INDEPENDENT BANK CORP /MI/
Form 10-Q
August 09, 2012

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 June 30, 2012

Commission file number 0-7818

INDEPENDENT BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan	38-2032782
(State or jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

230 West Main Street, P.O. Box 491, Ionia, Michigan 48846
(Address of principal executive offices)

(616) 527-5820
(Registrant's telephone number, including area code)

NONE
Former name, address and fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or smaller reporting company.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

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

Common stock, no par value	8,773,629
Class	Outstanding at August 9, 2012

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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Discussions and statements in this report that are not statements of historical fact, including, without limitation, statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “proje “likely,” “optimistic” and “plan,” and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; predictions as to our Bank’s ability to maintain certain regulatory capital standards; our expectation that we will have sufficient cash on hand to meet expected obligations during 2012; and descriptions of steps we may take to improve our capital position. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including, among others:

- our ability to successfully raise new equity capital, effect a conversion of our outstanding convertible preferred stock held by the U.S. Treasury into our common stock, and otherwise implement our capital restoration plan;
- the failure of assumptions underlying the establishment of and provisions made to our allowance for loan losses;
- the timing and pace of an economic recovery in Michigan and the United States in general, including regional and local real estate markets;
- the ability of our Bank to remain well-capitalized;
- the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle

service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;

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- further adverse developments in the vehicle service contract industry;
- potential limitations on our ability to access and rely on wholesale funding sources;
- the risk that sales of our common stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes;
- the continued services of our management team, particularly as we work through our asset quality issues and the implementation of our capital restoration plan;
- implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act or other new legislation, which may have significant effects on us and the financial services industry, the exact nature and extent of which cannot be determined at this time; and
- the risk that our common stock may be delisted from the Nasdaq Global Select Market.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all inclusive. The risk factors disclosed in Part I – Item A of our Annual Report on Form 10-K for the year ended December 31, 2011, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks that our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

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Part I - Item 1.
INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition

	June 30, 2012	December 31, 2011
	(unaudited)	
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$ 60,838	$ 62,777
Interest bearing deposits	358,920	278,331
Cash and Cash Equivalents	419,758	341,108
Trading securities	86	77
Securities available for sale	247,047	157,444
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,494	20,828
Loans held for sale, carried at fair value	43,386	44,801
Loans held for sale relating to branch sale, carried at lower of cost or fair value	53,180	-
Loans		
Commercial	612,044	651,155
Mortgage	547,210	590,876
Installment	199,190	219,559
Payment plan receivables	98,946	115,018
Total Loans	1,457,390	1,576,608
Allowance for loan losses	(51,346)	(58,884)
Net Loans	1,406,044	1,517,724
Other real estate and repossessed assets	29,504	34,042
Property and equipment, net	50,802	62,548
Bank-owned life insurance	50,094	49,271
Other intangibles	7,065	7,609
Capitalized mortgage loan servicing rights	10,651	11,229
Prepaid FDIC deposit insurance assessment	11,008	12,609
Vehicle service contract counterparty receivables, net	28,879	29,298
Fixed assets held for sale relating to branch sale	8,491	-
Accrued income and other assets	16,976	18,818
Total Assets	$ 2,403,465	$ 2,307,406
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$ 471,718	$ 497,718
Savings and interest-bearing checking	852,214	1,019,603
Retail time	392,544	526,525
Brokered time	48,860	42,279
Total Deposits	1,765,336	2,086,125
Deposits held for sale relating to branch sale	417,521	-
Other borrowings	17,929	33,387
Subordinated debentures	50,175	50,175
Vehicle service contract counterparty payables	7,118	6,633
Accrued expenses and other liabilities	32,214	28,459
Total Liabilities	2,290,293	2,204,779
Shareholders' Equity		

Convertible preferred stock, no par value, 200,000 shares authorized; 74,426 shares issued and outstanding at June 30, 2012 and December 31, 2011; liquidation preference: $83,061 at June 30, 2012 and $81,023 at December 31, 2011	82,004	79,857
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 8,749,220 shares at June 30, 2012 and 8,491,526 shares at December 31, 2011	249,751	248,950
Accumulated deficit	(208,569)	(214,259)
Accumulated other comprehensive loss	(10,014)	(11,921)
Total Shareholders' Equity	113,172	102,627
Total Liabilities and Shareholders' Equity	$ 2,403,465	$ 2,307,406

