change in the results of our private mortgage reinsurance captive in 2009. Our private mortgage reinsurance captive incurred a loss of \$0.6 million in 2009 compared to income of \$0.4 million and \$0.3 million in 2008 and 2007, respectively. The 2009 loss reflects increased mortgage loan defaults and lower real estate values which lead to higher private mortgage insurance claims. 2008 other non-interest income included revenue of \$0.4 million from the redemption of 8,551 shares of Visa, Inc. Class B Common Stock as part of the Visa initial public offering. Other non-interest income also includes zero, \$0.1 million and \$0.5 million in 2009, 2008 and 2007, respectively, of fee income from our MoneyGram official checks program. This fee income is determined largely by the level of short-term interest rates. The very low short term interest rates have currently eliminated this source of revenue. Finally, 2007 also included \$0.3 million of income from interest rate swap or interest rate cap termination fees.

*Non-interest expense.* Non-interest expense is an important component of our results of operations. Historically, we primarily focused on revenue growth, and while we strive to efficiently manage our cost structure, our non-interest expenses generally increased from year to year because we expanded our operations through acquisitions and by opening new branches and loan production offices. Because of the current challenging economic environment that we are confronting, our expansion through acquisitions or by opening new branches is unlikely in the near term. Further, management is focused on a number of initiatives to reduce and contain non-interest expenses.

Non-interest expense totaled \$187.6 million during 2009, compared to \$177.2 million and \$115.7 million during 2008 and 2007, respectively. 2009 non-interest expense includes \$31.2 million for vehicle service contract counterparty contingencies and a \$16.7 million goodwill impairment charge. 2008 non-interest expense includes a \$50.0 million goodwill impairment charge. 2007 non-interest expense includes \$1.7 million of severance and other (primarily data processing and legal and professional fees) expenses associated with the aforementioned bank consolidation and staff reductions and \$0.3 million of goodwill impairment charges. In addition, the aforementioned branch acquisition resulted in increases in several categories of non-interest expenses in 2009 and 2008 compared to 2007. Loan and collection costs and losses on other real estate and repossessed assets have also increased reflecting higher levels of non-performing loans and other real estate.

## Non-Interest Expense

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Compensation	\$ 40,053	\$ 40,181	\$ 40,373
Performance-based compensation and benefits	2,889	4,861	4,979
Other benefits	10,061	10,137	10,459

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Compensation and benefits	53,003	55,179	55,811
Vehicle service contract counterparty contingencies	31,234	966	
Loan and collection	14,727	9,431	4,949
Occupancy, net	11,092	11,852	10,624
Loss on other real estate and repossessed assets	8,554	4,349	276
Data processing	8,386	7,148	6,957
Deposit Insurance	7,328	1,988	628
Furniture, fixtures and equipment	7,159	7,074	7,633
Credit card and bank service fees	6,608	4,818	3,913
Advertising	5,696	5,534	5,514
Communications	4,424	4,018	3,809
Legal and professional	3,222	2,032	1,978
Amortization of intangible assets	1,930	3,072	3,373
Supplies	1,835	2,030	2,411
Goodwill impairment	16,734	50,020	343
Other	5,655	7,639	7,505
Total non-interest expense	\$ 187,587	\$ 177,150	\$ 115,724

The decline in total compensation and benefits is primarily due to a reduction in performance based compensation. In addition, the deferral (as direct loan origination costs) of compensation and benefits has increased in 2009 as a result of the rise in mortgage loan origination activity. These compensation cost reductions were partially offset by additional staff added during 2009 to manage non-performing assets and loan collections. The reduction in performance based compensation reflects our near-term financial performance. In 2009, no employee stock ownership contribution was made and no bonuses were paid. In addition, executive and senior officer salaries were frozen at 2008 levels for 2009. In 2008, no executive officer bonuses were paid. Salaries in 2007 also include \$1.1 million of severance costs from staff reductions associated with the bank consolidation as well as downsizing initiatives.

We maintain performance-based compensation plans. In addition to commissions and cash incentive awards, such plans include an employee stock ownership plan and a long-term equity based incentive plan. The amount of expense recognized in 2009, 2008 and 2007 for share-based awards under our long-term equity based incentive plan was \$0.8 million, \$0.6 million and \$0.3 million, respectively.

For 2010, no salary increases were granted for employees, the employee stock ownership contribution will again be eliminated and the match of employees' 401(k) plan contributions is also being eliminated.

We recorded an expense of \$31.2 million and \$1.0 million for vehicle service contract counterparty contingencies in 2009 and 2008, respectively (no such expense was recorded in 2007). This expense relates to Mepco's business activities.

Mepco purchases payment plans, on a full recourse basis, from companies (which we refer to as Mepco's "counterparties") that provide vehicle service contracts and similar products to consumers. The payment plans (which are classified as finance receivables in our consolidated statements of financial condition) permit a consumer to purchase a service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the "counterparties"). Mepco does not evaluate the creditworthiness of the individual customer but instead primarily relies on the payment plan collateral (the unearned vehicle service contract and unearned sales commission) in the event of default. When consumers stop making payments or exercise their right to voluntarily cancel the contract, the remaining unpaid balance of the payment plan is normally recouped by Mepco from the counterparties that sold the contract and provided the coverage. The refund obligations of these counterparties are not fully secured. We record losses, included in non-interest expenses, for estimated defaults by these counterparties in their recourse obligations to Mepco.

Over 40% of the payment plans currently held by Mepco were purchased from a single counterparty. Recently, this counterparty has experienced decreased sales (and eventually stopped all new sales efforts in December of 2009) and significantly increased levels of customer cancellations. In addition, this counterparty is subject to a multi-state attorney general investigation and multiple civil lawsuits (including class action lawsuits) regarding certain of its business practices. These events have increased costs for the counterparty, putting further pressure on its cash flow and profitability. This counterparty filed bankruptcy on March 1, 2010.

Mepco is actively working to reduce its credit exposure to this counterparty. The amount of payment plans (finance receivables) purchased from this counterparty and outstanding at December 31, 2009 totaled approximately \$206.1 million. In addition, as of December 31, 2009, this counterparty owes Mepco \$16.2 million for previously cancelled payment plans. The bankruptcy of this counterparty is likely to lead to substantial potential losses as this entity will not be in a position to honor its recourse obligations on payment plans that Mepco has purchased which are cancelled prior to payment in full. Mepco will seek to recover amounts owed by the 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 a \$19.0 million expense (as part of vehicle

service contract counterparty contingencies that is included in non-interest expense) to establish a reserve for losses related to this counterparty. In calculating the amount of this reserve, we made a number of assumptions. If actual results differ from any one or more of these assumptions, the amount of this reserve may be too low and we may incur losses above the amount reserved. Please see "Risk Factors" above.

In addition, several of these vehicle service contract marketers, including the counterparty described above 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 but there have also been class action and other private lawsuits filed. In some cases, the companies have been placed into receivership or have discontinued 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. In addition to the \$19.0 million expense described above, Mepco recorded an additional \$12.2 million of expense in 2009 for the default by other counterparties in their recourse obligations to Mepco. These charges are being classified in non-interest expense because they are associated with a default or potential default of a contractual obligation under our counterparty contracts as opposed to loss on the administration of the payment plan itself. Our estimate of probable losses from vehicle service contract counterparty contingencies requires a significant amount of judgment because a number of factors can influence the amount of loss that we 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 the amount collected from counterparties in connection with their contractual recourse obligations. We apply a rigorous process, based upon observable contract activity and past experience, to estimate probable 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, we could record future losses associated with vehicle service contract counterparty contingencies that may be significantly different than the levels that we recorded in 2009.



The above described 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. Second, these events have negatively affected sales and customer cancellations in the industry, which has had and is expected to continue to have a negative impact on the profitability of Mepco's business. As a result of these events and expected declines in Mepco's future profitability, in 2009, we wrote down all of the \$16.7 million of goodwill associated with Mepco. 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. As of December 31, 2009, the net finance receivables held by Mepco represented approximately 13.7% of our consolidated total assets. We expect that the amount of total payment plans (finance receivables) held by Mepco will decline by approximately 50% in 2010, due to the loss of business from the above described counterparty as well as our desire to reduce finance receivables as a percentage of total assets. This decline in finance receivables is expected to adversely impact our net interest income and net interest margin.

Loan and collection expenses primarily reflect collection costs related to non-performing or delinquent loans. The sharp rise in these expenses in 2009 and 2008, reflects our elevated level of non-performing loans and other real estate.

Occupancy expenses, net, totaled \$11.1 million, \$11.9 million and \$10.6 million in 2009, 2008 and 2007, respectively. A portion of the increase in 2009 and 2008, is due to the above described branch acquisition that occurred in March 2007. In addition, we closed several loan production offices in 2008 and occupancy expenses in that year include \$0.2 million of costs associated with such office closings.

Loss on other real estate and repossessed assets primarily represents the loss on the sale or additional write downs on these assets subsequent to the transfer of the asset from our loan portfolio. This transfer occurs at the time we acquire the collateral that secured the loan. At the time of acquisition, the real estate or other repossessed asset is valued at fair value, less estimated costs to sell, which becomes the new basis for the asset. Any write-downs at the time of acquisition are charged to the allowance for loan losses. The significant increase in loss on other real estate and repossessed assets in 2009 and 2008 compared to earlier years is primarily due to declines in the value of these assets subsequent to the acquisition date. These declines in value have been accentuated by the high inventory of foreclosed homes for sale in many of our markets as well as Michigan's weak economic conditions.

Data processing and communications expenses all generally increased over the periods presented as a result of the growth of the organization and from the branch acquisition. In addition, 2009 data processing expense includes \$0.6 million related to a revenue enhancement project performed by our core data processing company.

Deposit insurance expense increased substantially in 2009, compared to the prior periods reflecting higher rates and an industry-wide special assessment of \$1.4 million in the second quarter of 2009. This special assessment was equal to 5 basis points on total assets less 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.

As an FDIC insured institution, we are required to pay deposit insurance premium assessments to the FDIC. 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.

Furniture, fixtures and equipment expense has generally declined since 2007, due in part to cost reduction initiatives. In addition, certain fixed assets became fully depreciated in 2008 and were not replaced. The decline in supplies expense since 2007, was due in part to somewhat lower business volumes relative to 2007 and the aforementioned cost reduction initiatives.

Advertising expense was relatively comparable across all years and primarily represents direct mail costs for our high performance checking program, costs associated with our VISA debit card rewards program and media advertising.

Credit card and bank service fees increased in each year presented primarily due to growth in the number of vehicle service contract payment plans being administered by Mepco. As described above, we expect payment plans at Mepco to decline in 2010, and would therefore expect these expenses to eventually decline as well.

Legal and professional fees increased substantially in 2009, over 2008 and 2007 levels due primarily to increased legal expenses associated with the issues described above related to Mepco and due to various regulatory matters and increased third-party costs principally associated with external reviews of our loan portfolio.

The amortization of intangible assets primarily relates to the branch acquisition and the amortization of the deposit customer relationship value, including core deposit value, that was acquired in this transaction.

During 2009, we recorded a \$16.7 million goodwill impairment charge at our Mepco segment. In the fourth quarter of 2009 we updated our goodwill impairment testing (interim tests had also been performed in each of the first three quarters of 2009). The results of the year end goodwill impairment testing showed that the estimated fair value of our Mepco reporting unit was now less than the carrying value of equity. The fair value of Mepco is principally based on estimated future earnings utilizing a discounted cash flow methodology. As described above and in the "Business segments" section below, Mepco recorded a substantial loss in the fourth quarter of 2009 (Mepco had been profitable during the first nine months of 2009). Further, Mepco's largest business counterparty, who accounted for nearly one-half of Mepco's payment plan business, defaulted in its obligations to Mepco and this counterparty filed

bankruptcy on March 1, 2010. These factors adversely impacted the level of Mepco's expected future earnings and hence its fair value. A step 2 analysis and valuation was performed. Based on the step 2 analysis (which involved determining the fair value of Mepco's assets, liabilities and identifiable intangibles), we concluded that goodwill was now impaired, resulting in this \$16.7 million charge.

During 2008, we recorded a \$50.0 million goodwill impairment charge. In the fourth quarter of 2008 we updated our goodwill impairment testing (interim tests had also been performed in the second and third quarters of 2008). Our common stock price dropped even further in the fourth quarter of 2008 resulting in a wider difference between our market capitalization and book value. The results of the year end goodwill impairment testing showed that the estimated fair value of our bank reporting unit was less than the carrying value of equity. This necessitated a step 2 analysis and valuation. Based on the step 2 analysis (which involved determining the fair value of our bank's assets, liabilities and identifiable intangibles) we concluded that goodwill was now impaired, resulting in this \$50.0 million charge. The remaining goodwill at December 31, 2008 of \$16.7 million was at our Mepco reporting unit and the testing performed at that time indicated that this goodwill was not impaired. Mepco had net income from continuing operations of \$10.7 million and \$5.1 million in 2008 and 2007, respectively. Based primarily on Mepco's estimated future earnings, the fair value of this reporting unit (utilizing a discounted cash flow method) was determined to be in excess of its carrying value at the end of 2008. A portion of the \$50.0 goodwill impairment charge was tax deductible and a \$6.3 million tax benefit was recorded related to this charge.

During 2007 we recorded a \$0.3 million goodwill impairment charge. This charge related to writing off the remaining goodwill associated with our mobile home lending subsidiary, First Home Financial ("FHF"), that was dissolved in June 2007.

Other non-interest expense decreased to \$5.7 million in 2009, compared to \$7.6 million in 2008, and \$7.5 million in 2007. The decrease in 2009, compared to 2008, was primarily due to a decrease in costs associated with a deferred compensation plan, travel and entertainment expenses and bank courier costs while the decrease from 2007, was primarily attributed to decreases in branch conversion costs, travel and entertainment expenses and bank courier costs.

In July 2007, the State of Michigan replaced its Single Business Tax ("SBT") with a new Michigan Business Tax ("MBT") which became effective in 2008. Financial institutions are subject to an industry-specific tax which is based on net capital. Both the MBT and the SBT are recorded in other non-interest expenses in the consolidated statements of operations. Our MBT expense was \$0.1 million and \$0.2 million in 2009 and 2008, respectively. Our SBT expense was zero in 2007.

*Income tax expense (benefit).* Income tax expense (benefit) was \$(3.2) million, \$3.1 million, and \$(1.1) million in 2009, 2008 and 2007, respectively. A valuation allowance of \$24.0 million and \$27.6 million in 2009 and 2008, respectively, on deferred tax assets, largely offset the effect of pre-tax losses. The 2009 valuation allowance is net of a \$4.1 million allocation of deferred taxes on accumulated other comprehensive income.

