SI Financial Group, Inc.
Form 10-K
March 11, 2016

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

FORM 10-K

o ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2015

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: 0-54241

SI FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland	80-0643149
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
803 Main Street, Willimantic, Connecticut	06226
(Address of principal executive offices)	(Zip Code)

(860) 423-4581
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of Exchange on which registered
Common stock, par value $0.01 per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 o

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

Large Accelerated Filer o Accelerated Filer x
Non-Accelerated Filer o Smaller Reporting Company Filer o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $149.7 million, which was computed by reference to the closing price of $11.64, at which the common equity was sold as of June 30, 2015. Solely for the purposes of this calculation, the shares held by the directors and officers of the registrant are deemed to be affiliates.

As of March 7, 2016, there were 12,217,088 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report to Shareholders and the Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Parts II and III of this Form 10-K.

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Forward-Looking Statements

This report may contain certain “forward-looking statements” within the meaning of the federal securities laws, which are made in good faith pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts; rather, they are statements based on management’s current expectations regarding our business strategies, intended results and future performance. Forward-looking statements are generally preceded by terms such as “expects,” “believes,” “anticipates,” “intends,” “estimates,” “projects” and similar expressions. Management’s ability to predict results of the effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on the operations of SI Financial Group, Inc. (the "Company") and its subsidiaries include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the United States government, including policies of the United States Treasury and the Federal Reserve Board, the quality and composition of the loan and investment portfolios, demand for products, deposit flows, competition, demand for financial services in the Company’s market area, changes in real estate market values in the Company’s market area and changes in relevant accounting principles and guidelines. Additional factors that may affect the Company’s results are discussed in Item 1A. “Risk Factors” in this annual report on Form 10-K and in other reports filed with the Securities and Exchange Commission. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

PART I.

Item 1. Business.

General

In certain instances where appropriate, the terms “we,” “us” and “our” refer to SI Financial Group, Inc. or Savings Institute Bank and Trust Company, or both.

SI Financial Group, Inc. is the parent holding company for Savings Institute Bank and Trust Company (the "Bank"). The Bank operates as a community-oriented financial institution offering a full range of financial services to consumers and businesses in its market area, including insurance, trust and investment services. The Bank attracts deposits from the general public and uses those funds to originate one- to four-family residential, multi-family and commercial real estate, commercial business (including time share lending and loans to condominium associations) and consumer loans. The Bank also purchases commercial business loans, including loans fully guaranteed by the Small Business Administration ("SBA") and the United States Department of Agriculture ("USDA"). The Bank sells certain fixed-rate one- to four-family residential conforming loans the Bank originates in the secondary market, primarily with the servicing retained. Such sales generate mortgage banking fee income. The remainder of the Bank’s loan portfolio is originated for investment.

On January 12, 2011, the Company completed its public stock offering and the concurrent "second step" conversion of the Bank from the mutual holding company structure to a stock holding company structure (the "Conversion"). A total of 6,544,493 shares of common stock were sold at $8.00 per share, including 392,670 shares purchased by the Bank’s Employee Stock Ownership Plan. Additional shares totaling 4,032,356 were issued in exchange for shares of the former federally-chartered SI Financial Group, Inc., at an exchange ratio of 0.8981. Following the Conversion, the Company had 10,576,849 shares of common stock outstanding.

On September 6, 2013, the Company acquired Newport Bancorp, Inc. ("Newport"), the holding company for Newport Federal Savings Bank. The transaction qualified as a tax-free reorganization for federal income tax purposes. The consideration paid in the transaction to stockholders of Newport consisted of 2,683,099 shares of Company common stock and $30.9 million in cash. Based upon the Company's $11.22 per share closing price on

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September 6, 2013, the transaction was valued at approximately $61.0 million. As a result of this transaction, the Company added six branches, $446.4 million in assets, $361.1 million in loans and $288.4 million in deposits to its franchise.

The Bank is a wholly-owned subsidiary of the Company and management of the Company and the Bank are substantially similar. The Company neither owns nor leases any property, but instead uses the premises, equipment and other property of the Bank with the payment of appropriate rental fees, as required by applicable law and regulations. Thus, the financial information and discussion contained herein primarily relates to the activities of the Bank.

Availability of Information

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on the Company's website, www.mysifi.com, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (the "SEC"). The information on the Company's website shall not be considered as incorporated by reference into this Form 10-K.

Market Area and Competition

The Company is headquartered in Willimantic, Connecticut, which is located in eastern Connecticut approximately 30 miles east of Hartford. The Bank operates 25 full-service offices throughout Windham, New London, Tolland, Hartford and Middlesex counties in Connecticut and Newport and Washington counties in Rhode Island and one wealth management and trust services office in Windham County, Connecticut. Most of the Bank's deposit customers reside in the areas surrounding the Bank's branch offices. The Bank's primary lending area is eastern Connecticut and Rhode Island with concentrations in Massachusetts and New Hampshire. The economy in the Company's Connecticut market area is relatively diverse and primarily oriented to the educational, service, entertainment, insurance, manufacturing and retail industries. The major employers in our Connecticut market area include several institutions of higher education, the Mohegan Sun and Foxwoods casinos, General Dynamics Defense Systems and Pfizer, Inc. In addition, there are also many small to mid-sized businesses that support the local economy. The economy in the Company's Rhode Island market area is primarily oriented to the health care, educational, retail and hospitality industries. The major employers in the Rhode Island area include several hospitals, universities and pharmaceutical manufacturers.