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(unaudited) (In thousands)			
Interest Income				
Interest and fees on loans	$ 23,696	$ 28,102	$ 48,042	$ 57,586
Interest on securities				
Taxable	933	344	1,591	811
Tax-exempt	244	298	540	630
Other investments	382	383	778	818
Total Interest Income	25,255	29,127	50,951	59,845
Interest Expense				
Deposits	2,305	4,511	4,729	9,456
Other borrowings	1,120	1,232	2,292	2,555
Total Interest Expense	3,425	5,743	7,021	12,011
Net Interest Income	21,830	23,384	43,930	47,834
Provision for loan losses	1,056	4,156	6,187	14,858
Net Interest Income After Provision for Loan Losses	20,774	19,228	37,743	32,976
Non-interest Income				
Service charges on deposit accounts	4,552	4,784	8,753	9,066
Interchange income	2,407	2,308	4,729	4,476
Net gains (losses) on assets				
Mortgage loans	3,579	1,793	7,439	3,728
Securities	169	115	853	328
Other than temporary impairment loss on securities				
Total impairment loss	(85)	327	(262)	(142)
Loss recognized in other comprehensive loss	-	(327)	-	-
Net impairment loss recognized in earnings	(85)	-	(262)	(142)
Mortgage loan servicing	(1,088)	(126)	(352)	770
Title insurance fees	489	318	997	791
(Increase) decrease in fair value of U.S. Treasury warrant	(25)	642	(179)	996
Other	3,044	2,622	5,648	5,154
Total Non-interest Income	13,042	12,456	27,626	25,167
Non-interest Expense				
Compensation and employee benefits	13,506	13,029	25,988	25,378
Loan and collection	2,407	3,580	5,297	7,447
Occupancy, net	2,490	2,663	5,206	5,764
Data processing	2,450	2,415	4,789	4,725
Furniture, fixtures and equipment	1,307	1,502	2,601	2,920
Legal and professional	1,268	801	2,165	1,579
Communications	826	889	1,701	1,837

FDIC deposit insurance	816	652	1,673	1,887
Net losses on other real estate and repossessed assets	633	777	1,620	2,183
Credit card and bank service fees	624	1,013	1,275	2,060
Advertising	639	670	1,195	1,224
Vehicle service contract counterparty contingencies	326	1,311	797	3,657
Provision for loss reimbursement on sold loans	126	363	558	769
Costs (recoveries) related to unfunded lending commitments	(12)	89	(59)	184
Other	2,077	2,151	2,726	4,159
Total Non-interest Expense	29,483	31,905	57,532	65,773
Income (Loss) Before Income Tax	4,333	(221)	7,837	(7,630)
Income tax benefit	-	(258)	-	(266)
Net Income (Loss)	$ 4,333	$ 37	$ 7,837	$ (7,364)
Convertible preferred stock dividends and discount accretion	1,092	1,051	2,148	2,059
Net Income (Loss) Applicable to Common Stock	$ 3,241	$ (1,014)	5,689	$ (9,423)
Net Income (Loss) Per Common Share				
Basic	$ .38	$ (.12)	$ .66	$ (1.16)
Diluted	.11	(.12)	.19	(1.16)
Dividends Per Common Share				
Declared	$ .00	$ .00	$ .00	$ .00
Paid	.00	.00	.00	.00

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(unaudited) (In thousands)		(unaudited) (In thousands)	
Net income (loss)	$4,333	$37	$7,837	$(7,364)
Other comprehensive income (loss), before tax				
Unrealized losses on available for sale securities				
Unrealized gain (loss) arising during period	2,756	394	1,896	715
Change in unrealized losses for which a portion of other than temporary impairment has been recognized in earnings	204	738	333	411
Reclassification adjustments for (gains) losses included in earnings	(151)	(64)	(843)	(204)
Unrealized losses on available for sale securities, net	2,809	1,068	1,386	922
Unrealized losses on derivative instruments				
Unrealized loss arising during period	(24)	(240)	(75)	(263)
Reclassification adjustment for expense recognized in earnings	120	201	305	403
Reclassfication adjustment for accretion on settled derivatives	146	147	291	369
Unrealized gains on derivative instruments	242	108	521	509
Other comprehensive income (loss), before tax	3,051	1,176	1,907	1,431
Income tax expense related to components of other comprehesive income (loss)	-	501	-	501
Other comprehensive income	3,051	675	1,907	930
Comprehensive income (loss)	$7,384	$712	$9,744	$(6,434)

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

	Six months ended June 30, 2012	2011
	(unaudited - In thousands)	
Net Income (Loss)	$ 7,837	$ (7,364)
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities		
Proceeds from sales of loans held for sale	246,587	187,558
Disbursements for loans held for sale	(237,733)	(160,040)
Provision for loan losses	6,187	14,858
Deferred loan fees	(404)	(214)
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans	(2,351)	(6,442)
Net gains on sales of mortgage loans	(7,439)	(3,728)
Net gains on securities	(853)	(328)
Securities impairment recognized in earnings	262	142
Net losses on other real estate and repossessed assets	1,620	2,183
Vehicle service contract counterparty contingencies	797	3,657
Share based compensation	304	455
Decrease in accrued income and other assets	3,288	4,346
Increase in accrued expenses and other liabilities	4,262	2,632
Total Adjustments	14,527	45,079
Net Cash from Operating Activities	22,364	37,715
Cash Flow from (used in) Investing Activities		
Proceeds from the sale of securities available for sale	18,999	70,322
Proceeds from the maturity or call of securities available for sale	60,728	295
Principal payments received on securities available for sale	11,220	3,872
Purchases of securities available for sale	(179,262)	(83,906)
Redemption of Federal Home Loan Bank stock	-	2,397
Redemption of Federal Reserve Bank stock	334	228
Net decrease in portfolio loans (loans originated, net of principal payments)	53,220	108,369
Proceeds from the collection of vehicle service contract counterparty receivables	396	671
Proceeds from the sale of other real estate and repossessed assets	8,912	10,084
Capital expenditures	(3,257)	(1,554)
Net Cash from (used in) Investing Activities	(28,710)	110,778
Cash Flow from (used in) Financing Activities		
Net increase (decrease) in total deposits	99,472	(187,153)
Net increase (decrease) in other borrowings	9	(8)
Proceeds from Federal Home Loan Bank advances	12,000	7,000
Payments of Federal Home Loan Bank advances	(27,467)	(37,115)
Net increase in vehicle service contract counterparty payables	485	2,858
Proceeds from issuance of common stock	497	1,335
Net Cash from (used in) Financing Activities	84,996	(213,083)
Net Increase (Decrease) in Cash and Cash Equivalents	78,650	(64,590)
Cash and Cash Equivalents at Beginning of Period	341,108	385,374
Cash and Cash Equivalents at End of Period	$ 419,758	$ 320,784

Cash paid during the period for				
Interest	$	5,914	$	11,361
Income taxes		186		26
Transfers to other real estate and repossessed assets		5,994		10,462
Transfer of payment plan receivables to vehicle service contract counterparty receivables		849		8,010
Transfers to loans held for sale		54,127		-
Transfers to fixed assets held for sale		11,065		-
Transfers to deposits held for sale		420,261		-

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity

	Six months ended June 30, 2012	2011
	(unaudited) (In thousands)	
Balance at beginning of period	$102,627	$119,085
Net income (loss)	7,837	(7,364)
Issuance of common stock	497	1,335
Share based compensation	304	455
Net change in accumulated other comprehensive loss, net of related tax effect	1,907	930
Balance at end of period	$113,172	$114,441

See notes to interim condensed consolidated financial statements (unaudited)

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Preparation of Financial Statements

The interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2011 included in our Annual Report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of June 30, 2012 and December 31, 2011, and the results of operations for the three and six-month periods ended June 30, 2012 and 2011. The results of operations for the three and six-month periods ended June 30, 2012, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. Our critical accounting policies include the assessment for other than temporary impairment ("OTTI") on investment securities, the determination of the allowance for loan losses, the determination of vehicle service contract counterparty contingencies, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2011 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". This ASU amended guidance that will result in common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ("IFRS"). Under the amended guidance, entities are required to expand disclosure for fair value instruments categorized within Level 3 of the fair value hierarchy to include (1) the valuation processes used; and (2) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs for recurring fair value measurements and the interrelationships between those unobservable inputs, if any. They are also required to disclose the categorization by level of the fair value hierarchy for items that are not measured at fair value in the Consolidated Statement of Financial Condition but for which the fair value is required to be disclosed (e.g. portfolio loans). This amended guidance became effective for us at January 1, 2012. The effect of adopting this standard did not have a material impact on our consolidated operating results or financial condition, but the additional disclosures are included in notes #12 and #13.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220)”. This ASU amended guidance on the presentation requirements for comprehensive income. The amended guidance requires an entity to present total comprehensive income, the components of net income and the components of other comprehensive income on the face of the financial statements, either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This amended guidance became effective for us at January 1, 2012 and was applied retrospectively. The effect of adopting this standard did not have a material impact on our consolidated operating results or financial condition, but we have included separate Condensed Consolidated Statements of Comprehensive Income (Loss) immediately following our Condensed Consolidated Statements of Operations in our Condensed Consolidated Financial Statements.

3. Securities

Securities available for sale consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In thousands)		
June 30, 2012				
U.S. agency	$38,039	$124	$20	$38,143
U.S. agency residential mortgage-backed	156,231	994	61	157,164
Private label residential mortgage-backed	9,887	-	2,208	7,679
Obligations of states and political subdivisions	40,383	643	62	40,964
Trust preferred	4,700	-	1,603	3,097
Total	$249,240	$1,761	$3,954	$247,047
December 31, 2011				
U.S. agency	$24,980	$58	$21	$25,017
U.S. agency residential mortgage-backed	93,415	1,007	216	94,206
Private label residential mortgage-backed	11,066	-	2,798	8,268
Obligations of states and political subdivisions	26,865	510	58	27,317
Trust preferred	4,697	-	2,061	2,636
Total	$161,023	$1,575	$5,154	$157,444

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position follows:

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
June 30, 2012						
U.S. agency	$7,507	$20	$-	$-	$7,507	$20
U.S. agency residential mortgage-backed	30,497	44	10,097	17	40,594	61
Private label residential mortgage-backed	-	-	7,677	2,208	7,677	2,208
Obligations of states and political subdivisions	8,202	62	-	-	8,202	62
Trust preferred	-	-	3,097	1,603	3,097	1,603
Total	$46,206	$126	$20,871	$3,828	$67,077	$3,954
December 31, 2011						
U.S. agency	$9,974	$21	$-	$-	$9,974	$21
U.S. agency residential mortgage-backed	42,500	216	-	-	42,500	216
Private label residential mortgage-backed	163	90	8,102	2,708	8,265	2,798
Obligations of states and political subdivisions	-	-	1,729	58	1,729	58
Trust preferred	591	1,218	2,045	843	2,636	2,061
Total	$53,228	$1,545	$11,876	$3,609	$65,104	$5,154

Our portfolio of available-for-sale securities is reviewed quarterly for impairment in value. In performing this review management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income or loss.

U.S. Agency and U.S. Agency residential mortgage-backed securities — at June 30, 2012 we had two U.S. Agency and eight U.S. Agency residential mortgage-backed securities whose fair market value is less than amortized cost. The unrealized losses on U.S. Agency residential mortgage-backed securities are largely attributed to widening discount margins. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label residential mortgage backed securities — at June 30, 2012 we had eight securities whose fair value is less than amortized cost. Two of the issues are rated by a major rating agency as investment grade while four are below investment grade and two are split rated. Six of these bonds have impairment in excess of 10% and all of these holdings have been impaired for more than 12 months.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The unrealized losses are largely attributable to credit spread widening on these securities since their acquisition. The underlying loans within these securities include Jumbo (75%) and Alt A (25%) at June 30, 2012.

	June 30, 2012		December 31, 2011	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
	(In thousands)			
Private label residential mortgage-backed				
Jumbo	$5,738	$(1,602)	$6,454	$(1,937)
Alt-A	1,941	(606)	1,814	(861)

Seven of the private label residential mortgage-backed transactions have geographic concentrations in California, ranging from 22% to 58% of the collateral pool. Typical exposure levels to California (median exposure is 47%) are consistent with overall market collateral characteristics. Three transactions have modest exposure to Florida, ranging from 5% to 7% and one transaction has modest exposure to Nevada (5%). The underlying collateral pools do not have meaningful exposure to Arizona, Michigan or Ohio. None of the issues involve subprime mortgage collateral. Thus the impact of this market segment is only indirect, in that it has impacted liquidity and pricing in general for private label residential mortgage-backed securities. The majority of transactions are backed by fully amortizing loans. However, six transactions have concentrations in loans that pay interest only for a specified period of time and will fully amortize thereafter ranging from 31% to 94% (at origination date). The structure of the residential mortgage securities portfolio provides protection to credit losses. The portfolio primarily consists of senior securities as demonstrated by the following: super senior (22%), senior (43%), senior support (25%) and mezzanine (10%). The mezzanine class is from a seasoned transaction (94 months) with a significant level of subordination (8.60%). Except for the additional discussion below relating to other than temporary impairment, each private label residential mortgage-backed security has sufficient credit enhancement via subordination to reasonably assure full realization of book value. This assertion is based on a transaction level review of the portfolio.

Individual security reviews include: external credit ratings, forecasted weighted average life, recent prepayment speeds, underwriting characteristics of the underlying collateral, the structure of the securitization and the credit performance of the underlying collateral. The review of underwriting characteristics considers: average loan size, type of loan (fixed or ARM), vintage, rate, FICO, loan-to-value, scheduled amortization, occupancy, purpose, geographic mix and loan documentation. The review of the securitization structure focuses on the priority of cash flows to the bond, the priority of the bond relative to the realization of credit losses and the level of subordination available to absorb credit losses. The review of credit performance includes: current period as well as cumulative realized losses; the level of severe payment problems, which includes other real estate (ORE), foreclosures, bankruptcy and 90 day delinquencies; and the level of less severe payment problems, which consists of 30 and 60 day delinquencies.

All of these securities are receiving some principal and interest payments. Most of these transactions are passthrough structures, receiving pro rata principal and interest payments from a dedicated collateral pool for loans that are performing. The nonreceipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

In addition to the review discussed above, all private label residential mortgage-backed securities are reviewed for OTTI utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. The cash flows from the underlying loans considers contractual payment terms (scheduled amortization), prepayments, defaults and severity of loss given default. The analysis uses dynamic assumptions for prepayments, defaults and loss severity. Near term prepayment assumptions are based on recently observed prepayment rates. More weight is given to longer term historic performance (12 months). In some cases, recently observed prepayment rates are lower than historic norms due to the absence of new jumbo loan issuances. This loan market is heavily dependent upon securitization for funding, and new securitization transactions have been minimal. Our model projections anticipate that prepayment rates gradually revert to historical levels. For seasoned ARM transactions, normalized prepayment rates range from 10% to 18% CPR which is at the lower end of historically observed speeds for seasoned ARM collateral. For fixed rate collateral (one transaction), the prepayment speeds are projected to rise modestly.

Default assumptions are largely based on the volume of existing real-estate owned, pending foreclosures and severe delinquencies. Other considerations include the quality of loan underwriting, recent default experience, realized loss performance and the volume of less severe delinquencies. Default levels generally are projected to remain elevated or increase for a period of time sufficient to address the level of distressed loans in the transaction. Our projections expect defaults to then decline, generally beginning in year three. Current loss severity assumptions are based on recent observations when meaningful data is available. Loss severity is expected to remain elevated for the next three years as recent housing data remains weak. Severity is expected to decline beginning in year four as the back log of foreclosure and distressed sales clear the market. Except for three securities discussed in further detail below (all three are currently below investment grade), our cash flow analysis forecasts complete recovery of our cost basis for each reviewed security.

At June 30, 2012 three below investment grade private label residential mortgage-backed securities with fair values of $3.3 million, $1.7 million and $0.1 million, respectively and unrealized losses of $1.0 million, $0.3 million and $0.03 million, respectively (amortized cost of $4.3 million, $2.0 million and $0.1 million, respectively) had losses that were considered other than temporary.

The underlying loans in the first transaction are 30 year fixed rate jumbos with an average FICO of 744 and an average loan-to-value ratio of 72%. The loans backing this transaction were originated in 2007 and this is our only security backed by 2007 vintage loans. We believe that this vintage is a key differentiating factor between this security and the others in our portfolio that do not have unrealized losses that are considered OTTI. The bond is a senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated $0.645 million of cumulative credit related OTTI as of June 30, 2012 on this security. $0.085 million and zero of this credit related OTTI was recognized in our Condensed Consolidated Statements of Operations during the three months ended June 30, 2012 and 2011, respectively and $0.170 million and $0.052 million of this credit related OTTI was recognized during the six months ended June 30, 2012 and 2011, respectively, with the balance being recognized in previous periods. The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

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The underlying loans in the second transaction are 30 year hybrid ARM Alt-A with an average FICO of 717 and an average loan-to-value ratio of 78%. The loans backing this transaction were originated in 2005. The bond is a super senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated $0.457 million of cumulative credit related OTTI as of June 30, 2012 on this security. There was no credit related OTTI recognized in our Condensed Consolidated Statements of Operations during the three months ended June 30, 2012 and 2011 while $0.032 million and zero of this credit related OTTI was recognized during the six months ended June 30, 2012 and 2011, respectively, with the balance being recognized in previous periods. The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

The underlying loans in the third transaction are 30 year hybrid ARM jumbos with an average FICO of 738 and an average loan-to-value ratio of 57%. The loans backing this transaction were originated in 2005. The bond is a senior support security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated $0.380 million of cumulative credit related OTTI as of June 30, 2012 on this security. There was no credit related OTTI recognized in our Condensed Consolidated Statements of Operations during the three months ended June 30, 2012 and 2011, while $0.060 million and $0.090 million of this credit related OTTI was recognized during the six months ended June 30, 2012 and 2011, respectively, with the balance being recognized in previous periods. The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Obligations of states and political subdivisions — at June 30, 2012 we had nine municipal securities whose fair value is less than amortized cost. The unrealized losses are largely attributed to widening of market spreads. Seven of the impaired securities are rated by a major rating agency as investment grade. The non rated securities have a periodic internal credit review according to established procedures. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Trust preferred securities — at June 30, 2012 we had four securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities over the past several years has suffered from significant credit spread widening fueled by uncertainty regarding potential losses of financial companies, the absence of a liquid functioning secondary market and potential supply concerns from financial companies issuing new debt to recapitalize themselves.

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One of the four securities is rated by two major rating agencies as investment grade, while one is rated one grade below investment grade by two major rating agencies and the other two are non-rated. The non-rated issues are relatively small banks and were never rated. The issuers of these non-rated trust preferred securities, which had a total amortized cost of $2.8 million and total fair value of $1.5 million as of June 30, 2012, continue to have satisfactory credit metrics and one continues to make interest payments. One non-rated issue began deferring dividend payments in the third quarter of 2011 apparently due to an increase in non-performing assets. Nevertheless, this issuer continues to have satisfactory capital measures and interim profitability.

The following table breaks out our trust preferred securities in further detail as of June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
	(In thousands)			
Trust preferred securities				
Rated issues	$1,564	$(329)	$1,405	$(484)
Unrated issues - no OTTI	1,533	(1,274)	1,231	(1,577)

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

We recorded credit related OTTI charges in earnings on securities available for sale of $0.085 million and zero during the three month periods ended June 30, 2012 and 2011, respectively and $0.262 million and $0.142 million during the six month periods ended June 30, 2012 and 2011, respectively (see discussion above).

A roll forward of credit losses recognized in earnings on securities available for sale for the three and six month periods ending June 30, follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Balance at beginning of period	$1,647	$852	$1,470	$710
Additions to credit losses on securities for which no previous OTTI was recognized	-	-	-	-
Increases to credit losses on securities for which OTTI was previously recognized	85	-	262	142
Balance at end of period	$1,732	$852	$1,732	$852

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The amortized cost and fair value of securities available for sale at June 30, 2012, by contractual maturity, follow. The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$1,323	$1,341
Maturing after one year but within five years	6,491	6,711
Maturing after five years but within ten years	15,318	15,531
Maturing after ten years	59,990	58,621
	83,122	82,204
U.S. agency residential mortgage-backed	156,231	157,164
Private label residential mortgage-backed	9,887	7,679
Total	$249,240	$247,047

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. A summary of proceeds from the sale of securities available for sale and gains and losses for the six month periods ending June 30, follows:

	Proceeds	Realized Gains	Losses(1)
		(In thousands)	
2012	$ 18,999	$ 843	$ -
2011	70,322	279	75

(1) Losses in 2012 and 2011 exclude $0.262 million and $0.142 million, respectively of credit related OTTI recognized in earnings.

During 2012 and 2011 our trading securities consisted of various preferred stocks. During the first six months of 2012 and 2011 we recognized gains on trading securities of $0.010 million and $0.124 million, respectively, that are included in net gains (losses) on securities in the Condensed Consolidated Statements of Operations. Both of these amounts, relate to gains recognized on trading securities still held at each respective period end.

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4. Loans

Our assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors.

An analysis of the allowance for loan losses by portfolio segment for the three months ended June 30, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
			(In thousands)			
2012						
Balance at beginning of period	$16,441	$23,271	$5,534	$206	$10,554	$56,006
Additions (deductions)						
Provision for loan losses	1,194	570	229	(7)	(930)	1,056
Recoveries credited to allowance	390	572	389	-	-	1,351
Loans charged against the allowance	(2,379)	(2,950)	(953)	(4)	-	(6,286)
Reclassification to loans held for sale	(170)	(192)	(218)	-	(201)	(781)
Balance at end of period	$15,476	$21,271	$4,981	$195	$9,423	$51,346
2011						
Balance at beginning of period	$21,279	$23,771	$6,719	$333	$13,659	$65,761
Additions (deductions)						
Provision for loan losses	1,333	2,964	446	37	(624)	4,156
Recoveries credited to allowance	512	385	348	2	-	1,247
Loans charged against the allowance	(5,427)	(3,968)	(1,224)	(26)	-	(10,645)
Balance at end of period	$17,697	$23,152	$6,289	$346	$13,035	$60,519

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An analysis of the allowance for loan losses by portfolio segment for the six months ended June 30, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
			(In thousands)			
2012						
Balance at beginning of period	$18,183	$22,885	$6,146	$197	$11,473	$58,884
Additions (deductions)						
Provision for loan losses	2,690	4,805	518	23	(1,849)	6,187
Recoveries credited to allowance	1,396	1,120	715	-	-	3,231
Loans charged against the allowance	(6,623)	(7,347)	(2,180)	(25)	-	(16,175)
Reclassification to loans held for sale	(170)	(192)	(218)	-	(201)	(781)
Balance at end of period	$15,476	$21,271	$4,981	$195	$9,423	$51,346
2011						
Balance at beginning of period	$23,836	$22,642	$6,769	$389	$14,279	$67,915
Additions (deductions)						
Provision for loan losses	6,043	8,333	1,681	45	(1,244)	14,858
Recoveries credited to allowance	731	740	707	4	-	2,182
Loans charged against the allowance	(12,913)	(8,563)	(2,868)	(92)	-	(24,436)
Balance at end of period	$17,697	$23,152	$6,289	$346	$13,035	$60,519

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Allowance for loan losses and recorded investment in loans by portfolio segment follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
			(In thousands)			
June 30, 2012						
Allowance for loan losses:						
Individually evaluated for impairment	$9,855	$10,201	$1,674	$-	$-	$21,730
Collectively evaluated for impairment	5,621	11,070	3,307	195	9,423	29,616
Total ending allowance balance	$15,476	$21,271	$4,981	$195	$9,423	$51,346
Loans						
Individually evaluated for impairment	$66,703	$91,494	$7,717	$-		$165,914
Collectively evaluated for impairment	547,014	458,274	192,249	98,946		1,296,483
Total loans recorded investment	613,717	549,768	199,966	98,946		1,462,397
Accrued interest included in recorded investment	1,673	2,558	776	-		5,007
Total loans	$612,044	$547,210	$199,190	$98,946		$1,457,390
December 31, 2011						
Allowance for loan losses:						
Individually evaluated for impairment	$10,252	$10,285	$1,762	$-	$-	$22,299
Collectively evaluated for impairment	7,931	12,600	4,384	197	11,473	36,585
Total ending allowance balance	$18,183	$22,885	$6,146	$197	$11,473	$58,884
Loans						
Individually evaluated for impairment	$58,674	$93,702	$7,554	$-		$159,930
Collectively evaluated for impairment	594,665	499,919	212,907	115,018		1,422,509
Total loans recorded investment	653,339	593,621	220,461	115,018		1,582,439
Accrued interest included in recorded investment	2,184	2,745	902	-		5,831
Total loans	$651,155	$590,876	$219,559	$115,018		$1,576,608

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Loans on non-accrual status and past due more than 90 days ("Non-performing Loans") follow:

	90+ and Still Accruing	Non-Accrual (In thousands)	Total Non-Performing Loans
June 30, 2012			
Commercial			
Income producing - real estate	$ 280	$ 8,277	$ 8,557
Land, land development and construction - real estate	125	4,804	4,929
Commercial and industrial	338	8,932	9,270
Mortgage			
1-4 family	-	11,593	11,593
Resort lending	-	6,475	6,475
Home equity line of credit - 1st lien	-	592	592
Home equity line of credit - 2nd lien	-	690	690
Installment			
Home equity installment - 1st lien	-	1,079	1,079
Home equity installment - 2nd lien	-	710	710
Loans not secured by real estate	-	883	883
Other	-	1	1
Payment plan receivables			
Full refund	-	126	126
Partial refund	-	137	137
Other	-	15	15
Total recorded investment	$ 743	$ 44,314	$ 45,057
Accrued interest included in recorded investment	$ 4	$ -	$ 4
December 31, 2011			
Commercial			
Income producing - real estate	$ 490	$ 13,788	$ 14,278
Land, land development and construction - real estate	43	6,990	7,033
Commercial and industrial	-	7,984	7,984
Mortgage			
1-4 family	54	15,929	15,983
Resort lending	-	8,819	8,819
Home equity line of credit - 1st lien	-	523	523
Home equity line of credit - 2nd lien	-	889	889
Installment			
Home equity installment - 1st lien	-	1,542	1,542
Home equity installment - 2nd lien	-	1,023	1,023
Loans not secured by real estate	-	880	880
Other	-	4	4
Payment plan receivables			
Full refund	-	491	491

Partial refund		-		424		424
Other		-		23		23
Total recorded investment	$	587	$	59,309	$	59,896
Accrued interest included in recorded investment	$	13	$	-	$	13

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An aging analysis of loans by class follows:

	Loans Past Due				Loans not	Total
	30-59 days	60-89 days	90+ days	Total	Past Due	Loans
			(In thousands)			
June 30, 2012						
Commercial						
Income producing - real estate	$2,280	$1,887	$3,823	$7,990	$210,777	$218,767
Land, land development and construction - real estate	191	-	1,555	1,746	42,605	44,351
Commercial and industrial	2,820	999	4,498	8,317	342,282	350,599
Mortgage						
1-4 family	2,501	1,003	11,593	15,097	285,035	300,132
Resort lending	169	383	6,475	7,027	174,069	181,096
Home equity line of credit - 1st lien	334	101	592	1,027	19,395	20,422
Home equity line of credit - 2nd lien	372	55	690	1,117	47,001	48,118
Installment						
Home equity installment - 1st lien	498	162	1,079	1,739	33,405	35,144
Home equity installment - 2nd lien	542	145	710	1,397	42,147	43,544
Loans not secured by real estate	872	297	883	2,052	116,454	118,506
Other	13	3	1	17	2,755	2,772
Payment plan receivables						
Full refund	2,075	659	126	2,860	87,987	90,847
Partial refund	208	94	137	439	7,220	7,659
Other	10	8	15	33	407	440
Total recorded investment	$12,885	$5,796	$32,177	$50,858	$1,411,539	$1,462,397
Accrued interest included in recorded investment	$111	$78	$4	$193	$4,814	$5,007
December 31, 2011						
Commercial						
Income producing - real estate	$1,701	$937	$6,408	$9,046	$264,620	$273,666
Land, land development and construction - real estate	487	66	2,720	3,273	51,453	54,726
Commercial and industrial	1,861	1,132	3,516	6,509	318,438	324,947
Mortgage						
1-4 family	3,507	1,418	15,983	20,908	294,771	315,679
Resort lending	2,129	932	8,819	11,880	184,943	196,823
Home equity line of credit - 1st lien	96	196	523	815	24,705	25,520
Home equity line of credit - 2nd lien	506	159	889	1,554	54,045	55,599

Installment						
Home equity installment - 1st lien	757	264	1,542	2,563	41,239	43,802
Home equity installment - 2nd lien	676	365	1,023	2,064	51,224	53,288
Loans not secured by real estate	1,173	463	880	2,516	117,661	120,177
Other	36	10	4	50	3,144	3,194
Payment plan receivables						
Full refund	2,943	951	491	4,385	99,284	103,669
Partial refund	380	200	424	1,004	9,918	10,922
Other	23	24	23	70	357	427
Total recorded investment	$16,275	$7,117	$43,245	$66,637	$1,515,802	$1,582,439
Accrued interest included in recorded investment	$160	$105	$13	$278	$5,553	$5,831

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Impaired loans are as follows :

		June 30, 2012		December 31, 2011
Impaired loans with no allocated allowance				
TDR	$	26,170	$	26,945
Non - TDR		235		423
Impaired loans with an allocated allowance				
TDR - allowance based on collateral		17,137		20,142
TDR - allowance based on present value cash flow		111,396		98,130
Non - TDR - allowance based on collateral		10,479		13,773
Non - TDR - allowance based on present value cash flow		-		-
Total impaired loans	$	165,417	$	159,413
Amount of allowance for loan losses allocated				
TDR - allowance based on collateral	$	4,860	$	6,004
TDR - allowance based on present value cash flow		13,384		12,048
Non - TDR - allowance based on collateral		3,486		4,247
Non - TDR - allowance based on present value cash flow		-		-
Total amount of allowance for loan losses allocated	$	21,730	$	22,299

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Impaired loans by class are as follows (1):

	June 30, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			(In thousands)			
Commercial						
Income producing - real estate	$1,848	$2,692	$-	$4,626	$6,386	$-
Land, land development & construction-real estate	2,794	2,787	-	219	243	-
Commercial and industrial	3,332	3,657	-	3,593	3,677	-
Mortgage						
1-4 family	7,651	10,350	-	6,975	9,242	-
Resort lending	5,913	6,375	-	7,156	7,680	-
Home equity line of credit - 1st lien	22	40	-	-	-	-
Home equity line of credit - 2nd lien	45	118	-	134	211	-
Installment						
Home equity installment - 1st lien	2,100	2,204	-	2,100	2,196	-
Home equity installment - 2nd lien	2,239	2,238	-	1,987	1,987	-
Loans not secured by real estate	529	600	-	637	688	-
Other	22	22	-	24	24	-
	26,495	31,083	-	27,451	32,334	-
With an allowance recorded:						
Commercial						
Income producing - real estate	26,935	30,985	3,094	22,781	29,400	3,642
Land, land development & construction-real estate	10,203	12,703	2,945	12,362	14,055	3,633
Commercial and industrial	21,591	25,376	3,816	15,093	18,357	2,977
Mortgage						
1-4 family	59,255	60,826	6,980	61,214	63,464	7,716
Resort lending	18,561	18,926	3,190	18,159	19,351	2,534
Home equity line of credit - 1st lien	47	47	31	64	73	35
Home equity line of credit - 2nd lien	-	-	-	-	-	-
Installment						
Home equity installment - 1st lien	1,397	1,430	673	1,232	1,293	660
Home equity installment - 2nd lien	1,151	1,220	921	1,421	1,458	1,062
Loans not secured by real estate	279	287	80	153	156	40

Other	-	-	-	-	-	-
	139,419	151,800	21,730	132,479	147,607	22,299
Total						
Commercial						
Income producing - real estate	28,783	33,677	3,094	27,407	35,786	3,642
Land, land development & construction-real estate	12,997	15,490	2,945	12,581	14,298	3,633
Commercial and industrial	24,923	29,033	3,816	18,686	22,034	2,977
Mortgage						
1-4 family	66,906	71,176	6,980	68,189	72,706	7,716
Resort lending	24,474	25,301	3,190	25,315	27,031	2,534
Home equity line of credit - 1st lien	69	87	31	64	73	35
Home equity line of credit - 2nd lien	45	118	-	134	211	-
Installment						
Home equity installment - 1st lien	3,497	3,634	673	3,332	3,489	660
Home equity installment - 2nd lien	3,390	3,458	921	3,408	3,445	1,062
Loans not secured by real estate	808	887	80	790	844	40
Other	22	22	-	24	24	-
Total	$165,914	$182,883	$21,730	$159,930	$179,941	$22,299
Accrued interest included in recorded investment	$497			$517		

(1) There were no impaired payment plan receivables at June 30, 2012 or December 31, 2011.

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Average recorded investment in and interest income earned on impaired loans by class for the three month periods ending June 30, follows:

	2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:	(In thousands)			
Commercial				
Income producing - real estate	$2,211	$13	$1,922	$12
Land, land development & construction-real estate	2,877	36	514	14
Commercial and industrial	3,896	44	1,800	17
Mortgage				
1-4 family	7,615	75	9,258	102
Resort lending	6,134	60	8,543	125
Home equity line of credit - 1st lien	11	-	-	-
Home equity line of credit - 2nd lien	46	1	116	1
Installment				
Home equity installment - 1st lien	1,827	32	1,919	28
Home equity installment - 2nd lien	1,987	30	1,999	28
Loans not secured by real estate	473	7	705	10
Other	23	-	14	1
	27,100	298	26,790	338
With an allowance recorded:				
Commercial				
Income producing - real estate	24,300	120	16,824	33
Land, land development & construction-real estate	10,495	52	8,133	37
Commercial and industrial	18,954	156	9,253	92
Mortgage				
1-4 family	59,285	650	63,492	668
Resort lending	18,499	192	22,469	152
Home equity line of credit - 1st lien	59	-	24	1
Home equity line of credit - 2nd lien	47	-	10	-
Installment				
Home equity installment - 1st lien	1,709	9	1,521	14
Home equity installment - 2nd lien	1,469	6	1,561	14
Loans not secured by real estate	241	3	150	-
Other	-	-	-	-
	135,058	1,188	123,437	1,011
Total				
Commercial				
Income producing - real estate	26,511	133	18,746	45
Land, land development & construction-real estate	13,372	88	8,647	51
Commercial and industrial	22,850	200	11,053	109
Mortgage				
1-4 family	66,900	725	72,750	770
Resort lending	24,633	252	31,012	277

Home equity line of credit - 1st lien	70	-	24	1
Home equity line of credit - 2nd lien	93	1	126	1
Installment				
Home equity installment - 1st lien	3,536	41	3,440	42
Home equity installment - 2nd lien	3,456	36	3,560	42
Loans not secured by real estate	714	10	855	10
Other	23	-	14	1
Total	$162,158	$1,486	$150,227	$1,349

(1) There were no impaired payment plan receivables during the three month periods ending June 30, 2012 and 2011.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Average recorded investment in and interest income earned on impaired loans by class for the six month periods ending June 30, follows:

	2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:	(In thousands)			
Commercial				
Income producing - real estate	$3,016	$30	$2,796	$30
Land, land development & construction-real estate	1,991	36	876	27
Commercial and industrial	3,795	46	3,143	17
Mortgage				
1-4 family	7,401	149	9,095	214
Resort lending	6,474	126	7,584	223
Home equity line of credit - 1st lien	7	-	-	-
Home equity line of credit - 2nd lien	75	2	108	2
Installment				
Home equity installment - 1st lien	1,918	52	1,870	48
Home equity installment - 2nd lien	1,987	51	1,963	49
Loans not secured by real estate	528	13	540	16
Other	23	1	9	1
	27,215	506	27,984	627
With an allowance recorded:				
Commercial				
Income producing - real estate	23,793	267	16,618	122
Land, land development & construction-real estate	11,117	105	9,667	69
Commercial and industrial	17,667	270	10,335	141
Mortgage				
1-4 family	59,928	1,300	63,714	1,351
Resort lending	18,386	370	24,417	396
Home equity line of credit - 1st lien	60	1	16	1
Home equity line of credit - 2nd lien	31	-	15	-
Installment				
Home equity installment - 1st lien	1,550	30	1,467	28
Home equity installment - 2nd lien	1,453	25	1,511	30
Loans not secured by real estate	211	5	185	1
Other	-	-	-	-
	134,196	2,373	127,945	2,139
Total				
Commercial				
Income producing - real estate	26,809	297	19,414	152
Land, land development & construction-real estate	13,108			