SI Financial Group, Inc.
Form 10-Q
November 06, 2014

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 September 30, 2014
OR

o 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: 0-54241

SI FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland	80-0643149
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
803 Main Street, Willimantic, Connecticut	06226
(Address of principal executive offices)	(Zip Code)

(860) 423-4581
(Registrant's telephone number, including area code)

Not Applicable
(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 o

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 (Section 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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 3, 2014, there were 12,783,122 shares of the registrant’s common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
SI FINANCIAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Amounts / Unaudited)

	September 30, 2014	December 31, 2013
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	$16,942	$20,554
Interest-bearing	16,676	6,767
Total cash and cash equivalents	33,618	27,321
Available for sale securities, at fair value	170,777	170,220
Loans held for sale	1,123	1,764
Loans receivable (net of allowance for loan losses of $7,619 at September 30, 2014 and $6,916 at December 31, 2013)	1,041,071	1,047,410
Federal Home Loan Bank stock, at cost	10,333	13,109
Bank-owned life insurance	21,159	20,726
Premises and equipment, net	21,303	21,090
Goodwill and other intangibles	18,847	19,566
Accrued interest receivable	3,898	4,021
Deferred tax asset, net	9,633	9,705
Other real estate owned, net	1,361	2,429
Other assets	7,019	9,018
Total assets	$1,340,142	$1,346,379
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Noninterest-bearing	$140,992	$139,428
Interest-bearing	856,847	845,321
Total deposits	997,839	984,749
Mortgagors' and investors' escrow accounts	1,794	3,214
Federal Home Loan Bank advances	154,148	176,272
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	22,007	21,054
Total liabilities	1,184,036	1,193,537
Shareholders' Equity:		
Preferred stock ($.01 par value; 1,000,000 shares authorized; none issued)	—	—
Common stock ($.01 par value; 35,000,000 shares authorized; 12,783,122 and 12,798,461 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively)	128	128
Additional paid-in-capital	125,369	125,277
Unallocated common shares held by ESOP	(4,248)	(4,608)
Unearned restricted shares	(1,422)	(1,751)
Retained earnings	36,546	34,644

Accumulated other comprehensive loss	(267)	(848)
Total shareholders' equity	156,106	152,842
Total liabilities and shareholders' equity	$1,340,142	$1,346,379

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts / Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest and dividend income:				
Loans, including fees	$10,735	$8,105	$32,489	$22,822
Securities:				
Taxable interest	877	986	2,651	3,078
Tax-exempt interest	59	42	160	62
Dividends	46	8	143	15
Other	11	10	39	31
Total interest and dividend income	11,728	9,151	35,482	26,008
Interest expense:				
Deposits	1,355	1,241	4,033	3,877
Federal Home Loan Bank advances	602	736	1,921	2,227
Subordinated debt and other borrowings	84	87	251	253
Total interest expense	2,041	2,064	6,205	6,357
Net interest income	9,687	7,087	29,277	19,651
Provision for loan losses	350	443	1,195	633
Net interest income after provision for loan losses	9,337	6,644	28,082	19,018
Noninterest income:				
Total other-than-temporary impairment losses	—	—	—	(8)
Portion of losses recognized in other comprehensive income/loss	—	—	—	—
Net impairment losses	—	—	—	(8)
Service fees	1,762	1,515	5,265	3,964
Wealth management fees	293	302	926	846
Increase in cash surrender value of bank-owned life insurance	147	90	433	226
Net gain (loss) on sales of securities	—	(922)	64	(919)
Mortgage banking	81	69	396	919
Net gain on fair value of derivatives	78	18	69	191
Other	85	161	527	526
Total noninterest income	2,446	1,233	7,680	5,745
Noninterest expenses:				
Salaries and employee benefits	4,897	4,394	15,128	12,923
Occupancy and equipment	1,883	1,417	5,852	4,104
Computer and electronic banking services	1,417	1,057	4,082	2,896
Outside professional services	420	298	1,422	948
Marketing and advertising	216	170	754	471
Supplies	146	110	465	316
FDIC deposit insurance and regulatory assessments	303	251	953	714

Merger expenses	—	1,305	—	2,198
Core deposit intangible amortization	150	55	463	55
Other real estate operations	72	83	303	402
Other	500	1,234	1,873	2,137
Total noninterest expenses	10,004	10,374	31,295	27,164
Income (loss) before income tax provision (benefit)	1,779	(2,497)	4,467	(2,401)
Income tax provision (benefit)	579	(755)	1,447	(522)
Net income (loss)	$1,200	$(1,742)	$3,020	$(1,879)
Earnings (loss) per share:				
Basic	$0.10	$(0.17)	$0.25	$(0.19)
Diluted	$0.10	$(0.17)	$0.24	$(0.19)

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands / Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$1,200	$(1,742)	$3,020	$(1,879)
Other comprehensive income (loss), net of tax:				
Available for sale securities:				
Net unrealized holding gains (losses)	(382)	(631)	546	(2,211)
Reclassification adjustment for losses (gains) recognized in net income (loss) [(1)]	—	609	(42)	607
Plus: credit portion of OTTI losses recognized in net loss [(2)]	—	—	—	5
Plus: noncredit portion of OTTI loss	—	163	—	124
Net unrealized gains (losses) on available for sale securities	(382)	141	504	(1,475)
Net unrealized gain on interest-rate swap derivative	31	10	77	82
Other comprehensive income (loss)	(351)	151	581	(1,393)
Comprehensive income (loss)	$849	$(1,591)	$3,601	$(3,272)

[(1)] Amounts are included in net gain (loss) on the sales of securities in noninterest income on the consolidated statements of operations. Income tax expense (benefit) associated with the reclassification adjustment for the three and nine months ended September 30, 2014 was $0 and $22,000, respectively, and $(313,000) and $(312,000) for the three and nine months ended September 30, 2013, respectively.
[(2)] Amounts are included in net impairment losses recognized in noninterest income on the consolidated statements of operations. Income tax expense associated with the reclassification adjustment for both the three and nine months ended September 30, 2014 totaled $0, respectively, and amounted to $0 and $3,000, for the three and nine months ended September 30, 2013, respectively.

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014
(In Thousands, Except Share Data / Unaudited)

	Common Stock			Unallocated				
	Shares	Dollars	Additional Paid-in Capital	Common Shares Held by ESOP	Unearned Restricted Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2013	12,798,461	$128	$125,277	$(4,608)	$(1,751)	$34,644	$(848)	$152,842
Comprehensive income	—	—	—	—	—	3,020	581	3,601
Cash dividends declared ($0.09 per share)	—	—	—	—	—	(1,107)	—	(1,107)
Equity incentive plan compensation	—	—	230	—	329	—	—	559
Allocation of 36,477 ESOP shares	—	—	56	360	—	—	—	416
Tax benefit from share-based compensation	—	—	4	—	—	—	—	4
Stock options exercised	51,806	—	552	—	—	—	—	552
Common shares repurchased	(67,145)	—	(750)	—	—	(11)	—	(761)
Balance at September 30, 2014	12,783,122	$128	$125,369	$(4,248)	$(1,422)	$36,546	$(267)	$156,106

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands / Unaudited)

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net income (loss)	$3,020	$(1,879)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	1,195	633
Employee stock ownership plan expense	416	417
Equity incentive plan expense	559	576
Excess tax benefit from share-based compensation	(4)	(4)
Amortization of investment premiums and discounts, net	724	921
Amortization of loan premiums and discounts, net	1,051	1,071
Depreciation and amortization of premises and equipment	1,921	1,355
Amortization of core deposit intangible	463	55
Amortization of deferred debt issue costs	79	227
Net loss (gain) on sales of securities	(64)	919
Net gain on fair value of derivatives	(69)	(191)
Deferred income tax benefit	28	67
Loans originated for sale	(12,633)	(36,927)
Proceeds from sale of loans held for sale	13,353	40,464
Net gain on sales of loans held for sale	(201)	(735)
Net gain on sales of loans held for investment	—	(201)
Net loss on sales or write-downs of other real estate owned	67	25
Increase in cash surrender value of bank-owned life insurance	(433)	(226)
Impairment charge on long-lived assets	175	—
Other-than-temporary impairment losses on securities	—	8
Change in operating assets and liabilities:		
Accrued interest receivable	123	42
Other assets	1,947	(2,008)
Accrued expenses and other liabilities	1,143	1,974
Net cash provided by operating activities	12,860	6,583
Cash flows from investing activities:		
Purchases of available for sale securities	(24,626)	(40,863)
Proceeds from sales of available for sale securities	1,109	13,108
Proceeds from maturities of and principal repayments on available for sale securities	23,063	31,786
Redemption of Federal Home Loan Bank stock	2,776	325
Loan principal collections, net of originations	42,628	28,811
Purchases of loans	(38,643)	(20,115)
Net cash paid from acquisition of Newport Bancorp, Inc.	—	(8,935)
Proceeds from sales of loans held for investment	—	3,189
Proceeds from sales of other real estate owned	1,109	1,255
Purchases of premises and equipment	(2,134)	(1,868)
Net cash provided by investing activities	5,282	6,693

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Concluded)
(In Thousands / Unaudited)

	Nine Months Ended September 30, 2014	2013
Cash flows from financing activities:		
Net increase in deposits	13,090	7,971
Net decrease in mortgagors' and investors' escrow accounts	(1,420)	(1,738)
Proceeds from Federal Home Loan Bank advances	10,000	40,000
Repayments of Federal Home Loan Bank advances	(32,203)	(44,000)
Excess tax benefit from share-based compensation	4	4
Cash dividends on common stock	(1,107)	(860)
Stock options exercised	552	15
Common shares repurchased	(761)	(9)
Net cash provided by (used in) financing activities	(11,845)	1,383
Net change in cash and cash equivalents	6,297	14,659
Cash and cash equivalents at beginning of period	27,321	37,689
Cash and cash equivalents at end of period	$33,618	$52,348
Supplemental cash flow information:		
Interest paid	$6,234	$6,146
Income taxes paid, net	(555)	1,312
Transfer of loans to other real estate owned	108	1,407

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013 AND DECEMBER 31, 2013

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

SI Financial Group, Inc. (the “Company”) is the holding company for Savings Institute Bank and Trust Company (the “Bank”). Established in 1842, the Bank is a community-oriented financial institution headquartered in Willimantic, Connecticut. The Bank provides a variety of financial services to individuals, businesses and municipalities through its twenty-six offices in eastern Connecticut and Rhode Island. Its primary products include savings, checking and certificate of deposit accounts, residential and commercial mortgage loans, commercial business loans and consumer loans. In addition, wealth management services, which include trust, financial planning, life insurance and investment services, are offered to individuals and businesses through the Bank’s offices. The Company does not conduct any material business other than owning all of the stock of the Bank and making payments on the subordinated debentures held by the Company.

On September 6, 2013, the Company acquired Newport Bancorp, Inc. ("Newport"), and its wholly-owned subsidiary, Newport Federal Savings Bank. The acquisition added six full-service banking offices in eastern Connecticut and Rhode Island.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, the Bank, and the Bank’s wholly-owned subsidiaries, SI Mortgage Company and SI Realty Company, Inc. All significant intercompany accounts and transactions have been eliminated.

Basis of Financial Statement Presentation

The interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, with the instructions to Form 10-Q and Rule 10.01 of Regulation S-X of the Securities and Exchange Commission (“SEC”) and general practices within the banking industry. Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been omitted. Information in the accompanying interim consolidated financial statements and notes to the financial statements of the Company as of September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013 is unaudited. These unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited financial statements of the Company and the accompanying notes for the year ended December 31, 2013 contained in the Company’s Form 10-K.

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial condition, results of operations and cash flows as of and for the periods covered herein. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the operating results for the year ending December 31, 2014 or for any other period.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the balance sheets and reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairment ("OTTI") of securities, deferred income taxes and the impairment of long-lived assets.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013 AND DECEMBER 31, 2013

Reclassifications
Amounts in the Company’s prior year consolidated financial statements are reclassified to conform to the current year presentation. Such reclassifications have no effect on net income.

Loans Receivable
Loans receivable are stated at current unpaid principal balances, net of the allowance for loan losses and deferred loan origination fees and costs. Management has the ability and intent to hold its loans receivable for the foreseeable future or until maturity or pay-off.

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the 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. Impairment is measured on a loan by loan basis for residential and commercial mortgage loans and commercial business loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not typically identify individual consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring ("TDR") agreement.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and concessions have been made to the original contractual terms, such as reductions of interest rates or deferral of interest or principal payments due to the borrower’s financial condition, the modification is considered a TDR.

Management considers all nonaccrual loans, with the exception of certain consumer loans, to be impaired. Also, all TDRs are initially classified as impaired. In most cases, loan payments less than 90 days past due are considered minor collection delays and the related loans are generally not considered impaired.

Allowance for Loan Losses
The allowance for loan losses, a material estimate which could change significantly in the near-term, is established through a provision for loan losses charged to earnings to account for losses that are inherent in the loan portfolio and estimated to occur, and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Loan losses are charged against the allowance for loan losses when management believes that the uncollectibility of the principal loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses when received. In the determination of the allowance for loan losses, management may obtain independent appraisals for significant properties, if necessary.

Management's judgment in determining the adequacy of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is evaluated on a monthly basis by management and is based on the evaluation of the known and inherent risk characteristics and size and composition of the loan portfolio, the assessment of current economic and real estate market conditions, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, historical loan loss experience, the level and trends of nonperforming loans, delinquencies, classified assets and loan charge-offs and evaluations of loans and other relevant factors.

The allowance for loan losses consists of the following key elements:

- Specific allowance for identified impaired loans. For loans that are identified as impaired, an allowance is established when the present value of expected cash flows (or observable market price of the loan or fair

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value of the collateral if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan.

- General valuation allowance. The general component represents a valuation allowance on the remainder of the loan portfolio, after excluding impaired loans. For this portion of the allowance, loans are segregated by category and assigned an allowance percentage based on historical loan loss experience adjusted for qualitative factors stratified by the following loan segments: residential one- to four-family, multi-family and commercial real estate, construction, commercial business and consumer. Management uses a rolling average of historical losses based on the time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies, classified loans, nonaccrual loans, troubled debt restructurings and other loan modifications; trends in nature, volume and terms of loans; existence and effect of/or changes in the level of credit concentrations; effects of changes in lending policies, procedures and practices, including underwriting standards and collection, charge-off and recovery practices; changes in the quality of loan review and degree of oversight; experience, ability and depth of lending management and staff; national, regional and local economic trends and conditions and impact on the value of underlying collateral for collateral dependent loans; effect of external factors, including legal and regulatory requirements.

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

Residential – One- to Four-Family – The Bank primarily originates conventional loans with loan-to-value ratios less than 95% and generally originates loans with loan-to-value ratios in excess of 80% only when secured by first liens on owner-occupied one- to four-family residences. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Multi-family and Commercial – Loans in this segment are originated for the purpose of acquiring, developing, improving or refinancing multi-family and commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Payments on loans secured by income-producing properties often depend on the successful operation and management of the properties. Management continually monitors the cash flows of these loans.

Construction – This segment includes loans to individuals, and to a lesser extent builders, to finance the construction of residential dwellings. The Bank also originates construction loans for commercial development projects. Upon the completion of construction, the loan generally converts to a permanent mortgage loan. Credit risk is affected by cost overruns, correct estimates of the sale price of the property, time to sell at an adequate price and market conditions.

Commercial Business – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy and reduced viability of the industry in which the customer operates will have a negative impact on the credit quality in this segment. The

Bank also provides loans to investors in the time share industry, which are secured by consumer receivables, and provides loans for capital improvements to condominium associations, which are secured by the assigned rights to levy special assessments to condominium owners.

Consumer – Loans in this segment primarily include home equity lines of credit (representing both first and second liens), indirect automobile loans and, to a lesser extent, loans secured by marketable securities, passbook or certificate accounts, motorcycles, automobiles and recreational vehicles, as well as unsecured loans. 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.

In computing the allowance for loan losses, we do not assign a general valuation allowance to the Small Business Administration (“SBA”) and United States Department of Agriculture (“USDA”) loans that we purchase as such loans are fully guaranteed. These loans are included in commercial business loans. See Note 4 for details.

The majority of the Company's loans are collateralized by real estate located in eastern Connecticut and Rhode Island. To a lesser extent, certain commercial real estate loans are secured by collateral located outside of our primary market area. Accordingly, the collateral value of a substantial portion of the Company's loan portfolio and real estate acquired through foreclosure is susceptible to changes in local market conditions.

Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and the Company’s results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while management believes it has established the allowance for loan losses in conformity with GAAP, our regulators, in reviewing the loan portfolio, may request us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate or increases may be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses would adversely affect the Company’s financial condition and results of operations.

Interest and Fees on Loans

Interest on loans is accrued and included in net interest income based on contractual rates applied to principal amounts outstanding. Accrual of interest is discontinued when loan payments are 90 days or more past due, based on contractual terms, or when, in the judgment of management, collectibility of the loan or loan interest becomes uncertain. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectibility of the remaining interest and principal. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt and the borrower has made regular payments in accordance with the terms of the loan over a period of at least six months. Interest collected on nonaccrual loans is recognized only to the extent cash payments are received, and may be recorded as a reduction to principal if the collectibility of the principal balance of the loan is unlikely.

Loan origination fees, direct loan origination costs and loan purchase premiums are deferred, and the net amount is recognized as an adjustment of the related loan's yield utilizing the interest method over the contractual life of the loan. In addition, discounts related to fair value adjustments for loans receivable acquired in a business combination or asset purchase are accreted into earnings over the contractual term as an adjustment of the loan's yield. The Company periodically evaluates the cash flows expected to be collected for loans acquired with deteriorated credit quality. Changes in the expected cash flows compared to the expected cash flows as of the date of acquisition may impact the accretable yield or result in a charge to the provision for loan losses to the extent of a shortfall.

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