We assess the need for a valuation allowance against our deferred tax assets periodically. The realization of deferred tax assets (net of the recorded valuation allowance) is largely dependent upon future taxable income, future reversals of existing taxable temporary differences and the ability to carry-back losses to available tax years. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including anticipated operating results, taxable income in carry-back years, scheduled reversals of deferred tax liabilities and tax planning strategies. In 2008,

our conclusion that we needed a valuation allowance was based on a number of factors, including our declining operating performance since 2005 and our net operating loss in 2008, overall negative trends in the banking industry and our expectation that our operating results will continue to be negatively affected by the overall economic environment. As a result, we recorded a valuation allowance in 2008, of \$36.2 million on our deferred tax assets which consisted of \$27.6 million recognized as income tax expense and \$8.6 million recognized through the accumulated other comprehensive loss component of shareholders' equity. The valuation allowance against our deferred tax assets at December 31, 2008 of \$36.2 million represented our entire net deferred tax asset except for that amount which could be carried back to 2007 and recovered in cash as well as for certain deferred tax assets at Mepco that relate to state income taxes and that can be recovered based on Mepco's individual earnings. During 2009, we concluded that we needed to continue to carry a valuation allowance based on similar factors discussed above. As a result we recorded an additional net valuation allowance of \$24.0 million recognized as income tax expense (which is net of a \$4.1 million allocation of deferred taxes on the accumulated other comprehensive loss component of shareholders' equity). The valuation allowance against our deferred tax assets totaled \$60.2 million at December 31, 2009. This valuation allowance represents our entire net deferred tax asset except for certain deferred tax assets at Mepco that relate to state income taxes and that can be recovered based on Mepco's individual earnings.

Despite the valuation allowance, these deferred tax assets remain available to offset future taxable income. Our deferred tax assets will be analyzed quarterly for changes affecting the valuation allowance, which may be adjusted in future periods accordingly. In making such judgments, significant weight will be given to evidence that can be objectively verified. We will analyze changes in near-term market conditions and consider both positive and negative evidence as well as other factors which may impact future operating results in making any decision to adjust this valuation allowance.

The capital initiatives summarized above in "Introduction" and detailed below under "Liquidity and capital resources" may trigger an ownership change that would negatively affect our ability to utilize our net operating loss carryforwards and other deferred tax assets in the future. As a result, we may suffer higher-than-anticipated tax expense, and consequently lower net income and cash flow, in those future years. As of December 31, 2009, we had federal net operating loss carryforwards of approximately \$42.8 million. Companies are subject to a change of ownership test under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), that, if met, would limit the annual utilization of tax losses and credits carrying forward from pre-change of ownership periods, as well as the ability to use certain unrealized built-in losses. Generally, under Section 382, the yearly limitation on our ability to utilize such deductions will be equal to the product of the applicable long-term tax exempt rate (presently 4.16%) and the sum of the values of our common shares and of our outstanding preferred stock, immediately before the ownership change. In addition to limits on the use of net operating loss carryforwards, our ability to utilize deductions related to bad debts and other losses for up to a five-year period following such an ownership change would also be limited under Section 382, to the extent that such deductions reflect a net loss that was "built-in" to our assets immediately prior to the ownership change. At this time, we do not know whether we will be successful in completing the initiatives as proposed and therefore do not know the likelihood of experiencing a change of ownership under these tax rules.

Since we currently have a valuation allowance intended to fully offset these net operating loss carryforwards and other deferred tax assets, we do not expect these tax rules to cause a material impact to our net income or loss in the near term.

The income tax (benefit) of \$(1.1) million in 2007, and relative effective tax rate is principally attributed to tax exempt income representing a much high percentage of pre-tax income from continuing operations in that year.

Our actual federal income tax expense (benefit) is different than the amount computed by applying our statutory federal income tax rate to our pre-tax income from continuing operations primarily due to tax-exempt interest income and tax-exempt income from the increase in the cash surrender value on life insurance.

Income tax expense in the consolidated statements of operations also includes income taxes in a variety of other states due primarily to Mepco's operations. The amounts of such state income taxes were zero, \$1.0 million and \$0.4 million in 2009, 2008, and 2007, respectively.

*Discontinued operations, net of tax.* On January 15, 2007 we sold substantially all of the assets of Mepco's insurance premium finance business to PFS. We received \$176.0 million of cash that was utilized to payoff Brokered CDs and short-term borrowings at Mepco's parent company, Independent Bank. Under the terms of the sale, PFS also assumed approximately \$11.7 million in liabilities. We allocated \$4.1 million of goodwill and \$0.3 million of other intangible assets to this business. Revenues and expenses associated with Mepco's insurance premium finance business have been presented as discontinued operations in the consolidated statements of operations. Likewise, the assets and liabilities associated with this business have been reclassified to discontinued operations in the consolidated

statements of financial condition. In 2007 the \$0.4 million of income from discontinued operations relates primarily to operations during the first 15 days of January 2007 and the recovery of certain previously charged-off insurance premium finance receivables.

We have elected to not make any reclassifications in the consolidated statements of cash flows for discontinued operations. Prior to the December 2006 announced sale, our insurance premium finance business was included in the Mepco segment.

*Business segments.* Our reportable segments are based upon legal entities. We currently have two reportable segments: Independent Bank and Mepco. These business segments are also differentiated based on the products and services provided. We evaluate performance based principally on net income of the respective reportable segments.

The following table presents net income (loss) by business segment.

**Business Segments**

	Year Ended December 31,		
	2009	2008	2007(1)
Independent Bank	\$ (71,095)	\$ (92,551)	\$ 9,729
Mepco	(11,689)	10,729	5,070
Other (2)	(7,636)	(9,780)	(5,439)
Elimination	193	(62)	595
Net income (loss)	\$ (90,227)	\$ (91,664)	\$ 9,955

- (1) 2007 represents income (loss) from continuing operations after income taxes and excludes \$0.4 million of income from discontinued operations, net of income taxes.
- (2) Includes amounts relating to our parent company and certain insignificant operations.

The losses recorded by the Bank in 2009 and 2008 are primarily due to higher provisions for loan losses, loan and collection costs and losses on other real estate. The higher credit related costs reflect elevated levels of non-performing loans and loan net charge-offs. (See "Portfolio Loans and asset quality.") 2008 Bank results also included a \$50.0 million goodwill impairment charge. (See "Non-interest expense.") In addition, the Bank results included \$24.0 million and \$27.6 million in 2009 and 2008, respectively, of income tax expense for a valuation allowance against deferred tax assets. (See "Income tax expense (benefit).")

Mepco's net income had generally been increasing due to growth in finance receivables and lower short-term interest rates. However, in 2009, Mepco recorded \$31.2 million of vehicle service contract counterparty contingencies expense and a goodwill impairment charge of \$16.7 million, both as described above. (See "Non-interest expense.") All of Mepco's funding is provided by Independent Bank and is priced principally based on Brokered CD rates. It is unlikely that Mepco could obtain such favorable funding costs on its own in the open market.

**FINANCIAL CONDITION**

*Summary.* Our total assets rose slightly to \$2.97 billion at December 31, 2009 compared to \$2.96 billion at December 31, 2008. The increase in total assets primarily reflects increases in cash and cash equivalents and in prepaid FDIC deposit insurance assessments that were substantially offset by decreases in securities available for sale,



loans and goodwill. Loans, excluding loans held for sale ("Portfolio Loans") decreased \$184.0 million in 2009 as every category of loans declined except for finance receivables. Total deposits increased by \$499.3 million in 2009 principally as a result of an increase in checking and savings accounts and in Brokered CDs. Other borrowings decreased by \$410.8 million in 2009 as maturing borrowings from the FRB or Federal Home Loan Bank ("FHLB") were replaced with Brokered CDs.

*Securities.* We maintain diversified securities portfolios, which include obligations of U.S. government-sponsored agencies, securities issued by states and political subdivisions, corporate securities, mortgage-backed securities and asset-backed securities. We also invest in capital securities, which include preferred stocks and trust preferred securities. We regularly evaluate asset/liability management needs and attempt to maintain a portfolio structure that provides sufficient liquidity and cash flow. We believe that the unrealized losses on securities available for sale are temporary in nature and are expected to be recovered within a reasonable time period. We believe that we have the ability to hold securities with unrealized losses to maturity or until such time as the unrealized losses reverse. (See "Asset/liability management.")

Securities available for sale declined during 2009 and 2008 because maturities and principal payments in the portfolio were not replaced with new purchases. We also sold municipal securities during 2009 and 2008 primarily because our current tax situation (net operating loss carry forward) negates the benefit of holding tax exempt securities.

As discussed earlier, we elected effective January 1, 2008, to measure the majority of our preferred stock investments at fair value. These investments are classified as trading securities in our consolidated statements of financial condition. During 2009 we recorded unrealized net gains on trading securities of \$0.04 million related to an increase in fair value of preferred stocks and recorded realized net gains of \$0.9 million on the sale of preferred stocks. During 2008 we recorded unrealized net losses on trading securities of \$2.8 million related to a decline in fair value of the preferred stocks. We also recorded realized net losses of \$7.6 million in 2008 on the sale of several of these preferred stocks. (See "Non-Interest Income"). At December 31, 2009 we only had \$0.1 million of trading securities remaining.

We recorded other than temporary impairment charges on securities of \$0.1 million, \$0.2 million, and \$1.0 million in 2009, 2008, and 2007, respectively. The 2009 impairment charge relates to a private label mortgage-backed security and a trust preferred security issued by a small Michigan-based community bank. The 2008 impairment charge relates to this same trust preferred security. In 2007, we recorded \$1.0 million of impairment charges on Fannie Mae and Freddie Mac preferred securities. In these instances we believe that the decline in value is directly due to matters other than changes in interest rates, are not expected to be recovered within a reasonable timeframe based upon available information and are therefore other than temporary in nature. (See "Non-interest income" and "Asset/liability management.") In addition, in the fourth quarter of 2008 we recorded a write down of \$6.2 million (from a par value of \$10.0 million to a fair value of \$3.8 million) related to the dissolution of a money-market auction rate security and the distribution of the underlying Bank of America preferred stock.

**Securities**

	<b>Amortized Cost</b>	<b>Unrealized Gains                  Losses (In thousands)</b>		<b>Fair Value</b>
Securities available for sale				
December 31, 2009	\$ 171,049	\$ 3,149	\$ 10,047	164,151
December 31, 2008	231,746	3,707	20,041	215,412
December 31, 2007	363,237	6,013	5,056	364,194

We evaluate securities for other-than-temporary impairment at least quarterly and more frequently when economic or market concerns warrant such evaluation. In performing this review we consider (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the fair value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings.

For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

U.S. Agency residential mortgage-backed securities at December 31, 2009 we had five securities whose fair value is less than amortized cost. The unrealized losses are largely attributed to rising interest rates. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label residential mortgage and other asset-backed securities at December 31, 2009 we had 23 securities whose fair value is less than amortized cost. 22 of the issues are rated by a major rating agency as investment grade while one is below investment grade. Pricing conditions in the private label residential mortgage and asset-backed security markets are characterized by sporadic secondary market flow, significant implied liquidity risk premiums, a wide bid / ask spread and an absence of new issuances of similar securities. This market has been "closed" to new issuance since the third quarter of 2007. Investors in this asset class have suffered significant losses and at present, there are few active buyers for this product. During the fourth quarter of 2009, secondary market trading activity increased modestly. Prices for many securities improved. Much of this improvement is due to technical issues; namely negative new supply. One dealer reports that price improvements are generally met with increased selling which serves to mute sustained price recovery.

The unrealized losses are largely attributable to credit spread widening on these securities. The underlying loans within these securities include Jumbo (60%), Alt A (25%) and manufactured housing (15%).

	December 31,			
	2009	Net Unrealized Gain (Loss) (In thousands)	2008	Net Unrealized Gain (Loss)
	Fair Value		Fair Value	
Private label residential mortgage-backed				
Jumbo	\$ 21,718	\$ (5,749)	\$ 26,139	\$ (9,349)
Alt-A	9,257	(1,807)	10,748	(2,685)
Other asset-backed    Manufactured housing	5,505	(194)	7,421	(855)

All of the private label mortgage-backed transactions have geographic concentrations in California, ranging from 29% to 59% of the collateral pool. Typical exposure levels to California (median exposure is 43%) are consistent with overall market collateral characteristics. Six transactions have modest exposure to Florida, ranging from 5% to 11%, and one transaction has modest exposure to Arizona (5%). The underlying collateral pools do not have meaningful exposure to Nevada, Michigan or Ohio. None of the issues involve subprime mortgage collateral. Thus the impact of this market segment is only indirect, in that it has impacted liquidity and pricing in general for private label mortgage-backed securities. The majority of transactions are backed by fully amortizing loans. However, eight transactions have concentrations in interest only loans ranging from 31% to 94%. The structure of the mortgage and asset-backed securities portfolio provides protection to credit losses. The portfolio primarily consists of senior securities as demonstrated by the following: super senior (7%), senior (73%), senior support (12%) and mezzanine (8%). The mezzanine classes are from seasoned transactions (65 to 95 months) with significant levels of subordination (8% to 23%). Except for the additional discussion below relating to other than temporary impairment, each private label mortgage and asset-backed security has sufficient credit enhancement via subordination to reasonably assure full realization of book value. This assertion is based on a transaction level review of the portfolio. Individual security reviews include: external credit ratings, forecasted weighted average life, recent prepayment speeds, underwriting characteristics of the underlying collateral, the structure of the securitization and the credit performance of the underlying collateral. The review of underwriting characteristics considers: average loan size, type of loan (fixed or ARM), vintage, rate, FICO, loan-to-value, scheduled amortization, occupancy, purpose, geographic mix and loan documentation. The review of the securitization structure focuses on the priority of cash flows to the bond, the priority of the bond relative to the realization of credit losses and the level of subordination available to absorb credit losses. The review of credit performance includes: current period as well as cumulative realized losses; the level of severe payment problems, which includes other real estate (ORE), foreclosures, bankruptcy and 90 day delinquencies; and the level of less severe payment problems, which consists of 30 and 60 day delinquencies.

While the levels of identified payment problems increased modestly during 2009, the amount of subordination protection remains adequate. Nevertheless, the non-performing asset coverage ratio (credit subordination divided by non-performing assets) deteriorated for four structures with five bonds. This deterioration in structure accounts for the majority of the increase in unrealized loss late in 2009. All of these securities are receiving principal and interest payments. Most of these transactions are pass-through structures, receiving pro rata principal and interest payments from a dedicated collateral pool. The non-receipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.

