FRB Order No. 2014-8
May 7, 2014

FEDERAL RESERVE SYSTEM

Mercantile Bank Corporation
Grand Rapids, Michigan

Order Approving the Merger of Bank Holding Companies and
Determination on a Financial Holding Company Election

Mercantile Bank Corporation ("Mercantile"), Grand Rapids, has requested the Board's approval under section 3 of the Bank Holding Company Act ("BHC Act")[1] to merge with Firstbank Corporation ("Firstbank Corp."), Alma, and thereby indirectly acquire its subsidiary banks, Firstbank, Mount Pleasant, and Keystone Community Bank ("Keystone"), Kalamazoo, all of Michigan. Following the proposed acquisition, Firstbank and Keystone would be consolidated into Mercantile's subsidiary bank, Mercantile Bank of Michigan ("Mercantile Bank"), Grand Rapids, a state nonmember bank.[2] As part of its proposal, Mercantile also has filed with the Board an election to become a financial holding company pursuant to sections 4(k) and (*l*) of the BHC Act and section 225.82 of the Board's Regulation Y.[3]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (78 Federal Register 59689 (2013)).[4] The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

---

[1] 12 U.S.C. § 1842.

[2] The consolidation of Firstbank and Keystone into Mercantile Bank is subject to the approval of the Federal Deposit Insurance Corporation ("FDIC") pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c).

[3] 12 U.S.C. §§ 1843(k) and (*l*); 12 CFR 225.82.

[4] 12 CFR 262.3(b).

Mercantile, with consolidated assets of approximately $1.4 billion, is the 478th largest insured depository organization in the United States, controlling approximately $1.1 billion in deposits.[5] Mercantile controls Mercantile Bank, which operates only in Michigan. Mercantile Bank is the 18th largest depository institution in Michigan, controlling deposits of approximately $1.1 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.[6]

Firstbank Corp., with consolidated assets of approximately $1.5 billion, is the 464th largest insured depository organization in the United States, controlling approximately $1.2 billion in deposits. Firstbank Corp. controls Firstbank and Keystone, which both operate only in Michigan. Firstbank and Keystone together control deposits of approximately $1.2 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Mercantile would become the 262nd largest depository organization in the United States, with consolidated assets of approximately $2.9 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. Mercantile would control total deposits of approximately $2.4 billion. Mercantile would become the 13th largest insured depository organization in Michigan, controlling 1.4 percent of the total deposits of insured depository institutions in that state.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant market. The BHC Act also prohibits the Board from

---

[5] Asset and nationwide deposit-ranking data are as of December 31, 2013, unless otherwise noted.

[6] State deposit data are as of June 30, 2013, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[7]

Mercantile and Firstbank Corp. have subsidiary depository institutions that compete directly in the Grand Rapids and Lansing, Michigan, banking markets.[8] The Board has considered the competitive effects of the proposal on these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative shares of total deposits in insured depository institutions in the markets ("market deposits") controlled by Mercantile and Firstbank Corp.;[9] the concentration levels of market deposits and the increase in those levels, as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");[10] and other characteristics of the markets.

---

[7] 12 U.S.C. § 1842(c)(1).

[8] The Grand Rapids, Michigan, market is defined as Kent County (except Oakfield and Spencer townships); Thornapple, Irving, Carlton, Yankee Springs, Rutland, and Hastings townships in Barry County; Casnovia Township in Muskegon County; Salem, Dorr, and Leighton townships in Allegan County; and Jamestown, Georgetown, Blendon, Allendale, Tallmadge, Polkton, Wright, and Chester townships in Ottawa County, all in Michigan. The Lansing, Michigan, market is defined as Clinton, Eaton, and Ingham counties; Portland and Danby townships in Ionia County; Woodland and Castleton townships in Barry County; and Fairfield, Middlebury, Sciota, Woodhull, Perry, and Antrim townships in Shiawassee County, all in Michigan.

