WILSON BANK HOLDING CO
Form 10-Q
November 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 0-20402

WILSON BANK HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Tennessee (State or other jurisdiction of incorporation or organization)	62-1497076 (I.R.S. Employer Identification No.)
623 West Main Street, Lebanon, TN (Address of principal executive offices)	37087 (Zip Code)

(615) 444-2265
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

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

Common stock outstanding: 7,650,645 shares at November 9, 2015

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Part I. Financial Information
Item 1. Financial Statements
WILSON BANK HOLDING COMPANY
Consolidated Balance Sheets
September 30, 2015 and December 31, 2014
(Unaudited)

	September 30, 2015	December 31, 2014
	(Dollars in Thousands Except Share Amounts)	
Assets		
Loans	$1,467,036	$1,352,437
Less: Allowance for loan losses	(22,702)	(22,572)
Net loans	1,444,334	1,329,865
Securities:		
Held to maturity, at cost (market value $25,958 and $28,400, respectively)	25,790	28,123
Available-for-sale, at market (amortized cost $292,613 and $347,520, respectively)	293,051	346,420
Total securities	318,841	374,543
Loans held for sale	13,437	9,466
Restricted equity securities	3,012	3,012
Federal funds sold	15,405	16,005
Total earning assets	1,795,029	1,732,891
Cash and due from banks	66,191	52,002
Bank premises and equipment, net	41,307	40,123
Accrued interest receivable	5,340	5,463
Deferred income tax asset	9,169	9,171
Other real estate	6,533	7,298
Bank owned life insurance and annuity contracts	26,560	17,331
Other assets	4,442	4,158
Goodwill	4,805	4,805
Total assets	$1,959,376	$1,873,242
Liabilities and Stockholders’ Equity		
Deposits	$1,723,827	$1,660,270
Securities sold under repurchase agreements	2,854	3,437
Accrued interest and other liabilities	14,153	8,643
Total liabilities	1,740,834	1,672,350
Stockholders’ equity:		
Common stock, $2.00 par value; authorized 15,000,000 shares, issued and outstanding 7,650,645 and 7,571,968 shares, respectively	15,301	15,144
Additional paid-in capital	61,283	57,709
Retained earnings	141,688	128,718
Net unrealized gains (losses) on available-for-sale securities, net of income taxes of $168 and $421, respectively	270	(679)
Total stockholders’ equity	218,542	200,892
Total liabilities and stockholders’ equity	$1,959,376	$1,873,242

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Earnings
Three Months and Nine Months Ended September 30, 2015 and 2014
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in Thousands Except Per Share Amounts)			
Interest income:				
Interest and fees on loans	$18,262	$17,069	$53,123	$49,456
Interest and dividends on securities:				
Taxable securities	1,356	1,592	4,492	4,832
Exempt from Federal income taxes	208	173	551	505
Interest on loans held for sale	104	83	269	196
Interest on Federal funds sold	22	33	100	120
Interest and dividends on restricted securities	30	30	91	91
Total interest income	19,982	18,980	58,626	55,200
Interest expense:				
Interest on negotiable order of withdrawal accounts	389	406	1,143	1,197
Interest on money market and savings accounts	449	588	1,447	1,756
Interest on time deposits	1,275	1,426	3,925	4,398
Interest on federal funds purchased	—	1	1	1
Interest on securities sold under repurchase agreements	1	5	5	19
Total interest expense	2,114	2,426	6,521	7,371
Net interest income before provision for loan losses	17,868	16,554	52,105	47,829
Provision for loan losses	109	87	265	364
Net interest income after provision for loan losses	17,759	16,467	51,840	47,465
Non-interest income:				
Service charges on deposit accounts	1,401	1,174	3,755	3,139
Other fees and commissions	2,768	2,314	7,758	6,693
Gain on sale of loans	1,061	796	3,057	1,926
Gain on sale of premises and equipment	—	—	—	7
Gain on sale of other real estate	259	—	305	—
Gain on sale of securities	19	5	185	293
Total non-interest income	5,508	4,289	15,060	12,058
Non-interest expense:				
Salaries and employee benefits	7,802	6,926	23,348	20,462
Occupancy expenses, net	944	858	2,542	2,250
Furniture and equipment expense	538	447	1,535	1,286
Data processing expense	685	574	1,773	1,713
Directors’ fees	169	166	526	512
Other operating expenses	3,245	2,979	8,239	8,908
Loss on the sale of premises and equipment	22	—	30	—
Loss on sale of other assets	—	—	2	3
Loss on sale of other real estate	—	34	—	190
Total non-interest expense	13,405	11,984	37,995	35,324
Earnings before income taxes	9,862	8,772	28,905	24,199

