CHICOPEE BANCORP, INC.
Form 10-Q
August 08, 2016

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

or

[ ] 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: 000-51996

CHICOPEE BANCORP, INC.
(Exact name of registrant as specified in its charter)

Massachusetts	20-4840562
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
70 Center Street, Chicopee, Massachusetts	01013
(Address of principal executive offices)	(Zip Code)

(413) 594-6692
(Registrant’s telephone number, including area code)

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 [X] No [ ]

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

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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer [ ] Accelerated Filer [X]
Non-Accelerated Filer [ ] Smaller Reporting Company [ ]

Indicate be check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

As of August 2, 2016, there were 5,222,339 shares of the Registrant's Common Stock outstanding.

CHICOPEE BANCORP, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars In Thousands)
(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$8,740	$ 9,975
Federal funds sold	4,619	4,613
Interest-bearing deposits with the Federal Reserve Bank of Boston	20,933	13,641
Total cash and cash equivalents	34,292	28,229
Securities available-for-sale, at fair value	406	426
Securities held-to-maturity, at cost (fair value of $31,618 at June 30, 2016 and $32,935 at December 31, 2015)	31,591	32,229
Federal Home Loan Bank stock, at cost	4,225	4,764
Loans, net of allowance for loan losses of $5,743 at June 30, 2016 and $5,615 at December 31, 2015	599,296	580,959
Loans held for sale	596	296
Other real estate owned	1,061	1,435
Mortgage servicing rights	158	192
Bank owned life insurance	15,044	14,881
Premises and equipment, net	8,305	8,509
Accrued interest and dividends receivable	1,728	1,668
Deferred income tax asset	3,787	3,780
Other assets	1,300	1,206
Total assets	$701,789	$ 678,574
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	$116,463	$ 102,424
NOW accounts	46,967	45,228
Savings accounts	54,872	52,359
Money market deposit accounts	125,459	116,226
Certificates of deposit	196,873	190,872
Total deposits	540,634	507,109
Federal Home Loan Bank of Boston advances	70,454	81,330
Accrued expenses and other liabilities	948	861
Total liabilities	612,036	589,300
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued; 5,222,339 and 5,210,739 shares outstanding at June 30, 2016 and December 31, 2015, respectively)	72,479	72,479
	(30,169)	(30,327)

Treasury stock, at cost (2,217,029 and 2,228,629 shares at June 30, 2016 and December 31, 2015, respectively)		
Additional paid-in-capital	4,289	4,111
Unearned compensation (restricted stock awards)	—	(1)
Unearned compensation (Employee Stock Ownership Plan)	(2,827)	(2,976)
Retained earnings	45,957	45,951
Accumulated other comprehensive income	24	37
Total stockholders' equity	89,753	89,274
Total liabilities and stockholders' equity	$701,789	$ 678,574

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except for Number of Shares and Per Share Amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans, including fees	$6,143	$ 5,877	$12,196	$ 11,481
Interest and dividends on securities	385	376	773	753
Interest on other interest-earning assets	28	20	60	39
Total interest and dividend income	6,556	6,273	13,029	12,273
Interest expense:				
Deposits	750	703	1,477	1,415
Federal Home Loan Bank of Boston advances	297	317	603	581
Total interest expense	1,047	1,020	2,080	1,996
Net interest income	5,509	5,253	10,949	10,277
Provision for loan losses	121	207	176	607
Net interest income, after provision for loan losses	5,388	5,046	10,773	9,670
Non-interest income:				
Service charges, fees and commissions	633	584	1,222	1,099
Net loan sales and servicing	60	77	135	116
Net gain on sale of other real estate owned	20	—	21	—
Other real estate owned writedowns	—	—	(104)	—
Increase in cash surrender value of bank owned life insurance	78	87	163	175
Total non-interest income	791	748	1,437	1,390
Non-interest expenses:				
Salaries and employee benefits	2,701	2,571	5,409	5,107
Occupancy expenses	384	370	804	844
Furniture and equipment	155	168	308	349
FDIC insurance and assessment	103	118	209	241
Data processing services	447	431	911	842
Professional fees	128	202	339	380
Advertising expense	160	144	320	289
Stationery, supplies and postage	55	56	143	132
Foreclosure expense	78	94	163	254
Merger related expenses	775	—	775	—
Other non-interest expense	602	620	1,250	1,206
Total non-interest expenses	5,588	4,774	10,631	9,644
Income before income taxes	591	1,020	1,579	1,416
Income tax expense	370	278	661	360
Net income	$221	$ 742	$918	$ 1,056