In addition to the review discussed above, certain securities, including the one security with a rating below investment grade, were reviewed for OTTI utilizing a cash flow projection. The scope of review included securities that account for 97% of the \$7.8 million in unrealized losses. In our analysis, recovery was evaluated by discounting the expected cash flows back at the book yield. If the present value of the future cash flows is less than amortized cost, then there would be a credit loss. Our cash flow analysis forecasted cash flow from the underlying loans in each transaction and then applied these cash flows to the bonds in the securitization. The cash flows from the underlying loans considered contractual payment terms (scheduled amortization), prepayments, defaults and severity of loss given default. The analysis used dynamic assumptions for prepayments, defaults and severity. Near term prepayment assumptions were based on recently observed prepayment rates. In many cases, recently observed prepayment rates are depressed due to a sharp decline in new jumbo loan issuance. This loan market is heavily dependent upon securitization for funding, and new securitization transactions have been minimal. Our model projects that prepayment rates gradually revert to historical levels. For seasoned ARM transactions normalized prepayment rates are estimated at 15% to 25% CPR. For fixed rate collateral, the analysis considers the spread differential between the collateral and the current market rate for conforming mortgages. Near term default assumptions were based on recent default observations as well as the volume of existing real-estate owned, pending foreclosures and severe delinquencies. Default levels generally are projected to remain elevated or increase for a period of time sufficient to address the level of distressed loans in the transaction. Our model expects defaults to then decline gradually as the housing market and the economy stabilize, generally after 2 to 3 years. Current severity assumptions are based on recent observations. Loss severity is expected to decline gradually as the housing market and the economy stabilize, generally after 2 to 3 years. Except for one below investment grade security discussed in further detail below, our cash flow analysis forecasts complete recovery of our cost basis for each reviewed security.

The private label mortgage-backed security with a below investment grade credit rating was evaluated for other than temporary impairment ("OTTI") using the cash flow analysis discussed above. At December 31, 2009 this security had a fair value of \$3.9 million and an unrealized loss of \$4.1 million (amortized cost of \$8.0 million). The underlying loans in this transaction are 30 year fixed rate jumbos with an average origination date FICO of 748 and an average origination date loan-to-value ratio of 73%. The loans backing this transaction were originated in 2007 and is our only security backed by 2007 vintage loans. We believe that this vintage is a key differentiating factor between this security and the others in our portfolio that are rated above investment grade. The bond is a senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated an OTTI of \$4.1 million at December 31, 2009, \$0.065 million of this amount was attributed to credit and was recognized in our consolidated statements of operations while the balance was attributed to other factors and reflected in our consolidated statements of other comprehensive income (loss).

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Obligations of states and political subdivisions at December 31, 2009 we had 32 municipal securities whose fair value is less than amortized cost. The unrealized losses are largely attributed to a widening of market spreads and continued illiquidity for certain issues. The majority of the securities are not rated by a major rating agency. Approximately 75% of the non rated securities originally had a AAA credit rating by virtue of bond insurance. However, the insurance provider no longer has an investment grade rating. The remaining non rated issues are small local issues that did not receive a credit rating due to the size of the transaction. The non-rated securities have a periodic internal credit review according to established procedures. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Trust preferred securities at December 31, 2009 we had six securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities over the past two years has suffered from significant credit spread widening fueled by uncertainty regarding potential losses of financial companies, the absence of a liquid functioning secondary market and potential supply concerns from financial companies issuing new debt to recapitalize themselves. Since the end of the first quarter, although still showing signs of weakness, pricing has improved somewhat as some uncertainty has been taken out of the market. Two of the six securities are rated by a major rating agency as investment grade, while two are split rated (these securities are rated as investment grade by one major rating agency and below investment grade by another) and the other two are non-rated. The two non-rated issues are relatively small banks and neither of these issues were ever rated. The issuers on these trust preferred securities, which had a combined book value of \$2.8 million and a combined fair value of \$1.8 million as of December 31, 2009, continue to make interest payments and have satisfactory credit metrics.

Our OTTI analysis for trust preferred securities is based on a security level financial analysis of the issuer. This review considers: external credit ratings, maturity date of the instrument, the scope of the bank's operations, relevant financial metrics and recent issuer specific news. The analysis of relevant financial metrics includes: capital adequacy, assets quality, earnings and liquidity. We use the same OTTI review methodology for both rated and non-rated issues. During the first quarter of 2009 we recorded OTTI on an unrated trust preferred security whose fair value at December 31, 2009 now exceeds its amortized cost. Specifically, this issuer has deferred interest payments on all of its trust preferred securities and is operating under a written agreement with the regulatory agencies that specifically prohibit dividend payments. The issuer is a relatively small bank with operations centered in southeast Michigan. The issuer reported losses in 2009 and 2008 and has a high volume of nonperforming assets relative to tangible capital. This investment's amortized cost has been written down to a price of 26.75, or \$0.07 million, compared to a par value of 100.00, or \$0.25 million.

*Portfolio Loans and asset quality.* In addition to the communities served by our bank branch network, our principal lending markets also include nearby communities and metropolitan areas. Subject to established underwriting criteria, we also historically participated in commercial lending transactions with certain non-affiliated banks and also purchased mortgage loans from third-party originators. Currently, we are not engaging in any new commercial loan participations with non-affiliated banks or purchasing any mortgage loans from third party originators.

The senior management and board of directors of our bank retain authority and responsibility for credit decisions and we have adopted uniform underwriting standards. Our loan committee structure and the loan review process, attempt to provide requisite controls and promote compliance with such established underwriting standards. There can be no assurance that the aforementioned lending procedures and the use of uniform underwriting standards will prevent us from the possibility of incurring significant credit losses in our lending activities and in fact the provision for loan losses increased during 2009 as well as in 2008 and 2007 from prior historical levels.

We generally retain loans that may be profitably funded within established risk parameters. (See "Asset/liability management.") As a result, we may hold adjustable-rate and balloon real estate mortgage loans as Portfolio Loans, while 15- and 30-year, fixed-rate obligations are generally sold to mitigate exposure to changes in interest rates. (See

"Non-interest income.")

**Loan Portfolio Composition**

	<b>2009</b>	<b>December 31,</b>	<b>2008</b>
		<b>(In thousands)</b>	
Real estate(1)			
Residential first mortgages	\$	684,567	\$ 760,201
Residential home equity and other junior mortgages		203,222	229,865
Construction and land development		69,496	127,092
Other(2)		585,988	666,876
Finance receivables		406,341	286,836
Commercial		187,110	207,516
Consumer		156,213	171,747
Agricultural		6,435	9,396
Total loans	\$	2,299,372	\$ 2,459,529

- (1) Includes both residential and non-residential commercial loans secured by real estate.
- (2) Includes loans secured by multi-family residential and non-farm, non-residential property.

Future growth of overall Portfolio Loans is dependent upon a number of competitive and economic factors. Overall loan growth has slowed during the past two years reflecting both weak economic conditions in Michigan as well as our desire to reduce certain loan categories. Construction and land development loans have been declining recently because we are seeking to shrink this portion of our Portfolio Loans due to a very poor economic climate for real estate development, particularly residential real estate. Declines in Portfolio Loans or competition that leads to lower relative pricing on new Portfolio Loans could adversely impact our future operating results.

### Non-Performing Assets

	2009	December 31, 2008	2007
	(Dollars in thousands)		
Non-accrual loans	\$ 105,965	\$ 122,639	\$ 72,682
Loans 90 days or more past due and still accruing interest	3,940	2,626	4,394
Total non-performing loans	109,905	125,265	77,076
Other real estate and repossessed assets	31,534	19,998	9,723
Total non-performing assets	\$ 141,439	\$ 145,263	\$ 86,799
As a percent of Portfolio Loans			
Non-performing loans	4.78%	5.09%	3.06%
Allowance for loan losses	3.55	2.35	1.80
Non-performing assets to total assets	4.77	4.91	2.67
Allowance for loan losses as a percent of non-performing loans	74	46	59

Non-performing loans have declined by \$15.4 million, or 12.3%, since year-end 2008. An increase in non-performing mortgage loans and consumer loans was more than offset by a decline in non-performing commercial loans. The decline in non-performing commercial loans is primarily due to net charge-offs and the payoff or other disposition of non-performing credits during 2009. Non-performing commercial loans largely reflect real estate-secured credit delinquencies caused primarily by cash flow difficulties encountered by real estate developers in Michigan as they confront a significant decline in sales. The elevated level of non-performing residential mortgage loans is primarily due to a rise in delinquencies and foreclosures reflecting both weak economic conditions and soft residential real estate values in many parts of Michigan.



Other real estate ("ORE") and repossessed assets totaled \$31.5 million at December 31, 2009, compared to \$20.0 million at December 31, 2008. This increase is the result of the migration of non-performing loans secured by real estate into ORE as the foreclosure process is completed and any redemption period expires. High foreclosure rates are evident nationwide, but Michigan has consistently had one of the higher foreclosure rates in the U.S. during the past two years. We believe that this high foreclosure rate is due to both weak economic conditions (Michigan has the highest unemployment rate in the U.S.) and declining residential real estate values (which has eroded or eliminated the equity that many mortgagors had in their home). Because the redemption period on foreclosures is relatively long in Michigan (six months to one year) and we have many non-performing loans that were in the process of foreclosure at December 31, 2009, we anticipate that our level of other real estate and repossessed assets will likely remain at elevated levels for some period of time. A high level of non-performing assets would be expected to adversely impact our tax equivalent net interest income.

We will place a loan that is 90 days or more past due on non-accrual, unless we believe the loan is both well secured and in the process of collection. Accordingly, we have determined that the collection of the accrued and unpaid interest on any loans that are 90 days or more past due and still accruing interest is probable.

**Allocation of the Allowance for Loan Losses**

	<b>2009</b>	<b>December 31, 2008 (In thousands)</b>	<b>2007</b>
Specific allocations	\$ 29,593	\$ 16,788	\$ 10,713
Other adversely rated loans	14,481	9,511	10,804
Historical loss allocations	22,777	20,270	14,668
Additional allocations based on subjective factors	14,866	11,331	9,109
<b>Total</b>	<b>\$ 81,717</b>	<b>\$ 57,900</b>	<b>\$ 45,294</b>

In determining the allowance and the related provision for credit losses, we consider four principal elements: (i) specific allocations based upon probable losses identified during the review of the loan portfolio, (ii) allocations established for other adversely rated loans, (iii) allocations based principally on historical loan loss experience, and (iv) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and/or the general terms of the loan portfolios.

The first element reflects our estimate of probable losses based upon our systematic review of specific loans. These estimates are based upon a number of objective factors, such as payment history, financial condition of the borrower, and discounted collateral exposure.

The second element reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. Loans that are rated below a certain predetermined classification are assigned a loss allocation factor for each loan classification category that is based upon a historical analysis of both the probability of default and the expected loss rate ("loss given default"). The lower the rating assigned to a loan or category, the greater the allocation percentage that is applied. For higher rated loans ("non-watch credit") we again determine a probability of default and loss given default in order to apply an allocation percentage.

The third element is determined by assigning allocations to homogeneous loan groups based principally upon the five-year average of loss experience for each type of loan. Recent years are weighted more heavily in this average. Average losses may be further adjusted based on an analysis of delinquent loans. Loss analyses are conducted at least annually.

The fourth element is based on factors that cannot be associated with a specific credit or loan category and reflects our attempt to ensure that the overall allowance for loan losses appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. We consider a number of subjective factors when

determining this fourth element, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and the general terms of the loan portfolios. (See "Provision for credit losses.")

Mepco's allowance for loan losses is determined in a similar manner as discussed above and primarily takes into account historical loss experience and other subjective factors deemed relevant to their business as described in greater detail below.

Losses associated with the administration of Mepco's payment plans are included in the provision for loan losses. Such losses totaled \$0.3 million, \$0.04 million and \$0.4 million in 2009, 2008 and 2007, respectively. Mepco's allowance for loan losses totaled \$0.8 million and \$0.5 million at December 31, 2009 and December 31, 2008, respectively. Mepco has established procedures for payment plan servicing/administration and collections, including the timely cancellation of the vehicle service contract, in order to protect our collateral position in the event of payment default or voluntary cancellation by the customer. Mepco also has established procedures to attempt to prevent and detect fraud since the payment plan origination activities and initial customer contact is entirely done through unrelated third parties (vehicle service contract administrators and sellers or automobile dealerships). 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.

The allowance for loan losses increased to 3.55% of total Portfolio Loans at December 31, 2009 from 2.35% at December 31, 2008. This increase is primarily due to increases in all of the components of the allowance for loan losses outlined above. The allowance for loan losses related to specific loans increased due to some larger reserves on some individual credits even though total non-performing commercial loans have declined since year end 2008. The allowance for loan losses related to other adversely rated loans increased primarily due to changes in the mix of commercial loan ratings. The allowance for loan losses related to historical losses increased due to higher loan net charge-offs (which was largely offset by declines in loan balances). Finally, the allowance for loan losses related to subjective factors increased primarily due to weaker economic conditions in Michigan that have contributed to elevated levels of non-performing loans and net loan charge-offs.

**Allowance for Losses on Loans and Unfunded Commitments**

	2009		2008		2007	
	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments
	(In thousands)					
Balance at beginning of year	\$ 57,900	\$ 2,144	\$ 45,294	\$ 1,936	\$ 26,879	\$ 1,881
Provision charged to operating expense	103,318	(286)	71,113	208	43,105	55
Recoveries credited to allowance	2,795		3,489		2,346	
Loans charged against the allowance	(82,296)		(61,996)		(27,036)	
Balance at end of year	\$ 81,717	\$ 1,858	\$ 57,900	\$ 2,144	\$ 45,294	\$ 1,936
Net loans charged against the allowance to average Portfolio Loans	3.28%		2.30%		0.98%	

The ratio of loan net charge-offs to average loans was 3.28% in 2009 (or \$79.5 million) compared to 2.30% in 2008 (or \$58.5 million). The rise in loan net charge-offs primarily reflects increases of \$9.3 million for commercial loans and \$10.5 million for residential mortgage loans. These increases in loan net charge-offs primarily reflect elevated levels of non-performing loans and lower collateral liquidation values, particularly on residential real estate or real estate held for development. We do not believe that the elevated level of total loan net charge-offs in 2009 is indicative of what we will experience in the future. Loan net charge-offs have moderated during 2009 with \$48.4 million in the first six months compared to \$31.1 million in the last six months. The majority of the loan net charge-offs in the first part of 2009 related to commercial loans and in particular several land or land development loans (due to significant drops in real estate values) and one large commercial credit (which defaulted in March 2009). Land and land development loans now total just \$59.8 million (or 2.0% of total assets) and approximately 56% of these loans are already in non-performing or watch credit status and the entire portfolio has been carefully evaluated and an appropriate allowance or charge-off has been recorded. Further, the commercial loan portfolio is thoroughly analyzed each quarter through our credit review process and an appropriate allowance and provision for loan losses is recorded based on such review and in light of prevailing market conditions.

