CHICOPEE BANCORP, INC.
Form 10-Q
May 08, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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: 000-51996

CHICOPEE BANCORP, INC.
(Exact name of registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation or organization)	20-4840562 (I.R.S. Employer Identification No.)
70 Center Street, Chicopee, Massachusetts (Address of principal executive offices)	01013 (Zip Code)

(413) 594-6692
(Registrant's telephone number, including area code)

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 [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 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. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ]	Accelerated Filer [X]
Non-Accelerated Filer [ ]	Smaller Reporting Company [ ]

Indicate be check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

As of May 4, 2015, there were 5,270,670 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars In Thousands)
(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$9,588	$8,794
Federal funds sold	2,563	2,915
Interest-bearing deposits with the Federal Reserve Bank of Boston	38,565	38,060
Total cash and cash equivalents	50,716	49,769
Securities available for sale, at fair value	399	414
Securities held to maturity, at cost (fair value of $34,208 at March 31, 2015 and $34,229 at December 31, 2014)	33,424	33,747
Federal Home Loan Bank stock, at cost	4,292	3,914
Loans, net of allowance for loan losses of $5,184 at March 31, 2015 and $4,927 at December 31, 2014	540,327	519,757
Loans held for sale	217	—
Other real estate owned	865	1,050
Mortgage servicing rights	242	269
Bank owned life insurance	14,619	14,531
Premises and equipment, net	8,777	8,855
Accrued interest and dividends receivable	1,651	1,591
Deferred income tax asset	3,688	3,683
Other assets	1,615	1,642
Total assets	$660,832	$639,222
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	$96,185	$97,922
NOW accounts	42,533	42,177
Savings accounts	53,049	50,716
Money market deposit accounts	114,678	121,106
Total core deposits	306,445	311,921
Certificates of deposit	182,261	171,637
Total deposits	488,706	483,558
Federal Home Loan Bank of Boston advances	83,537	67,039
Accrued expenses and other liabilities	374	491
Total liabilities	572,617	551,088
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued; 5,270,670 shares outstanding at March 31, 2015 and December 31, 2014)	72,479	72,479
Treasury stock, at cost (2,168,698 shares at March 31, 2015 and December 31, 2014)	(29,119)	(29,119)

Additional paid-in-capital	3,665	3,595
Unearned compensation (restricted stock awards)	(6)	(7)
Unearned compensation (Employee Stock Ownership Plan)	(3,198)	(3,273)
Retained earnings	44,374	44,430
Accumulated other comprehensive income	20	29
Total stockholders' equity	88,215	88,134
Total liabilities and stockholders' equity	$660,832	$639,222

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except for Number of Shares and Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Interest and dividend income:		
Loans, including fees	$5,604	$5,204
Interest and dividends on securities	376	411
Interest on other interest-earning assets	19	8
Total interest and dividend income	5,999	5,623
Interest expense:		
Deposits	713	714
Federal Home Loan Bank of Boston advances	263	213
Total interest expense	976	927
Net interest income	5,023	4,696
Provision for loan losses	400	2,201
Net interest income, after provision for loan losses	4,623	2,495
Non-interest income:		
Service charges, fees and commissions	515	496
Net loan sales and servicing	39	53
Net gain on sales of available-for-sale securities	—	34
Net loss on sale of other real estate owned	—	(82)
Increase in cash surrender value of bank owned life insurance	88	88
Total non-interest income	642	589
Non-interest expenses:		
Salaries and employee benefits	2,535	2,516
Occupancy expenses	475	448
Furniture and equipment	181	183
FDIC insurance and assessment	123	84
Data processing services	366	346
Professional fees	178	180
Advertising expense	145	169
Stationery, supplies and postage	75	60
Foreclosure expense	159	80
Other non-interest expense	633	552
Total non-interest expenses	4,870	4,618
Income (loss) before income taxes	395	(1,534)
Income tax expense (benefit)	82	(175)
Net income (loss)	$313	$(1,359)
Earnings (loss) per share:		
Basic	$0.06	$(0.27)

Diluted	$0.06	$(0.27)
Adjusted weighted average shares outstanding:		
Basic	4,942,636	5,079,063
Diluted	5,012,777	5,176,226

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income (loss)	$313	$(1,359)
Other comprehensive loss, net of tax		
Unrealized holding losses arising during period on available-for-sale securities	(15)	(8)
Reclassification adjustment for gains realized in net income (1)	—	(34)
Tax effect	6	15
Total other comprehensive loss, net of tax	(9)	(27)
Total comprehensive income (loss)	$304	$(1,386)

(1) Reclassified into the consolidated statements of operations in net gain on sales of available-for-sale securities.

