First Federal of Northern Michigan Bancorp, Inc.
Form 10-Q
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission File Number 000-31957

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**32-0135202**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 S. Second Avenue, Alpena, Michigan	**49707**
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: **(989) 356-9041**

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a 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

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Common Stock, Par Value $0.01	Outstanding at November 13, 2015
(Title of Class)	3,727,014 shares

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.

FORM 10-Q

Quarter Ended September 30, 2015

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PART I – FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheet (in thousands)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents:		
Cash on hand and due from banks	$ 8,040	$ 11,205
Overnight deposits with FHLB	478	267
Total cash and cash equivalents	8,518	11,472
Deposits held in other financial institutions	8,924	8,429
Securities available for sale	130,923	119,968
Securities held to maturity	745	790
Loans held for sale	132	88
Loans receivable, net of allowance for loan losses of $1,514 and $1,429 as of September 30, 2015 and December 31, 2014, respectively	168,063	163,647
Foreclosed real estate and other repossessed assets	2,495	2,823
Federal Home Loan Bank stock, at cost	1,636	2,591
Premises and equipment	6,295	6,336
Assets held for sale	271	478
Accrued interest receivable	1,065	986
Intangible assets	1,105	1,286
Deferred tax asset	2,394	851
Mortgage servicing rights	602	710
Bank owned life insurance	4,824	4,727
Other assets	831	685
Total assets	$ 338,823	$ 325,867
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 279,297	$ 270,734
Advances from borrowers for taxes and insurance	270	203

Advances from Federal Home Loan Bank	25,072	22,885
Accrued expenses and other liabilities	1,107	1,509
Total liabilities	305,746	295,331
Stockholders' equity:		
Common stock ($0.01 par value 20,000,000 shares authorized 4,034,764 shares issued)	40	40
Additional paid-in capital	28,264	28,264
Retained earnings	7,127	4,765
Treasury stock at cost (307,750 shares)	(2,964)	(2,964)
Accumulated other comprehensive income	610	431
Total stockholders' equity	33,077	30,536
Total liabilities and stockholders' equity	$ 338,823	$ 325,867

See accompanying notes to consolidated financial statements.

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First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries
Consolidated Statement of Income and Comprehensive Income (in thousands)

	For the Three Months Ended September 30, 2015 (Unaudited)	2014	For the Nine Months Ended September 30, 2015 (Unaudited)	2014
Interest income:				
Interest and fees on loans	$2,056	$1,934	$6,094	$5,335
Interest and dividends on investments				
Taxable	317	217	938	518
Tax-exempt	28	44	89	127
Interest on mortgage-backed securities	259	192	811	477
Total interest income	2,660	2,387	7,932	6,457
Interest expense:				
Interest on deposits	234	205	709	583
Interest on borrowings	83	65	217	195
Total interest expense	317	270	926	778
Net interest income	2,343	2,117	7,006	5,679
(Recovery of) Provision for loan losses	(4)	257	(26)	273
Net interest income after provision for loan losses	2,347	1,860	7,032	5,406
Non-interest income:				
Service charges and other fees	242	206	696	576
Mortgage banking activities	128	127	378	351
Net gain on sale of securities	2	1	4	1
Net (loss) income on sale of premises and equipment, real estate owned and other repossessed assets	(8)	(1)	82	(27)
Bargain purchase gain	—	1,982	—	1,982
Other	104	76	289	188
Total non-interest income	468	2,391	1,449	3,071
Non-interest expense:				
Compensation and employee benefits	1,345	1,331	4,271	3,550
FDIC Insurance Premiums	62	56	181	147
Advertising	43	54	136	125
Occupancy	286	274	833	730
Amortization of intangible assets	61	42	182	82
Service bureau charges	114	92	319	238
Professional services	141	50	388	220
Collection activity	25	5	82	34
Real estate owned & other repossessed assets	251	91	297	120
Merger related expense	—	140	—	264
Other	250	336	819	871

Total non-interest expense	2,578	2,471	7,508	6,381
Income before income tax recovery	237	1,780	973	2,096
Income tax recovery	(1,650)	—	(1,650)	—
Net Income	$1,887	$1,780	$2,623	$2,096
Other Comprehensive Income:				
Unrealized gain (loss) on investment securities - available for sale securities - net of tax	234	(161)	182	272
Reclassification adjustment for gains realized in earnings - net of tax	(2)	—	(3)	—
Comprehensive Income	$2,119	$1,619	$2,802	$2,368
Per share data:				
Net Income per share				
Basic	$0.51	$0.53	$0.70	$0.69
Diluted	$0.51	$0.53	$0.70	$0.69
Weighted average number of shares outstanding				
Basic	3,727,014	3,369,670	3,727,014	3,047,702
Including dilutive stock options	3,727,014	3,369,670	3,727,014	3,047,702
Dividends per common share	$0.03	$0.02	$0.07	$0.06

See accompanying notes to consolidated financial statements.

First Federal of Northern Michigan Bancorp Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity (Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2015	$ 40	$ (2,964)	$ 28,264	$ 4,765	$ 431	$ 30,536
Net income for the period	—	—	—	2,623	—	2,623
Changes in unrealized gain: on available-for-sale securities (net of tax of $92)	—	—	—	—	179	179
Dividends declared	—	—	—	(261)	—	(261)
Balance at September 30, 2015	$ 40	$ (2,964)	$ 28,264	$ 7,127	$ 610	$ 33,077

See accompanying notes to the consolidated financial statements.

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2014	$ 32	$ (2,964)	$ 23,854	$ 2,763	$ (160)	$ 23,525
Exchange of Alpena Banking Corp Stock (842,965 shares issued)	8	—	4,410	—	—	4,418
Net income for the period	—	—	—	2,096	—	2,096
Changes in unrealized gain: on available-for-sale securities (net of tax of $141)	—	—	—	—	272	272
Dividends declared	—	—	—	(173)	—	(173)
Balance at September 30, 2014	$ 40	$ (2,964)	$ 28,264	$ 4,686	$ 112	$ 30,138

See accompanying notes to the consolidated financial statements.

