PATRIOT NATIONAL BANCORP INC
Form 10-Q
November 14, 2012

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 September 30, 2012

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, 38,480,114 shares outstanding as of the close of business October 31, 2012.

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PART I - FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	$ 3,320,319	$ 4,241,552
Interest bearing deposits	40,510,304	50,474,257
Short-term investments	710,499	709,567
Total cash and cash equivalents	44,541,122	55,425,376
Securities:		
Available for sale securities, at fair value (Note 2)	18,314,931	66,469,972
Other Investments	3,500,000	3,500,000
Federal Reserve Bank stock, at cost	1,744,200	1,707,000
Federal Home Loan Bank stock, at cost	4,343,800	4,508,300
Total securities	27,902,931	76,185,272
Loans receivable (net of allowance for loan losses: 2012: $6,691,731 2011: $9,384,672) (Note 3)	493,109,571	501,227,297
Loans held for sale	1,950,000	250,000
Accrued interest and dividends receivable	1,978,668	2,453,179
Premises and equipment, net	4,655,863	4,108,318
Cash surrender value of life insurance	21,369,277	20,984,604
Other real estate owned	1,252,024	2,762,640
Deferred tax asset (Note 6)		
Other assets	18,588,931	2,419,592
Total assets	$ 615,348,387	$ 665,816,278
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	$ 59,309,584	$ 65,613,374
Interest bearing deposits	424,643,723	479,296,019
Total deposits	483,953,307	544,909,393
Borrowings:		
Repurchase agreements	7,000,000	7,000,000
Federal Home Loan Bank borrowings	60,000,000	50,000,000
Total borrowings	67,000,000	57,000,000
Junior subordinated debt owed to unconsolidated trust	8,248,000	8,248,000
Accrued expenses and other liabilities	5,014,682	5,109,225
Total liabilities	564,215,989	615,266,618

Commitments (Note 9)				
Shareholders equity				
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding				
Common stock, $.01 par value, 100,000,000 shares authorized; 2012: 38,478,778 shares issued; 38,467,073 shares outstanding. 2011: 38,374,432 shares issued; 38,362,727, shares outstanding		**384,787**		383,744
Additional paid-in capital		**105,285,528**		105,050,433
Accumulated deficit		**(53,949,994)**		(54,858,831)
Less: Treasury stock, at cost: 2012 and 2011 11,705 shares		**(160,025)**		(160,025)
Accumulated other comprehensive (loss) income		**(427,898)**		134,339
Total shareholders equity		**51,132,398**		50,549,660
Total liabilities and shareholders equity	**$**	**615,348,387**	$	665,816,278

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest and Dividend Income				
Interest and fees on loans	$ 5,533,304	$ 6,184,920	$ 18,010,829	$ 19,680,074
Interest on investment securities	396,133	664,661	1,299,821	1,425,582
Dividends on investment securities	32,051	56,462	97,211	207,091
Interest on federal funds sold		464		6,875
Other interest income	21,630	1,485	72,268	121,738
Total interest and dividend income	**5,983,118**	**6,907,992**	**19,480,129**	**21,441,360**
Interest Expense				
Interest on deposits	1,239,682	1,384,540	4,177,696	4,803,634
Interest on Federal Home Loan Bank borrowings	358,026	428,183	1,069,454	1,270,587
Interest on subordinated debt	75,162	70,929	226,406	212,546
Interest on other borrowings	77,772	77,772	231,625	230,781
Total interest expense	**1,750,642**	**1,961,424**	**5,705,181**	**6,517,548**
Net interest income	**4,232,476**	**4,946,568**	**13,774,948**	**14,923,812**
Provision for Loan Losses			(2,558,827)	8,464,427
Net interest income after provision for loan losses	**4,232,476**	**4,946,568**	**16,333,775**	**6,459,385**
Non-interest Income				
Mortgage brokerage referral fees	34,730	13,500	69,267	28,110
Loan application, inspection & processing fees	28,530	20,656	59,243	61,421
Deposit fees and service charges	215,209	207,200	670,941	736,140
Gain on sale of loans	30,846		294,492	79,729
Net gain on sale of investment securities	924,317	779,685	916,275	779,685
Earnings on cash surrender value of life insurance	121,710	170,133	384,673	491,378
Other income	101,370	90,306	266,918	398,180
Total non-interest income	**1,456,712**	**1,281,480**	**2,661,809**	**2,574,643**
Non-interest Expense				
Salaries and benefits	2,620,042	2,840,195	8,236,487	9,244,021
Occupancy and equipment expense	1,127,466	1,038,883	3,386,163	3,685,276
Data processing	378,591	315,912	1,070,316	979,721
Advertising and promotional expense	15,355	91,786	41,318	521,541
Professional and other outside services	509,793	545,612	1,979,143	2,662,277
Loan administration and processing expense	35,020	88,373	88,924	173,591
Regulatory assessments	439,035	431,786	1,311,189	1,671,530
Insurance expense	108,595	227,173	386,615	686,584
Other real estate operations	22,523	(26,250)	(111,373)	1,018,707

