PARKE BANCORP, INC.
Form 10-Q
August 14, 2015

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, 2015.
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 No. 000-51338

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

New Jersey	65-1241959
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
601 Delsea Drive, Washington Township, New Jersey	08080
(Address of principal executive offices)	(Zip Code)

856-256-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) 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 the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [ ]   Smaller reporting company [X]

Indicate by 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 14, 2015, there were issued and outstanding 6,126,560 shares of the registrant's common stock.

PARKE BANCORP, INC.

FORM 10-Q

FOR THE QUARTER ENDED June 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
(unaudited)
(in thousands except share and per share data)

	June 30, 2015	December 31, 2014
Assets		
Cash and due from financial institutions	$3,530	$4,033
Federal funds sold and cash equivalents	45,845	32,205
Total cash and cash equivalents	49,375	36,238
Investment securities available for sale, at fair value	45,435	28,208
Investment securities held to maturity (fair value of $2,406 at June 30, 2015 and $2,377 at December 31, 2014)	2,161	2,141
Total investment securities	47,596	30,349
Loans held for sale	1,063	2,932
Loans, net of unearned income	729,980	713,061
Less: Allowance for loan losses	(16,979)	(18,043)
Net loans	713,001	695,018
Accrued interest receivable	2,840	2,827
Premises and equipment, net	4,525	4,490
Other real estate owned (OREO)	19,752	20,931
Restricted stock, at cost	4,119	3,152
Bank owned life insurance (BOLI)	11,640	11,464
Deferred tax asset	10,751	10,518
Other assets	4,077	3,787
Total Assets	$868,739	$821,706
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	$44,982	$42,554
Interest-bearing deposits	627,697	605,379
Total deposits	672,679	647,933
FHLBNY borrowings	69,760	49,352
Subordinated debentures	13,403	13,403
Accrued interest payable	507	445
Other liabilities	5,342	7,523
Total liabilities	761,691	718,656
Equity		
Preferred stock, 1,000,000 shares authorized, $1,000 liquidation value Series B - non-cumulative convertible; Issued: 20,000 shares at June 30, 2015 and December 31, 2014	20,000	20,000
Common stock, $.10 par value; authorized 15,000,000 shares; Issued: 6,338,237 shares at June 30, 2015 and 6,208,259 shares at December 31, 2014	634	621
Additional paid-in capital	52,466	51,316
Retained earnings	36,378	32,983

Accumulated other comprehensive income	(142)	165
Treasury stock, 241,900 shares at June 30, 2015 and 210,900 shares at December 31, 2014, at cost	(2,531)	(2,180)
Total shareholders' equity	106,805	102,905
Noncontrolling interest in consolidated subsidiaries	243	145
Total equity	107,048	103,050
Total liabilities and equity	$868,739	$821,706

See accompanying notes to consolidated financial statements

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Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	(in thousands except share data)			
Interest income:				
Interest and fees on loans	$9,567	$9,442	$18,705	$18,732
Interest and dividends on investments	339	262	585	556
Interest on federal funds sold and cash equivalents	27	32	42	55
Total interest income	9,933	9,736	19,332	19,343
Interest expense:				
Interest on deposits	1,198	1,186	2,329	2,363
Interest on borrowings	276	216	489	437
Total interest expense	1,474	1,402	2,818	2,800
Net interest income	8,459	8,334	16,514	16,543
Provision for loan losses	750	1,000	1,590	2,000
Net interest income after provision for loan losses	7,709	7,334	14,924	14,543
Noninterest income:				
Gain on sale of SBA loans	1,200	1,011	1,757	1,332
Loan fees	341	246	655	461
Net income from BOLI	89	90	176	178
Service fees on deposit accounts	66	58	136	115
Loss on sale and write-down of real estate owned	(954)	(39)	(1,123)	(435)
Realized gain on sale of AFS securities	—	—	—	178
Other	112	293	510	788
Total noninterest income	854	1,659	2,111	2,617
Noninterest expense:				
Compensation and benefits	1,920	1,761	3,909	3,605
Professional services	364	338	873	748
Occupancy and equipment	306	296	629	592
Data processing	111	128	250	245
FDIC insurance	169	251	334	491
OREO expense	425	1,248	911	2,008
Other operating expense	963	872	1,699	1,748
Total noninterest expense	4,258	4,894	8,605	9,437
Income before income tax expense	4,305	4,099	8,430	7,723
Income tax expense	1,387	1,264	2,908	2,426
Net income attributable to Company and noncontrolling interest	2,918	2,835	5,522	5,297
Net income attributable to noncontrolling interest	(395)	(349)	(501)	(486)
Net income attributable to Company	2,523	2,486	5,021	4,811
Preferred stock dividend and discount accretion	300	300	600	600
Net income available to common shareholders	$2,223	$2,186	$4,421	$4,211
Earnings per common share:				
Basic	$0.37	$0.36	$0.73	$0.70
Diluted	$0.32	$0.31	$0.63	$0.61

