

PARKE BANCORP, INC.
Form 10-Q
November 15, 2010

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

FORM 10-Q

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

For the quarterly period ended: September 30, 2010.

or

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

For the transition period from _____ to _____

Commission File No. 000-51338

Commission File No. 000-51338

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

New Jersey
(State or other jurisdiction of incorporation or organization)

65-1241959
(IRS Employer Identification No.)

601 Delsea Drive, Washington Township, New Jersey
(Address of principal executive offices)

08080
(Zip Code)

856-256-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [] No []

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

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [] Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

As of November 15, 2010, there were issued and outstanding 4,440,030 shares of the registrant's common stock.

PARKE BANCORP, INC.

FORM 10-Q

FOR THE QUARTER ENDED September 30, 2010

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Part I

FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2010	December 31, 2009
	(in thousands except share data)	
ASSETS		
Cash and due from financial institutions	\$51,158	\$4,099
Federal funds sold and cash equivalents	12	55
Cash and cash equivalents	51,170	4,154
Investment securities available for sale, at fair value	27,897	29,420
Investment securities held to maturity (fair value of \$2,141 at September 30, 2010 and \$2,404 at December 31, 2009)	1,991	2,509
Total investment securities	29,888	31,929
Loans held for sale	4,344	—
Loans, net of unearned income	633,743	603,401
Less: Allowance for loan and lease losses	13,428	12,404
Net loans and leases	620,315	590,997
Accrued interest receivable	3,303	2,808
Premises and equipment, net	4,338	2,861
Other real estate owned (OREO)	7,778	—
Restricted stock, at cost	3,087	3,094
Bank owned life insurance (BOLI)	5,316	5,184
Other assets	13,392	13,171
Total Assets	\$742,931	\$654,198
LIABILITIES AND EQUITY		
Liabilities		
Deposits		
Noninterest-bearing deposits	\$22,682	\$21,488
Interest-bearing deposits	576,298	498,825
Total deposits	598,980	520,313
FHLB borrowings	41,796	44,428
Other borrowed funds	14,344	10,000
Subordinated debentures	13,403	13,403
Accrued interest payable	865	821
Other liabilities	4,323	3,260
Total liabilities	673,711	592,225
Equity		
Preferred stock, \$1,000 liquidation value; authorized 1,000,000 shares; Issued: 16,288 shares at September 30, 2010 and December 31, 2009	15,638	15,508
Common stock, \$.10 par value; authorized 10,000,000 shares; Issued: 4,650,930 shares at September 30, 2010; and 4,224,867 shares at December 31, 2009	465	421
Additional paid-in capital	41,921	37,020

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Retained earnings	14,027	14,071
Accumulated other comprehensive loss	(829)	(2,867)
Treasury stock, 210,900 shares at September 30, 2010 and 191,729 shares at December 31, 2009, at cost	(2,180)	(2,180)
Total shareholders' equity	69,042	61,973
Noncontrolling (minority) interest in consolidated subsidiaries	178	—
Total equity	69,220	61,973
Total liabilities and equity	\$742,931	\$654,198

