PATRIOT NATIONAL BANCORP INC
Form 10-Q
August 12, 2013

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 Quarter Ended June 30, 2013

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1559137**
(State of incorporation)	**(I.R.S. Employer Identification Number)**

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant s telephone number)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 ¨

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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer	¨	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 ¨ No x

State the number of shares outstanding of each of the registrant s classes of common equity, as of the latest practicable date.

Common stock, $0.01 par value per share, 38,445,326 shares outstanding as of the close of business July 31, 2013.

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PART I - FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	**$ 3,866,156**	$ 2,736,486
Interest bearing deposits	**20,509,127**	67,567,155
Short-term investments	**711,213**	710,766
Total cash and cash equivalents	**25,086,496**	71,014,407
Securities:		
Available for sale securities, at fair value (Note 2)	**39,543,075**	41,719,320
Other Investments	**3,500,000**	3,500,000
Federal Reserve Bank stock, at cost	**1,634,100**	1,730,200
Federal Home Loan Bank stock, at cost	**4,142,600**	4,343,800
Total securities	**48,819,775**	51,293,320
Loans receivable (net of allowance for loan losses: 2013: $5,322,070 2012: $6,015,636) (Note 3)	**447,813,433**	458,793,536
Loans held for sale	**11,551,869**	1,527,299
Accrued interest and dividends receivable	**1,710,690**	1,894,292
Premises and equipment, net	**6,420,178**	4,288,372
Cash surrender value of life insurance	**21,770,880**	21,501,703
Other real estate owned	**3,845,041**	4,873,844
Deferred tax asset (Note 6)		
Other assets	**1,785,598**	2,580,118
Other branch related assets held for sale		88,244
Total assets	**$ 568,803,960**	$ 617,855,135
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	**$ 63,869,164**	$ 61,459,959
Interest bearing deposits	**413,773,710**	411,117,558
Deposits held for sale		24,705,381
Total deposits	**477,642,874**	497,282,898
Borrowings:		
Repurchase agreements		7,000,000
Federal Home Loan Bank borrowings	**35,000,000**	50,000,000
Total borrowings	**35,000,000**	57,000,000
Junior subordinated debt owed to unconsolidated trust	**8,248,000**	8,248,000
Accrued expenses and other liabilities	**4,773,320**	5,756,439
Total liabilities	**525,664,194**	568,287,337

Commitments and Contingencies (Note 9)		
Shareholders equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding		
Common stock, $.01 par value, 100,000,000 shares authorized; 2013 & 2012: 38,491,819 shares issued; 38,445,326 shares outstanding	**384,570**	384,918
Additional paid-in capital	**105,371,239**	105,355,680
Accumulated deficit	**(61,263,793)**	(55,394,995)
Less: Treasury stock, at cost: 2013 and 2012 11,705 shares	**(160,025)**	(160,025)
Accumulated other comprehensive loss	**(1,192,225)**	(617,780)
Total shareholders equity	**43,139,766**	49,567,798
Total liabilities and shareholders equity	**$ 568,803,960**	$ 617,855,135

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest and Dividend Income				
Interest and fees on loans	$ 5,045,335	$ 5,811,733	$ 10,241,227	$ 12,477,525
Interest on investment securities	225,829	426,658	473,565	903,688
Dividends on investment securities	29,205	31,879	58,063	65,160
Other interest income	9,252	40,160	37,612	50,638
Total interest and dividend income	**5,309,621**	**6,310,430**	**10,810,467**	**13,497,011**
Interest Expense				
Interest on deposits	1,032,813	1,421,170	2,161,527	2,938,014
Interest on Federal Home Loan Bank borrowings	167,183	354,591	518,203	711,428
Interest on subordinated debt	70,926	74,677	141,555	151,244
Interest on other borrowings	5,918	76,927	81,999	153,853
Total interest expense	**1,276,840**	**1,927,365**	**2,903,284**	**3,954,539**
Net interest income	**4,032,781**	**4,383,065**	**7,907,183**	**9,542,472**
Provision for Loan Losses		(1,713,425)	(29,786)	(2,558,827)
Net interest income after provision for loan losses	**4,032,781**	**6,096,490**	**7,936,969**	**12,101,299**
Non-interest Income				
Mortgage banking activity	118,738	22,117	164,972	34,537
Loan application, inspection & processing fees	115,890	15,986	153,920	30,713
Fees and service charges	211,100	227,064	382,611	455,732
Gain on sale of loans	28,310		28,310	263,646
Loss on sale of investment securities				(8,042)
Gain on sale of branch assets and deposits	50,643		50,643	
Earnings on cash surrender value of life insurance	142,068	120,294	269,177	262,963
Other income	101,753	69,639	206,350	165,548
Total non-interest income	**768,502**	**455,100**	**1,255,983**	**1,205,097**
Non-interest Expense				
Salaries and benefits	2,576,453	2,725,721	5,581,767	5,616,445
Occupancy and equipment expense	935,947	1,135,113	1,974,755	2,258,697
Data processing	288,170	345,704	659,616	691,725
Advertising and promotional expense	75,541	8,234	118,022	25,963
Professional and other outside services	770,296	854,268	1,658,886	1,469,350
Loan administration and processing expense	73,590	45,624	151,076	53,904
Regulatory assessments	304,803	462,153	678,305	872,154
Insurance expense	83,161	108,775	161,919	278,020
Other real estate operations	55,089	16,351	56,935	(133,896)
Material and communications	102,351	132,734	208,430	263,912
Restructuring charges and asset disposals (Note 12)	394,458	126,730	394,458	495,207

Prepayment penalty on borrowings		2,710,757				2,710,757		
Other operating expense		342,498		244,901		727,904		524,103
Total non-interest expense		**8,713,114**		**6,206,308**		**15,082,830**		**12,415,584**
(Loss) income before income taxes		**(3,911,831)**		**345,282**		**(5,889,878)**		**890,812**
Benefit for Income Taxes						(21,080)		
Net (loss) income	**$**	**(3,911,831)**	**$**	**345,282**	**$**	**(5,868,798)**	**$**	**890,812**
Basic and diluted (loss) income per share (Note 7)	**$**	**(0.10)**	**$**	**0.01**	**$**	**(0.15)**	**$**	**0.02**

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net (loss) income	$ (3,911,831)	$ 345,282	$ (5,868,798)	$ 890,812
Other comprehensive income:				
Unrealized holding (losses) gains on securities, net of taxes:				
Unrealized holding (losses) gains arising during the period	(629,406)	122,856	(574,445)	190,241
Less reclassification adjustment for net gains included in net income				(4,986)
Total	(629,406)	122,856	(574,445)	185,255
Comprehensive (loss) income	**$ (4,541,237)**	**$ 468,138**	**$ (6,443,243)**	**$ 1,076,067**

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

	Number of Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Six months ended June 30, 2012							
Balance at December 31, 2011	38,362,727	$ 383,744	$ 105,050,433	$ (54,858,831)	$ (160,025)	$ 134,339	$ 50,549,660
Comprehensive income							
Net income				890,812			890,812
Unrealized holding gain on available for sale securities, net of taxes						185,255	185,255
Total comprehensive income							1,076,067
Share-based compensation expense			133,128				133,128
Issuance of restricted stock	104,346	1,043	(1,043)				
Balance, June 30, 2012	38,467,073	$ 384,787	$ 105,182,518	$ (53,968,019)	$ (160,025)	$ 319,594	$ 51,758,855
Six months ended June 30, 2013							
Balance at December 31, 2012	38,480,114	$ 384,918	$ 105,355,680	$ (55,394,995)	$ (160,025)	$ (617,780)	$ 49,567,798
Comprehensive loss							
Net loss				(5,868,798)			(5,868,798)
Unrealized holding loss on available for sale securities, net of taxes						(574,445)	(574,445)
Total comprehensive loss							(6,443,243)
Share-based compensation expense			15,211				15,211
Redemption of restricted stock	(34,788)	(348)	348				
Balance, June 30, 2013	**38,445,326**	**$ 384,570**	**$ 105,371,239**	**$ (61,263,793)**	**$ (160,025)**	**$ (1,192,225)**	**$ 43,139,766**

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash Flows from Operating Activities:		
Net (loss) income:	$ (5,868,798)	$ 890,812
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Restructuring charges and asset disposals	302,617	(5,049)
Amortization and accretion of investment premiums and discounts, net	87,510	213,178
Amortization and accretion of purchase loan premiums and discounts, net	15,848	7,272
Provision for loan losses	(29,786)	(2,558,827)
Gain on sale of loans	(28,310)	(263,646)
Gain on sale of mortgage loans	(160,488)	
Originations of mortgage loans held for sale	(28,975,427)	
Proceeds from sales of mortgage loans held for sale	19,111,345	
Loss on sale of investment securities		8,042
Earnings on cash surrender value of life insurance	(269,177)	(262,964)
Depreciation and amortization	587,765	606,350
Gain on sale of other real estate owned	(200,383)	(201,355)
Proceeds from sale of branch assets and deposits	126,875	
Gain on sale of branch assets and deposits	(50,643)	
Share-based compensation	15,211	133,128
Changes in assets and liabilities:		
(Increase) decrease in net deferred loan costs	(109,655)	36,089
Decrease in accrued interest and dividends receivable	183,602	163,833
Decrease in other assets	794,520	571,248
Decrease in accrued expenses and other liabilities	(1,285,736)	(61,423)
Net cash used in operating activities	**(15,753,110)**	**(723,312)**
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	1,514,290	5,039,296
Proceeds from the sale of available for sale securities		5,165,626
Purchases of Federal Reserve Bank stock		(12,550)
Proceeds from repurchase of excess stock by Federal Reserve Bank	96,100	
Proceeds from repurchase of excess stock by Federal Home Loan Bank	201,200	164,500
Proceeds from sale of loans	10,655,482	67,126,928
Net decrease (increase) in loans	476,524	(47,966,735)
Proceeds from sale of other real estate owned	1,309,587	1,823,435
Capital improvements of other real estate owned	(80,401)	(89,051)
Purchase of bank premises and equipment, net	(2,707,559)	(252,341)
Net cash provided by investing activities	**11,465,223**	**30,999,108**
Cash Flows from Financing Activities:		
Net increase in demand, savings and money market deposits	17,102,802	7,813,928
Net decrease in time certificates of deposits	(22,204,621)	(30,627,566)
Decrease in deposits held for sale	(14,538,205)	
Decrease in FHLB borrowings	(15,000,000)	
Decrease in repurchase agreements	(7,000,000)	

Net cash used in financing activities	**(41,640,024)**	**(22,813,638)**
Net (decrease) increase in cash and cash equivalents	**(45,927,911)**	**7,462,158**
Cash and Cash Equivalents:		
Beginning	71,014,407	55,425,376
Ending	**$ 25,086,496**	**$ 62,887,534**

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

(Unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Supplemental disclosures of cash flow information		
Interest paid	$ 2,866,328	$ 3,807,140
Income taxes paid	$ 2,750	$
Supplemental disclosures of noncash operating, investing and financing activities:		
Unrealized holding (loss) gain on available for sale securities arising during the period	$ (574,445)	$ 306,842
Transfer of loans to other real estate owned	$	$ 1,238,144
Transfer of other real estate owned to premises and equipment	$	$ 950,000
Reduction in deposits held for sale	$ 10,167,176	$
Reduction in branch assets held for sale	$ 12,012	$

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1: Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2012 has been derived from the audited financial statements of Patriot National Bancorp, Inc. (Bancorp or the Company) at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying unaudited financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and related notes should be read in conjunction with the audited financial statements of Bancorp and notes thereto for the year ended December 31, 2012.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results of operations that may be expected for the remainder of 2013.

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Note 2: Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available-for-sale securities at June 30, 2013 and December 31, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013:				
U. S. Government agency bonds	$ 7,500,000	$	$ (311,397)	$ 7,188,603
U. S. Government agency mortgage-backed securities	24,235,300		(490,921)	23,744,379
Corporate bonds	9,000,000		(389,907)	8,610,093
	$ 40,735,300	$	$ (1,192,225)	$ 39,543,075
December 31, 2012:				
U. S. Government agency bonds	$ 7,500,000	$ 26,170	$	$ 7,526,170
U. S. Government agency mortgage-backed securities	25,837,100		(130,209)	25,706,891
Corporate bonds	9,000,000		(513,741)	8,486,259
	$ 42,337,100	$ 26,170	$ (643,950)	$ 41,719,320

The following table presents the gross unrealized loss and fair value of Bancorp s available-for-sale securities, aggregated by the length of time the individual securities have been in a continuous loss position, at June 30, 2013 and December 31, 2012:

	Less Than 12 Months		**12 Months or More**		**Total**	
	Fair Value	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
June 30, 2013:						
U. S. Government agency bonds	$ 7,188,603	$ (311,397)	$	$	$ 7,188,603	$ (311,397)
U. S. Government agency mortgage - backed securities	23,690,508	(490,921)			23,690,508	(490,921)
Corporate bonds			8,610,093	(389,907)	8,610,093	(389,907)
Totals	$ 30,879,111	$ (802,318)	$ 8,610,093	$ (389,907)	$ 39,489,204	$ (1,192,225)
December 31, 2012:						
U. S. Government agency mortgage - backed securities	$ 25,670,832	$ (130,209)	$	$	$ 25,670,832	$ (130,209)
Corporate bonds	2,842,368	(157,632)	5,643,891	(356,109)	8,486,259	(513,741)
Totals	$ 28,513,200	$ (287,841)	$ 5,643,891	$ (356,109)	$ 34,157,091	$ (643,950)

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At June 30, 2013, eleven securities had unrealized holding losses with aggregate depreciation of 2.9% from the amortized cost. At December 31, 2012, nine securities had unrealized losses with aggregate depreciation of 1.9% from the amortized cost.

Bancorp performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations, when the loss position is due to a deterioration in credit quality, management s plans and ability to maintain its investment in the security, the length of time and the amount by which the security has been in a loss position, the interest rate environment, the general economic environment and prospects or projections for improvement or deterioration.

Management believes that none of the unrealized losses on available-for-sale securities noted above are other than temporary due to the fact that they relate to market interest rate changes on corporate debt and bonds issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound. The corporate bonds are investment grade and the Company expects to receive all contractual principal and interest related to these investments. The Company does not intend to sell the investments, and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity. The Company therefore does not consider those investments to be other-than-temporarily impaired at June 30, 2013.

The amortized cost and fair value of available-for-sale debt securities at June 30, 2013 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be prepaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following summary:

	Amortized Cost	Fair Value
Maturity:		
Corporate bonds 5 to 10 years	$ 9,000,000	$ 8,610,093
U.S. Government agency bonds 5 to 10 years	7,500,000	7,188,603
U.S. Government agency mortgage-backed securities	24,235,300	23,744,379
Total	$ 40,735,300	$ 39,543,075

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Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company s loan portfolio at June 30, 2013 and December 31, 2012 is as follows:

	June 30, 2013	December 31, 2012
Real Estate		
Commercial	$ 236,223,829	$ 247,495,321
Residential	117,416,181	119,033,025
Construction	3,470,518	4,997,991
Construction to permanent	9,904,369	4,851,768
Commercial	36,278,299	36,428,751
Consumer home equity	47,097,674	49,180,908
Consumer installment	1,992,136	2,162,718
Total Loans	452,383,006	464,150,482
Premiums on purchased loans	203,801	219,649
Net deferred costs	548,696	439,041
Allowance for loan losses	(5,322,070)	(6,015,636)
Loans receivable, net	$ 447,813,433	$ 458,793,536

The changes in the allowance for loan losses for the periods shown are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Balance, beginning of period	$ 5,717,148	$ 8,460,943	$ 6,015,636	$ 9,384,672
Provision for loan losses		(1,713,425)	(29,786)	(2,558,827)
Loans charged-off	(411,790)	(90,739)	(717,174)	(193,223)
Recoveries of loans previously charged-off	16,712	16,869	53,394	41,026
Balance, end of period	$ 5,322,070	$ 6,673,648	$ 5,322,070	$ 6,673,648

At June 30, 2013 and December 31, 2012, the unpaid balances of loans 90 days or more past maturity, and still accruing interest were $1.7 million and $2.2 million, respectively. All of the 4 loans at June 30, 2013, totaling $1.7 million, were continuing to make interest payments, were past maturity and are in the process of being renewed.

The unpaid principal balances of loans on nonaccrual status and considered impaired were $26.6 million at June 30, 2013 and $23.8 million at December 31, 2012. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $373,000 of additional income during the quarter ended June 30, 2013 and $274,000 during the quarter ended June 30, 2012. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $679,000 of additional income for the six months ended June 30, 2013 and $584,000 for the six months ended June 30, 2012.

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For the three months ended June 30, 2013 and 2012, the interest collected and recognized as income on impaired loans, which includes non-accrual loans, TDRs and loans that were previously classified as TDRs that have been upgraded, was approximately $96,000 and $0 respectively. For the six months ended June 30, 2013 and 2012, the interest income collected and recognized on impaired loans was approximately $220,000 and $180,000 respectively. The average recorded investment in impaired loans for the three and six months ended June 30, 2013 was $31.7 million and $32.4 million respectively.

At June 30, 2013, there were 7 loans totaling $10.7 million that were considered troubled debt restructurings, as compared to December 31, 2012 when there were 8 loans totaling $11.6 million, all of which were included in impaired loans. At June 30, 2013, 2 of the 7 loans aggregating $4.7 million were accruing loans and 5 loans aggregating $6.0 million were non-accruing loans.

The Company s lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County, New York City and Long Island, New York. The Company originates commercial real estate loans, commercial business loans, residential real estate loans and a variety of other consumer loans. In addition, the Company had originated loans for the construction of residential homes, residential developments and for land development projects. A moratorium on all new speculative construction loans was instituted by management in July 2008. All residential and commercial mortgage loans are collateralized primarily by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent to some degree on the status of the regional economy as well as upon the regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 75% of the market value of the collateral for commercial real estate at the date of the credit extension depending on the Company s evaluation of the borrowers creditworthiness and type of collateral and up to 80% for residential 1-4 family real estate. In the case of construction loans, the maximum loan-to-value was 65% of the as completed market value. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are accounts receivable, inventory, other business assets, marketable securities and time deposits. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower s ability to generate continuing cash flows on all loans not related to construction.

Risk characteristics of the Company s portfolio classes include the following:

Commercial Real Estate Loans In underwriting commercial real estate loans, the Company evaluates both the prospective borrower s ability to make timely payments on the loan and the value of the property securing the loans. Repayment of such loans may be negatively impacted should the borrower default or should there be a substantial decline in the value of the property securing the loan or a decline in the general economic conditions. Where the owner occupies the property, the Company also evaluates the business s ability to repay the loan on a timely basis. In addition, the Company may require personal guarantees, lease assignments and/or the guarantee of the operating company when the property is owner occupied. These types of loans may involve some additional risks because payments on such loans are dependent upon the successful operation of the business involved, therefore, repayment of such loans may be negatively impacted by adverse changes in economic conditions affecting the borrowers businesses.

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Commercial and Industrial Loans The Company s commercial and industrial loan portfolio consists primarily of commercial business loans and lines of credit to businesses and professionals. These loans are usually made to finance the purchase of inventory or new or used equipment and for other short or long-term working capital purposes. These loans are generally secured by corporate assets, often with real estate as secondary collateral, but are also occasionally offered on an unsecured basis. In granting this type of loan, the Company primarily looks to the borrower s cash flow as the source of repayment with collateral and personal guarantees, where obtained, as a secondary source. Commercial loans are often larger and may involve greater risks than other types of loans offered by the Company. Payments on such loans are often dependent upon the successful operation of the underlying business involved. Repayment of such loans may therefore be negatively impacted by adverse changes in economic conditions, management s inability to effectively manage the business, claims of others against the borrower s assets which may take priority over the Company s claims against assets, death or disability of the borrower or loss of market for the borrower s products or services.

Residential Real Estate Loans Various loans secured by residential real estate properties are offered by the Company, including 1-4 family residential mortgages, multi-family residential loans and a variety of home equity line of credit products. Repayment of such loans may be negatively impacted should the borrower default, should there be a significant decline in the value of the property securing the loan or should there be decline in general economic conditions.

Construction Loans Construction loans are short-term loans (generally up to 18 months) secured by land for both residential and commercial development. The loans are generally made for acquisition and improvements. Funds are disbursed as phases of construction are completed. In the past, the Company funded construction of single family homes, when no contract of sale existed, based upon the experience and the financial strength of the builder, the type and location of the property and other factors. Construction loans are generally personally guaranteed by the principal(s). Repayment of such loans may be negatively impacted by the builders inability to complete construction, by a downturn in the new construction market, by a significant increase in interest rates or by a decline in general economic conditions. The Company has had a moratorium in place since mid-2008 on new speculative construction loans.

Other Loans The Company also offers installment loans and reserve lines of credit to individuals. Repayments of such loans are often dependent on the personal income of the borrower which may be negatively impacted by adverse changes in economic conditions. The Company does not place an emphasis on originating these types of loans.

The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burdened ratios.

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The following table sets forth activity in our allowance for loan losses, by loan type, for the three months ended June 30, 2013. The following table also details the amount of loans receivable, net, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

Three months ended June 30, 2013	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 1,846,315	$ 2,492,111	$ 307,198	$ 31,114	$ 746,399	$ 118,348	$ 175,663	$ 5,717,148
Charge-offs		(275,000)	(23,104)		(94,733)	(18,953)		(411,790)
Recoveries	1,000	14,988			612	112		16,712
Provision	(125,627)	(279,015)	(47,610)	(7,520)	281,683	144,442	33,647	
Ending Balance	$ 1,721,688	$ 1,953,084	$ 236,484	$ 23,594	$ 933,961	$ 243,949	$ 209,310	$ 5,322,070
Ending balance: individually evaluated for impairment	$ 1,250,663	$ 538,714	$ 236,484	$	$ 158,247	$ 1,936	$	$ 2,186,044
Ending balance: collectively evaluated for impairment	471,025	1,414,370		23,594	775,714	242,013	209,310	3,136,026
Total Allowance for Loan Losses	$ 1,721,688	$ 1,953,084	$ 236,484	$ 23,594	$ 933,961	$ 243,949	$ 209,310	$ 5,322,070
Total Loans ending balance	$ 36,278,299	$ 236,223,829	$ 3,470,518	$ 9,904,369	$ 117,416,181	$ 49,089,810	$	$ 452,383,006
Ending balance: individually evaluated for impairment	$ 6,348,925	$ 15,614,812	$ 3,470,518	$ 1,228,429	$ 8,754,261	$ 599,822	$	$ 36,016,767
Ending balance : collectively evaluated for impairment	$ 29,929,374	$ 220,609,017	$	$ 8,675,940	$ 108,661,920	$ 48,489,988	$	$ 416,366,239

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The following table sets forth activity in our allowance for loan losses, by loan type, for the six months ended June 30, 2013. The following table also details the amount of loans receivable, net, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

Six months ended June 30, 2013	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 941,456	$ 3,509,395	$ 311,297	$ 18,720	$ 897,368	$ 216,698	$ 120,702	$ 6,015,636
Charge-offs		(290,000)	(23,104)		(385,117)	(18,953)		(717,174)
Recoveries	2,000	29,976	20,000		612	806		53,394
Provision	778,232	(1,296,287)	(71,709)	4,874	421,098	45,398	88,608	(29,786)
Ending Balance	$ 1,721,688	$ 1,953,084	$ 236,484	$ 23,594	$ 933,961	$ 243,949	$ 209,310	$ 5,322,070
Ending balance: individually evaluated for impairment	$ 1,250,663	$ 538,714	$ 236,484	$	$ 158,247	$ 1,936	$	$ 2,186,044
Ending balance: collectively evaluated for impairment	471,025	1,414,370		23,594	775,714	242,013	209,310	3,136,026
Total Allowance for Loan Losses	$ 1,721,688	$ 1,953,084	$ 236,484	$ 23,594	$ 933,961	$ 243,949	$ 209,310	$ 5,322,070
Total Loans ending balance	$ 36,278,299	$ 236,223,829	$ 3,470,518	$ 9,904,369	$ 117,416,181	$ 49,089,810	$	$ 452,383,006
Ending balance: individually evaluated for impairment	$ 6,348,925	$ 15,614,812	$ 3,470,518	$ 1,228,429	$ 8,754,261	$ 599,822	$	$ 36,016,767
Ending balance : collectively evaluated for impairment	$ 29,929,374	$ 220,609,017	$	$ 8,675,940	$ 108,661,920	$ 48,489,988	$	$ 416,366,239

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The following table sets forth activity in our allowance for loan losses, by loan type, for the year ended December 31, 2012. The following table also details the amount of loans receivable, net, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

2012	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 882,062	$ 4,018,746	$ 867,159	$ 547,333	$ 2,550,588	$ 458,762	$ 60,022	$ 9,384,672
Charge-offs	(48,414)	(49,922)	(101,391)		(84,711)	(785,918)		(1,070,356)
Recoveries	10,861	66,951				2,731		80,543
Provision	96,947	(526,380)	(454,471)	(528,613)	(1,568,509)	541,123	60,680	(2,379,223)
Ending Balance	$ 941,456	$ 3,509,395	$ 311,297	$ 18,720	$ 897,368	$ 216,698	$ 120,702	$ 6,015,636
Ending balance: individually evaluated for impairment	$ 33,280	$ 728,607	$ 120,616	$	$ 83,543	$ 2,368	$	$ 968,414
Ending balance: collectively evaluated for impairment	908,176	2,780,788	190,681	18,720	813,825	214,330	120,702	5,047,222
Total Allowance for Loan Losses	$ 941,456	$ 3,509,395	$ 311,297	$ 18,720	$ 897,368	$ 216,698	$ 120,702	$ 6,015,636
Total Loans ending balance	$ 36,428,751	$ 247,495,321	$ 4,997,991	$ 4,851,768	$ 119,033,025	$ 51,343,626	$	$ 464,150,482
Ending balance: individually evaluated for impairment	$ 219,509	$ 15,909,103	$ 1,862,038	$ 1,258,710	$ 13,567,175	$ 566,543	$	$ 33,383,078