

INDEPENDENT BANK CORP /MI/  
Form 424B3  
November 13, 2012

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Filed Pursuant to Rule 424(b)(3)

File No. 333-169200

PROSPECTUS SUPPLEMENT NO. 4  
TO PROSPECTUS DATED MAY 23, 2012

Common Stock

This Prospectus Supplement No. 4 supplements and amends the prospectus dated May 23, 2012, as amended and supplemented by the Prospectus Supplement No. 1 dated May 30, 2012, the Prospectus Supplement No. 2 dated August 21, 2012, and the Prospectus Supplement No. 3 dated October 31, 2012, which we collectively refer to as the Prospectus, which forms part of our Post-Effective Amendment No. 2 to Registration Statement on Form S-1 (Registration Statement No. 333-169200). The Prospectus relates to the disposition from time to time of up to 1,502,468 shares of our common stock that we may issue to Dutchess Opportunity Fund, II, LP ("Dutchess"), pursuant to an Investment Agreement between us and Dutchess, dated July 7, 2010. We are not selling any common stock under the Prospectus or this Prospectus Supplement No. 4, and will not receive any of the proceeds from the sale of shares by the selling stockholder.

We are filing this Prospectus Supplement No. 4 to update, amend and supplement the information included or incorporated by reference in the Prospectus with the information contained in the quarterly report described below.

This Prospectus Supplement No. 4 includes our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 9, 2012.

This Prospectus Supplement No. 4 should be read in conjunction with, and may not be delivered or utilized without, the Prospectus, including any amendments or supplements thereto. This Prospectus Supplement No. 4 is qualified by reference to the Prospectus except to the extent that the information in this Prospectus Supplement No. 4 supersedes the information contained in the Prospectus. All references in the Prospectus to "this prospectus" are hereby amended to read "this prospectus (as supplemented and amended)."

Our common stock is listed on the Nasdaq Global Select Market under the symbol "IBCP." As of November 12, 2012, the closing sale price for our common stock on the Nasdaq Global Select Market was \$3.36 per share.

Investing in our common stock involves risks. These risks are described under the caption "Risk Factors" beginning on page 7 of the Prospectus, as the same may be updated in prospectus supplements.

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

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

The date of this prospectus supplement is November 13, 2012.

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2012

Commission file number 0-7818

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

Michigan 38-2032782  
State or jurisdiction of Incorporation or Organization (I.R.S. Employer Identification Number)

230 West Main Street, P.O. Box 491, Ionia, Michigan 48846  
(Address of principal executive offices)

(616) 527-5820  
(Registrant's telephone number, including area code)

NONE  
Former name, address and fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or smaller reporting company.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date.

Common stock, no par value  
Class

8,907,390  
Outstanding at November 9, 2012

## INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

## INDEX

	Number(s)
<b>PART I Financial Information</b>	
Item 1. <u>Condensed Consolidated Statements of Financial Condition September 30, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Operations Three- and Nine-month periods ended September 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) Three- and Nine-month periods ended September 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows Nine-month periods ended September 30, 2012 and 2011</u>	6
<u>Condensed Consolidated Statements of Shareholders' Equity Nine-month periods ended September 30, 2012 and 2011</u>	7
<u>Notes to Interim Condensed Consolidated Financial Statements</u>	8-64
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	65-97
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	98
Item 4. <u>Controls and Procedures</u>	98
<b>PART II - Other Information</b>	
Item 1A <u>Risk Factors</u>	99
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	99-100
Item 3b. <u>Defaults Upon Senior Securities</u>	100
Item 6. <u>Exhibits</u>	100

Discussions and statements in this report that are not statements of historical fact, including, without limitation, statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “likely,” “optimistic” and “plan,” and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; predictions as to our Bank’s ability to maintain certain regulatory capital standards; our expectation that we will have sufficient cash on hand to meet expected obligations during 2012; and descriptions of steps we may take to improve our capital position. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including, among others:

- our ability to successfully raise new equity capital, effect a conversion of our outstanding convertible preferred stock held by the U.S. Treasury into our common stock, and otherwise implement our capital restoration plan;
- the failure of assumptions underlying the establishment of and provisions made to our allowance for loan losses;
- the timing and pace of an economic recovery in Michigan and the United States in general, including regional and local real estate markets;
- the ability of our Bank to remain well-capitalized;
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the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;

Index

- further adverse developments in the vehicle service contract industry;
- potential limitations on our ability to access and rely on wholesale funding sources;
- the risk that sales of our common stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes;
- the continued services of our management team, particularly as we work through our asset quality issues and the implementation of our capital restoration plan;
- implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act or other new legislation, which may have significant effects on us and the financial services industry, the exact nature and extent of which cannot be determined at this time; and
- the risk that our common stock may be delisted from the Nasdaq Global Select Market.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all inclusive. The risk factors disclosed in Part I – Item A of our Annual Report on Form 10-K for the year ended December 31, 2011, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks that our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report 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.