Weighted average shares outstanding:				
Basic	6,034,613	5,991,859	6,022,768	5,990,309
Diluted	7,961,720	7,930,518	7,944,347	7,923,201

See accompanying notes to consolidated financial statements

Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Net income attributable to Company	$2,523	$2,486	$5,021	$4,811
Unrealized gains (losses) on securities:				
Non-credit related unrealized gains on securities with OTTI	—	—	26	—
Unrealized (losses) gains on securities without OTTI	(544)	341	(536)	579
Less reclassification adjustment for gains on securities included in net income	—	—	—	(178)
Tax impact	218	(136)	203	(232)
Total unrealized (losses) gains on securities	(326)	205	(307)	169
Total comprehensive income	2,197	2,691	4,714	4,980

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)

	Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
	(in thousands except share data)									
Balance, December 31, 2014	$20,000	6,208,259	$621	$51,316	$32,983	$165	$(2,180)	$102,905	$145	$103,050
Capital withdrawals by noncontrolling interest									(403)	(403)
Stock options exercised		129,978	13	1,150				1,163		1,163
Net income					5,021			5,021	501	5,522
Changes in other comprehensive income						(307)		(307)		(307)
Purchase of treasury stock							(351)	(351)		(351)
Dividend on preferred stock					(600)			(600)		(600)
Dividend on common stock					(1,026)			(1,026)		(1,026)
Balance, June 30, 2015	$20,000	6,338,237	$634	$52,466	$36,378	$(142)	$(2,531)	$106,805	$243	$107,048

See accompanying notes to consolidated financial statements

Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the six months ended June 30,	
	2015	2014
	(amounts in thousands)	
Cash Flows from Operating Activities:		
Net income	$5,522	$5,297
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	157	175
Provision for loan losses	1,590	2,000
Provision for OREO	—	500
Net gain from sales of investment securities	—	(178)
Bank owned life insurance	(176)	(178)
Gain on sale of SBA loans	(1,757)	(1,332)
SBA loans originated for sale	(13,653)	(11,678)
Proceeds from sale of SBA loans originated for sale	17,280	12,981
Loss on sale & write down of OREO	1,123	435
Net accretion of purchase premiums and discounts on securities	(659)	5
Contribution of OREO property	—	22
Deferred income tax benefit	(233)	(7,889)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable and other assets	(466)	3,256
(Decrease) increase in accrued interest payable and other accrued liabilities	(2,119)	1,051
Net cash provided by operating activities	6,609	4,467
Cash Flows from Investing Activities:		
Purchases of investment securities available for sale	(19,976)	—
(Purchases) redemptions of restricted stock	(967)	106
Proceeds from sale and call of securities available for sale	—	3,974
Proceeds from maturities and principal payments on mortgage backed securities	2,877	2,048
Proceeds from sale of OREO	2,639	5,871
Advances on OREO	(292)	(361)
Net increase in loans	(21,864)	(8,667)
Purchases of bank premises and equipment	(192)	(112)
Net cash (used in) provided by investing activities	(37,775)	2,859
Cash Flows from Financing Activities:		
Payment of dividend on preferred stock	(1,261)	(357)
Purchase of treasury stock	(351)	—
Minority interest capital withdrawal, net	(403)	(370)
Proceeds from exercise of stock options and warrants	1,163	61
Net increase (decrease) in FHLBNY and short term borrowings	20,408	(4,588)
Net increase in noninterest-bearing deposits	2,429	3,412
Net increase in interest-bearing deposits	22,318	18,603
Net cash provided by financing activities	44,303	16,761
Net increase in cash and cash equivalents	13,137	24,087