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2015 and 2014
(Dollars In Thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2013	$72,479	$(26,435)	$3,299	$ (12)	$ (3,571)	$46,418	$ 52	$92,230
Comprehensive loss:								
Net loss	—	—	—	—	—	(1,359)	—	(1,359)
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of $15)	—	—	—	—	—	—	(27)	(27)
Total comprehensive loss								(1,386)
Stock options exercised (2,200 shares)	—	41	(8)	—	—	—	—	33
Stock option expense	—	—	30	—	—	—	—	30
Change in unearned compensation:								
Restricted stock award expense	—	—	—	1	—	—	—	1
Common stock held by ESOP committed to be released	—	—	56	—	75	—	—	131
Cash dividends declared ($0.07 per share)	—	—	—	—	—	(381)	—	(381)
Balance at March 31, 2014	$72,479	$(26,394)	$3,377	$ (11)	$ (3,496)	$44,678	$ 25	$90,658
Balance at December 31, 2014	$72,479	$(29,119)	$3,595	$ (7)	$ (3,273)	$44,430	$ 29	$88,134
Comprehensive income:								
Net income	—	—	—	—	—	313	—	313
Change in net unrealized gain on available-for-sale securities (net of	—	—	—	—	—	—	(9)	(9)

deferred income taxes of $6)								
Total comprehensive income								304
Stock option expense	—	—	22	—	—	—	—	22
Change in unearned compensation:								
Restricted stock award expense	—	—	—	1	—	—	—	1
Common stock held by ESOP committed to be released	—	—	48	—	75	—	—	123
Cash dividends declared ($0.07 per share)	—	—	—	—	—	(369)	—	(369)
Balance at March 31, 2015	$72,479	$(29,119)	$3,665	$ (6)	$ (3,198)	$44,374	$ 20	$88,215

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:	(In Thousands)	
Net income (loss)	$313	$(1,359)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	183	172
Provision for loan losses	400	2,201
Increase in cash surrender value of bank owned life insurance	(88)	(88)
Net realized gain on sales of securities available for sale	—	(34)
Change in mortgage servicing rights	27	29
Net loss on sale of other real estate owned	—	82
Loans originated for sale	(552)	(1,925)
Proceeds from loan sales	339	1,612
Realized gains on sales of mortgage loans	(5)	(13)
Decrease in other assets	27	42
(Increase) decrease in accrued interest and dividends receivable	(60)	81
Decrease in other liabilities	(117)	(412)
Change in unearned compensation	124	132
Stock option expense	22	30
Net cash provided by operating activities	613	550
Cash flows from investing activities:		
Purchase of premises and equipment	(105)	(35)
Loan originations, net of principal payments	(20,970)	(4,752)
Proceeds from sales of other real estate owned	185	190
Proceeds from sales of securities available-for-sale	—	187
Maturities of held-to-maturity securities	—	7,325
Proceeds from principal paydowns of held-to-maturity securities	323	288
Purchase of Federal Home Loan Bank stock	(377)	—
Net cash (used) provided by investing activities	(20,944)	3,203
Cash flows from financing activities:		
Net increase in deposits	5,149	6,919
Proceeds from long-term FHLB advances	23,500	5,000
Repayments of long-term FHLB advances	(7,002)	(2,805)
Proceeds from short-term FHLB advances	—	5,000
Cash dividends paid on common stock	(369)	(381)
Stock options exercised	—	33
Net cash provided by financing activities	21,278	13,766
Net increase in cash and cash equivalents	947	17,519
Cash and cash equivalents at beginning of period	49,769	18,915
Cash and cash equivalents at end of period	$50,716	$36,434

Supplemental cash flow information:		
Interest paid on deposits	$713	$714
Interest paid on borrowings	246	200
Income taxes paid	4	7

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
March 31, 2015 and 2014

1. Basis of Presentation

Chicopee Bancorp, Inc. (the “Corporation”) has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the “Bank”) and Chicopee Funding Corporation (collectively, the “Company”). The Corporation was formed on March 14, 2006 and became the holding company for the Bank upon completion of the Bank’s conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include its wholly-owned subsidiaries and a 99% owned subsidiary. The consolidated financial statements of the Company as of March 31, 2015 and for the periods ended March 31, 2015 and 2014 included herein are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial condition, results of operations, changes in stockholders’ equity and cash flows, as of and for the periods covered herein, have been made. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company’s Annual Report on Form 10-K.