See accompanying notes to consolidated financial statements

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Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the nine months ended September 30,		For the three months ended September 30,	
	2010	2009	2010	2009
	(in thousands except share data)			
Interest income:				
Interest and fees on loans	\$29,621	\$28,646	\$10,044	\$9,680
Interest and dividends on investments	1,290	1,462	428	448
Interest on federal funds sold and cash equivalents	—	1	—	—
Total interest income	30,911	30,109	10,472	10,128
Interest expense:				
Interest on deposits	7,241	10,858	2,376	3,291
Interest on borrowings	1,330	1,578	444	474
Total interest expense	8,571	12,436	2,820	3,765
Net interest income	22,340	17,673	7,652	6,363
Provision for loan losses	6,401	3,200	2,100	1,450
Net interest income after provision for loan losses	15,939	14,473	5,552	4,913
Noninterest income (loss)				
Loan fees	109	201	28	62
Net income from BOLI	132	135	43	45
Service fees on deposit accounts	191	138	62	48
Other than temporary impairment losses	(115)	(2,401)	(71)	(1,120)
Portion of loss recognized in other comprehensive income (before taxes)	49	863	23	770
Net impairment losses recognized in earnings	(66)	(1,538)	(48)	(350)
Gain (loss) on sale of real estate owned	39	(149)	(7)	10
Gain on sale of loans	1,311	—	635	—
Other	192	223	132	26
Total noninterest income (loss)	1,908	(990)	845	(159)
Noninterest expense				
Compensation and benefits	3,641	2,966	1,163	953
Professional services	873	631	291	180
Occupancy and equipment	691	637	253	201
Data processing	250	255	88	87
FDIC insurance	653	627	216	185
Loss on write down of foreclosed assets	—	68	—	14
Other operating expense	2,144	1,109	1,265	372
Total noninterest expense	8,252	6,293	3,276	1,992
Income before income tax expense	9,595	7,190	3,121	2,762
Income tax expense	3,802	2,787	1,180	1,067
Net income attributable to Company and noncontrolling (minority) interest	5,793	4,403	1,941	1,695
Net income attributable to noncontrolling (minority) interest	(168)	—	(113)	—
Net income attributable to Company	5,625	4,403	1,828	1,695
Preferred stock dividend and discount accretion	740	655	247	245
Net income available to common shareholders	\$4,885	\$3,748	\$1,581	\$1,450

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Earnings per common share				
Basic	\$1.10	\$0.85	\$0.36	\$0.33
Diluted	\$1.09	\$0.85	\$0.35	\$0.32
Weighted average shares outstanding				
Basic	4,437,860	4,431,409	4,439,838	4,436,452
Diluted	4,491,020	4,431,409	4,488,106	4,469,406
See accompanying notes to consolidated financial statements				

Parke Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGE IN TOTAL EQUITY
(unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (in thousands)	Treasury Stock	Total Shareholders' Equity	Non- Controlling (Minority) Interest	Total Equity
Balance, December 31, 2008	\$ —	\$ 414	\$ 35,656	\$ 8,870	\$ (2,791)	\$ (1,848)	\$ 40,301	\$ —	\$ 40,301
Stock warrants exercised		7	415			(332)	90		90
Stock compensation			14				14		14
Comprehensive income (loss):									
Net income				4,403			4,403		4,403
Non-credit unrealized losses on debt securities with OTTI, net of taxes					(518)		(518)		(518)
Net unrealized gains on available for sale securities without OTTI, net of taxes					2,640		2,640		2,640
Pension liability adjustments, net of tax					(9)		(9)		(9)
Total comprehensive income							6,516	—	6,516
Preferred stock issued	15,358		930				16,288		16,288
Dividend on preferred stock (5% annually)				(545)			(545)		(545)
Accretion of discount on preferred stock	110			(110)			0		0
Balance, September 30, 2009	\$ 15,468	\$ 421	\$ 37,015	\$ 12,618	\$ (678)	\$ (2,180)	\$ 62,664	\$ —	\$ 62,664

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Balance, December 31, 2009	\$ 15,508	\$ 421	\$ 37,020	\$ 14,071	\$ (2,867)	\$ (2,180)	\$ 61,973	\$ —	\$ 61,973
Stock options exercised			22				22		22
Capital contribution by noncontrolling (minority) interest								196	196
Capital withdrawals by noncontrolling (minority) interest								(186)	(186)
10% common stock dividend		44	4,879	(4,929)			(6)		(6)
Comprehensive income (loss):									
Net income				5,625			5,625	168	5,793
Non-credit unrealized gains on debt securities with OTTI, net of taxes					85		85		85
Net unrealized gains on available for sale securities without OTTI, net of taxes					1,921		1,921		1,921
Pension liability adjustments, net of taxes					32		32		32
Total comprehensive income							7,663	168	7,831
Dividend on preferred stock (5% annually)				(610)			(610)		(610)
Accretion of discount on preferred stock	130			(13)			—		—
Balance, September 30, 2010	\$ 15,638	\$ 465	\$ 41,921	\$ 14,027	\$ (829)	\$ (2,180)	\$ 69,042	\$ 178	\$ 69,220

See accompanying notes to consolidated financial statements

Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the nine months ended	
	September 30,	
	2010	2009
	(in thousands)	
Cash Flows from Operating Activities		
Net income	\$5,793	\$4,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	247	236
Provision for loan losses	6,401	3,200
Stock compensation	—	14
Bank owned life insurance	(132)	(135)
Supplemental executive retirement plan	333	174
Gain on sale of SBA loans	(1,311)	—
SBA loans originated for sale	(12,593)	—
Proceeds from sale of SBA loans originated for sale	13,904	—
(Gain) loss on sale of other real estate owned	(39)	149
Loss on write down of foreclosed assets	—	68
Other than temporary decline in value of investments	66	1,538
Net accretion of purchase premiums and discounts on securities	(59)	(91)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable and other assets	(848)	(2,991)
Increase in accrued interest payable and other accrued liabilities	1,107	1,377
Net cash provided by operating activities	8,525	7,942
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	(1,794)	(3,307)
Redemptions of restricted stock	7	29
Proceeds from maturities and principal payments on mortgage-backed securities	7,171	8,228
Proceeds from sale of other real estate owned	453	1,008
Net increase in loans	(45,407)	(47,493)
Purchases of bank premises and equipment	(1,724)	(161)
Net cash used in investing activities	(41,294)	(41,696)
Cash Flows from Financing Activities		
Proceeds from issuance of preferred stock	—	16,288
Payment of dividend on preferred stock	(610)	(441)
Proceeds from exercise of stock options and warrants	22	422
Fractional share cash payment on 10% stock dividend	(6)	—
Purchase of treasury stock	—	(332)
Net increase in secured borrowings	4,344	—
Net decrease in Federal Home Loan Bank short term borrowings	(2,025)	(5,500)
Repayments of Federal Home Loan Bank advances	(500)	—
Payments of Federal Home Loan Bank advances	(107)	(602)
Net increase (decrease) in noninterest-bearing deposits	1,194	(1,147)
Net increase in interest-bearing deposits	77,473	37,002
Net cash provided by financing activities	79,785	45,690

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Increase in cash and cash equivalents	47,016	11,936
Cash and Cash Equivalents, January 1,	4,154	7,270
Cash and Cash Equivalents, September 30,	\$51,170	\$19,206
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the six months for:		
Interest on deposits and borrowed funds	\$8,527	\$12,657
Income taxes	\$6,200	\$5,001
Supplemental Schedule of Noncash Activities:		
Real estate acquired in settlement of loans	\$13,273	\$442
See accompanying notes to consolidated financial statements		

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Parke Bancorp, Inc. ("Parke Bancorp" or the "Company") is a bank holding company incorporated under the laws of the State of New Jersey in January 2005 for the sole purpose of becoming the holding company of Parke Bank (the "Bank").

The Bank is a commercial bank which commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and insured by the Federal Deposit Insurance Corporation ("FDIC"). Parke Bancorp and the Bank maintain their principal offices at 601 Delsea Drive, Washington Township, New Jersey. The Bank also conducts business through branches in Northfield and Washington Township, New Jersey and Philadelphia, Pennsylvania.

The Bank competes with other banking and financial institutions in its primary market areas. Commercial banks, savings banks, savings and loan associations, credit unions and money market funds actively compete for savings and time certificates of deposit and all types of loans. Such institutions, as well as consumer financial and insurance companies, may be considered competitors of the Bank with respect to one or more of the services it renders.

The Bank is subject to regulations of certain state and federal agencies, and accordingly, the Bank is periodically examined by such regulatory authorities. As a consequence of the regulation of commercial banking activities, the Bank's business is particularly susceptible to future state and federal legislation and regulations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation: The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (GAAP) and predominant practices within the banking industry.

The financial statements include the accounts of Parke Bancorp, Inc. and its wholly owned subsidiaries, Parke Bank, Parke Capital Markets, Farm Folly LLC, 601 Sewell Walnut LLC, 601 Sewell Sturdy LLC, 601 Sewell Seafar LLC, 601 Sewell Baker LLC and Woolwich Lots LLC. Parke Capital Markets and Farm Folly LLC are presently inactive. Parke Capital Trust I, Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the consolidation requirements. Parke Bank has entered into a joint venture, 44 Capital Partners LLC, with a 51% ownership interest which is reflected in the consolidated financial statements. The LLC was formed to originate, sell and service Small Business Administration (SBA) loans. All significant inter-company balances and transactions have been eliminated.

