

PUBLIC DISCLOSURE

September 13, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Mercantile Bank of Michigan
Certificate Number: 34598

310 Leonard Street NW
Grand Rapids, Michigan 49504

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office

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Chicago, Illinois 60606

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION’S CRA RATING: This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas (AAs), including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

The Lending Test is rated High Satisfactory.

- Lending levels reflect excellent responsiveness to AA credit needs.
- A high percentage of loans are made in the institution’s AAs.
- The geographic distribution of loans reflects good penetration throughout the AA.
- The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and business customers of different sizes.
- The institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its AAs, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.
- The institution is a leader in making community development loans.
- The institution makes extensive use of innovative and/or flexible lending practices in order to serve AA credit needs.

The Investment Test is rated Outstanding.

- The institution has an excellent level of qualified community development investments and donations, often in a leadership position, particularly those that are not routinely provided by private investors.

- The institution exhibits excellent responsiveness to credit and community development needs.
- The institution occasionally uses innovative and/or complex investments to support community development initiatives.

The Service Test is rated High Satisfactory.

- Delivery systems are accessible to essentially all portions of the institution's AA.
- To the extent changes have been made, the institution's opening and closing of branches has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.
- Services (including where appropriate, business hours) do not vary in a way that inconveniences portions of the AA, particularly low- and moderate-income geographies and/or individuals.
- The institution is a leader in providing community development services.

DESCRIPTION OF INSTITUTION

Mercantile Bank of Michigan (Mercantile) is a commercial bank headquartered in Grand Rapids, Michigan, and wholly owned by Mercantile Bank Corporation, a one-bank holding company also headquartered in Grand Rapids, Michigan. The holding company also wholly owns Firstbank Capital Trust I; Firstbank Capital Trust II; Firstbank Capital Trust III; Firstbank Capital Trust IV; Mercantile Bank Capital Trust I; Mercantile Insurance Center, Inc.; and West Lake Associates, LLC. The Mercantile Bank Capital Trust I and all of the Firstbank Capital Trust entities are located in Wilmington, Delaware, while the remaining organizations are located in Grand Rapids, Michigan. None of these subsidiaries originate lending products.

Mercantile received an "Outstanding" rating at its previous FDIC Community Reinvestment Act (CRA) Performance Evaluation dated September 4, 2018, based on Interagency Large Institution Examination Procedures.

Mercantile operates 33 full-service branches, with 24 containing automated teller machines (ATMs). Seven of the remaining branches contain virtual banking machines (VBMs), with two of those locations providing two VBMs. VBMs are interactive teller machines that allow customers to perform banking transactions nearly identical to those performed at a drive-thru location while communicating with a virtual banking specialist through a dedicated video conferencing terminal.

The bank operates an additional three drive-thru only locations. Two of the drive-thru only locations contain VBMs, and the third location contains an ATM. The bank also operates three VBM-only locations. Lastly, the bank operates five loan production offices. Two of the loan production offices are located outside the bank's AAs. With the exception of one loan production office located in Ohio, all other banking locations and facilities are located in Michigan.

Since the prior evaluation, the bank closed nine branches with the following census tract income designations: five moderate-income; three middle-income; and one upper-income. One of the middle-income geographies was considered distressed due to the poverty rate. The bank opened one branch in an upper-income census tract. The bank also opened two VBM-only locations. One of the new VBM locations is located in a moderate-income census tract, and the other VBM is located in a middle-income census tract. The bank sold one full-service branch and its corresponding loans and deposits located in an upper-income census tract in Barry County. As such, Barry County is no longer included in the bank's Grand Rapids-Kentwood AA.

Mercantile offers a diverse array of deposit and loan products for retail and commercial customers. Loan products include commercial, home mortgage, and consumer loans, with a focus on home mortgage and commercial lending. The bank provides a variety of consumer deposit account services including numerous checking and savings accounts, certificates of deposit, and health savings accounts. Commercial deposit services include numerous checking, savings, certificates of deposit, health savings, and municipal deposit accounts. The bank offers treasury management services and a variety of card products including credit, debit, gift, reloadable, travel, and payroll cards. Alternative delivery services include internet and mobile banking, online bill pay, mobile deposit, mobile wallet, online money management, and person-to-person payments.

As of June 30, 2021, the bank's total assets were approximately \$4.7 billion. Total deposits were approximately \$3.7 billion, total loans were approximately \$3.3 billion, and total securities were approximately \$506.1 million. Mercantile's loan portfolio is primarily comprised of commercial and residential mortgage loans, totaling 73.0 percent and 16.3 percent, respectively. The composition of the loan portfolio, as shown below, is representative of the bank's business strategy.

Loan Portfolio Distribution as of 6/30/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	263,804	8.1
Secured by Farmland	4,784	0.1
Secured by 1-4 Family Residential Properties	444,016	13.6
Secured by Multifamily (5 or more) Residential Properties	88,583	2.7
Secured by Nonfarm Nonresidential Properties	1,365,376	41.7
Total Real Estate Loans	2,166,563	66.1
Commercial and Industrial Loans	1,026,494	31.3
Agricultural Production and Other Loans to Farmers	1,200	<0.1
Consumer Loans	14,901	0.5
Obligations of State and Political Subdivisions in the U.S.	36,029	1.1
Other Loans	12,036	0.4
Lease Financing Receivable (net of unearned income)	19,339	0.6
Less: Unearned Income	0	0.0
Total Loans	3,276,562	100.0
<i>Source: Reports of Condition and Income, Due to rounding, totals may not equal 100.0%</i>		

Mercantile experienced significant growth since the previous evaluation, as total assets increased approximately \$1.5 billion. Total loans increased approximately \$639.7 million, while total deposits increased approximately \$1.1 billion. Significant Small Business Association (SBA) Paycheck Protection Program (PPP) lending activity and a favorable interest rate environment has driven loan growth. The program established by the 2020 U.S. Coronavirus Aid, Relief, and Economic Security Act (CARES Act) aids businesses, self-employed workers, sole proprietors, non-profit organizations, and tribal businesses in keeping their workforce employed during the COVID-19 pandemic. Increased deposits from government economic stimulus programs and higher deposit balances from PPP loan proceeds fueled the significant deposit growth. Examiners did not identify any financial, legal, or other impediments that would affect the bank’s ability to meet AA credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires financial institutions to define one or more AAs within which examiners will evaluate its CRA performance. Mercantile designated six AAs within the State of Michigan. These AAs only include whole counties, do not arbitrarily exclude low- or moderate-income geographies, do not reflect illegal discrimination, and otherwise meet the requirements of the CRA regulations.

The following table presents a brief description of each AA. The number of locations shown in the table includes full-service branches, drive-thru locations, VBM-only locations, and loan production offices. Examiners provide a more detailed discussion of each AA, including economic and demographic data, competition, and community contact information, in the separate AA sections of this evaluation.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of CTs	# of Locations
Grand Rapids-Kentwood, MI MSA (“Grand Rapids AA”)	Ionia, Kent, Montcalm, Ottawa	208	14
Non-MSA, MI (“Non-MSA AA”)	Allegan, Clare, Gratiot, Isabella, Mecosta, Missaukee, Ogemaw, Oscoda, Roscommon, Van Buren, Wexford	122	20
Lansing-East Lansing, MI MSA (“Lansing AA”)	Clinton, Ingham	103	2
Kalamazoo-Portage, MI MSA (“Kalamazoo AA”)	Kalamazoo	57	3
Warren-Troy-Farmington Hills, MI MD (“Warren AA”)	Oakland	338	1
Saginaw, MI MSA (“Saginaw AA”)	Saginaw	56	2
<i>Source: Bank Data</i>			

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated September 4, 2018, to the current evaluation dated September 13, 2021. Examiners utilized the Interagency Large Institution Examination Procedures to evaluate Mercantile's CRA performance. These procedures include the Lending Test, Investment Test, and Service Test. The first Appendix to this evaluation contains explanations of the performance criteria for each test. As defined within the CRA regulations, examiners used a system of points to determine the bank's overall rating. Institutions must receive at least a Low Satisfactory under the Lending Test to receive an overall Satisfactory rating.

Examiners used information provided by the bank, Home Mortgage Disclosure Act (HMDA) and CRA loan data, 2015 U.S. Census American Community Survey (ACS) data, D&B business demographic data, and information from community contacts.

As noted in the previous section, Mercantile has six separate AAs - all within the state of Michigan. Examiners conducted full-scope reviews of the Grand Rapids, Non-MSA, Kalamazoo, Warren, and Saginaw AAs, as well as a limited-scope review of the Lansing AA. Examiners conducted a limited-scope review of the Lansing AA as it received a full-scope review during the prior evaluation, performance was similar to the prior review period, and loan growth was not as significant as in other AAs during the current review period

Examiners placed the most weight on the bank's activities in the Grand Rapids and Non-MSA AAs in the overall rating and conclusions, as the vast majority of the bank's operations are located within these AAs.

Activities Reviewed

Examiners determined the bank's major product lines are home mortgage and small business loans, based on the bank's business strategy, the number and dollar volume of loans originated during the evaluation period, and the composition of the bank's loan portfolio. Examiners placed more weight on home mortgage lending in the overall conclusions, based on the number of annual originations and dollar amount.

Examiners considered all originated home mortgage loans on the bank's 2019 and 2020 HMDA Loan Application Registers to evaluate the bank's record of home mortgage lending. Mercantile originated 1,955 home mortgage loans totaling approximately \$368.6 million in 2019 and 4,097 loans totaling \$896.4 million in 2020.

Examiners used 2019 and 2020 aggregate HMDA data, as well as census demographic data, to compare the bank's performance. The aggregate data consists of all reporters subject to HMDA data collection requirements in the AAs, and includes all lenders such as regional, national, and local banks; credit unions; and non-bank lenders such as mortgage companies.

Examiners considered small business loan data collected pursuant to CRA requirements for 2019 and 2020 to evaluate the bank's record of lending to businesses during this evaluation period. Mercantile originated 1,452 small business loans totaling approximately \$363.9 million in 2019. Mercantile originated 3,653 loans totaling \$655.2 million in 2020, which includes 1,956 reported SBA PPP loans totaling \$261.1 million.

Examiners used 2019 aggregate small business lending data as a comparison for the bank's performance, because the 2020 aggregate data is not yet available. The bank results were also compared to D&B business demographic data. In general, the aggregate data helps better illustrate market demand and lending opportunities. The aggregate data consists of all lenders subject to CRA data collection requirements in the AAs.

Lastly, this evaluation considered all small farm loans reported by the bank in 2019 and 2020; however, small farm loans received the least weight in the overall rating due to the lower volume of originations when compared to home mortgage and small business loans. Mercantile originated 43 small farm loans totaling \$4.9 million in 2019, and 41 loans totaling \$5.2 million in 2020. Examiners also used 2019 aggregate data as a comparison for the bank's performance as 2020 aggregate data is not yet available.

As of June 30, 2021, Mercantile's small farm lending activity represented less than 0.2 percent of the bank's loan portfolio. Since agriculture and farmland lending are not a primary business focus for the bank, examiners analyzed small farm lending, but did not present this data in the evaluation, as the volume is relatively nominal and would have minimal impact on the assessment of the bank's overall lending performance.

While examiners presented the number and dollar volume of loans, they emphasized performance by number of loans, because it is a better indicator of the number of individuals and businesses served. Examiners did not evaluate other loan categories, such as consumer loans, because they are only minor portions of the bank's portfolio and would not provide meaningful conclusions.

Examiners also considered community development loans, qualified investments, and community development services initiated or maintained by the bank since the previous CRA Performance Evaluation dated September 4, 2018.

The Service Test included a review of delivery systems for providing retail banking services, the impact of any branch openings/closings during the evaluation period, and retail banking products and services targeted toward low- and moderate-income individuals or small businesses.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Overall, examiners assigned a “High Satisfactory” rating under the Lending Test. Examiners evaluated the bank’s lending activity, AA concentration, geographic distribution of loans, borrower profile, innovative and/or flexible lending practices, and community development lending. These criteria measure Mercantile’s effectiveness in meeting the credit needs of low- and moderate-income neighborhoods and individuals, and small businesses. The bank’s community development lending in the broader statewide, regional area augmented the results in its AAs.

Lending Activity

Overall, the lending levels reflect excellent responsiveness to AA credit needs. This conclusion is primarily supported by performance in its largest markets, the Grand Rapids and Non-MSA AAs. Mercantile has been a significant home mortgage and small business lender throughout the AAs. The bank originated 4,822 home mortgage loans totaling approximately \$973.8 million within the combined AAs in 2019 and 2020. This represents a significant increase from the previous evaluation, when the bank originated 2,189 home mortgage loans totaling \$351.4 million within the combined AAs in 2016 and 2017. The bank originated 4,497 small business loans totaling \$885.4 million within the combined AAs in 2019 and 2020. This also represents a significant increase from the previous evaluation when the bank originated 3,135 small business loans totaling \$657.2 million within the combined AAs in 2016 and 2017. Total loans include 1,753 SBA PPP loans originated and reported within the AA in 2020 and totaling \$229.2 million.

Mercantile’s loan-to-deposit (LTD) ratio averaged 101.8 percent over the 12 quarters since the previous evaluation, and varied from a high of 110.4 percent to a current low of 88.2 percent. This performance exceeds the average LTD ratio of four similarly-situated banks which had ratios ranging from 70.8 percent to 95.3 percent. The bank’s LTD ratio has steadily declined each quarter since March 31, 2020, while the bank’s total deposits have steadily increased during the same time period. As mentioned previously, the increase in deposits is due in part to government economic stimulus programs, which benefited both individuals and small businesses. This influx of deposits outpaced loan demand leading to a lower than average LTD ratio. Since March 31, 2020, all four of the similarly-situated banks had LTD ratios steadily decline, with three out of the four experiencing a decline greater than Mercantile.

Assessment Area Concentration

The bank made a high percentage of its loans within its AAs, by both number and dollar amount, as shown in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2019	1,590	81.3	365	18.7	1,955	289,014	78.4	79,555	21.6	368,569
2020	3,232	78.9	865	21.1	4,097	684,764	76.4	211,645	23.6	896,409
Subtotal	4,822	79.7	1,230	20.3	6,052	973,778	77.0	291,200	23.0	1,264,978
Small Business										
2019	1,286	88.6	166	11.4	1,452	315,455	86.7	48,418	13.3	363,873
2020	3,211	87.9	442	12.1	3,653	569,934	87.0	85,218	13.0	655,152
Subtotal	4,497	88.1	608	11.9	5,105	885,389	86.9	133,636	13.1	1,019,025
Small Farm										
2019	41	95.3	2	4.7	43	4,678	96.4	175	3.6	4,853
2020	37	90.2	4	9.8	41	4,464	86.0	727	14.0	5,191
Subtotal	78	92.9	6	7.1	84	9,142	91.0	902	9.0	10,044
Total	9,397	83.6	1,844	16.4	11,241	1,868,309	81.4	425,738	18.6	2,294,047

Source: Bank Data. Due to rounding, totals may not equal 100.0%

Geographic Distribution

Overall, the geographic distribution of loans reflects good penetration throughout the AAs. Good performance in three of the six AAs (including the most heavily weighted markets) supports this conclusion. Examiners present the bank’s performance under this criterion in detail for each AA later in this evaluation.

Borrower Profile

Overall, the distribution of borrowers reflects good penetration among borrowers of different income levels and businesses of different sizes. The conclusion is supported by excellent performance in the Non-MSA AA balanced against adequate performance in most of the other markets. Examiners present the bank’s performance under this criterion in detail for each AA later in this evaluation.

Innovative or Flexible Lending Practices

Mercantile makes extensive use of innovative and/or flexible lending practices in order to serve AA credit needs of low- and moderate-income borrowers and small businesses. In response to the COVID-19 pandemic in 2020, the bank originated 2,291 PPP loans to businesses, totaling approximately \$566.6 million. In 2021, the bank made an additional 1,208 PPP loans, totaling \$207.4 million. These numbers include 226 PPP loans totaling \$57.8 million in 2020, and 106

loans totaling \$22.2 million made outside of the bank's AAs. PPP loans are designed to help businesses retain workers and staff during economic hardships resulting from the pandemic.

In addition to the PPP loans, the bank made 679 loans totaling \$118.4 million that feature innovative or flexible characteristics during the review period. Many of the programs featuring these characteristics are provided through federal or state governments, although Mercantile developed three programs internally that are new since the prior evaluation. Lending programs utilized by the bank include the following:

- ***Credit Builder*** – Certificate of deposit secured loan program that assists eligible customers to build or reestablish credit. Loans are in amount of \$500 or \$1,000.
- ***Federal Housing Authority (FHA) Loans*** – Federal program that provides flexible terms and underwriting criteria for home mortgage loans to qualified individuals and families.
- ***Federal Home Loan Bank of Indianapolis (FHLBI)*** – Grant programs designed to address the homeownership needs of families throughout the life cycle of homeownership. Mercantile participated in the Homeownership Opportunities Program (HOP), which helps first-time homebuyers with down payment assistance, and the Neighborhood Impact Program (NIP), which assists income-eligible homeowners with repairs.
- ***Fix It*** – Bank program that offers borrowers with incomes at or below 100 percent of HUD median income limits a \$1,500 taxable gift from Mercantile, which the borrower can apply as a principal payment once the qualifying home improvement project is complete.
- ***Freddie Mac Home Possible*** – Program that offers options and credit flexibilities to low-income borrowers desiring a low down payment solution with flexible sources of funds.
- ***Michigan State Housing Development Authority (MSHDA) Loans*** – State-run program that offers down payment support for first-time homebuyers with incomes below certain limits.
- ***United States Department of Agriculture Rural Development (RD) Loans*** – Federal program that allows eligible rural homebuyers to purchase a home with no down payment and low interest rates.
- ***Small Business Administration (SBA) Loans*** – Federal program that allows for loans with flexible terms to small businesses that may not qualify for traditional financing. Mercantile offered SBA 504 and SBA Express loans during the review period.
- ***United States Department of Agriculture (USDA) Loans*** – Federal program is a loan guarantee program that is designed to assist credit-worthy rural businesses obtain needed credit that benefits from better pricing and terms than can be secured with conventional loans.

