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January 29, 2014

Mr. M. Anthony Lowe
Regional Director
Federal Deposit Insurance Corporation
300 South Riverside Plaza, Suite 1700
Chicago, Illinois 60606

Re: **Application of Mercantile Bank of Michigan to Consolidate with Firstbank and Keystone Community Bank**

Dear Mr. Lowe:

I am writing on behalf of Mercantile Bank of Michigan (the "Bank") to provide responses to the questions posed in your letter of January 22, 2014, in connection with the Bank's application to consolidate with Firstbank and Keystone Community Bank.

We believe that you will find the following answers to your questions to be responsive and comprehensive. The Bank is committed to meeting the convenience and needs of the areas it serves without regard to race, ethnicity, gender or any other protected characteristic. The Bank has in place programs and procedures to assure its compliance with its responsibilities.

As noted in answer to the first question, the Bank has most recently received an "Outstanding" CRA rating and is a leader in meeting the needs of small and medium sized businesses in low- and moderate-income tracts. As a bank that has had its primary focus on commercial lending, Mercantile looks forward to its consolidation with Firstbank and Keystone Community Banks. Those banks have an expertise in consumer banking which will complement Mercantile's commercial lending expertise. The combined institution will draw experience and knowledge of the consolidating banks to better serve the entire communities in which they are located.

1. ***Describe the bank and the mortgage company's lending operations in 2012, including how applications flow into and were originated from the bank and the mortgage company.***

   Since its inception, Mercantile Bank of Michigan's primary focus has been on commercial lending. Mercantile has made available certain residential mortgage loan products as an ancillary service to its customers, but the primary focus has been on commercial lending. The FDIC acknowledged Mercantile's emphasis on commercial lending in the Performance Evaluation following its most recent CRA examination, in which the FDIC gave Mercantile Bank an "Outstanding" CRA rating. The Performance Evaluation noted the Bank's outstanding record of meeting the credit needs of small businesses in low- and moderate-income communities. While its focus has not been as a residential mortgage lender, Mercantile has established a mortgage program designed to meet customer needs and comply with regulatory requirements.

Until January 2, 2013, Mercantile conducted its residential home purchase and refinance lending through Mercantile Bank Mortgage Company, LLC (the "Mortgage Company"). Mortgage loan operations were headquartered in Mercantile Bank's Alpine Avenue office in Comstock Park, Michigan, and the Mortgage Company's mortgage loan officers worked out of the Bank's branches. After dissolution of the Mortgage Company, the mortgage loan officers became officers of the Bank.

Mercantile Bank has four mortgage loan officers who originate home purchase and refinance loans. One of the four is bilingual in Spanish and English. The Bank also has 1.5 employees who originate consumer loans, including home equity term loans and home equity lines of credit.

Mortgage loan applications flow into the Bank in a number of channels, including:

- Applications generated through interaction between Bank employees and their customers;
- Applications from existing or past customers;
- Applications referred from external sources, such as builders or realtors; and
- Applications from other sources, including the Internet.

Table 1 shows the channel through which residential mortgage applications were generated in 2012 and 2011.

The Bank does not generally advertise its mortgage products. It does, however, advertise those products in two periodicals that target minority readers. See the response to Questions 16 and 17, below.

All employees are required to refer all customer inquiries regarding a residential loan product to a mortgage loan officer. Each referral to a mortgage loan office is entered into the Bank's customer relationship management software. A mortgage loan officer follows up with each referral and updates the customer relationship management software upon contacting the customer. Applications that mortgage lenders receive through outside referrals, such as friends and family, realtors or brokers, are input into the mortgage loan origination system.

Table 1: Sources of Mortgage Applications

	2012					2011			
	Approved Loans	Denied/ Withdrawn	Total	% of Total		Approved Loans	Denied/ Withdrawn	Total	% of Total
Employee Generated									
Employee – Branch	51	25	76	11.36%		45	18	63	14.35%
Employee – Commercial	105	22	127	18.98%		61	15	76	17.31%
Employee – Other	57	11	68	10.16%		41	10	51	11.62%
Existing or Past Customers									
Existing Mortgage Customer	90	36	126	18.83%		66	18	84	19.13%
Past Client (Prior to Merc)	33	10	43	6.43%		31	16	47	10.71%
Friends/Family	50	9	59	8.82%		21	8	29	6.61%
External Referrals									
Builder	8	1	9	1.35%		2	0	2	0.46%
Realtor	40	8	48	7.17%		32	7	39	8.88%
Other Source									
General Inquiry	31	9	40	5.98%		7	8	15	3.42%
Internet	19	9	28	4.19%		4	3	7	1.59%
Other	34	11	45	6.73%		17	9	26	5.92%
Total	518	151	669	100.00%		327	112	439	100.00%

The Bank underwrites all residential mortgage loans though a central underwriting process. All applications are entered into the mortgage loan origination system and forwarded to a loan processor. Once an application is complete, the loan processor forwards the application to the underwriter for approval.

All denied consumer loan and residential mortgage loan applications are subjected to the Bank's second-look review to ensure that the Bank's lending policies and underwriting guidelines have been consistently and fairly applied to the applicant. In the second-look review, any consumer loan or residential mortgage loan application that is denied based on the requested terms and conditions is reviewed by another loan officer, department underwriter, department head or retail manager. As part of the second-look review, the person conducting the review considers whether the loan could be approved under different terms or in a different program.

