FIRST NORTHERN COMMUNITY BANCORP
Form 10-Q
November 06, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark one)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 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 Number 000-30707

First Northern Community Bancorp
(Exact name of registrant as specified in its charter)

California	68-0450397
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

195 N. First Street, Dixon, California	95620
(Address of principal executive offices)	(Zip Code)

707-678-3041
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 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 (as defined by Rule 12b-2 of the Exchange Act). 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 (Do not check if a smaller reporting company) Smaller reporting company

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

Yes No

The number of shares of Common Stock outstanding as of October 30, 2015 was 10,253,729.
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PART I – FINANCIAL INFORMATION

FIRST NORTHERN COMMUNITY BANCORP

ITEM I. – FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except shares and per share amounts)	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$261,314	$216,192
Certificate of deposits	11,937	12,860
Investment securities – available-for-sale	134,582	151,226
Loans, net of allowance for loan losses of $9,360 at September 30, 2015 and $8,583 at December 31, 2014	591,503	537,979
Loans held-for-sale	1,241	491
Stock in Federal Home Loan Bank and other equity securities, at cost	3,934	3,934
Premises and equipment, net	7,015	7,278
Other real estate owned	-	736
Interest receivable and other assets	26,150	27,188
Total Assets	$1,037,676	$957,884
Liabilities and Stockholders' Equity		
Liabilities:		
Demand deposits	$316,780	$287,717
Interest-bearing transaction deposits	245,296	219,396
Savings and MMDA's	286,219	263,766
Time, under $250,000	62,624	65,570
Time, $250,000 and over	20,429	20,603
Total deposits	931,348	857,052
Interest payable and other liabilities	9,304	8,781
Total Liabilities	940,652	865,833
Stockholders' Equity:		
Preferred stock, no par value; $1,000 per share liquidation preference, 22,847 shares authorized; 12,847 shares issued and outstanding at September 30, 2015 and December 31, 2014	12,847	12,847
Common stock, no par value; 16,000,000 shares authorized; 10,255,907 shares issued and outstanding at September 30, 2015 and 10,207,043 shares issued and outstanding at December 31, 2014	70,278	70,015
Additional paid-in capital	977	977
Retained earnings	13,144	8,146
Accumulated other comprehensive (loss) income, net	(222)	66

Total Stockholders' Equity	97,024	92,051
Total Liabilities and Stockholders' Equity	$1,037,676	$957,884

See notes to unaudited condensed consolidated financial statements.

FIRST NORTHERN COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Interest and dividend income:				
Loans	$ 7,480	$ 6,717	$ 21,280	$ 19,795
Due from banks interest bearing accounts	145	132	465	411
Investment securities				
Taxable	631	741	2,066	2,232
Non-taxable	68	85	198	282
Other earning assets	97	77	395	205
Total interest and dividend income	8,421	7,752	24,404	22,925
Interest expense:				
Deposits	271	312	857	973
Total interest expense	271	312	857	973
Net interest income	8,150	7,440	23,547	21,952
Provision for loan losses	300	400	650	1,600
Net interest income after provision for loan losses	7,850	7,040	22,897	20,352
Non-Interest income:				
Service charges on deposit accounts	502	599	1,515	1,689
Gains on sales of loans held-for-sale	180	179	605	456
Investment and brokerage services income	154	158	449	479
Mortgage brokerage income	5	9	28	15
Loan servicing income	165	145	476	366
Fiduciary activities income	127	121	384	457
Debit card income	524	632	1,528	1,518
Gains on sales/calls of available-for-sale securities	29	53	29	53
Other income	155	208	580	647
Total non-interest income	1,841	2,104	5,594	5,680
Non-Interest expenses:				
Salaries and employee benefits	4,272	4,031	12,776	11,556
Occupancy and equipment	690	728	2,096	2,186
Data processing	410	434	1,257	1,265
Stationery and supplies	76	81	276	255
Advertising	67	84	239	257
Directors' fees	78	68	215	190
Other real estate owned (income) expense, net	(24)	65	-	106
Gains on sales of other real estate owned	(55)	-	(216)	-
(Recovery) impairment on other interest earning asset	(12)	-	(12)	50
Other expense	1,393	1,301	4,049	3,880
Total non-interest expenses	6,895	6,792	20,680	19,745
Income before provision for income taxes	2,796	2,352	7,811	6,287
Provision for income taxes	977	782	2,705	2,014
Net income	$ 1,819	$ 1,570	$ 5,106	$ 4,273

Preferred stock dividends	$ (32)	$ (33)	$ (96)	$ (97)
Net income available to common shareholders	$ 1,787	$ 1,537	$ 5,010	$ 4,176
Basic earnings per common share	$ 0.18	$ 0.15	$ 0.49	$ 0.41
Diluted earnings per common share	$ 0.17	$ 0.15	$ 0.49	$ 0.41

See notes to unaudited condensed consolidated financial statements.

FIRST NORTHERN COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Net income	$ 1,819	$ 1,570	$ 5,106	$ 4,273
Other comprehensive (loss) income, net of tax:				
Unrealized holding gains (losses) arising during the period, net of tax effect of $4 and $(131) for the three months ended September 30, 2015 and September 30, 2014, respectively, and $(157) and $721 for the nine months ended September 30, 2015 and September 30, 2014, respectively	5	(196)	(238)	1,081
Less: reclassification adjustment due to gains realized on sales of securities, net of tax effect of $(12) and $(21) for the three months ended September 30, 2015 and September 30, 2014, respectively, and $(12) and $(21) for the nine months ended September 30, 2015 and September 30, 2014, respectively	(17)	(32)	(17)	(32)
Directors' and officer's retirements plan equity adjustments, net of tax effect of $0 for the three months ended September 30, 2015 and September 30, 2014, and $(22) and $0 for the nine months ended September 30, 2015 and September 30, 2014, respectively	-	-	(33)	-
Other comprehensive (loss) income	$ (12)	$ (228)	$ (288)	$ 1,049
Comprehensive income	$ 1,807	$ 1,342	$ 4,818	$ 5,322

See notes to unaudited condensed consolidated financial statements.

FIRST NORTHERN COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share data)

	Preferred Stock		Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	
	Shares	Amounts	Shares	Amounts	Capital	Earnings	(loss)	Total
Balance at December 31, 2014	12,847	$ 12,847	10,207,043	$ 70,015	$ 977	$ 8,146	$ 66	$ 92,051
Net income						5,106		5,106
Other comprehensive loss							(288)	(288)
Stock dividend adjustment			682	6		(6)		-
Dividend on preferred stock						(96)		(96)
Cash in lieu of fractional shares			(128)			(6)		(6)
Stock-based compensation and related tax benefit				173				173
Common shares issued related to restricted stock grants			28,901					-
Restricted stock forfeited			(312)					-
Stock options exercised			19,721	84				84
Balance at September 30, 2015	12,847	$ 12,847	10,255,907	$ 70,278	$ 977	$ 13,144	$ (222)	$ 97,024

See notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	(in thousands) Nine months ended September 30, 2015	Nine months ended September 30, 2014
Cash Flows From Operating Activities		
Net income	$5,106	$4,273
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	496	504
Accretion and amortization of investment securities premiums and discounts, net	1,545	1,554
Decrease (increase) in deferred loan origination costs, net	295	(139)
Provision for loan losses	650	1,600
Stock based compensation	173	139
Gains on calls/sales of available-for-sale securities	(29)	(53)
Impairment on other interest earning assets	-	50
Gains on sales of other real estate owned	(216)	-
Impairment on other real estate owned	-	48
Gains on sales of loans held-for-sale	(605)	(456)
Proceeds from sales of loans held-for-sale	34,231	21,309
Originations of loans held-for-sale	(34,376)	(20,848)
Changes in assets and liabilities:		
Decrease in interest receivable and other assets	1,229	844
Net increase (decrease) in interest payable and other liabilities	468	(963)
Net cash provided by operating activities	8,967	7,862
Cash Flows From Investing Activities		
Proceeds from call or maturities of available-for-sale securities	4,540	14,362
Proceeds from sales of available-for-sale securities	17,798	12,140
Principal repayments on available-for-sale securities	19,628	16,070
Purchase of available-for-sale securities	(27,262)	(12,844)
Net decrease in certificate of deposits	923	435
Net increase in loans	(54,876)	(19,869)
Net increase in stock in Federal Home Loan Bank and other equity securities, at cost	-	(267)
Proceeds from sale of other real estate owned	1,359	414
Purchases of premises and equipment, net	(233)	(382)
Net cash (used in) provided by investing activities	(38,123)	10,059
Cash Flows From Financing Activities		
Net increase in deposits	74,296	51,991
Cash dividends paid in lieu of fractional shares	(6)	(6)
Stock options exercised	84	-
Cash dividends paid on preferred stock	(96)	(97)
Net cash provided by financing activities	74,278	51,888
Net increase in Cash and Cash Equivalents	45,122	69,809
Cash and Cash Equivalents, beginning of period	216,192	165,447

Cash and Cash Equivalents, end of period	$261,314	$235,256
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$840	$958
Income taxes	$2,525	$1,213
Supplemental disclosures of non-cash investing and financing activities:		
Stock dividend distributed	$3,103	$2,065
Transfer of loans held-for-investment to other real estate owned	$407	$462
Directors' & Officer's Retirement Plan Equity Adj, net of tax	$(33)	$-
Unrealized (losses) gains on available for sale securities, net of taxes	$(255)	$1,049

See notes to unaudited condensed consolidated financial statements.

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FIRST NORTHERN COMMUNITY BANCORP

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015 and 2014 and December 31, 2014

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of First Northern Community Bancorp (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Articles 9 and 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of results expected for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission. The preparation of financial statements in conformity with GAAP also 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 the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. All material intercompany balances and transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements:

In January 2014, FASB issued ASU 2014-01, Investments – Equity Method and Joint Ventures. The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Disclosures for a change in accounting principle are required upon transition. The amendments should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

In January 2014, FASB issued ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors. The amendments in this ASU clarify 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 (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) 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, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) 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 this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this ASU using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

In January 2014, FASB issued ASU 2014-05, Service Concession Arrangements. The amendments specify that an operating entity should not account for a service concession arrangement that is within the scope of this ASU as a lease in accordance with Topic 840. An operating entity should refer to other Topics as applicable to account for various aspects of a service concession arrangement. The amendments also specify that the infrastructure used in a service concession arrangement should not be recognized as property, plant, and equipment of the operating entity. The amendments in this ASU should be applied on a modified retrospective basis to service concession arrangements that exist at the beginning of an entity's fiscal year of adoption. The modified retrospective approach requires the cumulative effect of applying this ASU to arrangements existing at the beginning of the period of adoption to be recognized as an adjustment to the opening retained earnings balance for the annual period of adoption. The amendments are effective for a public business entity for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

In August 2014, FASB issued ASU 2014-14, Receivables- Troubled Debt Restructuring by Creditors: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The amendment affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are present:

The loan has a government guarantee that is not separable from the loan before foreclosure.

At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.

At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments are effective for a public business entity for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

In August 2014, FASB issued ASU 2014-15, Presentation of Financial Statements- Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendment defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for a public business entity for annual periods ending after December 15, 2016, and interim periods within those annual periods, beginning after December 15, 2016. The Company does not expect the adoption of this update to have a significant impact on the Company's consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. Effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not expect the adoption of this update to have a significant impact on the Company's consolidated financial statements.

In June 2015, FASB issued ASU 2015-10, Technical Corrections and Improvements. The amendments in ASU 2015-10 represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. In addition, some of the amendments are intended to make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon issuance. The Company does not expect the adoption of this update to have a significant impact on the Company's consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior period balances in order to conform to the current year presentation. There was no impact to the net income, earnings per share, or stockholders' equity as a result of reclassifications.

2. LOANS

The composition of the Company's loan portfolio, by loan class, is as follows:

($ in thousands)	September 30, 2015	December 31, 2014
Commercial	$ 129,614	$ 120,751
Commercial Real Estate	296,421	256,955
Agriculture	74,138	61,144
Residential Mortgage	42,666	50,511
Residential Construction	11,313	5,963
Consumer	45,679	49,911
	599,831	545,235
Allowance for loan losses	(9,360)	(8,583)
Net deferred origination costs	1,032	1,327
Loans, net	$ 591,503	$ 537,979

The Company manages asset quality and credit risk by maintaining diversification in its loan portfolio and through review processes that include analysis of credit requests and ongoing examination of outstanding loans and delinquencies, with particular attention to portfolio dynamics and loan mix. The Company strives to identify loans experiencing difficulty early enough to correct the problems, to record charge-offs promptly based on realistic assessments of collectability and current collateral values and to maintain an adequate allowance for loan losses at all times. Asset quality reviews of loans and other non-performing assets are administered using credit risk rating standards and criteria similar to those employed by state and federal banking regulatory agencies.

Commercial loans, whether secured or unsecured, generally are made to support the short-term operations and other needs of small businesses. These loans are generally secured by the receivables, equipment, and real property of the business and are susceptible to the related risks described above. Problem commercial loans are generally identified by periodic review of financial information that may include financial statements, tax returns, and payment history of the borrower. Based on this information, the Company may decide to take any of several courses of action including demand for repayment, requiring the borrower to provide a significant principal payment and/or additional collateral or requiring similar support from guarantors. Notwithstanding, when repayment becomes unlikely based on the borrower's income and cash flow, repossession or foreclosure of the underlying collateral may become necessary. Collateral values may be determined by appraisals obtained through Bank-approved, licensed appraisers, qualified independent third parties, purchase invoices, or other appropriate means.

Commercial real estate loans generally fall into two categories, owner-occupied and non-owner occupied. Loans secured by owner-occupied real estate are primarily susceptible to changes in the market conditions of the related business. This may be driven by, among other things, industry changes, geographic business changes, changes in the individual financial capacity of the business owner, general economic conditions and changes in business cycles. These same risks apply to commercial loans whether secured by equipment, receivables or other personal property or unsecured. Losses on loans secured by owner-occupied real estate, equipment, or other personal property generally are dictated by the value of underlying collateral at the time of default and liquidation of the collateral. When default is driven by issues related specifically to the business owner, collateral values tend to provide better repayment support and may result in little or no loss. Alternatively, when default is driven by more general economic conditions, underlying collateral generally has devalued more and results in larger losses due to default. Loans secured by non-owner occupied real estate are primarily susceptible to risks associated with swings in occupancy or vacancy and related shifts in lease rates, rental rates or room rates. Most often, these shifts are a result of changes in general economic or market conditions or overbuilding and resulting over-supply of space. Losses are dependent on the value of underlying collateral at the time of default. Values are generally driven by these same factors and influenced by interest rates and required rates of return as well as changes in occupancy costs. Collateral values may be determined by appraisals obtained through Bank-approved, licensed appraisers, qualified independent third parties, sales invoices, or other appropriate means.

Agricultural loans, whether secured or unsecured, generally are made to producers and processors of crops and livestock. Repayment is primarily from the sale of an agricultural product or payments for services. Agricultural loans are generally secured by inventory, receivables, equipment, and real property. Agricultural loans are susceptible to changes in market demand for specific commodities. This may be exacerbated by, among other things, industry changes, changes in the individual financial capacity of the business owner, general economic conditions and changes in business cycles, as well as adverse weather conditions, including drought conditions such as those affecting California. Problem agricultural loans are generally identified by periodic review of financial information that may include financial statements, tax returns, crop budgets, payment history, and crop inspections. Based on this information, the Company may decide to take any of several courses of action including demand for repayment, requiring the borrower to provide a significant principal payment and/or additional collateral or requiring similar support from guarantors. Notwithstanding, when repayment becomes unlikely based on the borrower's income and cash flow, repossession or foreclosure of the underlying collateral may become necessary.

Residential mortgage loans, which are secured by real estate, are primarily susceptible to four risks: non-payment due to diminished or lost income; over-extension of credit; a lack of borrower's cash flow to sustain payments; and shortfalls in collateral value. In general, non-payment is usually due to loss of employment and follows general economic trends in the economy, particularly the upward movement in the unemployment rate, loss of collateral value, and demand shifts.

Residential construction loans, whether owner-occupied or non-owner occupied residential development loans, are not only susceptible to the related risks described above but the added risks of construction, including cost over-runs, mismanagement of the project, or lack of demand and market changes experienced at time of completion. Losses are primarily related to underlying collateral value and changes therein as described above. Problem construction loans are generally identified by periodic review of financial information that may include financial statements, tax returns and payment history of the borrower. Based on this information the Company may decide to take any of several courses of action including demand for repayment, requiring the borrower to provide a significant principal payment and/or additional collateral or requiring similar support from guarantors, or repossession or foreclosure of the underlying collateral. Collateral values may be determined by appraisals obtained through Bank-approved, licensed appraisers, qualified independent third parties, purchase invoices, or other appropriate means.

Consumer loans, whether unsecured or secured are primarily susceptible to four risks: non-payment due to diminished or lost income; over-extension of credit; a lack of borrower's cash flow to sustain payments; and shortfall in the collateral value. In general, non-payment is usually due to loss of employment and will follow general economic trends in the economy, particularly upward movements in the unemployment rate, loss of collateral value, and demand shifts.

As of September 30, 2015, approximately 49% in principal amount of the Company's loans were secured by commercial real estate, consisting primarily of loans secured by commercial properties and construction and land development loans. Approximately 7% in principal amount of the Company's loans were residential mortgage loans. Approximately 2% in principal amount of the Company's loans were residential construction loans. Approximately 12% in principal amount of the Company's loans were for agriculture and 22% in principal amount of the Company's loans were for general commercial uses including professional, retail and small businesses. Approximately 8% in principal amount of the Company's loans were consumer loans.

Once a loan becomes delinquent and repayment becomes questionable, a Company collection officer will address collateral shortfalls with the borrower and attempt to obtain additional collateral or a principal payment. If this is not forthcoming and payment in full is unlikely, the Company will consider the loan to be collateral dependent and will estimate its probable loss, using a recent valuation as appropriate to the underlying collateral less estimated costs of sale, and charge-off the loan down to the estimated net realizable amount. Depending on the length of time until final collection, the Company may periodically revalue the underlying collateral and take additional charge-offs as warranted. Revaluations may occur as often as every 3-12 months depending on the underlying collateral and volatility of values. Final charge-offs or recoveries are taken when collateral is liquidated and actual loss is known. Unpaid balances on loans after or during collection and liquidation may also be pursued through legal action and attachment of wages or judgment liens on the borrower's other assets.

At September 30, 2015 and December 31, 2014, all loans were pledged under a blanket collateral lien to secure actual and potential borrowings from the Federal Home Loan Bank ("FHLB") and the Federal Reserve Bank.

Non-accrual and Past Due Loans

The Company's non-accrual loans by loan class, as of September 30, 2015 and December 31, 2014 were as follows:

($ in thousands)	September 30, 2015	December 31, 2014
Commercial	$ 129	$ 2,151
Commercial Real Estate	1,281	672
Agriculture	—	—
Residential Mortgage	575	1,691
Residential Construction	58	71
Consumer	563	652
	$ 2,606	$ 5,237

Non-accrual loans amounted to $2,606,000 at September 30, 2015 and were comprised of four commercial loans totaling $129,000, five commercial real estate loans totaling $1,281,000, three residential mortgage loans totaling $575,000, one residential construction loan totaling $58,000 and four consumer loans totaling $563,000. Non-accrual loans amounted to $5,237,000 at December 31, 2014 and were comprised of six residential mortgage loans totaling $1,691,000, two residential construction loans totaling $71,000, five commercial real estate loans totaling $672,000, seven commercial loans totaling $2,151,000, and five consumer loans totaling $652,000. It is generally the Company's policy to charge-off the portion of any non-accrual loan that the Company does not expect to collect by writing the loan down to the estimated net realizable value of the underlying collateral.

An age analysis of past due loans, segregated by loan class, as of September 30, 2015 and December 31, 2014, is as follows:

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due	Total Past Due	Current	Total Loans
September 30, 2015						
Commercial	$245	$—	$57	$302	$129,312	$129,614
Commercial Real Estate	—	136	774	910	295,511	296,421
Agriculture	—	—	—	—	74,138	74,138
Residential Mortgage	320	434	125	879	41,787	42,666
Residential Construction	464	65	—	529	10,784	11,313
Consumer	8	—	428	436	45,243	45,679
Total	$1,037	$635	$1,384	$3,056	$596,775	$599,831
December 31, 2014						
Commercial	$—	$—	$82	$82	$120,669	$120,751
Commercial Real Estate	—	—	239	239	256,716	256,955
Agriculture	—	—	—	—	61,144	61,144
Residential Mortgage	1,172	—	457	1,629	48,882	50,511
Residential Construction	—	—	—	—	5,963	5,963
Consumer	2	1	472	475	49,436	49,911
Total	$1,174	$1	$1,250	$2,425	$542,810	$545,235

The Company had no loans that were 90 days or more past due and still accruing at September 30, 2015 and December 31, 2014. Included in the aging loan category labeled "current" are non-accrual loans that were not delinquent with respect to contractual principal and interest payments as of September 30, 2015 and December 31, 2014. These loans are categorized as non-accrual loans and are not accruing interest as of September 30, 2015 and December 31, 2014. Non-accrual loans outstanding at September 30, 2015 and December 31, 2014 are disclosed in the table above.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Loans considered for impairment include non-accrual loans, troubled debt restructurings and loans with a risk rating of 6 (substandard) or worse. Once identified, impaired loans are measured individually for impairment using one of three methods: present value of expected cash flows discounted at the loan's effective interest rate; the loan's observable market price; and the fair value of collateral if the loan is collateral dependent. In general, any portion of the recorded investment in a collateral dependent loan in excess of the fair value of the collateral that can be identified as uncollectible, and is, therefore, deemed a confirmed loss, is promptly charged-off against the allowance for loan losses.

Impaired loans, segregated by loan class, as of September 30, 2015 and December 31, 2014 were as follows:

($ in thousands)	Unpaid Contractual Principal Balance	Recorded Investment with no Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
September 30, 2015					
Commercial	$ 973	$ 113	$ 846	$ 959	$ 51
Commercial Real Estate	1,578	1,281	297	1,578	42
Agriculture	—	—	—	—	—
Residential Mortgage	3,593	576	2,784	3,360	619
Residential Construction	987	58	802	860	114
Consumer	1,634	634	695	1,329	26
Total	$ 8,765	$ 2,662	$ 5,424	$ 8,086	$ 852
December 31, 2014					
Commercial	$ 2,803	$ 2,147	$ 531	$ 2,678	$ 39
Commercial Real Estate	990	672	304	976	45
Agriculture	—	—	—	—	—
Residential Mortgage	5,666	1,691	2,956	4,647	646
Residential Construction	1,065	71	826	897	107
Consumer	1,506	780	726	1,506	23
Total	$ 12,030	$ 5,361	$ 5,343	$ 10,704	$ 860

The average recorded investment in impaired loans and the amount of interest income recognized on impaired loans during the three months ended September 30, 2015 and September 30, 2014 was as follows:

($ in thousands)	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial	$1,840	$ 13	$2,993	$ 9
Commercial Real Estate	1,392	30	2,930	20
Agriculture	—	—	—	—
Residential Mortgage	3,587	38	5,293	32
Residential Construction	866	8	914	9

Consumer	1,351	10	1,500	11
Total	$9,036	$ 99		