Material and communications	106,007	163,240	369,919	527,493
Restructuring charges and asset disposals (Note 12)	8,165		503,372	2,986,441
Other operating expense	300,571	255,879	824,674	779,353
Total non-interest expense	**5,671,163**	**5,972,589**	**18,086,747**	**24,936,535**
Income (loss) before income taxes	**18,025**	**255,459**	**908,837**	**(15,902,507)**
Provision for Income Taxes				
Net income (loss)	**$ 18,025**	**$ 255,459**	**$ 908,837**	**$ (15,902,507)**
Basic and diluted income (loss) per share (Note 7)	**$ 0.00**	**$ 0.01**	**$ 0.02**	**$ (0.41)**

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$ 18,025	$ 255,459	$ 908,837	$ (15,902,507)
Other comprehensive income:				
Unrealized holding (losses) on securities, net of taxes:				
Unrealized holding (losses) gains arising during the period	(174,415)	(850,438)	5,853	(599,692)
Less reclassification adjustment for net gains included in net income	(573,077)		(568,090)	
Total	(747,492)	(850,438)	(562,237)	(599,692)
Comprehensive (loss) income	**$ (729,467)**	**$ (594,979)**	**$ 346,600**	**$ (16,502,199)**

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
Nine months ended September 30, 2011							
Balance at December 31, 2010	38,362,727	$ 383,744	$ 105,050,433	$ (39,399,345)	$ (160,025)	$ 1,297,381	$ 67,172,188
Comprehensive loss							
Net loss				(15,902,507)			(15,902,507)
Unrealized holding loss on available for sale securities, net of taxes						(599,692)	(599,692)
Total comprehensive loss							(16,502,199)
Balance, September 30, 2011	38,362,727	$ 383,744	$ 105,050,433	$ (55,301,852)	$ (160,025)	$ 697,689	$ 50,669,989
Nine months ended September 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				908,837			908,837
Unrealized holding loss on available for sale securities, net of taxes						(562,237)	(562,237)
Total comprehensive income							346,600
Share-based compensation expense			236,138				236,138
Issuance of restricted stock	104,346	1,043	(1,043)				
Balance, September 30, 2012	38,467,073	$ 384,787	$ 105,285,528	$ (53,949,994)	$ (160,025)	$ (427,898)	$ 51,132,398

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2012	2011
Cash Flows from Operating Activities:		
Net income (loss)	$ 908,837	$ (15,902,507)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Restructuring charges and asset disposals	39,445	1,094,094
Amortization and accretion of investment premiums and discounts, net	306,157	234,525
Amortization and accretion of purchase loan premiums and discounts, net	9,415	7,542
Provision for loan losses	(2,558,827)	8,464,427
Gain on sale of loans	(294,492)	(79,729)
Gain on sale of investment securities	(916,275)	(779,685)
Amortization of core deposit intangible	6,963	11,259
Earnings on cash surrender value of life insurance	(384,673)	(491,378)
Depreciation and amortization	914,791	974,798
(Gain) loss on disposal of fixed assets	(100)	2,624
(Gain) loss on sale of other real estate owned	(213,555)	58,215
Impairment writedown on other real estate owned		165,764
Share-based compensation	236,138	
Changes in assets and liabilities:		
Decrease in deferred loan costs	85,007	34,092
Decrease in accrued interest and dividends receivable	474,511	191,614
(Increase) decrease in other assets	(1,569,455)	7,162,488
Increase in receivable of settlement of investment securities	(14,638,081)	
Increase (decrease) in accrued expenses and other liabilities	250,052	(466,973)
Net cash (used in) provided by operating activities	**(17,344,142)**	**681,170**
Cash Flows from Investing Activities:		
Purchases of available for sale securities	(10,005,107)	(65,459,630)
Principal repayments on available for sale securities	7,631,717	7,316,078
Proceeds from the sale of available for sale securities	45,231,718	9,757,118
Proceeds from redemption of available for sale securities	5,000,000	
Redemptions of Federal Reserve Bank Stock	11,650	659,100
Purchases of Federal Reserve Bank Stock	(48,850)	(1,174,100)
Proceeds from repurchase of excess Federal Home Loan Bank Stock	164,500	
Proceeds from sale of loans	83,007,065	55,089,794
Net (increase) decrease in loans	(75,068,587)	13,849,922
Purchase of other real estate owned		(481,165)
Proceeds from sale of other real estate owned	2,123,779	15,715,973
Capital improvements of other real estate owned	(111,464)	
Purchase of bank premises and equipment	(520,447)	(457,643)
Net cash provided by investing activities	**57,415,974**	**34,815,447**
Cash Flows from Financing Activities:		
Net decrease in demand, savings and money market deposits	(3,225,872)	(25,697,339)