2. ***How did the manner in which the bank or mortgage company obtains applications change between 2011 and 2012?***

As shown in Table 1, the general flow of applications did not change significantly between 2011 and 2012.

In 2012, the Bank expanded its outreach efforts to generate more minority mortgage applications and referrals by expanding the focus of its financial education seminars to include managing credit and buying or refinancing a home. Prior to 2012, financial education classes focused on budgeting and savings. In 2012, the Bank offered an individual credit review session for participants at the financial education seminar. Providing a one-on-one session with a banker gave the banker an opportunity to discuss individual finances and identify potential applicants. The Bank offered seminars at Messiah Baptist Church, an African American church in Grand Rapids, Baxter Community Center, the "Show Me the Money" event hosted by Community Economic Development Association of Michigan and the United Way, and for parents at Coit Elementary School, a school that is 70% minority. Although the Bank did not take applications during these events, the Bank did make individual recommendations to clients who would have benefited from a potential mortgage refinance during the one-on-one credit review sessions.

3. ***Describe the lending strategies of both the bank and the mortgage company in 2011 and 2012?***

During 2011 and 2012, the Bank and the Mortgage Company provided mortgaging lending as an ancillary service to the Bank's primary focus as a commercial lender. From its inception, Mercantile's business model was to be a commercial lending institution that provided consumer and residential home mortgage loans as products to support its commercial focus. Consistent with the Bank's commercial focus, the Bank has employed a limited branch network. The Bank's retail mortgage business is drawn primarily from its commercial relationships.

The Bank has not generally promoted its mortgage line of business. The Bank's advertising and marketing is designed to either support its commercial focus or build general brand awareness and recognition. Recognizing, however, that, the number of home mortgage applications by African American and Hispanic applicants was declining, in 2012, the Bank increased its outreach activities by offering financial education seminars that focused on credit management and home buying (see response to Question 18) and increasing its mortgage advertising in publications that target African Americans and Hispanics by more than 300% (see responses to Question 16 and 17).

4. ***Before a loan application was declined by the mortgage company, were other financing options considered? Could it be referred to a third party or the bank for consideration? If so, to whom and under what circumstances?***

   As part of the second-look review discussed in response to Question 1, the person conducting a review of a denied application considers whether the loan could be approved under different terms or in a different program. The second-look process was developed to ensure that all financing options are evaluated before an application was denied and that there were no circumstances under which the loan could be approved.

   The Mortgage Company and the Bank offered a different array of products. The Mortgage Company made residential home purchase loans and home refinance loans, while the Bank made home equity term loans and home equity lines of credit. Occasionally, a mortgage loan applicant might be referred to the Bank where a product offered by the Bank was more appropriate. Such instances were rare, though, since the Bank and the Mortgage Company offered distinctly different products.

   The Mortgage Company does not refer loans to third parties.

5. ***Explain why the total mortgage company applications increased from 2011 to 2012, yet minority applications declined in the same time period?***

   While applications from African Americans and Hispanic declined in 2012, minority applications as a whole increased significantly, as applications from Asian applicants, joint race applicants and joint ethnicity applicants all increased. Applications from Asians increased from 12 in 2011 to 19 in 2012. Joint race applications increased to 11 in 2012 from just 1 in 2011. Joint ethnicity applications increased from 7 in 2011 to 8 in 2012.

   There is no clear reason for the decline in applications from African Americans and Hispanics in 2012. The products offered by the Bank or the Mortgage Company did not change. Neither did the underwriting standards. In addition, Mercantile expanded its outreach to the African American and Hispanic communities through financial education seminars that focused on credit management and home buying (see response to Question 18) and by increasing its mortgage advertising in publications that target African Americans and Hispanics by more than 300% (see response to Questions 16 and 17).

   One factor that may have impacted applications could be changes in personnel. The Mortgage Company lost the services and the contacts of an experienced mortgage loan officer when she retired in 2011. While she was replaced by another mortgage loan officer, who was bilingual, he was new to the mortgage business and did complete training and start taking mortgage applications until April 2012. The Bank also lost the referrals of one of its branch managers who was Hispanic and had accounted for 25 percent of the Hispanic applications received in 2011.

Mortgage originations in 2012 were driven by refinances, owing to the low rate environment. The focus during 2012 was servicing the requests for refinancing rather than generating new business. Applications to refinance existing loans were so plentiful that the mortgage lenders were challenged to find time to seek out additional mortgage business. This was exacerbated because the mortgage staff was short one very seasoned mortgage lender who retired in July 2011.

Mercantile believes that the fact that it does not retain the servicing of the mortgages it sells may also have impacted minority applications for loan refinances, especially for refinances under FreddieMac's Relief Refinance Program or Fannie Mae's DU Refinance Plus program, a program for homeowners with no equity or even some negative equity in their homes. It is possible that applicants looking for those refinance programs were more likely to contact their current mortgage servicer for a refinance loan.

Whatever the cause of the dip in applications from African Americans in 2012, the dip appears to have been temporary. As shown in Exhibit 1 in response to Question 6, applications from, and originations to, African Americans rebounded in 2013. In addition to 4 loans to African Americans, in 3 of the 7 joint race applications received in 2013, one of the two applicants was African American. Applications from, and originations to, minorities in 2013 were at their highest level of any of the five years in the analysis.