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First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries
Consolidated Statement of Cash Flows (in thousands)

	For Nine Months Ended September 30,	
	2015	2014
	(Unaudited)	
Cash Flows from Operating Activities:		
Net income	$2,623	$2,096
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	474	321
(Recovery of) provision for loan loss	(26)	273
Accretion of acquired loans	(57)	(18)
Amortization and accretion on securities	680	345
Bargain purchase gain	—	(1,982)
Gain on sale of loans held for sale	(204)	(155)
(Gain) loss on sale of property and equipment and asset held for sale	(81)	23
Gain on sale of available for sale securities	(4)	(1)
(Gain) loss on sale of real estate owned and other repossessed assets	(1)	4
Originations of loans held for sale	(12,112)	(9,624)
Proceeds from sale of loans held for sale	12,272	8,726
Deferred income tax benefit	(1,650)	(20)
Net change in:		
Accrued interest receivable	(80)	(98)
Other assets	(23)	(152)
Bank owned life insurance	(97)	(87)
Accrued expenses and other liabilities	(403)	191
Net cash provided by (used in) operating activities	1,311	(158)
Cash Flows from Investing Activities:		
Net cash received in bank acquisition	—	41,357
Net (increase) decrease in loans	(4,910)	4,049
Proceeds from maturies and calls of available-for-sale securities	23,031	7,473
Proceeds from maturies and calls of held to maturity securities	45	40
Proceeds from sale of real estate and other repossessed assets	906	413
Proceeds from sale of available-for-sale securities	1,831	218
Proceeds from sale of property and equipment	288	3
Proceeds from redemption of FHLB stock	955	—
Purchase of securities	(36,716)	(48,517)
Purchase of premises and equipment	(251)	(180)
Net cash (used in) provided by investing activities	(14,821)	4,856
Cash Flows from Financing Activities:		
Dividends paid on common stock	(261)	(173)
Net increase in deposits	8,562	2,691
Net increase in advances from borrowers	67	104

Advances from Federal Home Loan Bank	14,000	12,555
Repayments of Federal Home Loan Bank advances	(11,812)	(15,600)
Net cash provided by (used in) financing activities	10,556	(423)
Net (decrease) increase in cash and cash equivalents	(2,954)	4,275
Cash and cash equivalents at beginning of period	11,472	2,766
Cash and cash equivalents at end of period	$8,518	$7,041
Supplemental disclosure of cash flow information:		
Cash refunded for taxes paid	$1,665	$—
Cash paid during the period for interest	927	788
Transfers of loans to foreclosed real estate and repossessed assets	577	1,481

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FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1—BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The interim financial statements should be read in conjunction with the financial statements of First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2014.

All adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of financial position, results of operations and cash flows, have been made. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Note 2—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of First Federal of Northern Michigan Bancorp, Inc., its wholly owned subsidiary First Federal of Northern Michigan (the "Bank"), and the Bank's wholly owned subsidiaries, Financial Services & Mortgage Corporation ("FSMC") and FFNM Financial Services, Inc. FSMC invested in real estate, which includes leasing, selling, developing, and maintaining real estate properties. FSMC was dissolved in the first quarter of 2015 since all real estate properties were sold in 2011. The main activity of FFNM Financial Services, Inc. is to collect commission from the sale of non-insured investment products resulting from investment advisory services offered in our branch network. All significant intercompany balances and transactions have been eliminated in the consolidation.

Note 3—BUSINESS COMBINATIONS

As of August 8, 2014 (“Merger Date”), the Company completed its merger with Alpena Banking Corporation and its wholly owned subsidiary Bank of Alpena (“Alpena”). Alpena had one branch office and assets with a fair value of $102.6 million as of August 8, 2014. The results of operations due to the merger have been included in the Company’s results since the Merger Date. The merger was effected by the issuance of shares of the Company’s common stock to Alpena Banking Corporation shareholders. Each share of Alpena’s common stock was converted into the right to receive 1.549 shares of the Company’s common stock, with cash paid in lieu of fractional shares. The conversion of Alpena’s shares resulted in the issuance of 842,965 shares of the Company’s common stock.

The merger transaction was recorded using the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair values on the Merger Date. The fair value measurements, based on third-party valuations, have been retrospectively reflected and the following table provides the purchase price calculation as of the Merger Date and the identifiable assets acquired and liabilities assumed at their estimated fair values.

Purchase Price:
(,000's omitted)

First Federal of Northern Michigan Bancorp, Inc. common stock issued for Alpena Banking Corporation common shares	843
Price per share, based on First Federal of Northern Michigan Bancorp, Inc. closing price on August 8, 2014	$5.59
Total purchase price	$4,712

Preliminary Statement of Net Assets Acquired at Fair Value:

Assets		
Cash and cash equivalents	$41,650	
Securities	24,008	
Loans	33,051	
Premises and Equipment	1,667	
Core Deposit Intangible	1,392	
Deferred Tax Asset	337	
Other Assets	467	
Total Assets	$102,572	
Liabilities		
Deposits	95,787	
Other Liabilities	91	
Total Liabilities	$ 95,878	
Net Identifiable Assets Acquired		$6,694
Bargain Purchase Gain		$(1,982)

The results of operations for the three and nine months ended September 30, 2014 include the operating results of the acquired assets and assumed liabilities for the 51 days subsequent to the Merger Date. Alpena's results of operations prior to the Merger Date are not included in the Company's consolidated statement of comprehensive income.

