Wheeler Real Estate Investment Trust, Inc.
Form 8-K
October 01, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934
Date of report (date of earliest event reported): September 30, 2015

WHEELER REAL ESTATE INVESTMENT TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	001-35713	45-2681082
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2529 Virginia Beach Blvd., Suite 200
Virginia Beach, VA 23452
Registrant’s telephone number, including area code: (757) 627-9088

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 8.01 OTHER EVENTS.

On August 3, 2015, the Registrant filed a Form 8-K to report that WHLR-Ft. Howard Square, LLC, a Delaware limited liability company (“WHLR-Ft. Howard Square”) and a wholly-owned subsidiary of Wheeler REIT, L.P., a Virginia limited partnership of which the Registrant is the sole general partner, entered into a Purchase and Sale Agreement as buyer, with Rin South Partners, LLC, a Georgia limited liability company, as seller ("Seller"), for the purchase of a retail shopping center in Rincon, Georgia, commonly known as Ft. Howard Square Shopping Center, for the sales price of Eleven Million Five Hundred Thousand and 00/100 Dollars ($11,500,000).

On September 30, 2015, WHLR-Ft. Howard Square closed the transaction and acquired Ft. Howard Square Shopping Center for $11,500,000.

No director, officer or affiliate of the Registrant is affiliated with the Seller.

On October 1, 2015, the Registrant filed a press release announcing the acquisition of Ft. Howard Square Shopping Center, which is filed as Exhibit 99.1 to this Form 8-K.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial statement of businesses acquired.

The Registrant will file requisite financial information for Ft. Howard Square Shopping Center no later than 71 calendar days after the initial filing of this Current Report on Form 8-K.

(b) Pro forma financial information.

Not applicable.

(c) Shell company transactions.

Not Applicable.

(d) Exhibits.

99.1 Press release, dated October 1, 2015, announcing the completion of the acquisition of Ft. Howard Square Shopping Center.

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WHEELER REAL ESTATE INVESTMENT TRUST, INC.

By: /s/ Jon S. Wheeler
Jon S. Wheeler
Chairman and Chief Executive Officer
Dated: October 1, 2015

EXHIBIT INDEX

Number	Description of Exhibit
99.1	Press release, dated October 1, 2015, announcing the completion of the acquisition of Ft. Howard Square Shopping Center.

IGN: left; MARGIN-LEFT: 16.2pt; TEXT-INDENT: -7.2pt">Total nonperforming assets (NPAs)
13,343

18,328

NPLs to total loans

0.02
%

0.06
%
NPAs to total assets

0.81
%

1.06
%

The following table shows the composition and amount of our troubled debt restructurings (“TDRs”) at September 30, 2016 and December 31, 2015 (dollars in thousands):

	September 30, 2016			December 31, 2015		
	Commercial	Consumer	Total	Commercial	Consumer	Total
Performing TDRs	$18,253	$ 12,618	$30,871	$24,932	$ 13,543	$38,475
Nonperforming TDRs (1)	152	8	160	550	27	577
Total TDRs	$18,405	$ 12,626	$31,031	$25,482	$ 13,570	$39,052

(1) Included in nonperforming asset table above

We had a total of $31.0 million and $39.1 million of loans whose terms have been modified in TDRs as of September 30, 2016 and December 31, 2015, respectively. Approximately half of the decrease in our TDRs is attributable to seasonal paydowns on an agricultural credit. These loans may have involved the restructuring of terms to allow customers to mitigate the risk of foreclosure by meeting a lower loan payment requirement based upon their current cash flow. These may also include loans that renewed at existing contractual rates, but below market rates for comparable credit. For each restructuring, a comprehensive credit underwriting analysis of the borrower’s financial condition and prospects of repayment under the revised terms is performed to assess whether the structure can be successful and that cash flows will be sufficient to support the restructured debt. An analysis is also performed to determine whether the restructured loan should be on accrual status. Generally, if the loan is on accrual at the time of restructure, it will remain on accrual after the restructuring. In some cases, a nonaccrual loan may be placed on accrual at restructuring if the loan’s actual payment history demonstrates it would have cash flowed under the restructured terms. After six consecutive payments under the restructured terms, a nonaccrual restructured loan is reviewed for possible upgrade to accruing status. In situations where there is a subsequent modification or renewal and the loan is brought to market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics, the TDR and impaired designations may be removed.