Cash and Cash Equivalents, January 1,	36,238	45,661
Cash and Cash Equivalents, June 30,	$49,375	$69,748
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest on deposits and borrowed funds	$2,756	$2,761
Income taxes	$2,904	$4,300
Supplemental Schedule of Noncash Activities:		
Real estate acquired in settlement of loans	$2,291	$1,712

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Parke Bancorp, Inc. ("Parke Bancorp” or the "Company") is a bank holding company incorporated under the laws of the State of New Jersey in January 2005 for the sole purpose of becoming the holding company of Parke Bank (the "Bank").

The Bank is a commercial bank which commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and Insurance (the “Department”) and insured by the Federal Deposit Insurance Corporation ("FDIC"). Parke Bancorp and the Bank maintain their principal offices at 601 Delsea Drive, Washington Township, New Jersey. The Bank also conducts business through branches in Galloway Township, Northfield and Washington Township, New Jersey and Philadelphia, Pennsylvania.

The Bank competes with other banking and financial institutions in its primary market areas. Commercial banks, savings banks, savings and loan associations, credit unions and money market funds actively compete for savings and time certificates of deposit and all types of loans. Such institutions, as well as consumer financial and insurance companies, may be considered competitors of the Bank with respect to one or more of the services it renders.

The Bank is subject to the regulations of certain state and federal agencies, and accordingly, the Bank is periodically examined by such regulatory authorities. As a consequence of the regulation of commercial banking activities, the Bank’s business is particularly susceptible to future state and federal legislation and regulations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation: The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and predominant practices within the banking industry.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary the Bank. Also included are the accounts of 44 Business Capital Partners LLC, a joint venture formed in 2009 to originate and service SBA loans. The Bank has a 51% ownership interest in the joint venture. Parke Capital Trust I, Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the requirements for consolidation under applicable accounting guidance. All significant inter-company balances and transactions have been eliminated.

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 since they do not include all of the information and footnotes required by GAAP. The accompanying interim financial statements for the three and six months ended June 30, 2015 and 2014 are unaudited. The balance sheet as of December 31, 2014, was derived from the audited financial statements. In the opinion of management, these financial statements include all normal and recurring adjustments necessary for a fair statement of the results for such interim periods. Results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results for the full year. Certain reclassifications have been made to prior period amounts to conform to the current year presentation, with no impact on current earnings or shareholders’ equity.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the allowance for loan losses, other than temporary impairment losses on investment securities, the valuation of deferred income taxes, servicing assets and carrying value of OREO.

Recently Issued Accounting Pronouncements:

In January 2014, the FASB issued ASU 2014-4, "Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ASU 2014-4 clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU 2014-4 requires interim and annual disclosure of both (a) the amount of foreclosed residential real estate property held by the creditor and (b) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in ASU 2014-4 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. There was no significant impact to amounts reported in the consolidated financial position or results of operations from the adoption of the ASU.

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, “Revenue from Contracts with Customers (ASU 2014-9),” which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-9 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-9 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-9 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-9 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

In June 2014, the FASB issued ASU No. 2014-11, “Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures,” which changes the accounting for repurchase-to-maturity transactions (repos-to-maturity) and enhances the required disclosures for repurchase agreements and other similar transactions (repos). Repos-to-maturity and the repurchase financings will be accounted for as secured borrowings. In addition, the standard requires new disclosures for repos. ASU No. 2014-11 provisions are effective for the first interim or annual period beginning after December 15, 2014. There was no significant impact to amounts reported in the consolidated financial position or results of operations from the adoption of the ASU.

In August 2014, the FASB issued ASU No. 2014-14, “Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure,” which will require creditors to derecognize certain foreclosed government-guaranteed mortgage loans and to recognize a separate other receivable that is measured at the amount the creditor expects to recover from the guarantor, and to treat the guarantee and the receivable as a single unit of account. ASU 2014-14 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. There was no significant impact to amounts reported in the consolidated financial position or results of operations from the adoption of the ASU.