The following table provides pro forma information for the results of operations for the three and nine months ended September 30, 2015 and 2014, as if the merger had occurred on January 1 of each year. These unaudited pro forma results are presented for illustrative purposes only and are not intended to represent or be indicative of the actual results of operations of the combined banking organization that would have been achieved had the merger occurred at the beginning of each period presented, nor are they intended to represent or be indicative of future results of the Company.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net interest income	$2,343	$2,413	$7,006	$7,217
Non-interest expense	2,578	2,852	7,508	7,921
Net income	1,887	1,709	2,623	1,997
Net income per diluted share	0.51	0.46	0.70	0.54

In most instances, determining the fair value of the acquired assets and assumed liabilities required the Company to estimate the cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of those determinations related to the valuation of acquired loans. For such loans, the excess cash flows expected at merger over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference between contractually required payments at merger and the cash flows expected to be collected at merger reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with the applicable accounting guidance for business combinations, there was no carry-over of Alpena’s previously established allowance for loan losses.

The acquired loans were divided into loans with evidence of credit quality deterioration, which are accounted for under ASC 310-30 (“acquired impaired”), and loans that do not meet the criteria, which are accounted for under ASC 310-20 (“acquired non-impaired”). In addition, the loans are further categorized into different pools based primarily on the type and purpose of the loan.

The fair value of loans as of the Merger Date is presented in the following table:

	Acquired Impaired	Acquired Non-Impaired	Acquired Total
Real estate loans:			
Residential mortgages	$ 397	$ 6,992	$ 7,389
Commercial Loans:			
Construction	—	109	109
Secured by real estate	3,070	14,721	17,791
Other	1,201	4,213	5,414
Total commercial loans	4,271	19,043	23,314
Consumer loans:			
Secured by real state	30	1,568	1,598
Other	—	750	750
Total consumer loans	30	2,318	2,348
Total loans at acquisition date	$ 4,698	$ 28,353	$ 33,051

The following table presents data on acquired impaired loans at the Merger Date:

	Acquired Impaired	Acquired Non-Impaired	Acquired Total
Loans acquired- contractual required payments	$ 5,930	$ 28,587	$ 34,517
Non accretable yield	(1,232)	—	(1,232)
Expected cash flows	4,698	28,587	33,285
Accretable yield	—	(234)	(234)
Carrying balance at acquisition date	$ 4,698	$ 28,353	$ 33,051

Note 4—SECURITIES

Investment securities have been classified according to management's intent. The carrying value and estimated fair value of securities are as follows:

September 30, 2015

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	(in thousands)			
Securities Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$34,339	$ 271	$ (9)	$34,601
Municipal obligations	28,243	407	(31)	28,619
Corporate bonds & other obligations	—	—	—	—
Mortgage-backed securities	67,415	408	(125)	67,698
Equity securities	2	3	—	5
Total	$129,999	$ 1,089	$ (165)	$130,923
Securities Held to Maturity				
Municipal obligations	$745	$ 1	$ —	$746

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Market Value
	(in thousands)			
Securities Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$31,221	$ 58	$ (57)	31,222
Municipal obligations	22,894	369	(129)	23,134
Corporate bonds & other obligations	1,549	12	—	1,561
Mortgage-backed securities	63,648	515	(117)	64,046
Equity securities	3	2	—	5
Total	$119,315	$ 956	$ (303)	$119,968
Securities Held to Maturity				
Municipal obligations	$790	$ 118	$ —	$908

The amortized cost and estimated market value of securities at September 30, 2015, by contract maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities with no specified maturity date are separately stated.

	September 30, 2015	
	Amortized Cost	Market Value
	(in thousands)	
Available For Sale:		
Due in one year or less	$1,853	$1,864
Due after one year through five years	41,243	41,625
Due in five year through ten years	18,302	18,461
Due after ten years	1,184	1,270
Subtotal	62,582	63,220
Equity securities	2	5
Mortgage-backed securities	67,415	67,698
Total	$130,000	$130,923
Held To Maturity:		
Due in one year or less	$45	$45
Due after one year through five years	210	210
Due in five year through ten years	335	335
Due after ten years	155	155
Total	$745	$746

At September 30, 2015 and December 31, 2014, securities with a carrying value and fair value of $26.3 million and $35.0 million, respectively, were pledged to certain deposit accounts, FHLB advances and our line of credit at the Federal Reserve.

Gross proceeds from the sale of securities for the nine-months ended September 30, 2015 and 2014 were $1.8 million and $218,000, respectively, resulting in gross gains of $4,000 and $646 respectively and gross losses of $0 and $0, respectively.

The following is a summary of temporarily impaired investments that have been impaired for less than and more than twelve months as of September 30, 2015 and December 31, 2014:

September 30, 2015		
	Gross Unrealized Losses	Gross Unrealized Losses

	Fair Value (in thousands)	<12 months	Fair Value	> 12 months
Available For Sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$1,998	$ 0	$990	$ (9)
Corporate bonds & other obligations	—	—	—	—
Municipal obligations	2,603	(20)	1,963	(11)
Mortgage-backed securities	13,891	(49)	3,854	(76)
Equity securities	—	—	—	—
Total	$18,492	$ (69)	$6,807	$ (96)
Held to Maturity:				
Municipal obligations	$—	$ —	$—	$ —

	December 31, 2014			
	Fair Value (in thousands)	Gross Unrealized Losses <12 months	Fair Value	Gross Unrealized Losses > 12 months
Available For Sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$13,672	$ (28)	$971	$ (29)
Municipal obligations	9,506	(54)	4,039	(75)
Mortgage-backed securities	9,923	(31)	4,666	(86)
Equity securities	—	—	—	—
Total	$33,101	$ (113)	$9,676	$ (190)
Held to Maturity:				
Municipal obligations	$—	$ —	$—	$ —

As of September 30, 2015, there were 27 securities with unrealized losses totaling $165,000 compared to 72 securities with unrealized losses totaling $303,000 at December 31, 2014.