Index

## Part I - Item 1.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Financial Condition

	September 30, 2012	December 31, 2011
	(unaudited)	
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	\$ 56,911	\$ 62,777
Interest bearing deposits	403,633	278,331
Cash and Cash Equivalents	460,544	341,108
Trading securities	38	77
Securities available for sale	230,186	157,444
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,494	20,828
Loans held for sale, carried at fair value	41,969	44,801
Loans held for sale, carried at lower of cost or fair value	52,280	-
Loans		
Commercial	603,538	651,155
Mortgage	537,107	590,876
Installment	197,736	219,559
Payment plan receivables	93,608	115,018
Total Loans	1,431,989	1,576,608
Allowance for loan losses	(48,021)	(58,884 )
Net Loans	1,383,968	1,517,724
Other real estate and repossessed assets	30,347	34,042
Property and equipment, net	47,062	62,548
Bank-owned life insurance	50,493	49,271
Other intangibles	6,793	7,609
Capitalized mortgage loan servicing rights	10,205	11,229
Prepaid FDIC deposit insurance assessment	10,229	12,609
Vehicle service contract counterparty receivables, net	18,773	29,298
Property and equipment held for sale	10,148	-
Accrued income and other assets	27,303	18,818
Total Assets	\$ 2,400,832	\$ 2,307,406
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	\$ 485,109	\$ 497,718
Savings and interest-bearing checking	853,603	1,019,603
Retail time	377,085	526,525
Brokered time	48,859	42,279
Total Deposits	1,764,656	2,086,125
Deposits held for sale relating to branch sale	405,850	-
Other borrowings	17,720	33,387
Subordinated debentures	50,175	50,175
Vehicle service contract counterparty payables	8,414	6,633
Accrued expenses and other liabilities	32,489	28,459
Total Liabilities	2,279,304	2,204,779



## Shareholders' Equity

Convertible preferred stock, no par value, 200,000 shares authorized; 74,426 shares issued and outstanding at September 30, 2012 and December 31, 2011; liquidation preference: \$84,099 at September 30, 2012 and \$81,023 at December 31, 2011	83,097	79,857
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 8,804,415 shares at September 30, 2012 and 8,491,526 shares at December 31, 2011	250,080	248,950
Accumulated deficit	(203,217)	(214,259 )
Accumulated other comprehensive loss	(8,432)	(11,921 )
Total Shareholders' Equity	121,528	102,627
Total Liabilities and Shareholders' Equity	\$ 2,400,832	\$ 2,307,406

See notes to interim condensed consolidated financial statements (unaudited)

Index

## INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
Interest Income	(In thousands, except per share amounts)			
Interest and fees on loans	\$23,385	\$27,222	\$71,427	\$84,808
Interest on securities				
Taxable	655	297	2,246	1,108
Tax-exempt	261	301	801	931
Other investments	432	367	1,210	1,185
Total Interest Income	24,733	28,187	75,684	88,032
Interest Expense				
Deposits	2,223	3,230	6,952	12,686
Other borrowings	1,059	1,183	3,351	3,738
Total Interest Expense	3,282	4,413	10,303	16,424
Net Interest Income	21,451	23,774	65,381	71,608
Provision for loan losses	251	6,171	6,438	21,029
Net Interest Income After Provision for Loan Losses	21,200	17,603	58,943	50,579
Non-interest Income				
Service charges on deposit accounts	4,739	4,623	13,492	13,689
Interchange income	2,324	2,356	7,053	6,832
Net gains (losses) on assets				
Mortgage loans	4,602	2,025	12,041	5,753
Securities	301	(57)	1,154	271
Other than temporary impairment loss on securities				
Total impairment loss	(70)	(4)	(332)	(146)
Loss recognized in other comprehensive loss	-	-	-	-
Net impairment loss recognized in earnings	(70)	(4)	(332)	(146)
Mortgage loan servicing	(364)	(2,655)	(716)	(1,885)
Title insurance fees	482	299	1,479	1,090
(Increase) decrease in fair value of U.S. Treasury warrant	(32)	29	(211)	1,025
Other	2,560	2,639	8,208	7,793
Total Non-interest Income	14,542	9,255	42,168	34,422
Non-interest Expense				
Compensation and employee benefits	13,610	12,654	39,598	38,032
Loan and collection	2,832	2,658	8,129	10,105
Occupancy, net	2,482	2,651	7,688	8,415
Data processing	2,492	2,502	7,281	7,227
Furniture, fixtures and equipment	1,194	1,308	3,795	4,228
Legal and professional	952	751	3,117	2,330
FDIC deposit insurance	816	885	2,489	2,772
Communications	785	863	2,486	2,700
Net losses on other real estate and repossessed assets	291	1,931	1,911	4,114
Advertising	647	740	1,842	1,964
Credit card and bank service fees	433	869	1,708	2,929
Vehicle service contract counterparty contingencies	281	1,345	1,078	5,002