Notwithstanding the recent economic downturn, our primary market area has remained relatively stable. Windham, New London, Tolland, Hartford and Middlesex counties in Connecticut have a total population of 1.6 million and 626,000 total households, according to SNL Financial. For 2015, median household income levels ranged from $57,000 to $81,000 in the five counties we maintain branch offices in Connecticut, compared to $71,000 for Connecticut and $56,000 for the United States, according to published statistics. Newport and Washington counties in Rhode Island have a total population and total households of 209,000 and 85,000, respectively, according to SNL Financial. Median household income levels for 2015 ranged from $70,000 to $74,000, compared to $59,000 for Rhode Island, according to published statistics.

The Bank faces significant competition for the attraction of deposits and origination of loans. The most direct competition for deposits has historically come from several financial institutions operating in the Bank's market area and, to a lesser extent, from other financial service companies, such as brokerage firms, credit unions and insurance companies. The Bank also faces competition for investors' funds from money market funds and other corporate and government securities. At June 30, 2015, which is the most recent date for which data is available from the Federal

Deposit Insurance Corporation (the “FDIC”), the Bank held 21.11% of the deposits in Windham County, Connecticut, which is the largest market share out of the 10 financial institutions with offices in this county. Also, at June 30, 2015, the Bank held 0.96% of the deposits in New London, Tolland, Hartford and Middlesex counties, Connecticut, which is the 14th largest market share out of the 36 financial institutions with

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offices in these counties. Bank of America Corp., Webster Bank Financial Corporation, The Toronto-Dominion Bank, People’s United Financial, Inc. and Banco Santander, S.A., all of which are large national or regional bank holding companies, also operate in the Bank’s Connecticut market area. In Rhode Island, at June 30, 2015, the Bank held 5.06% of the deposits in Newport and Washington counties, which is the 5th largest market share out of the 11 financial institutions with offices in these counties. The Washington Trust Company of Westerly, RBS Citizens, Bank Newport and Bank of America Corp. also operate in the Bank's Rhode Island market area. These institutions are significantly larger and, therefore, have significantly greater resources than the Bank does and may offer products and services that the Bank does not provide.

The Bank’s competition for loans comes primarily from financial institutions in its market area, and to a lesser extent from other financial service providers, such as mortgage companies and mortgage brokers. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage market, such as insurance companies, securities companies and specialty finance companies.

The Bank expects competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit the Company’s growth in the future.

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Lending Activities

General. The Bank's loan portfolio consists primarily of one- to four-family residential mortgage loans, multi-family and commercial real estate loans and commercial business loans. To a much lesser extent, the loan portfolio includes construction and consumer loans. At December 31, 2015, the Bank had loans held for sale totaling $1.8 million.

The following table summarizes the composition of the Bank's loan portfolio at the dates indicated.

	At December 31,									
	2015		2014		2013		2012		2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Tota
Real estate loans:	(Dollars in Thousands)									
Residential - 1 to 4 family	$417,458	35.57 %	$430,575	40.97 %	$449,812	42.73 %	$230,664	33.44 %	$247,426	39.79
Multi-family and commercial	385,341	32.84	298,320	28.38	285,660	27.13	201,951	29.28	158,384	25.47
Construction	21,786	1.86	13,579	1.29	10,162	0.97	3,284	0.48	12,290	1.98
Total real estate loans	824,585	70.27	742,474	70.64	745,634	70.83	435,899	63.20	418,100	67.24
Commercial business loans:										
SBA and USDA guaranteed	145,238	12.38	118,466	11.27	137,578	13.07	148,385	21.51	127,359	20.48
Time share	55,192	4.70	45,669	4.35	28,615	2.72	23,310	3.38	—	—
Condominium association	21,986	1.87	21,386	2.03	18,442	1.75	15,493	2.25	—	—
Other	69,033	5.88	66,446	6.32	69,705	6.62	26,339	3.81	40,442	6.50
Total commercial business loans	291,449	24.83	251,967	23.97	254,340	24.16	213,527	30.95	167,801	26.98
Consumer loans:										
Home equity	53,779	4.58	51,093	4.86	44,284	4.21	28,375	4.11	27,425	4.41
Indirect automobile	1,741	0.15	3,692	0.35	6,354	0.60	9,652	1.40	5,733	0.92
Other	1,946	0.17	1,864	0.18	2,116	0.20	2,353	0.34	2,824	0.45
Total consumer loans	57,466	4.90	56,649	5.39	52,754	5.01	40,380	5.85	35,982	5.78
Total loans	1,173,500	100.00%	1,051,090	100.00%	1,052,728	100.00%	689,806	100.00%	621,883	100.00
Deferred loan origination	1,735		1,571		1,598		1,744		1,713	

costs, net of deferred fees					
Allowance for loan losses	(9,863)	(7,797)	(6,916)	(6,387)	(4,970)
Loans receivable, net	$1,165,372	$1,044,864	$1,047,410	$685,163	$618,626

One- to Four-Family Residential Loans. One of the Bank's primary lending activities is the origination of mortgage loans to enable borrowers to purchase or refinance existing homes or to construct new residential dwellings in its market area. The Bank offers fixed-rate and adjustable-rate mortgage loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of current and anticipated future interest rates, the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment and the effect each has on the Bank's interest rate risk. The loan fees charged, interest rates and other provisions of mortgage loans are determined on the basis of the Bank's pricing criteria and competitive market conditions.