We took a variety of steps beginning in 2007 (and which continued throughout 2008 and 2009) to address the credit issues identified above (elevated levels of watch credits, non-performing loans and other real estate and repossessed assets), including the following:

An enhanced quarterly watch credit review process to proactively manage higher risk loans.

Loan risk ratings are independently assigned and structure recommendations made upfront by our credit officers.

A Special Assets Group has been established to provide more effective management of our most troubled loans. A select group of law firms supports this team, providing professional advice and systemic feedback.

An independent loan review function provides portfolio/individual loan feedback to evaluate the effectiveness of processes by market.

Management (incentive) objectives for each commercial lender and senior commercial lender emphasize credit quality in addition to profitability.

Portfolio concentrations are monitored with select loan types encouraged and other loan types (such as residential real estate development) requiring significantly higher approval authorities.

*Deposits and borrowings.* Our competitive position within many of the markets served by our branch network limits our ability to materially increase deposits without adversely impacting the weighted-average cost of core deposits. Accordingly, we principally compete on the basis of convenience and personal service, while employing pricing tactics that are intended to enhance the value of core deposits.

To attract new core deposits, we have implemented a high-performance checking program that utilizes a combination of direct mail solicitations, in-branch merchandising, gifts for customers opening new checking accounts or referring business to our bank and branch staff sales training. This program has historically generated increases in customer relationships as well as deposit service charges. Over the past two to three years we have also expanded our treasury management products and services for commercial businesses and municipalities or other governmental units and have also increased our sales calling efforts in order to attract additional deposit relationships from these sectors. Despite these efforts our historic core deposit growth has not kept pace with the historic growth of our Portfolio Loans. We view long-term core deposit growth as a significant challenge. Core deposits generally provide a more stable and lower cost source of funds than alternative sources such as short-term borrowings. As a result, the continued funding of Portfolio Loans with alternative sources of funds (as opposed to core deposits) may erode certain of our profitability measures, such as return on assets, and may also adversely impact our liquidity. (See "Liquidity and capital resources.")

During the fourth quarter of 2009 we prepaid estimated quarterly deposit insurance premium assessments to the FDIC for periods through the fourth quarter of 2012. These estimated quarterly deposit insurance premium assessments were based on projected deposit balances over the assessment periods. The prepaid deposit insurance premium assessments totaled \$22.0 million at December 31, 2009 and will be expensed over the assessment period (through the fourth quarter of 2012). The actual expense over the assessment periods may be different from this prepaid amount due to various factors including variances in actual deposit balances and assessment rates used during each assessment period.

We have also implemented strategies that incorporate federal funds purchased, other borrowings and Brokered CDs to fund a portion of any increases in interest earning assets. The use of such alternate sources of funds supplements our core deposits and is also an integral part of our asset/liability management efforts.

### Alternate Sources of Funds

	Amount	2009 Average Maturity	December 31,		2008 Average Maturity	Rate
			Rate (Dollars in thousands)	Amount		
Brokered CDs(1)	\$ 629,150	2.2 years	2.46%	\$ 182,283	1.1 years	3.63%
Fixed-rate FHLB advances(1)	27,382	5.5 years	6.59	95,714	2.2 years	3.64
Variable-rate FHLB advances(1)	67,000	1.4 years	0.32	218,500	2.3 years	3.43
Securities sold under agreements to repurchase(1)	35,000	.9 years	4.42	35,000	1.9 years	4.42
FRB borrowings				189,500	.1 years	0.54
Federal funds purchased				750	1 day	0.25
Total	\$ 758,532	2.2 years	2.51%	\$ 721,747	1.4 years	2.80%

(1) Certain of these items have had their average maturity and rate altered through the use of derivative instruments, such as pay-fixed interest-rate swaps.

Other borrowings, principally advances from the Federal Home Loan Bank (the "FHLB"), borrowings from the Federal Reserve Bank (the "FRB") and securities sold under agreements to repurchase ("Repurchase Agreements"), totaled \$131.2 million at December 31, 2009, compared to \$542.0 million at December 31, 2008. The \$410.8 million decrease in other borrowed funds principally reflects the payoff of borrowings from the FRB and FHLB with funds from new Brokered CDs or from the growth in other deposits. The increase in Brokered CDs and use of these funds to pay off borrowings from the FRB and FHLB is designed to improve our liquidity profile. The Brokered CDs that we are issuing do not require any collateral and have longer maturity dates (generally two to five years). By paying off FRB and FHLB borrowings (which do require collateral), we increase our secured borrowing capacity.

As described above, we rely on wholesale funding, including FRB and FHLB borrowings and Brokered CDs to augment our core deposits to fund our business. As of December 31, 2009, our use of such wholesale funding sources amounted to approximately \$760.3 million. 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 financial condition and operations. The continued availability to us of these funding sources is uncertain, and Brokered CDs 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.

In addition, if we fail to remain "well-capitalized" under federal regulatory standards, which is likely if we are unable to successfully raise additional capital as outlined below, we will be prohibited from accepting or renewing Brokered CDs without the prior consent of the FDIC. As of December 31, 2009, we had Brokered CDs of approximately \$629.2 million. Of this amount \$185.5 million mature during 2010. As a result, any such restrictions on our ability to access Brokered CDs is likely to have a material adverse impact on our business and financial condition.

Moreover, we cannot be sure that 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 (as discussed in "Liquidity and capital resources" below) or in reaction to negative publicity we may receive as a result of the pursuit of our capital raising initiatives or, particularly, if we are unable to successfully complete such initiatives. In particular, those deposits that are currently uninsured or those deposits in the FDIC Transaction Account Guarantee Program ("TAGP"), which is set to expire on June 30, 2010, may be particularly susceptible to outflow. At December 31, 2009 we had \$65.4 million of uninsured deposits and an additional \$188.3 million of deposits in the TAGP. 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 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.

Prior to April 2008, we had an unsecured revolving credit facility and term loan (that had a remaining balance of \$2.5 million). The lender elected to not renew the \$10.0 million unsecured revolving credit facility (which matured in April 2008) and required repayment of the term loan because we were out of compliance with certain financial covenants contained within the loan documents. The \$2.5 million term loan was repaid in full in April 2008 (it would have otherwise been repaid in full in accordance with the original terms in May 2009).

We employ derivative financial instruments to manage our exposure to changes in interest rates. At December 31, 2009, we employed interest-rate swaps with an aggregate notional amount of \$160.0 million and interest rate caps with an aggregate notional amount of \$95.0 million.

*Liquidity and capital resources.* Liquidity risk is the risk of being unable to timely meet obligations as they come due at a reasonable funding cost or without incurring unacceptable losses. Our liquidity management involves the measurement and monitoring of a variety of sources and uses of funds. Our consolidated statements of cash flows categorize these sources and uses into operating, investing and financing activities. We primarily focus our liquidity management on developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for growing our investment and loan portfolios as well as to be able to respond to unforeseen liquidity needs.

Our sources of funds include our deposit base, secured advances from the FHLB, secured borrowings from the FRB, a federal funds purchased borrowing facility with another commercial bank, and access to the capital markets (for Brokered CDs).

At December 31, 2009 we had \$512.4 million of time deposits that mature in the next twelve months. Historically, a majority of these maturing time deposits are renewed by our customers or are Brokered CDs that we expect to replace. Additionally \$1.394 billion of our deposits at December 31, 2009 were in account types from which the customer could withdraw the funds on demand. Changes in the balances of deposits that can be withdrawn upon demand are usually predictable and the total balances of these accounts have generally grown or have been stable over time as a result of our marketing and promotional activities. There can be no assurance that historical patterns of renewing time deposits or overall growth in deposits will continue in the future.

In particular, media reports about bank failures have created concerns among depositors at banks throughout the country, including certain of our customers, particularly those with deposit balances in excess of deposit insurance limits. In response, the FDIC announced several programs during 2008 including increasing the deposit insurance



limit from \$100,000 to \$250,000 at least until December 31, 2013 and providing unlimited deposit insurance for balances in non-interest bearing demand deposit and certain low-interest (an interest rate of 0.50% or less) transaction accounts until June 30, 2010. We have proactively sought to provide appropriate information to our deposit customers about our organization in order to retain our business and deposit relationships. Despite these moves by the FDIC and our proactive communications efforts, the potential outflow of deposits remains as a significant liquidity risk, particularly since our recent losses and our elevated level of non-performing assets have reduced some of the financial ratings of our bank that are followed by our larger deposit customers, such as municipalities. The outflow of significant amounts of deposits could have an adverse impact on our liquidity and results of operations.

We have developed contingency funding plans that stress tests our liquidity needs that may arise from certain events such as an adverse credit event or a disaster recovery situation. Our liquidity management also includes periodic monitoring that segregates assets between liquid and illiquid and classifies liabilities as core and non-core. This analysis compares our total level of illiquid assets to our core funding. It is our goal to have core funding sufficient to finance illiquid assets.

As a result of the liquidity risks described above and in "Deposits and borrowings" we have increased our level of overnight cash balances in interest-bearing accounts to \$223.5 million at December 31, 2009 from \$0.2 million at December 31, 2008. We have also issued longer-term (two to five years) callable Brokered CDs and paid down secured borrowings to increase available funding sources. We believe these actions will assist us in meeting our liquidity needs during 2010.

In the normal course of business, we enter into certain contractual obligations. Such obligations include requirements to make future payments on debt and lease arrangements, contractual commitments for capital expenditures, and service contracts. The table below summarizes our significant contractual obligations at December 31, 2009.

**Contractual Commitments(1)**

	<b>1 Year or Less</b>	<b>1-3 Years</b>	<b>3-5 Years (In thousands)</b>	<b>After 5 Years</b>	<b>Total</b>
Time deposit maturities	\$ 512,415	\$ 399,255	\$ 257,483	\$ 2,167	\$ 1,171,320
Other borrowings	109,800	2,634	4,240	14,508	131,182
Subordinated debentures				92,888	92,888
Operating lease obligations	1,179	1,979	1,658	4,813	9,629
Purchase obligations(2)	1,469	1,958			3,427
<b>Total</b>	<b>\$ 624,863</b>	<b>\$ 405,826</b>	<b>\$ 263,381</b>	<b>\$ 114,376</b>	<b>\$ 1,408,446</b>

(1) Excludes approximately \$0.9 million of accrued tax and interest relative to uncertain tax benefits due to the high degree of uncertainty as to when, or if, those amounts would be paid.

(2) Includes contracts with a minimum annual payment of \$1.0 million and are not cancellable within one year.

Effective management of capital resources is critical to our mission to create value for our shareholders. The cost of capital is an important factor in creating shareholder value and, accordingly, our capital structure includes cumulative trust preferred securities and cumulative preferred stock.

**Capitalization**

	<b>2009</b>	<b>December 31, 2008</b>
	<b>(In thousands)</b>	
Subordinated debentures	\$ 92,888	\$ 92,888
Amount not qualifying as regulatory capital	(2,788)	(2,788)
Amount qualifying as regulatory capital	90,100	90,100

Shareholders' equity		
Preferred stock	69,157	68,456
Common stock	23,863	22,791
Capital surplus	201,618	200,687
Accumulated deficit	(169,098)	(73,849)
Accumulated other comprehensive loss	(15,679)	(23,208)
Total shareholders' equity	109,861	194,877
Total capitalization	\$ 199,961	\$ 284,977

We have four special purpose entities that have issued \$90.1 million of cumulative trust preferred securities outside of IBC. Currently, at IBC, \$41.9 million of these securities qualify as Tier 1 capital and the balance qualify as Tier 2 capital. These entities have also issued common securities and capital to IBC, that, in turn, issued subordinated debentures to these special purpose entities equal to the trust preferred securities, common securities and capital issued. The subordinated debentures represent the sole asset of the special purpose entities. The common securities, capital and subordinated debentures are included in our consolidated statements of financial condition at December 31, 2009 and 2008.

The Federal Reserve Board has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities and certain other capital elements is limited to 25 percent of Tier 1 capital elements, net of goodwill (net of any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit could be included in the Tier 2 capital, subject to restrictions.

In December 2008, we issued 72,000 shares of Series A, no par value, \$1,000 liquidation preference, fixed rate cumulative perpetual preferred stock ("Preferred Stock") and a warrant to purchase 3,461,538 shares (at \$3.12 per share) of our common stock ("Warrant") to the Treasury in return for \$72.0 million under the TARP CPP. Of the total proceeds, \$68.4 million was originally allocated to the Preferred Stock and \$3.6 million was allocated to the Warrant (included in capital surplus) based on the relative fair value of each. The \$3.6 million discount on the Preferred Stock is being accreted using an effective yield method over five years. The accretion is being recorded as part of the Preferred Stock dividend.

The Preferred Stock pays a quarterly, cumulative cash dividend at a rate of 5% per annum on the \$1,000 liquidation preference to, but excluding February 15, 2014 and at a rate of 9% per annum thereafter. We are subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. Prior to December 12, 2011, even if we are current on the payment of dividends on the Preferred Stock, we may not do either of the following without the prior written consent of the Treasury: (a) pay cash dividends on our common stock to shareholders of more than \$0.01 per share per quarter, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction; or (b) repurchase any of our common stock or redeem any of our trust preferred securities, other than certain excepted redemptions of common stock in connection with the administration of employee benefit plans in the ordinary course of business and consistent with past practice. These restrictions described in the preceding sentence expire in the event we redeem all shares of Preferred Stock or in the event the Treasury transfers all of its shares of Preferred Stock to an unaffiliated transferee. Holders of shares of the Preferred Stock have no right to exchange or convert such shares into any other securities of IBC.

The annual 5% dividend on the Preferred Stock together with the amortization of the discount will reduce net income (or increase the net loss) applicable to common stock by approximately \$4.3 million annually. The exercise price on the Warrant of \$3.12 per share is presently above both our book value per share and our tangible book value per share. If our market value per share exceeds the Warrant price, our diluted earnings per share will be reduced. However, the exercise of the Warrant would not presently be dilutive to our current book value per share.

In the fourth quarter of 2009, we took certain actions to improve our regulatory capital ratios and preserve capital and liquidity. Beginning in November of 2009, we eliminated the \$0.01 per share quarterly cash dividend on our common stock. In addition, we suspended payment of quarterly dividends on our Preferred Stock held by the Treasury. The cash dividends payable to the Treasury amount to \$3.6 million per year until December of 2013, at which time they will increase to \$6.5 million per year. Also beginning in the fourth quarter of 2009, we 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 (which are the trust preferred securities solicited for exchange in the exchange offers described herein) were also deferred. Based on current dividend rates, the cash dividends on all outstanding trust preferred securities amount to approximately \$5.4 million per year. These actions will preserve cash at IBC as we do not expect Independent Bank, our bank subsidiary, to be able to pay any cash dividends in the near term. Dividends from the bank are restricted by federal and state law and are further restricted by the Board resolutions adopted in December 2009, and described herein.