Earnings per share:				
Basic	$0.04	$ 0.15	$0.19	$ 0.21
Diluted	$0.04	$ 0.15	$0.18	$ 0.21
Adjusted weighted average shares outstanding:				
Basic	4,924,764	4,943,290	4,919,896	4,942,965
Diluted	5,046,062	5,018,601	5,039,791	5,015,703

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended June 30,	
	2016	2015
Net income	$221	$742
Other comprehensive (loss) income, net of tax		
Unrealized holding (losses) gains arising during period on securities available-for-sale	(17)	1
Tax effect	6	—
Total other comprehensive (loss) income, net of tax	(11)	1
Total comprehensive income	$210	$743

	Six Months Ended June 30,	
	2016	2015
Net income	$918	$1,056
Other comprehensive loss, net of tax		
Unrealized holding losses arising during period on securities available-for-sale	(20)	(14)
Tax effect	7	5
Total other comprehensive loss, net of tax	(13)	(9)
Total comprehensive income	$905	$1,047

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2016 and 2015
(Dollars In Thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (Restricted stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2014	$72,479	$(29,119)	$3,595	$ (7)	$ (3,273)	$44,430	$ 29	$88,134
Comprehensive income:								
Net income	—	—	—	—	—	1,056	—	1,056
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of $5)	—	—	—	—	—	—	(9)	(9)
Total comprehensive income								1,047
Stock option expense	—		53	—	—	—	—	53
Stock options exercised (800 shares)	—	13	(2)	—	—	—	—	11
Change in unearned compensation:								
Restricted stock award expense	—	—	—	3	—	—	—	3
Common stock held by ESOP committed to be released	—	—	97	—	149	—	—	246
Cash dividends declared ($0.14 per share)	—	—	—	—	—	(715)	—	(715)
Balance at June 30, 2015	$72,479	$(29,106)	$3,743	$ (4)	$ (3,124)	$44,771	$ 20	$88,779
Balance at December 31, 2015	$72,479	$(30,327)	$4,111	$ (1)	$ (2,976)	$45,951	$ 37	$89,274
Comprehensive income:								
Net income	—	—	—	—	—	918	—	918
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of $7)	—	—	—	—	—	—	(13)	(13)
Total comprehensive income								905
Stock option expense	—	—	51	—	—	—	—	51
Stock options exercised (11,600 shares)	—	158	8	—	—	—	—	166

Change in unearned compensation:								
Restricted stock award expense	—	—	—	1	—	—	—	1
Common stock held by ESOP committed to be released	—	—	119	—	149	—	—	268
Cash dividends declared ($0.18 per share)	—	—	—	—	—	(912)	—	(912)
Balance at June 30, 2016	$72,479	$(30,169)	$4,289	$ —	$ (2,827)	$45,957	$ 24	$89,753

