



**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON, D.C. 20551

**DIVISION OF BANKING
SUPERVISION AND REGULATION**

November 06, 2013

Rodney D. Martin
Attorney at Law
Warner Norcross & Judd LLP
900 Fifth Third Center, 111 Lyon Street N.W.
Grand Rapids, Michigan 49503

Dear Mr. Martin:

We refer to the application by Mercantile Bank Corporation ("Mercantile"), the parent company of Mercantile Bank of Michigan ("Mercantile Bank"), both of Grand Rapids, Michigan, for approval from the Board of Governors of the Federal Reserve System ("Board") to acquire all the voting shares of Firstbank Corporation, Alma, Michigan ("Firstbank") and thereby indirectly acquire control of Firstbank, Mount Pleasant, Michigan ("Firstbank Bank") and Keystone Community Bank, Kalamazoo, Michigan ("Keystone"), pursuant to section 3(a)(5) of the Bank Holding Company Act of 1956. Based on staff's review of the current record, the following additional information is requested. Supporting documentation, as appropriate, should be provided.

1. Mercantile states that it anticipates the bank consolidation between Mercantile Bank and the two bank subsidiaries of Firstbank would be completed no later than March 31, 2014.
 - a. Indicate whether Mercantile still anticipates completing the bank consolidation separately from the consummation of the proposed bank holding company merger, and if yes, describe:
 - i. The expected timing of consummating the proposed bank consolidation;
 - ii. The expected timing and/or status of any merger application(s) to be filed with any state or federal banking regulator, and submit copies if any such applications that have been filed;
 - iii. The purpose for structuring the bank consolidation and seeking regulatory approval separately from the holding company merger; and
 - iv. Mercantile's ability to successfully manage the significant growth resulting from this proposed transaction, and how it plans to manage three

separate insured depository institutions, including, but not limited to, sufficiency of managerial resources and enterprise risk management.

Depending on the responses to the aforementioned questions regarding the status of the bank mergers, additional information may be requested.

- b. Describe whether and to what extent Mercantile Bank customers will be able to access branch offices, products, and services of Firstbank Bank and Keystone (and vice versa) during the period in which the banks are not consolidated.
 - c. For the period during which Mercantile Bank, Firstbank Bank and Keystone are not consolidated, discuss specifically how the proposed merger will meet the convenience and needs of the communities served by these banks.
2. Provide additional information regarding the business and activities of West Lake Associates, LLC, a subsidiary of Mercantile Bank. Page 44 of Mercantile Bank's CRA Performance Evaluation, dated March 26, 2012, lists West Lake Associates, LLC as a subsidiary of Mercantile Bank.
3. Mercantile states that Firstbank currently owns a 46 percent interest in 1st Investors Title Agency, LLC ("LLC"). Provide information regarding the owner(s) of the remaining 54 percent of the LLC.
4. Provide actual and pro forma financial statements, regulatory capital schedules, and cash flow projections for Mercantile and Mercantile Bank, as of September 30, 2013, originally shown as Exhibit 6, Exhibit 7 and Exhibit 3, respectively, in Form FR Y-3.
 - a. As referenced in item D of the balance sheet footnotes, provide 'Note 2 – Purchase Price Allocation'.
5. Provide actual and pro forma asset quality ratios for Mercantile and Mercantile Bank (with relevant calculations) as of September 30, 2013. The analysis should encompass all such assets on the balance sheet, not just loans. Provide the following:
 - a. Criticized and classified assets, comprised of the four separate categories of other assets especially mentioned ("OAEM" or special mention), substandard, doubtful, and loss (with relevant components of other real estate owned ("OREO") separately identified in each category);¹
 - b. Nonperforming assets, comprised of the four separate categories of nonaccrual loans, restructured loans in compliance with their terms, OREO, and other repossessed assets. Also, separately provide the category of loans 90 days past-due; and

¹ Classified assets include assets characterized as substandard, doubtful, and loss. Criticized assets include classified assets, plus assets characterized as OAEM.

- c. The level of criticized and classified assets should be compared to the total amount of tier 1 capital and allowance for loan loss reserves, while the level of nonperforming assets should be compared to the total amount of gross loans and OREO. (The numerator and denominator of each calculated ratio must be as of the same point in time).
6. Mercantile states that it plans to borrow \$9.0 million to partially fund a pre-merger special dividend of \$17.4 million. Shareholder dividends funded with debt by the parent holding company is not viewed by the Board as an appropriate practice. Discuss the reasons why incurring debt at Mercantile to pay dividends, does not raise safety and soundness concerns.
7. On page 14 of the application, Mercantile asserts that there will be no reduction in the range or quality of products or services available to the customers of either organization following the merger. Indicate whether any products or services currently offered by either organization will be reduced or discontinued. If so, describe the products or services to be discontinued and the products or services, if any, that Mercantile would offer in their stead. In your response, indicate how these replacement products or services would meet the convenience and needs of the banks' communities.
8. On page 15 of the application, Mercantile states that the combined organization will remain responsive to the credit needs in each company's markets. Elaborate in some detail on your plans in this regard.
9. Elaborate on Mercantile's plans for administering the CRA program of the combined organization following the anticipated consolidation of Mercantile Bank and the two bank subsidiaries of Firstbank. Indicate whether the CRA program of Mercantile Bank would be implemented for the consolidated banks.
10. Exhibit 21 of Mercantile's 10-K filing as of December 31, 2012 with the SEC indicates that Mercantile Bank Mortgage Company, LLC, formerly a subsidiary of Mercantile Bank, was dissolved, effective January 1, 2013. The filing further states the expectation that the business formerly conducted by the mortgage company would be performed by the bank in the ordinary course of business and would not materially impact Mercantile's financial position or results of operation. Indicate changes, if any, to the organization's relative focus on home mortgage lending (e.g., changes in home mortgage lending volume or product mix) reflected by this move.
11. Describe the key elements of any policies, procedures, or practices of Mercantile to ensure compliance with the fair lending laws, as well as to monitor fair lending risk. Include in your response a discussion of any comparative file analysis, redlining analysis, self-assessments/audits, second review processes, complaints resolution processes, and fair lending training. In addition, describe any measures to prevent illegal pre-screening, discouragement, exclusion of credit applicants. Discuss the process of reviewing and responding to any findings related to these analyses.

Please address your responses within eight business days to Colette A. Fried at the Federal Reserve Bank of Chicago (230 LaSalle Street, Chicago, IL 60604) and also send a copy of the public portion of your response directly to the protestant, Matthew R. Lee. Any information for which you desire confidential treatment should be so labeled and separately bound in accordance with the Board's rules regarding confidential treatment of information at 12 CFR 261.15.

If you have any questions regarding this letter, please call Pam Nardolilli of the Board's Legal Division at (202) 452-3289; Charles Fleet of the Board's Division of Consumer and Community Affairs at (202) 452-2776; or Sheryl Hudson of the Board's Division of Banking Supervision and Regulation at (202) 912-7839.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael J. Sexton", with a long, sweeping horizontal line extending to the right.

Michael J. Sexton
Deputy Associate Director

cc: Colette A. Fried, Assistant Vice President
Federal Reserve Bank of Chicago

Matthew R. Lee, Esq.
Inner City Press/Fair Finance Watch