NOTE 3. INVESTMENT SECURITIES

The following is a summary of the Company's investments in available for sale and held to maturity securities as of June 30, 2015 and December 31, 2014:

As of June 30, 2015	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in OCI	Fair value
	(amounts in thousands)				
Available for sale:					
Corporate debt obligations	$500	$20	$—	$—	$520
Residential mortgage-backed securities	44,063	579	415	—	44,227
Collateralized mortgage obligations	302	11	—	—	313
Collateralized debt obligations	806	—	—	431	375

Total available for sale	$45,671	$610	$415	$431	$45,435
Held to maturity:					
States and political subdivisions	$2,161	$245	$—	$—	$2,406

As of December 31, 2014	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in OCI	Fair value
	(amounts in thousands)				
Available for sale:					
Corporate debt obligations	$500	$22	$—	$—	$522
Residential mortgage-backed securities	26,252	754	59	—	26,947
Collateralized mortgage obligations	375	15	—	—	390
Collateralized debt obligations	806	—	—	457	349
Total available for sale	$27,933	$791	$59	$457	$28,208
Held to maturity:					
States and political subdivisions	$2,141	$236	$—	$—	$2,377

The amortized cost and fair value of debt securities classified as available for sale and held to maturity, by contractual maturity as of June 30, 2015 are as follows:

	Amortized Cost	Fair Value
	(amounts in thousands)	
Available for sale:		
Due within one year	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	1,306	894
Residential mortgage-backed securities and collateralized mortgage obligations	44,365	44,541
Total available for sale	$45,671	$45,435
Held to maturity:		
Due within one year	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	2,161	2,406
Total held to maturity	$2,161	$2,406

Expected maturities will differ from contractual maturities for mortgage related securities because the issuers of certain debt securities do have the right to call or prepay their obligations without any penalty.

There were no securities pledged as collateral for borrowed funds as of June 30, 2015 and December 31, 2014. Securities with a carrying value of $12.9 million and $15.0 million were pledged to secure public deposits at June 30, 2015 and December 31, 2014, respectively.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired (“OTTI”), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2015 and December 31, 2014:

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As of June 30, 2015	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(amounts in thousands)					
Available for sale:						
Residential mortgage-backed securities	20,464	350	3,578	65	24,042	415
Total available for sale	$20,464	$350	3,578	$65	$24,042	$415

As of December 31, 2014	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(amounts in thousands)					
Available for sale:						
Residential mortgage-backed securities	3,968	59	—	—	3,968	59
Total available for sale	$3,968	$59	$—	$—	$3,968	$59

Residential Mortgage-Backed Securities: The unrealized losses on the Company's investment in mortgage-backed securities relates to seven securities at June 30, 2015 versus three securities at December 31, 2014. The losses were caused by movement in interest rates. The securities were issued by FNMA, a government sponsored entity. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in these securities to be OTTI at June 30, 2015.

Other Than Temporarily Impaired Debt Securities

We assess whether we intend to sell or it is more likely than not that we will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered OTTI and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income.

The present value of expected future cash flows is determined using the best estimate of cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. The asset-backed securities cash flow estimates are based on bond specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate bond cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using bond specific facts and circumstances including timing, security interests and loss severity.

We have a process in place to identify debt securities that could potentially have a credit impairment that is other than temporary. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues. On a quarterly basis, we review all securities to determine whether an OTTI exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events; and (4) for fixed maturity securities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity.

The following table presents a roll-forward of the credit loss component of the amortized cost of debt securities that we have written down for OTTI and the credit component of the loss that is recognized in earnings. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows for the six month periods ended June 30, 2015 and 2014. There were no changes for the three month periods ended for June 30, 2015 and 2014.

	For the Six Months Ended June 30,	
	2015	2014
	(amounts in thousands)	
Beginning balance	$171	$1,126
Initial credit impairment	—	—
Subsequent credit impairments	—	—
Reductions for amounts recognized in earnings due to intent or requirement to sell	—	—
Reductions for securities sold	—	(955)
Reductions for securities deemed worthless	—	—
Reductions for increases in cash flows expected to be collected	—	—
Ending balance	$171	$171

During the six months ended June 30, 2014, the Bank sold three Trust Preferred securities, which resulted in a $178,000 gain reflected in the income statement.