Income taxes	3,774	3,421	11,000	9,522
Net earnings	$6,088	$5,351	$17,905	$14,677
Weighted average number of shares outstanding-basic	7,637,448	7,559,136	7,615,096	7,538,860
Weighted average number of shares outstanding-diluted	7,640,796	7,563,354	7,618,530	7,543,210
Basic earnings per common share	$0.80	$0.71	$2.35	$1.95
Diluted earnings per common share	$0.80	$0.71	$2.35	$1.95
Dividends per share	$0.35	$0.30	$0.65	$0.60

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Comprehensive Earnings
Three Months and Nine Months Ended September 30, 2015 and 2014
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In Thousands)			
Net earnings	$6,088	$5,351	$17,905	$14,677
Other comprehensive earnings (loss), net of tax:				
Unrealized gains (losses) on available-for-sale securities arising during period, net of taxes of $623, $417, $660 and $1,320, respectively	1,005	(674)	1,063	2,126
Reclassification adjustment for net gains included in net earnings, net of taxes of $7, $2, $71, and $112, respectively	(12)	(3)	(114)	(181)
Other comprehensive earnings (loss)	993	(677)	949	1,945
Comprehensive earnings	$7,081	$4,674	$18,854	$16,622

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
	(In Thousands)	
Cash flows from operating activities:		
Interest received	$60,239	$56,628
Fees and commissions received	11,513	9,832
Proceeds from sale of loans held for sale	120,450	74,251
Origination of loans held for sale	(121,364)	(74,084)
Interest paid	(6,755)	(7,666)
Cash paid to suppliers and employees	(31,432)	(29,076)
Income taxes paid	(11,499)	(10,132)
Net cash provided by operating activities	21,152	19,753
Cash flows from investing activities:		
Proceeds from maturities, calls, and principal payments of held-to-maturity securities	2,663	1,452
Proceeds from maturities, calls, and principal payments of available-for-sale securities	64,972	51,317
Proceeds from the sale of available-for-sale securities	42,844	49,021
Purchase of held-to-maturity securities	(527)	(3,609)
Purchase of available-for-sale securities	(54,017)	(107,535)
Loans made to customers, net of repayments	(114,875)	(101,315)
Purchase of Bank owned life insurance	(8,464)	(5,000)
Purchase of premises and equipment	(3,118)	(3,024)
Proceeds from sale of premises and equipment	—	7
Proceeds from sale of other real estate	1,207	2,419
Proceeds from sale of other assets	12	1
Net cash used in investing activities	(69,303)	(116,266)
Cash flows from financing activities:		
Net increase in non-interest bearing, savings and NOW deposit accounts	83,403	103,666
Net decrease in time deposits	(19,846)	(33,649)
Net decrease in securities sold under repurchase agreements	(583)	(4,230)
Dividends paid	(4,935)	(4,510)
Proceeds from sale of common stock pursuant to dividend reinvestment	3,511	3,204
Repurchase of common stock	—	(94)
Proceeds from exercise of stock options	190	156
Net cash provided by financing activities	61,740	64,543
Net increase (decrease) in cash and cash equivalents	13,589	(31,970)
Cash and cash equivalents at beginning of period	68,007	111,504
Cash and cash equivalents at end of period	$81,596	$79,534