As with other impaired loans, an allowance for loan loss is estimated for each TDR based on the most likely source of repayment for each loan. For impaired commercial real estate loans that are collateral dependent, the allowance is computed based on the fair value of the underlying collateral, less estimated costs to sell. For impaired commercial loans where repayment is expected from cash flows from business operations, the allowance is computed based on a discounted cash flow computation. Certain groups of TDRs, such as residential mortgages, have common characteristics and for them the allowance is computed based on a discounted cash flow computation on the change in weighted rate for the pool. The allowance allocations for commercial TDRs where we have reduced the contractual interest rate are computed by measuring cash flows using the new payment terms discounted at the original contractual rate.

Allowance for loan losses: The allowance for loan losses at September 30, 2016 was $16.8 million compared to $17.1 million at December 31, 2015. The balance of the allowance for loan losses represented 1.36% of total portfolio loans at September 30, 2016 compared to 1.43% of total portfolio loans at December 31, 2015. The allowance for loan losses to nonperforming loan coverage ratio increased from 2259.39% at December 31, 2015 to 7230.47% at September 30, 2016.

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The table below shows the changes in these metrics over the past five quarters (dollars in millions):

	Quarter Ended September 30, 2016	Quarter Ended June 30, 2016	Quarter Ended March 31, 2016	Quarter Ended December 31, 2015	Quarter Ended September 30, 2015
Commercial loans	$ 923.2	$ 894.4	$ 905.3	$ 886.0	$ 882.1
Nonperforming loans	0.2	0.3	0.4	0.8	4.2
Other real estate owned and repo assets	13.1	14.1	16.2	17.6	25.7
Total nonperforming assets	13.3	14.4	16.6	18.3	29.9
Net charge-offs (recoveries)	(0.1)	(0.6)	(0.1)	(1.6)	(0.3)
Total delinquencies	0.3	1.0	0.8	1.4	2.9

Nonperforming loans continually declined since the first quarter of 2010 to $233,000 at September 30, 2016. As discussed earlier, we have had net loan recoveries in several quarters over the last three years and in each of the last seven quarters. Our total delinquencies have continued to stabilize and were $345,000 at September 30, 2016 and $1.4 million at December 31, 2015. Our delinquency percentage at September 30, 2016 was 0.03%, and was well below the average level of the Bank’s peers.

These factors all impact our necessary level of allowance for loan losses and our provision for loan losses. The allowance for loan losses decreased $234,000 in the first nine months of 2016. We recorded a negative provision for loan losses of $1.1 million for the nine months ended September 30, 2016 compared to a negative $1.75 million for the same period of 2015. Net loan recoveries were $866,000 for the nine months ended September 30, 2016, compared to net loan recoveries of $1.0 million for the same period in 2015. The ratio of net recoveries to average loans was (0.10%) on an annualized basis for the first nine months of 2016, compared to (0.12%) for the first nine months of 2015.

We are encouraged by the reduced level of charge-offs over recent quarters. We do, however, recognize that future charge-offs and resulting provisions for loan losses are expected to be impacted by the timing and extent of changes in the overall economy and the real estate markets. We believe we have seen some stabilization in economic conditions and real estate markets. However, we expect it to take additional time for sustained improvement in the economy and real estate markets in order to further reduce our impaired loans.

Our allowance for loan losses is maintained at a level believed appropriate based upon our monthly assessment of the probable estimated losses inherent in the loan portfolio. Our methodology for measuring the appropriate level of allowance and related provision for loan losses relies on several key elements, which include specific allowances for loans considered impaired, general allowance for commercial loans not considered impaired based upon applying our loan rating system, and general allocations based on historical trends for homogeneous loan groups with similar risk characteristics.

Overall, impaired loans decreased $8.0 million to $30.8 million at September 30, 2016 from $38.8 million at December 31, 2015. The specific allowance for impaired loans decreased $205,000 to $1.73 million, compared to $1.94 million at December 31, 2015. The specific allowance for impaired loans represented 5.6% of total impaired loans at September 30, 2016 and 5.0% at December 31, 2015. The overall balance of impaired loans remained elevated partially due to an accounting rule (ASU 2011-02) adopted in 2011 that requires us to identify classified loans that renew at existing contractual rates as troubled debt restructurings (“TDRs”) if the contractual rate is less than market rates for similar loans at the time of renewal.

The general allowance allocated to commercial loans that were not considered to be impaired was based upon the internal risk grade of such loans. We use a loan rating method based upon an eight point system. Loans are stratified between real estate secured and non real estate secured. The real estate secured portfolio is further stratified by the type of real estate. Each stratified portfolio is assigned a loss allocation factor. A higher numerical grade assigned to a loan category generally results in a greater allocation percentage. Changes in risk grade of loans affect the amount of the allowance allocation.