[9] Deposit and market share data are as of June 30, 2013, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); and National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

[10] Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the postmerger HHI is under 1000, moderately concentrated if the postmerger HHI is between 1000 and 1800, and highly concentrated if the postmerger HHI exceeds 1800. The

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in both markets. On consummation, the Grand Rapids market would remain moderately concentrated, and the Lansing market would remain unconcentrated, as measured by the HHI. The change in concentration in each market resulting from the transaction would be minimal. In addition, numerous competitors would remain in both markets.[11]

The DOJ has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Department of Justice ("DOJ") has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the postmerger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010 (see Press Release, Department of Justice (August 19, 2010), www.justice.gov/opa/pr/2010/August/10-at-938.html), the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified.

[11] Mercantile operates the fifth largest depository institution in the Grand Rapids banking market with approximately $898.2 million in deposits, which represent 6.5 percent of market deposits. Firstbank Corp. operates the 22nd largest depository organization in the market, controlling deposits of approximately $39.1 million, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Mercantile would continue to operate the fifth largest depository institution in the market, controlling deposits of approximately $937.3 million, which represent 6.8 percent of market deposits. The HHI would increase by four points to 1111, and 26 competitors would remain in the market.

Mercantile operates the 13th largest depository institution in the Lansing banking market, with approximately $112.1 million in deposits, which represent 2.2 percent of market deposits. Firstbank Corp. operates the 16th largest depository organization in the market, controlling deposits of approximately $79.1 million, which represent 1.6 percent of market deposits. On consummation of the proposed transaction, Mercantile would operate the 10th largest depository institution in the market, controlling deposits of approximately $191.2 million, which represent 3.8 percent of market deposits. The HHI would increase by 7 points to 838, and 22 competitors would remain in the market.

Based on all of the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the banking markets in which Mercantile and Firstbank Corp. compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In evaluating financial factors in expansionary proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and the proposed integration of the operations of the institutions. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. Further, the Board has considered the future prospects of the organizations involved in the proposal in light of the financial and managerial resources and the proposed business plan.

The Board has considered the financial factors of the proposal. Mercantile and Mercantile Bank are both well capitalized and would remain so on consummation of the proposed acquisition. The proposed transaction is a bank holding company merger that is structured as an exchange of shares.[12] The asset quality, earnings, and liquidity of Mercantile Bank, Firstbank, and Keystone are consistent with approval, and Mercantile appears to have adequate resources to absorb the costs of the proposal and to complete integration of the institutions' operations. Based on its review of the record, the Board finds that the organization has sufficient financial resources to effect the proposal.

---

[12] As part of the proposed transaction, each share of Firstbank Corp. common stock would be exchanged for one share of Mercantile common stock.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Mercantile, Firstbank Corp., and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant bank supervisory agencies with the organizations and their records of compliance with applicable banking and anti-money-laundering laws.

Mercantile, Firstbank Corp., and their subsidiary depository institutions are each considered to be well managed. Mercantile's existing risk-management program and its directorate and senior management are considered to be satisfactory. The directors and senior executive officers of Mercantile have substantial knowledge of and experience in the banking and financial services sectors.

The Board also has considered Mercantile's plans for implementing the proposal. Mercantile is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. Mercantile would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, Mercantile's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and Mercantile is proposing to integrate Firstbank's and Keystone's existing management and personnel in a manner that augments Mercantile's management.[13]

Mercantile's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation provide a reasonable basis to conclude that managerial factors are consistent with approval.

---

[13] On consummation, the combined organization will have six directors on the board of directors. Three directors currently serving on Mercantile's board of directors and three directors currently serving on Firstbank Corp.'s board of directors would serve on the board of the combined organization. The President and Chief Executive Officer of Mercantile will continue to serve in his role following the merger, and the current President and Chief Executive Officer of Firstbank Corp. would serve as chairman of the board.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Mercantile and Firstbank Corp. in combatting money laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").[14] The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,[15] and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.[16]

The Board has considered all the facts of record, including reports of examination of the CRA performance of Mercantile Bank, Firstbank, and Keystone, data reported by Mercantile Bank, Firstbank, and Keystone under the Home Mortgage Disclosure Act ("HMDA"),[17] other information provided by Mercantile, confidential supervisory information, and the public comments received on the proposal. The Board received one comment that objected to the proposal on the basis of Mercantile's fair lending record in the Grand Rapids-Wyoming, Michigan Metropolitan Statistical Area ("Grand Rapids MSA"), as reflected in 2012 HMDA data.

