INTERMOUNTAIN COMMUNITY BANCORP
Form 10-Q
November 14, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2013
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 000-50667
INTERMOUNTAIN COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

Idaho	82-0499463
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

414 Church Street, Sandpoint, ID 83864
(Address of principal executive offices) (Zip code)
Registrant's telephone number, including area code:
(208) 263-0505

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 þ 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 (§ 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 þ 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 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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
The number of shares outstanding of the registrant's Voting Common Stock, no par value per share, as of November 8, 2013 was 2,603,606 and the number of outstanding shares of Non-Voting Common Stock, no par value per share, was 3,839,688.

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PART I — Financial Information
Item - 1 Financial Statements
Intermountain Community Bancorp
Consolidated Balance Sheets
(Unaudited)

	September 30, 2013	December 31, 2012
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents:		
Interest-bearing	$17,795	$53,403
Non-interest bearing and vault	7,972	13,536
Restricted cash	12,236	13,146
Available-for-sale securities, at fair value	265,000	280,169
Held-to-maturity securities, at amortized cost	26,241	14,826
Federal Home Loan Bank (“FHLB”) of Seattle stock, at cost	2,228	2,269
Loans held for sale	721	1,684
Loans receivable, net	520,239	520,768
Accrued interest receivable	4,310	4,320
Office properties and equipment, net	35,420	35,453
Bank-owned life insurance ("BOLI")	9,725	9,472
Other real estate owned (“OREO”)	4,236	4,951
Prepaid expenses and other assets	17,641	18,142
Total assets	$923,764	$972,139
LIABILITIES		
Deposits	$711,072	$748,934
Securities sold subject to repurchase agreements	64,409	76,738
Advances from Federal Home Loan Bank	4,000	4,000
Unexercised stock warrant liability	1,004	828
Cashier checks issued and payable	3,174	2,024
Accrued interest payable	307	1,185
Other borrowings	16,527	16,527
Accrued expenses and other liabilities	8,321	7,469
Total liabilities	808,814	857,705
STOCKHOLDERS’ EQUITY		
Common stock 30,000,000 shares authorized; 2,603,606 and 2,603,674 shares issued and 2,603,606,and 2,603,132 shares outstanding as of September 30, 2013 and December 31, 2012, respectively	96,358	96,368
Common stock - non-voting 10,000,000 shares authorized; 3,839,688 and 3,839,688 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	31,941	31,941
Preferred stock, Series A, 27,000 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively; liquidation preference of $1,000 per share	26,894	26,527
Accumulated other comprehensive income (loss), net of tax	(331)	3,529
Accumulated deficit	(39,912)	(43,931)
Total stockholders’ equity	114,950	114,434
Total liabilities and stockholders’ equity	$923,764	$972,139

The accompanying notes are an integral part of the consolidated financial statements.

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Intermountain Community Bancorp
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Interest income:				
Loans	$6,802	$7,031	$20,406	$21,157
Investments	1,517	1,896	4,689	6,016
Total interest income	8,319	8,927	25,095	27,173
Interest expense:				
Deposits	471	736	1,542	2,302
Other borrowings	430	522	1,295	1,769
Total interest expense	901	1,258	2,837	4,071
Net interest income	7,418	7,669	22,258	23,102
Recovery of (provision for) losses on loans	82	(1,154)	(344)	(3,688)
Net interest income after provision for losses on loans	7,500	6,515	21,914	19,414
Other income:				
Fees and service charges	1,858	1,620	5,429	4,744
Loan related fee income	506	768	1,768	2,129
Net gain on sale of securities	180	—	384	585
Net gain (loss) on sale of other assets	(8)	(7)	(2)	15
Other-than-temporary impairment ("OTTI") losses on investments (1)	—	(34)	(63)	(357)
Bank-owned life insurance	83	86	252	260
Fair value adjustment on cash flow hedge	89	(6)	235	(300)
Unexercised warrant liability fair value adjustment	(179)	(49)	(177)	108
Other	(4)	174	149	572
Total other income	2,525	2,552	7,975	7,756
Operating expenses:				
Salaries and employee benefits	4,133	4,103	12,591	12,110
Occupancy	1,120	1,230	3,479	3,688
Technology	982	894	2,783	2,688
Advertising	194	178	488	459
Fees and service charges	88	141	267	466
Printing, postage and supplies	176	178	566	779
Legal and accounting	350	507	1,181	1,292
FDIC assessment	145	306	495	927
OREO operations	139	39	281	263
Other expenses	766	666	2,359	2,090
Total operating expenses	8,093	8,242	24,490	24,762
Net income before income taxes	1,932	825	5,399	2,408
Income tax expense	—	—	—	—
Net income	1,932	825	5,399	2,408
Preferred stock dividend	461	482	1,380	1,430
Net income applicable to common stockholders	$1,471	$343	$4,019	$978
Earnings per share — basic (1)	$0.23	$0.05	$0.62	$0.17
Earnings per share — diluted (1)	$0.23	$0.05	$0.62	$0.17

Weighted average common shares outstanding — basic (1)	6,443,294	6,441,986	6,443,193	5,593,487
Weighted average common shares outstanding — diluted (1)	6,497,886	6,458,227	6,488,094	5,610,026

(1) Consisting of $0, $0, $0, and $7 of total other-than-temporary impairment net losses, net of $0, $(34), $0 and $(81) recognized in other comprehensive income, for the three and nine months ended September 30, 2013 and September 30, 2012, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

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Intermountain Community Bancorp
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Net income	$1,932	$825	$5,399	$2,408
Other comprehensive income:				
Change in unrealized gains/losses on investments, and mortgage backed securities ("MBS") available for sale, excluding non-credit loss on impairment of securities	693	2,369	(6,070)	1,929
Realized net losses (gains) reclassified from other comprehensive income	(180)	—	(384)	(585)
Non-credit loss on impairment on available-for-sale debt securities	—	34	63	350
Less deferred income tax benefit (provision) on securities	203	(951)	2,531	(671)
Change in fair value of qualifying cash flow hedge, net of tax	—	—	—	330
Net other comprehensive income (loss)	716	1,452	(3,860)	1,353
Comprehensive income (loss)	$2,648	$2,277	$1,539	$3,761

The accompanying notes are an integral part of the consolidated financial statements.

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Intermountain Community Bancorp
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2013	2012
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$5,399	$2,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,778	1,993
Stock-based compensation expense	13	83
Net amortization of premiums on securities	4,747	4,143
Provisions for losses on loans	344	3,688
Amortization of core deposit intangibles	40	88
(Gain) on sale of loans, investments, property and equipment	(1,455)	(1,842)
Impact of hedge dedesignation and current fair value adjustment	(236)	296
OTTI credit loss on available-for-sale investments	63	357
OREO valuation adjustments	31	(19)
Accretion of deferred gain on sale of branch property	(11)	(11)
Net accretion of loan and deposit discounts and premiums	(5)	(10)
Increase in cash surrender value of bank-owned life insurance	(252)	(260)
Change in value of stock warrants	177	(108)
Change in:		
Accrued interest receivable	10	(441)
Prepaid expenses and other assets	2,968	1,848
Accrued interest payable and other liabilities	222	940
Accrued expenses and other cashiers checks	1,150	(215)
Proceeds from sale of loans originated for sale	45,279	59,517
Loans originated for sale	(43,231)	(57,774)
Net cash provided by operating activities	17,031	14,681
Cash flows from investing activities:		
Proceeds from redemption of FHLB Stock	41	21
Purchases of available-for-sale securities	(103,297)	(125,156)
Proceeds from sales, calls or maturities of available-for-sale securities	52,127	2,967
Principal payments on mortgage-backed securities	47,325	48,595
Purchases of held-to-maturity securities	(3,782)	—
Proceeds from sales, calls or maturities of held-to-maturity securities	563	1,401
Origination of loans, net of principal payments	(223)	(5,873)
Purchase of office properties and equipment	(1,772)	(349)
Proceeds from sale of other real estate owned	1,097	2,628
Proceeds from sale of office properties and equipment	12	16
Net change in restricted cash	911	(10,043)
Net cash used in investing activities	(6,998)	(85,793)
Cash flows from financing activities:		
Proceeds from issuance of series B preferred stock, gross	—	32,460
Proceeds from issuance of common stock, gross	—	22,532
Proceeds from issuance of warrant, gross	—	1,007
Capital issuance costs	—	(5,651)

Net change in demand, money market and savings deposits	(19,064)	23,267
Net change in certificates of deposit	(18,798)	(30,556)
Net change in repurchase agreements	(12,329)	(28,115)
Retirement of treasury stock	(1)	—
Payment of preferred stock dividend	(1,013)	—
Net cash provided by (used in) financing activities	(51,205)	14,944
Net change in cash and cash equivalents	(41,172)	(56,168)
Cash and cash equivalents, beginning of period	66,939	107,199
Cash and cash equivalents, end of period	$25,767	$51,031
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$3,714	$3,926
Noncash investing and financing activities:		
Loans converted to other real estate owned	$413	$1,595
Accrual of preferred stock dividend	$—	$1,148
Transfer from securities available-for-sale to securities held-to-maturity	$8,234	$—

The accompanying notes are an integral part of the consolidated financial statements.

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Intermountain Community Bancorp
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation:
The foregoing unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented.
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of Intermountain Community Bancorp’s (“Intermountain’s” or “the Company’s”) consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of Intermountain’s consolidated financial position and results of operations.
During the fourth quarter of 2012, the Company identified a misstatement related to the elimination of cash deposited by the parent company with the subsidiary bank. The misstatement increased the unrestricted cash and deposit balances in the Consolidated Balance Sheet and the amount of cash received from financing activities reported in the Consolidated Statement of Cash Flows for the quarters ended March 31, June 30 and September 30, 2012. In accordance with the SEC Staff Accounting Bulletin (SAB) No. 99, "Materiality," and SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," management evaluated the materiality of the error from qualitative and quantitative perspectives and concluded that the error was immaterial to these prior interim periods. Consequently, the Consolidated Balance Sheet and Consolidated Statement of Cash Flows contained in this Report have been revised for the nine months ended September 30, 2012. This change resulted in a corresponding decrease of $9.5 million from non-interest bearing and vault cash and deposit liabilities on the balance sheet and from cash flows from financing activities on the statement of cash flows. This change did not affect net income or shareholders' equity for any period.

2. Cash & Cash Equivalents:

The balances of the Company's cash and cash equivalents are as follows (in thousands):

	9/30/2013	12/31/2012
Unrestricted interest-bearing cash and cash equivalents	$ 17,795	$ 53,403
Unrestricted non interest-bearing and vault cash	$ 7,972	$ 13,536
Restricted non-interest bearing cash	$ 12,236	$ 13,146

In September 2013 and December 2012, unrestricted interest bearing cash was deposited at the Federal Reserve ("FRB") and Federal Home Loan Bank of Seattle ("FHLB"). Unrestricted non-interest bearing cash includes overnight cash deposited at several of the Company's correspondent banks and balances kept in the vaults of its various offices.
At September 30, 2013 restricted non-interest bearing cash consisted of the following:
- $1.1 million in reserve balances to meet FRB reserve requirements;
- $572,000 pledged to various correspondent banks to secure interest rate swap transactions and foreign currency exchange lines;

- $1.1 million held at the Company's subsidiary Bank to be used for future tenant improvements of the Sandpoint Center, as required by the agreement executed to sell the Sandpoint Center in 2009;
- $9.5 million held at the Company's subsidiary Bank as required by an intercompany agreement signed by the Company and the Bank as part of the Company's January 2012 capital raise, which represents a pledge of funds to the Bank to partially secure the loan made by the Bank to the third party who bought and subsequently leased the Sandpoint Center back to the Bank.

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At December 31, 2012, restricted cash consisted of $1.1 million to meet FRB reserve requirements, $572,000 to secure interest swap transactions, $877,000 deposited in escrow for the payment of deferred interest on the Company's Trust II debenture and foreign currency exchange lines, $1.1 million to fund future tenant improvements at the Sandpoint Center, and $9.5 million as required by the intercompany agreement discussed above.

3. Investments:

The amortized cost and fair values of investments are as follows (in thousands):

	Available-for-Sale				
	Amortized Cost	Cumulative Non-Credit OTTI (Losses) Recognized in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value/ Carrying Value
September 30, 2013					
Corporate Bonds	$6,012	$—	$—	$(14)	$5,998
State and municipal securities	50,376	—	610	(1,078)	49,908
Mortgage-backed securities - Agency Pass Throughs	60,282	—	930	(789)	60,423
Mortgage-backed securities - Agency CMO's	117,133	—	1,212	(1,226)	117,119
SBA Pools	23,872	—	521	(39)	24,354
Mortgage-backed securities - Non Agency CMO's (below investment grade)	7,614	(864)	624	(176)	7,198
	$265,289	$(864)	$3,897	$(3,322)	$265,000
December 31, 2012					
State and municipal securities	$60,984	$—	$2,823	$(158)	$63,649
Mortgage-backed securities - Agency Pass Throughs	71,821	—	2,224	(652)	73,393
Mortgage-backed securities - Agency CMO's	110,683	—	2,209	(328)	112,564
SBA Pools	19,962	—	359	—	20,321
Mortgage-backed securities - Non Agency CMO's (below investment grade)	10,889	(1,661)	1,401	(387)	10,242
	$274,339	$(1,661)	$9,016	$(1,525)	$280,169

	Held-to-Maturity				
	Carrying Value / Amortized Cost	Cumulative Non-Credit OTTI (Losses) Recognized in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013					
State and municipal securities	$26,241	$—	$1,237	$(19)	$27,459
December 31, 2012					
State and municipal securities	$14,826	$—	$1,518	$—	$16,344

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The following table summarizes the duration of Intermountain's unrealized losses on available-for-sale and held-to-maturity securities as of the dates indicated (in thousands).

	Less Than 12 Months		12 Months or Longer		Total	
September 30, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate Bonds	$3,998	$(14)	$—	$—	$3,998	$(14)
Residential mortgage-back securities	65,571	(1,567)	23,792	(624)	89,363	(2,191)
SBA Pools	4,420	(39)	—	—	4,420	(39)
State and municipal securities	30,949	(1,097)	—	—	30,949	(1,097)
Total	$104,938	$(2,717)	$23,792	$(624)	$128,730	$(3,341)
December 31, 2012	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-back securities	$57,180	$(785)	$11,408	$(582)	$68,588	$(1,367)
State and municipal securities	12,019	(158)	—	—	12,019	(158)
Total	$69,199	$(943)	$11,408	$(582)	$80,607	$(1,525)

At September 30, 2013, the amortized cost and fair value of available-for-sale and held-to-maturity debt securities, by contractual maturity, are as follows (in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$—	$—	$1,381	$1,422
After one year through five years	3,567	3,578	2,619	2,691
After five years through ten years	6,716	6,607	18,127	19,002
After ten years	46,105	45,721	4,114	4,344
Subtotal	56,388	55,906	26,241	27,459
Mortgage-backed securities	185,029	184,740	—	—
SBA Pools	23,872	24,354	—	—
Total Securities	$265,289	$265,000	$26,241	$27,459

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Intermountain's investment portfolios are managed to provide and maintain liquidity; to maintain a balance of high quality, diversified investments to minimize risk; to offset other asset portfolio elements in managing interest rate risk; to provide collateral for pledging; and to maximize returns. At September 30, 2013, the Company does not intend to sell any of its available-for-sale securities that have a loss position and it is not likely that it will be required to sell the available-for-sale securities before the anticipated recovery of their remaining amortized cost or maturity date. The unrealized losses on residential mortgage-backed securities without other-than-temporary impairment ("OTTI") were considered by management to be temporary in nature.

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The following table presents the OTTI losses for the nine months ended September 30, 2013 and 2012:

	2013		2012	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total other-than-temporary impairment losses	$—	$—	$—	$7
Portion of other-than-temporary impairment losses transferred from other comprehensive income (1)	—	63	—	350
Net impairment losses recognized in earnings (2)	$—	$63	$—	$357

(1) Represents other-than-temporary impairment losses related to all other factors.
(2) Represents other-than-temporary impairment losses related to credit losses.

The OTTI recognized on investment securities available for sale in 2013 relates to one non-agency collateralized mortgage obligation. Another security for which OTTI had been recognized in 2012 was sold in the first quarter of 2013. Each of these securities held various levels of credit subordination. These securities were valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimated the cash flows of the underlying collateral for each security considering credit, interest and prepayment risk models that incorporate management's estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as underlying loan interest rates, geographic location, borrower characteristics, vintage, and historical experience. We then used a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows were then discounted at the interest rate equal to the yield anticipated at the time the security was purchased. We review the actual collateral performance of these securities on a quarterly basis and update the inputs as appropriate to determine the projected cash flows.

On June 30, 2013, six securities with an amortized cost of $8,512,039 were transferred from the available-for-sale category to the held-to-maturity category of the portfolio. The fair market value of the securities at the time of transfer was $8,234,244. The unrealized loss of $277,795 will continue to be reported as a component of accumulated other comprehensive income, net of tax, and amortized over the remaining life of the securities as an adjustment to yield. Upon transfer to the held-to-maturity category, premium and discount accounts were adjusted to reflect the fair market value of the security. The resulting premiums and discounts will also be amortized as an adjustment to yield.

See Note 9 "Fair Value of Financial Instruments" for more information on the calculation of fair or carrying value for the investment securities.

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4. Loans and Allowance for Loan Losses:
The components of loans receivable are as follows (in thousands):

	September 30, 2013			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$111,238	21.1 %	$4,223	$107,015
Commercial real estate	185,116	35.1	1,800	183,316
Commercial construction	6,305	1.2	—	6,305
Land and land development loans	34,172	6.5	2,856	31,316
Agriculture	97,453	18.4	5,081	92,372
Multifamily	15,802	3.0	—	15,802
Residential real estate	61,185	11.6	3,138	58,047
Residential construction	1,721	0.3	—	1,721
Consumer	9,084	1.7	63	9,021
Municipal	6,107	1.1	—	6,107
Total loans receivable	528,183	100.0 %	$17,161	$511,022
Allowance for loan losses	(8,030)			
Deferred loan fees, net of direct origination costs	86			
Loans receivable, net	$520,239			
Weighted average interest rate	5.22 %			

	December 31, 2012			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$121,307	23.0 %	$6,133	$115,174
Commercial real estate	186,844	35.4	3,373	183,471
Commercial construction	3,832	0.7	—	3,832
Land and land development loans	31,278	5.9	2,023	29,255
Agriculture	85,967	16.3	2,134	83,833
Multifamily	16,544	3.1	—	16,544
Residential real estate	60,020	11.3	2,362	57,658
Residential construction	940	0.2	—	940
Consumer	9,626	1.8	168	9,458
Municipal	12,267	2.3	—	12,267
Total loans receivable	528,625	100.0 %	$16,193	$512,432
Allowance for loan losses	(7,943)			
Deferred loan fees, net of direct origination costs	86			
Loans receivable, net	$520,768			
Weighted average interest rate	5.28 %			

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The components of the allowance for loan loss by types are as follows (in thousands):

	September 30, 2013		
	Total Allowance	Individually Evaluated Allowance	Collectively Evaluated Allowance
Commercial	$1,764	$210	$1,554
Commercial real estate	2,514	273	2,241
Commercial construction	154	—	154
Land and land development loans	1,206	282	924
Agriculture	928	288	640
Multifamily	35	—	35
Residential real estate	1,255	552	703
Residential construction	38	—	38
Consumer	107	19	88
Municipal	29	—	29
Total	$8,030	$1,624	$6,406

	December 31, 2012		
	Total Allowance	Individually Evaluated Allowance	Collectively Evaluated Allowance
Commercial	$2,156	$628	$1,528
Commercial real estate	2,762	267	2,495
Commercial construction	101	—	101
Land and land development loans	1,197	114	1,083
Agriculture	228	10	218
Multifamily	51	—	51
Residential real estate	1,144	458	686
Residential construction	24	—	24
Consumer	202	87	115
Municipal	78	—	78
Total	$7,943	$1,564	$6,379

A summary of current, past due and nonaccrual loans as of September 30, 2013 is as follows, (in thousands):

	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Nonaccrual	Total
Commercial	$109,190	$982	$42	$1,024	$111,238
Commercial real estate	184,710	145	—	261	185,116
Commercial construction	6,305	—	—	—	6,305
Land and land development loans	33,724	256	—	192	34,172
Agriculture	96,852	74	—	527	97,453
Multifamily	15,802	—	—	—	15,802
Residential real estate	60,275	109	—	801	61,185
Residential construction	1,721	—	—	—	1,721
Consumer	9,078	3	—	3	9,084
Municipal	6,107	—	—	—	6,107

Total	$523,764	$1,569	$42	$2,808	$528,183

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A summary of current, past due and nonaccrual loans as of December 31, 2012 is as follows, (in thousands):

	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Nonaccrual	Total
Commercial	$117,096	$169	$—	$4,042	$121,307
Commercial real estate	185,128	—	—	1,716	186,844
Commercial construction	3,832	—	—	—	3,832
Land and land development loans	31,032	—	—	246	31,278
Agriculture	85,835	34	—	98	85,967
Multifamily	16,544	—	—	—	16,544
Residential real estate	59,158	439	—	423	60,020
Residential construction	940	—	—	—	940
Consumer	9,577	45	—	4	9,626
Municipal	12,267	—	—	—	12,267
Total	$521,409	$687	$—	$6,529	$528,625

The following table provides a summary of Troubled Debt Restructurings ("TDR") outstanding at period end by performing status, (in thousands).

	September 30, 2013			December 31, 2012		
	Nonaccrual	Accrual	Total	Nonaccrual	Accrual	Total
Commercial	$40	$1,530	$1,570	$1,900	$277	$2,177
Commercial real estate	—	738	738	1,463	956	2,419
Land and land development loans	48	2,472	2,520	—	1,327	1,327
Agriculture	—	3,241	3,241	—	291	291
Residential real estate	—	1,152	1,152	—	417	417
Consumer	—	11	11	—	88	88
Total	$88	$9,144	$9,232	$3,363	$3,356	$6,719

The Company's loans that were modified in the three and nine month period ended September 30, 2013 and 2012 and considered a TDR are as follows (dollars in thousands):

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	6	$ 258	$ 258	12	$ 1,415	$ 1,415
Commercial real estate	1	48	48	5	439	439
Land and land development loans	—	—	—	4	1,685	1,685
Agriculture	—	—	—	4	1,216	1,215
Residential real estate	—	—	—	3	265	208
Consumer	—	—	—	—	—	—
	7	$ 306	$ 306	28	$ 5,020	$ 4,962

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	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	—	$ —	$ —	1	$ 75	$ 75
Commercial real estate	—	—	—	1	100	100
Land and land development loans	1	38	38	1	38	38
Agriculture	—	—	—	1	110	110
Residential real estate	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
	1	$ 38	$ 38	4	$ 323	$ 323

The balances below provide information as to how the loans were modified as TDRs during the three and nine months ended September 30, 2013 and 2012, (in thousands).

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Adjusted Interest Rate Only	Other*	Adjusted Interest Rate Only	Other*
Commercial	$—	$258	$—	$1,415
Commercial real estate	48	—	48	391
Land and land development loans	—	—	1,386	299
Agriculture	—	—	851	364
Residential real estate	—	—	188	20
Consumer	—	—	—	—
	$48	$258	$2,473	$2,489

(*) Other includes term or principal concessions or a combination of concessions, including interest rates.

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Adjusted Interest Rate Only	Other*	Adjusted Interest Rate Only	Other*
Commercial	$—	$—	$75	$—
Commercial real estate	—	—	—	100
Land and land development loans	38	—	38	—
Agriculture	—	—	110	—
	$38	$—	$223	$100

(*) Other includes term or principal concessions or a combination of concessions, including interest rates.

As of September 30, 2013, the Company had specific reserves of $531,000 on TDRs, and there were no TDRs in default.

The allowance for loan losses and reserve for unfunded commitments are maintained at levels considered adequate by management to provide for probable loan losses as of the reporting dates. The allowance for loan losses and reserve for unfunded commitments are based on management's assessment of various factors affecting the loan portfolio, including problem loans, business conditions and loss experience, and an overall evaluation of the quality of the underlying collateral. Changes in the allowance for loan losses and the reserve for unfunded commitments during the three and nine month periods ended September 30, 2013 and 2012 are as follows:

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	Allowance for Loan Losses for the three months ended September 30, 2013				
	Balance, Beginning of Quarter	Charge-Offs Jul 1 through Sept 30, 2013	Recoveries Jul 1 through Sept 30, 2013	Provision	Balance, End of Quarter
	(Dollars in thousands)				
Commercial	$1,900	$(37)	$151	$(250)	$1,764
Commercial real estate	2,736	—	49	(271)	2,514
Commercial construction	231	—	—	(77)	154
Land and land development loans	956	(49)	7	292	1,206
Agriculture	692	—	12	224	928
Multifamily	54	—	—	(19)	35
Residential real estate	1,195	(40)	11	89	1,255
Residential construction	44	—	1	(7)	38
Consumer	203	(81)	46	(61)	107
Municipal	31	—	—	(2)	29
Allowance for loan losses	$8,042	$(207)	$277	$(82)	$8,030

	Allowance for Loan Losses for the nine months ended September 30, 2013				
	Balance, Beginning of Year	Charge-Offs Jan 1 through Sept 30, 2013	Recoveries Jan 1 through Sept 30, 2013	Provision	Balance, End of Period
	(Dollars in thousands)				
Commercial	$2,156	$(258)	$639	$(773)	$1,764
Commercial real estate	2,762	(614)	76	290	2,514
Commercial construction	101	—	15	38	154
Land and land development loans	1,197	(186)	71	124	1,206
Agriculture	228	—	53	647	928
Multifamily	51	—	—	(16)	35
Residential real estate	1,144	(80)	81	110	1,255
Residential construction	24	—	1	13	38
Consumer	202	(191)	136	(40)	107
Municipal	78	—	—	(49)	29
Allowance for loan losses	$7,943	$(1,329)	$1,072	$344	$8,030

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	Allowance for Loan Losses for the three months ended September 30, 2012				
	Balance, Beginning of Quarter	Charge-Offs Jul 1 through Sept 30, 2012	Recoveries Jul 1 through Sept 30, 2012	Provision	Balance, End of Quarter
	(Dollars in thousands)				
Commercial	$2,429	$(403)	$39	$1,008	$3,073
Commercial real estate	4,032	(1,577)	239	34	2,728
Commercial construction	94	—	3	(30)	67
Land and land development loans	1,565	(64)	7	146	1,654
Agriculture	207	—	23	(43)	187
Multifamily	57	—	—	(1)	56
Residential real estate	1,601	(506)	12	(65)	1,042
Residential construction	4	—	—	9	13
Consumer	201	(100)	27	70	198
Municipal	43	—	—	27	70
Allowances for loan losses	$10,233	$(2,650)	$350	$1,155	$9,088

	Allowance for Loan Losses for the nine months ended September 30, 2012				
	Balance, Beginning of Year	Charge-Offs Jan 1 through Sept 30, 2012	Recoveries Jan 1 through Sept 30, 2012	Provision	Balance, End of Period
	(Dollars in thousands)				
Commercial	$2,817	$(2,160)	$369	$2,047	$3,073
Commercial real estate	4,880	(3,555)	453	950	2,728
Commercial construction	500	(243)	8	(198)	67
Land and land development loans	2,273	(1,247)	275	353	1,654
Agriculture	172	(32)	92	(45)	187
Multifamily	91	—	—	(35)	56
Residential real estate	1,566	(1,171)	126	521	1,042
Residential construction	59	—	7	(53)	13
Consumer	295	(355)	142	116	198
Municipal	37	—	—	33	70
Allowance for loan losses	$12,690	$(8,763)	$1,472	$3,689	$9,088

Allowance for Unfunded Commitments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beginning of period	$15	$15	$15	$13
Adjustment	—	(2)	—	—
Allowance — Unfunded Commitments at end of period	$15	$13	$15	$13

Management's policy is to charge off loans or portions of loans as soon as an identifiable loss amount can be determined from evidence obtained, such as current cash flow information, updated appraisals or similar real estate evaluations, equipment, inventory or similar collateral evaluations, accepted offers on loan sales or negotiated discounts, and/or guarantor asset valuations. In situations where problem loans are dependent on collateral liquidation for repayment, management obtains updated independent valuations, such as appraisals or broker opinions, generally no less frequently than once every twelve months and more frequently for larger or more troubled loans. In the time period between these independent valuations, the Company monitors market conditions for any significant event or events that would materially change the valuations, and updates them as appropriate. If the valuations

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suggest an increase in collateral values, the Company does not recover prior amounts charged off until the assets are actually sold and the increase realized. However, if the updated valuations suggest additional loss, the Company charges off the additional amount.

The following tables summarize impaired loans:

	Impaired Loans					
	September 30, 2013			December 31, 2012		
	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Principal Balance	Related Allowance
	(Dollars in thousands)					
With an allowance recorded:						
Commercial	$1,041	$1,223	$210	$1,796	$1,964	$628
Commercial real estate	942	1,133	273	1,315	1,486	267
Land and land development loans	1,150	1,154	282	1,601	1,627	114
Agriculture	288	288	288	31	31	10
Residential real estate	1,678	1,687	552	1,240	1,243	458
Consumer	33	34	19	138	140	87
Total	$5,132	$5,519	$1,624	$6,121	$6,491	$1,564
Without an allowance recorded:						
Commercial	$3,182	$4,042	$—	$4,337	$6,273	$—
Commercial real estate	858	988	—	2,058	3,178	—
Land and land development loans	1,706	1,858	—	422	493	—
Agriculture	4,793	4,812	—	2,103	2,103	—
Residential real estate	1,460	1,513	—	1,122	1,254	—
Consumer	30	49	—	30	48	—
Total	$12,029	$13,262	$—	$10,072	$13,349	$—
Total:						
Commercial	$4,223	$5,265	$210	$6,133	$8,237	$628
Commercial real estate	1,800	2,121	273	3,373	4,664	267
Land and land development loans	2,856	3,012				