The determination of our loss factors is based upon our actual loss history by loan grade and adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the analysis date. We use a rolling 18 month actual net chargeoff history as the base for our computation. Over the past two years, the 18 month period computations have reflected sizeable decreases in net chargeoff experience. We addressed this volatility in the qualitative factor considerations applied in our allowance for loan losses computation. Adjustments to the qualitative factors also involved consideration of different loss periods for the Bank, including 12, 24, 36 and 48 month periods. Considering the change in our qualitative factors and our commercial loan portfolio balances, the general allowance allocated to commercial loans was $12.2 million at both September 30, 2016 and December 31, 2015. This resulted in a general reserve percentage allocated at September 30, 2016 of 1.34% of commercial loans, a slight decrease from 1.41% at December 31, 2015. The qualitative component of our allowance allocated to commercial loans was $12.2 million at September 30, 2016 and December 31, 2015.

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Groups of homogeneous loans, such as residential real estate and open- and closed-end consumer loans, receive allowance allocations based on loan type. A rolling 12 month (four quarter) historical loss experience period was applied to residential mortgage and consumer loan portfolios. As with commercial loans that are not considered impaired, the determination of the allowance allocation percentage is based principally on our historical loss experience. These allocations are adjusted for consideration of general economic and business conditions, credit quality and delinquency trends, collateral values, and recent loss experience for these similar pools of loans. The homogeneous loan allowance was $2.9 million at September 30, 2016 and December 31, 2015.

The allowance allocations are not intended to imply limitations on usage of the allowance for loan losses. The entire allowance for loan losses is available for any loan losses without regard to loan type.

Premises and Equipment: Premises and equipment totaled $50.2 million at September 30, 2016, down $1.3 million from $51.5 million at December 31, 2015 as depreciation more than offset capital additions of current facilities and equipment during the first nine months of 2016.

Bank owned life insurance (BOLI): The Bank has purchased life insurance policies on certain officers. BOLI is recorded at its currently realizable cash surrender value. During the third quarter of 2016, the Bank purchased an additional $10.0 million in such policies, bringing the total balance to $39.1 million at September 30, 2016 compared to $28.9 million at December 31, 2015.

Deposits and Other Borrowings: Total deposits decreased $76.9 million to $1.36 billion at September 30, 2016, as compared to $1.44 billion at December 31, 2015. Non-interest checking account balances decreased $21.9 million during the first nine months of 2016. Interest bearing demand account balances decreased $65.0 million and savings and money market account balances increased $20.6 million in the first nine months of 2016. We decreased higher costing certificates of deposits by $10.6 million in the first nine months of 2016. Most of the decrease in demand deposits and money market deposits in the first nine months of 2016 was due to runoff of the seasonal year end increase in deposits from many of our municipal and business customers. We believe our success in maintaining the balances of personal and business checking and savings accounts was primarily attributable to our focus on quality customer service, the desire of customers to deal with a local bank, the convenience of our maturing branch network and the breadth and depth of our sophisticated product line.

Noninterest bearing demand accounts comprised 33% of total deposits at September 30, 2016 and December 31, 2015. These balances typically increase at year end for many of our commercial customers, then decline in the first quarter. Because of the generally low rates paid on interest bearing account alternatives, many of our business customers chose to keep their balances in these more liquid noninterest bearing demand account types. Interest bearing demand, including money market and savings accounts, comprised 61% of total deposits at September 30, 2016 and December 31, 2015. Time accounts as a percentage of total deposits were 6% at September 30, 2016 and December 31, 2015.

Borrowed funds totaled $125.4 million at September 30, 2016, including $84.2 million of Federal Home Loan Bank (“FHLB”) advances and $41.2 million in long-term debt associated with trust preferred securities. Borrowed funds totaled $137.4 million at December 31, 2015, including $96.2 million of FHLB advances and $41.2 million in long-term debt associated with trust preferred securities. Borrowed funds decreased by $12.0 million in the first nine months of 2016 due an annual payment on an amortizing Federal Home Loan Bank advance and maturity of two $10 million FHLB advances in the third quarter of 2016, offset by the addition of a $10 million FHLB advance in the second quarter of 2016.