---

[14] 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

[15] 12 U.S.C. § 2901(b).

[16] 12 U.S.C. § 2903.

[17] 12 U.S.C. § 2801 et seq.

A. Records of Performance Under the CRA

As provided in the CRA, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions.[18] The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.[19] An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.

CRA Performance of Mercantile Bank

Mercantile Bank was assigned an overall "outstanding" rating at its most recent CRA performance evaluation by the FDIC, as of March 26, 2012 ("Mercantile Bank Evaluation"). Mercantile Bank received an "outstanding" rating for the Lending Test and "high satisfactory" ratings for both the Investment and Service Tests. Examiners considered Mercantile Bank to have an excellent record of lending inside its assessment areas and noted that Mercantile Bank was a leader in community development lending.[20]

As described in the Mercantile Bank Evaluation, FDIC examiners found that the bank's overall lending activity was excellent.[21] The bank originated a substantial

---

[18] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642 at 11665 (2010).

[19] 12 U.S.C. § 2906.

[20] The Mercantile Bank Evaluation was conducted using Large Institution CRA Examination Procedures, and examiners reviewed loan data and small business lending activity reported by Mercantile Bank from January 1, 2009, to December 31, 2011. The home mortgage lending data reviewed included data for the bank's then mortgage company, Mercantile Bank Mortgage Company, LLC ("Mercantile Mortgage"), which was dissolved in January 2013.

[21] Examiners placed greater weight on the bank's performance in small business lending over home mortgage lending because commercial lending is the bank's primary focus. Examiners also placed greater weight on the bank's performance in the portions of its assessment areas falling within three MSAs: the Grand Rapids MSA, the Holland-Grand

majority of its loans within its designated assessment areas during the review period. Examiners found that the overall distribution of small business loans reflected excellent penetration among businesses of different sizes. They also found that the geographic distribution of home mortgage and small business loans reflected excellent penetration throughout the bank's assessment areas, including LMI geographies.

Examiners also noted that Mercantile Bank is a leader in community development lending. During the evaluation period, the bank originated 28 qualifying community development loans totaling approximately $59.7 million in the Grand Rapids MSA, three loans totaling approximately $1.6 million in the Holland MSA, and one loan of $223,000 in the Lansing MSA.

In evaluating the Investment Test, examiners found that Mercantile Bank had a significant level of qualified community development investments. Examiners highlighted numerous CRA-qualified investments that the bank made, including donations to organizations with a community development focus. Examiners also noted that Mercantile Bank participated in various CRA-qualified investment vehicles.

In evaluating the Service Test, examiners observed that the bank's delivery systems were accessible to essentially all portions of its assessment areas and individuals of different income levels. Examiners also noted that Mercantile Bank's opening and closing of branches had not adversely affected the accessibility of its delivery systems to LMI geographies or LMI individuals. Examiners noted that Mercantile Bank offered alternative delivery systems that increased the availability of its loan and deposit products, including online banking, a 24-hour telephone banking system, mobile and other electronic banking products, and courier services. Examiners also found that the bank provided a relatively high level of community development services.

Examiners noted that Mercantile Bank had not received any complaints regarding its performance in meeting the credit needs of its assessment areas. The examination did not result in any findings of discrimination relating to Mercantile Bank's

---

Haven, Michigan MSA ("Holland MSA"), and the Lansing-East Lansing, Michigan MSA ("Lansing MSA").

fair lending policies and procedures or to underwriting decisions by the bank's management. The Board has consulted with the FDIC regarding the Mercantile Bank Evaluation.