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:	(In Thousands)	
Net income	$918	$1,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	336	359
Loss on disposal of premises and equipment	13	—
Provision for loan losses	176	607
Increase in cash surrender value of bank owned life insurance	(163)	(175)
Change in mortgage servicing rights	34	47
Net loss on other real estate owned	83	—
Loans originated for sale	(2,761)	(1,212)
Proceeds from loan sales	2,514	1,228
Realized gains on sales of mortgage loans	(53)	(16)
(Increase) decrease in other assets	(95)	299
Increase in accrued interest and dividends receivable	(60)	(130)
Increase in other liabilities	88	7
Change in unearned compensation	269	249
Stock option expense	51	53
Net cash provided by operating activities	1,350	2,372
Cash flows from investing activities:		
Purchase of premises and equipment	(145)	(252)
Loan originations, net of principal payments	(18,513)	(47,890)
Proceeds from sales of other real estate owned	291	185
Proceeds from principal paydowns of held-to-maturity securities	638	646
Redemption (purchase) of Federal Home Loan Bank stock	539	(691)
Net cash used by investing activities	(17,190)	(48,002)
Cash flows from financing activities:		
Net increase in deposits	33,525	9,194
Proceeds from long-term FHLB advances	—	33,100
Repayments of long-term FHLB advances	(15,876)	(9,713)
Proceeds from short-term FHLB advances	5,000	—
Cash dividends paid on common stock	(912)	(715)
Stock options exercised	166	11
Net cash provided by financing activities	21,903	31,877
Net increase (decrease) in cash and cash equivalents	6,063	(13,753)
Cash and cash equivalents at beginning of period	28,229	49,769
Cash and cash equivalents at end of period	$34,292	$36,016
Supplemental cash flow information:		

Interest paid on deposits	$1,477	$1,415
Interest paid on borrowings	622	559
Income taxes paid	212	299
Transfers from loans to other real estate owned	—	195

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
June 30, 2016 and 2015

1. Basis of Presentation

Chicopee Bancorp, Inc. (the “Corporation”) has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the “Bank”) and Chicopee Funding Corporation (collectively, the “Company”). The Corporation was formed on March 14, 2006 and became the holding company for the Bank upon completion of the Bank’s conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include its wholly-owned subsidiaries and a 99% owned subsidiary. The consolidated financial statements of the Company as of June 30, 2016 and for the periods ended June 30, 2016 and 2015 included herein are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial condition, results of operations, changes in stockholders’ equity and cash flows, as of and for the periods covered herein, have been made. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015 included in the Company’s Annual Report on Form 10-K.

The results for the six months ended June 30, 2016 are not necessarily indicative of the operating results for a full year.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the adjusted weighted-average number of common shares outstanding during the period. The adjusted outstanding common shares equals the gross number of common shares issued less average treasury shares, unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan (“ESOP”), and average dilutive restricted stock awards under the 2007 Equity Incentive Plan. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and certain stock awards and are determined using the treasury stock method.

Earnings per share have been computed based on the following:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
($ in thousands, except share data)	2016	2015	2016	2015
Net income	$221	$ 742	$918	$ 1,056
Average number of shares issued	7,439,368	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(2,217,029)	(2,168,346)	(2,221,745)	(2,168,521)
Less: average number of unallocated ESOP shares	(297,575)	(327,332)	(297,575)	(327,332)
Less: average number of outstanding restricted stock awards	—	(400)	(152)	(550)
Adjusted weighted average number of common shares outstanding	4,924,764	4,943,290	4,919,896	4,942,965
Plus: dilutive outstanding restricted stock awards	—	122	146	228
Plus: dilutive outstanding stock options	121,298	75,189	119,749	72,510
Weighted average number of diluted shares outstanding	5,046,062	5,018,601	5,039,791	5,015,703

Net income per share:				
Basic-common stock	$0.04	$ 0.15	$0.19	$ 0.21
Basic-unvested share-based payment awards	$0.04	$ 0.15	$0.19	$ 0.21
Diluted-common stock	$0.04	$ 0.15	$0.18	$ 0.21
Diluted-unvested share-based payment awards	$0.04	$ 0.15	$0.18	$ 0.21

There were 634,000 stock options that were not included in the calculation of diluted earnings per share for the six months ended June 30, 2016 because the effect was anti-dilutive. There were 87,000 stock options that were not included in the calculation of diluted earnings per share for the six months ended June 30, 2015 because the effect was anti-dilutive.

3. Equity Incentive Plan

Stock Options

The Company's 2007 Equity Incentive Plan (the "Plan") was approved by the Company's stockholders at the annual meeting of the Company's stockholders on May 30, 2007. The Plan provides that the Company may grant options to directors, officers and employees for up to 743,936 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price for each option is equal to the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. The stock options vest over five years in five equal installments on each anniversary of the date of grant.