We do not have any current plans to resume dividend payments on our outstanding trust preferred securities or the outstanding shares of our Preferred Stock. We do not know if or when any such payments will resume.

The terms of the Debentures and trust indentures (the "Indentures") allow us to defer payment of interest on the Debt Securities at any time or from time to time for up to 20 consecutive quarters provided no event of default (as defined in the Indentures) has occurred and is continuing. We are not in default with respect to the Indentures, and the deferral of interest does not constitute an event of default under the Indentures. While we defer the payment of interest, we will continue to accrue the interest expense owed at the applicable interest rate. Upon the expiration of the deferral, all

accrued and unpaid interest is due and payable.

So long as any shares of Preferred Stock remain outstanding, unless all accrued and unpaid dividends for all prior dividend periods have been paid or are contemporaneously declared and paid in full, (a) no dividend whatsoever may be paid or declared on our common stock or other junior stock, other than a dividend payable solely in common stock and other than certain dividends or distributions of rights in connection with a shareholders' rights plan; and (b) neither we nor any of our subsidiaries may purchase, redeem or otherwise acquire for consideration any shares of our common stock or other junior stock unless we have paid in full all accrued dividends on the Preferred Stock for all prior dividend periods, other than purchases, redemptions or other acquisitions of our common stock or other junior stock in connection with the administration of employee benefit plans in the ordinary course of business and consistent with past practice; pursuant to a publicly announced repurchase plan up to the increase in diluted shares outstanding resulting from the grant, vesting or exercise of equity-based compensation; any dividends or distributions of rights or junior stock in connection with any shareholders' rights plan, redemptions or repurchases of rights pursuant to any shareholders' rights plan; acquisition of record ownership of common stock or other junior stock or parity stock for the beneficial ownership of any other person who is not us or one of our subsidiaries, including as trustee or custodian; and the exchange or conversion of common stock or other junior stock for or into other junior stock or of parity stock for or into other parity stock or junior stock but only to the extent that such acquisition is required pursuant to binding contractual agreements entered into before December 12, 2008 or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for common stock.

During the deferral period on the Debentures and Preferred Stock, we may not declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock. Suspension of the common stock dividend will conserve an additional \$1.0 million on an annualized basis.

In December 2009, we made a proposal to the Treasury to exchange all of the shares of the Preferred Stock for shares of our common stock with a value (based on market prices at the time of the exchange) equal to 75% of the aggregate liquidation value of the preferred stock surrendered in the exchange. The aggregate liquidation value of the Preferred Stock is \$72.0 million. As a result, if our proposal is accepted by the Treasury, it would result in us issuing the Treasury shares of our common stock with a value of \$54.0 million.

We continue to hold discussions with the Treasury regarding our proposal and continue to provide them with additional information for them to evaluate our proposal. However, we do not know at this time whether the Treasury will accept our proposal, whether they will make a counterproposal, or, if they agree to any form of an exchange, what conditions might be imposed on their participation. We also do not know the timing of when the Treasury will make its decision or whether, if the Treasury agrees to participate in an exchange, what the timing of that exchange may be.

In January 2010, we first filed the registration statement of which this prospectus is a part with the SEC. We expect to initiate the exchange offers described in this prospectus once the registration statement is declared effective by the SEC. Our timetable for initiating this exchange is late first quarter or early second quarter of 2010.

To supplement our balance sheet and capital management activities, we historically would repurchase our common stock. The level of share repurchases in a given time period generally reflected changes in our need for capital associated with our balance sheet growth and our level of earnings. The only share repurchases currently being executed are for our deferred compensation and stock purchase plan for non-employee directors. Such repurchases are funded by the director deferring a portion of his or her fees.

Shareholders' equity applicable to common stock declined to \$40.7 million at December 31, 2009 from \$126.4 million at December 31, 2008. Our tangible common equity ("TCE") totaled \$30.4 million and \$97.5 million, respectively, at those same dates. Our ratio of TCE to tangible assets was 1.03% at December 31, 2009 compared to 3.33% at December 31, 2008. We are exploring various alternatives in order to increase our TCE and regulatory capital ratios as described below. Although our regulatory capital ratios remain at levels above "well capitalized" standards, because of: (a) the losses that we have incurred in recent quarters; (b) our elevated levels of non-performing loans and other real estate; and (c) the ongoing economic stress in Michigan, we have taken or may take the following actions to improve our regulatory capital ratios and preserve liquidity at our holding company level:

Eliminated our cash dividend on our common stock;

Deferred the dividends on our Preferred Stock;

Deferred the dividends on our Debentures;

Seek to convert some or all of our Preferred Stock and/or trust preferred securities into common equity; and

Attempt to raise additional capital, including the possibility of a significant and large issuance of common stock, which could be highly dilutive to our existing shareholders.

The actions taken with respect to the payment of dividends on our capital instruments as described above will preserve cash at our bank holding company as we do not expect our bank subsidiary to be able to pay any cash dividends in the near term. Although there are no specific regulations restricting dividend payments by bank holding companies (other than State corporate laws) the FRB (our primary federal regulator) has issued a policy statement on cash dividend

payments. The FRB's view is that: "an organization experiencing earnings weaknesses or other financial pressures should not maintain a level of cash dividends that exceeds its net income, that is inconsistent with the organization's capital position, or that can only be funded in ways that may weaken the organization's financial health."

In December 2009, the Board of Directors of IBC adopted resolutions that impose the following restrictions:

We will not pay dividends on our outstanding common stock or the outstanding preferred stock held by the Treasury and we will not pay distributions on our outstanding trust preferred securities without, in each case, the prior written approval of the FRB and the Michigan Office of Financial and Insurance Regulation ("OFIR");

We will not incur or guarantee any additional indebtedness without the prior approval of the FRB;

We will not repurchase or redeem any of our common stock without the prior approval of the FRB; and

We will not rescind or materially modify any of these limitations without notice to the FRB and the Michigan OFIR.

In December 2009, the Board of Directors of Independent Bank, our subsidiary bank, adopted resolutions designed to enhance certain aspects of the bank's performance and, most importantly, to improve the bank's capital position. These resolutions require the following:

The adoption by the bank of a capital restoration plan as described below;

The enhancement of the bank's documentation of the rationale for discounts applied to collateral valuations on impaired loans and improved support for the identification, tracking, and reporting of loans classified as troubled debt restructurings;

The adoption of certain changes and enhancements to our liquidity monitoring and contingency planning and our interest rate risk management practices;

Additional reporting to the bank Board of Directors regarding initiatives and plans pursued by management to improve the bank's risk management practices;

Prior approval of the FRB and OFIR for any dividends or distributions to be paid by the bank to Independent Bank Corporation; and

Notice to the FRB and the OFIR of any rescission of or material modification to any of these resolutions.

The substance of all of the resolutions described above was developed in conjunction with discussions held with the FRB and the OFIR in response to the FRB's most recent examination report of Independent Bank, which was completed in October 2009. Based on those discussions, we acted proactively to adopt the resolutions described above to address those areas of the Bank's condition and operations that were highlighted in the examination report and that we believe most require our focus at this time. It is very possible that if we had not adopted these resolutions, the FRB and the OFIR may have imposed similar requirements on us through a memorandum of understanding or similar undertaking. We are not currently subject to any such regulatory agreement or enforcement action. However, we believe that if we are unable to substantially comply with the resolutions set forth above and if our financial condition and performance do not otherwise materially improve, we may face additional regulatory scrutiny and restrictions in the form of a memorandum of understanding or similar undertaking imposed by the regulators.

Subsequent to the adoption of the resolutions described above, the bank adopted the capital restoration plan required by the resolutions. This capital plan is described in more detail below. Other than fully implementing such capital plan and achieving the minimum capital ratios set forth in the resolutions, we believe we have already taken appropriate actions to fully comply with these Board resolutions.

In January 2010, we adopted a Capital Restoration Plan (the "Capital Plan"), as required by the Board resolutions adopted in December 2009, and described above, and submitted such Capital Plan to the FRB and the OFIR.

The primary objective of our Capital Plan is to achieve and thereafter maintain the minimum capital ratios required by the Board resolutions adopted in December 2009. As of December 31, 2009, our bank continued to meet the requirements to be considered "well-capitalized" under federal regulatory standards. However, the minimum capital ratios established by our Board are higher than the ratios required in order to be considered "well-capitalized" under federal standards. The Board imposed these higher ratios in order to ensure that we have sufficient capital to withstand potential continuing losses based on our elevated level of non-performing assets and given certain other risks and uncertainties we face. Set forth below are the actual capital ratios of our subsidiary bank as of December 31, 2009, the



minimum capital ratios imposed by the Board resolutions, and the minimum ratios necessary to be considered "well-capitalized" under federal regulatory standards:

	<b>Independent Bank Actual as of 12/31/09</b>	<b>Minimum Ratios Established by Our Board</b>	<b>Required to be Well-Capitalized</b>
Total Capital to Risk-Weighted Assets	10.36%	11.0%	10.0%
Tier 1 Capital to Average Total Assets	6.72%	8.0%	5.0%

The Capital Plan sets forth an objective of achieving these minimum capital ratios as soon as practicable, but no later than April 30, 2010, and maintaining such capital ratios through at least the end of 2012.

The Capital Plan includes projections prepared by the bank's management that reflect forecasted financial data through 2012. Those projections anticipate a need for a minimum of \$60 million of additional capital in order for us to achieve and maintain the minimum ratios established by our Board. The projections take into account the various risks and uncertainties we face. However, because the projections are based on assumptions regarding such risks and uncertainties, which assumptions may not prove to be true, the Capital Plan contains a target of \$100 million to \$125 million of additional capital to be raised by IBC.

The Capital Plan sets forth certain initiatives to be pursued in order to raise additional capital and meet the objectives of the Capital Plan. Based on discussions with the investment bankers we have retained to assist us in raising capital, our Capital Plan concludes that our best option for raising additional capital is through the sale of additional shares of our common stock in a public offering. We anticipate that all or substantially all of the proceeds of such an offering would be contributed to the capital of our bank.

In anticipation of the capital raising initiatives described in the Capital Plan, we engaged an independent third party to perform a due diligence review (a "stress test") on our commercial loan portfolio and a separate independent third party to perform a similar review of our retail loan portfolio. These independent stress tests were concluded in January 2010. Each analysis included different scenarios based on expectations of future economic conditions. We engaged these independent reviews in order to ensure that the similar analyses we had performed internally in 2009, on which we based our projections for future expected loan losses and our need for additional capital, were reasonable and did not materially understate our projected loan losses. Based on the conclusions of these third party reviews, we determined that we did not need to modify our projections used for purposes of the Capital Plan.

In addition to contemplating a public offering of our common stock for cash, the Capital Plan contemplates two other primary capital raising initiatives: (1) the exchange offers for our outstanding trust preferred securities described in this prospectus, and (2) an offer to exchange shares of our common stock for any or all of the shares of our preferred stock held by the Treasury. These two initiatives are designed to do the following:

- improve our holding company's ratio of tangible common equity (TCE) to tangible assets;

- reduce required annual interest and dividend payments by reducing the aggregate principal amount of outstanding trust preferred securities and outstanding shares of preferred stock; and

- improve our ability to successfully raise additional capital through a public offering of our common stock.

Our Capital Plan also outlines various contingency plans in case we do not succeed in raising all additional capital needed. These contingency plans include a possible further reduction in our assets (such as through a sale of branches, loans, and/or other operating divisions or subsidiaries), more significant expense reductions than those that have already been implemented and those that are currently being considered, and a sale of the bank. Because of current market conditions and based on discussions with our investment bankers and informal discussions we have held in the past with potential buyers for certain of our assets, we believe we are more likely to meet the minimum capital ratios set forth in the Capital Plan through raising new equity capital than we are through pursuing any of these contingency plans. However, the contingency plans were considered and included within the Capital Plan in recognition of the possibility that market conditions for these transactions may improve and that such transactions may be necessary or required by our regulators if we are unable to raise sufficient equity capital through the capital raising initiatives described above.

The Capital Plan concludes with a recognition that our strategy and focus for the near term will be to improve our asset quality and pursue the capital raising initiatives described above in order to strengthen our capital position.

Our bank holding company and our bank subsidiary both remain "well capitalized" (as defined by banking regulations) at December 31, 2009.

**Bank Capital Ratios**

	<b>December 31,</b>		<b>Minimum Ratio for Adequately Capitalized Institutions</b>	<b>Minimum Ratio for Well Capitalized Institutions</b>
	<b>2009</b>	<b>2008</b>		
Tier 1 capital to average assets	6.72%	8.25%	4.00%	5.00%
Tier 1 risk-based capital	9.08	10.62	4.00	6.00
Total risk-based capital	10.36	11.91	8.00	10.00

Shareholders' equity totaled \$109.9 million at December 31, 2009. The decrease from \$194.9 million at December 31, 2008 primarily reflects the loss that we incurred in 2009 that was partially offset by a decline in the accumulated other comprehensive loss. Shareholders' equity was equal to 3.70% of total assets at December 31, 2009, compared to 6.59% a year earlier.

*Asset/liability management.* Interest-rate risk is created by differences in the cash flow characteristics of our assets and liabilities. Options embedded in certain financial instruments, including caps on adjustable-rate loans as well as borrowers' rights to prepay fixed-rate loans also create interest-rate risk.

Our asset/liability management efforts identify and evaluate opportunities to structure the balance sheet in a manner that is consistent with our mission to maintain profitable financial leverage within established risk parameters. We evaluate various opportunities and alternate balance-sheet strategies carefully and consider the likely impact on our risk profile as well as the anticipated contribution to earnings. The marginal cost of funds is a principal consideration in the implementation of our balance-sheet management strategies, but such evaluations further consider interest-rate and liquidity risk as well as other pertinent factors. We have established parameters for interest-rate risk. We regularly monitor our interest-rate risk and report at least quarterly to our board of directors.

We employ simulation analyses to monitor our interest-rate risk profile and evaluate potential changes in our net interest income and market value of portfolio equity that result from changes in interest rates. The purpose of these simulations is to identify sources of interest-rate risk inherent in our balance sheet. The simulations do not anticipate any actions that we might initiate in response to changes in interest rates and, accordingly, the simulations do not provide a reliable forecast of anticipated results. The simulations are predicated on immediate, permanent and parallel shifts in interest rates and generally assume that current loan and deposit pricing relationships remain constant. The simulations further incorporate assumptions relating to changes in customer behavior, including changes in prepayment rates on certain assets and liabilities.