CRA Performance of Firstbank

Firstbank was assigned a "satisfactory" rating at its most recent CRA performance evaluation by the FDIC, as of September 27, 2011 ("Firstbank Evaluation"), with ratings of "satisfactory" for the Lending and Community Development Tests.[22] Examiners noted that Firstbank's CRA performance demonstrated a practice of providing for the credit needs of its assessment area.[23]

In evaluating the Lending Test, examiners noted that the bank originated a majority of its loans within its assessment area, illustrating reasonable performance. Examiners also found that the bank's geographic distribution of home mortgage loans and small business loans reflected reasonable dispersion throughout its assessment area and that the bank's distribution of loans to borrowers reflected a reasonable penetration of individuals of different income levels, including LMI individuals, and businesses of different sizes.

With respect to the Community Development Test, examiners noted that Firstbank's community development performance reflected adequate responsiveness to the community's development needs in the assessment area. Examiners also found that Firstbank provided an adequate level of community development services through its employee involvement in community development organizations and its retail banking services that benefit LMI individuals.

---

[22] The Firstbank Evaluation was conducted using the Intermediate Small Bank CRA Examination Procedures, and examiners reviewed the bank's commercial and residential lending activity from July 21, 2008, to July 29, 2011. These products were selected for analysis because they represented 51 percent and 30 percent, respectively, of the bank's loan portfolio. At the request of Firstbank's management, examiners also considered the lending activity of Firstbank Mount Pleasant Mortgage Company, which, at that time, was a subsidiary of Firstbank.

[23] The Firstbank Evaluation reviewed the bank's non-MSA assessment area, which includes Wexford, Missaukee, Osceola, Clare, Mecosta, Isabella, and Montcalm counties, all in Michigan.

CRA Performance of Keystone

Keystone was assigned an overall "satisfactory" rating at its most recent CRA performance evaluation by the FDIC, as of August 17, 2009 ("Keystone Evaluation").[24] Examiners noted that the bank's CRA performance demonstrated a reasonable responsiveness to the credit needs of its assessment area. Examiners found that a majority of the small business and residential real estate loans originated by Keystone were made within the bank's assessment area.[25] Examiners also noted that Keystone's overall distribution of loans reflected a reasonable dispersion within its assessment area and that Keystone's penetration of loans among individuals of different income levels, including LMI individuals and businesses of different sizes, was reasonable given the demographics of the assessment area.

B. Fair Lending and Other Consumer Protection Laws

The Board has considered the records of Mercantile Bank, Firstbank, and Keystone in complying with fair lending and other consumer protection laws. As part of this consideration, the Board reviewed the Mercantile Bank, Firstbank, and Keystone Evaluations, assessed Mercantile Bank's HMDA data, and considered the comment on the application and other agencies' views on Mercantile Bank's record of performance under fair lending laws. The Board also considered Mercantile Bank's fair lending policies and procedures.

Analysis of HMDA Data

The Board analyzed Mercantile Bank's and Mercantile Mortgage's 2011 and 2012 HMDA data, the most recent publicly available in the specific market area addressed in the public comment (Grand Rapids MSA). The commenter expressed concerns that

---

[24] The Keystone Evaluation was conducted using the Small Bank CRA Examination Procedures in Keystone's single assessment area of Kalamazoo and Van Buren counties, both in Michigan. Examiners reviewed loan data reported by Keystone from January 1, 2007, to June 30, 2009. Examiners also considered a sample of business loans originated by Keystone from January 1, 2007, to June 30, 2009.

[25] Examiners did not consider loans originated by Keystone Mortgage Services, LLC, Keystone's mortgage subsidiary, in their determination of whether Keystone's small business and residential real estate loans were made within its assessment area.