NOTE 4. LOANS

The portfolio of loans outstanding consists of the following:

	June 30, 2015		December 31, 2014	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
	(amounts in thousands)			
Commercial and Industrial	$36,813	5.0 %	$30,092	4.2 %
Real Estate Construction:				
Residential	6,238	0.9	5,859	0.8
Commercial	47,432	6.5	47,921	6.7
Real Estate Mortgage:				
Commercial – Owner Occupied	157,335	21.6	176,649	24.8
Commercial – Non-owner Occupied	266,571	36.5	237,918	33.4
Residential – 1 to 4 Family	186,384	25.5	171,894	24.1
Residential – Multifamily	19,086	2.6	25,173	3.5
Consumer	10,121	1.4	17,555	2.5
Total Loans	$729,980	100.0 %	$713,061	100.0 %

Loan Origination/Risk Management: In the normal course of business the Company is exposed to a variety of operational, reputational, legal, regulatory, and credit risks that could adversely affect our financial performance. Most of our asset risk is primarily tied to credit (lending) risk. The Company has lending policies, guidelines and procedures in place that are designed to maximize loan income within an acceptable level of risk. The Board of

Directors reviews and approves these policies, guidelines and procedures. When we originate a loan we make certain subjective judgments about the borrower's ability to meet the loan's terms and conditions. We also make objective and subjective value assessments on the assets we finance. The borrower's ability to repay can be adversely affected by economic changes. Likewise, changes in market conditions and other external factors can affect asset valuations. The Company actively monitors the quality of its loan portfolio. A reporting system supplements the credit review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit risk, loan delinquencies, troubled debt restructures, nonperforming and potential problem loans. Diversification in the loan portfolio is another means of managing risk associated with fluctuations in economic conditions.

Construction Loans: With respect to construction loans to developers and builders that are secured by non-owner occupied properties, loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analyses of the developers and property owners. Construction loans are also generally underwritten based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Commercial Real Estate: Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. Commercial real estate loans may be riskier than loans for one-to-four family residences and are typically larger in dollar size. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The repayment of these loans is generally largely dependent on the successful operation and management of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location within our market area. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also monitors economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

Residential Mortgage: The Company originates adjustable and fixed-rate residential mortgage loans. Such mortgage loans are generally originated under terms, conditions and documentation acceptable to the secondary mortgage market. Although the Company has placed all of these loans into its portfolio, a substantial majority of such loans can be sold in the secondary market or pledged for potential borrowings.

Consumer Loans: Consumer loans may carry a higher degree of repayment risk than residential mortgage loans. Repayment is typically dependent upon the borrower’s financial stability which is more likely to be adversely affected by job loss, illness, or personal bankruptcy. To monitor and manage consumer loan risk, policies and procedures have been developed and modified as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements. Historically the Company’s losses on consumer loans have been negligible.

The Company maintains an outsourced independent loan review program that reviews and validates the credit risk assessment program on a periodic basis. Results of these external independent reviews are presented to management. The external independent loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit risk management personnel.

Non-accrual and Past Due Loans: Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when a loan is 90 days past due, unless the loan is well secured and in the process of collection, as required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

An age analysis of past due loans by class at June 30, 2015 and December 31, 2014 follows:

June 30, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans
	(amounts in thousands)					
Commercial and Industrial	$—	$—	$2,462	$2,462	$34,351	$36,813
Real Estate Construction:						
Residential	—	—	—	—	6,238	6,238
Commercial	—	—	7,140	7,140	40,292	47,432
Real Estate Mortgage:						
Commercial – Owner Occupied	833	—	106	939	156,396	157,335
Commercial – Non-owner Occupied	59	—	5,220	5,279	261,292	266,571
Residential – 1 to 4 Family	590	76	6,526	7,192	179,192	186,384
Residential – Multifamily	360	—	—	360	18,726	19,086
Consumer	107	—	65	172	9,949	10,121
Total Loans	$1,949	$76	$21,519	$23,544	$706,436	$729,980