6. ***In your 12/4 Letter to the FRBC, you state the bank's Compliance Officer has been reporting the number of residential mortgage applications received from minority applicants. You state further that minority applications rose to 8.5% in 2013 from an average of 6.4% over the period 2009-2012. Provide reports for each year detailing the number of minority applications by race and ethnicity.***

   Mercantile has updated data in its December 4, 2013, letter to provide demographic data on its HMDA reportable loans as of December 31, 2013. The data show that minority applications rose further in the fourth quarter so that minority applications in 2013 accounted for 9.64% of all applications and minority originations accounted for 9.78% of all originations. See Exhibit 1. Details regarding minority applications by race and ethnicity are reflected in Mercantile's HMDA disclosures and summarized by CRA Wiz, which are included in Exhibit 2. HMDA data for 2013 is not yet available.

7. ***In your answer to question number 5 in your December 4, 2013 (12/4 Letter), to the FRBC, you state the merger with Firstbank and Keystone Community Bank will allow the consolidated entity to expand consumer lending in areas currently served by Mercantile Bank. Please explain how the consolidated entity will specifically impact residential mortgage lending in the Grand Rapids MSA.***

   Mercantile Bank is principally a commercial bank with an outstanding record of meeting the credit needs of small businesses in low- and moderate-income communities. While Mercantile Bank's current business model focuses on commercial lending, Firstbank and Keystone have a much more significant focus on retail banking, including residential mortgage lending. After the merger, Mercantile will expand its business model to incorporate Firstbank's retail banking capabilities.

Firstbank will bring to the combined bank expertise in retail banking and business development, marketing and advertising to generate consumer and residential mortgage lending business. Firstbank has established programs of product and sales training that Mercantile will use to expand the expertise of its lenders. Mercantile Bank will adopt Firstbank's model for consumer lending, which will enable the combined bank to expand its residential mortgage and home equity lending throughout Mercantile Bank's current footprint. Adopting Firstbank's model, Mercantile will expand the number of employees who have consumer and residential mortgage lending capabilities and establish those capabilities at all Mercantile branches.

Firstbank will bring to the combined organization a broader array of mortgage lending products that are currently offered by Mercantile Bank. These include Freddie Mac's Home Possible Mortgages, which are low down payment loans with lower PMI costs. Firstbank also offers home improvement loans and manufactured home financing.

Firstbank and Keystone's retail lending expertise has allowed them to be more flexible with their underwriting standards. The merged Bank will be able to exercise more flexibility in its underwriting standards by relying upon Firstbank's experience, enabling the Bank to originate more retail mortgage loans and portfolio mortgages.

Drawing on Firstbank's mortgage servicing expertise, Mercantile Bank will be able to retain the servicing on loans that it sells. Currently, Mercantile Bank sells its mortgages servicing released. Retaining the servicing of residential mortgage loans will enable Mercantile Bank to build better ongoing relationships with its residential mortgage loan customers and to generate additional loan opportunities with them.

8. ***Provide the names of the residential real estate mortgage investors used by the bank or mortgage company. Did these investors change from 2011 to 2012? Provide a list for each year and each investor's underwriting standards by year.***

The Mortgage Company used the same investors in 2012 as it did in 2011. They included:

- The Federal Home Loan Bank of Indianapolis
- Lake Michigan Financial Group, Inc.
- Affiliated Mortgage Company
- U.S. Bank (which was added as an investor in 2011)

The investors' underwriting standards are attached in Confidential Exhibit A. The Bank requests that the information in Confidential Exhibit A be afforded confidential treatment. Investors' underwriting standards are confidential commercial information of Mercantile Bank and its investors. They are not publicly available and constitute a trade secret.

Mercantile Bank did not sell loans to investors in 2011 or 2012. All the loans originated by the Bank, which were principally home equity term loans and home equity lines of credit, were held in its portfolio.

9. ***Provide a list of the residential real estate loans purchased in 2011 or 2012 by the bank or the mortgage company. List loans by county and provide property location addresses.***

As reflected in the HMDA reports for 2011 and 2012, neither Mercantile Bank nor Mercantile Bank Mortgage Company purchased residential real estate loans in those years.

10. ***Provide a list of the bank's and the mortgage company's residential real estate foreclosures for each of the last four years involving properties in the Grand Rapids MSA. Include in the list the street address of the property.***

Exhibit 3 includes a list of all properties that were foreclosed upon by the Bank or the Mortgage Company. The exhibit includes both foreclosures where the property went unredeemed as well as those properties where the borrower redeemed the property and received a deed in lieu of foreclosure. While a total of 57 properties were subject to foreclosure, only 18 customer relationships were involved. Some customers had more than one property that went through foreclosure, including one customer who owned 20 of the foreclosed properties.

11. ***Provide the office locations of the bank and the mortgage company, specifying the location of the mortgage company's operations. In addition, provide the number of mortgage loan originators, specified as either bank or mortgage company, located at each office location.***

Mercantile Bank Mortgage Company was dissolved on January 2, 2013. Before its dissolution, its operations were headquartered at 4613 Alpine Ave NW, Comstock Park, Michigan. Until the dissolution of the Mortgage Company, all mortgage loan officers were employees of the Mortgage Company. Upon dissolution of the Mortgage Company, those employees became employees of the Bank. The Mortgage Company did not maintain separate offices from the Bank. Instead, mortgage loan officers were located at the branch offices of the Bank. The locations of the Bank's branch offices and the number of mortgage loan officers is shown in Table 2. The Bank's consumer loans officers originate home equity term loans and home equity lines of credit. The Bank employs 1.5 consumer loans officers who are assigned as shown in Table 2. All home equity and consumer loan application requests are sent to them from each of the branches.

