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People's Utah Bancorp
Form 10-Q
May 13, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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 001-37416

PEOPLE'S UTAH BANCORP

(Exact name of registrant as specified in its charter)

UTAH
(State or other jurisdiction of
incorporation or organization)

87-0622021
(IRS Employer
Identification No.)

1 East Main Street, American Fork, Utah 84003
(Address of principal executive offices) (Zip Code)

(801) 642-3998

Registrant's telephone number, including area code

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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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. x Yes 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). x Yes No o

Indicate by checkmark 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 o

Accelerated filer o

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

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

o Yes No x

The number of shares of Registrant’s common stock outstanding on May 2, 2016 was 17,734,708. No preferred shares are issued or outstanding.

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PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$20,973	\$19,745
Interest bearing deposits	20,434	20,428
Federal funds sold	5,488	2,176
Total cash and cash equivalents	46,895	42,349
Investment securities:		
Available-for-sale, at fair value	313,641	332,736
Held-to-maturity, at historical cost	64,272	65,882
Total investment securities	377,913	398,618
Non-marketable equity securities	1,827	2,244
Loans held for sale	13,123	17,947
Loans:		
Loans held for investment	1,070,146	1,047,975
Less allowance for loan losses	(15,723)	(15,557)
Total loans held for investment, net	1,054,423	1,032,418
Premises and equipment, net	22,027	22,104
Accrued interest receivable	5,826	5,767
Deferred income tax assets	7,753	8,606
Other real estate owned	644	568
Bank-owned life insurance	19,308	19,170
Other assets	5,933	6,191
Total assets	\$1,555,672	\$1,555,982
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing deposits	\$407,849	\$408,508
Interest bearing deposits	916,467	900,677
Total deposits	1,324,316	1,309,185
Short-term borrowings	2,549	27,204
Accrued interest payable	309	314
Other liabilities	13,116	9,871
Total liabilities	1,340,290	1,346,574
Commitments and contingencies		
Shareholders' equity:		
Preferred shares, \$0.01 par value: 3,000,000 shares authorized, no shares issued	—	—
Common shares, \$0.01 par value: 30,000,000 shares authorized; 17,715,348		
and 17,567,154 shares issued and outstanding as of March 31, 2016		
and December 31, 2015, respectively	177	176
Additional paid-in capital	67,924	67,338

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Retained earnings	146,233	142,223
Accumulated other comprehensive income (loss)	1,048	(329)
Total shareholders' equity	215,382	209,408
Total liabilities and shareholders' equity	\$1,555,672	\$1,555,982

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share and per share data)	Three Months Ended	
	March 31,	
	2016	2015
Interest income		
Interest and fees on loans	\$15,851	\$13,809
Interest and dividends on investments	1,603	1,450
Total interest income	17,454	15,259
Interest expense	754	760
Net interest income	16,700	14,499
Provision for loan losses	200	150
Net interest income after provision for loan losses	16,500	14,349
Non-interest income		
Service charges on deposit accounts	513	643
Card processing	1,031	1,002
Mortgage banking	1,748	1,772
Other operating	471	727
Total non-interest income	3,763	4,144
Non-interest expense		
Salaries and employee benefits	7,884	7,194
Occupancy, equipment and depreciation	988	990
Data processing	777	689
FDIC premiums	195	187
Card processing	590	470
Other real estate owned	32	17
Marketing and advertising	169	173
Other	1,500	1,499
Total non-interest expense	12,135	11,219
Income before income tax expense	8,128	7,274
Income tax expense	2,885	2,476
Net income	\$5,243	\$4,798
Earnings per common share:		
Basic	\$0.30	\$0.32
Diluted	\$0.29	\$0.31
Weighted average common shares outstanding:		
Basic	17,632,288	14,770,306
Diluted	18,124,392	15,301,015

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three Months Ended March 31,	
	2016	2015
Net income	\$5,243	\$4,798
Other comprehensive income		
Unrealized holding gains on securities available for sale	2,228	1,367
Tax effect	(851)	(516)
Unrealized holding gains on securities available for sale, net of tax	1,377	851
Total comprehensive income	\$6,620	\$5,649

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Three Months Ended March 31, 2016 and 2015

(Dollars in thousands, except share data)	Common Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of January 1, 2015	14,758,121	\$ 148	\$ 31,137	\$125,595	\$ 779	\$157,659
Comprehensive income	—	—	—	4,798	851	5,649
Share-based compensation	—	—	109	—	—	109
Exercise of stock options	17,600	—	85	—	—	85
Balance as of March 31, 2015	14,775,721	\$ 148	\$ 31,331	\$130,393	\$ 1,630	\$163,502
Balance as of January 1, 2016	17,567,154	\$ 176	\$ 67,338	\$142,223	\$ (329)	\$209,408
Comprehensive income	—	—	—	5,243	1,377	6,620
Cash dividends declared (\$0.07 per share)	—	—	—	(1,233)	—	(1,233)
Share-based compensation	—	—	127	—	—	127
Exercise of stock options	148,194	1	459	—	—	460
Balance as of March 31, 2016	17,715,348	\$ 177	\$ 67,924	\$146,233	\$ 1,048	\$215,382

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$5,243	\$4,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	200	150
Depreciation and amortization	642	518
Net (gain) loss on sales of other real estate owned	28	(93)
Deferred income taxes	—	(26)
Net amortization of securities discounts and premiums	773	719
Other	125	111
Gain on sale of loans held for sale	(1,255)	(1,256)
Originations of loans held for sale	(52,068)	(61,213)
Proceeds from sale of loans held for sale	58,147	58,344
Net changes in:		
Accrued interest receivable	(59)	(62)
Other assets	120	(333)
Accrued interest payable	(5)	(14)
Other liabilities	3,245	3,354
Net cash provided by operating activities	15,136	4,997
Cash flows from investing activities:		
Net change in loans held for investment	(22,442)	(15,882)
Purchase of available-for-sale securities	(2,000)	(11,873)
Purchase of held-to-maturity securities	-	(3,715)
Proceeds from maturities/sales of available-for-sale securities	22,701	26,361
Proceeds from maturities of held-to-maturity securities	1,459	364
Purchase of premises and equipment	(561)	(946)
Proceeds from sale of other real estate owned, net of improvements	133	168
Proceeds from sale of non-marketable equity securities	417	28
Net cash used in investing activities	(293)	(5,495)
Cash flows from financing activities:		
Net increase (decrease) in non-interest bearing deposits	(659)	20,890
Net increase in interest bearing deposits	15,790	13,339
Proceeds related to exercise of stock options	460	85
Net change in short-term borrowings	(24,655)	626
Cash dividends paid	(1,233)	(2,066)
Net cash provided by (used in) financing activities	(10,297)	32,874
Net change in cash and cash equivalents	4,546	32,376
Cash and cash equivalents, beginning of period	42,349	47,702
Cash and cash equivalents, end of period	\$46,895	\$80,078
Supplemental disclosures of cash flow information:		

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Cash paid for interest	\$ 669	\$ 700
Income taxes paid	—	\$ 500
Supplemental disclosures of non-cash transactions:		
Reclassifications from loans to other real estate owned	\$ 237	—
Unrealized gains on securities available for sale	\$ 2,228	\$ 1,367

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

People's Utah Bancorp, Inc. ("PUB" or the "Company") is a Utah corporation headquartered in American Fork, Utah. The Company's subsidiary is People's Intermountain Bank ("PIB" or the "Bank"), which includes two banking divisions doing business as ("dba") Bank of American Fork ("BAF") and Lewiston State Bank ("LSB") and an equipment leasing division dba GrowthFunding Equipment Finance. BAF and LSB have over 100 years of history and will continue to do business as registered names of PIB.

The interim consolidated financial statements include the accounts of the Company together with its subsidiary Bank. All intercompany transactions and balances have been eliminated.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial information. In the opinion of management, the interim statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis and all such adjustments are of a normal recurring nature. These financial statements and the accompanying notes should be read in conjunction with the Company's audited financial statements for the years ended December 31, 2015 and 2014. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or any other period.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired through foreclosure, deferred tax assets, and share-based compensation.

Earnings per share — Basic earnings per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares includes shares that may be issued by the Company for outstanding stock options determined using the treasury stock method and for all outstanding restricted stock units ("RSU").

Earnings per common share have been computed based on the following:

	Three Months Ended	
	March 31,	
(in thousands, except share and per share data)	2016	2015

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Numerator		
Net income	\$5,243	\$4,798
Denominator		
Weighted-average number of common shares outstanding	17,632,288	14,770,306
Incremental shares assumed for stock options and RSUs	492,104	530,709
Weighted-average number of dilutive shares outstanding	18,124,392	15,301,015
Basic earnings per common share	\$0.30	\$0.32
Diluted earnings per common share	\$0.29	\$0.31