Innovative or Flexible Lending Programs										
Type of Program	2018*		2019		2020		2021**		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Credit Builder	-	-	10	6	22	17	17	15	49	38
FHA	10	1,588	44	7,140	44	5,969	48	7,649	146	22,346
Fix It	-	-	-	-	1	5	2	14	3	19
Home Possible	22	2,320	114	14,411	118	16,484	88	12,639	342	45,854
MSHDA	17	1,598	29	3,142	19	2,254	11	1,306	76	8,300
PPP	-	-	-	-	2,291	566,594	1,208	207,393	3,499	773,987
RD	-	-	15	1,437	11	1,332	6	807	32	3,576
SBA 504	-	-	10	10,145	8	7,121	11	15,627	29	32,893
SBA Express	-	-	-	-	1	129	-	-	1	129
USDA	-	-	1	5,293	-	-	-	-	1	5,293
Totals	49	5,506	223	41,574	2,515	599,905	1,391	245,450	4,178	892,435

*Source: Bank Data, *9/4/2018-12/31/2018, 2019, 2020, **1/1/2021-9/13/2021*

In addition to the loans above, Mercantile has established partnerships with approximately 10 organizations to work in tandem in identifying and referring individuals/families to appropriate resources related to affordable homeownership, down payment assistance, and financial education classes. Within the FHLBI products, the bank facilitated grants in conjunction with home loans. The bank provided down payment assistance through the HOP for 17 loans, totaling assistance of \$122,000. Similarly, the bank provided NIP grants in conjunction with loans to assist eligible borrowers in completing home repairs and improvements. Mercantile also operates the Extra Credit closing cost program, which aids borrowers in covering closing costs for their home purchase, providing assistance for 53 borrowers over the course of the review period.

Mercantile also provided 443 loan modifications during the review period. The loan modifications assisted borrowers with changes in payments or amortization, deferral of interest, and extensions of maturity.

Community Development Loans

Mercantile is a leader in making community development loans within its AAs. The bank originated 269 community development loans totaling \$572.5 million during the evaluation period. This total activity includes 79 qualified PPP loans totaling \$69.0 million. This activity represents a significant increase from the previous evaluation when the bank originated 172 loans totaling \$451.0 million. Qualified community development lending represents 17.5 percent of total loans and 12.1 percent of total assets. This performance significantly exceeds the performance of four similarly-situated banks which had community development loan ratios ranging from 0.8 percent to 8.2 percent of total loans and from 0.6 to 4.2 percent of total assets.

Mercantile originated community development loans in each of its six AAs; however, examiners placed the most weight on the Grand Rapids and Non-MSA AAs as previously mentioned. Since the bank generally met the community development needs of its AAs, examiners considered loans made outside the AAs that impacted a broader regional or statewide area. The bank originated 34 community development loans totaling \$62.3 million outside the AAs, which represents 12.6 percent by number and 10.9 percent by dollar volume of the bank’s total qualified community development lending activity. The following table shows the bank’s community development lending by purpose and year. Examiners provide more detail about community development loans in the separate sections for each AA.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018 (Partial)*	3	3,333	9	4,483	6	38,791	10	69,086	28	115,693
2019	11	8,759	24	22,803	20	73,378	12	52,613	67	157,553
2020	30	17,893	50	22,041	27	52,263	18	65,707	125	157,904
YTD 2021**	5	4,540	17	8,138	21	68,626	6	60,070	49	141,374
Total	49	34,525	100	57,465	74	233,058	46	247,476	269	572,524

*Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021*

Notable examples of community development loans originated outside the bank’s AAs include the following:

- \$14.5 million to fund the construction of a grocery store in a moderate-income census tract in Detroit, Michigan. The grocery store will serve as an anchor business to attract other businesses and residents to the area while providing services to current residents of a moderate-income census tract.
- \$1.7 million to fund the construction of a new human services building in Alpena, Michigan. The organization will use the building to provide a variety of services for low- and moderate-income communities (including cash, childcare, food, housing, and homeless assistance).
- \$1.2 million to fund the purchase of a 32-unit Section 8 affordable housing complex for seniors.

INVESTMENT TEST

Overall, examiners assigned an “Outstanding” rating under the Investment Test given community needs, financial capacity and business focus, investment and donation activity, and the availability of investment opportunities. While the bank’s Investment Test performance in the individual AAs are not all reflective of excellent results, when considered together with the bank’s investment activities outside its combined AA, examiners consider the bank performance “Outstanding.”

Investment and Grant Activity

Mercantile has an excellent level of qualified community development investments and donations, often in a leadership position, particularly those that are not routinely provided by private investors.

The bank made or maintained 141 qualified community development investments totaling \$89.0 million during the evaluation period. The bank also made 335 qualified community development donations totaling \$2.1 million. This activity represents a significant increase from the previous evaluation, when the bank had 120 investments totaling \$70.7 million and 220 donations totaling \$730,000. Qualified community development investments and donations represent 18.0 percent of total securities and 1.9 percent of total assets. This performance exceeds the performance of four similarly-situated banks. This performance compares favorably to four similarly-situated banks, where qualified investment and donation ratios ranged from 5.8 percent to 11.5 percent of total securities and from 0.5 percent to 2.7 percent of total assets.

Mercantile made and maintained community development investments in each of its six AAs. The bank made the most investments by number within the Grand Rapids and Non-MSA AAs; however, the bank made the most investments by dollar volume within the Warren AA. As the bank generally met the community development needs of the AAs, examiners considered investments and donations made outside the AAs that impacted a broader regional or statewide area. The bank made or maintained 58 community development investments totaling \$26.0 million outside the AAs. The bank also made four community development donations totaling \$6,000 outside the AAs. That activity represents 13.0 percent by number and 28.4 percent by dollar volume of the bank’s total qualified community development investment and donation activity. The following table shows the bank’s community development investments and donations by purpose and year. Examiners provide more detail about community development investments and donations in the separate sections for each AA.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	15	11,971	31	10,280	1	803	1	340	48	23,394
2018 (Partial)*	-	-	-	-	-	-	-	-	-	-
2019	14	11,747	20	7,035	-	-	5	4,655	39	23,437
2020	1	59	11	6,110	1	1,000	1	1,100	14	8,269
YTD 2021**	20	23,897	17	7,465	-	-	3	2,585	40	33,947
Subtotal	50	47,674	79	30,890	2	1,803	10	8,680	141	89,047
Qualified Grants & Donations	39	189	273	1,737	22	127	1	5	335	2,058
Total	89	47,863	352	32,627	24	1,930	11	8,685	476	91,105

*Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021*

Notable examples of community development investments made outside the bank’s AAs include the following:

- Invested in a municipal school bond totaling \$1.0 million for a school district that primarily serves low- and moderate-income students.
- Purchased eight new certificates of deposit from minority-owned institutions totaling \$2.0 million.

- Invested approximately \$840,500 in a mortgage-backed loan pool primarily consisting of mortgage loans to low- and moderate-income families.

Responsiveness to Credit and Community Development Needs

The institution exhibits excellent responsiveness to credit and community development needs. Community contacts from throughout the combined AAs noted a need for affordable housing and services for low- and moderate-income individuals, and the bank's investment and donation activities are consistent with those needs in the AAs.

Community Development Initiatives

The institution occasionally uses innovative and/or complex investments to support community development initiatives. The institution primarily invests in municipal school bonds, certificates of deposit from minority-owned institutions, qualified CRA funds, and low-income housing loan pools to support community development initiatives. The majority of initiatives focused on affordable housing and community services targeted to low- and moderate-income individuals.

SERVICE TEST

Overall, examiners assigned a "High Satisfactory" rating under the Service Test.

Accessibility of Delivery Systems

Delivery systems are accessible to essentially all portions of the institution's AAs. In addition to its main branch, Mercantile operates 32 full-services branches, three drive-thru locations, three VBM-only locations, and five loan production offices. In addition to brick-and-mortar locations, Mercantile offers a variety of alternative delivery methods to meet the diverse needs of its combined AAs. The bank offers internet banking with bill pay, telephone banking, mobile banking, mobile wallets, person-to-person payments, and remote deposit capture. Mercantile also allows customers to open consumer deposit accounts online and apply for mortgages online. Further, the bank has 25 ATMs and nine VBMs located at full-service branches and drive-thru locations.

Changes in Branch Locations

To the extent changes have been made, the institution's opening and closing of branches has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.

During the review period, Mercantile closed nine branch offices with the following census tract income designations: five moderate-income; three middle-income; and one upper-income. One of the middle-income geographies was distressed for poverty. The bank opened one branch location in an upper-income census tract. In aggregate, branches in moderate-income tracts represent 63 percent of the net decline in branches. The impact was most pronounced in the Grand Rapids AA, where the net three-branch decline in branches was exclusively in moderate-income tracts.

The bank also opened two VBM-only locations. One VBM location is located in a moderate-income census tract, and the other VBM is located in a middle-income census tract.

While the bank primarily closed branch offices in moderate-income tracts, in most instances those branches were either consolidated with a branch in close proximity or a VBM-only location was opened nearby. Data presented to the bank related to continued maintenance, opening, and closing of deposit accounts, as well as the volume of transactions, following the closures mitigates the impact of these closures to some extent.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences portions of the AAs, particularly low- and moderate-income geographies and/or individuals. With the exception of the drive-thru-only and VBM-only locations, all bank branch offices offer the same products and services, and most operate the same days of the week and same business hours. Hours and services are similar to those offered by other banks in the AAs. While limited locations are not open on Saturdays, bank management completes transaction analyses to determine which locations will be open on Saturdays depending on demand.

In addition to its offering of traditional bank products, Mercantile also provides Individual Development Accounts, which are matched savings accounts provided to income eligible individuals and families to help build assets and achieve financial stability. In partnership with several community organizations, the bank opened and currently services 83 accounts with total balances of \$48,641.

Also, Mercantile offers payroll cards directly to consumers through some of the institution's commercial customers' employees. While income of the cardholders is not maintained, the bank provided data to support that approximately 45 percent of the customer base reside in low- and moderate-income tracts, and these cards have been shown to be an alternative to traditional bank accounts for some unbanked populations. While Mercantile issued these cards directly until April 2020, the bank now sells these through a third party. The bank facilitated 2,119 payroll cards during the evaluation period.

Lastly, the Michigan Department of Health and Human Services provides Electronic Benefit Transfer/Bridge Cards to low-income families for the purchase of certain food products and to access cash benefits. Through its operation of proprietary ATMs in the Quest Network, Bridge Card users can access the network through Mercantile ATMs at no cost. During the evaluation period, Mercantile ATMs processed 3,010 Bridge Card transactions.

Community Development Services

Mercantile is a leader in providing community development services, conducting 909 services during the review period. Bank directors, officers, and employees provided a significant level of community development services to numerous organizations throughout the AAs, primarily comprised of financial education and technical assistance to community development organizations

and programs. Numerous officers, directors, and employees hold positions as board members of organizations, which provide economic development, affordable housing, and community services within the AAs. While the bank remains a leader in services provided, the bank’s level of community development services decreased significantly since the prior evaluation. Examiners attribute this decrease in services to the significant decrease in opportunities caused by the COVID-19 pandemic and ensuing economic shutdowns.

At the last evaluation, the bank averaged approximately 300 qualified community development services in each year of the review period. The bank exceeded this average within the portion of 2018 considered during this evaluation, and significantly exceeded this average in 2019. The COVID-19 pandemic began in 2020, which limited the ability for the bank to deliver community development services due to economic shutdowns that occurred throughout the bank’s AAs. Its overall level of community development services provided were significantly above those of three of the four similarly-situated institutions. The following table illustrates the qualified community development services performed by bank personnel in the overall AA since the previous evaluation.

Community Development Services in AAs					
Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
2018 (Partial)	30	17	1	-	48
2019	101	370	10	10	491
2020	37	117	21	28	203
2021 (YTD)	43	95	7	13	158
Total	211	599	39	51	900
<i>Source: Bank Data</i>					

As the bank provided services meeting the needs of all AAs over the evaluation period, examiners also considered nine community development services, which occurred outside of the bank’s AAs and consisted largely of financial literacy provided to qualified individuals and groups. The following table illustrates the volume of community development service activities by AA since the previous evaluation.

Community Development Services by AA					
AA	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
Grand Rapids	126	297	32	43	498
Non-MSA	13	202	3	8	226
Kalamazoo	19	45	2	-	66
Troy	24	12	-	-	36
Saginaw	7	32	2	-	41
Lansing	22	11	-	-	33
TOTAL IN AA	211	599	39	51	900
Outside of AA	-	9	-	-	9
Total	211	608	39	51	909

Source: Bank Data

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners reviewed the bank’s compliance with the laws relating to discrimination and other illegal credit practices, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

GRAND RAPIDS-KENTWOOD, MI MSA AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE GRAND RAPIDS-KENTWOOD, MI MSA AA

The bank’s Grand Rapids AA consists of the entirety of Ionia, Kent, Ottawa, and Montcalm Counties, which are located in the Grand Rapids-Kentwood, Michigan MSA. Mercantile operates its main office, nine additional full-service branches, two drive-thru locations, a VBM-only location, and a loan production office in this AA. Since the prior evaluation, the bank opened one branch in an upper-income census tract and a VBM-only location in a middle-income census tract. The bank closed four branches located in an upper-income tract and three in moderate-income tracts. The AA accounts for 52.3 percent of the bank’s total deposits as of June 30, 2021. Of the loans originated or purchased in its AAs, the bank originated 48.0 percent of home mortgage loans and 44.4 percent of small business loans by number volume within this AA.

Economic and Demographic Data

Based on 2015 ACS data, this AA contains 208 census tracts with the following income designations: 12 low-income; 47 moderate-income; 100 middle-income; and 47 upper-income. The AA also contains two tracts with no income designation. Kent County contains 11 of the 12 low-income tracts and 31 of the 47 moderate-income tracts. The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Assessment Area: Grand Rapids						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	208	5.8	22.6	48.1	22.6	1.0
Population by Geography	1,022,794	4.6	20.5	49.6	25.0	0.3
Housing Units by Geography	404,832	3.8	22.0	50.9	23.3	0.0
Owner-Occupied Units by Geography	270,018	1.7	16.9	52.7	28.6	0.0
Occupied Rental Units by Geography	104,602	8.0	32.9	47.5	11.7	0.0
Vacant Units by Geography	30,212	7.5	29.7	46.5	16.3	0.0
Businesses by Geography	68,469	3.0	17.0	48.1	31.9	0.0
Farms by Geography	2,520	0.9	14.2	56.0	28.9	0.0
Family Distribution by Income Level	257,203	19.6	18.0	22.3	40.2	0.0
Household Distribution by Income Level	374,620	22.6	17.0	18.6	41.7	0.0
Median Family Income MSA - 24340 Grand Rapids-Kentwood, MI MSA		\$64,496	Median Housing Value			\$140,638
			Median Gross Rent			\$785
			Families Below Poverty Level			9.4%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Geographic Distribution criterion compares the bank’s home mortgage lending to the distribution of owner-occupied housing units in the AA by census tract income level. Based on 2015 ACS data, the AA contains 404,832 housing units, of which 66.7 percent are owner-occupied, 25.8 percent are occupied rental units, and 7.5 percent are vacant.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of lending by GAR level. According to 2020 D&B data, the AA contains 68,469 non-farm businesses with the following gross annual revenue (GAR) levels:

- 82.9 percent have \$1.0 million or less
- 6.7 percent have more than \$1.0 million
- 10.4 percent have unknown revenues

D&B data from 2020 shows the largest industries in the AA are services (38.5 percent); non-classifiable establishments (15.0 percent); retail trade (12.4 percent); finance, insurance, and real estate (9.0 percent); and construction (7.3 percent). In addition, 88.4 percent of the businesses operate from a single location, and 61.6 percent have four or fewer employees. Major employers in the AA include Spectrum Health, Meijer Inc., Mercy Health, Gentex Corporation, and Axios Inc.

Examiners also consider unemployment data when evaluating a bank’s ability to lend in its AAs. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows the unemployment rates within the AA declined from 2018 to 2019, and then significantly increased in 2020 due to the COVID-19 pandemic. Aside from Montcalm County, unemployment rates within the AA consistently trailed state and nationwide rates.

Unemployment Rates - Grand Rapids			
Area	2018	2019	2020
	%	%	%
Ionia County	3.5	3.3	7.9
Kent County	3.0	2.8	7.6
Montcalm County	4.3	4.0	9.1
Ottawa County	2.8	2.7	6.8
Michigan	4.2	4.1	9.9
National Average	3.9	3.7	8.1
<i>Source: U.S. Bureau of Labor Statistics</i>			

Examiners use the FFIEC-adjusted median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the low-, moderate-, middle-, and upper-income ranges for the AA during the evaluation period.

Median Family Income Ranges - Grand Rapids AA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Grand Rapids-Wyoming, MI MSA Median Family Income (24340)				
2018 (\$70,300)	<\$35,150	\$35,150 to <\$56,240	\$56,240 to <\$84,360	≥\$84,360
Grand Rapids-Kentwood, MI MSA Median Family Income (24340)				
2019 (\$70,500)	<\$35,250	\$35,250 to <\$56,400	\$56,400 to <\$84,600	≥\$84,600
2020 (\$73,900)	<\$36,950	\$36,950 to <\$59,120	\$59,120 to <\$88,680	≥\$88,680
MI NA Median Family Income (99999)				
2018 (\$58,700)	<\$29,350	\$29,350 to <\$46,960	\$46,960 to <\$70,440	≥\$70,440
<i>Source: FFIEC</i>				

Since the previous evaluation, the Office of Management and Budget revised delineations for the nation’s MSAs based on population statistics and other factors. Because of the changes, the former Grand Rapids-Wyoming, Michigan MSA became the Grand Rapids-Kentwood, Michigan MSA. Additionally, prior to the revisions, Ionia County was not included in the MSA. The table above reflects the name change by applicable year, and shows the median family income for the non-MSA geographies located in Michigan, which previously included Ionia County.