Mercantile was not meeting the credit needs of minority individuals in the Grand Rapids MSA, based on 2012 HMDA data. In particular, the commenter alleged that Mercantile did not originate loans to African Americans or Hispanics across a range of loan products, including conventional home purchase loans, refinance loans, and home improvement loans in the Grand Rapids MSA. The commenter also asserted that Mercantile disproportionately denied applications by African American applicants for refinance loans in the Grand Rapids MSA.

The Board is concerned when HMDA data for an institution indicate lending disparities and believes that all lending institutions are obligated to ensure that their lending practices are based on criteria that are consistent with safe and sound lending but also provide equal access to credit by creditworthy applicants, regardless of their race or ethnicity. Although the HMDA data may reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in certain local areas, HMDA data alone do not provide a sufficient basis on which to conclude whether Mercantile Bank excluded or denied credit to any group on a prohibited basis.[26] Fully evaluating Mercantile Bank's compliance with fair lending laws and regulations would require a thorough review of the bank's application and underwriting policies and procedures, as well as access to information contained in the application files, to determine whether the observed lending disparities persist after taking into account legitimate underwriting factors.

The Board's review in this case generally confirmed the levels of lending by Mercantile to African American and Hispanic borrowers and the denial disparity ratio noted by the commenter. Mercantile states that the low level of applications received from African Americans and Hispanics is due to several factors: the effect of persistently weak

[26] The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of an applicant's creditworthiness. In addition, credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral (the reasons most frequently cited for a credit denial or higher credit cost) are not always available from HMDA data.

economic conditions on minorities in Grand Rapids, the very low percentage of applications received by all home mortgage reporters from African Americans and Hispanics in the Grand Rapids MSA, strong competition from other banks in the market to attract home mortgage applications from minorities, and the fact that home mortgage loans to individuals account for only a small portion of Mercantile's total lending.[27] In light of the low levels of applications received by Mercantile from African Americans and Hispanics in the Grand Rapids MSA, the Board conducted a lending analysis for 2012 comparing Mercantile to its peers in minority tracts of the MSA and did not find statistically significant disparities.[28]

The Board has consulted with the FDIC, the primary supervisor of each of the banks involved in the proposal. In connection with the bank merger application, the FDIC received, and conducted an analysis of, an identical comment on Mercantile's record of lending to African Americans and Hispanics in the Grand Rapids MSA. The FDIC considered the HMDA data cited by the commenter; Mercantile Bank's CRA, consumer compliance, and fair lending record; the bank's targeted marketing to African Americans and Hispanics; and other community outreach efforts. The FDIC concluded that it did not find evidence of Mercantile Bank engaging in discriminatory or other illegal credit practices, and that the public comment should not preclude approval of the proposal.

Mercantile's Fair Lending Program

Mercantile has instituted policies and procedures to help ensure compliance with all fair lending and other consumer protection laws and regulations. The company's legal and compliance risk-management program includes a review of the bank's marketing and advertising, compliance training for applicable employees, comparative loan file reviews, and risk reviews of all potential fair lending complaints. Mercantile reported that

---

[27] Commercial real estate and commercial and industrial loans account for approximately 80 percent of Mercantile's total lending, while residential real estate loans only account for approximately seven percent of the bank's loan portfolio, based on the dollar amount of loans outstanding as of December 31, 2013.

[28] In this case, minority tracts are those in which the majority of residents are African American or Hispanic.

all consumer loan and mortgage denials are subject to independent second reviews, and all commercial loan denials are reviewed by the bank's Compliance Officer. Mercantile reported that the bank's compliance and internal audit departments conduct annual fair lending risk assessments to analyze potential vulnerabilities in loan processes and controls and ensure that the bank's lending policies are consistently and fairly applied. In addition, the bank engages in monthly monitoring to ensure compliance with federal and state laws and regulations, and all customer complaints received by the bank are reviewed by the bank's Compliance Officer and Risk Management Director.[29] Mercantile's risk-management systems and its policies and procedures for assuring compliance with fair lending laws would be implemented at the combined organization.