Table 2: Location of Mortgage Loan and Consumer Loan Officers

Office Name	Office Address	No. of Mortgage Loan Officers at Office	No. of Consumer Loan Officers at Office	Notes
Downtown	310 Leonard NW Grand Rapids, MI 49504	2	0	One mortgage loan officer from the Downtown office covers the Alpine Office. The other also covers the Knapp's Corner Office.
Alpine	4613 Alpine Ave NW Comstock Park, MI 49321	0	.5	Covered by a Downtown Office mortgage loan officer.
Wyoming	5610 Byron Center Ave SW Wyoming, MI 49519	1	1	Bilingual Hispanic employee who became a mortgage loan officer in 2012.
Kentwood	4860 Broadmoor Ave SE Kentwood MI 49512	0	0	Covered by the Lansing Office mortgage loan officer.
Knapp's Corner	3156 Knapp St NE Grand Rapids, MI 49525	0	0	Covered by a Downtown Office mortgage loan officer.
Holland	880 E. 16th Street Holland, MI 49423	1	0	Mortgage loan officer retired in 2013; position currently open.
Lansing	3737 Coolidge Road East Lansing, MI 48823	1	0	Also covers the Kentwood Office.

12. ***The Bank has withdrawn from the financial market in southeast Michigan. In the correspondence to the FDIC explaining the rationale for closing the branches, the bank stated the branches were closed due to large commercial loan losses. Did the Bank apply this standard of measure to all of its branches? If so, provide a rationale for any other branches that experienced similar-sized losses in commercial loans that the Bank decided to keep open.***

Mercantile made the decision to close its two newest and smallest branches (Ann Arbor and Novi), as part of an overall plan for capital preservation, developed in consultation with the FDIC during the Great Recession. The branches were too small to produce an operating profit, and were also experiencing large commercial loan losses, which exacerbated safety and soundness concerns. The fact that the two offices were the farthest away from the Bank's established markets aggravated the profitability issues in the two remote markets.

As part of its capital preservation planning, the Bank reviewed all of its operations, including its other branch offices. In the judgment of Bank management, the Ann Arbor and Novi branches presented the logical branches to close given their track record, difficulties in staffing, and their lack of proximity to the bank's established markets. Bank Management, with the FDIC's consent, approved of the closing of these offices as part of an overall Capital Management plan. Similar to Mercantile's other branches, these locations were more involved in commercial lending than residential lending, and generated very few residential loan applications.

13. How did the type of real estate loan products offer change from 2011 to 2012?

The real estate products offered by the Mortgage Company and Bank did not change from 2011 to 2012. The Mortgage Company offered the home purchase and refinance loans offered by its four investors. (See Confidential Exhibit A in response to Question 8.)

The Mortgage Company offered the same portfolio products in both 2011 and 2012. Those products included a 5-year ARM loan and a 7.5-year balloon loan. Lot loans, construction loans and jumbo loans were also offered as portfolio products. There were no changes to the underwriting requirements for any of those loan products from 2011 to 2012.

The Bank offered a home equity term product as well as a home equity line of credit in both 2011 and 2012. The only change in these products was a change in the loan-to-value requirement for the home equity term loan, which was reduced from 80% in 2011 to 75% in 2012.

14. In your answer to question number 4 in the 12/4 Letter to the FRBC, you state the bank does not have access to the FHA's 203K Rehab program. What limits your access to this FHA program? What viable alternative lending programs have you considered? Explain how your inability to access the 203K program has impacted your lending opportunities in the Grand Rapids MSA.

The FHA's 203K program is the FHA's primary program for the rehabilitation and repair of single family properties. As such, it is an important tool for community and neighborhood revitalization and for expanding homeownership opportunities. Mercantile's FHA investors – Lake Michigan Financial Group, Inc., and Affiliated Mortgage Company – will not purchase 203K loans from Mercantile because of the need to hold rehabilitation funds in escrow and then disburse funds at a later date.

Mercantile Bank offers a home equity loan product, or an applicant may apply for a residential home purchase loan and then apply for a simultaneous second, if the applicant has sufficient equity to qualify for the equity loan or line of credit that can be used to do the improvements. Neither alternative would be as advantageous as an FHA 203K loan.

The foreclosure crisis created opportunities for homebuyers to purchase foreclosed homes that needed significant funds for improvement. The 203K loan product would have been a useful product for Mercantile to use to meet a community credit need. The aggregate 2012 HMDA data for the Grand Rapids MSA shows that a significant number of minority applicants have been approved for a home purchase loan under a government program such as the FHA 203K program. While the HMDA data are not broken down by program, it seems likely that the 203K product makes up a significant portion of those loans.

15. Also in response to question 4, you state that no loans have been originated through the Michigan State Housing Development Authority (MSHDA) due to non-competitive rates. Explain this program and what alternative loan programs are used by the bank in its place. Are you aware if any MSHDA program loans were originated in the Grand Rapids MSA in 2012?