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows, Continued
Nine Months Ended September 30, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Nine Months Ended September 30, 2015	2014
	(In Thousands)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	$17,905	$14,677
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization, and accretion	3,394	3,159
Provision for loan losses	265	364
Loss (gain) on sale and writedown of other real estate	(305)	190
Security gains	(185)	(293)
Stock option compensation	30	32
Increase in taxes payable	88	89
Loss on the sale of other assets	2	3
Loss (gain) on the sale of premises and equipment	30	(7)
Increase in loans held for sale	(3,971)	(1,759)
Increase in deferred tax assets	(587)	(699)
Increase in other assets, net	(1,059)	(1,191)
Decrease (increase) in interest receivable	123	(123)
Increase in other liabilities	5,656	5,606
Decrease in interest payable	(234)	(295)
Total adjustments	$3,247	$5,076
Net cash provided by operating activities	$21,152	$19,753
Supplemental schedule of non-cash activities:		
Unrealized gain (loss) in values of securities available-for-sale, net of taxes of $589 and $1,208 for the nine months ended September 30, 2015 and 2014, respectively	$949	$1,945
Non-cash transfers from loans to other real estate	$1,317	$424
Non-cash transfers from other real estate to loans	$1,180	$1,080
Non-cash transfers from loans to other assets	$4	$8

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Notes to Consolidated Financial Statements
(Unaudited)
Note 1. Summary of Significant Accounting Policies

Nature of Business — Wilson Bank Holding Company (the “Company”) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Wilson Bank & Trust (the “Bank”). The Bank is a commercial bank headquartered in Lebanon, Tennessee. The Bank provides a full range of banking services in its primary market areas of Wilson, Davidson, Rutherford, Trousdale, Sumner, Dekalb, Putnam and Smith Counties, Tennessee.

Basis of Presentation — The accompanying unaudited, consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and related notes appearing in the 2014 Annual Report previously filed on Form 10-K.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, the valuation of deferred tax assets, determination of any impairment of intangibles, other-than-temporary impairment of securities, the valuation of other real estate, and the fair value of financial instruments. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes to the Company’s significant accounting policies as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Loans — Loans are reported at their outstanding principal balances less unearned income, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method.

Loans are charged off when management believes that the full collectability of the loan is unlikely. As such, a loan may be partially charged-off after a “confirming event” has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely.

Loans are placed on nonaccrual status when there is a significant deterioration in the financial condition of the borrower, which often is determined when the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Generally, all interest accrued but not collected for loans that are placed on nonaccrual status, is reversed against current income. Interest income is subsequently recognized only to the extent cash payments are received while the loan is classified as nonaccrual, but interest income recognition is reviewed on a case-by-case basis. A nonaccrual loan is returned to accruing status once the loan has been brought current and collection is reasonably assured or the loan has been “well-secured” through other techniques. Past due status is determined based on the contractual due date per the underlying loan agreement.

All loans that are placed on nonaccrual are further analyzed to determine if they should be classified as impaired loans. At December 31, 2014 and at September 30, 2015, there were no loans classified as nonaccrual that were not also deemed to be impaired except for those loans not individually evaluated for impairment as described below. A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan. This determination is made using a variety of techniques, which include a review of the borrower's financial condition, debt-service coverage ratios, global cash flow analysis, guarantor support, other loan file information, meetings with borrowers, inspection or reappraisal of collateral and/or consultation with legal counsel as well as results of reviews of other similar industry credits (e.g. builder loans, development loans, church loans, etc). Prior to January 1, 2015, loans with an identified weakness and principal balance of $100,000 or more were subject to individual identification for impairment. During the first quarter of 2015, the Company increased the threshold for identification of individually impaired loans to $500,000, based on regulatory developments, continued improvement in loan quality

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trends and ratios and strengthening local economies in which the Company operates. Management believes that increasing the threshold will not materially impact the calculation of the allowance for loan losses. Individually identified impaired loans are measured based on the present value of expected payments using the loan’s original effective rate as the discount rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a specific valuation allowance is established as a component of the allowance for loan losses or, in the case of collateral dependent loans, the excess may be charged off. Changes to the valuation allowance are recorded as a component of the provision for loan losses. Any subsequent adjustments to present value calculations for impaired loan valuations as a result of the passage of time, such as changes in the anticipated payback period for repayment, are recorded as a component of the provision for loan losses. For loans less than $500,000, the Company assigns a valuation allowance to these loans utilizing an allocation rate equal to the allocation rate calculated for non-impaired loans of a similar type.