In addition, Mercantile stated that the bank performs an annual fair lending self-assessment, in which the bank's Compliance Officer reviews all residential home mortgage loan denials and home equity loan denials to ensure consistent application of underwriting practices. Mercantile also reported that the compliance department conducts a comparative file review to ensure that similarly situated borrowers receive equal treatment and that underwriting practices are consistently applied. The fair lending assessment also includes a review of the bank's marketing and advertising and evaluates the bank's assessment area to ensure that it does not arbitrarily exclude LMI or minority areas.

---

[29] A commenter criticized Mercantile Bank for providing its 2013 HMDA loan/application register in paper format rather than in electronic format as he had requested. As a result, the commenter requested an extension of the comment period for the proposal. However, Mercantile Bank provided its HMDA loan/application register to the commenter in accordance with the Consumer Financial Protection Bureau's regulations. See 12 CFR Part 1003, Supplement I § 1003.5(b)(2).

The Board's Rules of Procedure contemplate that the public comment period will not be extended absent a clear demonstration of hardship or other meritorious reason for seeking additional time. 12 CFR 262.25(b)(2). The commenter's request for additional time does not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the Board has determined not to extend the public comment period.

Mercantile Bank's 2012 fair lending self-assessment found that the bank's policies, procedures, and underwriting practices were appropriate and consistently followed. The self-assessment also recommended that the second review process be expanded to include withdrawn and incomplete applications, that the bank implement requirements for using alternative credit references, and that the bank increase the scope of billboard advertising closer to LMI areas. The self-assessment noted a decline in home mortgage applications from African Americans and Hispanics, but stated that the bank had increased its advertising and outreach to those communities. Although Mercantile indicated that it generally does not advertise home mortgage loans, during 2012 and 2013, it placed a number of mortgage-related advertisements targeted to the African American and Hispanic communities in Grand Rapids. The bank also expanded the focus of its financial education seminars to include managing credit and buying or refinancing a home; these seminars were held at an African American church and a community center located in a predominantly African American census tract.

Mercantile indicates that these targeted marketing efforts have been successful in increasing the number of applications from and mortgages to minority borrowers. Mercantile reports that minority borrowers (including joint race and joint ethnicity applicants[30]) accounted for 8.4 percent of the bank's HMDA-reportable applications for the first three quarters of 2013, an increase from the average of 6.5 percent from 2009 to 2012. Mercantile also states that minority borrowers accounted for 9.6 percent of home mortgage applications for all of 2013, the highest level over the last five years.

---

30 A joint race application is an application in which one applicant reports a single racial designation of "white" and the other applicant reports one or more minority racial designations. A joint ethnicity application is an application in which one applicant reports ethnicity as Hispanic or Latino and the other applicant reports ethnicity as not Hispanic or Latino.

C. Additional Information on Convenience and Needs of Communities to Be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits.

Mercantile represents that the proposal would provide opportunities to achieve cost savings for the combined organization by consolidating redundant functions, including data processing. Mercantile notes that the combined organization would be able to provide customers with benefits through more efficient and cost-effective provision of banking services and would be able to dedicate additional resources to meeting the banking needs of its customers. Mercantile also states that the combined organization will have greater financial and managerial resources, a more diversified asset base, and access to a broader range of markets, enabling it to be a more effective competitor in its markets.

Mercantile also states that the proposal would offer customers convenience through a broader range of financial products and services not currently available at all of the banks. Mercantile asserts that the merger would allow customers of the combined organization to benefit from the experience of each organization. In particular, Mercantile's customers would benefit from expanding Firstbank Corp.'s home mortgage and consumer lending products in areas currently served by Mercantile. Firstbank Corp.'s customers would benefit from Mercantile's commercial lending focus and expanding Mercantile's small business lending in areas currently served by Firstbank Corp. In addition, the merger would benefit Mercantile's and Firstbank Corp.'s current customers through access to significantly larger branch and ATM networks. The branch network available to Mercantile and Firstbank Corp. customers would increase from 7 and 48, respectively, to 56 locations throughout Michigan.[31]