MSHDA loan products are offered through the Michigan Housing Development Authority. MSHDA offers a 30-year fixed-rate mortgage with and without down payment assistance for the purchase of a home. Only first-time homebuyers can qualify for a MSHDA loan unless the home is in a targeted area. In 2011 and 2012, MSHDA also offered a conventional loan and a MSHDA FHA loan. Down payment assistance is only available on the MSHDA FHA Loan Program.

Prior to October 2012, Mercantile did not qualify to originate MSHDA FHA loans, because the Mercantile was still in its test case period for HUD approval as a Supervised Mortgagee with Direct Endorsement. Thus, the only MSHDA product available to Mercantile was the MSHDA conventional loan. Conventional funding for MSHDA loans is limited to 80% LTV. Because the conventional loan was limited to 80% LTV, applicants would otherwise have considered a MSHDA loan found that the conventional rates and down payment requirements were more competitive than the MSHDA product.

MSHDA advises us that there were 54 MSHDA mortgages aggregating $4,175,368 originated in Kent County in 2012. MSHDA did not have data regarding the breakdown between MSHDA Conventional Loans and MSHDA FHA Loans, but indicated that most of the MSHDA loans in Kent County were FHA loans since down payment assistance is only available for FHA and rural development loans and conventional loans required a 20% down payment.

As an alternative to the MSHDA FHA loan, the Bank has the ability to make a traditional FHA loan with a Home Opportunity Ownership ("HOP") grant of up to $10,000 from the FHLBI towards a down payment.

16. How did the marketing efforts for real estate products change from 2011 to 2012?

Given Mercantile's business model, which focuses on commercial lending, the Bank and the Mortgage Company did not generally advertise its residential real estate lending products in 2011 and 2012. However, the Bank did advertise its residential real estate products in an African American publication, the *Grand Rapids Times*, and a Hispanic publication, *El Vocero Hispano*.

In 2012, in an effort to increase the number of minority applications, Mercantile increased its advertising in those publications by a total of 83%. Mercantile increased the number of advertisements promoting residential mortgage products by over 300%. In 2011, Mercantile ran 9 advertisements in the *Grand Rapids Times*, three of which were mortgage related. In 2012, Mercantile increased the number of advertisements it ran in the *Grand Rapids Times* to 15, of which eight were mortgage related. The remaining seven were advertisements for deposit accounts. In *El Vocero Hispano,* Mercantile ran nine advertisements in 2011, three of which were mortgage related. In 2012, Mercantile increased the number of its advertisements in *El Vocero Hispano* to 18, of which 11 were mortgage related. The increase in the number of mortgage related advertisements was a result of Mercantile's monitoring of its residential real estate loans and HMDA data and noting a decrease in the number of African American and Hispanic loan applications.

In 2012, the Bank also increased its outreach efforts specifically identifying opportunities to provide credit and home financing seminars. In conjunction with those seminars, the Bank provided one-on-one credit counseling sessions to individuals. In addition to helping serve its community, the Bank believed that the one-on-one sessions would create an opportunity to identify instances where a home purchase loan or refinancing might be considered.

The Bank specifically increased its outreach to the African American community by offering credit reviews sessions at Messiah Baptist church, an African American church, and at Baxter Community Center, a nonprofit organization that is located in a predominately African American census tract. The Bank provided a credit and homeownership seminar for the parents at Coit Elementary School, a school that is 70% minority, primarily serving the Hispanic and African American populations. The Bank also offered a credit seminar at "Show Me the Money," which was hosted at a church located in a predominately minority moderate-income census tract.

17. In your 12/4 response to the FRBC, you detail the bank's marketing efforts in response to question 4. You note that the bank ran mortgage-related advertisements in newspapers targeting minorities. List the advertisements run in 2011 and 2012, describing the nature of the ad, the publication it ran in, the circulation of the publication, and its geographic distribution area.

The *Grand Rapids Times* is the oldest African American newspaper in Grand Rapids and serves the African American population residing within the City of Grand Rapids and its suburbs. Through its distribution centers shown in Table 3, the *Grand Rapids Times* serves the African Americans living within the urban core of Grand Rapids. The *Grand Rapids Times* is available at each of the locations in Table 3 at no cost. Annual subscriptions to the *Grand Rapids Times* are only $25.00. Subscribers can also receive the online version (www.grtimes.com) free of charge. Circulation cycle of the *Grand Rapids Times* is weekly.

Table 3: Distribution Centers for the *Grand Rapids Times*

Business	Address	Census Tract	Income Level of Tract
Southern Fish Fry	1269 Madison SE, Grand Rapids MI 49507	0036.00	Low-income
Graves Deli	817 Franklin SE, Grand Rapids MI 49507	0032.00	Low-income
Wealthy Market	1012 Wealthy SE, Grand Rapids MI 49506	0025.00	Middle Income
O & E Party Store	1425 Eastern SE, Grand Rapids MI 49507	0036.00	Low-income
R3 Station	1152 Burton SE, Grand Rapids MI 40507	0042.00	Middle Income
Head N Sole	1449 Kalamazoo SE, Grand Rapids MI 49507	0035.00	Moderate Income
Norris Beauty Salon	1220 Kalamazoo SE, Grand Rapids MI 49507	0035.00	Moderate Income
Jobe's Barber Shop	215 Franklin SE, Grand Rapids MI 49507	0029.00	Upper Income
E Toys Beauty Shop	720 Wealthy SE, Grand Rapids MI 49503	0030.00	Moderate Income
Duthler Family Foods	1226 Madison SE, Grand Rapids MI 49507	0036.00	Low-income
Painting by Jeff	745 Oakdale SE, Grand Rapids MI 49507	0036.00	Low-income