The State of Michigan became subject to a federal major disaster declaration in March 2020 due to the COVID-19 pandemic (FEMA-4494-DR), which included Ionia, Kent, Montcalm, and Ottawa Counties.

Competition

Mercantile operates in a highly competitive market for financial services. According to FDIC market share data as of June 30, 2021, 27 FDIC-insured financial institutions have \$30.2 billion in deposits and operate 276 offices within the AA. Of these institutions, Mercantile ranks 6th with 6.4 percent of the market share. The top five institutions account for 66.5 percent of the market share.

There is a high level of competition for home mortgage loans. Based on 2020 HMDA aggregate data, 473 lenders originated or purchased 65,016 home mortgage loans in the AA. Mercantile ranked 7th with 2.4 percent of the market share. The top five lenders accounted for 36.7 percent of the home mortgage lending market share.

There is also a high level of competition for small business loans. Based on 2019 aggregate data, 101 lenders originated or purchased 18,338 small business loans in the AA. Mercantile ranked 10th with 3.0 percent of the market share. The top five lenders accounted for 55.5 percent of the small business lending market share.

Community Contact

As part of the evaluation process, examiners contacted third parties active in the AA to assist in identifying credit and community development needs and opportunities. The information helps assess whether local financial institutions are responsive to those needs. For this evaluation, examiners used information from a contact with leadership from a local chamber of commerce. The contact noted tight housing availability, increased housing costs due to supply and demand, and workforce availability as a limitation many organizations are facing. The contact cited the primary credit needs of the community involve those for business and housing growth. The contact suggested it is a competitive market for financial institutions with very strong players. Lastly, the contact stated they would like to see more financial institutions involved in programs that support entrepreneurship and startup businesses.

Credit and Community Development Needs and Opportunities

Considering the information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing and small business lending are the primary credit needs in the AA. Opportunities for these activities exist, given the large percentage of businesses with GARs of \$1.0 million or less and the level of low- and moderate-income tracts and families within the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE GRAND RAPIDS-KENTWOOD, MI MSA AA

LENDING TEST

Mercantile demonstrated good performance under the Lending Test in the Grand Rapids AA.

Lending Activity

Lending levels reflect excellent responsiveness to AA credit needs. During the review period, Mercantile originated 2,315 home mortgage loans totaling \$537.4 million and 1,998 small business loans totaling \$467.0 million in this AA. Home mortgage lending more than doubled by number and dollar volume from 2019 to 2020, and small business lending more than doubled by number from 2019 to 2020. Lending activity significantly increased from the prior evaluation in this AA, when the bank originated 711 home mortgage loans totaling \$170.7 million and 1,412 small business loans totaling \$363.8 million in 2016 and 2017.

Geographic Distribution

Overall, the geographic distribution of loans reflects good penetration throughout the AA. Good performance in home mortgage lending and excellent performance in small business lending supports this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects good penetration throughout the AA. The following table illustrates the geographic distribution of home mortgage loans and includes 2019 and 2020 aggregate HMDA data.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Grand Rapids						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	1.7	1.8	18	2.3	2,160	1.3
2020	1.7	1.5	22	1.4	3,426	0.9
Moderate						
2019	16.9	15.5	133	17.3	17,550	10.9
2020	16.9	13.3	215	13.9	31,593	8.4
Middle						
2019	52.7	51.6	369	47.9	74,879	46.6
2020	52.7	51.3	684	44.3	144,960	38.5
Upper						
2019	28.6	31.1	250	32.5	65,929	41.1
2020	28.6	34.0	624	40.4	196,913	52.2
Not Available						
2019	0.0	0.0	0	0.0	0	0.0
2020	0.0	0.0	0	0.0	0	0.0
Totals						
2019	100.0	100.0	770	100.0	160,518	100.0
2020	100.0	100.0	1,545	100.0	376,892	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

In 2019, bank performance exceeded demographic and aggregate performance in low- and moderate-income tracts. In 2020, bank performance slightly trailed demographic and aggregate performance in low-income tracts. Lending opportunities within low-income tracts are limited as evidenced by the low percentage of owner occupied units. In 2020, bank performance slightly exceeded aggregate performance in moderate-income tracts, although performance trailed demographics. Given that the bank's performance largely outpaced the aggregate market, examiners considered the bank's performance good.

Small Business Loans

The geographic distribution of small business loans reflects excellent penetration throughout the AA. The following table illustrates the geographic distribution of small business loans and includes 2019 aggregate CRA small business lending data.

Geographic Distribution of Small Business Loans						
Assessment Area: Grand Rapids						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	3.1	3.5	46	8.3	13,316	8.1
2020	3.0	--	80	5.5	20,385	6.7
Moderate						
2019	17.6	16.0	107	19.3	27,695	16.8
2020	17.0	--	299	20.7	61,457	20.3
Middle						
2019	48.3	48.0	249	44.9	79,176	48.1
2020	48.1	--	632	43.8	127,455	42.1
Upper						
2019	31.0	32.5	152	27.4	44,338	26.9
2020	31.9	--	433	30.0	93,227	30.8
Totals						
2019	100.0	100.0	554	100.0	164,525	100.0
2020	100.0	--	1,444	100.0	302,524	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

In 2019, bank performance exceeded aggregate performance and the percentage of businesses in both low- and moderate-income tracts. In 2020, while aggregate data was not yet available, bank performance again exceeded the percentage of businesses in both low- and moderate-income tracts. The volume and total dollar amount of small business loans significantly increased in both low- and moderate-income tracts between 2019 and 2020.

Borrower Profile

Overall, the distribution of borrowers reflects adequate penetration among borrowers of different income levels and businesses of different sizes. Adequate penetration within the more heavily weighted home mortgage segment relative to poor small business lending results supports this conclusion.

Home Mortgage Loans

The distribution of borrowers reflects adequate penetration to individuals of different income levels. The following table illustrates the distribution of lending by borrower income within the AA. Examiners focused on the bank's performance compared to aggregate performance, as it better illustrates demand and lending opportunities.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Grand Rapids						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	19.6	7.8	49	6.4	4,412	2.7
2020	19.6	6.6	84	5.4	8,439	2.2
Moderate						
2019	18.0	21.7	141	18.3	18,774	11.7
2020	18.0	21.3	251	16.2	38,239	10.1
Middle						
2019	22.3	24.4	189	24.5	33,455	20.8
2020	22.3	23.9	329	21.3	60,395	16.0
Upper						
2019	40.2	36.9	336	43.6	93,364	58.2
2020	40.2	38.3	787	50.9	237,682	63.1
Not Available						
2019	0.0	9.1	55	7.1	10,513	6.5
2020	0.0	9.9	94	6.1	32,137	8.5
Totals						
2019	100.0	100.0	770	100.0	160,518	100.0
2020	100.0	100.0	1,545	100.0	376,892	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Bank performance trailed aggregate performance to low- and moderate-income borrowers in 2019 and 2020 by an average of approximately 2.8 percentage points. In 2019, bank performance trailed the percentage of low-income families and slightly exceeded the percentage of moderate-income families in the AA. In 2020, bank performance trailed the percentage of both low- and moderate-income families in the AA. While the bank's performance generally trailed aggregate performance and the percentage of low- and moderate-income families in the AA, the volume of loans to low-income borrowers in 2020 increased approximately 71.4 percent, and the volume of loans to moderate-income borrowers increased approximately 78.0 percent.

Also, 9.4 percent of families in the AA have incomes below the poverty level. These families likely face difficulty qualifying for and/or servicing debt in amounts necessary to afford homes in the AA. For the reasons discussed above, examiners considered the bank's performance adequate.

Small Business Loans

The distribution of borrowers among small business loans reflects poor penetration throughout the AA. The following table illustrates the geographic distribution of small business loans and includes 2019 aggregate CRA small business lending data.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Grand Rapids						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2019	80.7	43.3	166	30.0	29,755	18.1
2020	82.9	--	537	37.2	45,408	15.0
>\$1,000,000						
2019	7.8	--	364	65.7	127,719	77.6
2020	6.8	--	810	56.1	241,386	79.8
Revenue Not Available						
2019	11.5	--	24	4.3	7,051	4.3
2020	10.4	--	97	6.7	15,730	5.2
Totals						
2019	100.0	100.0	554	100.0	164,525	100.0
2020	100.0	--	1,444	100.0	302,524	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Bank performance trailed both the percentage of businesses in 2019 and 2020, as well as the 2019 aggregate performance of other CRA-reporting institutions in the AA. While bank performance trailed both comparators, the volume of loans increased substantially between 2019 and 2020, increasing the bank’s performance of lending to small businesses. Much of this growth was the result of the bank originating and reporting 810 PPP loans totaling \$122.5 million within the AA.

Innovative or Flexible Lending Practices

The institution makes extensive use of innovative and/or flexible lending practices in order to serve AA credit needs. Mercantile originated 257 innovative and/or flexible loans totaling \$55.8 million within the AA, representing an increase by number from the 165 loans originated at the last examination. The bank also originated 1,469 loans totaling \$428.3 million under the SBA PPP. The following table illustrates the volume of lending by product type and year.

Innovative or Flexible Lending Programs – Grand Rapids										
Type of Program	2018*		2019		2020		2021**		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Credit Builder	-	-	4	2	8	7	5	4	17	13
FHA	3	652	22	3,954	10	1,934	8	1,496	43	8,036
Fix It	-	-	-	-	-	-	1	7	1	7
Home Possible	7	906	61	8,725	54	8,995	31	5,580	153	24,206
MSHDA	4	506	9	1,204	2	310	-	-	15	2,020
PPP	-	-	-	-	983	316,754	486	111,558	1,469	428,312
RD	-	-	3	363	3	439	2	348	8	1,150
SBA 504	-	-	7	6,208	7	5,921	6	8,209	20	20,338
Totals	14	2,064	106	20,456	1,067	334,360	539	127,202	1,726	484,082

Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021

Community Development Loans

Mercantile is a leader in making community development loans in the AA. Of all its community development loans, the bank originated 154 loans totaling \$362.8 million in this AA, which represents 57.3 percent by number and 63.4 percent by dollar volume of the bank’s total qualified lending activity. The number and dollar volume of community development lending in this AA significantly increased since the last evaluation, when the bank originated 104 loans totaling \$333.3 million. The following table shows the bank’s community development lending by purpose and year in the AA.

Community Development Lending – Grand Rapids										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018 (Partial)*	1	500	5	2,523	2	16,700	9	62,486	17	82,209
2019	4	3,938	17	14,388	11	38,479	9	50,038	41	106,844
2020	5	2,371	34	14,783	17	34,205	9	27,873	65	79,232
YTD 2021**	1	773	13	5,600	14	41,699	3	46,449	31	94,520
Total	11	7,582	69	37,294	44	131,083	30	186,846	154	362,805

Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021

Notable examples of community development loans originated by the bank in the AA include the following:

- \$14.5 million to fund the construction of a hotel in downtown Grand Rapids that will create over 60 jobs. Low- and moderate-income employees will fill the majority of the jobs created.
- \$3.9 million to develop the first floor of a mixed-use building in a moderate-income census tract in Grand Rapids. The first floor will support a restaurant and a convenience store. The top floors of the building will house low- and moderate-income residents. This loan assists in providing services to the residents of the building and a moderate-income census tract.

- \$3.0 million to fund the renovation of the corporate headquarters of an affordable housing provider. The project will house 40 low-income apartments on the second and third floors, and the first floor will support the corporate offices, a church, a learning center, and shared space. The project also received low-income housing tax credits and historical tax credits.

INVESTMENT TEST

Mercantile demonstrated good performance under the Investment Test in the Grand Rapids AA.

Investment and Grant Activity

Mercantile has made a high level of qualified community development investments and donations, often in a leadership position, particularly those that are not routinely provided by private investors. In total, the bank made or maintained 27 qualified investments totaling \$17.2 million in the AA. The bank also made 201 qualified donations totaling \$1.7 million in the AA. This represents 47.9 percent by number and 20.7 percent by dollar volume of the bank’s total qualified investment and donation activity. The number and dollar volume of community development investments and donations in this AA significantly increased since the last evaluation, when the bank made 14 investments totaling \$7.8 million and 148 donations totaling \$583,000. The following table shows the bank’s community development investments and donations by purpose and year in the AA.

Qualified Investments – Grand Rapids										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	5	4,769	5	979	-	-	1	340	11	6,088
2018 (Partial)*	-	-	-	-	-	-	-	-	-	-
2019	3	1,771	1	750	-	-	1	945	5	3,466
2020	-	-	3	2,330	1	1,000	-	-	4	3,330
YTD 2021**	5	3,402	1	350	-	-	1	535	7	4,287
Subtotal	13	9,942	10	4,409	1	1,000	3	1,820	27	17,171
Qualified Grants & Donations	21	120	162	1,442	18	121	-	-	201	1,683
Total	34	10,062	172	5,851	19	1,121	3	1,820	228	18,854

*Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021*

Notable examples of community development investments and donations made by the bank in the AA include the following:

- The bank invested in a municipal school bond totaling \$930,000 for a school district that primarily serves low- and moderate-income students.
- Mercantile donated a bank building located in a moderate-income census tract to the local community library. The building was valued at \$580,000.
- The bank maintains a prior period investment totaling approximately \$1.0 million in a fund that receives low-income housing tax credits to support the development of affordable housing projects.

Responsiveness to Credit and Community Development Needs

The institution exhibits excellent responsiveness to the credit and community development needs of the AA. The qualified investments and donations the bank made during the review period mirror the needs described by the community contact. Specifically, the largest dollar volume of investment activity in the AA benefitted affordable housing. The bank also made considerable investments and donations to community services targeted to low- and moderate-income individuals.

Community Development Initiatives

The institution occasionally uses innovative and/or complex investments to support community development initiatives. The institution primarily invested in municipal school bonds, qualified CRA funds, and low-income housing loan pools to support community development initiatives in the AA.

SERVICE TEST

Mercantile demonstrated good performance under the Service Test in the Grand Rapids-Kentwood AA.

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the institution's AA. Mercantile operates 10 branches, two drive-thru locations, and a VBM location in the AA. Of those 13 locations, one is located in a low-income tract and three are located in moderate-income tracts, which at 7.7 and 23.1 percent respectively, exceeds the corresponding population of low- (4.6 percent) and moderate-income individuals (20.5 percent), as well as low- (5.8 percent) and moderate-income tracts (22.6 percent) in the AA. As discussed previously, Mercantile offers a variety of alternative methods for customers to access banking products and services in addition to brick-and-mortar locations. Further, all but one location in this AA has either an ATM or a VBM. The accessibility of delivery systems in this AA is consistent with the bank's overall accessibility.

Changes in Branch Locations

To the extent changes have been made, the institution's opening and closing of branches in this AA has not generally adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.

During the review period, Mercantile closed four branch offices in this AA with the following income tract designations: three moderate-income and one upper-income. The bank opened one branch location in an upper-income census tract, and one VBM-only location in a middle-income census tract. Two of the closed moderate-income census tract branches had another branch in close proximity. The bank converted the third moderate-income census tract branch to a drive-thru only

location before closing the location completely and relocating it 1.9 miles away to the aforementioned VBM-only location.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences portions of the AA, particularly low- and moderate-income geographies and/or individuals. Except as previously mentioned concerning the drive-thru only and VBM only locations, operating hours and services do not vary significantly and are similar to the hours and services offered by other banks within this AA. In this AA, only one branch and the VBM-only location are not open on Saturdays, and neither are located in a low- or moderate-income census tract. The reasonableness of business hours and services in this AA is consistent with the bank’s overall business hours and services.

Community Development Services

The institution is a leader in providing community development services. Mercantile provided 498 qualified services within the AA, which represents 54.8 percent of the total services provided by the bank during the evaluation period. The bank’s performance in the AA decreased since the last evaluation, when it provided 751 qualified community development services in the AA. This decrease is largely attributed to the COVID-19 pandemic and ensuing economic shutdowns, which continue to limit available opportunities for the bank to provide community development services.

Bank employees provided financial literacy courses that accounted for more than 791 hours of employee time and impacted nearly 4,000 residents and students throughout the AA. The following table provides a summary of the qualifying community development services bank personnel engaged in since the previous evaluation.

Community Development Services - Grand Rapids					
Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
2018 (Partial)	28	9	1	-	38
2019	71	164	7	7	249
2020	17	67	19	25	128
2021 (YTD)	10	57	5	11	83
Total	126	297	32	43	498
<i>Source: Bank Data</i>					

The following table details notable examples of the community development services bank personnel provided during the evaluation period within the AA.