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during the six month periods ended June 30, 2016 or 2015.

A summary of options under the Plan as of June 30, 2016, and changes during the six months ended June 30, 2016, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2015	646,098	$ 14.55	2.79	$ 1,800
Exercised	(11,600)	14.29	1.07	43
Forfeited or expired	—	—	—	—
Outstanding at June 30, 2016	634,498	$ 14.56	2.31	$ 2,348
Exercisable at June 30, 2016	588,897	$ 14.45	2.00	$ 2,245
Exercisable at June 30, 2015	570,097	$ 14.39	2.76	$ 1,547

The weighted-average grant-date fair value of the options outstanding and exercisable at June 30, 2016 was $3.81 and $3.83, respectively. For the six months ended June 30, 2016, share based compensation expense applicable to options granted under the Plan was $51,000. For the six months ended June 30, 2015, share based compensation expense applicable to options granted under the Plan was $53,000. As of June 30, 2016, unrecognized stock-based compensation expense related to non-vested options amounted to $110,000. This amount is expected to be recognized over a period of 1.31 years.

Stock Awards

The Plan provides that the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year beginning on the first anniversary of the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The Company recorded compensation cost related to stock awards of approximately $1,000 and $3,000 for each of the six month periods ended June 30, 2016 and 2015, respectively. There were no stock awards granted prior to July 1, 2007. There were no stock awards granted by the Company during the six months ended June 30, 2016 and 2015. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of $14.08. As of June 30, 2016, there was no unrecognized stock-based compensation expense related to non-vested restricted stock awards.

A summary of the status of the Company’s stock awards as of June 30, 2016, and changes during the six months ended June 30, 2016, is as follows:

Nonvested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2015	400	$ 14.08
Vested	400	14.08
Outstanding at June 30, 2016	—	$ —

4. Long-term Incentive Plan

On March 13, 2012, the Company adopted the Chicopee Bancorp, Inc. 2012 Phantom Stock Unit Award and Long-Term Incentive Plan (the “Phantom Stock Plan”), effective January 1, 2012, to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interest with those of the Company’s stockholders.

A total of 150,000 phantom stock units are available for awards under the Phantom Stock Plan. The only awards that may be granted under the Phantom Stock Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company’s stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. Unless the Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Phantom Stock Plan for the six months ended June 30, 2016 and 2015, was $140,000 and $13,000, respectively. There were 11,365 phantom stock units granted during the six months ended June 30, 2016. There were no phantom stock units granted during the six months ended June 30, 2015. As of June 30, 2016 and December 31, 2015, 14,308 and 7,016 phantom stock units were outstanding.

5. Recent Accounting Pronouncements (Applicable to the Company)

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard. The effective date for this ASU was deferred to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the potential impact of the ASU on its consolidated financial statements.

In June 2014, FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The ASU was issued because current U.S. GAAP does not contain explicit guidance on how to account for share-based payments when a performance target could be achieved after the requisite service period. The ASU was effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The ASU did not have a material effect on the Company's consolidated financial statements.

In January 2016, FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU was issued to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The ASU also changes certain disclosure requirements and other aspects of U.S. GAAP, including a requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The ASU will not have a material effect on the Company’s consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU was issued to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements.

In June 2016, FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Under the new guidance, which will replace the existing incurred loss model for recognizing credit losses, banks and other lending institutions will be required to recognize the full amount of expected credit losses. The new guidance, which is referred to as the current expected credit loss model, requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applies to debt securities classified as available for sale. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within such years. The Company is evaluating the potential impact of the ASU on its consolidated financial statements.