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans
	(amounts in thousands)					
Commercial and Industrial	$—	$1,874	$61	$1,935	$28,157	$30,092
Real Estate Construction:						
Residential	—	—	238	238	5,621	5,859
Commercial	—	—	10,773	10,773	37,148	47,921
Real Estate Mortgage:						
Commercial – Owner Occupied	—	—	735	735	175,914	176,649
Commercial – Non-owner Occupied	—	—	8,624	8,624	229,294	237,918
Residential – 1 to 4 Family	629	20	6,367	7,016	164,878	171,894
Residential – Multifamily	364	—	—	364	24,809	25,173
Consumer	—	—	94	94	17,461	17,555
Total Loans	$993	$1,894	$26,892	$29,779	$683,282	$713,061

Impaired Loans: Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments.

All impaired loans have are assessed for recoverability based on an independent third-party full appraisal to determine the net realizable value ("NRV") based on the fair value of the underlying collateral, less cost to sell and other costs, such as unpaid real estate taxes, that have been identified, or the present value of discounted cash flows in the case of certain impaired loans that are not collateral dependent. The appraisal will be based on an "as-is" valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains the elimination of each approach not used. Appraisals are generally updated every 12 months or sooner if we have identified possible further deterioration in value. Prior to receiving the updated appraisal, we will establish a specific reserve for any estimated deterioration, based upon our assessment of market conditions, adjusted for estimated costs to sell and other identified costs. If the NRV is greater than the loan amount, then no impairment loss exists. If the NRV is less than the loan amount, the shortfall is recognized by a specific reserve. If the borrower fails to pledge additional collateral in the ninety day period, a charge-off equal to the difference between the loan's carrying value and NRV will occur. In certain circumstances, however, a direct charge-off may be taken at the time that the NRV calculation reveals a shortfall. All impaired loans are evaluated based on the criteria stated above on a quarterly basis and any change in the reserve requirements are recorded in the period identified. All partially charged-off loans remain on nonaccrual status until they are brought current as to both principal and interest and have at least nine months of payment history and future collectability of principal and interest is assured.

Impaired loans at June 30, 2015 and December 31, 2014 are set forth in the following tables.

June 30, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(amounts in thousands)		
With no related allowance recorded:			
Commercial and Industrial	$36	$36	$—
Real Estate Construction:			
Residential	—	—	—
Commercial	2,964	3,056	—
Real Estate Mortgage:			
Commercial – Owner Occupied	106	106	—
Commercial – Non-owner Occupied	2,052	2,052	—
Residential – 1 to 4 Family	5,759	6,624	—
Residential – Multifamily	—	—	—
Consumer	—	—	—
	10,917	11,874	—
With an allowance recorded:			
Commercial and Industrial	2,883	2,884	1,621
Real Estate Construction:			
Residential	—	—	—
Commercial	7,360	9,814	497
Real Estate Mortgage:			
Commercial – Owner Occupied	4,736	4,765	85
Commercial – Non-owner Occupied	24,085	25,575	796
Residential – 1 to 4 Family	2,142	2,274	255
Residential – Multifamily	360	360	5
Consumer	65	65	7
	41,631	45,737	3,266
Total:			
Commercial and Industrial	2,919	2,920	1,621
Real Estate Construction:			
Residential	—	—	—
Commercial	10,324	12,870	497
Real Estate Mortgage:			
Commercial – Owner Occupied	4,842	4,871	85
Commercial – Non-owner Occupied	26,137	27,627	796
Residential – 1 to 4 Family	7,901	8,898	255
Residential – Multifamily	360	360	5
Consumer	65	65	7
	$52,548	$57,611	$3,266

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(amounts in thousands)		
With no related allowance recorded:			
Commercial and Industrial	$61	$401	$—
Real Estate Construction:			
Residential	—	—	—
Commercial	4,033	4,161	—
Real Estate Mortgage:			
Commercial – Owner Occupied	735	1,132	—
Commercial – Non-owner Occupied	8,175	10,616	—
Residential – 1 to 4 Family	2,548	3,291	—
Residential – Multifamily	—	—	—
Consumer	94	94	—
	15,646	19,695	