Community Development Services – Grand Rapids				
Brief Service Description	Community Development Purpose	Bank Sponsored Event, Program or Seminar	Technical Assistance or Direct Involvement by Bank Employee	Bank Product or Service
Teach Children to Save – Financial literacy seminars taught within elementary schools where more than 50 percent of the students are low- or moderate-income. <i>Bank employees conduct the seminars.</i>	Community Service	2018-2021		
Grand Rapids Opportunities for Women (GROW) – GROW operates a micro loan fund for small business and startups that do not qualify for traditional lending. <i>Bank Vice President serves on the Board. Bank employees teach classes on personal finance</i>	Economic Development	2018-2021	2018-2021	
Pathway Home / Family Promise – Supportive programs help homeless families find permanent housing and achieve self-sufficiency <i>Bank employees conduct the FDIC’s Money Smart seminars to enhance the financial skills and create positive banking relationships with participants.</i>	Affordable Housing	2018-2021		
<i>Source: Bank Records</i>				

NON-MSA, MI AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE NON-MSA, MI AA

The bank’s Non-MSA AA consists of the entirety of Allegan, Clare, Gratiot, Isabella, Mecosta, Missaukee, Ogemaw, Oscoda, Roscommon, Van Buren, and Wexford Counties. Mercantile operates 17 full-service branches, a drive-thru location, and two loan production offices in this AA. Since the prior evaluation, the bank closed two branches located in middle-income census tracts within this AA. One of the tracts was categorized as distressed for poverty. The AA accounts for 25.8 percent of the bank’s total deposits as of June 30, 2021. Relative to its lending in all of its AAs, the bank originated 36.0 percent of home mortgage loans and 30.1 percent of small business loans by number volume within this AA.

Economic and Demographic Data

Based on 2015 ACS data, this AA contains 122 census tracts with the following income designations: 1 low-income; 22 moderate-income; 83 middle-income; and 12 upper-income. The AA also contains four tracts with no income designation. The AA contained several distressed and underserved non-MSA middle-income tracts during the review period. In 2018, 2019, and 2020, the following counties had distressed or underserved tracts:

- Clare County had four tracts distressed for poverty and unemployment;
- Isabella County had 11 tracts distressed for poverty;
- Ogemaw County had six tracts that were both underserved and distressed for unemployment;
- Oscoda County had one tract that was underserved and distressed for unemployment and population loss;
- Roscommon County had six tracts underserved and distressed for unemployment; and
- Mecosta County had eight tracts distressed for poverty (for 2018 and 2019 only).

The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Assessment Area: Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	122	0.8	18.0	68.0	9.8	3.3
Population by Geography	476,219	1.7	12.7	71.2	13.1	1.2
Housing Units by Geography	250,645	1.0	18.3	70.1	10.6	0.0
Owner-Occupied Units by Geography	138,566	0.0	13.4	73.5	13.0	0.0
Occupied Rental Units by Geography	43,006	4.6	17.3	69.0	9.0	0.0
Vacant Units by Geography	69,073	0.6	28.8	63.9	6.7	0.0
Businesses by Geography	26,290	1.1	12.5	71.9	14.4	0.1
Farms by Geography	2,032	0.1	6.7	79.2	14.0	0.0
Family Distribution by Income Level	120,178	21.2	18.8	21.6	38.4	0.0
Household Distribution by Income Level	181,572	24.8	16.2	18.6	40.5	0.0
Median Family Income Non-MSAs - MI		\$53,628	Median Housing Value			\$110,695
			Median Gross Rent			\$684
			Families Below Poverty Level			13.0%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Geographic Distribution criterion compares the bank’s home mortgage lending to the distribution of owner-occupied housing units in the AA by census tract income level. Based on 2015 ACS data, the AA contains 250,645 housing units, of which 55.3 percent are owner-occupied, 17.2 percent are occupied rental units, and 27.5 percent are vacant.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of lending by GAR level. According to 2020 D&B data, the AA contains 26,290 non-farm businesses with the following GAR levels:

- 81.6 percent have \$1.0 million or less
- 5.6 percent have more than \$1.0 million
- 12.8 percent have unknown revenues

D&B data from 2020 shows the largest industries in the AA are services (36.3 percent); retail trade (14.5 percent); non-classifiable establishments (12.2 percent); construction (8.3 percent); and agriculture, forestry, and fishing (7.2 percent). In addition, 87.4 percent of the businesses operate from a single location, and 64.3 percent have four or fewer employees. Major employers in the AA include Perrigo Company, Charles River Laboratories, Saginaw Chippewa Indian Tribe, Central Michigan University, and MidMichigan Medical Center.

Examiners also consider unemployment data when evaluating a bank’s ability to lend in its AA. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows the unemployment rates within the AA. Aside from Oscoda County, unemployment rates declined from 2018 to 2019, and then significantly increased in 2020 due to the COVID-19 pandemic. Unemployment rates in Oscoda County increased each year during the review period.

Unemployment Rates – Non-MSA			
Area	2018	2019	2020
	%	%	%
Allegan County	3.3	3.1	7.3
Clare County	6.1	5.9	11.5
Gratiot County	4.7	4.3	8.0
Isabella County	3.9	3.7	8.4
Mecosta County	5.0	4.6	9.1
Missaukee County	5.1	4.7	9.1
Ogemaw County	6.9	6.5	10.9
Oscoda County	6.5	6.9	11.9
Roscommon County	7.8	7.3	12.1
Van Buren County	4.9	4.4	8.3
Wexford County	4.7	4.4	10.2
Michigan	4.2	4.1	9.9
National Average	3.9	3.7	8.1
<i>Source: U.S. Bureau of Labor Statistics</i>			

Examiners use the FFIEC-adjusted median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the low-, moderate-, middle-, and upper-income ranges for the AA during the evaluation period.

Median Family Income Ranges – Non-MSA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Kalamazoo-Portage, MI MSA Median Family Income (28020)				
2018 (\$70,300)	<\$35,150	\$35,150 to <\$56,240	\$56,240 to <\$84,360	≥\$84,360
MI NA Median Family Income (99999)				
2018 (\$58,700)	<\$29,350	\$29,350 to <\$46,960	\$46,960 to <\$70,440	≥\$70,440
2019 (\$58,600)	<\$29,300	\$29,300 to <\$46,880	\$46,880 to <\$70,320	≥\$70,320
2020 (\$60,900)	<\$30,450	\$30,450 to <\$48,720	\$48,720 to <\$73,080	≥\$73,080
<i>Source: FFIEC</i>				

As previously mentioned, the Office of Management and Budget revised delineations for the nation’s MSAs based on population statistics and other factors. Prior to the revisions, Van Buren County was included in the Kalamazoo-Portage, Michigan MSA. The table above reflects the revisions to include the median family incomes for the non-MSA geographies located in Michigan, as well as the Kalamazoo-Portage, Michigan MSA, which previously included Van Buren County.

The State of Michigan became subject to a federal major disaster declaration in March 2020 due to the COVID-19 pandemic (FEMA-4494-DR), which included all 11 counties making up the AA.

Competition

Mercantile operates in a moderately competitive market for financial services. According to FDIC market share data as of June 30, 2021, 18 FDIC-insured financial institutions have \$6.7 billion in deposits and operate 115 offices within the AA. Of these institutions, Mercantile ranks 3rd with 14.2 percent of the market share. The top two institutions account for 45.5 percent of the market share.

There is a high level of competition for home mortgage loans. Based on 2020 HMDA aggregate data, 455 lenders originated or purchased 20,829 home mortgage loans in the AA. Mercantile ranked 3rd with 5.8 percent of the market share. The top two lenders accounted for 13.1 percent of the home mortgage lending market share.

There is a moderate level of competition for small business loans. Based on 2019 aggregate data, 81 lenders originated or purchased 6,655 small business loans in the AA. Mercantile ranked 7th with 5.9 percent of the market share. The top five lenders accounted for 50.7 percent of the small business lending market share.

Community Contact

Examiners utilized a previous contact from a nonprofit organization dedicated to affordable housing in Gratiot County. The contact stated the area experienced economic decline associated with the

COVID-19 pandemic. The pandemic particularly impacted small businesses and resulted in some closings. There are still a number of people laid off in the area. The economy is improving; however, the COVID variant has slowed the recovery. The contact identified affordable housing as an issue. A recent housing boom inflated home and building material prices, as well as decreased the availability of contractors for home repairs. The contact identified a need for financial literacy training in the area. Additionally, they would like to see banks offer very small loans to help consumers build credit.

Credit and Community Development Needs and Opportunities

Considering the information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing and small business lending are the primary credit needs in the AA. There is also a need for financial literacy training. Opportunities for these activities exist, given the large percentage of businesses with GARs of \$1.0 million or less and the level of low- and moderate-income tracts and families within the AA, as well as those middle-income census tracts designated distressed and underserved.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NON-MSA, MI AA

LENDING TEST

Mercantile demonstrated excellent performance under the Lending Test in the Non-MSA AA.

Lending Activity

Lending levels reflect excellent responsiveness to AA credit needs. During the review period, Mercantile originated 1,738 home mortgage loans totaling \$247.2 million and 1,351 small business loans totaling \$174.9 million in this AA. Home mortgage lending more than doubled by dollar volume from 2019 to 2020, and small business lending more than doubled by number from 2019 to 2020 bolstered by the bank originating and reporting 511 SBA PPP loans totaling \$43.2 million. Lending activity increased from the prior evaluation in this AA, when the bank originated 1,120 home mortgage loans totaling \$120.9 million and 969 small business loans totaling \$132.6 million in 2016 and 2017. Further, as discussed previously, the bank's concentration of home mortgages and small business loans in the Non-MSA AA (36.0 and 30.1 percent, respectively) exceeded the corresponding percentage of deposits dedicated to this area (25.8 percent).

Geographic Distribution

Overall, the geographic distribution of loans reflects good penetration throughout the AA. Good performance in both home mortgage lending and small business lending supports this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects good penetration throughout the AA. The following table illustrates the geographic distribution of home mortgage loans and includes 2019 and 2020 aggregate HMDA data.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Non-MSA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	0.0	0.1	1	0.2	146	0.2
2020	0.0	0.0	2	0.2	246	0.1
Moderate						
2019	13.4	11.1	73	12.5	6,651	9.0
2020	13.4	9.5	137	11.9	18,169	10.5
Middle						
2019	73.5	69.4	436	74.9	50,967	68.8
2020	73.5	68.7	848	73.4	113,546	65.6
Upper						
2019	13.0	19.5	72	12.4	16,276	22.0
2020	13.0	21.8	169	14.6	41,217	23.8
Not Available						
2019	0.0	0.0	0	0.0	0	0.0
2020	0.0	0.0	0	0.0	0	0.0
Totals						
2019	100.0	100.0	582	100.0	74,039	100.0
2020	100.0	100.0	1,156	100.0	173,177	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

In 2019 and 2020, bank performance slightly exceeded demographic and aggregate performance within the low-income tract. While a negligible level of housing units are located within the low-income tract, Mercantile was able to originate loans in both 2019 and 2020.

The bank's 2019 and 2020 performance in moderate-income tracts exceeded the aggregate performance of other HMDA-reporting institutions, while slightly lagging the percentage of owner-occupied housing. Overall, the conclusion is supported by the bank's performance relative to aggregate market results.

Small Business Loans

The geographic distribution of small business loans reflects good penetration throughout the AA. The following table illustrates the geographic distribution of small business loans and includes 2019 aggregate CRA small business lending data.

Geographic Distribution of Small Business Loans						
Assessment Area: Non-MSA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	1.1	0.5	6	1.5	1,997	3.2
2020	1.1	--	18	1.9	4,819	4.3
Moderate						
2019	12.6	12.6	48	12.2	8,639	13.8
2020	12.5	--	123	12.9	12,631	11.3
Middle						
2019	72.4	70.3	315	79.9	43,289	69.0
2020	71.9	--	740	77.3	78,381	69.9
Upper						
2019	13.8	16.7	25	6.3	8,784	14.0
2020	14.4	--	76	7.9	16,324	14.6
Not Available						
2019	0.1	0.0	0	0.0	0	0.0
2020	0.1	--	0	0.0	0	0.0
Totals						
2019	100.0	100.0	394	100.0	62,709	100.0
2020	100.0	--	957	100.0	112,155	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Within the low-income tract, bank lending performance slightly exceeded both the percentage of businesses, as well as the aggregate performance of other reporting institutions for 2019. Within the moderate-income tracts, the banks performance remained similar to both the percentage of businesses and the aggregate performance of other reporting institutions, while showing a significant increase in lending from 2019 to 2020.

Borrower Profile

Overall, the distribution of borrowers reflects excellent penetration among borrowers of different income levels and businesses of different sizes. Excellent penetration within both home mortgage loan and small business loan segments supports this conclusion.

Home Mortgage Loans

The distribution of borrowers reflects excellent penetration to individuals of different income levels. The following table illustrates the distribution of lending by borrower income within the AA and includes the aggregate performance of other HMDA-reporting institutions.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Non-MSA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	21.2	6.4	55	9.5	2,922	3.9
2020	21.2	4.6	75	6.5	4,679	2.7
Moderate						
2019	18.8	16.7	114	19.6	10,430	14.1
2020	18.8	15.2	225	19.5	20,873	12.1
Middle						
2019	21.6	23.2	126	21.6	13,274	17.9
2020	21.6	22.5	290	25.1	35,339	20.4
Upper						
2019	38.4	42.9	247	42.4	42,878	57.9
2020	38.4	44.9	512	44.3	101,546	58.6
Not Available						
2019	0.0	10.7	40	6.9	4,536	6.1
2020	0.0	12.8	54	4.7	10,739	6.2
Totals						
2019	100.0	100.0	582	100.0	74,039	100.0
2020	100.0	100.0	1,156	100.0	173,177	100.0
Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Bank performance among low-income borrowers exceeded the performance of aggregate institutions in both 2019 and 2020, while trailing the percentage of families considered low-income. Overall, 13.0 percent of families in the AA have incomes below the poverty level and would be unlikely to qualify for credit in the amounts necessary to afford a home within the AA. The bank's performance remained above aggregate while supporting a 98.6 percent increase in total home mortgage originations throughout the AA and despite rising unemployment in 2020 due to the COVID-19 pandemic.

Bank performance among moderate-income borrowers exceeded both the percentage of moderate-income borrowers and the aggregate performance of other HMDA institutions in each year. While the aggregate performance of other institutions dropped by 1.5 percentage points from 2019 to 2020, the bank's performance remained consistent as a percentage, while increasing the volume of lending within moderate-income tracts by 97.4 percent.

Small Business Loans

The distribution of borrowers among small business loans reflects excellent penetration throughout the AA. The following table illustrates the geographic distribution of small business loans and includes 2019 aggregate CRA small business lending data.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Non-MSA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2019	80.5	49.3	224	56.9	22,336	35.6
2020	81.6	--	553	57.8	37,083	33.1
>\$1,000,000						
2019	6.1	--	158	40.1	37,876	60.4
2020	5.6	--	355	37.1	70,395	62.8
Revenue Not Available						
2019	13.4	--	12	3.0	2,497	4.0
2020	12.8	--	49	5.1	4,677	4.2
Totals						
2019	100.0	100.0	394	100.0	62,709	100.0
2020	100.0	--	957	100.0	112,155	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>						

Mercantile's small business lending performance substantially exceeded the aggregate performance of other CRA-reporting institutions in 2019 (the most recent available), and bank performance increased slightly in 2020. The bank originated greater than a majority of small business loans within the AA to businesses with GARs of \$1.0 million or less. The bank continued to provide a majority of their small business loans to organizations in this revenue category, even as the volume of small business lending in the AA increased by 142.9 percent from 2019 to 2020 driven by the volume of PPP loans originated and reported.

Innovative or Flexible Lending Practices

The institution makes extensive use of innovative and/or flexible lending practices in order to serve AA credit needs. Mercantile originated 215 innovative and/or flexible loans totaling \$27.5 million, representing an increase by number and nearly doubling the \$14.0 million originated at the last evaluation. In addition, the bank originated 946 SBA PPP loans totaling \$115.4 million within the AA. The following table illustrates the volume of lending by product type and year.

Innovative or Flexible Lending Programs – Non-MSA										
Type of Program	2018*		2019		2020		2021**		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Credit Builder	-	-	3	2	10	7	9	9	22	18
FHA	3	252	16	2,437	15	1,584	11	1,651	45	5,924
Fix It	-	-	-	-	1	6	1	8	2	14
Home Possible	8	774	31	2,860	31	2,980	27	2,698	97	9,312
MSHDA	5	380	9	662	7	628	4	439	25	2,109
PPP	-	-	-	-	582	87,968	364	27,444	946	115,412
RD	-	-	10	939	8	893	3	335	21	2,167
SBA 504	-	-	-	-	-	-	2	2,651	2	2,651
USDA	-	-	1	5,293	-	-	-	-	1	5,293
Totals	16	1,406	70	12,193	654	94,066	421	35,235	1,161	142,900
<i>Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021</i>										

Community Development Loans

Mercantile is a leader in making community development loans in the AA. Of all its community development loans, the bank originated 49 loans totaling \$73.1 million in this AA, which represents 18.2 percent by number and 12.7 percent by dollar volume of the bank's total qualified lending activity. The number and dollar volume of community development lending in this AA has significantly increased since the last evaluation, when the bank originated 25 loans totaling \$45.7 million. The following table shows the bank's community development lending by purpose and year in the AA.

Community Development Lending – Non-MSA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018 (Partial)*	-	-	3	1,505	-	-	-	-	3	1,505
2019	1	80	7	8,415	1	16,480	2	825	11	25,800
2020	10	5,783	12	5,001	4	6,477	2	5,461	28	22,722
YTD 2021**	1	500	2	2,147	3	19,131	1	1,300	7	23,078
Total	12	6,363	24	17,068	8	42,088	5	7,586	49	73,105

*Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021*

Notable examples of community development loans originated by the bank in the AA include the following:

- \$1.2 million to fund a commercial real estate loan for a 48-unit apartment complex that provides affordable housing. The project utilized low-income housing tax credits.
- \$4.4 million to fund the renewal and an increase of a commercial mortgage in a retail center in an underserved and distressed middle-income census tract. The retail center houses a bank branch, a restaurant, and the only grocery store in Canadian Lakes, Michigan.
- \$500,000 to fund the construction of a new federally-qualified health center in Isabella County. The health center is located in a distressed middle-income census tract and will provide primary medical care within a county with high poverty rates.

INVESTMENT TEST

Mercantile demonstrated good performance under the Investment Test in the Non-MSA AA.