### Changes in Market Value of Portfolio Equity and Tax Equivalent Net Interest Income

Change in Interest Rates	Market Value of Portfolio Equity(1)	Percent Change (Dollars in thousands)	Tax Equivalent Net Interest Income(2)	Percent Change
<b>December 31, 2009</b>				
200 basis point rise	\$ 160,500	16.14%	\$ 136,900	2.55%
100 basis point rise	150,400	8.83	134,100	0.45
Base-rate scenario	138,200		133,500	
100 basis point decline	128,100	(7.31)	132,600	(0.67)
200 basis point decline	126,300	(8.61)	131,500	(1.50)
<b>December 31, 2008</b>				
200 basis point rise	\$ 202,900	(2.50)%	\$ 129,700	(4.56)%
100 basis point rise	206,500	(0.77)	132,500	(2.50)
Base-rate scenario	208,100		135,900	
100 basis point decline	204,600	(1.68)	137,900	1.47
200 basis point decline	192,400	(7.54)	134,400	(1.10)

- (1) Simulation analyses calculate the change in the net present value of our assets and liabilities, including debt and related financial derivative instruments, under parallel shifts in interest rates by discounting the estimated future cash flows using a market-based discount rate. Cash flow estimates incorporate anticipated changes in prepayment speeds and other embedded options.
- (2) Simulation analyses calculate the change in net interest income under immediate parallel shifts in interest rates over the next twelve months, based upon a static balance sheet, which includes debt and related financial derivative instruments, and do not consider loan fees.

*Management plans and expectations.* As described earlier, we have adopted the Capital Plan which includes a series of actions designed to increase our common equity capital, decrease our expenses and enable us to withstand and better respond to current market conditions and the potential for worsening market conditions. However, based on our current forecasts, even absent additional capital, our bank subsidiary is expected to remain adequately capitalized throughout 2010 and our holding company would have sufficient cash on hand to meet expected obligations during 2010. These forecasts are based upon certain assumptions, including future levels of our provision for loan losses, vehicle service contract counterparty contingencies, the level of our risk based assets and other factors, and differences between our actual results and these assumptions will impact our actual capital levels.

## **FAIR VALUATION OF FINANCIAL INSTRUMENTS**

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") topic 820 "Fair Value Measurements and Disclosures" ("FASB ASC topic 820") defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

We utilize fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. FASB ASC topic 820 differentiates between those assets and liabilities required to be carried at fair value at every reporting period ("recurring") and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances ("nonrecurring"). Trading securities, securities available-for-sale, loans held for sale, and derivatives are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a nonrecurring basis, such as loans held for investment, capitalized mortgage loan servicing rights and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets. Further, the notes to the consolidated financial statements include information about the extent to which fair value is used to measure assets and liabilities and the valuation methodologies used.

FASB ASC topic 820 established a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect management's estimates about market data.

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 instruments include securities traded on active exchange markets, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 instruments include securities traded in less active dealer or broker markets.
- Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

For assets and liabilities recorded at fair value, it is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in FASB ASC topic 820. When available, we utilize quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that use primarily market-based or independently sourced market parameters, including interest rate yield curves, prepayment speeds, and option volatilities. Substantially all of our financial instruments use either of the foregoing methodologies, collectively Level 1 and Level 2 measurements, to determine fair value adjustments recorded in our financial statements. However, in certain cases, when market observable inputs for model-based valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument. The models we use to determine fair value adjustments are periodically evaluated by management for relevance under current facts and circumstances.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in the secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we would use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement.

At December 31, 2009 and 2008, \$199.4 million (or 6.7% of total assets) and \$246.0 million (or 8.3% of total assets), respectively, consisted of financial instruments recorded at fair value on a recurring basis. At December 31, 2009, \$36.5 million of financial instruments (all private label residential mortgage-backed or other asset-backed securities) used Level 3 valuation measurements. All of the other financial instruments used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value. At December 31, 2009 and 2008, \$4.3 million (or 0.1% of total liabilities) and \$6.5 million (or 0.2% of total liabilities), respectively, consisted of financial instruments (all derivative financial instruments) recorded at fair value on a recurring basis.

At December 31, 2009 and 2008, \$88.7 million (or 3.0% of total assets) and \$69.8 million (or 2.4% of total assets), respectively, consisted of financial instruments recorded at fair value on a nonrecurring basis. All of these financial instruments (comprised of impaired loans and capitalized mortgage loan servicing rights in both 2009 and 2008 as well as other real estate in 2009) used Level 2 and Level 3 measurement valuation methodologies involving market-based or market-derived information to measure fair value. At December 31, 2009 and 2008, no liabilities were measured at fair value on a nonrecurring basis.

In addition to FASB ASC topic 820, on January 1, 2008 we also adopted FASB ASC topic 825 "Financial Instruments" ("FASB ASC topic 825") for certain financial assets. We adopted FASB ASC topic 825 for loans held for sale (that prior to January 1, 2008 were recorded at the lower of cost or market) to correspond to the accounting for the related commitments to sell these loans. We also adopted FASB ASC topic 825 for certain preferred stock investments and utilize a quoted market price (Level 1) or significant other observable inputs (Level 2).

See Note 22 to the consolidated financial statements for a complete discussion on our use of fair valuation of financial instruments and the related measurement techniques.

## LITIGATION MATTERS

We are involved in various litigation matters in the ordinary course of business and at the present time, we do not believe that any of these matters will have a significant impact on our financial condition or results of operation.

## CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Accounting and reporting policies for other than temporary impairment of investment securities, the allowance for loan losses, originated mortgage loan servicing rights, derivative financial instruments, vehicle service contract counterparty contingencies, income taxes and goodwill are deemed critical since they involve the use of estimates and require significant management judgments. Application of assumptions different than those that we have used could result in material changes in our financial position or results of operations.

We are required to assess our investment securities for "other than temporary impairment" on a periodic basis. The determination of other than temporary impairment for an investment security requires judgment as to the cause of the impairment, the likelihood of recovery and the projected timing of the recovery. The topic of other than temporary impairment has been at the forefront of discussions within the accounting profession during 2008 and 2009 because of the dislocation of the credit markets that has occurred. On January 12, 2009 the FASB issued ASC 325-40-65-1 (formerly Staff Position No. EITF 99-20-1 "Amendments to the Impairment Guidance of EITF Issue No. 99-20.") This standard has been applicable to our financial statements since December 31, 2008. In particular, this standard strikes the language that required the use of market participant assumptions about future cash flows from previous guidance. This change now permits the use of reasonable management judgment about whether it is probable that all previously projected cash flows will not be collected in determining other than temporary impairment. Our assessment process resulted in recording other than temporary impairment charges of \$0.1 million, \$0.2 million, and \$1.0 million in 2009, 2008, and 2007, respectively, in our consolidated statements of operations. Further, we did elect (effective January 1, 2008) fair value accounting pursuant to FASB ASC topic 825 for certain of our preferred stock investments. We believe that our assumptions and judgments in assessing other than temporary impairment for our investment securities are reasonable and conform to general industry practices. Prices for investment securities are largely provided by a pricing service. These prices consider benchmark yields, reported trades, broker / dealer quotes and issuer spreads. Furthermore, prices for mortgage securities consider: TBA prices, monthly payment information and collateral performance. As of December 31, 2009, the pricing service did not provide fair values for securities with a fair value of \$36.5 million. Management estimated the fair value of these securities using similar techniques including: observed prices, benchmark yields, dealer bids and TBA pricing. These estimates are subject to change and the resulting level 3 valued securities may be volatile as a result. At December 31, 2009 the cost basis of our investment securities classified as available for sale exceeded their estimated fair value at that same date by \$6.9 million (compared to \$16.3 million at December 31, 2008). This amount is included in the accumulated other comprehensive loss section of shareholders' equity.



Our methodology for determining the allowance and related provision for loan losses is described above in "Portfolio Loans and asset quality." In particular, this area of accounting requires a significant amount of judgment because a multitude of factors can influence the ultimate collection of a loan or other type of credit. It is extremely difficult to precisely measure the amount of losses that are probable in our loan portfolio. We use a rigorous process to attempt to accurately quantify the necessary allowance and related provision for loan losses, but there can be no assurance that our modeling process will successfully identify all of the losses that are probable in our loan portfolio. As a result, we could record future provisions for loan losses that may be significantly different than the levels that we recorded in 2009.

At December 31, 2009 we had approximately \$15.3 million of mortgage loan servicing rights capitalized on our balance sheet. There are several critical assumptions involved in establishing the value of this asset including estimated future prepayment speeds on the underlying mortgage loans, the interest rate used to discount the net cash flows from the mortgage loan servicing, the estimated amount of ancillary income that will be received in the future (such as late fees) and the estimated cost to service the mortgage loans. We believe the assumptions that we utilize in our valuation are reasonable based upon accepted industry practices for valuing mortgage loan servicing rights and represent neither the most conservative or aggressive assumptions. We recorded a decrease in the valuation allowance on capitalized mortgage loan servicing rights of \$2.3 million in 2009 (compared to an increase in such valuation allowance of \$4.3 million in 2008). Nearly all of our mortgage loans serviced for others at December 31, 2009 are for either Fannie Mae or Freddie Mac. Because of our current financial condition, if our bank were to fall below "well capitalized" (as defined by banking regulations) it is possible that Fannie Mae and Freddie Mac could require us to very quickly sell or transfer such 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 results of operations.

We use a variety of derivative instruments to manage our interest rate risk. These derivative instruments may include interest rate swaps, collars, floors and caps and mandatory forward commitments to sell mortgage loans. Under FASB ASC topic 815 "Derivatives and Hedging" the accounting for increases or decreases in the value of derivatives depends upon the use of the derivatives and whether the derivatives qualify for hedge accounting. At December 31, 2009 we had approximately \$160.0 million in notional amount of derivative financial instruments that qualified for hedge accounting under this standard. As a result, generally, changes in the fair market value of those derivative financial instruments qualifying as cash flow hedges are recorded in other comprehensive income. The changes in the fair value of those derivative financial instruments qualifying as fair value hedges are recorded in earnings and, generally, are offset by the change in the fair value of the hedged item which is also recorded in earnings (we currently do not have any fair value hedges). The fair value of derivative financial instruments qualifying for hedge accounting was a negative \$2.3 million at December 31, 2009.

Mepco purchases payment plans, on a full recourse basis, from companies (which we refer to as Mepco's "counterparties") that provide vehicle service contracts and similar products to consumers. The payment plans (which are classified as finance receivables in our consolidated statements of financial condition) permit a consumer to purchase a service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the "counterparties"). Mepco does not evaluate the creditworthiness of the individual customer but instead primarily relies on the payment plan collateral (the unearned vehicle service contract and unearned sales commission) in the event of default. When consumers stop making payments or exercise their right to voluntarily cancel the contract, the remaining unpaid balance of the payment plan is normally recouped by Mepco from the counterparties that sold the contract and provided the coverage. The refund obligations of these counterparties are not fully secured. We record losses, included in non-interest expenses, for estimated defaults by these counterparties in their recourse obligations to Mepco. These losses (which totaled \$31.2 million, \$1.0 million, and zero, in 2009, 2008, and 2007, respectively) are titled "vehicle service contract counterparty contingencies" in our consolidated statements of operations. This area of accounting requires a significant amount of judgment because a number of factors can influence the amount of loss that we 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 the amount collected from counterparties in connection with their contractual recourse obligations. We apply a rigorous process, based upon observable contract activity and past experience, to estimate probable 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, we could record future losses associated with vehicle service contract counterparty contingencies that may be significantly different than the levels that we recorded in 2009.

Our accounting for income taxes involves the valuation of deferred tax assets and liabilities primarily associated with differences in the timing of the recognition of revenues and expenses for financial reporting and tax purposes. At December 31, 2009 we had gross deferred tax assets of \$67.3 million, gross deferred tax liabilities of \$6.5 million and a valuation allowance of \$60.2 million (\$24.0 million of such valuation allowance was established in 2009 and \$36.2 million of which was established in 2008) resulting in a net deferred tax asset of \$0.7 million. This valuation allowance represents our entire net deferred tax asset except for certain deferred tax assets at Mepco that relate to state income taxes and that can be recovered based on Mepco's individual earnings. We are required to assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. In accordance with this standard, we reviewed our deferred tax assets and determined that based upon a number of factors including our declining operating performance since 2005 and our net loss in 2009 and 2008, overall negative trends in the banking industry and our expectation that our operating results will continue to be negatively affected by the overall economic environment, we should establish a valuation allowance for our deferred tax assets. In the last quarter of 2008, we recorded a \$36.2 million valuation

allowance, which consisted of \$27.6 million recognized as income tax expense and \$8.6 million recognized through the accumulated other comprehensive loss component of shareholders' equity and in 2009 we recorded an additional \$24.0 million valuation allowance (which is net of a \$4.1 million allocation of deferred taxes on the accumulated other comprehensive loss component of shareholders' equity). We had recorded no valuation allowance on our net deferred tax asset in prior years because we believed that the tax benefits associated with this asset would more likely than not, be realized. Changes in tax laws, changes in tax rates and our future level of earnings can impact the ultimate realization of our net deferred tax asset as well as the valuation allowance that we have established.

At December 31, 2009 we had no remaining goodwill. We test our goodwill for impairment utilizing the methodology and guidelines established in this standard. This methodology involves assumptions regarding the valuation of the business segments that contain the acquired entities. We believe that the assumptions we utilize are reasonable. During 2009, we recorded a \$16.7 million goodwill impairment charge at our Mepco segment. In the fourth quarter of 2009 we updated our goodwill impairment testing (interim tests had also been performed in each of the first three quarters of 2009). The results of the year end goodwill impairment testing showed that the estimated fair value of our Mepco reporting unit was now less than the carrying value of equity. The fair value of Mepco is principally based on estimated future earnings utilizing a discounted cash flow methodology. As described above in "Non-interest expense" and in "Business segments", Mepco recorded a loss in the fourth quarter of 2009. Further, Mepco's largest business counterparty, who accounted for nearly one-half of Mepco's payment plan business, defaulted in its obligations to Mepco and this counterparty filed bankruptcy on March 1, 2010. These factors adversely impacted the level of Mepco's expected future earnings and hence its fair value. A step 2 analysis and valuation was performed. Based on the step 2 analysis (which involved determining the fair value of Mepco's assets, liabilities and identifiable intangibles), we concluded that goodwill was now impaired, resulting in this \$16.7 million charge. During 2008, we recorded a \$50.0 million goodwill impairment charge. In the fourth quarter of 2008, we updated our goodwill impairment testing (interim tests had also been performed in the second and third quarters of 2008). Our common stock price dropped even further in the fourth quarter of 2008, resulting in a wider difference between our market capitalization and book value. The results of the year end goodwill impairment testing showed that the estimated fair value of our bank reporting unit was less than the carrying value of equity. This necessitated a step 2 analysis and valuation. Based on the step 2 analysis (which involved determining the fair value of our bank's assets, liabilities and identifiable intangibles) we concluded that goodwill was now impaired, resulting in this \$50.0 million charge.