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The Bank offers fixed-rate loans with terms of 10, 15, 20 or 30 years. The Bank's adjustable-rate mortgage loans are based primarily on 30-year amortization schedules. Interest rates and payments on adjustable-rate mortgage loans adjust annually after a one, three, five, seven or ten-year initial fixed period.

Generally, the Bank does not originate conventional loans with loan-to-value ratios exceeding 95% and generally originates loans with a loan-to-value ratio in excess of 80% only when secured by first liens on owner-occupied one- to four-family residences. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. The Bank requires all properties securing mortgage loans to be appraised by a board approved independent licensed appraiser and requires title insurance on all first mortgage loans. Borrowers must obtain hazard insurance and flood insurance for loans on properties located in a flood zone before closing the loan.

In an effort to provide financing for moderate income and first-time buyers, the Bank offers loans insured by the Federal Housing Administration and the Veterans Administration and participates in the Connecticut Housing Finance Authority Program. The Bank also offers Guaranteed Rural Housing Loans through the USDA. The Bank offers fixed-rate residential mortgage loans through these programs to qualified individuals and originates the loans using modified underwriting guidelines.

Multi-Family and Commercial Real Estate Loans. The origination of multi-family and commercial real estate ("CRE") loans is the other primary lending activity of the Bank. Such loans are made throughout its market area and in strategic areas in the surrounding region for the purpose of acquiring, developing, improving or refinancing multi-family and commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. The Bank offers fixed-rate and adjustable-rate multi-family and commercial real estate loans. Adjustable-rate multi-family and commercial real estate loans originate for amortization periods up to 25 years. Interest rates and payments on these loans typically adjust every five years after a five-year initial fixed-rate period. The Bank's multi-family and commercial real estate loans are generally secured by owner-occupied properties, including churches and retail facilities. These loans are secured by first mortgages that generally do not exceed 75% of the property's appraised value.

The Bank intends to continue to emphasize making these types of loans, as market conditions permit, as such loans produce yields that are generally higher than one- to four-family residential loans and are more sensitive to changes in market interest rates. At December 31, 2015, the largest outstanding multi-family or commercial real estate loan was $12.0 million. This loan is secured by a school and was performing according to its terms at December 31, 2015.

The Bank maintains an Out-of-Market CRE Market Lending Program. The primary focus of this program is to develop greater investment in commercial real estate loans in the metro-Boston area and the surrounding region. The Bank employs a highly seasoned senior commercial real estate loan officer with significant expertise in lending in this region. Loans originated in this lending area comprise income producing properties representing office, flex, industrial, retail, single credit tenant and residential apartments. These properties have strong income support, favorable demographics and are owned and managed by experienced and financially strong property managers. These loans are predominately shorter-term loan facilities (generally 5-year maturities), which are structured to provide the Bank with strong asset growth, coupled with a focus on credit quality and interest rate risk management. At December 31, 2015, the Bank's exposure in Out-of-Market CRE Market Lending was $173.0 million.

Construction and Land Loans. The Bank originates loans to individuals, and to a lesser extent, builders, to finance the construction of residential dwellings. The Bank also originates construction loans for commercial development projects, including condominiums, apartment buildings, single-family subdivisions as well as owner-occupied properties used for businesses. Residential construction loans generally provide for the payment of interest only during the construction phase, which is usually twelve months. At the end of the construction phase, the loan

generally converts to a permanent mortgage loan. Commercial construction loans generally provide for the payment of interest only during the construction phase, which may range from three to twenty-four months.

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Loans generally can be made with a maximum loan-to-value ratio of 80% on residential construction, 75% on construction for nonresidential properties and 80% of the lesser of the appraised value or cost of the project on multi-family construction. At December 31, 2015, the largest outstanding commercial construction loan commitment was $15.3 million for the construction of a 47-bed nursing facility, of which $5.6 million was outstanding and the largest residential construction loan commitment was $611,000, of which $136,000 was outstanding. These loans were performing according to their terms at December 31, 2015. Primarily all commitments to fund construction loans require an appraisal of the property by a board approved independent licensed appraiser. Also, inspections of the property are required before the disbursement of funds during the term of the construction loan.

The Bank also originates development land loans to individuals, local contractors and developers to make improvements on approved building lots, subdivisions and condominium projects within two years of the date of the loan. Such loans to individuals generally are written with a maximum loan-to-value ratio based upon the appraised value or purchase price of the land. Maximum loan-to-value ratio on raw land is 50%, while the maximum loan-to-value ratio for land development loans involving approved projects is 65%. The Bank offers fixed-rate land loans and variable-rate land loans that adjust monthly. Land loans totaled $726,000 at December 31, 2015.

Commercial Business Loans. The Bank originates commercial business loans to a variety of professionals, sole proprietorships and small businesses primarily in its market area. When originating commercial business loans, the Bank considers the financial statements of the borrower, the borrower’s payment history of both corporate and personal debt, the debt service capabilities of the borrower, the projected cash flows of the business, viability of the industry in which the customer operates and the value of the collateral. At December 31, 2015, the largest outstanding commercial loan was $9.0 million, which is secured by the assignment of the guaranteed portion of a purchased SBA loan. This loan was performing according to its terms at December 31, 2015.

The Bank offers loans secured by business assets other than real estate, such as business equipment and inventory. These loans are originated on a variety of business or personal assets in conformance to policy established borrowing base limits. The Bank originates one year revolving credit facilities to finance short-term working capital needs of businesses to be repaid by business cash flow. In addition, the Bank originates non-revolving credit facilities to provide a period of time during which the business can borrow funds for planned equipment purchases and other improvement expenditures. These loans convert to a term loan at the expiration of a draw period, which is not to exceed twelve months, and will be paid over a predefined amortization period. Additional products such as time notes, letters of credit and equipment lease financing are offered. Additionally, the Bank purchases the portion of commercial business loans that are fully guaranteed by the SBA and the USDA. At December 31, 2015, purchased SBA and USDA loans totaled $145.2 million.

The Bank utilizes experienced loan officers and staff to offer specialized lending programs to finance capital improvements for residential and commercial condominium associations as well as the time share industry. Condominium association loans are secured with the assigned right to levy and collect special assessments from the individual unit owners. The condominium association loan portfolio consists of 61 loans totaling $22.0 million as of December 31, 2015. The Bank is not involved with the development of time share resorts, but provides financing for investors with loans secured by diverse consumer receivables. The Bank's exposure in time share lending was 15 loans totaling $55.2 million at December 31, 2015.

Consumer Loans. The Bank offers a variety of consumer loans, primarily home equity lines of credit, and, to a lesser extent, loans secured by marketable securities, passbook or certificate accounts, motorcycles, automobiles and recreational vehicles, as well as unsecured loans. Generally, the Bank offers automobile loans with a maximum loan-to-value ratio of 100% of the purchase price for new vehicles. Unsecured loans generally have a maximum borrowing limit of $10,000 and a maximum term of five years.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and their ability to meet existing obligations and payments on the proposed loans. Although the

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applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate as reported in The Wall Street Journal. A home equity line of credit may be drawn down by the borrower for a period of nine years and ten months from the date of the loan agreement. During this period, the borrower is only required to make low interest-only payments. The borrower has to pay back the amount outstanding under the line of credit over a term not to exceed fifteen years, beginning at the end of the nine-year and ten month period. The Bank will offer home equity loans with a maximum combined loan-to-value ratio of 80%.

Loan Underwriting Risks. While the Bank anticipates that adjustable-rate loans will better offset the 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 and collateral value of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make the Bank's loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by annual and lifetime interest rate adjustment limits.

Loans secured by multi-family and commercial real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family and commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income-producing properties often depend on the 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. To monitor cash flows on income-producing properties, the Bank generally requires borrowers and loan guarantors to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a multi-family or commercial real estate loan, consideration is given to the net operating income of the property, the borrower's expertise, credit history and the profitability and value of the underlying property. The Bank generally requires that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20. Environmental screens, surveys and inspections are obtained when circumstances suggest the possibility of the presence of hazardous materials. Further, in connection with the ongoing monitoring of the loan, the Bank typically reviews the property, the underlying loan and guarantors annually.

Construction financing is 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, the estimated cost (including interest) of construction and the ability of the project to be sold upon completion. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or before the maturity of the loan, with a building having a value that is insufficient to assure full repayment. If the Bank is forced to foreclose on a building before or at completion due to a borrower default, the Bank may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property the value of which tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's underlying business. As a result, the availability of funds for the repayment of commercial business 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.

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Consumer loans entail greater risk than 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 significant 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 which can be recovered on such loans.

Loan Originations, Purchases, Sales and Servicing. Loan originations come from a number of sources. The primary source of loan originations are the Bank’s in-house loan originators, and to a lesser extent, advertising and referrals from customers.

The Bank purchases portions of loans that are fully guaranteed by the SBA and the USDA. The loans are primarily for commercial and agricultural properties located throughout the United States. The Bank purchased $55.7 million and $11.3 million of such loans during 2015 and 2014, respectively. There were no sales of SBA and USDA loans for the years ended December 31, 2015 and 2014.

The Bank also purchased $57.5 million and $48.6 million of multi-family and commercial real estate loans and other commercial business loans in 2015 and 2014, respectively, which included participation loans and medical loans. The Bank performs its own underwriting analysis before purchasing a loan and therefore, believes there should not be a greater risk of default on these obligations compared to loans the Bank originates itself. However, in a purchased loan, the Bank does not service the loan and thus is subject to the policies and practices of the originating lender with regard to monitoring delinquencies, pursuing collections and instituting foreclosure proceedings. Participation loans are entered into by the Bank with other institutions. Total participation loans entered into by the Bank were $33.6 million and $41.1 million in 2015 and 2014, respectively. Medical loans are purchased from a company specializing in medical loan originations. Medical loans are commercial business loans secured by medical equipment and are primarily out of our market area. Total medical loans purchased were $11.0 million and $7.5 million in 2015 and 2014, respectively.

The Bank originates conventional conforming one- to four-family loans which meet Fannie Mae underwriting standards. The Bank sells certain fixed-rate one- to four-family residential conforming loans in the secondary market, primarily on a servicing retained basis. Such loans are sold to Fannie Mae, the Connecticut Housing Finance Authority, the Federal Home Loan Bank of Boston ("FHLB") under the Mortgage Partnership Finance Program and other third-party correspondents. The decision to sell loans in the secondary market is based on prevailing market interest rate conditions, an analysis of the composition and risk of the loan portfolio, liquidity needs and interest rate risk management. Generally, loans are sold without recourse. The Bank utilizes the proceeds from these sales primarily to meet liquidity needs. Proceeds from the sale of one- to four-family loans totaled $28.4 million and $17.4 million for the years ended December 31, 2015 and 2014, respectively. The Bank intends to continue to originate these types of loans for sale in the secondary market in the future to increase its noninterest income.

At December 31, 2015, the Bank retained the servicing rights on $217.0 million of loans, consisting primarily of fixed-rate mortgage loans sold with or without recourse to third parties. Loan repurchase commitments are agreements to repurchase loans previously sold upon the occurrence of conditions established in the contract, including default by the underlying borrower. At December 31, 2015, the exposure amount for loans sold with recourse totaled $7,000. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, processing insurance and tax payments on behalf of borrowers, assisting in foreclosures and property dispositions when necessary and general administration of loans.

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The following table sets forth the Bank's loan originations, loan purchases, loan sales, principal repayments, net loan charge-offs and other reductions on loans for the years indicated.

	Years Ended December 31,		
	2015	2014	2013
	(In Thousands)		
Loans at beginning of year	$1,051,090	$1,052,728	$689,806
Originations:			
Real estate loans	209,857	122,954	123,544
Commercial business loans	33,739	28,301	69,998
Consumer loans	22,934	16,749	23,980
Total loan originations	266,530	168,004	217,522
Purchases:			
Other commercial loans	57,528	48,555	7,461
SBA and USDA guaranteed	55,664	11,345	15,489
Total purchases	113,192	59,900	22,950
Loans acquired from Newport Federal at fair value	—	—	361,055
Deductions:			
Principal loan repayments, prepayments and other, net	228,116	211,244	181,981
Loan sales	28,171	17,272	53,174
Loan charge-offs	557	723	1,057
Transfers to other real estate owned	468	303	2,393
Total deductions	257,312	229,542	238,605
Net increase (decrease) in loans	122,410	(1,638)	362,922
Loans at end of year	$1,173,500	$1,051,090	$1,052,728

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Loan Maturity. The following table shows the contractual maturity of the Bank's loan portfolio at December 31, 2015. The table does not reflect any estimate of prepayments, which significantly shortens the average life of all loans and may cause actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. The amounts shown below exclude deferred loan fees and costs.

	Amounts Due In			
	One Year or Less	More Than One Year to Five Years	More Than Five Years	Total Amount Due
Real estate loans:	(In Thousands)			
Residential - 1 to 4 family	$241	$8,900	$408,317	$417,458
Multi-family and commercial	10,577	69,574	305,190	385,341
Construction	3,523	2,832	15,431	21,786
Total real estate loans	14,341	81,306	728,938	824,585
Commercial business loans:				
SBA and USDA guaranteed	115	3,645	141,478	145,238
Time share	2,000	42,398	10,794	55,192
Condominium association	24	2,143	19,819	21,986
Other	8,567	27,691	32,775	69,033
Total commercial business loans	10,706	75,877	204,866	291,449
Consumer loans:				
Home equity	378	2,640	50,761	53,779
Indirect automobile	144	1,597	—	1,741
Other	64	318	1,564	1,946
Total consumer loans	586	4,555	52,325	57,466
Total loans	$25,633	$161,738	$986,129	$1,173,500

While one- to four-family residential real estate loans are normally originated with terms of up to 30 years, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon the sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase, sale and refinancing activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

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The following table sets forth the dollar amount of all scheduled maturities of loans at December 31, 2015 that are due after December 31, 2016, and have either fixed interest rates or adjustable interest rates.

	Due After December 31, 2016		
	Fixed Rates	Floating or Adjustable Rates	Total
Real estate loans:	(In Thousands)		
Residential - 1 to 4 family	$331,496	$85,721	$417,217
Multi-family and commercial	218,800	155,964	374,764
Construction	12,037	6,226	18,263
Total real estate loans	562,333	247,911	810,244
Commercial business loans:			
SBA and USDA guaranteed	54,425	90,698	145,123
Time share	25,240	27,952	53,192
Condominium association	20,059	1,903	21,962
Other	37,716	22,750	60,466
Total commercial business loans	137,440	143,303	280,743
Consumer loans:			
Home equity	15,512	37,889	53,401
Indirect automobile	1,597	—	1,597
Other	449	1,433	1,882
Total consumer loans	17,558	39,322	56,880
Total loans	$717,331	$430,536	$1,147,867

Loan Approval Procedures and Authority. The Bank’s lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by the Company’s Board of Directors and management. All residential mortgages and home equity lines of credit in excess of $10.0 million or other consumer loans in excess of $4.0 million require the approval of the Board of Directors. The Loan Committee of the Board of Directors has the authority to approve: (1) residential mortgage loans and consumer home equity lines of credit up to $10.0 million, (2) commercial loans up to the regulatory legal lending limit, and (3) consumer loans up to $4.0 million. The Credit Committee, which consists of members of management, has authority to approve: (1) residential mortgage loans and consumer home equity lines of credit up to $4.0 million, (2) commercial loans up to $8.0 million, and (3) consumer loans up to $2.0 million. The President and Chief Lending Officer have approval authority for: (1) residential mortgage loans that conform to Fannie Mae and Freddie Mac standards up to $4.0 million or $417,000 for those that are nonconforming, (2) home equity lines of credit up to $4.0 million, and (3) consumer loans up to $250,000 individually or $1.0 million jointly. The President and Chief Lending Officer have approval authority for commercial real estate and other commercial loans up to $1.0 million individually or $2.0 million jointly. Additionally, certain loan and branch administration personnel have the authority to approve residential mortgage loans, home equity lines and consumer loans up to certain limits as specified in the Bank's loan policy.

Loans to One Borrower. The maximum amount that the Bank may lend to one borrower and the borrower’s related entities is limited, by regulation, to 15% of the Bank’s stated capital and reserves. At December 31, 2015, the Bank’s general regulatory limit on loans to one borrower was approximately $21.8 million. At that date, the Bank’s largest lending relationship was $18.3 million, representing commercial real estate loans on office buildings. These loans were performing according to their original terms at December 31, 2015.

Loan Commitments. The Bank issues commitments for fixed- and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements

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to lend to customers. Generally, our mortgage loan commitments expire in 60 days or less from the date of the application.

Delinquencies. When a borrower fails to make a required loan payment, the Bank takes a number of steps to have the borrower cure the delinquency and restore the loan to current status. The Bank makes initial contact with the borrower when the loan becomes 15 days past due. If payment is not then received by the 30th day of delinquency, additional letters and phone calls generally are made. When the loan becomes 90 days past due, a letter is sent notifying the borrower that foreclosure proceedings will commence if the loan is not brought current within 30 days. Generally, when the loan becomes 120 days past due, the Bank will commence foreclosure proceedings against any real property that secures the loan or attempt to repossess any personal property that secures a consumer or commercial loan. If a foreclosure action is instituted and the loan is not brought current, paid in full or refinanced before the foreclosure sale, the real property securing the loan is typically sold at foreclosure. The Bank may consider loan repayment arrangements with certain borrowers under certain circumstances.

Management reports monthly to the Board of Directors or a committee of the Board regarding the amount of loans delinquent 30 days or more, all loans in foreclosure and all foreclosed and repossessed property that the Bank owns.

The following table provides information about delinquencies in the Bank's loan portfolio at the dates indicated.

	December 31, 2015				December 31, 2014			
	60-89 Days		90 Days or More		60-89 Days		90 Days or More	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Real estate loans:	(Dollars in Thousands)							
Residential - 1 to 4 family	11	$1,054	9	$1,283	4	$258	13	$1,602
Multi-family and commercial	2	203	6	1,061	4	794	4	775
Total real estate loans	13	1,257	15	2,344	8	1,052	17	2,377
Commercial business loans:								
SBA and USDA guaranteed	—	—	—	—	—	—	1	459
Other	1	22	2	339	—	—	2	446
Total commercial business loans	1	22	2	339	—	—	3	905
Consumer loans:								
Home equity	—	—	2	121	1	158	1	23
Indirect automobile	—	—	—	—	1	10	—	—
Other	1	3	1	25	—	—	—	—
Total consumer loans	1	3	3	146	2	168	1	23
Total delinquent loans	15	$1,282	20	$2,829	10	$1,220	21	$3,305

Classified Assets. Management of the Bank, including the Managed Asset Committee, consisting of a number of the Bank's officers, review and classify the assets of the Bank on a monthly basis and the Board of Directors reviews the results of the reports on a quarterly basis. Federal regulations and the Bank's internal policies require that management utilize an internal asset classification system to monitor and evaluate the credit risk inherent in its loan portfolio. In addition, the Bank's regulator has the authority to identify problem assets and, if appropriate,

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require them to be classified. There are three classifications for problem assets; substandard, doubtful and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have all the weaknesses inherent in those classified as "substandard" 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 probability of loss. Assets classified as "loss" are those assets considered uncollectible and of such little value that continuance as assets of the institution are not warranted. The regulations also provide for a "special mention" category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weakness deserving close attention. If the Bank classifies an asset as a loss, a loan loss allowance in the amount of 100% of the portion of the asset classified as a loss is established.

The following table shows the aggregate amounts of the Bank's criticized and classified assets as of December 31, 2015.

	Loss	Doubtful	Substandard	Special Mention
Real estate loans:	(In Thousands)			
Residential - 1 to 4 family	$—	$—	$6,126	$2,001
Multi-family and commercial	—	—	14,233	14,187
Total real estate loans	—	—	20,359	16,188
Commercial business loans:				
Other	—	—	1,294	1,534
Total commercial business loans	—	—	1,294	1,534
Consumer loans:				
Home equity	—	—	229	63
Total consumer loans	—	—	229	63
Total classified loans	—	—	21,882	17,785
Total criticized and classified assets	$—	$—	$21,882	$17,785

At December 31, 2015, total criticized and classified assets were comprised of 64 commercial real estate loans totaling $28.4 million, 53 residential mortgage loans totaling $8.1 million, 23 commercial business loans totaling $2.8 million and seven home equity loans totaling $292,000. Of the $21.9 million in substandard loans, $6.4 million were nonperforming at December 31, 2015 and included residential real estate loans totaling $1.3 million, commercial real estate loans totaling $1.1 million, other commercial business loans totaling $339,000 and consumer loans totaling $146,000 that were 90 days or more past due.

Other than disclosed in the above tables, there are no other loans at December 31, 2015 that management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

Nonperforming Assets and Restructured Loans. The Bank considers repossessed assets and loans that are 90 days or more past due to be nonperforming assets. Loans are generally placed on nonaccrual status when they become 90 days delinquent at which time the accrual of interest ceases and any previously recorded interest is reversed and recorded as a reduction of loan interest and fee income. Typically, payments received on a nonaccrual loan are applied to the outstanding principal and interest balance as determined at the time of collection of the loan.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and concessions have been made to the original contractual terms, such as reductions of interest rates or deferral of interest or principal

payments, due to the borrower's financial condition, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired. The Bank adheres to the nonaccrual policy for all TDR loans. Loans that are current prior to modification would not require nonaccrual status subsequent to

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the modification. If the accrual of interest was suspended on the loan prior to the modification or if the payment amount significantly increased subsequent to the modification, the loan would remain on nonaccrual status until the borrower demonstrates the willingness and the ability to make the restructured loan payments for a period of six consecutive months.

Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as a foreclosed asset until it is sold. When property is acquired, it is recorded at fair value, net of estimated selling expenses. Holding costs and declines in fair value after acquisition of the property result in charges to earnings.

The following table provides information with respect to the Bank's nonperforming assets and TDRs as of the dates indicated.

	At December 31,				
	2015	2014	2013	2012	2011
Nonaccrual loans:	(Dollars in Thousands)				
Real estate loans:					
Residential - 1 to 4 family	$3,894	$3,167	$3,560	$4,988	$5,590
Multi-family and commercial	2,167	907	2,979	1,758	4,031
Construction	—	—	—	—	—
Total real estate loans	6,061	4,074	6,539	6,746	9,621
Commercial business loans	339	446	385	542	654
Consumer loans:					
Home equity	183	23	53	366	316
Indirect automobile	—	—	16	—	—
Total consumer loans	183	23	69	366	316
Total nonaccrual loans	6,583	4,543	6,993	7,654	10,591
Accruing loans past due 90 days or more:					
Commercial business loans	—	459	—	—	—
Total accruing loans past due 90 days or more	—	459	—	—	—
Total nonperforming loans	6,583	5,002	6,993	7,654	10,591
Other real estate owned, net [1]	1,088	1,271	2,429	1,293	976
Total nonperforming assets	7,671	6,273	9,422	8,947	11,567
Accruing troubled debt restructurings	4,659	3,387	2,192	3,826	4,620
Total nonperforming assets and troubled debt restructurings	$12,330	$9,660	$11,614	$12,773	$16,187
Total nonperforming loans to total loans	0.56 %	0.48 %	0.66 %	1.11 %	1.70 %
Total nonperforming loans to total assets	0.44	0.37	0.52	0.80	1.11
Total nonperforming assets and troubled debt restructurings to total assets	0.83	0.72	0.86	1.34	1.69

[1] Other real estate owned balances are shown net of related write-downs or valuation allowance.

The increase in nonperforming assets was due to increases in nonaccrual loans. Nonperforming real estate loans increased $2.0 million, which contributed to the higher balance of nonperforming loans at December 31, 2015. Nonaccrual loans consisted of 32 residential one- to four-family loans, 12 commercial real estate loans, four home equity loans, two commercial business loans and one consumer loan.

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Other real estate owned decreased $183,000 from December 31, 2014 to $1.1 million at December 31, 2015. During 2015, the Bank acquired four residential properties with a net carrying value of $468,000 and sold one commercial and two residential properties with a net carrying value of $384,000.

At December 31, 2015 and 2014, TDRs totaled $5.7 million and $4.0 million, respectively, as a result of interest rate concessions, deferral of principal payments, extension of maturity or a combination of these items. Of the TDRs at December 31, 2015, $4.7 million continued to accrue interest under the restructured terms of their agreements while the accrual of interest was suspended on loans totaling $991,000. As of December 31, 2015, there were two TDRs, with a recorded investment totaling $322,000 and no allowance, that were in payment default. All of the remaining TDRs were performing in accordance with the terms of their restructured loan agreements and the Bank anticipates these borrowers will repay all contractual principal and interest.

Interest income that would have been recorded for the year ended December 31, 2015 had nonaccruing loans and TDRs been current in accordance with their original terms and had been outstanding throughout the period amounted to $375,000. The amount of interest recognized on impaired loans was $451,000 for the year ended December 31, 2015.

Loans Acquired with Deteriorated Credit Quality. Loans acquired in a transfer, including business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition the Company will not collect all contractually required principal and interest payments, are accounted for under accounting guidance for purchased credit-impaired loans. This guidance provides that the excess of the cash flows initially expected to be collected over the fair value of the loans at the acquisition date (i.e., the accretable yield) is accreted into interest income over the estimated remaining life of the loans, provided that the timing and amount of future cash flows is reasonably estimable. Such loans are considered to be accruing because their interest income relates to the accretable yield and not to contractual interest payments. The difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Subsequent to acquisition, probable decreases in expected cash flows are recognized through a provision for loan losses, resulting in an increase to the allowance for loan losses. If the Company has probable and significant increases in cash flows expected to be collected, the Company will first reverse any previously established allowance for loan losses and then increase interest income as a prospective yield adjustment.

Allowance for Loan Losses. The allowance for loan losses, a material estimate which could change significantly in the near-term, is established through a provision for loan losses charged to earnings to account for losses that are inherent in the loan portfolio and estimated to occur, and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Loan losses are charged against the allowance for loan losses when management believes that the uncollectibility of the principal loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses when received. In the determination of the allowance for loan losses, management obtains independent appraisals for significant properties, when necessary.

Management's judgment in determining the adequacy of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is evaluated on a monthly basis by management and is based on the evaluation of the known and inherent risk characteristics and size and composition of the loan portfolio, the assessment of current economic and real estate market conditions, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, historical loan loss experience, level of nonperforming loans, delinquencies, classified assets and loan charge-offs and evaluations of loans and other relevant factors.