CAPITAL RESOURCES

Total shareholders' equity of $162.2 million at September 30, 2016 increased $10.2 million from $152.0 million at December 31, 2015. The increase was primarily a result of net income of $11.8 million earned in the first nine months of 2016 and an increase of $1.1 million in accumulated other comprehensive income, partially offset by the payment of $3.0 million in cash dividends to shareholders. The Bank was categorized as “well capitalized” at September 30, 2016.

In July 2013, the Board of Governors of the Federal Reserve Board and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (commonly known as Basel III). Under the final rules, which began for the Company and the Bank on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements will increase for both the quantity and quality of capital held by the Company and the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio (CET1 ratio) of 4.5% and a capital conservation buffer of 2.5% of risk-weighted assets, which when fully phased-in, effectively results in a minimum CET1 ratio of 7.0%. Basel III raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital ratio of 8.5% when fully phased-in). It raises the minimum total capital to risk-weighted assets ratio from 6.0% to 8.0% (which with the capital conservation buffer fully phased-in effectively results in a 10.5% ratio), and requires a minimum leverage ratio of 4.0%. Basel III also makes changes to risk weights for certain assets and off-balance-sheet exposures. We expect that the capital ratios for the Company and the Bank under Basel III will continue to exceed the well capitalized minimum capital requirements.

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The following table shows our regulatory capital ratios (on a consolidated basis) for the past several quarters:

	September 30, 2016		June 30, 2016		March 31, 2016		Dec 31, 2015		September 30, 2015	
Total capital to risk weighted assets	15.2	%	15.2	%	15.0	%	14.8	%	14.6	%
Common Equity Tier 1 to risk weighted assets	11.3		11.1		11.1		10.8		10.5	
Tier 1 capital to risk weighted assets	14.1		14.0		13.8		13.6		13.4	
Tier 1 capital to average assets	12.0		11.9		11.7		11.5		11.3	

Approximately $40.0 million of trust preferred securities outstanding at September 30, 2016 qualified as Tier 1 capital.

LIQUIDITY

Liquidity of Macatawa Bank: The liquidity of a financial institution reflects its ability to manage a variety of sources and uses of funds. Our Consolidated Statements of Cash Flows categorize these sources and uses into operating, investing and financing activities. We primarily focus on developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for our investment and loan portfolios. Our sources of liquidity include our borrowing capacity with the FRB's discount window, the Federal Home Loan Bank, federal funds purchased lines of credit and other secured borrowing sources with our correspondent banks, loan payments by our borrowers, maturity and sales of our securities available for sale, growth of our deposits, federal funds sold and other short-term investments, and the various capital resources discussed above.

Liquidity management involves the ability to meet the cash flow requirements of our customers. Our customers may be either borrowers with credit needs or depositors wanting to withdraw funds. Our liquidity management involves periodic monitoring of our assets considered to be liquid and illiquid, and our funding sources considered to be core and non-core and short-term (less than 12 months) and long-term. We have established parameters that monitor, among other items, our level of liquid assets to short-term liabilities, our level of non-core funding reliance and our level of available borrowing capacity. We maintain a diversified wholesale funding structure and actively manage our maturing wholesale sources to reduce the risk to liquidity shortages. We have also developed a contingency funding plan to stress test our liquidity requirements arising from certain events that may trigger liquidity shortages, such as rapid loan growth in excess of normal growth levels or the loss of deposits and other funding sources under extreme circumstances.

We have actively pursued initiatives to maintain a strong liquidity position. The Bank reduced its reliance on non-core funding sources, including brokered deposits, and focused on achieving a non-core funding dependency ratio below its peer group average. We have had no brokered deposits on our balance sheet since December 2011. We also reduced other borrowed funds by $56.8 million in 2012, $1.8 million in 2013 and $1.9 million in 2014. We increased other borrowed funds by $8.1 million in 2015 and decreased them by $20.7 million in the nine months ended September 30, 2016. We continue to maintain significant on-balance sheet liquidity. At September 30, 2016, the Bank held $25.9 million of federal funds sold and other short-term investments. In addition, the Bank has available borrowing capacity from correspondent banks of approximately $264.5 million as of September 30, 2016.

In the normal course of business, we enter into certain contractual obligations, including obligations which are considered in our overall liquidity management. The table below summarizes our significant contractual obligations at September 30, 2016 (dollars in thousands):

	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt	$ ---	$ ---	$ ---	$ 41,238

Time deposit maturities	45,085	28,412	3,080	15
Other borrowed funds	2,055	62,118	20,000	---
Operating lease obligations	237	459	184	---
Total	$ 47,377	$ 90,989	$ 23,264	$ 41,253

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In addition to normal loan funding, we also maintain liquidity to meet customer financing needs through unused lines of credit, unfunded loan commitments and standby letters of credit. The level and fluctuation of these commitments is also considered in our overall liquidity management. At September 30, 2016, we had a total of $426.9 million in unused lines of credit, $107.0 million in unfunded loan commitments and $15.4 million in standby letters of credit.