**BUSINESS**

Independent Bank Corporation was incorporated under the laws of the State of Michigan on September 17, 1973, for the purpose of becoming a bank holding company. We are registered under the Bank Holding Company Act of 1956, as amended, and own the outstanding stock of Independent Bank which is organized under the laws of the State of Michigan. During 2007, we consolidated our existing four bank charters into one.

Aside from the stock of our bank, we have no other substantial assets. We conduct no business except for the collection of dividends from our bank and the payment of dividends to our shareholders. Certain employee retirement plans (including employee stock ownership and deferred compensation plans) as well as health and other insurance programs have been established by us. The costs of these plans are borne by our bank and its subsidiaries.

We have no material patents, trademarks, licenses or franchises except the corporate franchise of our bank which permits it to engage in commercial banking pursuant to Michigan law.

Our bank's main office location is Ionia, Michigan and it had total loans (excluding loans held for sale) and total deposits of \$2.299 billion and \$2.566 billion, respectively, at December 31, 2009.

Our bank transacts business in the single industry of commercial banking. Most of our bank's offices provide full-service lobby and drive-thru services in the communities which they serve. Automatic teller machines are also provided at most locations.

Our bank's activities cover all phases of banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing, mortgage lending and safe deposit box services. Our bank's mortgage lending activities are primarily conducted through a separate mortgage bank subsidiary. Mepco Finance Corporation, a subsidiary of our bank, acquires (on a full recourse basis) and services payment plans used by consumers to purchase vehicle service contracts and similar products provided and administered by third parties. In addition, our bank offers title insurance services through a separate subsidiary and provides investment and insurance services through a third party agreement with PrimeVest Financial Services, Inc. Our bank does not offer trust services. Our principal markets are the rural and suburban communities across lower Michigan that are served by our bank's branch network. Our bank serves its markets through its main office and a total of 105 branches, 4 drive-thru facilities and 5 loan production offices. The ongoing economic stress in Michigan has adversely impacted many of our markets, which is manifested in higher levels of loan defaults and lower demand for credit.

Our bank competes with other commercial banks, savings banks, credit unions, mortgage banking companies, securities brokerage companies, insurance companies, and money market mutual funds. Many of these competitors have substantially greater resources than we do and offer certain services that we do not currently provide. Such competitors may also have greater lending limits than our bank. In addition, non-bank competitors are generally not subject to the extensive regulations applicable to us.

Price (the interest charged on loans and/or paid on deposits) remains a principal means of competition within the financial services industry. Our bank also competes on the basis of service and convenience in providing financial services.

The principal sources of revenue, on a consolidated basis, are interest and fees on loans, other interest income and non-interest income. The sources of revenue for the three most recent years are as follows:

	2009	2008	2007
Interest and fees on loans	71.8%	80.0%	74.8%

Other interest income	4.5	7.3	7.7
Non-interest income	23.7	12.7	17.5
	100.0%	100.0%	100.0%

As of December 31, 2009, we had 1,034 full-time employees and 297 part-time employees.

### **Supervision and Regulation**

The following is a summary of certain statutes and regulations affecting us. A change in applicable laws or regulations may have a material effect on us and our bank.

#### *General*

Financial institutions and their holding companies are extensively regulated under federal and state law. Consequently, our growth and earnings performance can be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. Those authorities include, but are not limited to, the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC"), the Michigan Office of Financial and Insurance Regulation (the "Michigan OFIR"), the Internal Revenue Service, and state taxing authorities. The effect of such statutes, regulations and policies and any changes thereto can be significant and cannot be predicted.

Federal and state laws and regulations generally applicable to financial institutions and their holding companies regulate, among other things, the scope of business, investments, reserves against deposits, capital levels, lending activities and practices, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the FDIC's deposit insurance funds, our depositors, and the public, rather than our shareholders.

Federal law and regulations establish supervisory standards applicable to the lending activities of our bank, including internal controls, credit underwriting, loan documentation and loan-to-value ratios for loans secured by real property.

### *Regulatory Developments*

Emergency Economic Stabilization Act of 2008. On October 3, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008 ("EESA"). EESA enables the federal government, under terms and conditions developed by the Secretary of the United States Department of the Treasury (the "Treasury"), to insure troubled assets, including mortgage-backed securities, and collect premiums from participating financial institutions. EESA includes, among other provisions: (a) the \$700 billion Troubled Assets Relief Program ("TARP"), under which the Secretary of the Treasury is authorized to purchase, insure, hold, and sell a wide variety of financial instruments, particularly those that are based on or related to residential or commercial mortgages originated or issued on or before March 14, 2008; and (b) an increase in the amount of deposit insurance provided by the FDIC. Both of these specific provisions are discussed in the below sections.

Troubled Assets Relief Program (TARP). Under TARP, the Treasury authorized a voluntary capital purchase program ("CPP") to purchase senior preferred shares of qualifying financial institutions that elected to participate. Participating companies must adopt certain standards for executive compensation, including (a) prohibiting "golden parachute" payments as defined in EESA to senior executive officers; (b) requiring recovery of any compensation paid to senior executive officers based on criteria that is later proven to be materially inaccurate; and (c) prohibiting incentive compensation that encourages unnecessary and excessive risks that threaten the value of the financial institution. The terms of the CPP also limit certain uses of capital by the issuer, including repurchases of company stock and increases in dividends.

On December 12, 2008, we participated in the CPP and issued \$72 million in capital to the Treasury in the form of non-voting cumulative preferred stock that pays cash dividends at the rate of 5% per annum for the first five years, and then pays cash dividends at the rate of 9% per annum thereafter. In addition, the Treasury received a warrant to purchase 3,461,538 shares of our common stock at a price of \$3.12 per share. Of the total proceeds, \$68.4 million was initially allocated to the preferred stock and \$3.6 million was allocated to the warrant (included in capital surplus) based on the relative fair value of each. The exercise price for the warrant was determined based on the average of closing prices of our common stock during the 20-trading day period ended November 20, 2008, the last trading day prior to the date the Treasury approved our participation in the CPP. The warrant is exercisable, in whole or in part, over a term of 10 years.

The securities purchase agreement, dated December 12, 2008, pursuant to which the securities issued to the Treasury under the CPP were sold, limits the payment of dividends on our common stock; limits our ability to repurchase shares of common stock (with certain exceptions); grants the holders of the preferred stock, the warrant and our common stock to be issued under the warrant certain registration rights; and subjects us to the executive compensation limitations included in the EESA. Beginning in December 2009, we suspended quarterly dividends on the preferred stock issued to the Treasury in order to preserve capital. As a result of this suspension of dividends, we are currently prohibited from paying any dividends on our common stock until all accrued and unpaid dividends have been paid on the preferred stock issued to the Treasury. Even after all such accrued dividends have been paid, the securities purchase agreement we entered into with the Treasury prohibits us from paying more than a \$0.01 per share quarterly dividend without the prior approval of the Treasury until the earlier of December 12, 2011, the date we redeem all of

such preferred stock from the Treasury, or the date the Treasury transfers all such preferred stock to a transferee that is not affiliated with the Treasury.

Federal Deposit Insurance Coverage. The EESA temporarily raised the limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor and on May 20, 2009, this temporary increase in the insurance limit was extended until December 31, 2013. Separate from the EESA, in October 2008, the FDIC also announced the Temporary Liquidity Guarantee Program. Under one component of this program, the FDIC temporarily provides unlimited coverage for noninterest bearing transaction deposit accounts through June 30, 2010.

Financial Stability Plan. On February 10, 2009, the Treasury announced the Financial Stability Plan ("FSP"), which is a comprehensive set of measures intended to shore up the U.S. financial system and earmarks the balance of the unused funds originally authorized under the EESA. The major elements of the FSP include: (i) a capital assistance program that will invest in convertible preferred stock of certain qualifying institutions, (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances, (iii) a new public-private investment fund that will leverage public and private capital with public financing to purchase up to \$500 billion to \$1 trillion of legacy "toxic assets" from financial institutions, and (iv) assistance for homeowners by providing up to \$75 billion to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs.



Financial institutions receiving assistance under the FSP going forward will be subject to higher transparency and accountability standards, including restrictions on dividends, acquisitions and executive compensation and additional disclosure requirements. We cannot predict at this time the effect that the FSP may have on us or our business, financial condition or results of operations.

American Recovery and Reinvestment Act of 2009. On February 17, 2009, Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA"). In enacting the ARRA, Congress intended to provide a stimulus to the U.S. economy in light of the significant economic downturn. The ARRA includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and numerous domestic spending efforts in education, healthcare and infrastructure. The ARRA also includes numerous non-economic recovery related items, including a limitation on executive compensation in federally-aided financial institutions, including banks that have received or will receive assistance under TARP.

Under the ARRA, a financial institution will be subject to the following restrictions and standards throughout the period in which any obligation arising from financial assistance provided under TARP remains outstanding:

- Limits on compensation incentives for risk-taking by senior executive officers;
- Requirement of recovery of any compensation paid based on inaccurate financial information;
- Prohibition on "golden parachute payments" as defined in the ARRA;
- Prohibition on compensation plans that would encourage manipulation of reported earnings to enhance the compensation of employees;
- Establishment of board compensation committees by publicly-registered TARP recipients comprised entirely of independent directors, for the purpose of reviewing employee compensation plans;
- Prohibition on bonuses, retention awards, and incentive compensation, except for payments of long-term restricted stock; and
- Limitation on luxury expenditures.

In addition, TARP recipients will be required to permit a separate shareholder vote to approve the compensation of executives. The chief executive officer and chief financial officer of each TARP recipient will be required to provide a written certification of compliance with these standards to the SEC.

The foregoing is a summary of requirements to be included in standards to be established by the Secretary of the Treasury.

Homeowner Affordability and Stability Plan. On February 18, 2009, President Obama announced the Homeowner Affordability and Stability Plan ("HASP"). The HASP is intended to support a recovery in the housing market and ensure that workers can continue to pay off their mortgages through the following elements:

- Access to low-cost refinancing for responsible homeowners suffering from falling home prices;
- A \$75 billion homeowner stability initiative to prevent foreclosure and help responsible families stay in their homes; and
- Support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac.

In addition, the U.S. Government, the Federal Reserve, the Treasury, the FDIC and other governmental and regulatory bodies have taken, or may be considering taking, other actions to address the financial crisis. There can be no assurance, however, as to the actual impact of these actions on the financial markets and their potential impact on our business.

## **Independent Bank Corporation**

### *General*

We are a bank holding company and, as such, are registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act, as amended (the "BHCA"). Under the BHCA, we are subject to periodic examination by the Federal Reserve, and are required to file periodic reports of operations and such additional information as the Federal Reserve may require.

In accordance with Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to its subsidiary banks and to commit resources to support the subsidiary banks in circumstances where the bank holding company might not do so absent such policy.

In addition, if the Michigan OFIR deems a bank's capital to be impaired, the Michigan OFIR may require a bank to restore its capital by special assessment upon a bank holding company, as the bank's sole shareholder. If the bank holding company failed to pay such assessment, the directors of that bank would be required, under Michigan law, to sell the shares of bank stock owned by the bank holding company to the highest bidder at either public or private auction and use the proceeds of the sale to restore the bank's capital.

Any capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

#### *Investments and Activities*

In general, any direct or indirect acquisition by a bank holding company of any voting shares of any bank which would result in the bank holding company's direct or indirect ownership or control of more than 5% of any class of voting shares of such bank, and any merger or consolidation of the bank holding company with another bank holding company, will require the prior written approval of the Federal Reserve under the BHCA. In acting on such applications, the Federal Reserve must consider various statutory factors including the effect of the proposed transaction on competition in relevant geographic and product markets, and each party's financial condition, managerial resources, and record of performance under the Community Reinvestment Act.

In addition and subject to certain exceptions, the Change in the Bank Control Act ("Control Act") and regulations promulgated thereunder by the Federal Reserve, require any person acting directly or indirectly, or through or in concert with one or more persons, to give the Federal Reserve 60 days' written notice before acquiring control of a bank holding company. Transactions which are presumed to constitute the acquisition of control include the acquisition of any voting securities of a bank holding company having securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, if, after the transaction, the acquiring person (or persons acting in concert) owns, controls or holds with power to vote 10% or more of any class of voting securities of the institution. The acquisition may not be consummated subsequent to such notice if the Federal Reserve issues a notice within 60 days, or within certain extensions of such period, disapproving the acquisition.

The merger or consolidation of an existing bank subsidiary of a bank holding company with another bank, or the acquisition by such a subsidiary of the assets of another bank, or the assumption of the deposit and other liabilities by such a subsidiary requires the prior written approval of the responsible Federal depository institution regulatory agency under the Bank Merger Act, based upon a consideration of statutory factors similar to those outlined above with respect to the BHCA. In addition, in certain cases an application to, and the prior approval of, the Federal Reserve under the BHCA and/or OFIR under Michigan banking laws, may be required.

With certain limited exceptions, the BHCA prohibits any bank holding company from engaging, either directly or indirectly through a subsidiary, in any activity other than managing or controlling banks unless the proposed non-banking activity is one that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. Under current Federal Reserve regulations, such permissible non-banking activities include such things as mortgage banking, equipment leasing, securities brokerage, and consumer and commercial finance company operations. Well-capitalized and well-managed bank holding companies may, however, engage *de novo* in certain types of non-banking activities without prior notice to, or approval of, the Federal Reserve, provided that written notice of the new activity is given to the Federal Reserve within 10 business days after the activity is commenced. If a bank holding company wishes to engage in a non-banking activity by acquiring a going concern, prior notice and/or prior approval will be required, depending upon the activities in which the company to be acquired is engaged, the size of the company to be acquired and the financial and managerial condition of the acquiring bank company.

Eligible bank holding companies that elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance activities and any other activity that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The Bank Holding Company Act generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank or financial holding companies. As of the date of this filing, we have not applied for approval to operate as a financial holding company and have no current intention of doing so.

#### *Capital Requirements*

The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other things, be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a leverage capital requirement expressed as a percentage of total assets, and (ii) a risk-based requirement expressed as a percentage of total risk-weighted assets. The leverage capital requirement consists of a minimum ratio of Tier 1 capital (which consists principally of shareholders' equity) to total assets of 3% for the most highly rated companies with minimum requirements of 4% to 5% for all others. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital.

The risk-based and leverage standards presently used by the Federal Reserve are minimum requirements, and higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations.