---

[31] A commenter also asserted that, based on public statements made by senior executives of Mercantile and Firstbank Corp., the combined organization would not expand into banking markets located in southeast Michigan. The CRA does not require an institution to expand into new markets. The CRA does require Mercantile Bank to help meet the credit needs of the communities in which it operates. As noted above, Mercantile Bank received

D. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Mercantile, confidential supervisory information, and the public comments on the proposal. Based on the Board's analysis of the HMDA data, evaluation of the lending operations and compliance programs of Mercantile Bank, Firstbank, and Keystone, review of examination reports, and consultations with other agencies, the Board believes that the convenience and needs factor, including the CRA record of the insured depository institutions involved in this transaction, is consistent with approval of the application.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act to require the Board to consider "the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risk to the stability of the United States banking or financial system."[32]

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the

---

an "outstanding" CRA rating from the FDIC, which demonstrates the bank's efforts in meeting the credit needs of its communities.

In addition, a commenter provided the Board with a copy of a class action lawsuit filed against Mercantile in the state of Michigan, alleging that the company engaged in discriminatory lending practices against African Americans. The litigation is in its preliminary stages, and no wrongdoing has been adjudicated.

[32] Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 123 Stat. 1376, 1601, codified at 12 U.S.C. § 1842(c)(7).

resulting firm.[33] These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.[34]

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation, Mercantile would have approximately $2.9 billion in consolidated assets and, by any of a number of alternative measures of firm size, would not rank among the 100 largest U.S. financial institutions. The Board generally presumes that a merger resulting in a firm with less than $25 billion in consolidated assets will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction. The companies engage and would continue to engage in traditional commercial banking activities. The resulting organization would experience small increases in the metrics that the Board considers to measure an institution's complexity and interconnectedness, with the resulting firm generally ranking outside of the top 100 U.S. financial institutions in terms of those metrics. For example, Mercantile's intrafinancial assets and liabilities would constitute a negligible share of the systemwide total, both before and after the transaction. The resulting organization would not engage in complex activities or provide critical services in such volume that disruption in such services would have a great impact on the macroeconomic condition of the United States by disrupting trade or resulting in increased resolution difficulties.

---

[33] Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

[34] For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012).

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on these and all other facts of record, the Board has determined that considerations relating to financial stability are consistent with approval.

Financial Holding Company Election

As noted above, Mercantile has elected to become a financial holding company in connection with the proposal. Mercantile has certified that it and Mercantile Bank are well capitalized and well managed and has provided all the information required under the Board's Regulation Y.[35] Mercantile also has stated that upon consummation of the proposal, Mercantile and each depository institution it would control would be well capitalized and well managed. Based on all the facts of record, the Board has determined that Mercantile's election will become effective upon consummation of the proposal if, on that date, Mercantile is well capitalized and well managed and all depository institutions it controls are well capitalized, well managed, and have a CRA rating of at least "satisfactory."

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.[36] In reaching its conclusion, the

[35] See section 606(a) of the Dodd-Frank Act; 12 CFR 225.82(b).

[36] A commenter requested that the Board hold public hearings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on an application unless the appropriate supervisory authorities for the bank to be acquired make a timely written recommendation of denial of the application. 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also may, in its discretion, hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately represent their views. The Board has considered the request in light of all the facts of record. In the Board's view, the commenters have had ample opportunity to submit comments on the proposal and, in fact, submitted written comments that the Board has considered in acting on the proposal. The request does not identify disputed issues of fact that are material to the Board's decision that would be clarified by a public hearing. In addition, the request does not demonstrate why the written comment does not present the commenter's views adequately or why a hearing would otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board

Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Mercantile with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after the effective date of this Order, or later than three months thereafter, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Chicago, acting under delegated authority.

By order of the Board of Governors,[37] effective May 7, 2014.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

has determined that a public hearing is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

[37] Voting for this action: Chair Yellen, and Governors Tarullo, Stein, and Powell.