Investment and Grant Activity

Mercantile has a significant level of qualified community development investments and donations, occasionally in a leadership position, particularly those that are not routinely provided by private investors. In total, the bank made or maintained 18 qualified investments totaling \$6.7 million in the AA. The bank also made 50 qualified donations totaling \$116,000 in the AA. This represents 14.3 percent by number and 7.5 percent by dollar volume of the bank’s total qualified investment and donation activity. The number and dollar volume of community development investments and donations in this AA increased since the last evaluation, when the bank made 15 investments totaling \$5.4 million and 33 donations totaling \$37,000. The following table shows the bank’s community development investments and donations by purpose and year in the AA.

Qualified Investments – Non-MSA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	1	121	8	3,674	-	-	-	-	9	3,795
2018 (Partial)*	-	-	-	-	-	-	-	-	-	-
2019	1	176	2	670	-	-	-	-	3	846
2020	-	-	3	770	-	-	-	-	3	770
YTD 2021**	1	313	2	1,000	-	-	-	-	3	1,313
Subtotal	3	610	15	6,114	-	-	-	-	18	6,724
Qualified Grants & Donations	4	2	44	107	1	2	1	5	50	116
Total	7	612	59	6,221	1	2	1	5	68	6,840

*Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021*

Notable examples of community development investments and donations made by the bank in the AA include the following:

- Invested in two municipal school bonds totaling \$1.0 million for a school district that primarily serves low- and moderate-income students.
- Donated \$10,650 to an organization serving Isabella and Gratiot Counties that focuses on breaking the cycle of poverty by providing funding for early childhood education and literacy, youth development and mentoring, and health care.
- Maintained a prior period investment in an affordable housing fund with a current book value of approximately \$121,000.

Responsiveness to Credit and Community Development Needs

The institution exhibits good responsiveness to credit and community development needs. As previously stated, AA needs include affordable housing. The majority of initiatives focused on affordable housing and community services targeted to low- and moderate-income individuals.

Community Development Initiatives

The institution occasionally uses innovative and/or complex investments to support community development initiatives. The institution primarily invested in municipal school bonds and low-income housing loan pools to support community development initiatives in the AA.

SERVICE TEST

Mercantile demonstrated good performance under the Service Test in the Non-MSA AA.

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the institution's AA. Mercantile operates 17 branches and a drive-thru location in the AA. Of those 18 locations, one

(5.9 percent) is located in a low-income tract and two (11.8 percent) are located in moderate-income tracts. In addition to brick-and-mortar locations, Mercantile offers a variety of alternative methods for customers to access banking products and services as previously stated. All but one location in this AA has either an ATM or a VBM. The accessibility of delivery systems in this AA is consistent with the bank's overall accessibility.

Changes in Branch Locations

To the extent changes have been made, the institution's opening and closing of branches in the AA has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.

During the review period, Mercantile closed two branch offices in the AA located in middle-income census tracts. One of the middle-income census tracts was distressed for poverty. Both closed branches consolidated with branches within the same city. The branch closed in the distressed middle-income census tract has a drive-thru location located across the street.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences portions of the AA, particularly low- and moderate-income geographies and/or individuals. Except as previously mentioned concerning drive-thru only locations, operating hours and services do not vary significantly and are similar to the hours and services offered by other banks within this AA. In this AA, four branches are not open on Saturdays and none are located in low- or moderate-income census tracts. The reasonableness of business hours and services in this AA is consistent with the bank's overall business hours and services.

Community Development Services

Mercantile is a leader in providing community development services throughout the AA. Over the review period, bank personnel provided 226 qualified services within the AA, representing 24.9 percent of all services within the review period, and consisting of more than 348 staff hours. More than 3,500 area residents and students attended the various financial education seminars conducted by bank employees. The level of services provided decreased since the previous examination, where the bank provided 312 qualified services; however, examiners attribute this decrease to the difficulties faced in providing services during the COVID-19 pandemic. The following table provides a summary of the qualifying community development services bank personnel have engaged in since the previous evaluation.

Community Development Services - Non-MSA					
Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
2018 (Partial)	-	4	-	-	4
2019	6	152	1	3	162
2020	3	24	1	3	31
2021 (YTD)	4	22	1	2	29
Total	13	202	3	8	226
<i>Source: Bank Data</i>					

The following table details notable examples of community development services bank personnel performed during the review period in this AA.

Community Development Services – Non-MSA AA				
Brief Service Description	Community Development Purpose	Bank Sponsored Event, Program or Seminar	Technical Assistance or Direct Involvement by Bank Employee	Bank Product or Service
Teach Children to Save / Get Smart About Credit – Financial literacy seminars in schools where more than 50 percent of students receive free or reduced lunch. <i>Bank employees provided seminars.</i>	Community Service	2019-2021		
Isabella Citizens for Health – Provides comprehensive medical care to low- and moderate-income area residents, including a sliding fee scale. <i>Multiple bank employees serve on the Board.</i>	Community Service		2018-2021	
Lydia’s Gate - Provides life skills, employment services and rehabilitation services for low- and moderate-income individuals and families dealing with homelessness. <i>Bank employee served on the Board.</i>	Community Service		2019-2021	
<i>Source: Bank Records</i>				

KALAMAZOO-PORTAGE, MI MSA AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE KALAMAZOO-PORTAGE, MI MSA AA

The bank’s Kalamazoo AA consists of the entirety of Kalamazoo County, which is located in the Kalamazoo-Portage, Michigan MSA. Mercantile operates two full-service branches and a VBM-only location in this AA. Since the prior evaluation, the bank closed one branch located in a moderate-income census tract and opened a VBM only location in a moderate-income census tract.

The AA accounts for 8.1 percent of the bank’s total deposits as of June 30, 2021. Relative to the loans originated in the AAs, the bank originated 4.7 percent of home mortgage loans and 10.8 percent of small business loans by number volume within this AA.

Economic and Demographic Data

Based on 2015 ACS data, this AA contains 57 census tracts with the following income designations: 7 low-income; 11 moderate-income; 24 middle-income; and 14 upper-income. The AA also contains one tract with no income designation. The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Assessment Area: Kalamazoo						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	57	12.3	19.3	42.1	24.6	1.8
Population by Geography	256,752	10.3	14.8	45.9	26.9	2.1
Housing Units by Geography	110,196	11.1	15.6	47.5	25.5	0.4
Owner-Occupied Units by Geography	64,302	4.9	11.1	50.7	33.3	0.1
Occupied Rental Units by Geography	36,039	19.3	22.6	43.4	13.8	0.8
Vacant Units by Geography	9,855	21.2	19.3	41.0	17.9	0.7
Businesses by Geography	15,634	8.2	19.8	45.8	25.6	0.6
Farms by Geography	592	3.4	12.8	54.1	29.4	0.3
Family Distribution by Income Level	60,438	20.5	16.6	20.0	42.9	0.0
Household Distribution by Income Level	100,341	24.6	15.7	17.0	42.6	0.0
Median Family Income MSA - 28020 Kalamazoo-Portage, MI MSA		\$63,609	Median Housing Value			\$133,691
			Median Gross Rent			\$724
			Families Below Poverty Level			11.2%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Geographic Distribution criterion compares the bank’s home mortgage lending to the distribution of owner-occupied housing units in the AA by census tract income level. Based on 2015 ACS data, the AA contains 110,196 housing units of which 58.4 percent are owner-occupied, 32.7 percent are occupied rental units, and 8.9 percent are vacant.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of lending by GAR level. According to 2020 D&B data, the AA contains 15,634 non-farm businesses with the following GAR levels:

- 81.7 percent have \$1.0 million or less

- 6.5 percent have more than \$1.0 million
- 11.8 percent have unknown revenues

D&B data from 2020 shows the largest industries in the AA are services (41.6 percent); non-classifiable establishments (14.6 percent); retail trade (13.4 percent); finance, insurance, and real estate (9.1 percent); and construction (6.6 percent). In addition, 86.7 percent of the businesses operate from a single location, and 60.6 percent have four or fewer employees. Major employers in the AA include Bronson Methodist Hospital, Ascension Borgess Hospital, Western Michigan University, Pfizer, and Stryker Corporation.

Examiners also consider unemployment data when evaluating a bank’s ability to lend in its AAs. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows the unemployment rates within the AA declined from 2018 to 2019, and then significantly increased in 2020 due to the COVID-19 pandemic. Unemployment rates within the AA consistently trailed state and nationwide rates.

Unemployment Rates – Kalamazoo AA			
Area	2018	2019	2020
	%	%	%
Kalamazoo County	3.4	3.2	7.2
Michigan	4.2	4.1	9.9
National Average	3.9	3.7	8.1
<i>Source: U.S. Bureau of Labor Statistics</i>			

Examiners use the FFIEC-adjusted median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the low-, moderate-, middle-, and upper-income ranges for the AA during the evaluation period.

Median Family Income Ranges - Kalamazoo				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Kalamazoo-Portage, MI MSA Median Family Income (28020)				
2018 (\$70,300)	<\$35,150	\$35,150 to <\$56,240	\$56,240 to <\$84,360	≥\$84,360
2019 (\$76,200)	<\$38,100	\$38,100 to <\$60,960	\$60,960 to <\$91,440	≥\$91,440
2020 (\$82,400)	<\$41,200	\$41,200 to <\$65,920	\$65,920 to <\$98,880	≥\$98,880
<i>Source: FFIEC</i>				

The State of Michigan became subject to a federal major disaster declaration in March 2020 due to the COVID-19 pandemic (FEMA-4494-DR), which included Kalamazoo County.

Competition

Mercantile operates in a moderately competitive market for financial services. According to FDIC market share data as of June 30, 2021, 14 FDIC-insured financial institutions have \$4.4 billion in deposits and operate 53 offices within the AA. Of these institutions, Mercantile ranks seventh with 6.9 percent of the market share. The top five institutions account for 70.4 percent of the market share.

There is a high level of competition for home mortgage loans. Based on 2020 HMDA aggregate data, 324 lenders originated or purchased 13,111 home mortgage loans in the AA. Mercantile ranked 27th with 1.0 percent of the market share. The top five lenders accounted for 38.9 percent of the home mortgage lending market share.

There is also a high level of competition for small business loans. Based on 2019 aggregate data, 65 lenders originated or purchased 3,947 small business loans in the AA. Mercantile ranked eighth with 3.7 percent of the market share. The top five lenders accounted for 57.7 percent of the small business lending market share.

Community Contact

Examiners reviewed a Kalamazoo County needs assessment conducted by various area health and wellness organizations. The assessment noted decades of social and institutional inequities in the neighborhoods surrounding Kalamazoo's urban center have led to significant racial and economic segregation, as well as a concentration of generational poverty. The majority of residents in Kalamazoo County own homes (63 percent) compared to renting (37 percent); however, the majority of residents in the City of Kalamazoo rent (55.2 percent) compared to owning (44.8 percent). The City of Kalamazoo makes up 29.2 percent of the population of Kalamazoo County. Approximately 40 percent of renters are paying more than 35 percent of their income on housing costs. There has been an increase in the percentage of households in the county in which adults are working, yet households are still struggling to afford basic necessities such as food, housing, and health care. The assessment noted access to public transportation in rural communities is not available or is limited, and limited transportation hinders an individual's ability to access resources. The assessment also noted differences in access to healthy foods within certain neighborhoods of Kalamazoo. Lastly, approximately 14 percent of households in Kalamazoo are receiving aid from the Supplemental Nutrition Assistance Program.

Credit and Community Development Needs and Opportunities

Considering the information from the community contact, bank management, and demographic and economic data, examiners determined affordable housing is the primary credit need in the AA. There is also a need for assistance to those struggling to afford basic necessities. Opportunities for these activities exist given the level of low- and moderate-income tracts and families within the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE KALAMAZOO-PORTAGE, MI MSA AA

LENDING TEST

Mercantile demonstrated good performance under the Lending Test in the Kalamazoo-Portage AA.

Lending Activity

Lending levels reflect good responsiveness to AA credit needs. During the review period, Mercantile originated 225 home mortgage loans totaling \$49.8 million and 487 small business loans totaling \$102.3 million in this AA. Small business lending more than doubled by number from 2019 to 2020, bolstered by the bank originating and reporting 180 PPP loans totaling \$25.7 million within the AA. Lending activity significantly increased from the prior evaluation in this AA, when the bank originated 140 home mortgage loans totaling \$21.4 million and 322 small business loans totaling \$69.5 million in 2016 and 2017.

Geographic Distribution

Overall, the geographic distribution of loans reflects good penetration throughout the AA. Good performance within home mortgage lending and excellent performance within small business lending supports this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects good penetration throughout the AA. The following table illustrates the geographic distribution of home mortgage loans and includes the aggregate performance of other HMDA-reporting institutions.

Geographic Distribution of Home Mortgage Loans							
Assessment Area: Kalamazoo							
Tract Income Level		% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low							
	2019	4.9	3.0	4	4.5	365	2.0
	2020	4.9	2.6	2	1.5	163	0.5
Moderate							
	2019	11.1	10.4	10	11.4	1,308	7.1
	2020	11.1	9.2	15	10.9	1,702	5.5
Middle							
	2019	50.7	49.9	42	47.7	8,930	48.2
	2020	50.7	48.1	54	39.4	10,179	32.6
Upper							
	2019	33.3	36.7	32	36.4	7,943	42.8
	2020	33.3	40.0	66	48.2	19,163	61.4
Not Available							
	2019	0.1	0.1	0	0.0	0	0.0
	2020	0.1	0.1	0	0.0	0	0.0
Totals							
	2019	100.0	100.0	88	100.0	18,546	100.0
	2020	100.0	100.0	137	100.0	31,207	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>							

Within the low- and moderate-income tracts, Mercantile originated a comparable percentage of loans by number to the percentage of owner-occupied housing, and slightly more than the aggregate performance of other institutions in 2019. Within the low-income tracts in 2020, the bank's performance declined below both comparative factors; however, there was a large increase in overall home mortgage lending. Within moderate-income tracts, the bank's performance declined slightly; however, the bank originated more loans by number and outpaced aggregate for 2020.

Small Business Loans

Overall, geographic distribution of small business loans reflects excellent penetration throughout the Kalamazoo AA. The following table illustrates the geographic distribution of small business loans throughout the AA. The percentage of businesses located within each income tract designation and the 2019 performance of other CRA-reporting institutions are included for comparison.

Geographic Distribution of Small Business Loans						
Assessment Area: Kalamazoo						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	8.4	7.8	17	11.8	3,562	9.1
2020	8.2	--	31	9.0	6,837	10.8
Moderate						
2019	20.3	21.4	33	22.9	10,835	27.8
2020	19.8	--	92	26.8	16,084	25.4
Middle						
2019	46.1	41.8	67	46.5	16,292	41.7
2020	45.8	--	148	43.1	29,192	46.2
Upper						
2019	24.6	28.8	25	17.4	7,073	18.1
2020	25.6	--	71	20.7	11,066	17.5
Not Available						
2019	0.6	0.2	2	1.4	1,269	3.3
2020	0.6	--	1	0.3	23	0.0
Totals						
2019	100.0	100.0	144	100.0	39,031	100.0
2020	100.0	--	343	100.0	63,202	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

The bank's practice of originating loans in both low- and moderate-income tracts exceeds the comparable data within each year. This performance remained consistent throughout a significant increase in loan volume in 2020.

Borrower Profile

Overall, the distribution of borrowers reflects adequate penetration among customers of different income levels and businesses customers of different sizes. This conclusion is consistent with performance in both loan products reviewed.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of differing income levels, including low- and moderate-income borrowers, reflects adequate penetration within the AA. The following table illustrates the distribution of home mortgage loans by borrower income level throughout the AA.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Kalamazoo						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	20.5	10.2	14	15.9	1,431	7.7
2020	20.5	10.3	10	7.3	934	3.0
Moderate						
2019	16.6	20.6	12	13.6	1,542	8.3
2020	16.6	20.0	30	21.9	3,923	12.6
Middle						
2019	20.0	22.7	20	22.7	3,141	16.9
2020	20.0	22.3	24	17.5	4,821	15.4
Upper						
2019	42.9	35.4	33	37.5	9,373	50.5
2020	42.9	34.4	66	48.2	19,944	63.9
Not Available						
2019	0.0	11.2	9	10.2	3,060	16.5
2020	0.0	13.0	7	5.1	1,585	5.1
Totals						
2019	100.0	100.0	88	100.0	18,546	100.0
2020	100.0	100.0	137	100.0	31,207	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

The bank's percentage of lending in 2019 to low-income borrowers was above the aggregate performance while remaining below the demographics. In 2020, the bank's level of lending to low-income borrowers decreased by both number and as a percentage of the banks total AA lending, falling below the aggregate performance. The AA has an overall poverty rate of 11.2 percent, which limits the ability to originate loans to low-income borrowers as families below the poverty level often face difficulties in obtaining the credit needed in amounts necessary to purchase a home in the AA.

The bank's performance of lending in 2019 to moderate-income borrowers, lagged both sets of comparative data. An increase in 2020 lending, including to moderate-income borrowers, raised the bank's performance to a level similar to the aggregate performance of peer institutions.

Small Business Loans

The distribution of small business loans reflects adequate penetration to businesses of different sizes. The following table illustrates the distribution of small business loans by business size within the Kalamazoo AA.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Kalamazoo						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2019	80.3	41.9	48	33.3	8,461	21.7
2020	81.7	--	152	44.3	14,643	23.2
>\$1,000,000						
2019	7.2	--	94	65.3	30,238	77.5
2020	6.5	--	178	51.9	47,000	74.4
Revenue Not Available						
2019	12.6	--	2	1.4	332	0.9
2020	11.8	--	13	3.8	1,559	2.5
Totals						
2019	100.0	100.0	144	100.0	39,031	100.0
2020	100.0	--	343	100.0	63,202	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

In 2019, the bank originated 33.3 percent of small business loans to businesses with GARs of \$1.0 million or less. This performance was well below the 80.3 percent of businesses in this income category and the performance of other reporting institutions (at 41.9 percent). As the bank’s lending volume rose in 2020, so did the bank’s results in lending to these smaller businesses, increasing 11.0 percentage points by number.

Innovative or Flexible Lending Practices

The institution uses innovative and/or flexible lending practices in order to serve AA credit needs. Mercantile originated 44 innovative and/or flexible loans over the review period totaling \$9.2 million. This performance is consistent by both number and dollar amount with the bank’s performance at the previous evaluation. In addition, the bank originated 307 loans under the SBA PPP totaling \$58.0 million. The following table illustrates the volume of lending by product type and year.

Innovative or Flexible Lending Programs – Kalamazoo AA										
Type of Program	2018*		2019		2020		2021**		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Credit Builder	-	-	1	1	-	-	-	-	1	1
FHA	4	685	1	105	2	222	5	820	12	1,832
Home Possible	1	65	4	572	4	537	2	223	11	1,397
MSHDA	4	313	6	780	5	641	2	281	17	2,015
PPP	-	-	-	-	207	43,011	100	14,949	307	57,960
SBA 504	-	-	3	3,937	-	-	-	-	3	3,937
Totals	9	1,063	15	5,395	218	44,411	109	16,273	351	67,142

*Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021*

Community Development Loans

Mercantile made a relatively high level of community development loans in the AA. Of all its community development loans, the bank originated 13 loans totaling approximately \$16.0 million in this AA, which represents 4.8 percent by number and 2.8 percent by dollar volume of the bank’s total qualified lending activity. The number and dollar volume of community development lending in this AA increased since the last evaluation, when the bank originated 11 loans totaling \$7.3 million. The following table shows the bank’s community development lending by purpose and year in the AA.

Community Development Lending – Kalamazoo AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018 (Partial)*	1	287	1	455	-	-	-	-	2	742
2019	-	-	-	-	2	3,488	-	-	2	3,488
2020	-	-	2	810	1	2,286	2	3,312	5	6,408
YTD 2021**	-	-	1	245	2	3,488	1	1,616	4	5,349
Total	1	287	4	1,510	5	9,262	3	4,928	13	15,987

*Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021*

Notable examples of community development loans originated by the bank in the AA include the following:

- \$287,000 to a nonprofit community housing development organization to fund the acquisition of real estate to construct two affordable two-bedroom units in a low-income census tract.
- \$455,000 to finance school buses for a local school district in which the majority of students qualify for the free or reduced lunch program.
- \$1.6 million to fund the acquisition and renovation of vacant property in a moderate-income census tract. The property will house a new distribution business, which will put to use a previously vacant building and create jobs in a moderate-income census tract.

INVESTMENT TEST

Mercantile demonstrated adequate performance under the Investment Test in the Kalamazoo-Portage AA.

Investment and Grant Activity

Mercantile has an adequate level of qualified community development investments and donations, although rarely in a leadership position, particularly those that are not routinely provided by private investors. In total, the bank made or maintained 10 qualified investments totaling \$2.8 million in the AA. The bank also made 46 qualified donations totaling \$147,000 in the AA. This represents 11.8 percent by number and 3.2 percent by dollar volume of the bank’s total qualified investment and donation activity. The number of community development investments in this AA remained the same, while the dollar volume decreased since the last evaluation (when the bank made 10 investments totaling \$2.9 million). The number and dollar volume of community development donations in this AA increased since the last evaluation, when the bank made 28 donations totaling \$80,000. The following table shows the bank’s community development investments and donations by purpose and year in the AA.

Qualified Investments – Kalamazoo-Portage AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	1	346	4	1,030	-	-	-	-	5	1,376
2018 (Partial)*	-	-	-	-	-	-	-	-	-	-
2019	2	451	-	-	-	-	-	-	2	451
2020	-	-	-	-	-	-	-	-	-	-
YTD 2021**	3	923	-	-	-	-	-	-	3	923
Subtotal	6	1,720	4	1,030	-	-	-	-	10	2,750
Qualified Grants & Donations	5	26	38	117	3	4	-	-	46	147
Total	11	1,746	42	1,147	3	4	-	-	56	2,897

*Source: Bank Data, *09/04/2018-12/31/2018, **01/01/2021-09/13/2021*

Notable examples of community development investments and donations made by the bank in the AA include the following:

- Maintained a prior-period municipal school bond totaling approximately \$337,000 for a school district that primarily serves low- and moderate-income students.
- Donated \$10,000 to a nonprofit organization that receives community development block grant funding to provide affordable homeownership programs that include first time homebuyer programs, housing counseling, and home improvement programs.
- Invested approximately \$425,000 in a mortgage-backed loan pool, primarily consisting of mortgage loans made to low- and moderate-income families.

Responsiveness to Credit and Community Development Needs

The institution exhibits good responsiveness to credit and community development needs. As previously stated, AA needs include affordable housing and services for low- and moderate-income individuals. The investments and donations provided by the bank financed community development activities consistent with those needs.

Community Development Initiatives

The institution occasionally uses innovative and/or complex investments to support community development initiatives. The institution primarily invested in municipal school bonds and low-income housing loan pools to support community development initiatives in the AA. The majority of initiatives focused on affordable housing and community services targeted to low- and moderate-income individuals.

SERVICE TEST

Mercantile demonstrated good performance under the Service Test in the Kalamazoo AA.

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the institution's AA. Mercantile operates two branches and a VBM-only location in the AA. The VBM location is in a moderate-income census tract. In addition to the bank's physical locations, Mercantile also offers a variety of alternative methods for customers to access banking products and services as discussed previously. Further, one of the branches has an ATM, and the other branch has a VBM.

Changes in Branch Locations

To the extent changes have been made, the institution's opening and closing of branches in the AA has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. During the review period, Mercantile closed one branch in a moderate-income census tract and opened a VBM-only location within the same moderate-income tract.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences portions of the AA, particularly low- and moderate-income geographies and/or individuals. Except as previously discussed concerning VBM-only locations, operating hours and services do not vary significantly and are similar to the hours and services offered by other banks within this AA. In this AA, only the VBM-only location is not open on Saturdays. It is located in a moderate-income tract; however, the closest branch is less than five miles away and offers drive-thru service on Saturday. The reasonableness of business hours and services in this AA is consistent with the bank's overall business hours and services.

Community Development Services

Mercantile is a leader in providing community development services. Bank personnel provided 66 qualified community development services within this AA, which represents 7.3 percent of the total services provided by the bank. Within the AA, financial literacy classes provided totaled 71 employee hours and impacted more than 650 area residents and students. While this level of services provided is less than the 100 qualified services provided during the prior evaluation, examiners attribute this drop-off to the COVID-19 pandemic and ensuing economic shutdowns, which limited opportunities for bank employees to provide in-person services. The following table provides a summary of the qualifying community development services bank personnel engaged in since the previous evaluation.

Community Development Services – Kalamazoo AA					
Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
2018 (Partial)	-	-	-	-	-
2019	13	22	2	-	37
2020	1	15	-	-	16
2021 (YTD)	5	8	-	-	13
Total	19	45	2	-	66
<i>Source: Bank Data</i>					

The following table details notable examples of the community development services bank personnel provided in this AA during the evaluation period.

Community Development Services – Kalamazoo AA				
Brief Service Description	Community Development Purpose	Bank Sponsored Event, Program or Seminar	Technical Assistance or Direct Involvement by Bank Employee	Bank Product or Service
Samaritas Refugee Resettlement Program – Organization that provides services to low- and moderate-income refugees to help obtain housing and other services. <i>Bank employees provided Credit and Homeownership seminars.</i>	Affordable Housing	2019		
Kalamazoo Neighborhood Housing Service – Organization that provides affordable housing services. <i>Bank employees provided Homeownership and Mortgage seminars.</i>	Affordable Housing	2019, 2021		
Kalamazoo Loaves and Fishes – Organization providing food assistance to LMI. <i>Bank Vice President serves on Board</i>	Community Service		2019-2021	
<i>Source: Bank Records</i>				

WARREN-TROY-FARMINGTON HILLS, MI MD AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE WARREN-TROY-FARMINGTON HILLS, MI MD AA

The bank’s Warren AA consists of the entirety of Oakland County, which is located in the Warren-Troy-Farmington Hills, Michigan Metropolitan Division (MD). Mercantile operates one VBM, in the City of Troy, within this AA. The AA accounts for 3.0 percent of the bank’s total deposits as of June 30, 2021. Relative to the loans extended in the bank’s AA, the bank originated 6.4 percent of home mortgage loans and 1.7 percent of small business loans by number volume within this AA.

Economic and Demographic Data

Based on 2015 ACS data, this AA contains 338 census tracts with the following income designations: 23 low-income; 55 moderate-income; 113 middle-income; and 146 upper-income. The AA also contains one tract with no income designation. The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Assessment Area: Warren						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	338	6.8	16.3	33.4	43.2	0.3
Population by Geography	1,229,503	6.2	15.3	33.5	45.0	0.0
Housing Units by Geography	531,609	7.1	17.0	34.4	41.4	0.0
Owner-Occupied Units by Geography	347,701	3.1	12.2	34.7	50.0	0.0
Occupied Rental Units by Geography	145,788	14.8	27.2	34.2	23.9	0.0
Vacant Units by Geography	38,120	14.9	21.9	33.1	30.1	0.0
Businesses by Geography	129,793	5.1	16.7	27.6	50.6	0.0
Farms by Geography	2,495	4.7	14.8	38.2	42.3	0.0
Family Distribution by Income Level	322,233	18.5	15.1	18.8	47.5	0.0
Household Distribution by Income Level	493,489	21.7	15.0	17.1	46.2	0.0
Median Family Income MSA - 47664 Warren-Troy-Farmington Hills, MI		\$76,739	Median Housing Value			\$184,495
			Median Gross Rent			\$974
			Families Below Poverty Level			7.4%

Source: 2015 ACS and 2020 D&B Data
 Due to rounding, totals may not equal 100.0%
 (*) The NA category consists of geographies that have not been assigned an income classification.

The Geographic Distribution criterion compares the bank’s home mortgage lending to the distribution of owner-occupied housing units in the AA by census tract income level. Based on 2015 ACS data, the AA contains 531,609 housing units, of which 65.4 percent are owner-occupied, 27.4 percent are occupied rental units, and 7.2 percent are vacant.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of lending by GAR level. According to 2020 D&B data, the AA contains 129,793 non-farm businesses with the following GAR levels:

- 86.4 percent have \$1.0 million or less
- 6.1 percent have more than \$1.0 million
- 7.5 percent have unknown revenues

D&B data from 2020 shows the largest industries in the AA are services (41.3 percent); non-classifiable establishments (19.8 percent); retail trade (10.6 percent); finance, insurance, and real estate (10.4 percent); and construction (5.5 percent). In addition, 91.0 percent of the businesses operate from a single location, and 60.8 percent have four or fewer employees. Major employers in Oakland County include Beaumont Health System, Chrysler Group LLC, General Motors Company, Henry Ford Health System, and Ascension Michigan.

Examiners also consider unemployment data when evaluating a bank’s ability to lend in its AA. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows the unemployment rate in Oakland County slightly increased from 2018 to 2019, and then significantly increased in 2020 due to the COVID-19 pandemic. Unemployment rates in Oakland County consistently trailed state rates during the evaluation period and trailed nationwide rates in 2018 and 2019.

Unemployment Rates – Warren AA			
Area	2018	2019	2020
	%	%	%
Oakland County	3.4	3.5	9.3
Michigan	4.2	4.1	9.9
National Average	3.9	3.7	8.1
<i>Source: U.S. Bureau of Labor Statistics</i>			

Examiners use the FFIEC-adjusted median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the low-, moderate-, middle-, and upper-income ranges for the AA during the evaluation period.

Median Family Income Ranges – Warren AA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Warren-Troy-Farmington Hills, MI MD Median Family Income (47664)				
2018 (\$83,200)	<\$41,600	\$41,600 to <\$66,560	\$66,560 to <\$99,840	≥\$99,840
2019 (\$88,200)	<\$44,100	\$44,100 to <\$70,560	\$70,560 to <\$105,840	≥\$105,840
2020 (\$90,300)	<\$45,150	\$45,150 to <\$72,240	\$72,240 to <\$108,360	≥\$108,360
<i>Source: FFIEC</i>				

The State of Michigan (included Oakland County) became subject to a federal major disaster declaration in March 2020 due to the COVID-19 pandemic (FEMA-4494-DR).

Competition

Mercantile operates in a highly competitive market for financial services. According to FDIC market share data as of June 30, 2021, 29 FDIC-insured financial institutions have \$83.1 billion in deposits and operate 314 offices within the AA. Of these institutions, Mercantile ranks 20th with 0.1 percent of the market share. The top five institutions account for 76.3 percent of the market share.

There is a high level of competition for home mortgage loans. Based on 2020 HMDA aggregate data, 559 lenders originated or purchased 92,558 home mortgage loans in the AA. Mercantile ranked 62nd with 0.3 percent of the market share. The top five lenders accounted for 37.6 percent of the home mortgage lending market share.

There is also a high level of competition for small business loans. Based on 2019 aggregate data, 133 lenders originated or purchased 38,260 small business loans in the AA. Mercantile ranked 61st with less than 0.1 percent of the market share. The top five lenders accounted for 69.4 percent of the small business lending market share.

Community Contact

Examiners reviewed a previous contact from a local economic development organization in Oakland County. The contact indicated local economic conditions have deteriorated due to the COVID-19 pandemic. This has partially affected small businesses that cannot sustain ongoing losses, resulting in some businesses shuttering. The pandemic has increased unemployment. The organization continues to work with the State of Michigan to funnel grant money from the CARES Act to businesses under various programs. Additionally, the organization worked with the Michigan Economic Development Corporation, which approved \$55.0 million in additional grants for small businesses impacted by the Order of the Michigan Department of Health and Human Services. The contact stated the housing market appears stable and indicated that banks tend to be extremely competitive and generally meet the credit needs of Oakland County. The contact

identified a general need for small business education and workforce development, funding for lines of credit, and loans for startup businesses.

Credit and Community Development Needs and Opportunities

Considering the information from the community contact, bank management, and demographic and economic data, examiners determined that small business lending and affordable housing are the primary credit needs in the AA. There is also a need for small business education and workforce development. Opportunities for these activities exist, given the large percentage of businesses with GARs of \$1.0 million or less. Further, 33.6 percent of the families are consider low- or moderate-income.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE WARREN-TROY-FARMINGTON HILLS, MI MD AA

LENDING TEST

Mercantile demonstrated adequate performance under the Lending Test in the Warren AA.

Lending Activity

Lending levels reflect good responsiveness to AA credit needs. During the review period, Mercantile originated 307 home mortgage loans totaling \$94.7 million and 77 small business loans totaling \$25.3 million in this AA. Home mortgage lending more than tripled by number and dollar volume from 2019 to 2020. Small business lending more than tripled by number and more than doubled by dollar volume from 2019 to 2020 driven by the bank originating and reporting 28 PPP loans totaling \$5.7 million within the AA. Lending activity significantly increased from the prior evaluation in this AA. Examiners did not consider 2016 home mortgage and small business lending activity during the previous evaluation, as the bank did not have a presence in the AA until May 2017. In 2017, the bank originated ten home mortgage loans totaling \$3.6 million and 11 small business loans totaling \$3.7 million.

Geographic Distribution

Overall, the geographic distribution of loans reflects adequate penetration throughout the AA. The conclusion is supported by inconsistent results by product type, as performance was poor in home mortgage lending and excellent in the small business segment.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects poor penetration throughout the AA. The following table illustrates the geographic distribution of home mortgage loans and includes the aggregate performance of other HMDA-reporting institutions.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Warren						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	3.1	1.5	1	1.4	221	1.1
2020	3.1	1.1	3	1.3	494	0.7
Moderate						
2019	12.2	11.9	3	4.3	385	1.9
2020	12.2	9.6	10	4.2	2,075	2.8
Middle						
2019	34.7	33.9	22	31.4	5,867	28.6
2020	34.7	32.5	61	25.7	16,626	22.4
Upper						
2019	50.0	52.7	44	62.9	14,050	68.5
2020	50.0	56.8	163	68.8	54,940	74.1
Totals						
2019	100.0	100.0	70	100.0	20,521	100.0
2020	100.0	100.0	237	100.0	74,135	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Within the low-income tracts, Mercantile originated a comparable number of loans by percentage to the aggregate performance of other HMDA-reporting institutions in each year. Within moderate-income tracts, the bank's performance significantly lagged both the percentage of owner-occupied housing, as well as the aggregate performance of other reporting institutions. Mercantile has a sole location within the AA, which while located in an upper-income tract, is relatively close to moderate-income tracts.

Small Business Loans

The geographic distribution of small business loans reflects excellent penetration throughout the AA. The following table illustrates the geographic distribution of small business loans throughout the AA.

Geographic Distribution of Small Business Loans						
Assessment Area: Warren						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	5.1	5.3	1	6.2	400	5.1
2020	5.1	--	2	3.3	410	2.3
Moderate						
2019	17.2	16.8	8	50.0	4,326	54.9
2020	16.7	--	16	26.2	5,899	33.8
Middle						
2019	27.8	26.9	3	18.8	1,250	15.9
2020	27.6	--	21	34.4	4,131	23.6
Upper						
2019	50.0	51.0	4	25.0	1,900	24.1
2020	50.6	--	22	36.1	7,032	40.2
Totals						
2019	100.0	100.0	16	100.0	7,876	100.0
2020	100.0	--	61	100.0	17,472	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Within the in low-income tracts, the bank's performance exceeded the comparative data in 2019, but slipped slightly in 2020. Within moderate-income tracts, the bank's lending substantially exceeded the comparable data in each year. The bank's level of lending in 2019 was nearly triple that of other reporting institutions. While the bank's percentage of lending in moderate-income tracts increased by number, the overall percentage of loans in moderate-income tracts dropped, while still remaining 9.5 percentage points higher than the percentage of businesses in those tracts. The conclusion is supported by the particularly strong results in the moderate-income segment.

Borrower Profile

Overall, the distribution of borrowers reflects poor penetration among customers of different income levels and businesses customers of different sizes. While results were adequate in the small business lending segment, the conclusion is supported by the performance in the more heavily weighted home mortgage lending product.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, reflects poor penetration within the AA. The following table illustrates the distribution of home mortgage loans by borrower income level throughout the AA.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Warren						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	18.5	7.7	3	4.3	398	1.9
2020	18.5	6.0	4	1.7	397	0.5
Moderate						
2019	15.1	17.6	2	2.9	304	1.5
2020	15.1	16.1	9	3.8	1,629	2.2
Middle						
2019	18.8	23.2	17	24.3	3,750	18.3
2020	18.8	23.8	85	35.9	22,042	29.7
Upper						
2019	47.5	41.6	46	65.7	15,351	74.8
2020	47.5	42.9	134	56.5	48,586	65.5
Not Available						
2019	0.0	9.8	2	2.9	718	3.5
2020	0.0	11.2	5	2.1	1,480	2.0
Totals						
2019	100.0	100.0	70	100.0	20,521	100.0
2020	100.0	100.0	237	100.0	74,135	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Within lending to low-income borrowers, the bank's percentage of lending was below both the aggregate performance and percentage of families. This performance also considers the poverty rate of 7.4 percent, which includes individuals that often have difficulty in obtaining credit in the amount needed to purchase a home within the AA.

Within moderate-income tracts, the bank's performance is significantly below both sets of comparative data. While the aggregate performance was 17.6 and 16.1 percent in 2019 and 2020, respectively, the bank's was unable to garner more than 3.8 percent in either year.

Small Business Loans

The distribution of small business loans reflects adequate penetration to businesses of different sizes. The following table illustrates the distribution of small business loans by business size within the AA.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Warren						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2019	83.9	47.5	9	56.3	3,301	41.9
2020	86.4	--	22	36.1	4,348	24.9
>\$1,000,000						
2019	7.4	--	6	37.5	4,100	52.1
2020	6.1	--	36	59.0	12,543	71.8
Revenue Not Available						
2019	8.7	--	1	6.3	475	6.0
2020	7.5	--	3	4.9	581	3.3
Totals						
2019	100.0	100.0	16	100.0	7,876	100.0
2020	100.0	--	61	100.0	17,472	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

In 2019, the bank originated 56.3 percent of small business loans to businesses with GAR’s of \$1.0 million or less. This performance exceeded the aggregate performance, which serves as the best gauge of lending opportunities in the market. In 2020, the bank’s overall lending increased; however, the percentage of loans by number to businesses with GAR’s of \$1.0 million or less fell substantially.

Innovative or Flexible Lending Practices

The institution makes limited use of innovative and/or flexible lending practices in order to serve AA credit needs. Mercantile bank originated five innovative and/or flexible loans totaling \$565,000. The bank also originated 58 loans totaling \$18.5 million under the SBA PPP. The following table illustrates the volume of lending by product type and year.

Innovative or Flexible Lending Programs – Warren AA										
Type of Program	2018*		2019		2020		2021**		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
FHA	-	-	-	-	-	-	1	113	1	113
Home Possible	-	-	-	-	1	87	2	292	3	379
MSHDA	1	73	-	-	-	-	-	-	1	73
PPP	-	-	-	-	34	13,934	24	4,548	58	18,482
Totals	1	73			35	14,021	27	4,953	63	19,047
<i>Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021</i>										

Community Development Loans

Mercantile has made a relatively high level of community development loans in the AA. The bank originated 4 loans totaling \$30.8 million in this AA, which represents 1.5 percent by number and 5.4 percent by dollar volume of the bank’s total qualified lending activity. The number and dollar volume of community development lending in this AA increased since the last evaluation, when the bank originated one loan totaling \$6.6 million. Three of the loans were to construct a light industrial building on vacant land in a low-income census tract and bring additional jobs to the area. The fourth loan was to a new business to acquire franchise hair salons that meet SBA small business size standards and retain jobs that qualify as low- and moderate-income.

INVESTMENT TEST

Mercantile demonstrated excellent performance under the Investment Test in the AA.

Investment and Grant Activity

Mercantile has an excellent level of qualified community development investments and donations. In total, the bank made or maintained 18 qualified investments totaling \$33.7 million in the AA. The bank also made 19 qualified donations totaling \$64,000 in the AA. This represents 7.8 percent by number and 37.1 percent by dollar volume of the bank’s total qualified investment and donation activity. The number and dollar volume of community development investments and donations in this AA more than doubled the results identified at the last evaluation, when the bank made seven investments totaling \$12.8 million and five donations totaling \$15,000. The following table shows the bank’s community development investments and donations by purpose and year in the AA.

Qualified Investments – Warren AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	5	4,671	-	-	-	-	-	-	5	4,671
2018 (Partial)*	-	-	-	-	-	-	-	-	-	-
2019	4	7,966	-	-	-	-	1	1,395	5	9,361
2020	-	-	-	-	-	-	-	-	-	-
YTD 2021**	6	18,415	1	250	-	-	1	1,000	8	19,665
Subtotal	15	31,052	1	250	-	-	2	2,395	18	33,697
Qualified Grants & Donations	5	32	14	32	-	-	-	-	19	64
Total	20	31,084	15	282	-	-	2	2,395	37	33,761

*Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021*

Notable examples of community development investments and donations made by the bank in the AA include the following:

- Invested in a municipal school bond totaling \$250,000 for a school district that primarily serves low- and moderate-income students.
- Donated \$10,200 to a nonprofit organization committed to providing homes for people in need through homelessness prevention, housing assistance and development, community education and referral, and advocacy.
- Invested approximately \$5.2 million in a mortgage-backed loan pool primarily consisting of mortgage loans made to low- and moderate-income families.

Responsiveness to Credit and Community Development Needs

The institution exhibits good responsiveness to credit and community development needs. The investments and donations in the AA primarily financed affordable housing community development activities, but also captured revitalization and stabilization initiatives as well.

Community Development Initiatives

The institution occasionally uses innovative and/or complex investments to support community development initiatives. The institution primarily invested in low-income housing loan pools to support community development initiatives in the AA, as the majority of initiatives focused on affordable housing.

SERVICE TEST

Mercantile demonstrated adequate performance under the Service Test in the Warren AA.

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the institution’s AA. Mercantile operates a VBM-only location in an upper-income census tract within this AA. This VBM is located within 1.6 miles of three moderate-income tracts. In addition to the VBM, Mercantile offers a variety of alternative methods for customers to access banking products and services.

Changes in Branch Locations

There have been no changes to branch locations in this AA since the prior evaluation.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences portions of the AA, particularly low- and moderate-income geographies and/or individuals. This AA only contains one VBM location. The VBM does not provide all the same products and services as the full-service branches in the other AAs, and is not open on Saturdays. The reasonableness of business hours and services in this AA is consistent with the bank’s overall business hours and services.

Community Development Services

Mercantile provides a relatively high level of community development services. Bank personnel provided 36 qualified community development service activities in the AA, which represents 4.0 percent of the bank’s total community development services. This level of service represents a significant increase since the prior evaluation where the bank had seven qualified services. Of the bank’s total employees, 1.4 percent work within this AA, and these employees are active in the community despite the bank’s small footprint. The following table illustrates Mercantile’s community development services within the AA.

Community Development Services - Warren AA					
Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
2018 (Partial)	-	-	-	-	-
2019	-	5	-	-	5
2020	13	3	-	-	16
2021 (YTD)	11	4	-	-	15
Total	24	12	-	-	36
<i>Source: Bank Data</i>					

The following table presents notable examples of the services bank personnel provided in this AA during the evaluation period.

Community Development Services – Warren AA				
Brief Service Description	Community Development Purpose	Bank Sponsored Event, Program or Seminar	Technical Assistance or Direct Involvement by Bank Employee	Bank Product or Service
Community Housing Network – provides affordable housing and resources for low- and moderate-income populations. <i>Bank employees provided financial education seminars.</i>	Affordable Housing	2020-2021		
Oakland CRA Association – collaboration of financial institutions focused on community development within the county. <i>Bank Vice President served on the Board</i>	Community Service		2019-2021	
Care House of Oakland – Organization providing care and resources to low- and moderate-income children of abuse and neglect. <i>Bank employee served on the Board.</i>	Community Service		2019-2021	
<i>Source: Bank Records</i>				

SAGINAW, MI MSA AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE SAGINAW, MI MSA AA

The bank’s Saginaw AA consists of the entirety of Saginaw County, which is located in the Saginaw, Michigan MSA. Mercantile operates two full-service branches within this AA. The AA accounts for 1.7 percent of the bank’s total deposits as of June 30, 2021. Relative to the total loans made in all of its AAs, the bank originated 1.3 percent of home mortgage loans and 1.4 percent of small business loans by number volume within this AA.

Economic and Demographic Data

Based on 2015 ACS data, this AA contains 56 census tracts with the following income designations: 8 low-income; 10 moderate-income; 27 middle-income; and 11 upper-income. The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Assessment Area: Saginaw						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	56	14.3	17.9	48.2	19.6	0.0
Population by Geography	196,479	11.2	12.5	50.5	25.8	0.0
Housing Units by Geography	86,823	12.3	14.0	50.8	22.9	0.0
Owner-Occupied Units by Geography	56,270	7.8	9.6	54.8	27.8	0.0
Occupied Rental Units by Geography	21,655	18.8	19.3	47.0	14.8	0.0
Vacant Units by Geography	8,898	24.8	29.0	34.8	11.4	0.0
Businesses by Geography	10,412	6.3	11.8	52.5	29.4	0.0
Farms by Geography	537	0.9	2.8	58.8	37.4	0.0
Family Distribution by Income Level	49,689	21.2	17.1	20.7	41.0	0.0
Household Distribution by Income Level	77,925	24.0	16.3	18.2	41.5	0.0
Median Family Income MSA - 40980 Saginaw, MI MSA		\$54,210	Median Housing Value			\$92,112
			Median Gross Rent			\$703
			Families Below Poverty Level			13.5%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Geographic Distribution criterion compares the bank’s home mortgage lending to the distribution of owner-occupied housing units in the AA by census tract income level. Based on 2015 ACS data, the AA contains 86,823 housing units, of which 64.8 percent are owner-occupied, 24.9 percent are occupied rental units, and 10.3 percent are vacant.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of lending by GAR level. According to 2020 D&B data, the AA contains 10,412 non-farm businesses with the following GAR levels:

- 78.0 percent have \$1.0 million or less
- 6.8 percent have more than \$1.0 million
- 15.2 percent have unknown revenues

D&B data from 2020 shows the largest industries in the AA are services (41.0 percent); retail trade (15.5 percent); non-classifiable establishments (11.4 percent); finance, insurance, and real estate (7.6 percent); and construction (7.2 percent). In addition, 83.6 percent of the businesses operate from a single location, and 61.0 percent have four or fewer employees. Major employers in Saginaw County include Covenant HealthCare; Ascension St. Mary’s Hospital; Morley Companies, Inc.; Saginaw Valley State University; and General Motors.

Examiners also consider unemployment data when evaluating a bank’s ability to lend in its AA. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows the unemployment rate in Saginaw County slightly decreased from 2018 to 2019, and then significantly increased in 2020 due to the COVID-19 pandemic. Unemployment rates in Saginaw County consistently exceeded nationwide rates during the evaluation period. Unemployment rates in Saginaw County exceeded the statewide rates in 2018 and 2019, and were consistent with it in 2020.

Unemployment Rates - Saginaw			
Area	2018	2019	2020
	%	%	%
Saginaw County	4.8	4.7	9.9
Michigan	4.2	4.1	9.9
National Average	3.9	3.7	8.1
<i>Source: U.S. Bureau of Labor Statistics</i>			

Examiners use the FFIEC-adjusted median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the low-, moderate-, middle-, and upper-income ranges for the AA during the evaluation period.

Median Family Income Ranges – Saginaw				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Saginaw, MI MSA Median Family Income (40980)				
2018 (\$56,500)	<\$28,250	\$28,250 to <\$45,200	\$45,200 to <\$67,800	≥\$67,800
2019 (\$63,600)	<\$31,800	\$31,800 to <\$50,880	\$50,880 to <\$76,320	≥\$76,320
2020 (\$62,900)	<\$31,450	\$31,450 to <\$50,320	\$50,320 to <\$75,480	≥\$75,480
<i>Source: FFIEC</i>				

The State of Michigan, which includes Saginaw County, became subject to a federal major disaster declaration in March 2020 due to the COVID-19 pandemic (FEMA-4494-DR). Additionally, Saginaw County became subject to a federal major disaster declaration in July 2020 due to severe storms and flooding (FEMA-4547-DR).

Competition

Mercantile operates in a moderately-competitive market for financial services. According to FDIC market share data as of June 30, 2021, 12 FDIC-insured financial institutions have \$2.6 billion in deposits and operate 42 offices within Saginaw County. Of these institutions, Mercantile ranked ninth with 2.5 percent of the market share. The top five institutions account for 78.3 percent of the market share.

There is a high level of competition for home mortgage loans. Based on 2020 HMDA aggregate data, 220 lenders originated or purchased 6,162 home mortgage loans in the AA. Mercantile ranked 32nd with 0.8 percent of the market share. The top five lenders accounted for 35.8 percent of the home mortgage lending market share.

There is also a high level of competition for small business loans. Based on 2019 aggregate data, 62 lenders originated or purchased 2,376 small business loans in the AA. Mercantile ranked 21st with 0.7 percent of the market share. The top five lenders accounted for 59.6 percent of the small business lending market share.

Community Contact

Examiners reviewed a Saginaw County needs assessment conducted by various area health and wellness organizations. The assessment noted a steadily declining population in the county. The assessment also noted 44 percent of the Saginaw County population may struggle to meet basic needs. One in three people making less than \$30,000 per year said they worried about having enough food to eat in the past three months. The assessment included a survey and the three most important social/environmental issues impacting Saginaw County are violence and neighborhood safety (45 percent), lack of job opportunities (36 percent), and housing and homelessness (33 percent). African American residents ranked lack of job opportunities as the top issue, with one out of every two reporting it as a top issue. The assessment noted housing and homelessness issues are often cyclical and that population of residents needs continued support, particularly as many housing issues are closely linked to income and many job opportunities may not provide enough to support stable housing. The assessment also noted 17 percent of the households in Saginaw County are in poverty, and 53 percent of renters are moderately or severely cost burdened.

Credit and Community Development Needs and Opportunities

Considering the information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing is the primary credit need. There is also a need for assistance to those struggling to meet basic needs. Opportunities for these activities exist, given the level of low- and moderate-income tracts and families within the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE SAGINAW, MI MSA AA

LENDING TEST

Mercantile demonstrated adequate performance under the Lending Test in the Saginaw AA.

Lending Activity

Lending levels reflect adequate responsiveness to AA credit needs. During the review period, Mercantile originated 65 home mortgage loans totaling \$9.1 million and 62 small business loans totaling \$9.2 million in this AA. Home mortgage lending more than doubled by number and more

than tripled by dollar volume from 2019 to 2020. Small business lending more than doubled by number from 2019 to 2020, bolstered by the bank originating and reporting 31 PPP loans totaling \$3.3 million in 2020. Lending activity increased from the prior evaluation in this AA, when the bank originated 42 home mortgage loans totaling \$3.8 million and 42 small business loans totaling \$8.7 million in 2016 and 2017.

Geographic Distribution

Overall, the geographic distribution of loans reflects poor penetration throughout the AA. Poor performance in home mortgage and small business lending supports this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects poor penetration throughout the AA as the bank did not originate any home mortgage loans within low- and moderate-income tracts throughout the review period. The following table illustrates the geographic distribution of home mortgage loans, and includes the aggregate performance of other HMDA-reporting institutions and the percentage of owner-occupied housing units within each tract income level.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Saginaw						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	7.8	1.6	0	0.0	0	0.0
2020	7.8	1.2	0	0.0	0	0.0
Moderate						
2019	9.6	3.6	0	0.0	0	0.0
2020	9.6	2.9	0	0.0	0	0.0
Middle						
2019	54.8	59.9	14	77.8	1,773	82.3
2020	54.8	54.6	37	78.7	4,227	61.1
Upper						
2019	27.8	34.9	4	22.2	380	17.7
2020	27.8	41.4	10	21.3	2,690	38.9
Totals						
2019	100.0	100.0	18	100.0	2,153	100.0
2020	100.0	100.0	47	100.0	6,917	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

While the bank did not originate any loans within the low- or moderate-income tracts, the bank's branches are a significant distance from these tracts, with the closest branch residing nine miles away from the closest low- or moderate-income tract. Within those nine miles, eight large national banks maintain branches with numerous locations within the AA's low- and moderate-income tracts. The proximity of the bank's competition reduces their ability to lend within these tracts. Additionally, the bank does not retain a mortgage loan officer within the AA, outsourcing loan originations to other lenders who will travel in as needed.

Small Business Loans

The geographic distribution of small business loans reflects poor penetration throughout the AA. The following table illustrates the geographic distribution of small business loans throughout the AA and includes comparative data as previously described.