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Write-down of property and equipment held for sale	860	-	860	-
Provision for loss reimbursement on sold loans	193	251	751	1,020
Costs (recoveries) related to unfunded lending commitments	(538 )	(172 )	(597 )	12
Other	1,966	2,226	4,692	6,385
Total Non-interest Expense	29,296	31,462	86,828	97,235
Income (Loss) Before Income Tax	6,446	(4,604 )	14,283	(12,234 )
Income tax benefit	-	(482 )	-	(748 )
Net Income (Loss)	\$6,446	\$(4,122 )	\$14,283	\$(11,486 )
Preferred stock dividends and discount accretion	1,093	1,043	3,241	3,102
Net Income (Loss) Applicable to Common Stock	\$5,353	\$(5,165 )	\$11,042	\$(14,588 )
Net Income (Loss) Per Common Share				
Basic	\$.61	\$(.61 )	\$1.28	\$(1.78 )
Diluted	.16	(.61 )	.36	(1.78 )
Dividends Per Common Share				
Declared	\$.00	\$.00	\$.00	\$.00
Paid	.00	.00	.00	.00

See notes to interim condensed consolidated financial statements (unaudited)

Index

## INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended September 30, 2012      2011 (unaudited) (In thousands)		Nine Months Ended September 30, 2012      2011 (unaudited) (In thousands)	
Net income (loss)	\$6,446	\$ (4,122 )	\$14,283	\$ (11,486 )
Other comprehensive income (loss), before tax				
Available for sale securities				
Unrealized gain arising during period	909	357	2,543	930
Change in unrealized losses for which a portion of other than temporary impairment has been recognized in earnings	770	(220 )	1,103	191
Reclassification adjustment for other than temporary impairment included in earnings	70	4	332	146
Reclassification adjustments for (gains) included in earnings	(350 )	-	(1,193 )	(204 )
Unrealized gains recognized in other comprehensive income on available for sale securities	1,399	141	2,785	1,063
Derivative instruments				
Unrealized loss arising during period	(54 )	(215 )	(129 )	(478 )
Reclassification adjustment for expense recognized in earnings	92	200	397	603
Reclassification adjustment for accretion on settled derivatives	145	145	436	514
Unrealized gains recognized in other comprehensive income on derivative instruments	183	130	704	639
Other comprehensive income, before tax	1,582	271	3,489	1,702
Income tax expense related to components of other comprehensive income (loss)	-	95	-	596
Other comprehensive income	1,582	176	3,489	1,106
Comprehensive income (loss)	\$8,028	\$ (3,946 )	\$17,772	\$ (10,380 )

See notes to interim condensed consolidated financial statements (unaudited)