The results for the three months ended March 31, 2015 are not necessarily indicative of the operating results for a full year.

2. Earnings (Loss) Per Share

Basic earnings (loss) per share represents income available to common stockholders divided by the adjusted weighted-average number of common shares outstanding during the period. The adjusted outstanding common shares equals the gross number of common shares issued less average treasury shares, unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan (“ESOP”), and average dilutive restricted stock awards under the 2007 Equity Incentive Plan. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and certain stock awards and are determined using the treasury stock method.

Earnings (loss) per share have been computed based on the following:

	Three Months Ended March 31,	
($ in thousands, except share data)	2015	2014
Net income (loss)	$313	$(1,359)
Average number of shares issued	7,439,368	7,439,368
Less: average number of treasury shares	(2,168,698)	(2,002,114)
Less: average number of unallocated ESOP shares	(327,332)	(357,089)
Less: average number of dilutive restricted stock awards	(702)	(1,102)
Adjusted weighted average number of common shares outstanding	4,942,636	5,079,063
Plus: dilutive outstanding restricted stock awards	336	435
Plus: dilutive outstanding stock options	69,805	96,728
Weighted average number of diluted shares outstanding	5,012,777	5,176,226

Net income (loss) per share:

Basic-common stock	$0.06	$(0.27)
Basic-unvested share-based payment awards	$0.06	$(0.27)
Diluted-common stock	$0.06	$(0.27)
Diluted-unvested share-based payment awards	$0.06	$(0.27)

There were 92,000 stock options that were not included in the calculation of diluted earnings per share for the three months ended March 31, 2014 and March 31, 2015 because the effect was anti-dilutive. Given the loss for the three months ended March 31, 2014, diluted loss per share did not differ from basic loss per share as all potential shares were anti-dilutive.

3. Equity Incentive Plan

Stock Options

The Company's 2007 Equity Incentive Plan (the "Plan") was approved by the Company's stockholders at the annual meeting of the Company's stockholders on May 30, 2007. The Plan provides that the Company may grant options to directors, officers and employees for up to 743,936 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price for each option is equal to the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. The stock options vest over five years in five equal installments on each anniversary of the date of grant.

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during the three month periods ended March 31, 2015 or 2014.

A summary of options under the Plan as of March 31, 2015 and changes during the three months ended March 31, 2015, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2014	653,098	$14.57	3.83	$1,425
Forfeited or expired	(4,200)	15.82	0.42	—
Outstanding at March 31, 2015	648,898	$14.56	3.52	$1,486
Exercisable at March 31, 2015	572,897	$14.39	3.00	$1,408
Exercisable at March 31, 2014	546,897	$14.33	3.77	$1,842

The weighted-average grant-date fair value of the options outstanding and exercisable at March 31, 2015 was $3.81 and $3.85, respectively. For the three months ended March 31, 2015, share based compensation expense applicable to options granted under the Plan was $22,000. For the three months ended March 31, 2014, share based compensation expense applicable to options granted under the Plan was $30,000. As of March 31, 2015, unrecognized stock-based compensation expense related to non-vested options amounted to $243,000. This amount is expected to be recognized over a period of 2.39 years.

Stock Awards

The Plan provides that the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year beginning on the first anniversary of the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The weighted-average grant-date fair value of stock awards as of March 31, 2015 is $14.08. The Company recorded compensation cost related to stock awards of approximately $1,000 for each of the three month periods ended March 31, 2015 and 2014. There were no stock awards granted prior to July 1, 2007. There were no stock awards granted by the Company during the three months ended March 31, 2015. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of $14.08. As of March 31, 2015, unrecognized stock-based compensation expense related to non-vested restricted stock awards amounted to $6,000. This amount is expected to be recognized over a period of 0.94 years.

A summary of the status of the Company's stock awards as of March 31, 2015, and changes during the three months ended March 31, 2015, is as follows:

Nonvested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2014	800	$14.08
Vested	400	14.08
Outstanding at March 31, 2015	400	$14.08

4. Long-term Incentive Plan

On March 13, 2012, the Company adopted the Chicopee Bancorp, Inc. 2012 Phantom Stock Unit Award and Long-Term Incentive Plan (the "Phantom Stock Plan"), effective January 1, 2012, to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interest with those of the Company's stockholders.