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in Parke Bancorp Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 since they do not include all of the information and footnotes required by U.S. generally accepted accounting principles. The accompanying interim financial statements for the three months and nine months ended September 30, 2010 and 2009 are unaudited. The balance sheet as of December 31, 2009, was derived from the audited financial statements. In the opinion of management, these financial statements include all normal and recurring adjustments necessary for a fair statement of the results for such interim periods. Results of operations for the three months and nine months ended September 30, 2010 are not necessarily indicative of the results for the full year.

Use of Estimates: In preparing the interim financial statements, management makes estimates and assumptions based on available information that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of expenses and revenues. Actual results could differ from such estimates. The allowance for loan losses, deferred taxes, evaluation of investment securities for other-than-temporary impairment and fair values of financial instruments are significant estimates and particularly subject to change.

Recently Issued Accounting Pronouncements:

On July 1, 2009, the Accounting Standards Codification (“ASC”) became the Financial Accounting Standards Board’s (“FASB”) officially recognized source of authoritative U.S. generally accepted accounting principles (“GAAP”) applicable to all public and non-public non-governmental entities, superseding existing FASB, AICPA, EITF and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

FASB ACS Topic 820, “Fair Value Measurements and Disclosures.”

New authoritative accounting guidance (Accounting Standards Update No. 2010-6), which became effective January 1, 2010, provides amendments to ASC Topic 820 that require new disclosures as follows: 1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

The new authoritative guidance also clarifies existing disclosures as follows:

- 1) A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.
- 2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3.

These new disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009 and did not have a significant impact of the Company’s consolidated financial statements. The disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The new disclosures are not expected to have a significant impact on the Company’s consolidated financial statements. See Note 8, “Fair Value”.

FASB ASC Topic 860, "Transfers and Servicing."

New authoritative accounting guidance under ASC Topic 860, "Transfers and Servicing" amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 was effective January 1, 2010 and accordingly, impacted the manner in which the Company accounts for the sale of the guaranteed portion on SBA loans. Gains of \$485,000 for the three months ended September 30, 2010 were deferred to the fourth quarter as a result of this new guidance.

FASB ASC Topic 310, "Receivables."

New authoritative accounting guidance (Accounting Standards Update No. 2010-20) under ASC Topic 310, "Receivables", amends the current disclosures required by ASC Topic 310. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company is currently evaluating this new disclosure guidance, but does not expect it to have any effect on the Company's reported financial condition or results of operations.

NOTE 3. INVESTMENT IN DEBT AND MARKETABLE EQUITY SECURITIES

The following is a summary of the Company's investment in available-for-sale and held-to-maturity securities as of September 30, 2010 and December 31, 2009:

As of September 30, 2010	Amortized cost	Gross unrealized gains (amounts in thousands)	Gross unrealized losses (amounts in thousands)	Other-than- temporary impairments in OCI	Fair value
Available-for-sale:					
U.S. Government sponsored entities	\$ 3,259	\$ 28	\$ —	\$ —	\$ 3,287
Corporate debt obligations	2,000	125	—	—	2,125
Residential mortgage-backed securities	15,158	683	4	—	15,837
Collateralized mortgage obligations	2,947	125	—	71	3,001
Collateralized debt obligations	5,562	—	1,375	540	3,647
Total available-for-sale	\$ 28,926	\$ 961	\$ 1,379	\$ 611	\$ 27,897
Held to maturity:					
States and political subdivisions	\$ 1,991	\$ 150	\$ —	\$ —	\$ 2,141
As of December 31, 2009	Amortized cost	Gross unrealized gains (amounts in thousands)	Gross unrealized losses (amounts in thousands)	Other-than- temporary impairments in OCI	Fair value
Available-for-sale:					
U.S. Government sponsored entities	\$ 3,273	\$ —	\$ 41	\$ —	\$ 3,232
Corporate debt obligations	2,000	17	47	—	1,970
Residential mortgage-backed securities	19,098	679	79	—	19,698
Collateralized mortgage obligations	3,859	68	50	68	3,809
Collateralized debt obligations	5,562	—	4,166	685	711
Total available-for-sale	\$ 33,792	\$ 764	\$ 4,383	\$ 753	\$ 29,420
Held to maturity:					
States and political subdivisions	\$ 2,509	\$ 10	\$ 115	\$ —	\$ 2,404