Geographic Distribution of Small Business Loans						
Assessment Area: Saginaw						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	6.5	5.8	0	0.0	0	0.0
2020	6.3	--	1	2.2	88	1.4
Moderate						
2019	12.3	9.7	0	0.0	0	0.0
2020	11.8	--	0	0.0	0	0.0
Middle						
2019	52.8	54.2	16	100.0	3,106	100.0
2020	52.5	--	36	78.3	5,126	84.4
Upper						
2019	28.4	30.3	0	0.0	0	0.0
2020	29.4	--	9	19.6	863	14.2
Totals						
2019	100.0	100.0	16	100.0	3,106	100.0
2020	100.0	--	46	100.0	6,077	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Throughout the low- and moderate-income tracts, the bank originated just one loan in a low-income tract in 2020. This performance is significantly below both the percentage of businesses and the performance of other reporting institutions. As previously described, the bank's locations are a significant distance from the closest low- or moderate-income tracts, with significant competition from banks with closer locations and more services. Additionally, the bank does not retain a commercial lender within the AA, outsourcing work to other loan officers within the institution.

Borrower Profile

Overall, the distribution of borrowers reflects adequate penetration among customers of different income levels and businesses customers of different sizes. This conclusion is supported by consistent performance in both loan products.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrower reflects adequate penetration within the AA. The following table illustrates the distribution of home mortgage loans by borrower income level throughout the AA, and includes comparative data, such as the percentage of families and the aggregate market data.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Saginaw						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	21.2	10.1	3	16.7	154	7.1
2020	21.2	7.5	0	0.0	0	0.0
Moderate						
2019	17.1	22.6	3	16.7	300	13.9
2020	17.1	18.5	12	25.5	1,124	16.2
Middle						
2019	20.7	22.6	3	16.7	418	19.4
2020	20.7	21.9	13	27.7	1,429	20.7
Upper						
2019	41.0	35.0	9	50.0	1,282	59.5
2020	41.0	40.7	19	40.4	3,833	55.4
Not Available						
2019	0.0	9.7	0	0.0	0	0.0
2020	0.0	11.4	3	6.4	531	7.7
Totals						
2019	100.0	100.0	18	100.0	2,153	100.0
2020	100.0	100.0	47	100.0	6,917	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Within lending to low-income borrowers, the bank originated three loans totaling 16.7 percent of loans in 2019 by number (exceeding the aggregate results); however, no loans were extended to

low-income borrowers in 2020 despite an increase in overall lending. Within lending to moderate-income borrowers, the bank’s performance trailed the aggregate results in 2019; however, the results improved significantly in 2020, outpacing the comparative data.

Small Business Loans

The distribution of small business loans reflects adequate penetration to businesses of different sizes. The following table illustrates the distribution of small business loans by business size within the AA.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Saginaw						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2019	76.9	42.8	6	37.5	398	12.8
2020	78.0	--	20	43.5	934	15.4
>\$1,000,000						
2019	7.3	--	10	62.5	2,708	87.2
2020	6.8	--	26	56.5	5,143	84.6
Revenue Not Available						
2019	15.8	--	0	0.0	0	0.0
2020	15.2	--	0	0.0	0	0.0
Totals						
2019	100.0	100.0	16	100.0	3,106	100.0
2020	100.0	--	46	100.0	6,077	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

The bank’s performance was below aggregate in 2019 and increased by 6.0 percentage points in 2020, as the bank’s overall small business lending increased to a level consistent with the most recent aggregate figures.

Innovative or Flexible Lending Practices

The institution uses innovative and/or flexible lending practices in order to serve AA credit needs. Mercantile bank originated 10 flexible loans totaling \$683,000. Further, the bank extended 49 PPP loans for \$5.0 million. This performance represents a significant increase in loans by both product and number, as the bank originated only two SBA 504 loans during the previous evaluation. The following table illustrates the volume of lending by product type and year.

Innovative or Flexible Lending Programs – Saginaw AA										
Type of Program	2018*		2019		2020		2021**		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Credit Builder	-	-	1	1	1	1	1	1	3	3
FHA	-	-	1	66	-	-	1	86	2	152
Home Possible	-	-	1	82	3	318	-	-	4	400
MSHDA	-	-	1	128	-	-	-	-	1	128
PPP	-	-	-	-	32	3,342	17	1,675	49	5,017
Totals			4	277	36	3,661	19	1,762	59	5,700
<i>Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021</i>										

Community Development Loans

Mercantile made an adequate level of community development loans in the AA. The bank originated two loans totaling \$2.5 million in this AA, which represents 0.8 percent by number and 0.4 percent by dollar volume of the bank’s total qualified lending activity. The number and dollar volume of community development lending in this AA has remained generally consistent since the last evaluation, when the bank originated two loans totaling \$2.7 million. One loan was the renewal of a SBA 504 loan to construct an assisted living facility, while the other loan was a commercial real estate loan for a 30-unit apartment complex that provides affordable housing and utilized low-income housing tax credits.

INVESTMENT TEST

Mercantile demonstrated good performance under the Investment Test in the Saginaw AA.

Investment and Grant Activity

Mercantile has a significant level of qualified community development investments and donations. The bank made one new qualified investment, while maintaining three qualified investments from the prior evaluation. The four investments total \$1.4 million. The bank did not make any donations in the AA. This represents 0.8 percent by number and 1.6 percent by dollar volume of the bank’s total qualified investment and donation activity. The bank’s new investment is approximately \$175,000 into a mortgage-backed loan pool primarily consisting of mortgage loans made to low- and moderate-income families. The three investments from the prior period are municipal school bonds totaling approximately \$1.2 million for a school district that primarily serves low- and moderate-income students. The three municipal school bonds represent all of the qualified investment and donation activity from the prior evaluation.

Responsiveness to Credit and Community Development Needs

The institution exhibits adequate responsiveness to credit and community development needs. As previously stated, AA needs include affordable housing and community services targeted to low-

and moderate-income individuals. While the bank made limited investments, they are consistent with those needs.

Community Development Initiatives

The institution occasionally uses innovative and/or complex investments to support community development initiatives. The institution invested in municipal school bonds and a low-income housing loan pool to support community development initiatives in the AA.

SERVICE TEST

Mercantile demonstrated adequate performance under the Service Test in the Saginaw AA.

Accessibility of Delivery Systems

Delivery systems are accessible to limited portions of the institution's AA. Mercantile operates two full-service branches in the AA, both of which are located in middle-income tracts and substantially distant from the closest low- and moderate-income tracts (9.1 miles). Both locations contain ATMs. In addition to the branches, Mercantile offers a variety of alternative methods for customers to access banking products and services as discussed previously. The bank offers online banking, mobile banking, telephone banking, mobile wallets, person-to-person payments, and remote deposit capture. Individuals can also apply for mortgage loans and open deposit accounts online.

Changes in Branch Locations

There have been no changes to branch locations in this AA since the prior evaluation.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences portions of the AA, particularly low- and moderate-income geographies and/or individuals. This AA contains two full-service branches. Operating hours and services do not vary and are similar to the hours and services offered by other banks within the AA. The reasonableness of business hours and services in this AA is consistent with the bank's overall business hours and services.

Community Development Services

Mercantile is a leader in providing community development services. The bank provided 41 qualified community development services, an increase since the prior evaluation where the bank provided 31. Mercantile has 1.6 percent of employees within this AA, with those employees providing 4.5 percent of the bank's total community development services. The following table illustrates Mercantile's community development services within this AA.

Community Development Services – Saginaw AA					
Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
2018 (Partial)	1	4	-	-	5
2019	4	21	-	-	25
2020	1	5	1	-	7
2021 (YTD)	1	2	1	-	4
Total	7	32	2	-	41
<i>Source: Bank Data</i>					

The following table details notable examples of the services bank personnel provided in this AA during the evaluation period.

Community Development Services – Saginaw AA				
Brief Service Description	Community Development Purpose	Bank Sponsored Event, Program or Seminar	Technical Assistance or Direct Involvement by Bank Employee	Bank Product or Service
Teach Children to Save – provides financial education to students in schools where the majority of students receive free or reduced lunch. <i>Bank employees provided seminars.</i>	Community Service	2019		
First Ward – provides various community services to low- and moderate-income populations throughout Saginaw. <i>Bank Vice President served on the Board</i>	Community Service		2020-2021	
Saginaw Housing Commission – provides services to low- and moderate-income families, including job training and home ownership. <i>Bank Vice President served on the Board.</i>	Affordable Housing		2020-2021	
<i>Source: Bank Records</i>				

LANSING-EAST LANSING, MI MSA AA – Limited-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE LANSING-EAST LANSING, MI MSA AA

The bank’s Lansing AA consists of the entirety of Ingham and Clinton Counties, which are located in the Lansing-East Lansing, Michigan MSA. Mercantile operates two full-service branches within this AA located in middle-income census tracts. The AA accounts for 9.1 percent of the bank’s

total deposits as of June 30, 2021. The bank originated 3.6 percent of home mortgage loans and 11.6 percent of small business loans within this AA.

Economic and Demographic Data

Based on 2015 ACS data, this AA contains 103 census tracts with the following income designations: 9 low-income; 24 moderate-income; 33 middle-income; and 28 upper-income. The AA also contains nine tracts with no income designation. The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Assessment Area: Lansing						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	103	8.7	23.3	32.0	27.2	8.7
Population by Geography	360,396	7.1	22.4	31.6	33.5	5.3
Housing Units by Geography	152,619	8.7	24.8	32.4	33.1	1.0
Owner-Occupied Units by Geography	86,937	3.1	20.0	37.5	39.2	0.2
Occupied Rental Units by Geography	52,338	15.8	30.7	25.0	26.2	2.2
Vacant Units by Geography	13,344	17.5	32.5	28.1	20.7	1.1
Businesses by Geography	23,308	8.9	21.6	26.8	39.0	3.7
Farms by Geography	976	2.9	10.0	44.9	41.0	1.2
Family Distribution by Income Level	80,976	22.5	17.3	19.5	40.7	0.0
Household Distribution by Income Level	139,275	26.4	15.7	17.3	40.6	0.0
Median Family Income MSA - 29620 Lansing-East Lansing, MI MSA		\$63,978	Median Housing Value			\$124,436
			Median Gross Rent			\$796
			Families Below Poverty Level			11.9%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2020 D&B data, the AA contains 23,308 non-farm businesses. Of those businesses, 82.0 percent have revenues of less than \$1.0 million, 62.0 percent employ four or fewer employees, and 86.7 percent operate from a single location. D&B data from 2020 also shows the largest industries in the AA are services (42.4 percent), non-classifiable establishments (14.6 percent), and retail trade (11.5 percent). Major employer in the AA are Michigan State University, Liberty National Life Insurance, and Sparrow Health System. Based on 2015 ACS data, the AA contains 152,619 housing units, of which 57.0 percent are owner-occupied, 34.3 percent are occupied rental units, and 8.7 percent are vacant.

The bank operates in a moderately competitive market for financial services. According to FDIC market share data as of June 30, 2021, 20 FDIC-insured financial institutions have \$7.8 billion in deposits and operate 65 offices within the AA. Mercantile ranked ninth with 4.3 percent of the market share. There is a high level of competition for loans within the AA. Based on 2020 HMDA aggregate data, 351 lenders originated or purchased 15,651 home mortgage loans in the AA, and Mercantile ranked 26th with 0.7 percent of the market share. Based on 2019 small business lending aggregate data, 77 lenders originated or purchased 4,973 loans in the AA, and Mercantile ranked ninth with 3.3 percent of the market share.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE LANSING-EAST LANSING, MI MSA AA

LENDING TEST

While reasonable, Mercantile's Lending Test performance in the AA is below the bank's overall performance under this test. The bank originated 62 home mortgage loans in 2019 totaling \$13.2 million and 110 home mortgage loans in 2020 totaling \$22.4 million. The bank originated 162 small business loans in 2019 totaling \$38.2 million and 360 small business loans in 2020 totaling \$68.5 million.

During the review period, the bank originated 13 community development loans totaling \$25.1 million within the AA. This represents 4.8 percent by number and 4.4 percent by dollar volume of the bank's total qualified lending activity. The number and dollar volume of community development loans in this AA decreased since the last evaluation, when the bank made 23 loans totaling \$46.8 million.

The following are the Geographic Distribution and Borrower Profile tables for the AA.

Geographic Distribution of Home Mortgage Loans							
Assessment Area: Lansing							
Tract Income Level		% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low							
	2019	3.1	2.9	1	1.6	51	0.4
	2020	3.1	2.2	0	0.0	0	0.0
Moderate							
	2019	20.0	17.4	10	16.1	2,492	18.8
	2020	20.0	14.5	7	6.4	738	3.3
Middle							
	2019	37.5	36.7	32	51.6	5,302	40.1
	2020	37.5	35.6	47	42.7	6,979	31.1
Upper							
	2019	39.2	42.7	18	29.0	5,282	39.9
	2020	39.2	47.5	54	49.1	14,178	63.2
Not Available							
	2019	0.2	0.3	1	1.6	110	0.8
	2020	0.2	0.3	2	1.8	542	2.4
Totals							
	2019	100.0	100.0	62	100.0	13,237	100.0
	2020	100.0	100.0	110	100.0	22,437	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>							

Geographic Distribution of Small Business Loans							
Assessment Area: Lansing							
Tract Income Level		% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low							
	2019	9.4	10.7	29	17.9	6,893	18.0
	2020	8.9	--	58	16.1	15,484	22.6
Moderate							
	2019	22.1	19.0	28	17.3	5,089	13.3
	2020	21.6	--	81	22.5	13,436	19.6
Middle							
	2019	27.0	24.3	38	23.5	9,956	26.1
	2020	26.8	--	98	27.2	17,631	25.7
Upper							
	2019	37.7	44.7	65	40.1	16,005	41.9
	2020	39.0	--	120	33.3	21,670	31.6
Not Available							
	2019	3.8	1.4	2	1.2	265	0.7
	2020	3.7	--	3	0.8	283	0.4
Totals							
	2019	100.0	100.0	162	100.0	38,208	100.0
	2020	100.0	--	360	100.0	68,504	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>							

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Mercantile Lansing AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	22.5	8.9	5	8.1	395	3.0
2020	22.5	8.9	11	10.0	899	4.0
Moderate						
2019	17.3	21.3	9	14.5	1,208	9.1
2020	17.3	20.8	17	15.5	2,155	9.6
Middle						
2019	19.5	23.2	20	32.3	2,789	21.1
2020	19.5	23.0	24	21.8	3,810	17.0
Upper						
2019	40.7	37.4	25	40.3	6,883	52.0
2020	40.7	36.8	49	44.5	13,720	61.2
Not Available						
2019	0.0	9.2	3	4.8	1,963	14.8
2020	0.0	10.6	9	8.2	1,853	8.3
Totals						
2019	100.0	100.0	62	100.0	13,237	100.0
2020	100.0	100.0	110	100.0	22,437	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Mercantile Lansing AA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2019	80.1	47.2	76	46.9	14,846	38.9
2020	82.0	--	143	39.7	15,907	23.2
>\$1,000,000						
2019	6.4	--	80	49.4	21,482	56.2
2020	5.6	--	201	55.8	50,665	74.0
Revenue Not Available						
2019	13.5	--	6	3.7	1,880	4.9
2020	12.4	--	16	4.4	1,932	2.8
Totals						
2019	100.0	100.0	162	100.0	38,208	100.0
2020	100.0	--	360	100.0	68,504	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

INVESTMENT TEST

While reasonable, Mercantile’s Investment Test performance in the AA is below the bank’s overall performance. During the review period, the bank made six qualified investments totaling \$1.3 million and 15 donations totaling \$44,000 within the AA. This represents 4.4 percent by number and 1.5 percent by dollar volume of the bank’s total qualified investment and donation activity. The number and dollar volume of community development investments and donations in this AA increased since the last evaluation, when the bank made two investments totaling \$487,000 and six donations totaling \$15,000.

SERVICE TEST

While reasonable, Mercantile’s Service Test performance in the AA is below the bank’s overall performance. Products, services, and business hours are similar to those offered within the full scope AAs. Since the prior evaluation, the bank closed one branch located in a moderate-income census tract. As demonstrated in the following table, employees provided 33 community development services to various qualified community development organizations in this AA. This represents 3.6 percent of the bank’s total qualified community development service activity.

Community Development Services – Lansing AA					
Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
2018 (Partial)*	1	-	-	-	1
2019	7	6	-	-	13
2020	2	3	-	-	5
YTD 2021**	12	2	-	-	14
Total	22	11	-	-	33
<i>Source: Bank Data, *9/4/2018-12/31/2018, **1/1/2021-9/13/2021</i>					

APPENDICES

LARGE BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
 - i. The proportion of the bank's lending in the bank's assessment area(s);
 - ii. The dispersion of lending in the bank's assessment areas(s); and
 - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
 - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
 - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
 - iii. Small business and small farm loans by loan amount at origination; and
 - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

Investment Test

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

Service Test

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

SCOPE OF EVALUATION

Mercantile Bank of Michigan	
Time Period Reviewed:	09/04/2018 to 09/13/2021
Products Reviewed: Home Mortgage: (01/01/2019 – 12/31/2020) Small Business: (01/01/2019 – 12/31/2020) Small Farm: (01/01/2019 – 12/31/2020)	

List of Affiliates and Products Reviewed		
Affiliates	Affiliate Relationship	Products Reviewed
Firstbank Capital Trust I	Provides capital to holding company	NA
Firstbank Capital Trust II	Provides capital to holding company	NA
Firstbank Capital Trust III	Provides capital to holding company	NA
Firstbank Capital Trust IV	Provides capital to holding company	NA
Mercantile Bank Capital Trust I	Provides capital to holding company	NA
Mercantile Bank Corporation	Holding Company	NA
Mercantile Insurance Center, Inc.	Insurance services	NA
West Lake Associates, LLC	ORE holding company	NA

List of Assessment Areas and Type of Evaluation			
Assessment Area	Type of Evaluation	Branches Visited	Other Information
Grand Rapids	Full-scope	None	None
Non-MSA	Full-scope	None	None
Kalamazoo	Full-scope	None	None
Warren	Full-scope	None	None
Saginaw	Full-scope	None	None
Lansing	Limited-scope	None	None

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.