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 — Investment Securities

Amortized cost and approximate fair values of investment securities available for sale are summarized as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses		Fair Value
			Less 12 Months or Longer	12 Months or Longer	
As of March 31, 2016					
U.S. Government-sponsored securities	\$ 96,579	\$ 146	\$(45)	\$ —	\$ 96,680
Municipal securities	34,953	829	-	(5)	35,777
Mortgage-backed securities	170,412	1,721	(168)	(420)	171,545
Corporate securities	10,000	—	(229)	(132)	9,639
	\$ 311,944	\$ 2,696	\$(442)	\$(557)	\$ 313,641
As of December 31, 2015					
U.S. Government-sponsored securities	\$ 104,591	\$ 11	\$(612)	\$ -	\$ 103,990
Municipal securities	36,820	926	(7)	(9)	37,730
Mortgage-backed securities	181,857	940	(724)	(687)	181,386
Corporate securities	10,000	-	(253)	(117)	9,630
	\$ 333,268	\$ 1,877	\$(1,596)	\$(813)	\$ 332,736

Carrying amounts and estimated fair values of securities held-to-maturity are as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses		Fair Value
			Less 12 Months or Longer	12 Months or Longer	
As of March 31, 2016					
Municipal securities	\$ 62,040	\$ 368	\$(36)	\$(12)	\$ 62,360
Certificates of deposit	2,232	6	—	—	2,238
	\$ 64,272	\$ 374	\$(36)	\$(12)	\$ 64,598
As of December 31, 2015					
Municipal securities	\$ 63,650	\$ 238	\$(74)	\$(2)	\$ 63,812
Certificates of deposit	2,232	5	-	—	2,237
	\$ 65,882	\$ 243	\$(74)	\$(2)	\$ 66,049

The amortized cost and estimated fair values of investment securities that are available-for-sale and held-to-maturity at March 31, 2016, by contractual maturity, are as follows:

(in thousands)	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities maturing in:				
One year or less	\$13,338	\$13,406	\$8,218	\$8,224
After one year through five years	116,475	117,088	42,571	42,754
After five years through ten years	59,454	59,787	13,483	13,620
After ten years	122,677	123,360	—	—
	\$311,944	\$313,641	\$64,272	\$64,598

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

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 — Investment Securities – Continued

As of March 31, 2016 and December 31, 2015, the Company held 150 and 234 investment securities, respectively, with fair values less than amortized cost. Management evaluated these investment securities and determined that the decline in value is temporary and related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. The Company anticipates full recovery of the amortized cost with respect to these securities at maturity, or sooner in the event of a more favorable market interest rate environment.

Note 3 — Loans and Allowance for Loan Losses

Loans are summarized as follows:

(in thousands)	March 31, 2016	December 31, 2015
Loans held for investment:		
Commercial real estate loans:		
Real estate term	\$584,046	\$577,804
Construction and land development	194,708	179,664
Total commercial real estate loans	778,754	757,468
Commercial and industrial loans	212,702	208,277
Consumer loans:		
Residential and home equity	68,317	71,169
Consumer and other	14,223	14,945
Total consumer loans	82,540	86,114
Total gross loans	1,073,996	1,051,859
Less:		
Net deferred loan fees	(3,850)	(3,884)
Total loans held for investment	1,070,146	1,047,975
Less: allowance for loan losses	(15,723)	(15,557)
Total loans held for investment, net	\$1,054,423	\$1,032,418

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

Changes in the allowance for loan losses (“ALLL”) are as follows:

(in thousands)	Three Months Ended March 31, 2016					
	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	\$6,783	\$ 3,984	\$ 3,941	\$ 603	\$ 246	\$15,557
Additions: Provisions for loan losses	(95)	344	15	(12)	(52)	200
Deductions:						
Gross loan charge-offs	—	—	(72)	—	(64)	(136)
Recoveries	4	16	37	4	41	102
Net loan charge-offs	4	16	(35)	4	(23)	(34)
Balance at end of period	\$6,692	\$ 4,344	\$ 3,921	\$ 595	\$ 171	\$15,723

(in thousands)	Three Months Ended March 31, 2015					
	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	\$5,181	\$ 4,425	\$ 4,608	\$ 671	\$ 266	\$15,151
Additions: Provisions for loan losses	378	(303)	18	(6)	63	150
Deductions:						
Gross loan charge-offs	—	—	(15)	—	(93)	(108)
Recoveries	5	3	71	5	20	104
Net loan charge-offs	5	3	56	5	(73)	(4)
Balance at end of period	\$5,564	\$ 4,125	\$ 4,682	\$ 670	\$ 256	\$15,297

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

Non-accrual loans are summarized as follows:

(in thousands)	March 31, 2016	December 31, 2015
Non-accrual loans, not troubled debt restructured:		
Real estate term	\$2,922	\$ 2,961
Construction and land development	71	56
Commercial and industrial	281	1,176
Residential and home equity	231	631
Consumer and other	—	88
Total non-accrual loans, not troubled debt restructured	3,505	4,912
Troubled debt restructured loans, non-accrual:		
Real estate term	874	1,153
Construction and land development	784	1,329
Commercial and industrial	20	21
Residential and home equity	—	—
Consumer and other	—	—
Total troubled debt restructured loans, non-accrual	1,678	2,503
Total non-accrual loans	\$5,183	\$ 7,415

Troubled debt restructured loans are summarized as follows:

(in thousands)	March 31, 2016	December 31, 2015
Accruing troubled debt restructured loans	\$6,715	\$ 7,049
Non-accrual troubled debt restructured loans	1,678	2,503
Total troubled debt restructured loans	\$8,393	\$ 9,552

A restructured loan is considered a troubled debt restructured loan (“TDR”), if the Company, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession in terms or a below-market interest rate to the debtor that it would not otherwise consider. Each TDR loan is separately negotiated with the borrower and includes terms and conditions that reflect the borrower’s prospective ability to service the debt as modified.

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Current and past due loans held for investment (accruing and non-accruing) are summarized as follows:

(in thousands)	March 31, 2016				Non-accrual	Total Past Due	Total Loans
	Current	30-89 Days Past Due	90+ Days Past Due				
Commercial real estate:							
Real estate term	\$579,483	\$767	\$ —	\$ 3,796	\$4,563	\$584,046	
Construction and land development	193,309	544	—	855	1,399	194,708	
Total commercial real estate	772,792	1,311	—	4,651	5,962	778,754	
Commercial and industrial	211,181	1,220	—	301	1,521	212,702	
Consumer:							
Residential and home equity	66,797	1,289	—	231	1,520	68,317	
Consumer and other	14,013	206	4	-	210	14,223	
Total consumer	80,810	1,495	4	231	1,730	82,540	
Total gross loans	\$1,064,783	\$4,026	\$ 4	\$ 5,183	\$9,213	\$1,073,996	

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

(in thousands)	December 31, 2015				Total Past Due	Total Loans
	Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual		
Commercial real estate:						
Real estate term	\$567,886	\$5,804	\$ —	\$ 4,114	\$9,918	\$577,804
Construction and land development	170,495	7,784	—	1,385	9,169	179,664
Total commercial real estate	738,381	13,588	—	5,499	19,087	757,468
Commercial and industrial	205,765	1,315	—	1,197	2,512	208,277
Consumer:						
Residential and home equity	69,950	588	—	631	1,219	71,169
Consumer and other	14,596	258	3	88	349	14,945
Total consumer	84,546	846	3	719	1,568	86,114
Total gross loans	\$1,028,692	\$15,749	\$ 3	\$ 7,415	\$23,167	\$1,051,859

Credit Quality Indicators:

In addition to past due and non-accrual criteria, the Company also analyzes loans using a loan grading system. Performance-based grading follows the Company's definitions of Pass, Special Mention, Substandard and Doubtful, which are consistent with published definitions of regulatory risk classifications.

Definitions of Pass, Special Mention, Substandard and Doubtful are summarized as follows:

Pass: A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is considered remote.

Special Mention: A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the Company is currently protected and loss is considered unlikely and not imminent.

Substandard: A Substandard asset is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well defined weaknesses and are characterized by the distinct possibility that the Company may sustain some loss if deficiencies are not corrected.

Doubtful: A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable.

For Consumer loans, the Company generally assigns internal risk grades similar to those described above based on payment performance.

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Outstanding loan balances (accruing and non-accruing) categorized by these credit quality indicators are summarized as follows:

(in thousands)	March 31, 2016				Total Loans	Total Allowance
	Pass	Special Mention	Substandard and Doubtful			
Commercial real estate:						
Real estate term	\$557,372	\$17,205	\$ 9,469		\$584,046	\$ 6,692
Construction and land development	188,522	2,456	3,730		194,708	4,344
Total commercial real estate	745,894	19,661	13,199		778,754	11,036
Commercial and industrial	201,043	5,655	6,004		212,702	3,921
Consumer loans:						
Residential and home equity	64,083	2,354	1,880		68,317	595
Consumer and other	14,139	8	76		14,223	171
Total consumer	78,222	2,362	1,956		82,540	766
Total	\$1,025,159	\$27,678	\$ 21,159		\$1,073,996	\$ 15,723

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 — Loans and Allowance for Loan Losses – Continued

December 31, 2015					
(in thousands)	Pass	Special Mention	Substandard and Doubtful	Total Loans	Total