A total of 150,000 phantom stock units are available for awards under the Phantom Stock Plan. The only awards that may be granted under the Phantom Stock Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company's stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. Unless the Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Phantom Stock Plan for the three months ended March 31, 2015 and 2014, was $7,000 and $8,000, respectively. There were no phantom stock units granted during the three months ended March 31, 2015 and 2014. As of March 31, 2015 and December 31, 2014, 7,016 phantom stock units were outstanding.

5. Recent Accounting Pronouncements (Applicable to the Company)

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Management has applied this ASU and it did not have a material effect on the Company’s consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the potential impact of the ASU on its consolidated financial statements.

In June 2014, FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU was issued to respond to concerns about current accounting and disclosures for repurchase agreements and similar transactions. The concern was that under current accounting guidance there is an unnecessary distinction between the accounting for different types of repurchase agreements. Under current guidance, the repurchase-to-maturity transactions are accounted for as sales with forward agreements, whereas repurchase agreements that settle before the maturity of the transferred financial asset are accounted for as secured borrowings. The ASU amendments require new disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secure borrowings. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The ASU does not have a material effect on the Company's consolidated financial statements.

In June 2014, FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The ASU was issued because current U.S. generally accepted accounting principles (GAAP) does not contain explicit guidance on how to account for share-based payments when a performance target could be achieved after the requisite service period. The ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The ASU will not have a material effect on the Company's consolidated financial statements.

6. Investment Securities

The following tables set forth, at the dates indicated, information regarding the amortized cost and fair value, with gross unrealized gains and losses of the Company's investment securities:

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	$369	$30	$—	$399
Total available-for-sale securities	$369	$30	$—	$399
Held-to-maturity securities:				
Corporate and industrial revenue bonds	$33,077	$772	$—	$33,849
Collateralized mortgage obligations	347	12	—	359
Total held-to-maturity securities	$33,424	$784	$—	$34,208
Non-marketable securities:				
Federal Home Loan Bank stock	$4,292	$—	$—	$4,292
Banker's Bank Northeast stock	183	—	—	183
Total non-marketable securities	$4,475	$—	$—	$4,475

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	$369	$45	$—	$414
Total available-for-sale securities	$369	$45	$—	$414
Held-to-maturity securities:				
Corporate and industrial revenue bonds	$33,344	$467	—	$33,811
Collateralized mortgage obligations	403	15	—	418
Total held-to-maturity securities	$33,747	$482	$—	$34,229
Non-marketable securities:				
Federal Home Loan Bank stock	$3,914	$—	$—	$3,914
Banker's Bank Northeast stock	183	—	—	183
Total non-marketable securities	$4,097	$—	$—	$4,097

The amortized cost and estimated fair value of debt securities by contractual maturity at March 31, 2015 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-maturity Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$—	$—
Due after one year through five years	8,194	8,564
Due after five years through ten years	—	—
Due after ten years	25,230	25,644
Total	$33,424	$34,208

There were no sales of available-for-sale securities during the three months ended March 31, 2015. During the three months ended March 31, 2014, proceeds from sales of available-for-sale securities amounted to $187,000 with gross realized gains of $34,000. The tax provision applicable to the net realized gain for the three months ended March 31, 2014 was $8,000.

Management conducts, at least on a monthly basis, a review of its investment portfolio including available-for-sale and held-to-maturity securities to determine if the fair value of any security has declined below its cost or amortized cost and whether such security is other-than-temporarily impaired.

Unrealized Losses on Investment Securities

There were no continuous unrealized losses as of March 31, 2015 and December 31, 2014.

Non-Marketable Securities

The Company is a member of the Federal Home Loan Bank of Boston (“FHLB”). The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Company must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Company’s level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. The Company’s investment in FHLB stock totaled $4.3 million and $3.9 million at March 31, 2015 and December 31, 2014, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. For the three months ended March 31, 2015 and 2014, the Company received $17,000 and $15,000, respectively, in dividend income from its FHLB stock investment.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. There have not been any impairment losses recorded through March 31, 2015 and the Company will continue to monitor its FHLB stock investment.

Banker’s Bank Northeast (BBN) stock is reported under other assets in the consolidated statement of financial condition and is carried at cost. The BBN stock investment is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of March 31, 2015 and December 31, 2014, the Company’s investment in BBN totaled $183,000. There have not been any impairment losses recorded through March 31, 2015 and the Company will continue to monitor its BBN stock investment.

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7. Loans and Allowance for Loan Losses

The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the total loan
portfolio at the dates indicated.