Index

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30,	
	2012	2011
	(unaudited - In thousands)	
Net Income (Loss)	\$ 14,283	\$ (11,486 )
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities		
Proceeds from sales of loans held for sale	378,804	270,796
Disbursements for loans held for sale	(363,931)	(243,654 )
Net decrease in loans held for sale relating to branch sale	900	-
Net decrease in deposits held for sale relating to branch sale	(11,671)	-
Provision for loan losses	6,438	21,029
Deferred loan fees	(501)	(428 )
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans	(3,532)	(9,303 )
Write-down of property and equipment held for sale	860	-
Net gains on mortgage loans	(12,041)	(5,753 )
Net gains on securities	(1,154)	(271 )
Securities impairment recognized in earnings	332	146
Net losses on other real estate and repossessed assets	1,911	4,114
Vehicle service contract counterparty contingencies	1,078	5,002
Share based compensation	572	762
Increase (decrease) in accrued income and other assets	(5,434)	6,714
Increase in accrued expenses and other liabilities	3,957	1,017
Total Adjustments	(3,412)	50,171
Net Cash from Operating Activities	10,871	38,685
Cash Flow from Investing Activities		
Proceeds from the sale of securities available for sale	37,176	70,322
Proceeds from the maturity of securities available for sale	66,868	2,308
Principal payments received on securities available for sale	18,214	5,524
Purchases of securities available for sale	(192,382)	(104,052 )
Redemption of Federal Home Loan Bank stock	-	2,397
Redemption of Federal Reserve Bank stock	334	228
Net decrease in portfolio loans (loans originated, net of principal payments)	75,148	150,436
Proceeds from the collection of vehicle service contract counterparty receivables	7,413	1,438
Proceeds from the sale of other real estate and repossessed assets	14,062	14,241
Capital expenditures	(3,775)	(2,124 )
Net Cash from Investing Activities	23,058	140,718
Cash Flow from (used in) Financing Activities		
Net increase (decrease) in total deposits	98,836	(173,197 )
Net increase (decrease) in other borrowings	3	(3 )
Proceeds from Federal Home Loan Bank advances	12,000	19,000
Payments of Federal Home Loan Bank advances	(27,670)	(54,303 )
Net increase (decrease) in vehicle service contract counterparty payables	1,781	(1,805 )
Proceeds from issuance of common stock	557	1,335
Net Cash from (used in) Financing Activities	85,507	(208,973 )

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Net Increase (Decrease) in Cash and Cash Equivalents	119,436	(29,570 )
Cash and Cash Equivalents at Beginning of Period	341,108	385,374
Cash and Cash Equivalents at End of Period	\$ 460,544	\$ 355,804
Cash paid during the period for		
Interest	\$ 8,647	\$ 15,475
Income taxes	198	26
Transfers to other real estate and repossessed assets	9,110	12,971
Transfer of payment plan receivables to vehicle service contract counterparty receivables	1,225	9,239
Transfers to loans held for sale	54,127	-
Transfers to deposits held for sale	420,261	-
Transfers to fixed assets held for sale	12,611	-

See notes to interim condensed consolidated financial statements (unaudited)

Index

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Shareholders' Equity

	Nine months ended September 30, 2012          2011 (unaudited) (In thousands)	
Balance at beginning of period	\$102,627	\$119,085
Net income (loss)	14,283	(11,486 )
Issuance of common stock	557	1,335
Share based compensation	572	762
Net change in accumulated other comprehensive loss, net of related tax effect	3,489	1,106
Balance at end of period	\$121,528	\$110,802

See notes to interim condensed consolidated financial statements (unaudited)

Index

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. Preparation of Financial Statements

The interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2011 included in our Annual Report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of September 30, 2012 and December 31, 2011, and the results of operations for the three and nine-month periods ended September 30, 2012 and 2011. The results of operations for the three and nine-month periods ended September 30, 2012, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. Our critical accounting policies include the assessment for other than temporary impairment (“OTTI”) on investment securities, the determination of the allowance for loan losses, the determination of vehicle service contract counterparty contingencies, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2011 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, “Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. This ASU amended guidance that will result in common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards (“IFRS”). Under the amended guidance, entities are required to expand disclosure for fair value instruments categorized within Level 3 of the fair value hierarchy to include (1) the valuation processes used; and (2) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs for recurring fair value measurements and the interrelationships between those unobservable inputs, if any. They are also required to disclose the categorization by level of the fair value hierarchy for items that are not measured at fair value in the Consolidated Statement of Financial Condition but for which the fair value is required to be disclosed (e.g. portfolio loans). This amended guidance became effective for us at January 1, 2012. The effect of adopting this standard did not have a material impact on our consolidated operating results or financial condition, but the additional disclosures are included in Notes #12 and #13.



IndexNOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220)". This ASU amended guidance on the presentation requirements for comprehensive income. The amended guidance requires an entity to present total comprehensive income, the components of net income and the components of other comprehensive income on the face of the financial statements, either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This amended guidance became effective for us at January 1, 2012 and was applied retrospectively. The effect of adopting this standard did not have a material impact on our consolidated operating results or financial condition, but we have included separate Condensed Consolidated Statements of Comprehensive Income (Loss) immediately following our Condensed Consolidated Statements of Operations in our Condensed Consolidated Financial Statements.