El Vocero Hispano reaches 45% of the Spanish Speaking population residing in West Michigan. The publication is also available in Lansing. *El Vocero Hispano* is distributed through press boxes in West Michigan and Lansing. The newspaper is available at retail locations in West Michigan, the Lakeshore area, Mid-Michigan and Southwest Michigan. The newspaper is also mailed to those that have a subscription. Subscribers also have access to the online version of the newspaper (www.elvocerous.com).

Tables 4 and 5 list the advertisements that Mercantile ran in both the *Grand Rapids Times* and *El Vocero Hispano* in 2011 and 2012. Copies of the advertisements are attached in Exhibit 4.

Table 4: 2011 Advertisements in Minority Publications

Grand Rapids Times		El Vocero Hispano	
June 06/17/2011	Team - Brand Awareness	June 06/10/2011	Advocate – Brand Awareness
July 07/15/2011	Advocate - Brand Awareness	July 07/15/20111	Survivor – Brand Awareness
August 08/19/2011	Visionary - Brand Awareness	August 08/19/2011	Team – Brand Awareness
September 09/16/2011	Mentor – Brand Awareness	September 09/16/2011	Visionary – Brand Awareness
September 09/30/2011	Mortgage plus closing cost coupon	October 10/7/2011	Mortgage plus closing cost coupon
October 10/14/2011	Team – Brand Awareness	October 10/14/2011	Advocate – Brand Awareness
October 10/28/2011	Mortgage plus closing cost coupon	November 11/11/2011	Survivor – Brand Awareness
November 11/11/2011	Visionary – Brand Awareness	November 11/18/2011	Mortgage plus closing cost coupon
November 11/18/2011	Mortgage plus closing cost coupon	December 12/2/2011	Mortgage plus closing cost coupon

Table 5: 2012 Advertisements in Minority Publications

Grand Rapids Times		El Vocero Hispano	
March 03/30/2012	WOW Deposit Account	March 03/23/2012	WOW Deposit Account
April 04/13/2012	Mortgage plus closing cost coupon	April 04/06/2012	WOW Deposit Account
April 04/27/2012	Wow Deposit Account	April 04/27/2012	Mortgage plus closing cost coupon
May 05/11/2012	Mortgage plus closing cost coupon	May 05/04/2012	WOW Deposit Account
May 05/25/2012	Wow Deposit Account	May 05/18/2012	Mortgage plus closing cost coupon
June 06/15/2012	Mortgage plus closing cost coupon	June 06/01/2012	Mortgage plus closing cost coupon
July 07/13/2012	Mortgage plus closing cost coupon	June 06/22/2012	WOW Deposit Account
August 08/10/2012	Wow Deposit Account	July 07/06/2012	Mortgage plus closing cost coupon
August 08/24/2012	Mortgage plus closing cost coupon	July 07/20/2012	Mortgage plus closing cost coupon
September 09/07/2013	Wow Deposit Account	August 08/03/2012	Mortgage plus closing cost coupon
September 09/21/2013	Mortgage – Credit Seminar	August 08/17/2012	WOW Deposit Account
October 10/12/2013	Wow Deposit Account	September 09/07/12	Mortgage plus closing cost coupon
October 10/26/2012	Mortgage – Credit	September 09/21/12	WOW Deposit Account

	Seminar		
November 11/9/2012	Wow Deposit Account	October 10/05/2012	Mortgage plus closing cost coupon
November 11/30/2012	Mortgage	October 10/19/2012	WOW Deposit Account
		November 11/02/12	Mortgage plus closing cost coupon
		November 11/16/2012	Mortgage plus closing cost coupon
		December 12/07/2012	Mortgage plus closing cost coupon

18. ***According to the March 26, 2012, CRA Performance Evaluation (PE) the bank does a significant amount of community service (rated "High Satisfactory"). How did the bank's community services change between 2011 and 2012?***

The number of community development services that the Bank provided remained relatively consistent from 2011 to 2012. In 2012, however, the Bank enhanced the types of community development services that it provided in an effort to increase outreach efforts and generate more residential home mortgage applications from the African American population and the Hispanic population.

The Bank provided 110 bank-sponsored financial education activities in 2011, and 41 employee activities within the City of Grand Rapids, for a total of 151 community development services. In 2012, the Bank sponsored 102 financial education activities and 35 employee activities, for a total of 137 community development services. In 2012, the Bank altered the programs in which it participated to provide more adult financial education programs in an attempt to try and develop banking relationships with minority and low- and moderate-income communities. It also changed the focus of its financial education programs in 2012. In 2011, those programs had focused on budgeting and savings. In 2012, the Bank expanded the focus to emphasize managing credit and purchasing a home.

In 2012, the Bank also started one-on-one credit review and repair sessions as an outreach to minority populations. The intent was to aid individuals in low- and moderate-income and minority communities that were significantly impacted by the financial and foreclosure crises. In the process, Mercantile's goal was to expand its opportunities to meet with individual minority families to discuss their personal finances and, where appropriate, the possibility of obtaining a mortgage to purchase a home or refinancing an existing mortgage. The Bank offered one-on-one credit review sessions and a credit seminar and home purchase class at Messiah Baptist Church and Baxter Community Center. Both of these organizations primarily serve the African American community. In 2012, the Bank continued to provide community development services through United Church Outreach Ministries to the Hispanic community in Grand Rapids.

The Bank reached out to the African American and Hispanic community through the community development events at the "Show Me the Money" event in Grand Rapids, as well as the credit and home purchase seminar at Coit Elementary School.

Bank employees continued to remain engaged by serving on numerous boards and providing their financial and banking expertise to organizations that served both low- and moderate-income and minority communities. There was a slight decrease in the number of community development employee activities due to staff turnover between 2011 and 2012.

19. ***In your 12/4 Letter to the FRBC, you provide a list of community events sponsored or attended by bank employees. Which of these are in the Grand Rapids MSA? Did the bank receive any loan applications as a result of attending these events? If so, provide a breakdown of these applications by loan type, by race and ethnicity, and the disposition of each.***

All of the community events sponsored by the Bank listed in the December 4 letter were in the Grand Rapids MSA. All the sponsored events were attended by officer level employees. The Bank considers these events to be important in demonstrating its support for community organizations that serve low- and moderate-income and minority communities and as a way to identify community needs and expand the network of Bank employees in those communities. The Bank does not track any business that it might generate through sponsorship of community events or outreach and community development activities.

20. ***The PE notes a declining trend from 2009 through 2011 in the origination of home purchase and refinance loans in low-income census tracts in the Grand Rapids MSA. What actions did management take to address this trend?***

Management identified and recognized that there was a declining trend in the origination of home purchase loans in low-income census tracts in the Grand Rapids MSA. In the third quarter of 2011, the Bank's Compliance/CRA Officer began implementing a plan to address this. She addressed the need to increase the number of mortgage applications from low- and moderate-income tracts at a meeting of the Mercantile's Retail Group, which consists of the Retail Director, the Mortgage and Consumer Loan Department Manager, the Treasury Department Manager, the Retail Manager, and the Branch Operations Manager. She also attended the Retail Manager's Branch Staff Meeting where she reviewed CRA requirements and emphasized the need to engage in the community.

Mercantile participated in the City of Grand Rapids's down payment assistance program and communicated information about the HOP down payment assistance program to mortgage lenders. Mercantile made its first HOP down payment grant in 2011 for a home purchase loan. In the fall of 2011, the Bank's Compliance/CRA officer and three mortgage officers met with developers in the neighborhood stabilization program developers for foreclosed programs in the City of Grand Rapids. The purpose of the meeting was to ask for referrals of potential home buyers. Representatives of the Bank also met with the Minority Contractors Association to discuss commercial loan programs for minority contractors.

As addressed earlier in this letter, the Bank increased its outreach activities to minorities and low- and moderate-income persons by offering financial education seminars that focused on credit management and home buying (see response to Question 18) and increasing its mortgage advertising in publications that target African Americans and Hispanics by more than 300% (see responses to Question 16 and 17).

In addition, the Bank increased the frequency and scope of its reporting on mortgage loan applications received from low- and moderate-income tracts. In 2011 and 2012, the Bank's Compliance/CRA Officer provided quarterly reports to the Bank's CRA Committee, composed of executive management and senior management from the commercial lending, mortgage lending, marketing, retail branch, and risk management departments of the Bank. The reports provided the number and percentage of commercial loans and home purchase and refinance loans in low- and moderate-income census tracts. Beginning in January 2013, the Bank's Compliance/CRA Officer began providing the reports to the Committee every month, instead of quarterly, and expanded the report to include race and ethnicity information for home purchase and refinance loans. The reports also included benchmarks against which the Bank could measure its progress on lending in low- and moderate-income tracts.

21. The PE notes that the bank's home mortgage lending in the Grand Rapids MSA to low-income borrowers was less than aggregate performance in 2009 and 2010 for both refinance and home purchase loans. Based on aggregate performance for both 2011 and 2012, the bank's performance continues to lag aggregate performance. How does the bank monitor its lending performance and what actions has management taken to address any observations?

As described in response to Question 20, the Bank increased the frequency and scope of its reporting on mortgage loan applications received from low- and moderate-income tracts. Also as noted in the response to Question 20, the Bank's Compliance/CRA Officer implemented a plan to increase lending to minority borrowers and used enhanced reporting to track its success.

Management has continued to focus on outreach efforts and providing community development services to low- and moderate-income individuals and families. As noted in the Bank's Performance Evaluations, the Bank provides a significant number of community development services. The Bank sponsors events sponsored by nonprofit organizations that serve low-income individuals and families. Officers of the Bank are required to attend these events in order to develop relationships with nonprofit organizations that serve low-income individuals and network with low- and moderate-income individuals and families. The Bank requires that Vice Presidents and other higher level officers of the Bank engage with nonprofit organizations that serve low- and moderate-income communities. The Bank began its partnership with the Community Development Department of the City of Grand Rapids in providing Neighborhood Improvement Grants to low- and moderate-income individuals. These were done in order to support low-income families as well as to establish relationships with low-income home owners. The Bank also started to offer down payment assistance grants, Homeownership Opportunities Program, through the Federal Home Loan Bank of Indianapolis in an attempt to attract low-income borrowers that would want to purchase a home.

22. ***Provide us copies of both the 2011 and 2012 Fair Lending Self Assessments. If not described within the reports, explain the methodology used to conduct the comparative file reviews.***

The FDIC conducted a Compliance and CRA Exam of Mercantile Bank of Michigan in March, 2012. In conducting the compliance exam, the FDIC did a fair lending exam and conducted file reviews of the Bank and Mortgage Company's loan files for both 2010 and 2011. The examiners also reviewed the Bank's fair lending self-assessment for 2009 and 2010. The FDIC examination identified no fair lending violations, and the Bank received an "Outstanding" CRA rating. Since the FDIC had conducted a file review for 2011 and did not find any fair lending violations, the Bank did not conduct a separate self-assessment for 2011. In the examination, the FDIC recommended that the Bank makes changes to its fair lending assessment and recommended a comparative file review format as opposed to the statistical analysis format.

The Bank's Compliance/CRA Officer completed the 2012 self-assessment using the comparative file review format, comparing denials to minorities and females to a control group of approved loans. The control group consists of white male and joint white applications. The control groups comes from the Bank's portfolio loans since generally portfolio loans would contain most exceptions to policy, while loans sold to the secondary market would not. The Bank's analysis looks at marginal applicants, compares approved and denied files, and obtains explanations for any differences.

Attached as Confidential Exhibit B, is the 2012 Fair Lending Self-Assessment, which included a comparative file review. Applicant requests confidential treatment of the information in Confidential Exhibit B. The information constitutes privileged compliance review material under the Michigan Banking Code, and includes nonpublic personal information about Mercantile's customers. The public release of the information in Exhibit B would constitute a clearly unwarranted invasion of privacy.

23. ***In your 12/4 Letter to the FRBC, you state in answer to question 6a that your internal audit department conducts a fair lending assessment. Provide copies of any written findings from these assessments issued in 2011 and 2012 as well as any responses by management to these findings.***

As part of its annual audit of the mortgage and consumer lending function, the Bank's Internal Audit Department typically conducts a fair lending assessment. In 2012, there were no findings issued with regard to fair lending.

In 2011, Internal Audit did not conduct a fair lending assessment as it had in prior years, but, instead, reviewed the 2010 Fair Lending Assessment conducted by the Compliance/CRA Officer. Internal Audit also conducted a cursory review of activity related to originated and denied applications and concluded that the review "did not reveal any potential concerns.

24. Provide copies of any complaints received by the bank since the last FDIC compliance examination dated March 26, 2012, whether externally from consumers or internally from employees, and include a summary of the bank's investigation and resolution of each.

Attached as Confidential Exhibit C, are copies of all written complaints received since the last FDIC compliance examination. The Bank's policy requires that all complaints, whether written or oral, be logged and addressed. Attach in Confidential Exhibit C, is the Bank's complaint reports that show the disposition of each complaint.

Mercantile Bank requests confidential treatment of the information in Exhibit C. The information reveals nonpublic personal information about Mercantile's customers. The release of the information in Exhibit C would constitute a clearly unwarranted invasion of privacy.

25. Provide an update on the status of the class action lawsuit alleging discrimination against minority commercial borrowers filed against the bank.

This action was originally commenced in February 2013 by Roosevelt Tillman and Tillman Industrial Properties LLC (collectively, "Tillman") as a counterclaim to foreclosure actions pursued by the Bank as a result of Tillman's defaults on a number of loans. The February 2013 counterclaim asserted Fair Housing Act and Equal Credit Opportunity Act claims on Tillman's behalf. After the merger was publicly announced, Tillman filed an amended complaint asserting the same Fair Housing Act and Equal Credit Opportunity Act claims on behalf of a putative class and forwarded a copy of that amended complaint to the Board of Governors of the Federal Reserve System. The Bank has answered the amended complaint, denying its material allegations. The Bank's answer is attached as Exhibit 6.

No class has been certified, and plaintiffs have yet to file a motion for class certification. The Bank intends to file by January 31, 2014, a motion for summary disposition asserting that the class counts (I and II) and one of the individual counts (IV) of the amended complaint fail to state a claim on which relief may be granted, that one of the individual counts (III) is barred by Michigan's statute of frauds, and that the other individual count (IV) is barred by the applicable statute of limitations. Under the Court's Scheduling Order of January 22, 2014, all discovery is stayed on the action until the Court rules on the motion for summary disposition. If the class claims survive summary disposition, class discovery will commence, but merits discovery will be stayed until plaintiffs' motion for class certification is decided. Plaintiffs are to file their motion for class certification (should the class claims survive) within 90 days of the Court's ruling on the motion for summary disposition of the class claims.

No hearing dates have been set on the motion for summary disposition or any motion for class certification and no trial date has yet been set.

Mercantile Bank appreciates the opportunity to address the questions you have posed. As its record indicates, Mercantile Bank is committed to meeting the banking needs of its entire community. Mercantile believes that the consolidation with Firstbank and Keystone Community Bank will enhance its ability to do so by expanding its products and services in consumer banking. If there is any additional information we can provide you, please let me know.

Very truly yours,

Rodney D. Martin

Enclosures

RDM:djb
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