Allowance for Loan Losses — The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable losses in the loan portfolio. Loan losses are charged against the allowance when they are known. Subsequent recoveries are credited to the allowance. Management’s determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, volume, growth, composition of the loan portfolio, homogeneous pools of loans, risk ratings of specific loans, historical loan loss factors, loss experience of various loan segments, identified impaired loans and other factors related to the portfolio. This evaluation is performed quarterly and is inherently subjective, as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on any impaired loans.

In assessing the adequacy of the allowance, we also consider the results of our ongoing independent loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, independent loan reviewers, and reviews that may have been conducted by third-party reviewers. We incorporate relevant loan review results in the loan impairment determination. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company’s allowance for loan losses, and may require the Company to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

Recently Adopted Accounting Pronouncements

There were no recently issued accounting pronouncements that are expected to materially impact the Company.

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Note 2. Loans and Allowance for Loan Losses

For financial reporting purposes, the Company classifies its loan portfolio based on the underlying collateral utilized to secure each loan. This classification is consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the Federal Deposit Insurance Corporation (“FDIC”).

The following schedule details the loans of the Company at September 30, 2015 and December 31, 2014:

	(In Thousands)	
	September 30, 2015	December 31, 2014
Mortgage loans on real estate		
Residential 1-4 family	$357,360	$350,758
Multifamily	53,956	31,242
Commercial	603,283	564,965
Construction and land development	286,381	245,830
Farmland	34,911	30,236
Second mortgages	8,053	9,026
Equity lines of credit	47,958	41,496
Total mortgage loans on real estate	1,391,902	1,273,553
Commercial loans	27,278	30,000
Agricultural loans	1,524	1,670
Consumer installment loans		
Personal	38,768	37,745
Credit cards	3,002	3,280
Total consumer installment loans	41,770	41,025
Other loans	9,700	10,530
	1,472,174	1,356,778
Net deferred loan fees	(5,138)	(4,341)
Total loans	1,467,036	1,352,437
Less: Allowance for loan losses	(22,702)	(22,572)
Net Loans	$1,444,334	$1,329,865

The adequacy of the allowance for loan losses is assessed at the end of each calendar quarter. The level of the allowance is based upon evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers’ ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, historical loss experience, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations.

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Transactions in the allowance for loan losses for the nine months ended September 30, 2015 and year ended December 31, 2014 are summarized as follows:

(In Thousands)	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural	Installment and Other	Total
September 30, 2015											
Allowance for loan losses:											
Beginning balance	$5,582	172	9,578	5,578	795	61	304	176	2	324	22,572
Provision	225	125	(1,259)	900	(185)	72	49	32	4	302	265
Charge-offs	(156)	—	(43)	(1)	—	(45)	(6)	—	(2)	(465)	(718)
Recoveries	37	—	315	32	1	—	1	6	2	189	583
Ending balance	$5,688	297	8,591	6,509	611	88	348	214	6	350	22,702
Ending balance individually evaluated for impairment	$208	—	711	—	—	—	—	—	—	—	919
Ending balance collectively evaluated for impairment	$5,480	297	7,880	6,509	611	88	348	214	6	350	21,783
Ending balance loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—	—	—	—
Loans:											
Ending balance	$357,360	53,956	603,283	286,381	34,911	8,053	47,958	27,278	1,524	51,470	1,472,174
Ending balance individually evaluated for impairment	$1,378	—	8,703	—	575	—	—	—	—	—	10,656
Ending balance collectively evaluated for	$355,982	53,956	594,580	286,381	34,336	8,053	47,958	27,278	1,524	51,470	1,461,518

impairment Ending balance loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—	—	—	—