Net decrease in time certificates of deposits	(57,730,214)	(113,388,461)
Increase in FHLB borrowings	10,000,000	
Net cash used in financing activities	**(50,956,086)**	**(139,085,800)**
Net decrease in cash and cash equivalents	**(10,884,254)**	**(103,589,183)**
Cash and Cash Equivalents:		
Beginning	55,425,376	146,777,658
Ending	$ 44,541,122	$ 43,188,475

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

(Unaudited)

	Nine Months Ended September 30, 2012	2011
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 5,488,472	$ 6,319,721
Income taxes paid	$	$ 10,534
Supplemental disclosures of noncash operating, investing and financing activities:		
Unrealized holding loss on available for sale securities arising during the period	$ (906,832)	$ (967,244)
Transfer of loans to other real estate owned	$ 1,238,144	$ 3,781,890
Transfer of other real estate owned to premises and equipment	$ 950,000	$
Transfer of loans to held for sale	$ 1,950,000	$ 250,000

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, 2011 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, 2011.

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 nine months ended September 30, 2012 are not necessarily indicative of the results of operations that may be expected for the remainder of 2012.

Note 2: Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available-for-sale securities at September 30, 2012 and December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012:				
U. S. Government agency bonds	$ 7,500,000	$ 2,978	$ (11,065)	$ 7,491,913
U. S. Government agency mortgage-backed securities	2,505,087	20		2,505,107
Corporate bonds	9,000,000		(682,089)	8,317,911
	$ 19,005,087	$ 2,998	$ (693,154)	$ 18,314,931
December 31, 2011:				
U. S. Government agency bonds	$ 5,000,000	$ 37,085	$	$ 5,037,085
U. S. Government agency mortgage-backed securities	49,004,232	1,051,097	(5,900)	50,049,429
Corporate bonds	12,249,064	25,338	(890,944)	11,383,458
	$ 66,253,296	$ 1,113,520	$ (896,844)	$ 66,469,972

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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 September 30, 2012 and December 31, 2011:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2012:						
U. S. Government bonds	$ 4,988,935	$ (11,065)	$	$	$ 4,988,935	$ (11,065)
Corporate bonds	2,896,794	(103,206)	5,421,117	(578,883)	8,317,911	(682,089)
Totals	$ 7,885,729	$ (114,271)	$ 5,421,117	$ (578,883)	$ 13,306,846	$ (693,154)
December 31, 2011:						
U. S. Government mortgage - backed securities	$ 4,941,662	$ (5,492)	$ 68,309	$ (408)	$ 5,009,971	$ (5,900)
Corporate bonds	8,358,120	(890,944)			8,358,120	(890,944)
Totals	$ 13,299,782	$ (896,436)	$ 68,309	$ (408)	$ 13,368,091	$ (896,844)

At September 30, 2012, 4 securities had unrealized holding losses with aggregate depreciation of 5.0% from the amortized cost. At December 31, 2011, nine securities had unrealized losses with aggregate depreciation of 6.3% 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. Because 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 maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2012.