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6. Investment Securities

The following tables set forth, at the dates indicated, information regarding the amortized cost and fair value, with gross unrealized gains and losses, of the Company's investment securities:

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	$369	$ 37	$ —	$406
Total available-for-sale securities	$369	$ 37	$ —	$406
Held-to-maturity securities:				
Corporate and industrial revenue bonds	$31,472	$ 24	$ —	$31,496
Collateralized mortgage obligations	119	3	—	122
Total held-to-maturity securities	$31,591	$ 27	$ —	$31,618
Non-marketable securities:				
Federal Home Loan Bank stock	$4,225	$ —	$ —	$4,225
Banker's Bank Northeast stock	183	—	—	183
Total non-marketable securities	$4,408	$ —	$ —	$4,408

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	$369	$ 57	$ —	$426
Total available-for-sale securities	$369	$ 57	$ —	$426
Held-to-maturity securities:				
Corporate and industrial revenue bonds	$32,029	$ 700	$ —	$32,729
Collateralized mortgage obligations	200	6	—	206
Total held-to-maturity securities	$32,229	$ 706	$ —	$32,935
Non-marketable securities:				
Federal Home Loan Bank stock	$4,764	$ —	$ —	$4,764
Banker's Bank Northeast stock	183	—	—	183
Total non-marketable securities	$4,947	$ —	$ —	$4,947

The amortized cost and estimated fair value of debt securities by contractual maturity at June 30, 2016 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-maturity	
	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$—	$—
Due after one year through five years	7,771	7,963
Due after five years through ten years	6,458	6,413
Due after ten years	17,362	17,242
Total	$31,591	$31,618

There were no sales of available-for-sale securities during the six months ended June 30, 2016 and 2015.

Management conducts, at least on a monthly basis, a review of its investment portfolio including available-for-sale and held-to-maturity securities to determine if the fair value of any security has declined below its cost or amortized cost and whether such security is other-than-temporarily impaired.

Unrealized Losses on Investment Securities

There were no continuous unrealized losses as of June 30, 2016 and December 31, 2015.

Non-Marketable Securities

The Company is a member of the Federal Home Loan Bank of Boston ("FHLB"). The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Company must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Company's level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. The Company's investment in FHLB stock totaled $4.2 million and $4.8 million at June 30, 2016 and December 31, 2015, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. For each of the six months ended June 30, 2016 and 2015, the Company received $83,000 and $35,000, respectively, in dividend income from its FHLB stock investment.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. There have not been any impairment losses recorded through June 30, 2016 and the Company will continue to monitor its FHLB stock investment.

Banker's Bank Northeast (BBN) stock is reported under other assets in the consolidated statement of financial condition and is carried at cost. The BBN stock investment is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of June 30, 2016 and December 31, 2015, the Company's investment in BBN totaled $183,000. There have not been any impairment losses recorded through June 30, 2016 and the Company will continue to monitor its BBN stock investment.

7. Loans and Allowance for Loan Losses

The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the total loan
portfolio at the dates indicated.

	June 30, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)			
Real estate loans:				
Residential	$133,980	22.2 %	$127,610	21.8 %
Home equity	41,868	6.9 %	39,554	6.8 %
Commercial	297,673	49.3 %	287,849	49.1 %
Total	473,521	78.4 %	455,013	77.7 %
Construction-residential	6,936	1.2 %	8,490	1.5 %
Construction-commercial	50,077	8.3 %	48,128	8.2 %
Total	57,013	9.5 %	56,618	9.7 %
Total real estate loans	530,534	87.9 %	511,631	87.4 %
Consumer loans	2,646	0.4 %	2,516	0.4 %
Commercial and industrial loans	70,927	11.7 %	71,530	12.2 %
Total loans	604,107	100.0%	585,677	100.0%
Deferred loan origination costs, net	932		897	
Allowance for loan losses	(5,743)		(5,615)	
Loans, net	$599,296		$580,959	

The Company has transferred a portion of its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as sales and therefore not included in the Company's consolidated statements of financial condition. The Company and participating lenders share proportionally, based on participating agreements, any gains or losses that may result from the borrowers lack of compliance with the terms of the loan. The Company continues to service the loans on behalf of the participating lenders. At June 30, 2016 and December 31, 2015, the Company was servicing loans for participating lenders totaling $20.9 million and $23.7 million, respectively.