## 3. Securities

Securities available for sale consist of the following:

	Amortized Cost	Unrealized Gains      Losses (In thousands)		Fair Value
September 30, 2012				
U.S. agency	\$45,615	\$77	\$55	\$45,637
U.S. agency residential mortgage-backed	131,427	1,204	11	132,620
Private label residential mortgage-backed	9,503	-	1,201	8,302
Obligations of states and political subdivisions	39,733	699	71	40,361
Trust preferred	4,702	-	1,436	3,266
Total	\$230,980	\$1,980	\$2,774	\$230,186
December 31, 2011				
U.S. agency	\$24,980	\$58	\$21	\$25,017
U.S. agency residential mortgage-backed	93,415	1,007	216	94,206
Private label residential mortgage-backed	11,066	-	2,798	8,268
Obligations of states and political subdivisions	26,865	510	58	27,317
Trust preferred	4,697	-	2,061	2,636
Total	\$161,023	\$1,575	\$5,154	\$157,444

IndexNOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position follows:

	Less Than Twelve Months Unrealized		Twelve Months or More Unrealized		Total	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Unrealized Losses
(In thousands)						
September 30, 2012						
U.S. agency	\$13,065	\$55	\$-	\$-	\$13,065	\$55
U.S. agency residential mortgage-backed	2,653	1	10,264	10	12,917	11
Private label residential mortgage-backed			8,300	1,201	8,300	1,201
Obligations of states and political subdivisions	7,387	71			7,387	71
Trust preferred			3,266	1,436	3,266	1,436
Total	\$23,105	\$127	\$21,830	\$2,647	\$44,935	\$2,774
December 31, 2011						
U.S. agency	\$9,974	\$21	\$-	\$-	\$9,974	\$21
U.S. agency residential mortgage-backed	42,500	216	-	-	42,500	216
Private label residential mortgage-backed	163	90	8,102	2,708	8,265	2,798
Obligations of states and political subdivisions	-	-	1,729	58	1,729	58
Trust preferred	591	1,218	2,045	843	2,636	2,061
Total	\$53,228	\$1,545	\$11,876	\$3,609	\$65,104	\$5,154

Our portfolio of available-for-sale securities is reviewed quarterly for impairment in value. In performing this review management considers (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 market 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. For securities that do not meet the aforementioned recovery 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 or loss.

U.S. agency and U.S. agency residential mortgage-backed securities — at September 30, 2012 we had three U.S. agency and three U.S. agency residential mortgage-backed securities whose fair market value is less than amortized cost. The U.S. Agency securities were purchased on September 28, 2012 and the impairment is primarily attributed to bid-offer spread. 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 backed securities — at September 30, 2012 we had eight securities whose fair value is less than amortized cost. Two of the issues are rated by a major rating agency as investment grade while four are below investment grade and two are split rated. Four of these bonds have impairment in excess of 10% and all of these holdings have been impaired for more than 12 months.

IndexNOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

The unrealized losses are largely attributable to credit spread widening on these securities since their acquisition. Prices for these bonds did improve notably during the third quarter of 2012, due in part to the Federal Reserve Bank's recent announcement of a third round of quantitative easing and improving fundamentals in the housing market. The underlying loans within these securities include Jumbo (74%) and Alt A (26%) at September 30, 2012.

	September 30, 2012		December 31, 2011	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
	(In thousands)			
Private label residential mortgage-backed				
Jumbo	\$6,128	\$(879)	\$6,454	\$(1,937)
Alt-A	2,174	(322)	1,814	(861)

Seven of the private label residential mortgage-backed transactions have geographic concentrations in California, ranging from 22% to 58% of the collateral pool. Typical exposure levels to California (median exposure is 47%) are consistent with overall market collateral characteristics. Three transactions have modest exposure to Florida, ranging from 5% to 7% and one transaction has modest exposure to Nevada (5%). The underlying collateral pools do not have meaningful exposure to Arizona, 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 residential mortgage-backed securities. The majority of transactions are backed by fully amortizing loans. However, six transactions have concentrations in loans that pay interest only for a specified period of time and will fully amortize thereafter ranging from 31% to 94% (at origination date). The structure of the residential mortgage securities portfolio provides protection to credit losses. The portfolio primarily consists of senior securities as demonstrated by the following: super senior (22%), senior (43%), senior support (25%) and mezzanine (10%). The mezzanine class is from a seasoned transaction (97 months) with a significant level of subordination (8.69%). Except for the additional discussion below relating to other than temporary impairment, each private label residential mortgage-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.

All of these securities are receiving some principal and interest payments. Most of these transactions are passthrough structures, receiving pro rata principal and interest payments from a dedicated collateral pool for loans that are performing. The nonreceipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.



Index

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

In addition to the review discussed above, all private label residential mortgage-backed securities are reviewed for OTTI utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. The cash flows from the underlying loans considers contractual payment terms (scheduled amortization), prepayments, defaults and severity of loss given default. The analysis uses dynamic assumptions for prepayments, defaults and loss severity. Near term prepayment assumptions are based on recently observed prepayment rates. More weight is given to longer term historic performance (12 months). In some cases, recently observed prepayment rates are lower than historic norms due to the absence of new jumbo loan issuances. This loan market is heavily dependent upon securitization for funding, and new securitization transactions have been minimal. Our model projections anticipate that prepayment rates gradually revert to historical levels. For seasoned ARM transactions, normalized prepayment rates range from 12% to 18% CPR which is at the lower end of historically observed speeds for seasoned ARM collateral. For fixed rate collateral (one transaction), the prepayment speeds are projected to rise modestly.

Default assumptions are largely based on the volume of existing real-estate owned, pending foreclosures and severe delinquencies. Other considerations include the quality of loan underwriting, recent default experience, realized loss performance and the volume of less 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 projections expect defaults to then decline, generally beginning in year three. Current loss severity assumptions are based on recent observations when meaningful data is available. Loss severity is expected to remain elevated for the next three years. Severity is expected to decline beginning in year four as the back log of foreclosure and distressed sales clear the market. Except for three securities discussed in further detail below (all three are currently below investment grade), our cash flow analysis forecasts complete recovery of our cost basis for each reviewed security.

At September 30, 2012 three below investment grade private label residential mortgage-backed securities with fair values of \$3.6 million, \$1.9 million and \$0.1 million, respectively and unrealized losses of \$0.4 million, \$0.1 million and \$0.03 million, respectively (amortized cost of \$4.0 million, \$2.0 million and \$0.1 million, respectively) had losses that were considered other than temporary.

The underlying loans in the first transaction are 30 year fixed rate jumbos with an average FICO of 744 and an average loan-to-value ratio of 72%. The loans backing this transaction were originated in 2007 and this 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 do not have unrealized losses that are considered OTTI. 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 \$0.715 million of cumulative credit related OTTI as of September 30, 2012 on this security. \$0.070 million and \$0.004 million of this credit related OTTI was recognized in our Condensed Consolidated Statements of Operations during the three months ended September 30, 2012 and 2011, respectively and \$0.240 million and \$0.056 million of this credit related OTTI was recognized during the nine months ended September 30, 2012 and 2011, respectively, with the balance being recognized in previous periods. The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

Index

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

The underlying loans in the second transaction are 30 year hybrid ARM Alt-A with an average FICO of 717 and an average loan-to-value ratio of 78%. The loans backing this transaction were originated in 2005. The bond is a super senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated \$0.457 million of cumulative credit related OTTI as of September 30, 2012 on this security. There was no credit related OTTI recognized in our Condensed Consolidated Statements of Operations during the three months ended September 30, 2012 and 2011 while \$0.032 million and zero of this credit related OTTI was recognized during the nine months ended September 30, 2012 and 2011, respectively, with the balance being recognized in previous periods. The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

The underlying loans in the third transaction are 30 year hybrid ARM jumbos with an average FICO of 738 and an average loan-to-value ratio of 57%. The loans backing this transaction were originated in 2005. The bond is a senior support security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated \$0.380 million of cumulative credit related OTTI as of September 30, 2012 on this security. There was no credit related OTTI recognized in our Condensed Consolidated Statements of Operations during the three months ended September 30, 2012 and 2011, while \$0.060 million and \$0.090 million of this credit related OTTI was recognized during the nine months ended September 30, 2012 and 2011, respectively, with the balance being recognized in previous periods. The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

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 September 30, 2012 we had seven municipal securities whose fair value is less than amortized cost. The unrealized losses are largely attributed to widening of market spreads. Six of the impaired securities are rated by a major rating agency as investment grade. The non rated security has 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 September 30, 2012 we had four 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 several years has suffered from credit spread widening fueled by uncertainty regarding potential losses of financial companies and the absence of a liquid functioning secondary market.

IndexNOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

One of the four securities is rated by two major rating agencies as investment grade, while one is rated below investment grade by two major rating agencies and the other two are non-rated. The non-rated issues are relatively small banks and were never rated. The issuers of these non-rated trust preferred securities, which had a total amortized cost of \$2.8 million and total fair value of \$1.8 million as of September 30, 2012, continue to have satisfactory credit metrics and one continues to make interest payments. One non-rated issue began deferring dividend payments in the third quarter of 2011 apparently due to an increase in non-performing assets. Nevertheless, this issuer continues to have satisfactory capital measures and interim profitability.

The following table breaks out our trust preferred securities in further detail as of September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
	(In thousands)			
Trust preferred securities				
Rated issues	\$1,474	\$(421 )	\$1,405	\$(484 )
Unrated issues - no OTTI	1,792	(1,015 )	1,231	(1,577 )

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.

We recorded credit related OTTI charges in earnings on securities available for sale of \$0.070 million and \$0.004 during the three month periods ended September 30, 2012 and 2011, respectively and \$0.332 million and \$0.146 million during the nine month periods ended September 30, 2012 and 2011, respectively (see discussion above).

A roll forward of credit losses recognized in earnings on securities available for sale for the three and nine month periods ended September 30, follows:

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In thousands)			
Balance at beginning of period	\$1,732	\$852	\$1,470	\$710
Additions to credit losses on securities for which no previous OTTI was recognized	-	-	-	-
Increases to credit losses on securities for which OTTI was previously recognized	70	4	332	146
Balance at end of period	\$1,802	\$856	\$1,802	\$856



IndexNOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

The amortized cost and fair value of securities available for sale at September 30, 2012, by contractual maturity, follow. The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost (In thousands)	Fair Value
Maturing within one year	\$1,620	\$1,633
Maturing after one year but within five years	6,604	6,818
Maturing after five years but within ten years	25,922	26,106
Maturing after ten years	55,904	54,707
	90,050	89,264
U.S. agency residential mortgage-backed	131,427	132,620
Private label residential mortgage-backed	9,503	8,302
Total	\$230,980	\$230,186

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. A summary of proceeds from the sale of securities available for sale and gains and losses for the nine month periods ended September 30, follows:

	Proceeds	Realized Gains (In thousands)	Losses(1)
2012	\$ 37,176	\$ 1,193	\$ -
2011	70,322	279	75

(1) Losses in 2012 and 2011 exclude \$0.332 million and \$0.146 million, respectively of credit related OTTI recognized in earnings.

During 2012 and 2011 our trading securities consisted of various preferred stocks. During the first nine months of 2012 and 2011 we recognized gains (losses) on trading securities of (\$0.039) million and \$0.067 million, respectively, that are included in net gains (losses) on securities in the Condensed Consolidated Statements of Operations. Both of these amounts, relate to gains (losses) recognized on trading securities still held at each respective period end.

IndexNOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

## 4. Loans

Our assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors.

An analysis of the allowance for loan losses by portfolio segment for the three months ended September 30, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
	(In thousands)					
2012						
Balance at beginning of period	\$15,476	\$21,271	\$4,981	\$195	\$9,423	\$51,346
Additions (deductions)						
Provision for loan losses	18	1,839	(849 )	(17 )	(740 )	251
Recoveries credited to allowance	782	303	287	-	-	1,372
Loans charged against the allowance	(2,619 )	(1,720 )	(793 )	13	-	(5,119 )
Reclassification to loans held for sale	16	136	133	-	(114 )	171
Balance at end of period	\$13,673	\$21,829	\$3,759	\$191	\$8,569	\$48,021
2011						
Balance at beginning of period	\$17,697	\$23,152	\$6,289	\$346	\$13,035	\$60,519
Additions (deductions)						
Provision for loan losses	3,335	2,642	693	6	(505 )	6,171
Recoveries credited to allowance	229	247	421	1	-	898
Loans charged against the allowance	(4,330 )	(3,254 )	(1,131 )	(53 )	-	(8,768 )
Balance at end of period	\$16,931	\$22,787	\$6,272	\$300	\$12,530	\$58,820

Index

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

An analysis of the allowance for loan losses by portfolio segment for the nine months ended September 30, follows:

Payment