The Company's unrealized loss on investments in collateralized debt obligations (CDOs) relates to four securities issued by financial institutions, totaling \$5.6 million. The gross unrealized loss decreased from \$4.2 million at December 31, 2009 to \$1.4 million at September 30, 2010. In the first quarter of 2010, the Company engaged an independent third party valuation firm to assess three of its pooled trust preferred collateralized debt obligations for other than temporary impairment ("OTTI"). The OTTI analysis is based on a best estimate of cash flows, including potential credit losses and prepayments, discounted at

the securities' effective yields. The valuation firm also discounts the best estimate cash flows using a discount rate derived through the build-up method to estimate fair value. The fair value discount rate is based on the appropriate risk free rate, given the estimated duration of the security, plus a spread for liquidity under normal market conditions, and a spread to account for the uncertainty of the cash flows. Prior to the first quarter, the Company had relied on a pricing service that utilized a matrix pricing approach to estimate fair value. The Company believes that a fair value derived from best estimate cash flows represents a better estimate of the fair values of the securities.

The amortized cost and fair value of debt securities classified as available-for-sale and held-to-maturity, by contractual maturity, as of September 30, 2010 are as follows:

	Amortized Cost	Fair Value
	(amounts in thousands)	
Available-for-sale:		
Due within one year	\$—	\$—
Due after one year through five years	3,252	—
Due after five years through ten years	—	3,281
Due after ten years	7,569	5,778
Residential mortgage-backed securities and collateralized mortgage obligations	18,105	18,838
Total available-for-sale	\$28,926	\$27,897
Held-to-maturity:		
Due within one year	\$—	\$—
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	1,991	2,141
Total held-to-maturity	\$1,991	\$2,141

Expected maturities will differ from contractual maturities for mortgage related securities because the issuers of certain debt securities do have the right to call or prepay their obligations without any penalties.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2010 and December 31, 2009:

As of September 30, 2010	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(amounts in thousands)					
Available-for-sale:						
U.S. Government sponsored entities	\$—	\$—	\$—	\$—	\$—	\$—
Corporate debt obligations	—	—	—	—	—	—
Residential mortgage-backed securities and collateralized mortgage obligations	1,097	4	—	—	1,097	4
Collateralized debt obligations	—	—	3,375	1,375	3,375	1,375
Total available-for-sale	\$1,097	\$4	\$3,375	\$1,375	\$4,472	\$1,379

Held-to-maturity:						
States and political subdivisions	\$—	\$—	\$—	\$—	\$—	\$—

As of December 31, 2009	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(amounts in thousands)					
Available-for-sale:						
U.S. Government sponsored entities	\$3,225	\$41	\$—	\$—	\$3,225	\$41
Corporate debt obligations	—	—	653	47	653	47
Residential mortgage-backed securities and collateralized mortgage obligations	6,289	129	—	—	6,289	129
Collateralized debt obligations	—	—	585	4,166	585	4,166
Total available-for-sale	\$9,514	\$170	\$1,238	\$4,213	\$10,752	\$4,383

Held-to-maturity:						
States and political subdivisions	\$—	\$—	\$610	\$115	\$610	\$115

U.S. Government Sponsored Entities: The unrealized losses on the Company's investment in U.S. Government sponsored entities were caused by movement in interest rates. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell this investments before recovery of its amortized cost basis, which may be maturity, it does not consider the investment to be other-than-temporarily impaired at December 31, 2009.

Corporate Debt Obligations: The Company's unrealized loss on investments in corporate bonds relates to two trust preferred securities (TruPS) issued by financial institutions, totaling \$1.0 million. The unrealized loss was primarily caused by an illiquid market for this sector of security. All two issues have been rated A or above by Moody's. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment to be other-than-temporarily impaired at December 31, 2009.

Residential Mortgage-Backed Securities and Collateralized Mortgage Obligations: The unrealized losses on the Company's investment in mortgage-backed securities were caused by movement in interest rates. The loss is attributable to two securities; one was issued by GNMA, a government agency and the other was issued by FHLMC, a government sponsored agency. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, it does not consider the investments in these securities to be other-than-temporarily impaired at September 30, 2010 or December 31, 2009.

