PARKE BANCORP, INC.
Form 10-Q
May 16, 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: March 31, 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 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 May 16, 2016, there were issued and outstanding 6,220,962 shares of the registrant's common stock.

PARKE BANCORP, INC.

FORM 10-Q

FOR THE QUARTER ENDED March 31, 2016

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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)

	March 31, 2016	December 31, 2015
Assets		
Cash and due from financial institutions	$3,701	$ 3,131
Federal funds sold and cash equivalents	23,242	24,298
Total cash and cash equivalents	26,943	27,429
Investment securities available for sale, at fair value	41,788	42,567
Investment securities held to maturity (fair value of $2,477 at March 31, 2016 and $2,471 at December 31, 2015)	2,192	2,181
Total investment securities	43,980	44,748
Loans held for sale	2,068	2,640
Loans, net of unearned income	802,552	758,501
Less: Allowance for loan losses	(16,819)	(16,136)
Net loans	785,733	742,365
Accrued interest receivable	3,172	3,012
Premises and equipment, net	4,639	4,591
Other real estate owned (OREO)	16,123	16,629
Restricted stock, at cost	5,014	4,789
Bank owned life insurance (BOLI)	23,999	23,822
Deferred tax asset	10,678	10,928
Other assets	4,380	4,171
Total Assets	$926,729	$ 885,124
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	$50,562	$ 52,773
Interest-bearing deposits	652,401	612,437
Total deposits	702,963	665,210
FHLBNY borrowings	89,650	84,650
Subordinated debentures	13,403	13,403
Accrued interest payable	473	494
Other liabilities	5,466	9,160
Total liabilities	811,955	772,917
Equity		
Preferred stock, 1,000,000 shares authorized, $1,000 liquidation value Series B - non-cumulative convertible; Issued: 20,000 shares at March 31, 2016 and December 31, 2015	20,000	20,000
Common stock, $.10 par value; authorized 15,000,000 shares; Issued: 6,501,610 shares at March 31, 2016 and December 31, 2015	650	650
Additional paid-in capital	53,995	53,984
Retained earnings	42,387	40,582

Accumulated other comprehensive income (loss)	210	(165)
Treasury stock, 280,648 shares at March 31, 2016 and 280,354 shares at December 31, 2015, at cost	(3,015)	(3,011)
Total shareholders' equity	114,227	112,040
Noncontrolling interest in consolidated subsidiaries	547	167
Total equity	114,774	112,207
Total liabilities and equity	$926,729	$ 885,124

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 March 31,	
	2016	2015
	(in thousands except share data)	
Interest income:		
Interest and fees on loans	$9,963	$ 9,139
Interest and dividends on investments	356	246
Interest on federal funds sold and cash equivalents	23	15
Total interest income	10,342	9,400
Interest expense:		
Interest on deposits	1,255	1,131
Interest on borrowings	334	213
Total interest expense	1,589	1,344
Net interest income	8,753	8,056
Provision for loan losses	700	840
Net interest income after provision for loan losses	8,053	7,216
Noninterest income:		
Gain on sale of SBA loans	1,432	557
Loan fees	347	316
Net income from BOLI	177	87
Service fees on deposit accounts	74	70
Loss on sale and write-down of real estate owned	(967)	(169)
Other	112	400
Total noninterest income	1,175	1,261
Noninterest expense:		
Compensation and benefits	2,085	1,990
Professional services	457	509
Occupancy and equipment	332	325
Data processing	133	139
FDIC insurance	176	165
OREO expense	329	486
Other operating expense	1,182	736
Total noninterest expense	4,694	4,350
Income before income tax expense	4,534	4,127
Income tax expense	1,546	1,521
Net income attributable to Company and noncontrolling interest	2,988	2,606
Net income attributable to noncontrolling interest	(380)	(106)
Net income attributable to Company	2,608	2,500
Preferred stock dividend and discount accretion	300	300
Net income available to common shareholders	$2,308	$ 2,200
Earnings per common share:		
Basic	$0.37	$ 0.37
Diluted	$0.32	$ 0.31

Weighted average shares outstanding:		
Basic	6,220,978	6,010,792
Diluted	8,126,909	7,939,684

See accompanying notes to consolidated financial statements

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

	For the three months ended March 31,	
	2016	2015
	(in thousands)	
Net income attributable to Company	$2,608	$2,500
Unrealized gains on securities:		
Non-credit related unrealized gains on securities with OTTI	—	26
Unrealized gains on securities without OTTI	623	9
Tax impact	(248)	(15)
Total unrealized gains on securities	375	20
Total comprehensive income	$2,983	$2,520

See accompanying notes to consolidated financial statements

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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 (Loss) Income	Treasury Stock	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
	(in thousands except share data)									
Balance, December 31, 2015	$20,000	6,501,610	$650	$53,984	$40,582	$(165)	$(3,011)	$112,040	$167	$112,207
Net income					2,608			2,608	380	2,988
Other comprehensive (loss) income						375		375		375
Purchase of treasury stock							(4)	(4)		(4)
Stock compensation				11				11		11
Dividend on preferred stock					(300)			(300)		(300)
Dividend on common stock					(503)			(503)		(503)
Balance, March 31, 2016	$20,000	6,501,610	$650	$53,995	$42,387	$210	$(3,015)	$114,227	$547	$114,774

See accompanying notes to consolidated financial statements

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

	For the three months ended March 31, 2016	2015
	(amounts in thousands)	
Cash Flows from Operating Activities:		
Net income	$2,988	$2,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	78	79
Provision for loan losses	700	840
Bank owned life insurance	(177)	(87)
Gain on sale of SBA loans	(1,432)	(557)
SBA loans originated for sale	(11,405)	(3,018)
Proceeds from sale of SBA loans originated for sale	13,409	5,602
Gain on sale & write down of OREO	967	169
Net accretion of purchase premiums and discounts on securities	(29)	(680)
Deferred income tax benefit	—	(8)
Stock Compensation	11	—
Changes in operating assets and liabilities:		
Increase in accrued interest receivable and other assets	(392)	(2,143)
Decrease in accrued interest payable and other accrued liabilities	(3,715)	(980)
Net cash provided by operating activities	1,003	1,823
Cash Flows from Investing Activities:		
Purchases of investment securities available for sale	—	(19,976)
Purchases of restricted stock	(225)	(920)
Proceeds from maturities and principal payments on mortgage backed securities	1,380	1,050
Proceeds from sale of OREO	76	751
Capital improvements on OREO	(26)	(242)
Net increase in loans	(44,579)	(9,862)
Purchases of bank premises and equipment	(126)	(19)
Net cash used in investing activities	(43,500)	(29,218)
Cash Flows from Financing Activities:		
Payment of dividend on common & preferred stock	(738)	(300)
Purchase of treasury stock	(4)	(351)
Minority interest capital withdrawal, net	—	(122)
Proceeds from exercise of stock options and warrants	—	387
Net increase in FHLBNY and short term borrowings	5,000	20,455
Net (decrease) increase in noninterest-bearing deposits	(2,211)	3,072
Net increase in interest-bearing deposits	39,964	7,799
Net cash provided by financing activities	42,011	30,940
Net (decrease) increase in cash and cash equivalents	(486)	3,545
Cash and Cash Equivalents, January 1,	27,429	36,238
Cash and Cash Equivalents, March 31,	$26,943	$39,783

Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest on deposits and borrowed funds	$1,610	$1,347
Income taxes	$1,100	$2,500
Supplemental Schedule of Noncash Activities:		
Real estate acquired in settlement of loans	$511	$2,263
Dividends accrued during the period	$803	$735

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, 2015 since they do not include all of the information and footnotes required by GAAP. The accompanying interim financial statements for the three months ended March 31, 2016 and 2015 are unaudited. The balance sheet as of December 31, 2015, 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 months ended March 31, 2016 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:

On January 5, 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (the ASU). Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 17, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of these amendments.

On February 25, 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842). ASU No. 2016-02 includes a lessee accounting model that recognizes two types of leases - finance leases and operating leases. The standard requires that a lessee recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Leases with terms of less than 12 months are exempt from the new standard. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as finance or operating lease. New disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases are also required. These disclosures include qualitative and quantitative requirements, providing information about the amounts recorded in the financial statements. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; that is, for a calendar year-end public entity, the changes take effect beginning January 1, 2019. The Company is currently evaluating the impact of these amendments.

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 March 31, 2016 and December 31, 2015:

As of March 31, 2016	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in AOCI	Fair value
	(amounts in thousands)				
Available for sale:					
Corporate debt obligations	$1,000	$ 23	$ —	$ —	$1,023
Residential mortgage-backed securities	39,411	720	56	—	40,075
Collateralized mortgage obligations	221	7	—	—	228
Collateralized debt obligations	806	—	—	344	462
Total available for sale	$41,438	$ 750	$ 56	$ 344	$41,788
Held to maturity:					
States and political subdivisions	$2,192	$ 285	$ —	$ —	$2,477

As of December 31, 2015	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in AOCI	Fair value
	(amounts in thousands)				
Available for sale:					
Corporate debt obligations	$1,000	$ 31	$ —	$ —	$1,031
Residential mortgage-backed securities	40,788	451	418	—	40,821
Collateralized mortgage obligations	246	7	—	—	253
Collateralized debt obligations	806	—	—	344	462
Total available for sale	$42,840	$ 489	$ 418	$ 344	$42,567
Held to maturity:					
States and political subdivisions	$2,181	$ 290	$ —	$ —	$2,471

The amortized cost and fair value of debt securities classified as available for sale and held to maturity, by contractual maturity as of March 31, 2016 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	500	500
Due after ten years	1,306	985
Residential mortgage-backed securities and collateralized mortgage obligations	39,632	40,303
Total available for sale	$41,438	$41,788
Held to maturity:		
Due within one year	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	1,216	1,291
Due after ten years	976	1,186
Total held to maturity	$2,192	$2,477

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.

Securities with a carrying value of $15.5 million and $15.0 million were pledged to secure public deposits at March 31, 2016 and December 31, 2015, 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 March 31, 2016 and December 31, 2015:

As of March 31, 2016	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	$31	$ —	$21,131	$ 56	$21,162	$ 56
Total available for sale	$31	$ —	$21,131	$ 56	$21,162	$ 56

As of December 31, 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	$19,191	$ 343	$3,221	$ 75	$22,412	$ 418

Total available for sale	$19,191	$ 343	$3,221	$ 75	$22,412	$ 418

The unrealized losses on the Company’s investment in mortgage-backed securities relates to eight securities at March 31, 2016 versus three securities at December 31, 2015. 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 March 31, 2016.

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 credit loss component of credit-impaired debt securities was $171,000. This impairment was taken in a prior year and no OTTI was realized in the current year.

The Company did not sell any securities during the quarter ended March 31, 2016.

NOTE 4. LOANS

The portfolio of loans outstanding consists of the following:

	March 31, 2016			December 31, 2015		
	Amount	Percentage of Total Loans		Amount	Percentage of Total Loans	
	(amounts in thousands)					
Commercial and Industrial	$23,050	2.9	%	$27,140	3.6	%
Real Estate Construction:						
Residential	5,555	0.7		7,750	1.0	
Commercial	56,025	7.0		45,245	6.0	

Real Estate Mortgage:						
Commercial – Owner Occupied	158,839	19.8		172,040	22.7	
Commercial – Non-owner Occupied	263,278	32.8		256,471	33.8	
Residential – 1 to 4 Family	239,346	29.8		213,266	28.1	
Residential – Multifamily	38,002	4.7		18,113	2.4	
Consumer	18,457	2.3		18,476	2.4	
Total Loans	$802,552	100.0	%	$758,501	100.0	%

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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.

Commercial and Industrial Loans: The Company originates secured loans for business purposes. Loans are made to provide working capital to businesses in the form of lines of credit, which may be secured by accounts receivable, inventory, equipment or other assets. The financial condition and cash flow of commercial borrowers are closely monitored by means of corporate financial statements, personal financial statements and income tax returns. The frequency of submissions of required financial information depends on the size and complexity of the credit and the collateral that secures the loan. The Company's general policy is to obtain personal guarantees from the principals of the commercial loan borrowers. Such loans are made to businesses located in the Company's market area.

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 risk 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 the 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 the 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 March 31, 2016 and December 31, 2015 follows:

March 31, 2016	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	$ —	$ —	$ 553	$ 553	$ 22,497	$ 23,050
Real Estate Construction:						
Residential	—	—	—	—	5,555	5,555
Commercial	—	—	5,203	5,203	50,822	56,025
Real Estate Mortgage:						
Commercial – Owner Occupied	622	—	1,265	1,887	156,952	158,839
Commercial – Non-owner Occupied	—	—	4,032	4,032	259,246	263,278
Residential – 1 to 4 Family	227					