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	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural	Installment and Other	Total
December 31, 2014											
Allowance for loan losses:											
Beginning balance	$4,935	77	10,918	5,159	618	205	300	395	7	321	22,935
Provision	1,059	95	(378)	102	176	(164)	3	(641)	(10)	256	498
Charge-offs	(468)	—	(968)	(7)	—	—	—	(37)	—	(387)	(1,867)
Recoveries	56	—	6	324	1	20	1	459	5	134	1,006
Ending balance	$5,582	172	9,578	5,578	795	61	304	176	2	324	22,572
Ending balance individually evaluated for impairment	$376	—	1,135	—	120	—	—	—	—	—	1,631
Ending balance collectively evaluated for impairment	$5,206	172	8,443	5,578	675	61	304	176	2	324	20,941
Ending balance loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—	—	—	—
Loans:											
Ending balance	$350,758	31,242	564,965	245,830	30,236	9,026	41,496	30,000	1,670	51,555	1,356,778
Ending balance individually evaluated for impairment	$3,061	—	6,455	—	701	280	—	—	—	—	10,497
Ending balance collectively evaluated for impairment	$347,697	31,242	558,510	245,830	29,535	8,746	41,496	30,000	1,670	51,555	1,346,281
Ending balance loans	$—	—	—	—	—	—	—	—	—	—	—

acquired
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credit
quality

Impaired Loans

At September 30, 2015, the Company had certain impaired loans of $4,868,000 which were on non-accruing interest status. At December 31, 2014, the Company had certain impaired loans of $574,000 which were on non-accruing interest status. In each case, at the date such loans were placed on nonaccrual status, the Company reversed all previously accrued interest income against current year earnings. The following table presents the Company's impaired loans at September 30, 2015 and December 31, 2014.

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	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2015					
With no related allowance recorded:					
Residential 1-4 family	$629	622	—	754	29
Multifamily	—	—	—	—	—
Commercial real estate	4,293	4,293	—	5,183	5
Construction	—	—	—	—	—
Farmland	575	575	—	383	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural	—	—	—	—	—
	$5,497	5,490	—	6,320	34
With allowance recorded:					
Residential 1-4 family	$764	756	208	768	32
Multifamily	—	—	—	—	—
Commercial real estate	4,420	6,113	711	4,558	147
Construction	—	—	—	—	—
Farmland	—	—	—	191	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural	—	—	—	—	—
	$5,184	6,869	919	5,517	179
Total					
Residential 1-4 family	$1,393	1,378	208	1,522	61
Multifamily	—	—	—	—	—
Commercial real estate	8,713	10,406	711	9,741	152
Construction	—	—	—	—	—
Farmland	575	575	—	574	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural	—	—	—	—	—
	$10,681	12,359	919	11,837	213

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	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014					
With no related allowance recorded:					
Residential 1-4 family	$1,891	1,854	—	1,081	114
Multifamily	—	—	—	—	—
Commercial real estate	1,352	2,188	—	5,984	95
Construction	—	—	—	673	—
Farmland	—	—	—	—	—
Second mortgages	281	280	—	222	3
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$3,524	4,322	—	7,960	212
With allowance recorded:					
Residential 1-4 family	$1,219	1,207	376	1,363	61
Multifamily	—	—	—	—	—
Commercial real estate	5,131	6,811	1,135	5,755	202
Construction	—	—	—	1,815	—
Farmland	702	701	120	767	7
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$7,052	8,719	1,631	9,700	270
Total:					
Residential 1-4 family	$3,110	3,061	376	2,444	175
Multifamily	—	—	—	—	—
Commercial real estate	6,483	8,999	1,135	11,739	297
Construction	—	—	—	2,488	—
Farmland	702	701	120	767	7
Second mortgages	281	280	—	222	3
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$10,576	13,041	1,631	17,660	482

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Impaired loans also include loans that the Company may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses that the Company may have to otherwise incur. These loans are classified as impaired loans and, if on non-accruing status as of the date of restructuring, the loans are included in the nonperforming loan balances. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date.