The unrealized losses on the securities held in the portfolio are not considered other than temporary and have not been recognized into income. This decision is based on the Company's ability and intent to hold any potentially impaired security until maturity. The performance of the security is based on the contractual terms of the agreement, the extent of the impairment and the financial condition and credit quality of the issuer. The decline in market value is considered temporary and a result of changes in interest rates and other market variables.

Note 5—LOANS

Originated loans are reported at their principal amount outstanding adjusted for partial charge-offs, the allowance, and net deferred loan fees and costs. Interest income on loans is accrued over the term of the loans primarily using the simple interest method based on the principal balance outstanding. Interest is not accrued on loans where collectability is uncertain. Accrued interest is presented separately in the consolidated balance sheet. Loan origination fees and certain direct costs incurred to extend credit are deferred and amortized over the term of the loan or loan commitment period as an adjustment to the related loan yield.

Acquired loans are those obtained in the Merger (See Note 3 – Business Combination for further information). These loans were recorded at estimated fair value at the Acquisition Date with no carryover of the related allowance. The acquired loans were segregated between those considered to be performing ("acquired non-impaired loans") and those with evidence of credit deterioration ("acquired impaired loans"). Acquired loans are considered impaired if there is evidence of credit deterioration and if it is probable, at acquisition, that all contractually required payments will not be collected. Acquired loans restructured after acquisition are not considered or reported as troubled debt restructurings if the loans evidenced credit deterioration as of the Acquisition Date and are accounted for in pools. As of September 30, 2015, no acquired loans were modified as troubled debt restructurings after the Acquisition Date.

The fair value estimates for acquired loans are based on expected prepayments and the amount and timing of discounted expected principal, interest and other cash flows. Credit discounts representing the principal losses expected over the life of the loan are also a component of the initial fair value. In determining the Acquisition Date fair value of acquired impaired loans, and in subsequent accounting, we have generally aggregated acquired mortgage, commercial and consumer loans into pools of loans with common risk characteristics.

The difference between the fair value of an acquired non-impaired loan and contractual amounts due at the Acquisition Date is accreted into income over the estimated life of the loan. Contractually required payments represent the total undiscounted amount of all uncollected principal and interest payments. Acquired non-impaired loans are placed on nonaccrual status and reported as nonperforming or past due using the same criteria applied to the originated loan portfolio.

The excess of an acquired impaired loan’s contractually required payments over the amount of its undiscounted cash flows expected to be collected is referred to as the non-accretable difference. The non-accretable difference, which is neither accreted into income nor recorded on the consolidated balance sheet, reflects estimated future credit losses and uncollectible contractual interest expected to be incurred over the life of the acquired impaired loan. The excess cash flows expected to be collected over the carrying amount of the acquired loan is referred to as the accretable yield. This amount is accreted into interest income over the remaining life of the acquired loans or pools using the level yield method. The accretable yield is affected by changes in interest rate indices for variable rate loans, changes in prepayment speed assumptions and changes in expected principal and interest payments over the estimated lives of the acquired impaired loans.

We evaluate quarterly the remaining contractual required payments receivable and estimate cash flows expected to be collected over the life of the impaired loans. Contractually required payments receivable may increase or decrease for a variety of reasons, for example, when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. Cash flows expected to be collected on acquired impaired loans are estimated by incorporating several key assumptions similar to the initial estimate of fair value. These key assumptions include probability of default, loss given default, and the amount of actual prepayments after the Acquisition Date. Prepayments affect the estimated lives of loans and could change the amount of interest income, and possibly principal, expected to be collected. In re-forecasting future estimated cash flows, credit loss expectations are adjusted as necessary. The adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default. For periods in which estimated cash flows are not re-forecasted, the prior reporting period’s estimated cash flows are adjusted to reflect the actual cash received and credit events that transpired during the current reporting period.

Increases in expected cash flows of acquired impaired loans subsequent to the Acquisition Date are recognized prospectively through adjustments of the yield on the loans or pools over their remaining lives, while decreases in expected cash flows are recognized as impairment through a provision for loan losses and an increase in the allowance.

The following table sets forth the composition of our loan portfolio by loan type at the dates indicated.

	At September 30, 2015	At December 31, 2014
	(in thousands)	
Real estate loans:		
Residential mortgage	$76,458	$71,828
Commercial loans:		
Construction - real estate	257	1,443
Secured by real estate	59,096	62,163
Other	23,387	19,000
Total commercial loans	82,740	82,606
Consumer loans:		
Secured by real estate	9,063	9,502
Other	1,557	1,403
Total consumer loans	10,620	10,905
Total gross loans	$169,818	$165,339
Less:		
Net deferred loan fees	(241)	(263)
Allowance for loan losses	(1,514)	(1,429)
Total loans, net	$168,063	$163,647

Total outstanding balance and carrying value of acquired impaired loans was $4.2 million and $3.1 million, respectively, as of September 30, 2015. Changes in the accretable yield for acquired impaired loans for the nine months ended September 30, 2015 were as follows:

	Acquired Impaired Non-Accreatable	Acquired Non-Imparied Accreatable	Acquired Total

December 31, 2014 balance	$ (1,232)	$ (208)	$ (1,440)
Net discount associated with acquired loans	—	—	—
Accretion of discount for credit spread	—	57	57
Transfer from non-accreatable to accreatable	25	(25)	—
Loans paid off through September 30, 2015	6	—	6
Loans charged off through September 30, 2015	113	—	113
Total	$ (1,088)	$ (176)	$ (1,264)

The following table illustrates the contractual aging of the recorded investment in past due loans by class of loans as of September 30, 2015 and December 31, 2014:

As of September 30, 2015

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
	(dollars in thousands)						
Originated Loans:							
Commercial Real Estate:							
Commercial Real Estate - construction	$—	$—	$ —	$—	$257	$257	$ —
Commercial Real Estate - other	640	—	—	640	44,577	45,217	—
Commercial - non real estate	29	11	—	40	20,887	20,927	—
Consumer:							
Consumer - Real Estate	137	—	—	137	7,353	7,490	—
Consumer - Other	—	—	4	4	1,433	1,437	—
Residential:							
Residential	1,273	481	231	1,985	68,906	70,891	125
Total	$2,079	$492	$ 235	$2,806	$143,413	$146,219	$ 125

As of September 30, 2015

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
	(dollars in thousands)						
Acquired Loans:							
Commercial Real Estate:							
Commercial Real Estate - construction	$—	$—	$ —	$—	$—	$—	$ —
Commercial Real Estate - other	222	176	259	657	13,222	13,879	97
Commercial - non real estate	17	359	451	827	1,633	2,460	300
Consumer:							
Consumer - Real Estate	—	—	4	4	1,569	1,573	—
Consumer - Other	—	—	—	—	120	120	—
Residential:							
Residential	306	—	265	571	4,996	5,567	—
Total	$545	$535	$ 979	$2,059	$21,540	$23,599	$ 397

As of December 31, 2014

Originated Loans:	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
	(dollars in thousands)						
Commercial Real Estate:							
Commercial Real Estate - construction	$—	$—	$ —	$—	$1,443	$1,443	$ —
Commercial Real Estate - other	10	195	—	205	46,103	46,308	—
Commercial - non real estate	—	—	—	—	14,544	14,544	—
Consumer:							
Consumer - Real Estate	107	4	7	118	7,684	7,802	—
Consumer - Other	3	—	3	6	1,152	1,158	3
Residential:							
Residential	1,484	746	386	2,616	62,326	64,942	87
Total	$1,604	$945	$ 396	$2,945	$133,252	$136,197	$ 90

As of December 31, 2014

Acquired Loans:	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
	(dollars in thousands)						
Commercial Real Estate - construction	$—	$—	$ —	$—	$—	$—	$ —
Commercial Real Estate - other	125	128	93	346	15,604	15,950	—
Commercial - non real estate	—	40	104	144	4,217	4,361	—
Consumer:							
Consumer - Real Estate	123	—	—	123	1,609	1,732	—
Consumer - Other	—	—	—	—	213	213	—
Residential:							
Residential	147	56	461	664	6,222	6,886	225
Total	$395	$224	$ 658	$1,277	$27,865	$29,142	$ 225

The Bank uses an eight tier risk rating system to grade its commercial loans. The grade of a loan may change during the life of the loan. The risk ratings are described as follows:

Risk Grade 1 (Excellent):

Demonstrates exceptional credit fundamentals, including stable and predictable profit margins and cash flows, strong liquidity, and a conservative balance sheet.

Significant cash flow coverage of existing and pro forma debt service.

Industry leader with a diversified product mix and broad geographical market distribution.

Obligations secured by cash ("on us" deposits) and U.S. Government securities within policy advance rates.

Risk Grade 2 (Superior):

The difference between this rating and Class 1 is generally in degree and size. Credit quality is slightly less dominant, with less predictability in earnings and cash flow.

Customer may be one of the stronger and larger privately held companies. Balance sheet is conservative with excellent liquidity.

Obligations secured by liquid financial instruments within policy advance rates.

Risk Grade 3 (Satisfactory):

Obligor may also be a privately held, middle market company with a strong balance sheet, consistent earnings, and worthy of unsecured credit.

Leverage, liquidity and coverage average to slightly better than average within industry. Balance sheet may contain some intangibles.

History of profitable operations, but conditions exist that would suggest obligor’s earnings could temporarily decline due to market or economic conditions.

Cash flow is adequate and profit margins are slightly above average within the industry.

Obligor’s product mix may lack diversity or geographic distribution, but is usually not confined to a single product or service.

Bank borrowings will tend not to be constant; obligor’s debt instruments would be attractive to other lenders. Most likely would have access to alternative sources of funding (public or private).

Risk Grade 4 (Acceptable):

Subject to normal degree of risk.

Cash flow is adequate to service debt, but is susceptible to some deterioration due to cyclical, seasonal or economic fluctuations.

Balance sheet contains some leverage; liquidity could be temporarily tight. There could be some asset concentration.

Access to financial markets could be limited or expensive.

Management is experienced but may be concentrated in a few “key” people.

Some unfavorable characteristics may exist:
- Reliance on single product or major customer concentration
- Volatility of earnings or earnings weakness due to competition
- Leverage is increasing, but is still within normal industry parameters
- Management is capable but would be tested in an adverse business environment
- High leverage offset by stable or predictable cash flow

Borrowings would usually be on a secured basis, with some inventory reliance and fairly steady outstandings. Borrowing base may be fully utilized from time to time.

4.5 - Acceptable Risk Monitored:

This rating category is a subset of a Risk Grade 4-Acceptable and serves primarily as an early warning indicator to management to avoid surprises to Special Mention or worse credits. The loans in this category may have several characteristics of a Risk Grade 4 loan, but have negative results and trending that warrant monitoring.

More unpredictability in earnings and cash flow. Obligor may have experienced modest and presumably temporary losses; resulting in a temporary negative cash flow.
Current financial statements have not been provided by the borrower.

Leverage ratios and liquidity are below normal industry standards, but may be deliberate financial restructuring, testing the limits of acceptable capitalization.

Secondary source of repayment may be limited.

Grade 4.5 risk rated credits are acceptable, but if the weakness is not checked or corrected the asset may further weaken or inadequately protect the Bank's credit exposure at some future date.

Risk Grade 5 (Special Mention):
A Special Mention asset is not considered criticized for regulatory purposes. A Special Mention obligor may exhibit a potential weakness that may result in the deterioration of the repayment prospects for the credit or in the Bank's credit position in the future; however, there must also be a well-defined plan of corrective action that is believed to be credible.

The obligor will generally have exhibited a sudden but modest and temporary deterioration, often related to a specific event.

Protracted gradual deterioration that appears to represent a trend or sudden deterioration of a more significant magnitude would warrant a more severe risk rating.

The action plan may include certain kinds of bridging events (for example, a capital injection) that could resolve the issue.

Special Mention asset may also have a single event of uncertainty associated with it, which should generally be resolved within 120 days (for example, management succession, litigation or turnaround acquisition).

Risk Grade 6 (Substandard):
A Substandard asset has well defined weakness(es) where a payment default is possible and a loss is possible, but not yet probable. Assets so classified are inadequately protected by current net worth and repayment capacity or there is a likelihood that collateral will have to be liquidated to repay the debt.

Cash flow from operations may be insufficient to meet principal reductions as expected, with the prospect that this condition may not be temporary.

Restructure not in the ordinary course of business has occurred or is anticipated.

A payment default is possible (at least 20% probability but less than 50%) and there is a dependence upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal.

If deficiencies are not corrected, there is a possibility of loss (less than 25% probability) and a question regarding the company's ability to operate as a going concern.

Generally, the asset/loan is considered collectible as to both principal and interest, primarily because of collateral coverage or enterprise value. Loss of principal is not at question, unless current trends were to continue.

Risk Grade 7 (Doubtful):
A Doubtful asset/loan has characteristics of Substandard, but available information suggests it is unlikely that the asset/loan will be repaid in its entirety. A loan/asset with a grade 7 is reported in the Bank's financial records on a non-accrual basis. The entire asset/loan should be rated Doubtful when any portion is considered Doubtful.

Risk Grade 8 (Loss):
Assets/loans or portions of assets/loans classified as Loss are determined to be uncollectible and are of such little value that their continuing classification as bankable is unwarranted. Accordingly, that portion of an asset/loan with a 75% or greater probability of being uncollectible should be classified Loss and promptly charged off. The remaining portion of the asset/loan may be classified Doubtful, depending on the circumstances. This does not suggest, however, that there is no possibility of a recovery of a portion or all of the charged-off asset/loan at some future time.

The following table presents the risk category of loans by class of loans based on the most recent analysis performed as of September 30, 2015 and December 31, 2014:

As of September 30, 2015

Originated Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$—	$658	$ 342
3	—	12,364	10,852
4	237	21,701	7,336
4.5	20	3,268	357
5	—	2,595	224
6	—	4,631	1,816
7	—	—	—
8	—	—	—
Total	$257	$45,217	$ 20,927

Acquired Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$—	$236	$ 690
3	—	2,128	392
4	—	9,598	545
4.5		461	7
5	—	694	375
6	—	761	451
7	—	0	0
8	—	0	0
Total	$—	$13,878	$ 2,460

As of December 31, 2014

Originated Loans: Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$—	$—	$ 31
3	—	13,565	6,088
4	1,443	21,757	7,538
4.5	—	3,553	252
5	—	6,040	635
6	—	1,393	—
7	—	—	—
8	—	—	—
Total	$1,443	$46,308	$ 14,544

Acquired Loans: Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$—	$280	$ 1,188
3	—	2,696	876
4	—	10,905	970
4.5		337	21
5	—	1,176	1,150
6	—	547	156
7	—	9	0
8	—	—	0
Total	$—	$15,950	$ 4,361

For residential real estate and other consumer credit the Company also evaluates credit quality based on the aging status of the loan and by payment activity. Loans 60 or more days past due are monitored by the collection committee.

The following tables present the risk category of loans by class based on the most recent analysis performed as of September 30, 2015 and December 31, 2014:

As of September 30, 2015

Residential	Consumer - Real Estate	Consumer - Other

Originated Loans:			
Loan Grade:			
Pass	$ 70,350	$ 7,462	$ 1,432
Special Mention	—	—	—
Substandard	541	28	4
Total	$ 70,891	$ 7,490	$ 1,436

	Residential	Consumer - Real Estate	Consumer - Other
Acquired Loans:			
Loan Grade:			
Pass	$ 5,294	$ 1,565	$ 120
Special Mention	—	—	—
Substandard	273	9	—
Total	$ 5,567	$ 1,574	$ 120

As of December 31, 2014

	Residential	Consumer - Real Estate	Consumer - Other
Originated Loans:			
Loan Grade:			
Pass	$ 64,397	$ 7,778	$ 1,155
Special Mention	—	—	—
Substandard	545	24	3
Total	$ 64,942	$ 7,802	$ 1,158

	Residential	Consumer - Real Estate	Consumer - Other
Acquired Loans:			
Loan Grade:			
Pass	$ 6,335	$ 1,731	$ 213
Special Mention	—	—	—
Substandard	551	1	—
Total	$ 6,886	$ 1,732	$ 213

The following table presents the recorded investment in non-accrual loans by class as of September 30, 2015 and December 31, 2014:

	As of September 30, 2015	December 31, 2014
	(in thousands)	
Commercial Real Estate:		
Commercial Real Estate - construction	$—	$ —
Commercial Real Estate - other	370	486
Commercial	151	77
Consumer:		
Consumer - real estate	35	25
Consumer - other	4	—
Residential:		
Residential	681	750
Total	$1,241	$ 1,338

Acquired impaired loans are not subject to individual evaluation for impairment and are not reported as non-performing loans based on acquired impaired loan accounting. Acquired non-impaired loans are placed on non-accrual status and reported as past due or non-performing using the same criteria that is applied to the originated loan portfolio.

The key features of the Company’s loan modifications are determined on a loan-by-loan basis. Generally, our restructurings have related to interest rate reductions and loan term extensions. In the past the Company has granted reductions in interest rates, payment extensions and short-term payment forbearances as a means to maximize collectability of troubled credits. The Company has not forgiven principal to date, although this would be considered if necessary to ensure the long-term collectability of the loan. The Company’s loan modifications are typically short-term in nature, although the Company would consider a long-term modification to ensure the long-term collectability of the credit. At a minimum, a borrower must make at least six consecutive timely payments before the Company would consider a return of a restructured loan to accruing status in accordance with Federal Deposit Insurance Corporation guidelines regarding restoration of credits to accrual status.

The Bank has classified approximately $3.1 million of its impaired loans as troubled debt restructurings (“TDRs”) as of September 30, 2015. There were no commitments to extend credit to borrowers with loans classified as TDRs as of September 30, 2015 and December 31, 2014.

TDR loans are classified as being in default on a case by case basis when they fail to be in compliance with the modified terms. For the three and nine months ended September 30, 2015 and 2014 the Company did not have any new TDRs or TDRs that subsequently defaulted.

For the majority of the Bank's impaired loans, the Bank will apply the market value of collateral methodology. However, the Bank may also utilize a measurement incorporating the present value of expected future cash flows discounted at the loan's effective rate of interest. To determine observable market price, collateral asset values securing an impaired loan are periodically evaluated. Maximum time of re-evaluation is every 12 months. In this process, third party evaluations are obtained and heavily relied upon. Until such time that updated evaluations are received, the Bank may discount the collateral value used.

The Bank uses the following guidelines, as stated in policy, to determine when to realize a charge-off, whether a partial or full loan balance. A charge down in whole or in part is realized when unsecured consumer loans, credit card credits and overdraft lines of credit reach 90 days delinquency. At 120 days delinquency, secured consumer loans are charged down to the value of collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency. Commercial credits are charged down at 90 days delinquency, unless an established and approved work-out plan is in place or litigation of the credit will likely result in recovery of the loan balance. Upon notification of bankruptcy, unsecured debt is charged off. Additional charge-offs may be realized as further unsecured positions are recognized.

The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2015 and December 31, 2014:

Impaired Loans As of September 30, 2015				For the Three Months Ended September 30, 2015		For the Nine Months Ended September 30, 2015	
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)						
With no specific allowance recorded:							
Commercial Real Estate - Construction	$—	$ —	$ —	$—	$ —	$—	$ —
Commercial Real Estate - Other	728	728	—	756	11	796	36
Commercial - Other	—	—	—	—	—	—	—
Consumer - Real Estate	14	12	—	12	—	12	—
Consumer - Other	6	4	—	5	—	4	—
Residential	526	435	—	442	5	449	10
With a specific allowance recorded:							
Commercial Real Estate - Construction	—	—	—	—	—	—	—
Commercial Real Estate - Other	935	935	11	940	12	949	36
Commercial - Other	—	—	—	—	—	—	—
Consumer - Real Estate	18	16	16	17	—	17	—
Consumer - Other	—	—	—	—	—	—	—
Residential	185	176	38	178	—	178	1
Totals:							
Commercial Real Estate - Construction	$—	$ —	$ —	$—	$ —	$—	$ —
Commercial Real Estate - Other	$1,663	$ 1,663	$ 11	$1,696	$ 23	$1,745	$ 72
Commercial - Other	$—	$ —	$ —	$—	$ —	$—	$ —
Consumer - Real Estate	$32	$ 28	$ 16	$29	$ —	$29	$ —
Consumer - Other	$6	$ 4	$ —	$5	$ —	$4	$ —
Residential	$711	$ 611	$ 38	$620	$ 5	$627	$ 11

Impaired Loans As of December 31, 2014				For the Three Months Ended September 30, 2014		For the Nine Months Ended September 30, 2014	
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)						
With no related allowance recorded:							

Commercial Real Estate - Construction	$—	$ —	$ —	$—	$ —	$ —	$ —
Commercial Real Estate - Other	—	—	—	—	—	—	—
Commercial - Other	1,431	1,430	—	1,444	21	1,499	63
Consumer - Real Estate	26	24	—	—	—	—	—
Consumer - Other	—	—	—	27	—	27	—
Residential	781	618	—	—	—	—	—
				528	1	534	4
With a specific allowance recorded:							
Commercial Real Estate - Construction	—	—	—	173	—	173	—
Commercial Real Estate - Other	—	—	—	392	5	396	13
Commercial - Other	386	386	10	—	—	—	—
Consumer - Real Estate	—	—	—	—	—	—	—
Consumer - Other	—	—	—	—	—	—	—
Residential	—	—	—	179	—	179	1
Totals:							
Commercial Real Estate - Construction	$—	$ —	$ —	$173	$ —	$ 173	$ —
Commercial Real Estate - Other	$—	$ —	$ —	$1,836	$ 26	$ 1,895	$ 76
Commercial - Other	$1,817	$ 1,816	$ 10	$—	$ —	$ —	$ —
Consumer - Real Estate	$26	$ 24	$ —	$27	$ —	$ 27	$ —
Consumer - Other	$—	$ —	$ —	$—	$ —	$ —	$ —
Residential	$781	$ 618	$ —	$707	$ 1	$ 713	$ 5

Acquired loans are not subject to individual evaluation for impairment and are not reported as impaired loans based on acquired impaired loan accounting. Acquired non-impaired loans are placed on nonaccrual status and reported as impaired using the same criteria applied to the originated loan portfolio. In accordance with purchase accounting rules, acquired loans were recorded at fair value at the acquisition date and the prior allowance was eliminated. No allowance for loan loss has been established on these acquired loans through September 30, 2015.

The ALLL has a direct impact on the provision expense. An increase in the ALLL is funded through recoveries and provision expense.

Activity in the allowance for loan and lease losses was as follows for the three and nine months ended September 30, 2015 and September 30, 2014, respectively:

Allowance for Credit Losses
For the Three Months Ended September 30, 2015

	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
	(dollars in thousands)							
Allowance for credit losses:								
Beginning Balance	$—	$ 492	$ 140	$ 42	$ 18	$ 721	$ 75	$1,488
Charge-offs	—	—	—	(7)	(3)	(5)	—	(15)
Recoveries	1	9	—	8	15	13	—	46
Provision	—	(1)	55	(7)	(15)	(52)	15	(5)
Ending Balance	$1	$ 500	$ 195	$ 36	$ 15	$ 677	$ 90	$1,514

For the Nine Months Ended September 30, 2015

	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
	(dollars in thousands)							
Allowance for credit losses:								
Beginning Balance	$8	$ 307	$ 94	$ 33	$ 19	$ 869	$ 99	$1,429
Charge-offs	—	(3)	—	(11)	(15)	(42)	—	(71)
Recoveries	13	74	5	28	16	46	—	182
Provision	(20)	122	96	(14)	(5)	(196)	(9)	(26)
Ending Balance	$1	$ 500	$ 195	$ 36	$ 15	$ 677	$ 90	$1,514

Loan Balances Evaluated for Impairment
As of September 30, 2015

	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
	(dollars in thousands)							
Allowance for loan losses as of September 30, 2015								
Ending balance: individually evaluated for impairment	$—	$ 11	$ —	$ 16	$ —	$ 38	$ —	$ 65
Ending balance: loans collectively evaluated for impairment	$ 1	$ 489	$ 195	$ 20	$ 15	$ 639	$ 90	$ 1,449
Loans as of September 30, 2015								
Loans:								
Ending Balance	$ 257	$ 59,096	$ 23,387	$ 9,063	$ 1,557	$ 76,458	$ —	$ 169,818
Ending balance: individually evaluated for impairment	$—	$ 1,663	$ —	$ 28		$ 611	$ —	$ 2,302
Ending balance: loans collectively evaluated for impairment	$ 257	$ 43,554	$ 20,927	$ 7,462	$ 1,436	$ 70,280	$ —	$ 143,916
Acquired loans with deteriorated credit quality not subject to loan loss reserve	$—	$ 1,892	$ 810	$ 11	$ —	$ 401	$ —	$ 3,114
Other acquired loans not subject to loan loss reserve	$—	$ 11,987	$ 1,650	$ 1,563	$ 120	$ 5,166	$ —	$ 20,486

Allowance for Credit Losses
For the Three Months Ended September 30, 2014

	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
	(dollars in thousands)							
Allowance for credit losses:								
Beginning Balance	$ 48	$ 426	$ 72	$ 38	$ 16	$ 783	$ 104	$ 1,487
Charge-offs	—	(225)	—	(2)	(17)	(66)	—	(310)
Recoveries	—	14	1	3	—	12	—	30

Provision	2	18	(14)	(1)	6	211	35	257
Ending Balance	$50	$ 233	$ 59	$ 38	$ 5	$ 940	$ 139	$1,464

For the Nine Months Ended September 30, 2014

	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
	(dollars in thousands)							
Allowance for credit losses:								
Beginning Balance	$48	$ 444	$ 63	$ 62	$ 21	$ 784	$ 50	$1,472
Charge-offs	—	(241)	—	(15)	(23)	(111)	—	(390)
Recoveries	—	45	1	26	—	37	—	109
Provision	2	(15)	(5)	(35)	7	230	89	273
Ending Balance	$50	$ 233	$ 59	$ 38	$ 5	$ 940	$ 139	$1,464

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Loan Balances Individually Evaluated for Impairment
As of September 30, 2014

	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
	(dollars in thousands)							
Allowance for loan losses as of September 30, 2014								
Ending balance: individually evaluated for impairment	$48	$ 11	$—	$—	$—	$ 39	$ —	$98
Ending balance: loans collectively evaluated for impairment	$2	$ 222	$ 59	$ 38	$ 5	$ 901	$ 139	$1,366
Loans as of September 30, 2014								
Loans:								
Ending Balance	$634	$ 45,697	$ 12,578	$ 7,905	$ 1,098	$ 65,526	$ —	$133,438
Ending balance: individually evaluated for impairment	$173	$ 1,620	$ 202	$ 39	$—	$ 1,370	$ —	$3,404
Ending balance: loans collectively evaluated for impairment	$461	$ 44,077	$ 12,376	$ 7,866	$ 1,098	$ 64,156	$ —	$130,034

Note 6–DIVIDENDS

We are dependent primarily upon the Bank for our earnings and funds to pay dividends on common stock. The payment of dividends also is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on the Bank’s earnings, capital requirements, financial condition and other factors considered by the Board of Directors.

Note 7–STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted FASB ASC 718-10, “Shareholder Based Payments”, which requires that the grant-date fair value of awarded stock options be expensed over the requisite service period. The Company’s 1996 Stock Option Plan (the “1996 Plan”), which was approved by shareholders, permits the grant of options to purchase shares of common stock to its employees and directors for up to 127,491 shares of common stock (retroactively adjusted for the exchange ratio applied in the Company’s 2005 stock offering and related second-step conversion). The Company’s 2006 Stock-Based Incentive Plan (the “2006 Plan”), which was approved by shareholders, permits the award of up to 242,740 shares of common stock of which the maximum number to be granted as stock options is 173,386 and the maximum to be granted as restricted stock awards is 69,354. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. These option awards generally vest based on five years of continual service and have ten-year contractual terms. Certain options provide for accelerated vesting if there is a change in control (as defined in the Plans).

During the nine months ended September 30, 2015 the Company awarded no shares under the either the 2006 Plan or the 1996 Plan. Shares issued under the plans and e