In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company continues to sell fixed rate, low coupon residential real estate loans to the secondary market. The Company sold $819,000 and $1.2 million in residential real estate loans to the secondary market during the six month periods ended June 30, 2016 and 2015, respectively. The unpaid principal balance of residential real estate loans serviced for others was $79.8 million at June 30, 2016 and $82.1 million at December 31, 2015. Management expects to continue to retain servicing rights on all loans written and sold in the secondary market.

Credit Quality

To evaluate the risk in the loan portfolio, internal credit risk ratings are used for the following loan classes: commercial real estate, commercial construction and commercial and industrial. The risks evaluated in determining an adequate credit risk rating include the financial strength of the borrower and the collateral securing the loan. Commercial loans, including commercial and industrial, commercial real estate and commercial construction loans, are rated from one through nine. Credit risk ratings one through five are considered pass ratings. Classified assets include credit risk ratings of special mention through loss. At least quarterly, classified loans are reviewed by management and by an independent third party. Credit risk ratings are updated as soon as information is obtained that indicates a change in the credit risk rating may be warranted.

Residential real estate and residential construction loans are categorized into performing and nonperforming risk ratings. They are considered nonperforming when they are 90 days past due or have not returned to accrual status. Nonperforming residential loans are individually evaluated for impairment.

Consumer loans are considered nonperforming when they are 90 days past due or have not returned to accrual status. Consumer loans are not individually evaluated for impairment.

Home equity loans are considered nonperforming when they are 90 days past due or have not returned to accrual status. Each nonperforming home equity loan is individually evaluated for impairment.

The following describes the credit risk ratings for classified assets:

Special mention. Assets that do not currently expose the Company to sufficient risk to warrant classification in one of the following categories but possess potential weaknesses.

Substandard. Assets that have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Non-accruing loans are typically classified as substandard.

Doubtful. Assets that have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss.

Loss. Assets rated in this category are considered uncollectible and are charged off against the allowance for loan losses.

The following table presents an analysis of total loans segregated by risk rating and segment as of June 30, 2016:

	Commercial Credit Risk Exposure			
	Commercial and Industrial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$61,962	$ 44,823	$ 284,821	$391,606
Special mention	5,852	5,041	8,346	19,239
Substandard	3,113	213	4,506	7,832
Total commercial loans	$70,927	$ 50,077	$ 297,673	$418,677

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Performing	$129,684	$ 6,936	$136,620
Nonperforming	4,296	—	4,296
Total residential loans (1)	$133,980	$ 6,936	$140,916

Consumer Credit Risk Exposure

	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$2,631	$ 41,587	$44,218
Nonperforming	15	281	296
Total consumer loans	$2,646	$ 41,868	$44,514

(1) At June 30, 2016, the Company had a total of $252,000 in residential real estate loans in the process of foreclosure.

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The following table presents an analysis of total loans segregated by risk rating and segment as of December 31, 2015:

	Commercial Credit Risk Exposure			
	Commercial and Industrial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$63,499	$ 42,585	$ 275,628	$381,712
Special mention	4,163	5,330	8,454	17,947
Substandard	3,868	213	3,767	7,848
Total commercial loans	$71,530	$ 48,128	$ 287,849	$407,507

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Performing	$123,697	$ 8,490	$132,187
Nonperforming	3,913	—	3,913
Total residential loans (1)	$127,610	$ 8,490	$136,100

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$2,516	$ 39,366	$41,882
Nonperforming	—	188	188
Total consumer loans	$2,516	$ 39,554	$42,070

(1) At December 31, 2015, the Company had a total of $63,000 in residential real estate loans in the process of foreclosure.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general and allocated components, as further described below.

Loans charged off

Commercial and industrial loans. Loans past due more than 120 days are considered for one of three options: charge off the balance of the loan, charge off any excess balance over the fair value of the collateral securing the loan, or continue collection efforts subject to a monthly review until either the balance is collected or a charge-off recommendation can be reasonably made.

Commercial real estate loans. Commercial real estate loans that are delinquent 90 days or more or are on nonaccrual status are classified nonperforming. An updated appraisal may be obtained when the loan is 90 days or more delinquent. Any outstanding balance in excess of the fair value of the property, less cost to sell, may be charged-off against the allowance for loan losses.