Troubled Debt Restructuring
The Bank's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.
The following table summarizes the carrying balances of TDR's at September 30, 2015 and December 31, 2014.

	September 30, 2015	December 31, 2014
	(In thousands)	
Performing TDRs	$4,246	$4,443
Nonperforming TDRs	1,968	3,597
Total TDRS	$6,214	$8,040

The following table outlines the amount of each troubled debt restructuring categorized by loan classification for the nine months ended September 30, 2015 and the year ended December 31, 2014 (in thousands, except for number of contracts):

	September 30, 2015			December 31, 2014		
	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance
Residential 1-4 family	1	$ 56	$ 56	6	$ 1,346	$ 1,218
Multifamily	—	—	—	—	—	—
Commercial real estate	—	—	—	2	1,020	1,020
Construction	—	—	—	—	—	—
Farmland	—	—	—	—	—	—
Second mortgages	—	—	—	—	—	—
Equity lines of credit	—	—	—	—	—	—
Commercial	—	—	—	1	3	3
Agricultural, installment and other	1	2	2	1	1	1
Total	2	$ 58	$ 58	10	$ 2,370	$ 2,242

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As of September 30, 2015, the Company had one large loan relationship in the amount of $1.0 million that had been previously classified as troubled debt restructuring subsequently default within twelve months of restructuring. As of December 31, 2014, the Company did not have any loans previously classified as troubled debt restructuring subsequently default within twelve months of restructuring. A default is defined as an occurrence which violates the terms of the receivable's contract.

As of September 30, 2015 and December 31, 2014, the Company's recorded investment in consumer mortgage loans in the process of foreclosure amounted to $432,000 and $639,000, respectively.

Potential problem loans, which include nonperforming loans, amounted to approximately $28.6 million at September 30, 2015 compared to $35.8 million at December 31, 2014. Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the FDIC, the Bank's primary federal regulator, for loans classified as special mention, substandard, or doubtful.

The following summary presents our loan balances by primary loan classification and the amount classified within each risk rating category. Pass rated loans include all credits other than those included in special mention, substandard and doubtful which are defined as follows:

- Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date.
- Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful loans have all the characteristics of substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The Bank considers all doubtful loans to be impaired and places the loan on nonaccrual status.

The following table is a summary of the Bank's loan portfolio by risk rating:

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	(In Thousands) Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural	Installment and Other	Total
September 30, 2015 Credit Risk Profile by Internally Assigned Rating											
Pass	$347,897	53,956	586,317	285,934	33,888	7,488	47,949	27,267	1,524	51,372	1,443,592
Special Mention	5,500	—	7,721	401	32	290	—	11	—	6	13,961
Substandard	3,963	—	9,245	46	991	275	9	—	—	92	14,621
Doubtful	—	—	—	—	—	—	—	—	—	—	—
Total	$357,360	53,956	603,283	286,381	34,911	8,053	47,958	27,278	1,524	51,470	1,472,174
December 31, 2014 Credit Risk Profile by Internally Assigned Rating											
Pass	$339,529	31,242	545,301	243,416	29,260	8,007	41,274	29,893	1,661	51,387	1,320,970
Special Mention	7,681	—	13,313	2,362	57	347	176	18	2	14	23,970
Substandard	3,548	—	6,351	52	919	672	46	89	7	154	11,838
Doubtful	—	—	—	—	—	—	—	—	—	—	—
Total	$350,758	31,242	564,965	245,830	30,236	9,026	41,496	30,000	1,670	51,555	1,356,778

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Note 3. Debt and Equity Securities

Debt and equity securities have been classified in the consolidated balance sheet according to management's intent. Debt and equity securities at September 30, 2015 and December 31, 2014 are summarized as follows: