MidWestOne Financial Group, Inc.
Form 10-Q
November 02, 2012

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 September 30, 2012

OR

o 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 000-24630

MIDWESTONE FINANCIAL GROUP, INC.
(Exact name of Registrant as specified in its charter)

Iowa	42-1206172
(State of Incorporation)	(I.R.S. Employer Identification No.)

102 South Clinton Street
Iowa City, IA 52240
(Address of principal executive offices, including Zip Code)
319-356-5800
(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. x Yes o 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). x Yes o 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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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). o Yes x No

As of October 31, 2012, there were 8,492,040 shares of common stock, $1.00 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 27,074	$ 28,155
Interest-bearing deposits in banks	23,172	4,468
Cash and cash equivalents	50,246	32,623
Investment securities:		
Available for sale	509,906	534,080
Held to maturity (fair value of $26,168 as of September 30, 2012 and $2,042 as of December 31, 2011)	25,912	2,036
Loans held for sale	1,656	1,955
Loans	1,011,264	986,173
Allowance for loan losses	(15,827)	(15,676)
Net loans	995,437	970,497
Loan pool participations, net	37,902	50,052
Premises and equipment, net	25,513	26,260
Accrued interest receivable	11,192	10,422
Intangible assets, net	9,663	10,247
Bank-owned life insurance	28,400	27,723
Other real estate owned	3,117	4,033
Assets held for sale	764	—
Deferred income taxes	—	3,654
Other assets	21,922	21,662
Total assets	$ 1,721,630	$ 1,695,244
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$ 171,023	$ 161,287
Interest-bearing checking	519,790	499,905
Savings	85,800	71,823
Certificates of deposit under $100,000	320,135	346,858
Certificates of deposit $100,000 and over	231,895	226,769
Total deposits	1,328,643	1,306,642
Federal funds purchased	—	8,920
Securities sold under agreements to repurchase	62,440	48,287
Federal Home Loan Bank borrowings	130,094	140,014
Deferred compensation liability	3,575	3,643
Long-term debt	15,464	15,464
Accrued interest payable	1,644	1,530
Deferred income taxes	370	—
Other liabilities	7,876	14,250
Total liabilities	1,550,106	1,538,750
Shareholders' equity:		

Preferred stock, no par value; authorized 500,000 shares; no shares issued and outstanding at September 30, 2012 and December 31, 2011	$ —	$ —
Common stock, $1.00 par value; authorized 15,000,000 shares at September 30, 2012 and December 31, 2011; issued 8,690,398 shares at September 30, 2012 and December 31, 2011; outstanding 8,487,518 shares at September 30, 2012 and 8,529,530 shares at December 31, 2011	8,690	8,690
Additional paid-in capital	80,310	80,333
Treasury stock at cost, 202,880 shares as of September 30, 2012 and 160,868 shares at December 31, 2011	(3,102)	(2,312)
Retained earnings	76,443	66,299
Accumulated other comprehensive income	9,183	3,484
Total shareholders' equity	171,524	156,494
Total liabilities and shareholders' equity	$ 1,721,630	$ 1,695,244

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (dollars in thousands, except per share amounts)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Interest income:				
Interest and fees on loans	$12,760	$13,128	$38,639	$38,904
Interest and discount on loan pool participations	886	311	1,741	1,101
Interest on bank deposits	7	9	29	25
Interest on federal funds sold	—	—	1	1
Interest on investment securities:				
Taxable securities	2,654	2,703	8,224	8,257
Tax-exempt securities	1,279	1,092	3,744	3,199
Total interest income	17,586	17,243	52,378	51,487
Interest expense:				
Interest on deposits:				
Interest-bearing checking	691	954	2,281	2,956
Savings	36	47	105	164
Certificates of deposit under $100,000	1,433	1,903	4,519	6,210
Certificates of deposit $100,000 and over	715	827	2,242	2,514
Total interest expense on deposits	2,875	3,731	9,147	11,844
Interest on federal funds purchased	6	2	11	5
Interest on securities sold under agreements to repurchase	43	65	145	206
Interest on Federal Home Loan Bank borrowings	767	869	2,353	2,682
Interest on notes payable	8	9	26	29
Interest on long-term debt	168	165	503	490
Total interest expense	3,867	4,841	12,185	15,256
Net interest income	13,719	12,402	40,193	36,231
Provision for loan losses	575	750	1,729	2,550
Net interest income after provision for loan losses	13,144	11,652	38,464	33,681
Noninterest income:				
Trust, investment, and insurance fees	1,294	1,159	3,767	3,588
Service charges and fees on deposit accounts	846	973	2,424	2,779
Mortgage origination and loan servicing fees	919	531	2,514	1,790
Other service charges, commissions and fees	303	648	1,636	2,004
Bank-owned life insurance income	225	227	676	681
Gain on sale or call of available for sale securities	8	345	741	430
Gain (loss) on sale of premises and equipment	—	48	4,205	(195)
Total noninterest income	3,595	3,931	15,963	11,077
Noninterest expense:				
Salaries and employee benefits	6,207	5,703	24,167	17,312
Net occupancy and equipment expense	1,537	1,537	4,741	4,652
Professional fees	612	799	2,137	2,164
Data processing expense	443	406	1,258	1,282
FDIC insurance expense	326	331	929	1,284
Amortization of intangible assets	195	223	584	671
Other operating expense	1,393	1,312	4,280	3,875
Total noninterest expense	10,713	10,311	38,096	31,240

Income before income tax expense	6,026	5,272	16,331	13,518
Income tax expense	1,576	1,434	3,937	3,552
Net income	$4,450	$3,838	$12,394	$9,966
Less: Preferred stock dividends and discount accretion	$—	$210	$—	$645
Net income available to common shareholders	$4,450	$3,628	$12,394	$9,321
Share and Per share information:				
Ending number of shares outstanding	8,487,518	8,583,337	8,487,518	8,583,337
Average number of shares outstanding	8,483,918	8,610,837	8,484,404	8,620,083
Diluted average number of shares	8,534,908	8,640,231	8,526,161	8,646,816
Earnings per common share - basic	$0.52	$0.42	$1.46	$1.08
Earnings per common share - diluted	0.52	0.42	1.45	1.08
Dividends paid per common share	0.10	0.06	0.27	0.16

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$4,450	$3,838	$12,394	$9,966
Other comprehensive income, before tax:				
Unrealized holding gains arising during period	1,453	4,268	3,868	12,573
Less: Reclassification adjustment for gains included in net income	(8)	(345)	(741)	(430)
Unrealized gains on available for sale securities	1,445	3,923	3,127	12,143
Reclassification of pension plan expense due to plan settlement	—	—	5,969	—
Defined benefit pension plans	—	—	5,969	—
Other comprehensive income, before tax	1,445	3,923	9,096	12,143
Income tax expense related to items of other comprehensive income	540	1,470	3,397	4,535
Other comprehensive income, net of tax	905	2,453	5,699	7,608
Comprehensive income	$5,355	$6,291	$18,093	$17,574

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited) (dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2010	$15,767	$8,690	$81,268	$(1,052)	$55,619	$(1,826)	$158,466
Net income	—	—	—	—	9,966	—	9,966
Dividends paid on common stock ($0.16 per share)	—	—	—	—	(1,378)	—	(1,378)
Dividends paid on preferred stock	—	—	—	—	(513)	—	(513)
Stock options exercised (3,488 shares)	—	—	(9)	49	—	—	40
Release/lapse of restriction on RSUs (10,850 shares)	—	—	(138)	140	—	—	2
Preferred stock discount accretion	233	—	—	—	(233)	—	—
Redemption of preferred stock	(16,000)	—	—	—	—	—	(16,000)
Repurchase of common stock warrant	—	—	(1,000)	—	—	—	(1,000)
Repurchase of common stock (45,039 shares)	—	—	—	(658)	—	—	(658)
Stock compensation	—	—	164	—	—	—	164
Other comprehensive income	—	—	—	—	—	7,608	7,608
Balance at September 30, 2011	$—	$8,690	$80,285	$(1,521)	$63,461	$5,782	$156,697
Balance at December 31, 2011	$—	$8,690	$80,333	$(2,312)	$66,299	$3,484	$156,494
Net income	—	—	—	—	12,394	—	12,394
Dividends paid on common stock ($0.265 per share)	—	—	—	—	(2,250)	—	(2,250)
Stock options exercised (38,204 shares)	—	—	(21)	442	—	—	421
Release/lapse of restriction on RSUs (15,810 shares)	—	—	(201)	213	—	—	12
Repurchase of common stock (86,083 shares)	—	—	—	(1,445)	—	—	(1,445)
Stock compensation	—	—	199	—	—	—	199
Other comprehensive income	—	—	—	—	—	5,699	5,699
Balance at September 30, 2012	$—	$8,690	$80,310	$(3,102)	$76,443	$9,183	$171,524

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$12,394	$9,966
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,729	2,550
Depreciation, amortization and accretion	4,047	3,673
(Gain) loss on sale of premises and equipment	(4,205)	195
Deferred income taxes	628	7
Stock-based compensation	199	164
Net gain on sale or call of available for sale securities	(741)	(430)
Net gain on sale of other real estate owned	(95)	(192)
Net gain on sale of loans held for sale	(1,466)	(792)
Writedown of other real estate owned	326	9
Origination of loans held for sale	(112,979)	(64,775)
Proceeds from sales of loans held for sale	114,744	64,580
Recognition of previously deferred expense related to pension plan settlement	3,002	—
Pension plan contribution	(3,031)	—
Increase in accrued interest receivable	(770)	(237)
Increase in cash surrender value of bank-owned life insurance	(677)	(682)
Increase in other assets	(260)	(1,164)
Decrease in deferred compensation liability	(68)	(50)
Increase (decrease) in accrued interest payable, accounts payable, accrued expenses, and other liabilities	(263)	2,257
Net cash provided by operating activities	12,514	15,079
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	16,232	—
Proceeds from maturities and calls of available for sale securities	97,424	105,909
Purchases of available for sale securities	(87,255)	(124,636)
Proceeds from maturities and calls of held to maturity securities	556	1,545
Purchase of held to maturity securities	(24,429)	—
Increase in loans	(28,258)	(20,726)
Decrease in loan pool participations, net	12,150	12,413
Purchases of premises and equipment	(2,777)	(1,342)
Proceeds from sale of other real estate owned	2,274	1,069
Proceeds from sale of premises and equipment	5,220	296
Net cash used in investing activities	(8,863)	(25,472)
Cash flows from financing activities:		
Net increase in deposits	22,001	47,339
Decrease in federal funds purchased	(8,920)	—
Increase (decrease) in securities sold under agreements to repurchase	14,153	(8,265)
Proceeds from Federal Home Loan Bank borrowings	20,000	51,000
Repayment of Federal Home Loan Bank borrowings	(30,000)	(39,000)
Stock options exercised	433	42
Dividends paid	(2,250)	(1,891)

Repurchase of common stock	(1,445)	(658)
Redemption of preferred stock	—	(16,000)
Repurchase of common stock warrant	—	(1,000)
Net cash provided by financing activities	13,972	31,567
Net increase in cash and cash equivalents	17,623	21,174
Cash and cash equivalents at beginning of period	32,623	20,523
Cash and cash equivalents at end of period	$50,246	$41,697
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$12,071	$15,410
Cash paid during the period for income taxes	$4,455	$2,204
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$1,589	$952
Transfer of property to assets held for sale	$764	$—

See accompanying notes to consolidated financial statements.

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MidWestOne Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1.Principles of Consolidation and Presentation

MidWestOne Financial Group, Inc. (“MidWestOne” or the “Company,” which is also referred to herein as “we,” “our” or “us”) is an Iowa corporation incorporated in 1983, a bank holding company under the Bank Holding Company Act of 1956 and a financial holding company under the Gramm-Leach-Bliley Act of 1999. Our principal executive offices are located at 102 South Clinton Street, Iowa City, Iowa 52240.

The Company owns 100% of the outstanding common stock of MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa (the “Bank”), and 100% of the common stock of MidWestOne Insurance Services, Inc., Oskaloosa, Iowa. We operate primarily through our bank subsidiary, MidWestOne Bank, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business through three offices located in central and east-central Iowa.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. generally accepted accounting principles. The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of MidWestOne, which contains the latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2011 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2012, and the results of operations and cash flows for the three and nine months ended September 30, 2012 and 2011. All significant intercompany accounts and transactions have been eliminated in consolidation.

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. The results for the three and nine months ended September 30, 2012 may not be indicative of results for the year ending December 31, 2012, or for any other period.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the December 31, 2011 Annual Report on Form 10-K. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold.

2.Shareholders' Equity

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. None are currently issued or outstanding.

Common Stock: The number of authorized shares of common stock for the Company is 15,000,000.

On October 18, 2011, our Board of Directors amended the Company's existing $1.0 million share repurchase program, originally authorized on July 26, 2011, by increasing the remaining amount of authorized repurchases to $5.0 million, and extending the expiration of the program to December 31, 2012. Pursuant to the program, we may repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company's management. The repurchase program does not require us to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available.

3.Earnings per Common Share

Basic earnings per common share computations are based on the weighted average number of shares of common stock actually outstanding during the period. Diluted earnings per share amounts are computed by dividing net income available to common shareholders by the weighted average number of shares outstanding and all dilutive potential shares outstanding during the period.

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The following table presents the computation of earnings per common share for the respective periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2012	2011	2012	2011
Weighted average number of shares outstanding during the period	8,483,918	8,610,837	8,484,404	8,620,083
Weighted average number of shares outstanding during the period including all dilutive potential shares	8,534,908	8,640,231	8,526,161	8,646,816
Net income	$4,450	$3,838	$12,394	$9,966
Preferred stock dividend accrued and discount accretion	—	(210)	—	(645)
Net income available to common stockholders	$4,450	$3,628	$12,394	$9,321
Earnings per share - basic	$0.52	$0.42	$1.46	$1.08
Earnings per share - diluted	$0.52	$0.42	$1.45	$1.08

4.Investment Securities

A summary of investment securities available for sale is as follows:

	As of September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	$51,686	$1,224	$—	$52,910
State and political subdivisions	210,923	12,442	36	223,329
Mortgage-backed securities and collateralized mortgage obligations	213,879	6,695	—	220,574
Corporate debt securities	11,941	382	967	11,356
Total debt securities	488,429	20,743	1,003	508,169
Other equity securities	1,628	114	5	1,737
Total	$490,057	$20,857	$1,008	$509,906

	As of December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	$55,851	$1,142	$12	$56,981
State and political subdivisions	209,094	10,222	55	219,261
Mortgage-backed securities and collateralized mortgage obligations	238,641	6,161	—	244,802
Corporate debt securities	12,578	203	1,176	11,605
Total debt securities	516,164	17,728	1,243	532,649
Other equity securities	1,194	237	—	1,431
Total	$517,358	$17,965	$1,243	$534,080

A summary of investment securities held to maturity is as follows:

	As of September 30, 2012			
	Amortized Cost	Gross Unrealized	Gross Unrealized	Estimated Fair Value

		Gains	Losses	
(in thousands)				
State and political subdivisions	$12,412	$194	$1	$12,605
Mortgage-backed securities	10,243	64	—	10,307
Corporate debt securities	3,257	—	1	3,256
Total	$25,912	$258	$2	$26,168

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	As of December 31, 2011			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and political subdivisions	$1,119	$2	$—	$1,121
Mortgage-backed securities	46	4	—	50
Corporate debt securities	871	—	—	871
Total	$2,036	$6	$—	$2,042

The summary of investment securities shows that some of the securities in the available for sale and held to maturity investment portfolios had unrealized losses, or were temporarily impaired, as of September 30, 2012 and December 31, 2011. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

The following presents information pertaining to securities with gross unrealized losses as of September 30, 2012 and December 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

		As of September 30, 2012					
	Number of Securities	Less than 12 Months		12 Months or More		Total	
(in thousands, except number of securities)		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and political subdivisions	13	3,773	35	173	1	3,946	36
Corporate debt securities	4	—	—	805	967	805	967
Other equity securities	1	236	5	—	—	236	5
Total	18	$4,009	$ 40	$978	$ 968	$4,987	$ 1,008

		As of December 31, 2011					
	Number of Securities	Less than 12 Months		12 Months or More		Total	
(in thousands, except number of securities)		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	1	$5,412	$ 12	$—	$ —	$5,412	$ 12
State and political subdivisions	14	3,449	46	866	9	4,315	55
Corporate debt securities	6	4,975	210	806	966	5,781	1,176
Total	21	$13,836	$ 268	$1,672	$ 975	$15,508	$ 1,243

The Company's assessment of other-than-temporary impairment ("OTTI") is based on its reasonable judgment of the specific facts and circumstances impacting each individual security at the time such assessments are made. The Company reviews and considers factual information, including expected cash flows, the structure of the security, the credit quality of the underlying assets and the current and anticipated market conditions.

At September 30, 2012, approximately 59% of the municipal bonds held by the Company were Iowa based. The Company does not intend to sell these municipal obligations, and it is not more likely than not that the Company will be required to sell them before the recovery of its cost. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily depressed as of September 30, 2012 and December 31, 2011.

The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities do not expose the Company to credit-related losses. The Company's mortgage-backed securities portfolio consisted of securities predominantly underwritten to the standards of and guaranteed by the following government-sponsored agencies: FHLMC, FNMA and GNMA.

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At September 30, 2012, the Company owned six collateralized debt obligations backed by pools of trust preferred securities with an original cost basis of $9.75 million. The book value of these securities as of September 30, 2012 totaled $1.8 million, after other-than-temporary impairment charges during 2008, 2009, and 2010. All of the Company's trust preferred collateralized debt obligations are in mezzanine tranches and are currently rated less than investment grade by Moody's Investor Services. They are secured by trust preferred securities of banks and insurance companies throughout the United States, and were rated as investment grade securities when purchased between March 2006 and December 2007. However, as the banking climate eroded during 2008, the securities experienced cash flow problems. Due to continued market deterioration in these securities during 2009 and 2010, additional pre-tax charges to earnings were recorded. No additional charges have been recognized during 2011 or 2012.The market for these securities is considered to be inactive according to the guidance issued in ASC Topic 820, “Fair Value Measurements and Disclosures.” The Company uses a discounted cash flow model to determine the estimated fair value of its pooled trust preferred collateralized debt obligations and to assess other-than-temporary impairment. The discounted cash flow analysis was performed in accordance with ASC Topic 325. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), estimated deferral and default rates on collateral, and estimated cash flows. The Company also reviewed a stress test of these securities to determine the additional deferrals or defaults in the collateral pool in excess of what the Company believes is probable, before the payments on the individual securities are negatively impacted.

As of September 30, 2012, the Company also owned $1.7 million of equity securities in banks and financial service-related companies. Equity securities are considered to have other-than-temporary impairment whenever they have been in a loss position, compared to current book value, for twelve consecutive months, and the Company does not expect them to recover to their original cost basis. For the first three quarters of 2012 and 2011, no impairment charges were recorded, as the affected equity securities were not deemed impaired due to stabilized market prices in relation to the Company's original purchase price.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if the overall economy and the financial condition of the issuers deteriorate and the liquidity of these securities remains depressed. As a result, there is a risk that other-than-temporary impairments may occur in the future and any such amounts could be material to the Company's consolidated statements of operations.

A summary of the contractual maturity distribution of debt investment securities at September 30, 2012 is as follows:

	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
Due in one year or less	$25,349	$25,672	$525	$526
Due after one year through five years	82,539	86,692	2,431	2,430
Due after five years through ten years	106,049	112,557	—	—
Due after ten years	60,613	62,674	12,713	12,905
Mortgage-backed securities and collateralized mortgage obligations	213,879	220,574	10,243	10,307
Total	$488,429	$508,169	$25,912	$26,168

Mortgage-backed and collateralized mortgage obligations are collateralized by mortgage loans guaranteed by U.S. government agencies. Experience has indicated that principal payments will be collected sooner than scheduled because of prepayments. Therefore, these securities are not scheduled in the maturity categories indicated above. Equity securities available for sale with an amortized cost of $1.6 million and a fair value of $1.7 million are also excluded from this table.

Other investment securities include investments in Federal Home Loan Bank (“FHLB”) stock. The carrying value of the FHLB stock at September 30, 2012 and December 31, 2011 was $11.9 million and $12.2 million, respectively, which is included in the Other Assets line of the consolidated balance sheets. This security is not readily marketable and ownership of FHLB stock is a requirement for membership in the FHLB Des Moines. The amount of FHLB stock the Bank is required to hold is directly related to the amount of FHLB advances borrowed. Because there are no available market values, this security is carried at cost and evaluated for potential impairment each quarter. Redemption of this investment is at the option of the FHLB.

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Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains on investments for the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	$8	$345	$360	$430
Gross realized losses	—	—	—	—
Other-than-temporary impairment	—	—	—	—
	8	345	360	430
Equity securities:				
Gross realized gains	—	—	381	—
Gross realized losses	—	—	—	—
Other-than-temporary impairment	—	—	—	—
	—	—	381	—
	$8	$345	$741	$430

5.Loans Receivable and the Allowance for Loan Losses

The composition of loans and loan pool participations by portfolio segment are as follows:

Allowance for Loan Losses and Recorded Investment in Loan Receivables
As of September 30, 2012 and December 31, 2011

(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
September 30, 2012							
Allowance for loan losses:							
Individually evaluated for impairment	$171	$500	$ 303	$121	$6	$ —	$1,101
Collectively evaluated for impairment	842	4,267	5,551	2,759	250	1,057	14,726
Total	$1,013	$4,767	$ 5,854	$2,880	$256	$ 1,057	$15,827
Loans acquired with deteriorated credit quality (loan pool participations)	$6	$123	$ 649	$271	$20	$ 1,065	$2,134
Loans receivable							
Individually evaluated for impairment	$3,323	$2,413	$ 6,332	$1,031	$39	$ —	$13,138
Collectively evaluated for impairment	79,594	235,074	415,368	248,646	19,444	—	998,126
Total	$82,917	$237,487	$ 421,700	$249,677	$19,483	$ —	$1,011,264
Loans acquired with deteriorated credit quality (loan pool participations)	$79	$2,650	$ 28,842				