Collateralized Debt Obligations: CDOs are pooled securities primarily secured by trust preferred securities (TruPS), subordinated debt and surplus notes issued by small and mid-sized banks and insurance companies. These securities are generally floating rate instruments with 30-year maturities, and are callable at par by the issuer after five years. The current economic downturn has had a significant adverse impact on the financial services industry, consequently, TruPS CDOs do not have an active trading market. With the assistance of a competent third-party valuation specialist, the Company utilized the following methodology to determine the fair value:

Cash flows were developed based on the estimated speeds at which the trust preferred securities are expected to prepay, the estimated rates at which the trust preferred securities are expected to defer payments, the estimated rates at which the trust preferred securities are expected to default, and the severity of the losses on securities which default. Trust preferred securities generally allow for prepayment by the issuer without a prepayment penalty any time after five years. Due to the lack of new trust preferred issuances and the relatively poor conditions of the financial institution industry, a relatively modest rate of prepayment was assumed going forward. Estimates for conditional default rates ("CDR") are based on the payment characteristics of the trust preferred securities themselves (e.g. current, deferred, or defaulted) as well as the financial condition of the trust preferred issuers in the pool. Estimates for the near-term rates of deferral and CDR are based on key financial ratios relating to the financial institutions' capitalization, asset quality, profitability and liquidity. Finally, we consider whether or not the financial institution has received TARP funding, and if it has, the amount. Longer-term rates of deferral and defaults are based on historical averages. The estimated cash flows were then discounted. The fair value of each bond was assessed by discounting their projected cash flows by a discount rate ranging from 10% to 20%. The discount rates were based on the yields of publicly traded TruPS and preferred stock issued by comparably rated banks. The fair value for previous reporting periods was based on indicative market bids and resulted in much lower values due to the inactive trading market.

The underlying issuers have been analyzed, and projections have been made regarding the future performance, considering factors including defaults and interest deferrals. The analysis indicates that the Company should expect to receive all contractual cash flows. Because the Company does not intend to

sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at September 30, 2010 or December 31, 2009.

Other-Than-Temporarily Impaired Debt Securities

We assess whether we intend to sell or it is more likely than not that we will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income.

The present value of expected future cash flows is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. The asset-backed securities cash flow estimates are based on bond specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate bond cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using bond specific facts and circumstances including timing, security interest and loss severity.

We have a process in place to identify debt securities that could potentially have a credit impairment that is other than temporary. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues. On a quarterly basis, we review all securities to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events and (4) for fixed maturity securities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value.

The following table presents a roll-forward of the credit loss component of the amortized cost of debt securities that we have written down for OTTI and the credit component of the loss that is recognized in earnings. OTTI recognized in earnings subsequent to adoption in 2009 for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows for the nine month and three month periods ended September 30, 2010 and 2009.

	For the Nine Months Ended September 30,	
	2010	2009
	(amounts in thousands)	
Beginning balance	\$4,008	\$2,279
Initial credit impairment	—	884
Subsequent credit impairments	66	654
Reductions for amounts recognized in earnings due to intent or requirement to sell	—	—
Reductions for securities deemed worthless	1,384	—
Reductions for increases in cash flows expected to be collected	—	—
Ending balance	\$2,690	\$3,817

	For the Three Months Ended September 30,	
	2010	2009
	(amounts in thousands)	
Beginning balance	\$2,808	\$3,467
Initial credit impairment	—	319
Subsequent credit impairments	48	31
Reductions for amounts recognized in earnings due to intent or requirement to sell	—	—
Reductions for securities deemed worthless	166	—
Reductions for increases in cash flows expected to be collected	—	—
Ending balance	\$2,690	\$3,817

A summary of investment gains and losses recognized in income during the nine month and three month periods ended September 30, 2010 and 2009 are as follows:

	For the Nine Months Ended September 30,	
	2010	2009
	(amounts in thousands)	
Available-for-sale securities:		
Realized gains	\$—	\$—
Realized (losses)	—	—
Other than temporary impairment	(66)	(1,538)
Total available-for-sale securities	\$(66)	