	March 31, 2015			December 31, 2014		
	Amount	Percent of Total		Amount	Percent of Total	
	(Dollars In Thousands)					
Real estate loans:						
Residential	$120,096	22.0	%	$118,692	22.7	%
Home equity	34,329	6.3	%	34,508	6.6	%
Commercial	272,060	50.0	%	249,632	47.7	%
Total	426,485	78.3	%	402,832	77.0	%
Construction-residential	7,545	1.4	%	8,129	1.6	%
Construction-commercial	36,968	6.8	%	35,786	6.8	%
Total	44,513	8.2	%	43,915	8.4	%
Total real estate loans	470,998	86.5	%	446,747	85.4	%
Consumer loans	2,561	0.5	%	2,662	0.5	%
Commercial and industrial loans	71,093	13.0	%	74,331	14.1	%
Total loans	544,652	100.0	%	523,740	100.0	%
Deferred loan origination costs, net	859			944		
Allowance for loan losses	(5,184	)		(4,927	)	
Loans, net	$540,327			$519,757		

The Company has transferred a portion of its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as sales and therefore not included in the Company's consolidated statements of financial condition. The Company and participating lenders share proportionally, based on participating agreements, any gains or losses that may result from the borrowers lack of compliance with the terms of the loan. The Company continues to service the loans on behalf of the participating lenders. At March 31, 2015 and December 31, 2014, the Company was servicing loans for participating lenders totaling $17.0 million and $18.0 million, respectively.

In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company continues to sell fixed rate, low coupon residential real estate loans to the secondary market. The Company sold $334,000 and $1.6 million in residential real estate loans to the secondary market during the three month periods ended March 31, 2015 and 2014, respectively. The unpaid principal balance of residential real estate loans serviced for others was $89.0 million at March 31, 2015 and $91.3 million at December 31, 2014. Management expects to continue to retain servicing rights on all loans written and sold in the secondary market.

Credit Quality

To evaluate the risk in the loan portfolio, internal credit risk ratings are used for the following loan classes: commercial real estate, commercial construction and commercial and industrial. The risks evaluated in determining an adequate credit risk rating include the financial strength of the borrower and the collateral securing the loan. Commercial loans, including commercial and industrial, commercial real estate and commercial construction loans, are rated from one through nine. Credit risk ratings one through five are considered pass ratings. Classified assets include credit risk ratings of special mention through loss. At least quarterly, classified assets are reviewed by management and by an independent third party. Credit risk ratings are updated as soon as information is obtained that indicates a change in the credit risk rating may be warranted.

Residential real estate and residential construction loans are categorized into performing and nonperforming risk ratings. They are considered nonperforming when they are 90 days past due or have not returned to accrual status. Nonperforming residential loans are individually evaluated for impairment.

Consumer loans are considered nonperforming when they are 90 days past due or have not returned to accrual status. Consumer loans are not individually evaluated for impairment.

Home equity loans are considered nonperforming when they are 90 days past due or have not returned to accrual status. Each nonperforming home equity loan is individually evaluated for impairment.

The following describes the credit risk ratings for classified assets:

Special mention. Assets that do not currently expose the Company to sufficient risk to warrant classification in one of the following categories but possess potential weaknesses.

Substandard. Assets that have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Non-accruing loans are typically classified as substandard.

Doubtful. Assets that have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss.

Loss. Assets rated in this category are considered uncollectible and are charged off against the allowance for loan losses.

The following table presents an analysis of total loans segregated by risk rating and segment as of March 31, 2015:

	Commercial Credit Risk Exposure			
	Commercial and Industrial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$64,371	$28,975	$260,345	$353,691
Special mention	3,775	5,826	8,535	18,136
Substandard	2,947	2,167	3,180	8,294
Total commercial loans	$71,093	$36,968	$272,060	$380,121

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Performing	$116,054	$7,545	$123,599
Nonperforming	4,042	—	4,042
Total residential loans (1)	$120,096	$7,545	$127,641

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		

Performing	$2,529	$33,983	$36,512
Nonperforming	32	346	378
Total consumer loans	$2,561	$34,329	$36,890

(1) At March 31, 2015, the Company had a total of $481,000 in residential real estate loans in the process of foreclosure.