Included in our Tier 1 capital is \$41.9 million of trust preferred securities (classified on our balance sheet as "Subordinated debentures"). The Federal Reserve Board has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities and certain other capital elements is limited to 25 percent of Tier 1 capital elements, net of goodwill (net of any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit could be included in the Tier 2 capital, subject to restrictions.

The Federal bank regulatory agencies are required biennially to review risk-based capital standards to ensure that they adequately address interest rate risk, concentration of credit risk and risks from non-traditional activities.

### *Dividends*

Most of our revenues are received in the form of dividends paid by our bank. Thus, our ability to pay dividends to our shareholders is indirectly limited by statutory restrictions on the ability of our bank to pay dividends, as discussed below. Further, in a policy statement, the Federal Reserve has expressed its view that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. Additionally, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. The "prompt corrective action" provisions of federal law and regulation authorizes the Federal Reserve to restrict the amount of dividends that an insured bank can pay which fails to meet specified capital levels.

In addition to the restrictions on dividends imposed by the Federal Reserve, the Michigan Business Corporation Act provides that dividends may be legally declared or paid only if after the distribution, a corporation can pay its debts as they come due in the usual course of business and its total assets equal or exceed the sum of its liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of any holders of preferred stock whose preferential rights are superior to those receiving the distribution.

Finally, dividends on our common stock must be paid in accordance with the terms and restrictions of the CPP. Prior to December 12, 2011, unless we have redeemed all of the preferred stock issued to Treasury on December 12, 2008 or unless the Treasury has transferred all the preferred securities to a third party, the consent of the Treasury will be required for us to declare or pay any dividend or make any distribution on common stock other than (i) regular quarterly cash dividends of not more than \$0.01 per share, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of our common stock, and (iii) dividends or distributions of rights or junior stock in connection with any shareholders' rights plan.

Notwithstanding the foregoing, because we have suspended all dividends on the shares of preferred stock issued to the Treasury and all quarterly payments on our outstanding trust preferred securities, we are currently prohibited from paying any cash dividends on our common stock. In addition, in December of 2009, our Board of Directors adopted resolutions that prohibit us from paying any dividends on our common stock without, in each case, the prior written approval of the FRB and the Michigan OFIR. See "Recent Developments" above and "Dividend Policy" below for more information.

### *Federal Securities Regulation*

Our common stock is registered with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We are therefore subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act. The Sarbanes-Oxley Act of 2002 provides for numerous changes to the reporting, accounting, corporate governance and business practices of companies as well as financial and other professionals who have involvement with the U.S. public markets.

## **Our Bank**

### *General*

Our bank is a Michigan banking corporation, is a member of the Federal Reserve System and its deposit accounts are insured by the Deposit Insurance Fund ("DIF") of the FDIC. As a member of the Federal Reserve System, and a Michigan chartered bank, our bank is subject to the examination, supervision, reporting and enforcement requirements of the Federal Reserve Board as its primary federal regulator, and Michigan OFIR, as the chartering authority for Michigan banks. These agencies and the federal and state laws applicable to our bank and its operations, extensively regulate various aspects of the banking business including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and on deposits, the maintenance of non-interest bearing reserves on deposit accounts, and the safety and soundness of banking practices.

### *Deposit Insurance*

As an FDIC-insured institution, our bank is required to pay deposit insurance premium assessments to the FDIC. 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.

The FDIC is required to establish assessment rates for insured depository institutions at levels that will maintain the DIF at a Designated Reserve Ratio (DRR) selected by the FDIC within a range of 1.15% to 1.50%. The FDIC is allowed to manage the pace at which the reserve ratio varies within this range. The DRR is currently established at 1.25%.

Under the FDIC's prevailing rate schedule, assessments are made and adjusted based on risk. Premiums are assessed and collected quarterly by the FDIC. Beginning as of the second quarter of 2009, banks in the lowest risk category paid an initial base rate ranging from 12 to 16 basis points (calculated as an annual rate against the bank's deposit base) for insurance premiums, with certain potential adjustments based on certain risk factors affecting the bank. That base rate is subject to increase to 45 basis points for banks that pose significant supervisory concerns, with certain potential adjustments based on certain risk factors affecting the bank. FDIC insurance assessments could continue to increase in the future due to continued depletion of the DIF.

On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. This special assessment (which totaled \$1.4 million for our bank) was paid on September 30, 2009. The FDIC may impose additional special assessments under certain circumstances.

During the fourth quarter of 2009 we prepaid estimated quarterly deposit insurance premium assessments to the FDIC for periods through the fourth quarter of 2012. These estimated quarterly deposit insurance premium assessments were based on projected deposit balances over the assessment periods. The prepaid deposit insurance premium assessments totaled \$22.0 million at December 31, 2009 and will be expensed over the assessment period (through the fourth quarter of 2012). The actual expense over the assessment periods may be different from this prepaid amount due to various factors including variances in actual deposit balances and assessment rates used during each assessment period.

In addition, in 2008, the bank elected to participate in the FDIC's Transaction Account Guarantee Program (TAGP). Under the TAGP, funds in non-interest bearing transaction accounts, in interest-bearing transaction accounts with an interest rate of 0.50% or less, and in Interest on Lawyers Trust Accounts (IOLTA) will have a temporary (until June 30, 2010) unlimited guarantee from the FDIC. The coverage under the TAGP is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules which insure accounts up to \$250,000. Participation in the TAGP requires the payment of additional insurance premiums to the FDIC.

### *FICO Assessments*

Our bank, as a member of the DIF, is subject to assessments to cover the payments on outstanding obligations of the Financing Corporation ("FICO"). FICO was created to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the predecessor to the FDIC's Savings Association Insurance Fund which was created to insure the deposits of thrift institutions and was merged with the Bank Insurance Fund into the newly formed DIF in 2006. From now until the maturity of the outstanding FICO obligations in 2019, DIF members will share the cost of the interest on the FICO bonds on a pro rata basis. It is estimated that FICO assessments during this period will be approximately 0.011% of deposits.

### *Michigan OFIR Assessments*

Michigan banks are required to pay supervisory fees to the Michigan OFIR to fund their operations. The amount of supervisory fees paid by a bank is based upon the bank's total assets.

*Capital Requirements*

The Federal Reserve has established the following minimum capital standards for state-chartered, FDIC-insured member banks, such as our bank: a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with minimum requirements of 4% to 5% for all others, and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. Tier 1 capital consists principally of shareholders' equity. These capital requirements are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, Federal Reserve regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities.



Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Federal regulations define these capital categories as follows:

	<b>Total Risk-Based Capital Ratio</b>	<b>Tier 1 Risk-Based Capital Ratio</b>	<b>Leverage Ratio</b>
Well capitalized	10% or above	6% or above	5% or above
Adequately capitalized	8% or above	4% or above	4% or above
Undercapitalized	Less than 8%	Less than 4%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 3%	Less than 3%
Critically undercapitalized			A ratio of tangible equity to total assets of 2% or less

At December 31, 2009, our bank's ratios exceeded minimum requirements for the well-capitalized category.

In conjunction with its discussions with federal and state regulators, the Board of Directors of our Bank adopted resolutions in December of 2009 requiring our bank to achieve minimum capital ratios that are higher than the minimum requirements described in the Federal Reserve's capital guidelines. See "The Exchange Offers - Purpose of the Exchange Offers" below for more information. Our bank currently does not meet these higher capital ratios.

Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rates the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution.

In general, a depository institution may be reclassified to a lower category than is indicated by its capital levels if the appropriate federal depository institution regulatory agency determines the institution to be otherwise in an unsafe or unsound condition or to be engaged in an unsafe or unsound practice. This could include a failure by the institution, following receipt of a less-than-satisfactory rating on its most recent examination report, to correct the deficiency.

#### *Dividends*

Under Michigan law, banks are restricted as to the maximum amount of dividends they may pay on their common stock. Our bank may not pay dividends except out of its net income after deducting its losses and bad debts. A Michigan state bank may not declare or pay a dividend unless the bank will have a surplus amounting to at least 20% of its capital after the payment of the dividend.

As a member of the Federal Reserve System, our bank is required to obtain the prior approval of the Federal Reserve Board for the declaration or payment of a dividend if the total of all dividends declared in any year will exceed the total of (a) the bank's retained net income (as defined by federal regulation) for that year, *plus* (b) the bank's retained net income for the preceding two years. Federal law generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the

depository institution would thereafter be undercapitalized. In addition, the Federal Reserve may prohibit the payment of dividends by a bank, if such payment is determined, by reason of the financial condition of the bank, to be an unsafe and unsound banking practice or if the bank is in default of payment of any assessment due to the FDIC.

In addition to these restrictions, in December of 2009, the Board of Directors of our bank adopted resolutions that prohibit our bank from paying any dividends to our holding company without the prior written approval of the FRB and the Michigan OFIR. See "Recent Developments" above for more information.

#### *Insider Transactions*

Our bank is subject to certain restrictions imposed by the Federal Reserve Act on "covered transactions" with us or our subsidiaries, which include investments in our stock or other securities issued by us or our subsidiaries, the acceptance of our stock or other securities issued by us or our subsidiaries as collateral for loans and extensions of credit to us or our subsidiaries. Certain limitations and reporting requirements are also placed on extensions of credit by our bank to its directors and officers, to our directors and officers and those of our subsidiaries, to our principal shareholders, and to "related interests" of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person becoming one of our directors or officers or a principal shareholder may obtain credit from banks with which our bank maintains a correspondent relationship.

### *Safety and Soundness Standards*

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the FDIC adopted guidelines to establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines establish standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

### *Investment and Other Activities*

Under federal law and regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. FDICIA, as implemented by FDIC regulations, also prohibits FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as a principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the bank's primary federal regulator determines the activity would not pose a significant risk to the DIF. Impermissible investments and activities must be otherwise divested or discontinued within certain time frames set by the bank's primary federal regulator in accordance with federal law. These restrictions are not currently expected to have a material impact on the operations of our bank.

### *Consumer Banking*

Our bank's business includes making a variety of types of loans to individuals. In making these loans, our Bank is subject to state usury and regulatory laws and to various federal statutes, including the privacy of consumer financial information provisions of the Gramm Leach-Bliley Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, and the regulations promulgated under these statutes, which (among other things) prohibit discrimination, specify disclosures to be made to borrowers regarding credit and settlement costs, and regulate the mortgage loan servicing activities of our bank, including the maintenance and operation of escrow accounts and the transfer of mortgage loan servicing. In receiving deposits, our bank is subject to extensive regulation under state and federal law and regulations, including the Truth in Savings Act, the Expedited Funds Availability Act, the Bank Secrecy Act, the Electronic Funds Transfer Act, and the Federal Deposit Insurance Act. Violation of these laws could result in the imposition of significant damages and fines upon our Bank and its directors and officers.

### *Branching Authority*

Michigan banks, such as our bank, have the authority under Michigan law to establish branches anywhere in the State of Michigan, subject to receipt of all required regulatory approvals. Banks may establish interstate branch networks through acquisitions of other banks. The establishment of *de novo* interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the Michigan OFIR (1) acquisition of Michigan banks by FDIC-insured banks or savings banks located in other states, (2) sale by a Michigan bank of branches to an FDIC-insured bank or savings bank located in a state in which a Michigan bank could purchase branches of the purchasing entity, (3) consolidation of Michigan banks and FDIC-insured banks or savings banks located in other states having laws permitting such consolidation, (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) establishment by foreign banks of branches located in Michigan.

## **Mepco Finance Corporation**

Our subsidiary, Mepco Finance Corporation, is engaged in the business of acquiring (on a full recourse basis) and servicing payment plans used by consumers throughout the United States who have purchased a vehicle service contract and choose to make monthly payments for their coverage. In the typical transaction, no interest or other finance charge is charged to these consumers. As a result, Mepco is generally not subject to regulation under consumer lending laws. However, Mepco is subject to various federal and state laws designed to protect consumers, including laws against unfair and deceptive trade practices and laws regulating Mepco's payment processing activities, such as the Electronic Funds Transfer Act.

Mepco purchases these payment plans, on a full recourse basis, from companies (which we refer to as Mepco's counterparties) that provide vehicle service contracts and similar products to consumers. The payment plans (which are classified as finance receivables in our consolidated statements of financial condition) permit a consumer to purchase a service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the counterparties). Mepco does not evaluate the creditworthiness of the individual customer but instead primarily relies on the payment plan collateral (the unearned vehicle service contract and unearned sales commission) in the event of default. When consumers stop making payments or exercise their right to voluntarily cancel the contract, the remaining unpaid balance of the payment plan is normally recouped by Mepco from the counterparties that sold the contract and provided the coverage. The refund obligations of these counterparties are not fully secured. We record losses, included in non-interest expenses, for estimated defaults by these counterparties in their recourse obligations to Mepco.

### **Properties**

We and our bank operate a total of 120 facilities in Michigan and 1 facility in Chicago, Illinois. The individual properties are not materially significant to us or our Bank's business or to the consolidated financial statements.

With the exception of the potential remodeling of certain facilities to provide for the efficient use of work space or to maintain an appropriate appearance, each property is considered reasonably adequate for current and anticipated needs.

### **Legal Proceedings**

Due to the nature of our business, we are often subject to numerous legal actions. These legal actions, whether pending or threatened, arise through the normal course of business and are not considered unusual or material.

**Statistical Disclosures****I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY: INTEREST RATES AND INTEREST DIFFERENTIAL****AVERAGE BALANCES AND TAX EQUIVALENT RATES**

	2009			2008			2007		
	Average Balance	Interest	Rate	Average Balance (Dollars in thousands)	Interest	Rate	Average Balance	Interest	Rate
<b>ASSETS (1)</b>									
Taxable loans	\$ 2,461,896	\$ 177,557	7.21%	\$ 2,558,621	\$ 186,259	7.28%	\$ 2,531,737	\$ 201,924	7.98%
Tax-exempt loans (2)	8,672	601	6.93	10,747	751	6.99	9,568	672	7.02
Taxable securities	111,558	6,333	5.68	144,265	8,467	5.87	179,878	9,635	5.36
Tax-exempt securities (2)	85,954	5,709	6.64	162,144	11,534	7.11	225,676	15,773	6.99
Cash interest bearing	72,606	174	0.24						
Other investments	28,304	932	3.29	31,425	1,284	4.09	26,017	1,338	5.14
Interest earning assets continuing operations	2,768,990	191,306	6.91	2,907,202	208,295	7.16	2,972,876	229,342	7.71
Cash and due from banks	55,451			53,873			57,174		
Taxable loans discontinued operations							8,542		
Other assets, net	157,762			227,969			218,553		
Total assets	\$ 2,982,203			\$ 3,189,044			\$ 3,257,145		

**LIABILITIES**

Savings a