Liquidity of Holding Company: The primary sources of liquidity for the Company are dividends from the Bank, existing cash resources and the capital markets if the need to raise additional capital arises. Banking regulations and the laws of the State of Michigan in which our Bank is chartered limit the amount of dividends the Bank may declare and pay to the Company in any calendar year. Under the state law limitations, the Bank is restricted from paying dividends to the Company in excess of retained earnings. In 2014, the Company resumed payment of quarterly cash dividends to Company shareholders. In 2014, the Bank paid dividends to the Company totaling $4.1 million. In the same period, the Company paid dividends to its shareholders totaling $2.7 million. The Company retained the remaining balance for general corporate purposes. In 2015, the Bank paid dividends to the Company totaling $5.1 million. In the same period, the Company paid dividends to its shareholders totaling $3.7 million. The Company retained the remaining balance for general corporate purposes. In the first nine months of 2016, the Bank paid dividends to the Company totaling $4.6 million. In the same period, the Company paid dividends to its shareholders totaling $3.0 million. The Company retained the remaining balance for general corporate purposes.

At September 30, 2016, the Bank had a retained earnings balance of $34.3 million.

During 2015 and 2014, the Company received payments from the Bank totaling $3.2 million and $4.0 million, representing the Bank's intercompany tax liability for the 2015 and 2014 tax years, respectively in accordance with the Company's tax allocation agreement. During the first nine months of 2016, the Company received payments from the Bank totaling $5.5 million and made associated tax payments totaling $5.0 million.

The Company has the right to defer interest payments for 20 consecutive quarters on its trust preferred securities if necessary for liquidity purposes. During the deferral period, the Company may not declare or pay any dividends on its common stock or make any payment on any outstanding debt obligations that rank equally with or junior to the trust preferred securities.

The Company's cash balance at September 30, 2016 was $5.4 million. The Company believes that it has sufficient liquidity to meet its cash flow obligations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and future results could differ. The allowance for loan losses, other real estate owned valuation, loss contingencies and income taxes are deemed critical due to the required level of management judgment and the use of estimates, making them particularly subject to change.

Our methodology for determining the allowance for loan losses and the related provision for loan losses is described above in the "Allowance for Loan Losses" discussion. This area of accounting requires significant judgment due to the number of factors which can influence the collectability of a loan. Unanticipated changes in these factors could significantly change the level of the allowance for loan losses and the related provision for loan losses. Although, based upon our internal analysis, and in our judgment, we believe that we have provided an adequate allowance for loan losses, there can be no assurance that our analysis has properly identified all of the probable losses in our loan portfolio. As a result, we could record future provisions for loan losses that may be significantly different than the levels that we recorded in the first nine months of 2016.

Assets acquired through or instead of foreclosure, primarily other real estate owned, are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. New real estate appraisals are generally obtained at the time of foreclosure and are used to establish fair value. If fair value declines, a valuation allowance is recorded through expense. Estimating the initial and ongoing fair value of these properties involves a number of factors and judgments including holding time, costs to complete, holding costs, discount rate, absorption and other factors.

Loss contingencies are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. This, too, is an accounting area that involves significant judgment. Although, based upon our judgment, internal analysis, and consultations with legal counsel we believe that we have properly accounted for loss contingencies, future changes in the status of such contingencies could result in a significant change in the level of contingent liabilities and a related impact to operating earnings.

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Our accounting for income taxes involves the valuation of deferred tax assets and liabilities primarily associated with differences in the timing of the recognition of revenues and expenses for financial reporting and tax purposes. At September 30, 2016, we had gross deferred tax assets of $11.3 million, gross deferred tax liabilities of $2.9 million resulting in a net deferred tax asset of $8.4 million. Accounting standards require that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. With the continued positive results in the first nine months of 2016, we again concluded at September 30, 2016 that no valuation allowance on our net deferred tax asset was required. Changes in tax laws, changes in tax rates, changes in ownership and our future level of earnings can impact the ultimate realization of our net deferred tax asset.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of our transactions are denominated in U.S. dollars with no specific foreign exchange exposure. Macatawa Bank has only limited agricultural-related loan assets, and therefore has no significant exposure to changes in commodity prices.

Our balance sheet has sensitivity, in various categories of assets and liabilities, to changes in prevailing rates in the U.S. for prime rate, mortgage rates, U.S. Treasury rates and various money market indexes. Our asset/liability management process aids us in providing liquidity while maintaining a balance between interest earning assets and interest bearing liabilities.

We utilize a simulation model as our primary tool to assess the direction and magnitude of variations in net interest income and the economic value of equity (“EVE”) resulting from potential changes in market interest rates. Key assumptions in the model include contractual cash flows and maturities of interest-sensitive assets and interest-sensitive liabilities, prepayment speeds on certain assets, and changes in market conditions impacting loan and deposit pricing. We also include pricing floors on discretionary priced liability products which limit how low various checking and savings products could go under declining interest rates. These floors reflect our pricing philosophy in response to changing interest rates.

We forecast the next twelve months of net interest income under an assumed environment of gradual changes in market interest rates under various scenarios. The resulting change in net interest income is an indication of the sensitivity of our earnings to directional changes in market interest rates. The simulation also measures the change in EVE, or the net present value of our assets and liabilities, under an immediate shift, or shock, in interest rates under various scenarios, as calculated by discounting the estimated future cash flows using market-based discount rates.

The following table shows the impact of changes in interest rates on net interest income over the next twelve months and EVE based on our balance sheet as of September 30, 2016 (dollars in thousands):

Interest Rate Scenario	Economic Value of Equity	Percent Change	Net Interest Income	Percent Change
Interest rates up 200 basis points	$216,235	(2.83)%	$ 48,872	1.00 %
Interest rates up 100 basis points	220,030	(0.86)	48,625	0.49
No change	221,686	---	48,388	---
Interest rates down 100 basis points	207,364	(7.44)	47,185	(2.49)

If interest rates were to increase, this analysis suggests that we are positioned for an improvement in net interest income over the next twelve months.

We also forecast the impact of immediate and parallel interest rate shocks on net interest income under various scenarios to measure the sensitivity of our earnings under extreme conditions.

The quarterly simulation analysis is monitored against acceptable interest rate risk parameters by the Asset/Liability Committee and reported to the Board of Directors.

In addition to changes in interest rates, the level of future net interest income is also dependent on a number of other variables, including: the growth, composition and absolute levels of loans, deposits, and other earning assets and interest-bearing liabilities; economic and competitive conditions; potential changes in lending, investing and deposit gathering strategies; and client preferences.

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Item 4: CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of September 30, 2016, the end of the period covered by this report.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as the Company's are designed to do, and management necessarily was required to apply its judgment in evaluating whether the benefits of the controls and procedures that the Company adopts outweigh their costs.

Our CEO and CFO, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

(b) Changes in Internal Controls. During the period covered by this report, there have been no changes in the Company’s internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information regarding the Company's purchase of its own common stock during the third quarter of 2016. All employee transactions are under stock compensation plans. These include shares of Macatawa Bank Corporation common stock submitted for cancellation to satisfy tax withholding obligations that occur upon the vesting of restricted shares. The value of the shares withheld is determined based on the closing price of Macatawa Bank Corporation common stock at the date of vesting. The Company has no publicly announced repurchase plans or programs.

Macatawa Bank Corporation Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share
July 1 – July 31, 2016		
Employee Transactions	---	$ ---
August 1 – August 31, 2016		
Employee Transactions	---	---
September 1 – September 30, 2016		
Employee Transactions	1,549	7.70
Total for Third Quarter ended September 30, 2016		
Employee Transactions	1,549	$ 7.70

Item 6. Exhibits.

3.1	Restated Articles of Incorporation.
3.2	Bylaws. Previously filed with the Commission on February 19, 2015 in Macatawa Bank Corporation's Annual Report on Form 10-K for the year ended December 31, 2014, Exhibit 3.1. Here incorporated by reference.
4.1	Restated Articles of Incorporation. Exhibit 3.1 is here incorporated by reference.
4.2	Bylaws. Exhibit 3.2 is here incorporated by reference.
4.3	Long-Term Debt. The registrant has outstanding long-term debt which at the time of this report does not exceed 10% of the registrant's total consolidated assets. The registrant agrees to furnish copies of the agreements defining the rights of holders of such long-term debt to the SEC upon request.
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MACATAWA BANK CORPORATION

/s/ Ronald L. Haan
Ronald L. Haan
Chief Executive Officer
(Principal Executive Officer)

/s/ Jon W. Swets
Jon W. Swets
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: October 27, 2016