The allowance for loan losses consists of the following key elements:

Specific allowance for identified impaired loans. For loans that are identified as impaired, an allowance is established when the present value of expected cash flows (or observable market price of the loan or fair

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value of the collateral if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan.

General valuation allowance. The general component represents a valuation allowance on the remainder of the loan portfolio, after excluding impaired loans. For this portion of the allowance, loans are segregated by category and assigned an allowance percentage based on historical loan loss experience adjusted for qualitative factors stratified by the following loan segments: residential one- to four-family, multi-family and commercial real estate, construction, commercial business and consumer. Management uses a rolling average of historical losses based on the time frame appropriate to capture relevant loss data for each loan segment. This allowance percentage or historical loss factor is adjusted for the following qualitative factors: changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off and recovery practices; changes in international, national, regional and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments; changes in the size and composition of the loan portfolio and in the terms of the loans; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans; changes in the quality of the loan review system; changes in the underlying collateral for collateral-dependent loans; the existence and effect of any concentrations of credit and changes in the level of such concentrations; the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the portfolio.

In computing the allowance for loan losses, we do not assign a general valuation allowance to the SBA and USDA loans that we purchase as such loans are fully guaranteed. Such loans accounted for $145.2 million, or 12.38% of the loan portfolio, at December 31, 2015.

The majority of the Company's loans are collateralized by real estate located in eastern Connecticut and Rhode Island. Certain commercial real estate loans are secured by collateral located outside of our primary market area. Accordingly, the collateral value of a substantial portion of the Company's loan portfolio and real estate acquired through foreclosure is susceptible to changes in local market conditions.

Although management uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and the Company’s results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while management believes it has established the allowance for loan losses in conformity with U.S. generally accepted accounting principles, our regulators, in reviewing the loan portfolio, may require the Company to increase its allowance for loan losses based on judgments different from those of the Company. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate or increases may be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses would adversely affect the Company’s financial condition and results of operations.

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The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated.

	December 31, 2015			2014			2013		
	Amount	% of Allowance in each Category to Total Allowance	% of Loans in each Category to Total Loans	Amount	% of Allowance in each Category to Total Allowance	% of Loans in each Category to Total Loans	Amount	% of Allowance in each Category to Total Allowance	% of Loans in each Category to Total Loans
Real estate loans:	(Dollars in Thousands)								
Residential - 1 to 4 family	$1,036	10.50 %	35.57 %	$955	12.25 %	40.97 %	$975	14.10 %	42.73 %
Multi-family and commercial	5,033	51.03	32.84	3,607	46.26	28.38	3,395	49.09	27.13
Construction	516	5.23	1.86	254	3.26	1.29	169	2.44	0.97
Commercial business:									
SBA & USDA guaranteed	—	—	12.38	—	—	11.27	—	—	13.07
Time share	690	7.00	4.70	685	8.78	4.35	429	6.20	2.72
Condominium association	330	3.35	1.87	321	4.12	2.03	277	4.01	1.75
Other	1,605	16.27	5.88	1,376	17.65	6.32	1,169	16.90	6.62
Consumer loans:									
Home equity	595	6.03	4.58	530	6.80	4.86	409	5.91	4.21
Indirect automobile	12	0.12	0.15	26	0.33	0.35	44	0.64	0.60
Other	46	0.47	0.17	43	0.55	0.18	49	0.71	0.20
Total allowance for loan losses	$9,863	100.00 %	100.00 %	$7,797	100.00 %	100.00 %	$6,916	100.00 %	100.00 %

	December 31, 2012			2011		
	Amount	% of Allowance in each Category to Total Allowance	% of Loans in each Category to Total Loans	Amount	% of Allowance in each Category to Total Allowance	% of Loans in each Category to Total Loans
Real estate loans:	(Dollars in Thousands)					
Residential - 1 to 4 family	$1,125	17.61 %	33.44 %	$759	15.27 %	39.79 %
Multi-family and commercial	3,028	47.41	29.28	2,337	47.01	25.47
Construction	22	0.34	0.48	280	5.63	1.98
Commercial business:						
SBA & USDA guaranteed	—	—	21.51	—	—	20.48
Time share	699	10.94	3.38	—	—	—
Condominium association	232	3.63	2.25	—	—	—
Other	804	12.60	3.81	1,148	23.09	6.50
Consumer loans:						
Home equity	350	5.48	4.11	344	6.92	4.41

Indirect automobile	68	1.06		1.40		40	0.81		0.92	
Other	59	0.93		0.34		62	1.27		0.45	
Total allowance for loan losses	$6,387	100.00	%	100.00	%	$4,970	100.00	%	100.00	%

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The following table sets forth an analysis of the allowance for loan losses for the years indicated.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Allowance at beginning of year	$7,797	$6,916	$6,387	$4,970	$4,799
Provision for loan losses	2,509	1,539	1,319	2,896	1,558
Charge-offs:					
Real estate loans:					
Residential - 1 to 4 family	(102)	(335)	(712)	(299)	(686)
Multi-family and commercial	(289)	(144)	(228)	(1,267)	(606)
Construction	—	—	—	—	(83)
Commercial business loans	(165)	(164)	(22)	—	(267)
Consumer loans:					
Home equity	—	(40)	(20)	(125)	(15)
Indirect automobile	—	(32)	(31)	(68)	—
Other	(1)	(8)	(44)	(58)	(69)
Total charge-offs	(557)	(723)	(1,057)	(1,817)	(1,726)
Recoveries:					
Real estate loans:					