Residential loans. In general, one-to-four family residential loans and home equity loans that are delinquent 90 days or more or are on nonaccrual status are classified nonperforming. An updated appraisal is obtained when the loan is 90 days or more delinquent. Any outstanding balance in excess of the fair value of the property, less cost to sell, is charged-off against the allowance for loan losses.

Consumer loans. Generally all loans are automatically considered for charge-off at 90 to 120 days past due from the contractual due date, unless there is liquid collateral in hand sufficient to repay principal and interest in full.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following portfolio segments: residential real estate, residential construction, commercial real estate, commercial and industrial, commercial construction, consumer and home equity. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each portfolio segment. Management deems 48 months to be an appropriate time frame on which to base historical losses for each portfolio segment. This historical loss factor is adjusted for qualitative factors for each portfolio segment including, but not limited to: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and changes in lending policies, experience, ability, depth of lending management and staff; and national and local economic conditions. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit.

The qualitative factors are determined based on the various risk characteristics of each portfolio segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate loans enable the borrower to purchase or refinance existing homes, most of which serve as the primary residence of the owner. Repayment is dependent on the credit quality of the borrower. Factors attributable to failure of repayment may include a weakened economy and/or unemployment, as well as possible personal considerations. While management anticipates adjustable-rate mortgages will better offset the potential adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment.

Commercial real estate loans are secured by commercial real estate and residential investment real estate and generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Risks in commercial real estate and residential investment lending are borrower’s creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

Commercial and residential construction loans are generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property’s value at completion of construction and the estimated cost (including interest) of construction.

Commercial and industrial loans are of higher risk and typically are made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself as well as national and local economic conditions. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Consumer and home equity loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The Company does not disaggregate its portfolio segments into loan classes.

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential real estate, home equity loans, commercial real estate and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The Company recognizes the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and the resulting allowance is reported as the general component, as described above.

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are classified as impaired.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment evaluation, except for home equity loans.

During the six months ended June 30, 2016, there were no changes in the Company's allowance methodology related to the qualitative or quantitative factors.

The following table presents the allowance for loan losses and select loan information as of and for the three months ended June 30, 2016:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of March 31, 2016	$730	$ 81	$ 3,037	$ 772	$ 841	$ 28	$ 195	$5,684
Provision for (reduction of) loan losses	(26)	(8)	46	43	(12)	23	55	121
Recoveries	—	—	—	—	9	—	1	10
Loans charged off	(32)	—	—	—	(19)	(21)	—	(72)
Balance as of June 30, 2016	$672	$ 73	$ 3,083	$ 815	$ 819	$ 30	$ 251	$5,743

The following table presents the allowance for loan losses and select loan information as of and for the six months ended June 30, 2016:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2015	$658	$ 89	$ 3,012	$ 783	$ 856	$ 31	$186	$5,615
Provision for (reduction of) loan losses	29	(16)	71	32	(36)	35	61	176
Recoveries	17	—	—	—	18	—	4	39
Loans charged off	(32)	—	—	—	(19)	(36)	—	(87)
Balance as of June 30, 2016	$672	$ 73	$ 3,083	$ 815	$ 819	$ 30	$251	$5,743

Allowance for loan losses

Collectively evaluated for impairment	$535	$ 73	$ 3,045	$ 815	$ 727	$ 30	$194	$5,419
Individually evaluated for impairment	137	—	38	—	92	—	57	324
Total ending balance	$672	$ 73	$ 3,083	$ 815	$ 819	$ 30	$251	$5,743
Total loans								
Collectively evaluated for impairment	$129,684	$ 6,936	$ 295,775	$ 49,864	$ 68,257	$ 2,646	$41,587	$594,749
Individually evaluated for impairment	4,296	—	1,898	213	2,670	—	281	9,358
Total ending balance	$133,980	$ 6,936	$ 297,673	$ 50,077	$ 70,927	$ 2,646	$41,868	$604,107

The following table presents the allowance for loan losses and select loan information as of and for the year ended December 31, 2015: