WINNEBAGO INDUSTRIES INC
Form 4
September 02, 2005

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
ENGLAND JOSEPH W

(Last) (First) (Middle)

WINNEBAGO INDUSTRIES INC, PO BOX 152

(Street)

FOREST CITY, IA 50436

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WINNEBAGO INDUSTRIES INC [WGO]

3. Date of Earliest Transaction (Month/Day/Year)
08/31/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. Price of Derivat

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)		Securit (Instr.
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Winnebago Stock Units (1)	(1)	08/31/2005		A		85 (2)		(1)	(1)	Common Stock	85 (2)	$ 30.4

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ENGLAND JOSEPH W WINNEBAGO INDUSTRIES INC PO BOX 152 FOREST CITY, IA 50436	X			

Signatures

/s/ Raymond M. Beebe, Secretary, Winnebago Industries, Inc. under Power of Attorney	09/02/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Winnebago Stock Units are accrued under the Winnebago Industries, Inc. Directors Deferred Compensation Plan and are to be settled 100% in Winnebago common stock upon reporting person's termination of service as a director pursuant to an election made by reporting person on 2/25/05.

(2) Represents amount of Winnebago Stock Units acquired by reporting person on the transaction date.

(3) Represents total amount of Winnebago Stock Units held by reporting person in Winnebago Industries, Inc. Directors Deferred Compensation Plan as of reporting date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. TICAL-ALIGN: bottom; BACKGROUND-COLOR: #ffffff">

U.S. agencies

$27,879 $28,286 $31,815 $32,868 $40,316 $41,930

Collateralized mortgage obligations

	4,159	4,109	2,729	2,719	6,927	7,072
Municipal securities	77,957	78,329	66,535	68,586	49,396	50,897
SBA Pools	7,219	7,168	811	806	895	892
Corporate debt	21,349	20,563	13,497	13,420	6,726	6,804
Asset backed Securities	18,888	18,819	10,321	10,138	10,766	10,710
Mutual fund	3,264	3,059	3,172	3,009	3,077	2,972
Total investment securities	$160,715	$160,333	$128,880	$131,546	$118,103	$121,277

At December 31, 2016, there was one U.S. agency, one municipality, two SBA pools, four corporate debts, five asset backed securities, and one mutual fund that comprised the total securities in an unrealized loss position for greater than 12 months and seven U.S. agencies, two collateralized mortgage obligations, forty-four municipalities, three SBA pools, eight corporate debts, and one asset backed security that make up the total securities in a loss position for less than 12 months. Management periodically evaluates each available-for-sale investment security in an unrealized loss position to determine if the impairment is temporary or other than temporary. This evaluation encompasses various factors including, the nature of the investment, the cause of the impairment, the severity and duration of the impairment, credit ratings and other credit related factors such as third party guarantees and volatility of the security’s fair value. Management has determined that no investment security is other than temporarily impaired. The unrealized losses are due primarily to interest rate changes and the Company does not intend to sell the securities and it is not likely that we will be required to sell the securities before the earlier of the forecasted recovery or the maturity of the underlying investment security. As of December 31, 2016, we did not have any investment securities that constituted 10% or more of the stockholders’ equity of any third party issuer.

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The following table summarizes the maturity and repricing schedule of our investment securities at their amortized cost and their weighted average yields at December 31, 2016:

Investment Maturities and Repricing Schedule

(Dollars in Thousands)	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Available-for-sale:										
U.S. agencies	$2,214	1.00%	$5,448	4.58%	$4,674	2.26%	$15,543	2.86%	$27,879	2.95%
Collateralized mortgage obligations	0	0.00%	0	0.00%	0	0.00%	4,159	2.17%	4,159	2.17%
Municipalities	3,673	4.52%	38,077	2.20%	32,356	3.07%	3,851	4.06%	77,957	2.76%
SBA Pools	0	0.00%	0	0.00%	4,129	2.08%	3,090	2.05%	7,219	2.07%
Corporate debt	3,994	3.10%	8,855	2.27%	6,000	2.69%	2,500	3.99%	21,349	2.74%
Asset Backed Securities	0	0.00%	0	0.00%	17,944	2.86%	944	2.54%	18,888	2.84%
Mutual Fund	0	0.00%	0	0.00%	0	0.00%	3,264	3.12%	3,264	3.12%
Total Investment Securities	$9,881	3.16%	$52,380	2.46%	$65,103	2.86%	$33,351	2.94%	$160,715	2.76%

Yields in the above table have not been adjusted to a fully tax equivalent basis. Securities are reported at the earliest possible call, repricing or maturity date.

Loans

The following table sets forth the amount of total loans outstanding (including unearned income) and the percentage distributions in each category, as of the dates indicated.

(Dollars in Thousands)	**YEARS ENDED DECEMBER 31,**

	2016	2015	2014	2013	2012
Commercial real estate	$478,855	$423,047	$358,398	$332,874	$316,075
Commercial and industrial	64,201	63,776	54,051	48,787	36,529
Consumer	767	774	805	883	1,096
Consumer residential	38,672	32,588	25,464	25,623	25,659
Agriculture	28,454	20,847	15,753	11,272	11,628
Unearned income	(2,013)	(3,282)	(446)	(624)	(600)
Total Loans, net of unearned income	$608,936	$537,750	$454,025	$418,815	$390,387
Participation loans sold and serviced by the Bank	21,348	19,848	16,243	11,733	8,045
Commercial real estate	78.6 %	78.7 %	78.9 %	79.5 %	80.9 %
Commercial and industrial	10.5 %	11.9 %	11.9 %	11.6 %	9.4 %
Consumer	0.1 %	0.1 %	0.2 %	0.2 %	0.3 %
Consumer residential	6.4 %	6.1 %	5.6 %	6.1 %	6.6 %
Agriculture	4.7 %	3.9 %	3.5 %	2.7 %	3.0 %
Unearned income	-0.3 %	-0.6 %	-0.1 %	-0.1 %	-0.2 %
Total Loans, net of unearned income	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Commercial real estate loans increased $55,808,000 in 2016 as compared to 2015, as a result of the increased demand by qualified borrowers in our serving area. Of the commercial real estate loans at December 31, 2016, 59.1% are non-owner occupied and 40.9% are owner occupied. Our commercial real estate loan portfolio is weighted towards term loans for which the primary source of repayment is cash flow from net operating income of the real estate property.

Commercial and industrial loans increased $425,000 in 2016 as compared to 2015. We have historically targeted well-established local businesses with strong guarantors that have proven to be resilient in periods of economic stress.

Our residential loan portfolio includes no sub-prime loans, nor is it our normal practice to underwrite loans commonly referred to as "Alt-A mortgages", the characteristics of which are loans lacking full documentation, borrowers having low FICO scores or collateral compositions reflecting high loan-to-value ratios. Substantially all of our residential loans are indexed to Treasury Constant Maturity Rates and have provisions to reset five years after their origination dates.

The following table summarizes our commercial real estate loan portfolio by the geographic location in which the property is located as of December 31, 2016 and 2015:

Commercial Real Estate Loans Outstanding by Geographic Location

(Dollars in Thousands)	**December 31, 2016**		**December 31, 2015**	
Commercial real estate loans by geographic location (County)	**Amount**	**% of Commercial Real Estate Loans**	**Amount**	**% of Commercial Real Estate Loans**
Stanislaus	$170,200	35.5%	$141,694	33.5%
San Joaquin	91,491	19.1%	91,323	21.6%
Tuolumne	33,912	7.1%	36,733	8.7%
Fresno	28,710	6.0%	19,836	4.7%
Merced	19,263	4.0%	13,903	3.3%
Sacramento	18,621	3.9%	9,397	2.2%
San Luis Obispo	11,715	2.4%	8,911	2.1%
Madera	10,005	2.1%	10,233	2.4%
Calaveras	8,601	1.8%	7,474	1.8%
Inyo	7,467	1.6%	6,511	1.5%
Alameda	6,892	1.4%	13,030	3.1%
Mono	6,769	1.4%	8,060	1.9%
Sonoma	6,153	1.3%	6,898	1.6%
San Francisco	5,633	1.2%	0	0.0%

Contra Costa	5,589	1.2%	5,756	1.4%
Solano	5,069	1.1%	4,168	1.0%
Butte	4,243	0.9%	4,319	1.0%
Marin	3,571	0.7%	5,681	1.3%
Santa Clara	3,010	0.6%	4,328	1.0%
Other	31,941	6.7%	24,792	5.9%
Total	**$478,855**	**100.0%**	**$423,047**	**100.0%**

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Construction and land loans are classified as commercial real estate loans and increased $3.6 million in 2016 as compared to 2015. The table below shows an analysis of construction loans by type and location. Non-owner-occupied land loans of $9.8 million at December 31, 2016 included loans for lands specified for commercial development of $4.9 million and for residential development of $4.9 million, the majority of which are located in Stanislaus County.

Construction and Land Loans Outstanding by Type and Geographic Location

(Dollars in Thousands)	**December 31, 2016**		**December 31, 2015**	
Construction and land loans by type	**Amount**	**% of Construction and Land Loans**	**Amount**	**% of Construction and Land Loans**
Single family non-owner-occupied	$6,210	18.7%	$1,985	6.7%
Single family owner-occupied	376	1.1%	1,056	3.6%
Commercial non-owner-occupied	10,360	31.2%	11,043	37.3%
Commercial owner-occupied	6,432	19.4%	5,279	17.8%
Land non-owner-occupied	9,823	29.6%	10,239	34.6%
Total	**$33,201**	**100.0%**	**$29,602**	**100.0%**

Construction and land loans by geographic location (County)	**Amount**	**% of Construction and Land Loans**	**Amount**	**% of Construction and Land Loans**
Stanislaus	$10,804	32.5%	$10,731	36.3%
San Joaquin	4,900	14.8%	2,593	8.8%
Placer	3,980	12.0%	0	0.0%
Mono	2,495	7.5%	2,350	7.9%
San Mateo	1,864	5.6%	0	0.0%
Merced	1,630	4.9%	0	0.0%
Los Angeles	1,470	4.4%	2,150	7.3%
Tuolumne	1,406	4.2%	2,031	6.9%
Solano	1,080	3.3%	0	0.0%
Calaveras	1,047	3.1%	655	2.2%
Nevada	818	2.5%	1,051	3.5%
Kings	580	1.8%	0	0.0%
Contra Costa	370	1.1%	370	1.3%
Fresno	218	0.7%	4,974	16.8%
Inyo	92	0.3%	113	0.4%

San Bernardino	0	0.0%	1,822	6.1%
Amador	0	0.0%	309	1.0%
Other	447	1.4%	453	1.5%
Total	**$33,201**	**100.0%**	**$29,602**	**100.0%**

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Loan Maturities

The following table shows the contractual maturity distribution and repricing intervals of the outstanding loans in our portfolio, as of December 31, 2016. In addition, the table shows the distribution of such loans between those with variable or floating interest rates and those with fixed or predetermined interest rates. The large majority of the variable rate loans are tied to independent indices (such as the Wall Street Journal prime rate or a Treasury Constant Maturity Rate). Substantially all loans with an original term of more than five years have provisions for the fixed rates to reset, or convert to a variable rate, after one, three or five years.

	Loan Maturities and Repricing Schedule At December 31, 2016			
	Within One Year	**After One But Within Five Years**	**After Five Years**	**Total**
Commercial real estate	$66,796	$277,077	$134,982	$478,855
Commercial & industrial	33,775	19,963	10,463	64,201
Consumer	467	260	40	767
Consumer residential	3,942	9,777	24,953	38,672
Agriculture	25,379	2,347	728	28,454
Unearned income	(435)	(1,034)	(544)	(2,013)
Total loans, net of unearned income	$129,925	$308,390	$170,622	$608,936
Loans with variable (floating) interest rates	$122,693	$242,412	$77,946	$443,052
Loans with predetermined (fixed) interest rates	$7,231	$65,977	$92,676	$165,884

The majority of the properties taken as collateral are located in Northern California. We employ strict guidelines regarding the use of collateral located in less familiar market areas. The recent decline in Northern California real estate value is offset by the low loan-to-value ratios in our commercial real estate portfolio and high percentage of owner-occupied properties.

Nonperforming Assets

Financial institutions generally have a certain level of exposure to credit quality risk, and could potentially receive less than a full return of principal and interest if a debtor becomes unable or unwilling to repay. Since loans are the most significant assets of the Company and generate the largest portion of its revenues, the Company's management of credit quality risk is focused primarily on loan quality. Banks have generally suffered their most severe earnings declines as a result of customers' inability to generate sufficient cash flow to service their debts and/or downturns in national and regional economies which have brought about declines in overall property values. In addition, certain debt securities that the Company may purchase have the potential of declining in value if the obligor's financial capacity to repay deteriorates.

Nonperforming assets consist of loans on non-accrual status, loans 90 days or more past due and still accruing interest, loans restructured, where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal and other real estate owned (“OREO”).

Loans are generally placed on non-accrual status when they become 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. The past due loans may or may not be adequately collateralized, but collection efforts are continuously pursued. Loans may be restructured by management when a borrower has experienced some changes in financial status, causing an inability to meet the original repayment terms, and where we believe the borrower will eventually overcome those circumstances and repay the loan in full. OREO consists of properties acquired by foreclosure or similar means and which management intends to offer for sale.

The Company had nonperforming loans of $3.04 million at December 31, 2016, as compared to $5.82 million at December 31, 2015, $4.70 million at December 31, 2014, $2.34 million at December 31, 2013 and $6.92 million at December 31, 2012. The ratio of nonperforming loans over total loans was 0.50%, 1.07%, 1.03%, 0.56% and 1.77% at December 31, 2016, 2015, 2014 and 2012, respectively.

In addition, the Company held three OREO properties with outstanding balances of approximately $1,210,000 as of December 31, 2016, one of which consisted of residential land acquired through foreclosure that was written down to a zero balance because the public utilities have not been obtainable rendering these land lots unmarketable at this time. The Company held five OREO properties with outstanding balances of approximately $2,066,000 as of December 31, 2015 and held three properties with balances of approximately $884,000 and $916,000 as of December 31, 2014 and 2013, respectively. The Company held only the one zero-balance property as of December 31, 2012.

Management believes that the reserve provided for nonperforming loans, together with the tangible collateral, were adequate as of December 31, 2016. See “Allowance for Loan Losses” below for further discussion. Except as disclosed above, as of December 31, 2016, management was not aware of any material credit problems of borrowers that would cause it to have serious doubts about the ability of a borrower to comply with the present loan payment terms. However, no assurance can be given that credit problems may exist that may not have been brought to the attention of management, or that credit problems may not arise in the future.

The following table provides information with respect to the components of our nonperforming assets as of the dates indicated. (The figures in the table are net of the portion guaranteed by the U.S. Government):

(Dollars in Thousands)	**At December 31,**				
	2016	**2015**	**2014**	**2013**	**2012**
Nonaccrual loans(1)					
Commercial real estate	$2,715	$2,790	$4,363	$2,322	$5,891
Commercial and industrial	306	322	337	18	21
Consumer	0	0	0	0	0
Consumer residential	16	0	0	0	1011
Agriculture	0	2704	0	0	0
Total	$3,037	$5,816	$4,700	$2,340	$6,923
Loans 90 days or more past due and still accruing (as to principal or interest):					
Commercial real estate	$0	$0	$0	$0	$0
Commercial and industrial	0	0	0	0	0
Consumer	0	0	0	0	0
Consumer residential	0	0	0	0	0
Agriculture	0	0	0	0	0
Total	0	0	0	0	0
Total nonperforming loans	3,037	5,816	4,700	2,340	6,923
Other real estate owned	1,210	2,066	884	916	0
Total nonperforming assets	$4,247	$7,882	$5,584	$3,256	$6,923
Accruing restructured loans (2)					
Commercial real estate	$0	$0	$0	$0	$0
Commercial and industrial	0	0	0	0	0
Consumer	0	0	0	0	0
Consumer residential	0	0	0	0	0
Agriculture	0	0	0	0	0
Total	0	0	0	0	0
Total impaired loans	$3,037	$5,816	$4,700	$2,340	$6,923
Nonperforming loans as a percentage of total loans	0.50 %	1.07 %	1.03 %	0.56 %	1.77 %
Nonperforming assets as a percentage of total loans and other real estate owned	0.69 %	1.45 %	1.23 %	0.77 %	1.77 %
Allowance for loan losses as a percentage of nonperforming loans	257.89%	126.48%	160.30%	327.37%	115.19%

(1) During the fiscal year ended December 31, 2016 and 2015, no interest income related to these loans was included in net income while on nonaccrual status. Additional interest income of approximately $156,000 and $376,000 would

have been recorded during the year ended December 31, 2016 and 2015, respectively, if these loans had been paid in accordance with their original terms.

(2) A “restructured loan” is one the terms of which were renegotiated to provide a concession because of deterioration in the financial position of the borrower.

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Allowance for Loan Losses

In anticipation of credit risk inherent in our lending business, we set aside allowances through charges to earnings. Such charges are not only made for the outstanding loan portfolio, but also for off-balance sheet items, such as commitments to extend credits or letters of credit. The charges made for the outstanding loan portfolio are credited to the allowance for loan losses, whereas charges for off-balance sheet items are credited to the reserve for off-balance sheet items, which is presented as a component of other liabilities. The provision for loan losses is discussed in the section entitled “Provision for Loan Losses” above.

The balance of our allowance for loan losses is Management's best estimate of the remaining losses inherent in the portfolio. The ultimate adequacy of the allowance is dependent upon a variety of factors beyond our control, including the real estate market, changes in interest rate and economic and political environments.

Historically, over the past five years, the economic recovery has had a positive impact on the financial stability of our borrowers resulting in improvements in credit quality of our loan portfolio which has allowed us to reduce the reserve for loan losses. In 2016, we have continued to benefit from the improved credit quality but due to strong loan growth, we recognized an increase of $476,000 in the allowance for loan losses to $7,832,000 at December 31, 2016, as compared with $7,356,000 at December 31, 2015. Such allowances were $7,534,000, $7,659,000 and $7,975,000 at December 31, 2014, 2013 and 2012, respectively. In 2016, the allowance for loan losses as a percentage of total loans decreased corresponding to our improved credit quality and loan growth, as reflected in the ratios of 1.28%, 1.36%, 1.66%, 1.83% and 2.04%, at the end of 2016, 2015, 2014, 2013 and 2012, respectively. The decrease at the end of 2015 and 2016 is due in part to the acquisition of $42,831,000 in loans from Mother Lode Bank which are recorded at fair value and therefore do not require a loan loss reserve. Based on the current conditions of the loan portfolio, management believes that the $7,832,000 allowance for loan losses at December 31, 2016 is adequate to absorb losses inherent in our loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

Diversification, low loan-to-values, strong credit quality and enhanced credit monitoring contribute to a reduction in the portfolio’s overall risk, and help to offset the economic risk. The impact of the economic environment will continue to be monitored, and adjustments to the provision for loan loss will be made accordingly. During 2016, the Company recognized net loan charge-offs of $8,000 as compared to $53,000 in 2015. In 2014, we recorded net loan recoveries of $1,752,000, primarily from one loan for which we received a net settlement of $2,923,000, resulting in a recovery of $1,877,000. In prior years, the weak business climate adversely impacted the financial conditions of some of our clients and resulted in net loan charge-offs of $616,000 and $1,784,000 in 2013 and 2012, respectively.

Management reviews these conditions with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management’s estimate of the effect of such condition may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specific, identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the inherent loss related to such condition is reflected in the unallocated allowance. Although management has allocated a portion of the allowance to specific loan categories, the adequacy of the allowance is considered in its entirety.

Although management believes the allowance at December 31, 2016 was adequate to absorb losses from any known and inherent risks in the portfolio, no assurance can be given that economic conditions which adversely affect our service areas or other variables will not result in increased losses in the loan portfolio in the future.

As of December 31, 2016, our allowance for loan losses consisted of amounts allocated to three phases of our methodology for assessing loan loss allowances, as follows (see details of methodology for assessing allowance for loan losses in the section entitled "Critical Accounting Policies"):

(Dollars in Thousands)	**Years Ended December 31,**		
Phase of Methodology	**2016**	**2015**	**2014**
Specific review of individual loans	$680	$722	$993
Review of portfolio based on loss trends and current economic climate	4,543	4,423	4,388
Review of portfolio based on inherent risk and other subjective factors	2,609	2,211	2,153
	$7,832	$7,356	$7,534

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The Components of the Allowance for Loan Losses

As stated previously in "Critical Accounting Policies," the overall allowance consists of a specific allowance for individually identified impaired loans, an allowance factor for categories of credits with similar characteristics and trends, and an allowance for changing environmental factors.

The first component, the specific allowance, results from the analysis of identified problem credits and the evaluation of sources of repayment including collateral, as applicable. Through Management's ongoing loan grading process, individual loans are identified that have conditions that indicate the borrower may be unable to pay all amounts due under the contractual terms. These loans are evaluated individually by Management and specified allowances for loan losses are established when the discounted cash flows of future payments or collateral value of collateral-dependent loans are lower than the recorded investment in the loan. Generally with problem credits that are collateral-dependent, we obtain appraisals of the collateral at least annually. We may obtain appraisals more frequently if we believe the collateral value is subject to market volatility, if a specific event has occurred to the collateral (e.g. tentative map has been filed), or if we believe foreclosure is imminent. Impaired loan balances decreased from $5,816,000 at December 31, 2015 to $3,037,000 at December 31, 2016. The specific allowance totaled $680,000 and $722,000 at December 31, 2016 and 2015, respectively, as we charge off substantially all of our estimated losses related to specifically identified impaired loans as the losses are identified.

The second component, the allowance factor, is an estimate of the probable inherent losses in each loan pool stratified by major categories or loans with similar characteristics in our loan portfolio. This analysis encompasses segmenting and reviewing historical losses, loan grades by pool and current general economic and business conditions. Confirmation of the quality of our grading process is obtained by independent reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies. This analysis covers our entire loan portfolio but excludes any loans that were analyzed individually for specific allowances as discussed above. There are limitations to any credit risk grading process. The number of loans makes it impractical to review every loan every quarter. Therefore, it is possible that in the future some currently performing loans not recently graded will not be as strong as their last grading and an insufficient portion of the allowance will have been allocated to them. Grading and loan review often must be done without knowing whether all relevant facts are at hand. Troubled borrowers may deliberately or inadvertently omit important information from reports or conversations with lending officers regarding their financial condition and the diminished strength of repayment sources.

The total amount allocated for the second component is determined by applying loss estimation factors based on loss history to outstanding loans. At December 31, 2016 and 2015, the allowance allocated by categories of credits totaled $4.5 million and $4.4 million, respectively.

The third component of the allowance for loan losses is an economic and qualitative component that is intended to absorb losses caused by portfolio trends, concentration of credit, growth, and economic trends, as stated previously in

"Critical Accounting Policies". At December 31, 2016 and 2015, the general valuation allowance, including the economic component, totaled $2.6 million and $2.2 million, respectively. Starting in late 2008, we witnessed financial difficulties experienced by borrowers in our market, where real estate sale prices declined and holding periods increased. In the past several years, while published economic data indicates that the downturn is behind us, it is not clear at what speed the economy will recover. In response to this, we have been proactive in evaluating reserve percentages for economic and other qualitative loss factors used to determine the adequacy of the allowance for loan losses. The increase to the third component of the allowance for loan losses reflected such evaluation.

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The table below summarizes, for the periods indicated, loan balances at the end of each period, the daily averages during the period, changes in the allowance for loan losses arising from loans charged off, recoveries on loans previously charged off, additions to the allowance and certain ratios related to the allowance for loan losses:

Allowance for Loan Losses

(Dollars in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Balances:					
Average total loans outstanding during period	$578,339	$466,509	$430,448	$396,953	$390,856
Total loans outstanding at end of period	$610,949	$541,032	$454,471	$419,438	$390,986
Allowance for loan losses:					
Balances at beginning of period	$7,356	$7,534	$7,659	$7,975	$8,609
Actual charge-offs:					
Commercial real estate	0	0	103	436	1,663
Commercial and Industrial	0	32	0	0	0
Consumer	18	30	40	22	26
Consumer Residential	0	0	0	178	150
Agriculture	0	0	0	0	0
Total charge-offs	18	62	143	636	1,839
Recoveries on loans previously charged off:					
Commercial real estate	4	5	1,882	8	35
Commercial and Industrial	0	0	0	0	1
Consumer	5	4	2	3	4
Consumer Residential	1	0	11	9	15
Agriculture	0	0	0	0	0
Total recoveries	10	9	1,895	20	55
Net loan charge-offs (recoveries)	8	53	(1,752)	616	1,784
Provision (reversal) for loan losses	484	(125)	(1,877)	300	1,150
Balance at end of period	$7,832	$7,356	$7,534	$7,659	$7,975
Ratios:					
Net loan charge-offs (recoveries) to average total loans	0.00 %	0.01 %	-0.41 %	0.16 %	0.46 %
Allowance for loan losses to total loans at end of period	1.28 %	1.36 %	1.66 %	1.83 %	2.04 %
Net loan charge-offs (recoveries) to allowance for loan losses at end of period	0.10 %	0.72 %	-23.25 %	8.04 %	22.37 %

Net loan charge-offs to provision for loan losses