The following table presents an analysis of total loans segregated by risk rating and segment as of December 31, 2014:

	Commercial Credit Risk Exposure			
	Commercial and Industrial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$66,442	$27,547	$234,866	$328,855
Special mention	4,991	5,843	10,034	20,868
Substandard	2,898	2,396	4,732	10,026
Total commercial loans	$74,331	$35,786	$249,632	$359,749

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Performing	$114,586	$8,129	$122,715
Nonperforming	4,106	—	4,106
Total residential loans	$118,692	$8,129	$126,821

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$2,630	$34,159	$36,789
Nonperforming	32	349	381
Total consumer loans	$2,662	$34,508	$37,170

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general and allocated components, as further described below.

Loans charged off

Commercial and industrial loans. Loans past due more than 120 days are considered for one of three options: charge off the balance of the loan, charge off any excess balance over the fair value of the collateral securing the loan, or continue collection efforts subject to a monthly review until either the balance is collected or a charge-off recommendation can be reasonably made.

Residential loans. In general, one-to-four family residential loans and home equity loans that are delinquent 90 days or more or are on nonaccrual status are classified nonperforming. An updated appraisal is obtained when the loan is 90 days or more delinquent. Any outstanding balance in excess of the fair value of the property, less cost to sell, is charged-off against the allowance for loan losses.

Consumer loans. Generally all loans are automatically considered for charge-off at 90 to 120 days from the contractual due date, unless there is liquid collateral in hand sufficient to repay principal and interest in full.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following portfolio segments: residential real estate, residential construction, commercial real estate, commercial and industrial, commercial construction, consumer and home equity. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each portfolio segment. Management deems 48 months to be an appropriate time frame on which to base historical losses for each portfolio segment. This historical loss factor is adjusted for qualitative factors for each portfolio segment including, but not limited to: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and changes in lending policies, experience, ability, depth of lending management and staff; and national and local economic conditions. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit.

The qualitative factors are determined based on the various risk characteristics of each portfolio segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate loans enable the borrower to purchase or refinance existing homes, most of which serve as the primary residence of the owner. Repayment is dependent on the credit quality of the borrower. Factors attributable to failure of repayment may include a weakened economy and/or unemployment, as well as possible personal considerations. While management anticipates adjustable-rate mortgages will better offset the potential adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment.

Commercial real estate loans are secured by commercial real estate and residential investment real estate and generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Risks in commercial real estate and residential investment lending are borrower’s creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

Commercial and residential construction loans are generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property’s value at completion of construction and the estimated cost (including interest) of construction.

Commercial and industrial loans are of higher risk and typically are made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Consumer and home equity loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower’s continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The Company does not disaggregate its portfolio segments into loan classes.

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential real estate, home equity loans, commercial real estate and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The Company recognizes the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and the resulting allowance is reported as the general component, as described above.

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are classified as impaired.
Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment evaluation, except for home equity loans.

During the three months ended March 31, 2015, there were no changes in the Company's allowance methodology related to the qualitative or quantitative factors.

The following table presents the allowance for loan losses and select loan information as of and for the three months ended March 31, 2015:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2014	$486	$ 107	$ 2,699	$ 568	$ 879	$ 35	$ 153	$ 4,927
Provision for (reduction of) loan losses	145	(7)	152	83	24	5	(2)	400
Recoveries	—	—	1	—	—	7	1	9
Loans charged off	(85)	—	(3)	—	(53)	(11)	—	(152)
Balance as of March 31, 2015	$546	$ 100	$ 2,849	$ 651	$ 850	$ 36	$ 152	$ 5,184
Allowance for loan losses								
Collectively evaluated for impairment	$499	$ 100	$ 2,816	$ 651	$ 818	$ 36	$ 149	$ 5,069
Individually evaluated for impairment	47	—	33	—	32	—	3	115
Total ending balance	$546	$ 100	$ 2,849	$ 651	$ 850	$ 36	$ 152	$ 5,184
Total loans								
Collectively evaluated for impairment	$116,054	$ 7,545	$ 270,053	$ 34,801	$ 69,313	$ 2,561	$ 33,983	$ 534,310
Individually evaluated for impairment	4,042	—	2,007	2,167	1,780	—	346	10,342
Total ending balance	$120,096	$ 7,545	$ 272,060	$ 36,968	$ 71,093	$ 2,561	$ 34,329	$ 544,652

The following table presents the allowance for loan losses and select loan information as of and for the year ended December 31, 2014:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2013	$650	$ 94	$ 2,121	$ 435	$ 1,110	$ 35	$151	$4,596
Provision for loan losses	139	13	1,479	1,672	1,867	43	58	5,271
Recoveries	—	—	74	—	83	23		