The amortized cost and fair value of available-for-sale debt securities at September 30, 2012 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 maturity summary:

	Amortized Cost	Fair Value
Maturity:		
Corporate bonds 5 to 10 years	$ 9,000,000	$ 8,317,911
U.S. Government bonds 5 to 10 years	7,500,000	7,491,913
Mortgage-backed securities	2,505,087	2,505,107
Total	$ 19,005,087	$ 18,314,931

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Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company s loan portfolio at September 30, 2012 and December 31, 2011 is as follows:

	September 30, 2012	December 31, 2011
Real Estate		
Commercial	$ 255,551,934	$ 215,659,837
Residential	138,666,279	188,108,855
Construction	6,213,797	12,306,922
Construction to permanent	4,312,597	10,012,022
Commercial	41,100,960	31,810,735
Consumer home equity	51,011,804	49,694,546
Consumer installment	2,184,273	2,164,972
Total Loans	499,041,644	509,757,889
Premiums on purchased loans	221,710	231,125
Net deferred costs	537,948	622,955
Allowance for loan losses	(6,691,731)	(9,384,672)
Loans receivable, net	$ 493,109,571	$ 501,227,297

On March 29, 2012, the Bank completed the sale of $66.4 million of residential loans consummated for a cash purchase price of $66.7 million, which represented 101% of the Bank s net book value for these assets. On August 16, 2012 and August 27, 2012, the Bank completed the sale of two additional residential loan sales of $11.9 million and $3.0 million respectively, for a combined cash purchase price of $14.9 million, which represented 101.5% of the Bank s net book value for these assets.

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 6,673,648	$ 11,399,727	$ 9,384,672	$ 15,374,101
Provision for loan losses			(2,558,827)	8,464,427
Loans charged-off	(3,997)	(217,788)	(197,220)	(7,405,926)
Recoveries of loans previously charged-off	22,080	16,086	63,106	779,736
Transferred to loans held-for-sale		(40,347)		(6,054,660)
Balance, end of period	$ 6,691,731	$ 11,157,678	$ 6,691,731	$ 11,157,678

At September 30, 2012 and December 31, 2011, the unpaid balances of loans 90 days or more past maturity, and still accruing interest were $2,497,726 and $9,461,106, respectively. All of the borrowers of said loans at September 30, 2012 continue to make interest payments, six are past maturity and are in the process of being renewed, and one loan has since been renewed.

The unpaid principal balances of loans on nonaccrual status and considered impaired were $30.0 million at September 30, 2012 and $20.7 million at December 31, 2011.

If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $0.5 million of additional income during the quarter ended September 30, 2012 and $0.4 million during the quarter ended September 30, 2011. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $1.1 million of additional income for the nine months ended September 30, 2012 and $1.9 million for the nine months ended September 30, 2011.

For the three months ended September 30, 2012 and 2011, 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 $76,000 and $4,000, respectively. For the nine months ended September 30, 2012 and 2011, the interest income collected and recognized on impaired loans was approximately $514,000 and $465,000 respectively. The average recorded investment in impaired loans for the three and nine months ended September 30, 2012 was $35.9 million and $34.7 million respectively.

At September 30, 2012, there were ten loans totaling $19.1 million that were considered troubled debt restructurings, as compared to December 31, 2011 when there were twelve loans totaling $25.5 million, all of which were included in impaired loans. At September 30, 2012, two of the ten loans aggregating $3.9 million were accruing loans and eight loans aggregating $15.2 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.

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 of the builder, the financial strength of the owner, 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.

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 a decline in general economic conditions.

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, new or used equipment or 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 and, therefore, repayment of such loans may 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.

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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 September 30, 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.

Three months ended September 30, 2012	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 735,342	$ 3,782,390	$ 250,511	$ 121,450	$ 1,209,903	$ 503,332	$ 70,720	$ 6,673,648
Charge-offs	(3,942)					(55)		(3,997)
Recoveries	6,362	14,988				730		22,080
Provision	78,403	(212,339)	228	(106,969)	208,920	47,643	(15,886)	
Ending Balance	$ 816,165	$ 3,585,039	$ 250,739	$ 14,481	$ 1,418,823	$ 551,650	$ 54,834	$ 6,691,731
Ending balance: individually evaluated for impairment	$ 37,330	$ 406,279	$ 31,520	$	$ 84,169	$ 246,510	$	$ 805,808
Ending balance: collectively evaluated for impairment	$ 778,835	$ 3,178,760	$ 219,219	$ 14,481	$ 1,334,654	$ 305,140	$ 54,834	$ 5,885,923
Total Allowance for Loan Losses	$ 816,165							