

CHOICEONE FINANCIAL SERVICES INC
Form 10-K
March 28, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2007

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 000-19202

ChoiceOne Financial Services, Inc.
(Exact Name of Registrant as Specified in its Charter)

Michigan
(State or Other Jurisdiction of
Incorporation or Organization)

38-2659066
(I.R.S. Employer Identification No.)

109 East Division Street, Sparta, Michigan
(Address of Principal Executive Offices)

49345
(Zip Code)

(616) 887-7366
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

Common Stock
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting

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company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2007, the aggregate market value of common stock held by non-affiliates of the Registrant was \$52.5 million. This amount is based on an average bid price of \$16.17 per share for the Registrant's stock as of such date.

As of February 29, 2008, the Registrant had 3,230,863 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part I, Item 1, and Part II, Items 5 through 9A(T) incorporate by reference portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 2007.

Part III, Items 10 through 14 incorporate by reference portions of the Registrant's Definitive Proxy Statement for the Registrant's Annual Meeting of Shareholders to be held April 24, 2008.

FORWARD-LOOKING STATEMENTS

This report and the documents incorporated into this report contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and the Registrant itself. Words such as "anticipates," "believes," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," "may," "could," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed, implied or forecasted in such forward-looking statements. Furthermore, the Registrant undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

Risk factors include, but are not limited to, the risk factors disclosed in Item 1A of this report, changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking laws and regulations; changes in tax laws; changes in prices, levies, and assessments; the impact of technological advances; governmental and regulatory policy changes; the outcomes of pending and future litigation and contingencies; trends in customer behavior as well as their ability to repay loans; changes in the local and national economies; changes in market conditions; the possibility that anticipated cost savings and revenue enhancements from the merger with Valley Ridge Financial Corp. may not be fully realized at all or within the expected time frames; the level and timing of asset growth; local and global uncertainties such as acts of terrorism and military actions; and current uncertainties and fluctuations in the financial markets and stocks of financial services providers due to concerns about credit availability and concerns about the Michigan economy in particular. These are representative of the risk factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

PART I

Item 1. Business

General

ChoiceOne Financial Services, Inc. (the "Registrant") is a one-bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Registrant was incorporated on February 24, 1986, as a Michigan corporation. The Registrant was formed to create a bank holding company for the purpose of acquiring all of the capital stock of ChoiceOne Bank (formerly Sparta State Bank), which became a wholly owned subsidiary of the Registrant on April 6, 1987. The Registrant's only subsidiary and significant asset as of December 31, 2007, was ChoiceOne Bank (the "Bank"). Effective January 1, 1996, the Bank acquired all of the outstanding common stock of ChoiceOne Insurance Agencies, Inc. (formerly Bradford Insurance Centre, Ltd.), an independent insurance agency headquartered in Sparta, Michigan (the "Insurance Agency"). Effective January 1, 2002, the Bank formed ChoiceOne Mortgage Company of Michigan (the "Mortgage Company"). The Bank also owns a 25% interest in a non-banking

corporation, West Shore Computer Services, Inc., a data processing firm located in Scottville, Michigan. Effective November 1, 2006, the Registrant merged with Valley Ridge Financial Corp. ("VRFC"), a single-bank holding company for Valley Ridge Bank ("VRB"). In the merger, the Registrant issued shares of its common stock in exchange for all outstanding shares of VRFC. In December 2006, VRB was consolidated into the Bank.

The Registrant's business is primarily concentrated in a single industry segment - banking. The Bank is a full-service banking institution that offers a variety of deposit, payment, credit and other financial services to all types of customers. These services include time, savings, and demand deposits, safe deposit services, and automated transaction machine services. Loans, both commercial and consumer, are extended primarily on a secured basis to corporations, partnerships and individuals. Commercial lending covers such categories as business, industry, agricultural, construction, inventory and real estate. The Bank's consumer loan department makes direct and indirect loans to consumers and purchasers of residential and real property. The Mortgage Company originates and sells a full line of conventional type mortgage loans for 1-4 family and multi-family residential real estate properties. No material part of the business of the Registrant or the Bank is dependent upon a single customer or very few customers, the loss of which would have a materially adverse effect on the Registrant.

The Bank's primary market area lies within portions of Kent, Muskegon, Newaygo and Ottawa counties in Michigan in the communities where the Bank's offices are located. Currently the Bank serves these markets through thirteen full-service offices. The Registrant and the Bank have no foreign assets or income.

The principal source of revenue for the Registrant and the Bank is interest and fees on loans. On a consolidated basis, interest and fees on loans accounted for 70%, 73%, and 73% of total revenues in 2007, 2006, and 2005, respectively. Interest on securities accounted for 11%, 12%, and 11% of total revenues in 2007, 2006, and 2005, respectively.

The Consolidated Financial Statements incorporated by reference in Part II, Item 8 contain information concerning the financial position and results of operations of the Registrant.

Competition

The Bank's competition primarily comes from other financial institutions located within Kent, Muskegon, Newaygo, and Ottawa counties in western Michigan. There are a number of larger commercial banks within the Bank's primary market area. The Bank also competes with a large number of other financial institutions, such as savings and loan associations, insurance companies, consumer finance companies, credit unions and commercial finance and leasing companies for deposits, loans and service business. Money market mutual funds, brokerage houses and nonfinancial institutions provide many of the financial services offered by the Bank. Many of these competitors have substantially greater resources than the Bank. The principal methods of competition for financial services are price (the rates of interest charged for loans, the rates of interest paid for deposits and the fees charged for services) and the convenience and quality of services rendered to customers.

Supervision and Regulation

Banks and bank holding companies are extensively regulated. The Registrant is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Registrant's activities are generally limited to owning or controlling banks and engaging in such other activities as the Federal Reserve Board may determine to be closely related to banking. Prior approval of the Federal Reserve Board, and in some cases various other government agencies, is required for the Registrant to acquire control of any additional bank holding companies, banks or other operating subsidiaries.

The Bank is chartered under state law and is subject to regulation by the Michigan Office of Financial and Insurance Services. State banking laws place restrictions on various aspects of banking, including permitted activities, loan interest rates, branching, payment of dividends and capital and surplus requirements. The Bank is a member of the Federal Reserve System and is also subject to regulation by the Federal Reserve Board. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the extent provided by law. The Bank became a member of the Federal Home Loan Bank system in March 1993. This provides certain advantages to the Bank, including favorable borrowing rates for certain funds.

The Registrant is a legal entity separate and distinct from the Bank. There are legal limitations on the extent to which the Bank can lend or otherwise supply funds to the Registrant. In addition, payment of dividends to the Registrant by the Bank is subject to various state and federal regulatory limitations.

Under Federal Reserve Board policy, the Registrant is expected to act as a source of financial strength to the Bank and to commit resources to support it. The FDIC formed the Deposit Insurance Fund ("DIF") in accordance with the Federal Deposit Insurance Reform Act of 2005 ("Reform Act"). The FDIC will maintain the insurance reserves of the DIF by assessing depository institutions an insurance premium.

The FDIC adopted final regulations that implemented the Reform Act to create a stronger and more stable insurance system. The final regulations enable the FDIC to tie each depository institution's DIF insurance premiums both to the balance of insured deposits, as well as to the degree of risk the institution poses to the DIF. In addition, the FDIC has new flexibility to manage the DIF's reserve ratio within a range, which in turn may help prevent sharp swings in assessment rates that were possible under the design of the former system. Under the new risk-based assessment system, the FDIC will evaluate each depository institution's risk based on three primary sources of information: supervisory ratings for all insured institutions, financial ratios for most institutions, and long-term debt issuer ratings for large institutions that have them. Neither the Registrant nor the Bank has a long-term debt issuer rating. The ability to differentiate on the basis of risk will improve incentives for effective risk management and will reduce the extent to which safer banks subsidize riskier ones.

The 2007 DIF rates for nearly all depository institutions varied between five and seven cents for every \$100 of deposits. However, as part of the Reform Act, Congress provided credits to institutions that paid high premiums in the past to bolster the FDIC's insurance reserves to offset a portion of DIF insurance reserve assessments. The Registrant used assessment credits to offset all of its DIF premium in 2007.

The Deposit Insurance Funds Act of 1996 authorized the Financing Corporation ("FICO") to impose periodic assessments on all depository institutions. The purpose of these periodic assessments is to spread the cost of the interest payments on the outstanding FICO bonds issued to recapitalize the Savings Association Insurance Fund ("SAIF") over a larger number of institutions. Until the change in the law, only SAIF member institutions bore the cost of funding these interest payments.

Banks are subject to a number of federal and state laws and regulations, which have a material impact on their business. These include, among others, minimum capital requirements, state usury laws, state laws relating to fiduciaries, the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Expedited Funds Availability Act, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the USA PATRIOT Act, the Bank Secrecy Act, electronic funds transfer laws, redlining laws, predatory lending laws, antitrust laws, environmental laws, money laundering laws and privacy laws. The instruments of monetary policy of authorities, such as the Federal Reserve Board, may influence the growth and distribution of bank loans, investments and deposits, and may also affect interest rates on loans and deposits. These policies may have a significant effect on the operating results of banks.

Bank holding companies may acquire banks and other bank holding companies located in any state in the United States without regard to geographic restrictions or reciprocity requirements imposed by state banking law. Banks may also establish interstate branch networks through acquisitions of and mergers with other banks. The establishment of *de novo* interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan banking laws do not significantly restrict interstate banking. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the Office of Financial and Insurance Services, (1) acquisition of Michigan banks by FDIC-insured banks, savings banks or savings and loan associations located in other states, (2) sale by a Michigan bank of branches to an FDIC-insured bank, savings bank or savings and loan association located in a state in which a Michigan bank could purchase branches of the purchasing entity, (3) consolidation of Michigan banks and FDIC-insured banks, savings banks or savings and loan associations located in other states having laws

permitting such consolidation, (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) establishment by foreign banks of branches located in Michigan.

Effects of Compliance With Environmental Regulations

The nature of the business of the Bank is such that it holds title, on a temporary or permanent basis, to a number of parcels of real property. These include properties owned for branch offices and other business purposes as well as properties taken in or in lieu of foreclosure to satisfy loans in default. Under current state and federal laws, present and past owners of real property may be exposed to liability for the cost of clean up of environmental contamination on or originating from those properties, even if they are wholly innocent of the actions that caused the contamination. These liabilities can be material and can exceed the value of the contaminated property. Management is not presently aware of any instances where compliance with these provisions will have a material effect on the capital expenditures, earnings or competitive position of the Registrant or the Bank, or where compliance with these provisions will adversely affect a borrower's ability to comply with the terms of loan contracts.

Employees

As of February 29, 2008, the Bank employed 125 full-time equivalent employees ("FTE's"); the Insurance Agency employed 6 FTE's; and the Mortgage Company employed 11 FTE's. As of February 29, 2008, the Registrant employed five executive officers (who are also employed by the Bank). The Registrant, Bank, Insurance Agency, and Mortgage Company believe their relations with their employees are good.

Statistical Information

Additional statistical information describing the business of the Registrant appears on the following pages and in Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference in Item 7 of this report and in the Consolidated Financial Statements and the notes thereto incorporated by reference in Item 8 of this report.

The following statistical information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and notes thereto incorporated by reference in this report.

Securities Portfolio

The carrying value of securities categorized by type at December 31 was as follows:

(Dollars in thousands)

	2007		2006		2005
U.S. Government and federal agency	\$ 15,952	\$	18,164	\$	5,435
State and municipal	46,486		35,651		28,003
Mortgage-backed	14,423		19,842		7,811
Corporate	1,251		2,254		2,382
Equity securities	5,044		1,525		581
Total	\$ 83,156	\$	77,436	\$	44,212

The Registrant did not hold investment securities from any one issuer at December 31, 2007, that were greater than 10% of the Registrant's shareholders' equity, exclusive of U.S. Government and U.S. Government agency securities.

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Presented below is the fair value of securities as of December 31, 2007 and 2006, a schedule of maturities of securities as of December 31, 2007, and the weighted average yields of securities as of December 31, 2007.

(Dollars in thousands)

	Securities maturing within:				Fair Value at Dec. 31, 2007	Fair Value at Dec. 31, 2006
	Less than 1 Year	1 Year - 5 Years	5 Years - 10 Years	More than 10 Years		
U.S. Government and federal agency	\$ 5,034	\$ 7,899	\$ 3,019	\$ -	\$ 15,952	\$ 18,164
State and municipal	12,562	17,518	14,242	2,164	46,486	35,651
Mortgage-backed securities	1,821	11,433	819	350	14,423	19,842
Corporate	1,053	198	-	-	1,251	2,254
Total debt securities	\$ 20,470	\$ 37,048	\$ 18,080	\$ 2,514	\$ 78,112	\$ 75,911
Equity securities (1)	5,044	-	-	-	5,044	1,525
Total securities	\$ 25,514	\$ 37,048	\$ 18,080	\$ 2,514	\$ 83,156	\$ 77,436

Weighted average yields:

U.S. Government and federal agency	5.44%	5.37%	5.83%	-%	5.48%
State and municipal (2)	6.37	5.79	6.07	6.17	6.05
Corporate	5.54	5.30	-	-	5.50
Mortgage-backed securities	6.15	4.89	5.50	4.85	4.97
Equity securities (2)	7.56	-	-	-	7.56

(1) Equity securities are preferred and common stocks with no stated maturity.

(2) The yield is computed on a fully tax-equivalent basis at an incremental tax rate of 34%.

Loan Portfolio

The Bank's loan portfolio categorized by loan type (excluding loans held for sale) as of December 31 is presented below.

(Dollars in thousands)

	2007	2006	2005	2004	2003
Agricultural	\$ 24,765	\$ 23,606	\$ 10,203	\$ 8,686	\$ 8,515
Commercial and industrial	51,242	51,419	37,439	32,934	28,313
Consumer	15,939	15,589	11,820	13,250	14,532
Real estate - commercial	125,960	123,743	51,453	47,901	43,197
Real estate - construction	4,048	4,740	7,466	6,661	10,200
Real estate - residential	106,404	112,534	67,187	63,846	58,375

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Total loans, gross	\$	328,358	\$	331,631	\$	185,568	\$	173,278	\$	163,132
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Maturities and Sensitivities of Loans to Changes in Interest Rates

The following schedule presents the maturities of loans (excluding residential real estate and consumer loans) as of December 31, 2007. All loans over one year in maturity (excluding residential real estate and consumer loans) are also presented classified according to the sensitivity to changes in interest rates as of December 31, 2007.

(Dollars in thousands)

<u>Loan Type</u>	Less than 1 Year	1 Year - 5 Years	More than 5 Years	Total
Agricultural	\$ 10,793	\$ 8,269	\$ 5,703	\$ 24,765
Commercial and industrial	22,269	24,402	4,572	51,242
Real estate - commercial	46,110	72,254	7,596	125,960
Real estate - construction	4,048	-	-	4,048
Totals	\$ 83,220	\$ 104,924	\$ 17,871	\$ 206,016

<u>Loan Sensitivity to Changes in Interest Rates</u>	Less than 1 Year	1 Year - 5 Years	More than 5 Years	Total
Loans with fixed interest rates	\$ 40,186	\$ 104,343	\$ 17,871	\$ 162,401
Loans with floating or adjustable interest rates	43,034	581	-	43,615
Totals	\$ 83,220	\$ 104,924	\$ 17,871	\$ 206,016

- (1) Loan maturities are classified according to the contractual maturity date or the anticipated amortization period, whichever is appropriate. The anticipated amortization period is used in the case of loans where a balloon payment is due before the end of the loan's normal amortization period. At the time the balloon payment is due, the loan can either be rewritten or payment in full can be requested. The decision regarding whether the loan will be rewritten or a payment in full will be requested will be based upon the loan's payment history, the borrower's current financial condition, and other relevant factors.

Risk Elements

The following loans were classified as nonperforming as of December 31:

(Dollars in thousands)

	2007	2006	2005	2004	2003
Loans accounted for on a non-accrual basis	\$ 5,605	\$ 6,420	\$ 934	\$ 795	\$ 1,914
Accruing loans which are contractually past due 90 days or more as to principal or interest payments	188	278	32	11	39
Loans defined as "troubled debt restructurings"	-	24	-	16	47
Totals	\$ 5,793	\$ 6,722	\$ 966	\$ 822	\$ 2,000

A loan is placed on nonaccrual status at the point in time at which the collectibility of principal or interest is considered doubtful.

The table below illustrates interest forgone and interest recorded on nonperforming loans for the years presented.

(Dollars in thousands)

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	2007	2006	2005	2004	2003
Interest on non-performing loans which would have been earned had the loans been in an accrual or performing status	\$ 383	\$ 184	\$ 33	\$ 32	\$ 77
Interest on non-performing loans that was actually recorded when received	\$ -	\$ 47	\$ 21	\$ 18	\$ 54

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Potential Problem Loans

At December 31, 2007, there were \$14.5 million of loans not disclosed above where some concern existed as to the borrowers' abilities to comply with original loan terms. Specific loss allocations totaling \$854,000 from the allowance for loan losses had been allocated for all nonperforming and potential problem loans as of December 31, 2007. However, the entire allowance for loan losses is also available for these potential problem loans.

Loan Concentrations

As of December 31, 2007, there was no concentration of loans exceeding 10% of total loans that is not otherwise disclosed as a category of loans in the loan portfolio listing in Note 4 to the Consolidated Financial Statements incorporated by reference in Item 8 of this report.

Other Interest-Bearing Assets

As of December 31, 2007, there were no other interest-bearing assets requiring disclosure.

Summary of Loan Loss Experience

The following schedule presents a summary of activity in the allowance for loan losses for the periods shown and the percentage of net charge-offs during each period to average gross loans outstanding during the period.

(Dollars in thousands)	2007	2006	2005	2004	2003
Balance at January 1	\$ 3,569	\$ 1,963	\$ 1,739	\$ 1,974	\$ 2,211
Charge-offs:					
Agricultural	33	-	-	-	17
Commercial and industrial	599	221	72	689	343
Consumer	635	200	162	144	354
Real estate - commercial	841	-	25	66	190
Real estate - construction	-	-	20	-	-
Real estate - residential	191	92	120	41	76
Total charge-offs	2,299	513	399	940	980
Recoveries:					
Agricultural	3	-	-	-	-
Commercial and industrial	27	51	47	58	96
Consumer	254	117	81	182	242
Real estate - commercial	1	-	-	-	-
Real estate - construction	-	-	-	-	-
Real estate - residential	10	-	-	-	5
Total recoveries	295	168	128	240	343
Net charge-offs	2,004	345	271	700	637
Transfer of allowance from VRFC	-	1,751	-	-	-

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Additions charged to operations (1)	2,035	200	495	465	400
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Balance at December 31	\$ 3,600	\$ 3,569	\$ 1,963	\$ 1,739	\$ 1,974
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	2007	2006	2005	2004	2003
Ratio of net charge-offs during the period to average loans outstanding during the period	0.61%	0.17%	0.15%	0.41%	0.39%

- (1) Additions to the allowance for loan losses charged to operations during the periods shown were based on management's judgment after considering factors such as loan loss experience, evaluation of the loan portfolio, and prevailing and anticipated economic conditions. The evaluation of the loan portfolio is based upon various risk factors such as the financial condition of the borrower, the value of collateral and other considerations, which, in the opinion of management, deserve current recognition in estimating loan losses.

The following schedule presents an allocation of the allowance for loan losses to the various loan categories as of the years ended December 31.

(Dollars in thousands)

	2007	2006	2005	2004	2003
Agricultural	\$ 397	\$ 314	\$ 202	\$ 169	\$ 210
Commercial and industrial	873	1,160	1,060	939	850
Consumer	489	289	195	123	325
Real estate - commercial	886	1,029	254	265	215
Real estate - construction	10	12	19	32	33
Real estate - residential	881	575	229	181	240
Unallocated	64	190	4	30	101
Total allowance	\$ 3,600	\$ 3,569	\$ 1,963	\$ 1,739	\$ 1,974

The decrease in the allowance allocation to commercial and industrial loans and commercial real estate loans and the increase in the allocation to residential real estate loans reflect changes in nonperforming loans from the end of 2006 to the end of 2007. Nonperforming commercial loans are lower as of December 31, 2007 than at the end of the prior year, while nonperforming residential real estate loans have increased. Specific loss allocations to commercial and industrial loans and commercial real estate loans totaled \$854,000 at December 31, 2007 versus \$942,000 at December 31, 2006. Specific loss allocations are based upon either a discounted collateral amount or the net present value of future expected cashflows from borrowers. The increase in the allowance allocation to consumer loans in 2007 was caused by the higher level of charge-offs of overdrawn checking accounts in 2007. The significant increase in the total allowance from 2005 to 2006 was related to the allowance of \$1,751,000 acquired from the merger with VRFC in November 2006. The majority of the reserve acquired from VRFC was allocated to commercial real estate and residential real estate loans.

Management periodically reviews the assumptions, loss ratios and delinquency trends in estimating the appropriate level of its allowance for loan losses and believes the unallocated portion of the total allowance is sufficient at December 31, 2007.

The following schedule presents the stratification of the loan portfolio by category, based on the amount of loans outstanding as a percentage of total loans for the respective years ended December 31.

	2007	2006	2005	2004	2003
Agricultural	8%	7%	6%	5%	5%
Commercial and industrial	16	16	20	19	17
Consumer	5	5	6	7	9
Real estate - commercial	38	37	28	28	27

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Real estate - construction	1	1	4	4	6
Real estate - residential	32	34	36	37	36
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Total	100%	100%	100%	100%	100%
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Deposits

The following schedule presents the average deposit balances by category and the average rates paid thereon for the respective years.

(Dollars in thousands)

	2007		2006		2005	
Noninterest-bearing demand	\$ 51,695	-	\$ 27,611	-	\$ 20,095	-
Interest-bearing demand	90,804	2.43%	56,617	2.64%	56,745	2.11%
Savings	28,097	0.50%	11,524	0.50%	9,136	0.50%
Certificates of deposit	187,648	4.86%	126,535	4.45%	87,443	3.25%
Total	\$ 358,244	3.20%	\$ 222,287	3.23%	\$ 173,419	2.36%

The following table illustrates the maturities of certificates of deposits issued in denominations of \$100,000 or more as of December 31, 2007.

(Dollars in thousands)

Maturing in less than 3 months	\$ 21,945
Maturing in 3 to 6 months	9,037
Maturing in 6 to 12 months	23,502
Maturing in more than 12 months	13,350
Total	\$ 67,834

Short-Term Borrowings

Federal funds purchased by the Registrant are unsecured overnight borrowings from correspondent banks. Federal funds purchased are due the next business day. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2007	2006	2005
Outstanding balance at December 31	\$ -	\$ 460	\$ 4,399
Average interest rate at December 31	-%	5.37%	4.41%
Average balance during the year	\$ 3,956	\$ 2,585	\$ 2,727
Average interest rate during the year	4.99%	4.84%	3.44%
Maximum month end balance during the year	\$ 12,255	\$ 9,987	\$ 4,545

Repurchase agreements are advances by Bank customers that are not covered by federal deposit insurance. These agreements are direct obligations of the Registrant and are secured by securities held in safekeeping at a correspondent bank. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2007	2006	2005
Outstanding balance at December 31	\$ 21,710	\$ 15,013	\$ 7,139

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Average interest rate at December 31		3.79%		3.58%		2.11%
Average balance during the year	\$	16,090	\$	6,492	\$	6,215
Average interest rate during the year		3.50%		2.63%		2.05%
Maximum month end balance during the year	\$	21,811	\$	15,013	\$	7,139

Advances from the Federal Home Loan Bank ("FHLB") with original repayment terms less than one year are considered short-term borrowings for the Registrant. These advances are secured by residential real estate mortgage loans and U.S. government agency securities. The advances have maturities ranging from 3 months to 11 months from the date of issue.

The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2007	2006	2005
Outstanding balance at December 31	\$ 5,000	\$ -	\$ 11,000
Average interest rate at December 31	4.12%	-%	4.19%
Average balance during the year	\$ 1,583	\$ 8,833	\$ 12,542
Average interest rate during the year	5.12%	5.13%	3.50%
Maximum month end balance during the year	\$ 5,000	\$ 15,000	\$ 15,000

There were no other categories of short-term borrowings whose average balance outstanding exceeded 30% of shareholders' equity in 2007, 2006, or 2005.

Return on Equity and Assets

The following schedule presents the Registrant's ratios for the years ended December 31:

	2007	2006	2005
Return on assets (net income divided by average total assets)	0.77%	0.72%	0.91%
Return on equity (net income divided by average equity)	6.86%	7.63%	10.15%
Dividend payout ratio (dividends declared per share divided by net income per share)	61.45%	66.91%	51.02%
Equity to assets ratio (average equity divided by average total assets)	11.22%	9.48%	8.97%

Item 1A. Risk Factors

The Registrant is subject to many risks and uncertainties. Although the Registrant seeks ways to manage these risks and develop programs to control those that management can, the Registrant cannot predict the future. Actual results may differ materially from management's expectations. Some of these significant risks and uncertainties are discussed below. The risks and uncertainties described below are not the only ones that the Registrant faces. Additional risks and uncertainties of which the Registrant is unaware, or that it currently deems immaterial, also may become important factors that affect the Registrant and its business. If any of these risks were to occur, the Registrant's business, financial condition or results of operations could be materially and adversely affected.

Investments in the Registrant's common stock involve risk.

The market price of the Registrant's common stock may fluctuate significantly in response to a number of factors, including:

- Variations in quarterly or annual operating results
- Changes in interest rates
- New developments in the banking industry
- Regulatory actions
- Volatility of stock market prices and volumes
- Changes in market valuations of similar companies
- New litigation or contingencies or changes in existing litigation or contingencies
- Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies
- Rumors or erroneous information

Credit and capital availability

Asset quality could be less favorable than expected.

A significant source of risk for the Registrant arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most loans originated by the Registrant are secured, but some loans are unsecured depending on the nature of the loan. With respect to secured loans, the collateral securing the repayment of these loans includes a wide variety of real and personal property that may be insufficient to cover the obligations owed under such loans. Collateral values may be adversely affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, terrorist activity, environmental contamination and other external events. In addition, collateral appraisals that are out of date or that do not meet industry recognized standards may create the impression that a loan is adequately collateralized when in fact it is not.

General economic conditions in the state of Michigan could be less favorable than expected.

The Registrant is affected by general economic conditions in the United States, although most directly within Michigan. A further economic downturn within Michigan could negatively impact household and corporate incomes. This impact may lead to decreased demand for both loan and deposit products and increase the number of customers who fail to pay interest or principal on their loans.

If the Registrant does not adjust to changes in the financial services industry, its financial performance may suffer.

The Registrant's ability to maintain its financial performance and return on investment to shareholders will depend in part on its ability to maintain and grow its core deposit customer base and expand its financial services to its existing customers. In addition to other banks, competitors include credit unions, securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies. The increasingly competitive environment is, in part, a result of changes in the economic environment within the state of Michigan, regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. New competitors may emerge to increase the degree of competition for the Registrant's customers and services. Financial services and products are also constantly changing. The Registrant's financial performance will also depend in part upon customer demand for the Registrant's products and services and the Registrant's ability to develop and offer competitive financial products and services.

Changes in interest rates could reduce the Registrant's income and cash flow.

The Registrant's income and cash flow depends, to a great extent, on the difference between the interest earned on loans and securities, and the interest paid on deposits and other borrowings. Market interest rates are beyond the Registrant's control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies including, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates and interest rate relationships, will influence the origination of loans, the purchase of investments, the generation of deposits and the rate received on loans and securities and paid on deposits and other borrowings.

Additional risks and uncertainties could have a negative effect on financial performance.

Additional factors could have a negative effect on the financial performance of the Registrant and the Registrant's common stock. Some of these factors are financial market conditions, changes in financial accounting and reporting standards, new litigation or changes in existing litigation, regulatory actions and losses.

Item 1B. Unresolved Staff Comments
Not applicable.

Item 2. Properties

The offices of the Bank, Insurance Agency, and Mortgage Company as of February 29, 2008, were as follows:

Registrant's, Bank's, Insurance Agency's, and Mortgage Company's main office:

109 East Division, Sparta, Michigan

Office is owned by the Bank and comprises 24,000 square feet.

Bank's branch office:

416 West Division, Sparta, Michigan

Office is leased by the Bank and comprises 3,000 square feet.

Bank's branch office:

4170 - 17 Mile Road, Cedar Springs, Michigan

Office is owned by the Bank and comprises 3,000 square feet.

Bank's branch office:

6795 Courtland Drive, Rockford, Michigan

Office is owned by the Bank and comprises 2,400 square feet.

Bank's branch office:

5050 Alpine Avenue NW, Comstock Park, Michigan

Office is owned by the Bank and comprises 2,400 square feet.

Bank's branch office:

450 West Muskegon, Kent City, Michigan

Office is owned by the Bank and comprises 27,300 square feet.

Bank's branch office:

3069 Slocum Road, Ravenna, Michigan

Office is owned by the Bank and comprises 4,800 square feet.

Bank's branch office:

5475 East Apple Avenue, Muskegon, Michigan

Office is owned by the Bank and comprises 4,800 square feet.

Bank's branch office:

661 West Randall, Coopersville, Michigan

Office is owned by the Bank and comprises 4,800 square feet.

Bank's branch office:

10 West Main Street, Grant, Michigan

Office is owned by the Bank and comprises 4,800 square feet.

Bank's branch office:

246 West River Valley Drive, Newaygo, Michigan

Office is owned by the Bank and comprises 1,800 square feet.

Bank's branch office:

47 South Charles Street, White Cloud, Michigan

Office is leased by the Bank and comprises 1,800 square feet.

Bank's branch office:

1423 West Main Street, Fremont, Michigan

Office is owned by the Bank and comprises 1,600 square feet.

The Registrant operates its business at the main office of the Bank. The Registrant did not own any properties as of February 29, 2008. The Registrant, Insurance Agency, and Mortgage Company believe that their offices are suitable and adequate for their future needs and are in good condition. The Registrant's management believes all offices are adequately covered by property insurance.

Item 3. Legal Proceedings

As of December 31, 2007, there are no significant pending legal proceedings to which the Registrant or the Bank is a party or to which any of their properties are subject, except for legal proceedings arising in the ordinary course of business. In the opinion of management, pending legal proceedings will not have a material effect on the consolidated financial condition of the Registrant.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the quarter ended December 31, 2007.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The information under the caption "Stock Information" on pages 1 and 2 of the Registrant's Annual Report to Shareholders for the year ended December 31, 2007, is incorporated herein by reference.

On October 31, 2007, the Registrant issued 1,101 shares of common stock to its directors pursuant to the Directors' Stock Purchase Plan for an aggregate cash price of \$16,000. The Registrant relied on the exemption contained in Section 4(6) of the Securities Act of 1933 in connection with this sale.

There were no issuer purchases of equity securities during the three-month period ended December 31, 2007.

On July 21, 2004, the Board of Directors authorized the Registrant to repurchase 50,000 shares under a publicly announced repurchase plan. The Board of Directors authorized an additional repurchase plan on July 26, 2007 to buy back 100,000 shares. There is no stated expiration date.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," including all subheadings, on pages 4 through 15, inclusive, of the Registrant's Annual Report to Shareholders for the year ended December 31, 2007, is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements, and Notes to Consolidated Financial Statements on pages 17 through 40, inclusive, of the Registrant's Annual Report to Shareholders for the year ended December 31, 2007, are incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
of ChoiceOne Financial Services, Inc., Sparta, Michigan

We have audited the accompanying consolidated statements of income, changes in shareholders' equity and cash flows of ChoiceOne Financial Services, Inc. for the year ended December 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of ChoiceOne Financial Services, Inc. for the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 7, 2006

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A(T). Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Registrant's management, including the Chief Executive Officer and principal financial officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures. Based on and as of the time of that evaluation, the Registrant's management, including the Chief Executive Officer and principal financial officer, concluded that the Registrant's disclosure controls and procedures were effective as of the end of the period covered by this report. There was no change in the Registrant's internal control over financial reporting that occurred during the three months ended December 31, 2007 that has materially affected, or that is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting on page 16 of the Registrant's Annual Report to Shareholders for the year ended December 31, 2007 is here incorporated by reference.

Item 9B. Other Information
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the captions "ChoiceOne's Board of Directors and Executive Officers," "Related Matters - Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance" in the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held April 24, 2008, is incorporated herein by reference.

The Registrant has adopted a Code of Ethics for Executive Officers and Senior Financial Officers, which applies to the Chief Executive Officer and the principal financial officer, as well as all other senior financial and accounting officers. The Code of Ethics is posted on the Registrant's website at "www.choiceone.com." The Registrant intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of the Code of Ethics by posting such information on its website at "www.choiceone.com."

Item 11. Executive Compensation

The information under the caption "Executive Compensation" in the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held April 24, 2008, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information under the caption "Ownership of ChoiceOne Common Stock" in the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held April 24, 2008, is incorporated herein by reference.

The following table presents information regarding the equity compensation plans both approved and not approved by shareholders at December 31, 2007:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	37,732	\$ 17.36	135,668
Equity compensation plans not approved by security holders	-	-	36,201
Total	37,732	\$ 17.36	171,869

Equity compensation plans approved by security holders include the Amended and Restated Executive Stock Incentive Plan and the Employee Stock Purchase Plan.

Shareholders at the Registrant's 2002 Annual Meeting approved the Amended and Restated Executive Stock Incentive Plan. Key employees of the Registrant and its subsidiaries, as the Personnel and Benefits Committee of the Board of Directors may select from time to time, are eligible to receive awards under this Plan. Incentive awards may be stock options, stock appreciation rights or stock awards. The Plan provides for a maximum of 137,760 shares of the Registrant's common stock, subject to adjustments for certain changes in the capital structure of the Registrant. New awards for up to 100,028 shares may be made under this Plan.

The number of shares available for issuance under the Plan is equal to the number determined by the following formula: (a) for the initial plan year, 5% of the total number of shares of common stock outstanding at the time the Plan became effective; plus (b) in each subsequent plan year, an additional number of shares of common stock not to exceed 2% of the number of shares of common stock outstanding as reported in the Registrant's Annual Report on Form 10-K for the fiscal year ending immediately before such plan year such that at the beginning of each plan year after the initial plan year there shall be available, in addition to any amount of shares remaining from the 5% authorization for the initial plan year, a minimum number of shares equal to 2% of the number of shares of common stock outstanding; plus (c) there shall be carried forward and available for additional awards certain shares that are either unused, canceled or surrendered in connection with incentive awards.

Shareholders at the 2002 Annual Meeting approved the Employee Stock Purchase Plan. This Plan allows employees to purchase the Registrant's common stock at a 15% discount from the average bid price for the Registrant's common stock. Employees who elect to participate in the plan can purchase shares of the Registrant's common stock on a quarterly basis. The Plan provides for a maximum of 55,125 shares of the Registrant's common stock, subject to adjustments for certain changes in the capital structure of the Registrant. New issuances for up to 35,640 shares may be made under this Plan.

Equity compensation plans not approved by security holders consist of the Directors' Stock Purchase Plan. The Plan is designed to provide directors of the Registrant the option of receiving their fees in the Registrant's stock. Directors who elect to participate in the Plan may elect to contribute to the Plan twenty-five, fifty, seventy-five or one hundred percent of their board of director fees and one hundred percent of their director committee fees earned as directors of the Registrant. Contributions to the Plan are made by the Registrant on behalf of each electing participant. Plan

participants may terminate their participation in the Plan at any time by written notice of withdrawal to the Registrant. Participants will cease to be eligible to participate in the Plan when they cease to serve as directors of the Registrant. Shares are distributed to participants on a quarterly basis. The Plan provides for a maximum of 72,978 shares of the Registrant's common stock, subject to adjustments for certain changes in the capital structure of the Registrant. New issuances for up to 36,201 shares may be made under this Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information under the captions "Related Matters - Certain Relationships and Related Transactions" and "Corporate Governance - Independence" in the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held April 24, 2008, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information under the caption "Related Matters - Independent Certified Public Accountants" in the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held April 24, 2008, is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements. The following financial statements and independent auditors' reports are filed as part of this report:

Consolidated Balance Sheets at December 31, 2007 and 2006.

Consolidated Statements of Income for the years ended December 31, 2007, 2006, and 2005.

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2007, 2006, and 2005.

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006, and 2005.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm dated March 17, 2008.

Report of Independent Registered Public Accounting Firm dated March 7, 2006.

The consolidated financial statements, notes to consolidated financial statements and independent auditors' report dated March 17, 2008 listed above are incorporated by reference in Item 8 of this report from the Registrant's Annual Report to Shareholders for the year ended December 31, 2007.

(2) Financial Statement Schedules. None.

(b) Exhibits. The following exhibits are filed as part of this report:

Exhibit

Document

- | | |
|-----|--|
| 3.1 | Amended and Restated Articles of Incorporation of the Registrant. Previously filed as an exhibit to the Registrant's Form 10-K Annual Report for the year ended December 31, 2005. Here incorporated by reference. |
| 3.2 | Bylaws of the Registrant as currently in effect and any amendments thereto. Previously filed as an exhibit to the Registrant's Form 10-K Annual Report for the year ended December 31, 2003. Here incorporated by reference. |
| 4 | Advances, Pledge and Security Agreement between ChoiceOne Bank and the Federal Home Loan Bank of Indianapolis. |

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- 10.1 Employment Agreement with James A. Bosserd. (1) Previously filed as an exhibit to the Registrant's Form 8-K Current Report for November 1, 2006. Here incorporated by reference.
- 10.2 Amended and Restated Executive Stock Incentive Plan. (1) Previously filed as an exhibit to the Registrant's Form 10-K Annual Report for the year ended December 31, 2005. Here incorporated by reference.
- 10.3 Directors' Stock Purchase Plan. (1) Previously filed as an exhibit to the Registrant's Form 10-K Annual Report for the year ended December 31, 2003. Here incorporated by reference.
- 10.4 Consulting and Noncompetition Agreement with Richard L. Edgar. (1) Previously filed as an exhibit to the Registrant's Form 8-K Current Report for November 1, 2006. Here incorporated by reference.
- 10.8 Former Valley Ridge Executive Employee Salary Continuation Agreements, as amended. (1)
- 10.9 Former Valley Ridge Directors' Deferred Compensation Plan and Agreement. (1) Previously filed as an exhibit to the Registrant's Form 10-K Annual Report for the year ended December 31, 2006. Here incorporated by reference.
- 13 Annual Report to Shareholders for the year ended December 31, 2007
- 21 Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm for fiscal years ended December 31, 2007 and 2006.
- 23.2 Consent of Independent Registered Public Accounting Firm for fiscal year ended December 31, 2005.
- 24 Powers of Attorney.
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Treasurer.
- 32 Certification pursuant to 18 U.S.C. § 1350.

(1) This agreement is a management contract or compensation plan or arrangement to be filed as an exhibit to this Form 10-K. Copies of any exhibits will be furnished to shareholders upon written request. Requests should be directed to: Thomas L. Lampen, Treasurer, ChoiceOne Financial Services, Inc., 109 East Division, Sparta, Michigan, 49345.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ChoiceOne Financial Services, Inc.

By: /s/ James A. Bosserd March 28, 2008

 James A. Bosserd
 President and Chief Executive
 Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ James A. Bosserd _____	President and Chief Executive Officer and Director (Principal Executive Officer)	March 28, 2008
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James A. Bosserd

/s/ Thomas L. Lampen _____	Treasurer (Principal Financial and Accounting Officer)	March 28, 2008
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Thomas L. Lampen

*/s/ Jon E. Pike _____	Chairman of the Board and Director	March 28, 2008
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Jon E. Pike

*/s/ Jerome Arends _____	Director	March 28, 2008
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Jerome Arends

*/s/ Frank G. Berris _____	Director	March 28, 2008
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Frank G. Berris

*/s/ K. Timothy Bull _____	Director	March 28, 2008
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K. Timothy Bull

*/s/ William F. Cutler, Jr. _____	Director	March 28, 2008
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William F. Cutler, Jr.

*/s/ Richard L. Edgar _____	Director	March 28, 2008
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Richard L. Edgar

*/s/ Stuart Goodfellow _____	Director	March 28, 2008
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Stuart Goodfellow

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<u>*/s/ Gary Gust</u>	Director	March 28, 2008
Gary Gust		
<u>*/s/ Robert Humphreys</u>	Director	March 28, 2008
Robert Humphreys		
<u>*/s/ Paul L. Johnson</u>	Director	March 28, 2008
Paul L. Johnson		
<u>*/s/ Dennis C. Nelson</u>	Director	March 28, 2008
Dennis C. Nelson		

*/s/ Donald VanSingel Director March 28, 2008

Donald VanSingel

*/s/ Andrew W. Zamiara Director March 28, 2008

Andrew W. Zamiara

*By /s/ Thomas L. Lampen

Attorney-in-Fact

EXHIBIT INDEX

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