PLUMAS BANCORP
Form 10-Q
November 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED September 30, 2012

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000-49883

PLUMAS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

California	**75-2987096**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
35 S. Lindan Avenue, Quincy, California	**95971**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code (530) 283-7305

Indicated by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of November 5, 2012. 4,776,339 shares

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLUMAS BANCORP

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(In thousands, except share data)

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 54,948	$ 63,076
Investment securities available for sale	78,051	57,917
Loans, less allowance for loan losses of $5,527 at September 30, 2012 and $6,908 at December 31, 2011	294,486	287,432
Premises and equipment, net	13,528	13,457
Bank owned life insurance	11,073	10,815
Real estate and vehicles acquired through foreclosure	5,074	8,680
Accrued interest receivable and other assets	12,913	13,972
Total assets	$ 470,073	$ 455,349
Liabilities and Shareholders Equity		
Deposits:		
Non-interest bearing	$ 137,064	$ 125,931
Interest bearing	269,203	265,209
Total deposits	406,267	391,140
Repurchase agreements	5,463	8,279
Accrued interest payable and other liabilities	6,634	5,986
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	428,674	415,715
Commitments and contingencies (Note 6)		
Shareholders equity:		
Serial preferred stock, no par value; 10,000,000 shares authorized; 11,949 issued and outstanding at September 30, 2012 and December 31, 2011; aggregate liquidation value of $13,604 at September 30, 2012 and $13,069 at December 31, 2011	11,834	11,769
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding 4,776,339 shares at September 30, 2012 and December 31, 2011	6,084	5,998
Retained earnings	23,047	21,709
Accumulated other comprehensive income	434	158
Total shareholders equity	41,399	39,634
Total liabilities and shareholders equity	$ 470,073	$ 455,349

See notes to unaudited condensed consolidated financial statements.

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PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(In thousands, except per share data)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Interest Income:				
Interest and fees on loans	$ 4,403	$ 4,322	$ 13,018	$ 13,007
Interest on investment securities	251	223	647	929
Other	21	39	76	91
Total interest income	4,675	4,584	13,741	14,027
Interest Expense:				
Interest on deposits	208	307	673	1,209
Interest on repurchase agreements	3	4	12	5
Interest on junior subordinated deferrable interest debentures	88	76	259	228
Other	18	9	47	28
Total interest expense	317	396	991	1,470
Net interest income before provision for loan losses	4,358	4,188	12,750	12,557
Provision for Loan Losses	1,000	400	1,900	2,700
Net interest income after provision for loan losses	3,358	3,788	10,850	9,857
Non-Interest Income:				
Service charges	926	881	2,712	2,582
Gain on sale of loans	580	657	1,053	1,795
Gain on sale of investments	191		403	612
Earnings on Bank owned life insurance policies	87	84	258	261
Other	299	197	671	557
Total non-interest income	2,083	1,819	5,097	5,807
Non-Interest Expenses:				
Salaries and employee benefits	2,179	2,304	6,623	7,058
Occupancy and equipment	754	768	2,298	2,337
Other	1,689	1,949	4,832	5,346
Total non-interest expenses	4,622	5,021	13,753	14,741
Income before provision for income taxes	819	586	2,194	923
Provision for Income Taxes	273	215	791	227
Net income	546	371	1,403	696
Preferred Stock Dividends and Discount Accretion	(171)	(171)	(513)	(513)
Net income available to common shareholders	$ 375	$ 200	$ 890	$ 183

Basic earnings per share	$ 0.08	$ 0.04	$ 0.19	$ 0.04
Diluted earnings per share	$ 0.08	$ 0.04	$ 0.19	$ 0.04

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Net income	$ 546	$ 371	$ 1,403	$ 696
Other comprehensive income net of tax:				
Unrealized gains on securities:				
Change in net unrealized gains, net	364	73	514	710
Less: Reclassification adjustments for net gains included in net income	(112)		(238)	(360)
Other comprehensive income, net of tax	252	73	276	350
Total comprehensive income	$ 798	$ 444	$ 1,679	$ 1,046

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Nine Months Ended September 30, 2012	2011
Cash Flows from Operating Activities:		
Net income	$ 1,403	$ 696
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,900	2,700
Change in deferred loan origination costs/fees, net	(546)	(328)
Depreciation and amortization	1,009	1,083
Stock-based compensation expense	86	(46)
Amortization of investment security premiums	417	258
Accretion of investment security discounts	(2)	(16)
Net (gain) loss on sale of other real estate	(2)	608
Gain on sale of investments	(403)	(612)
Gain on sale of loans held for sale	(1,053)	(1,795)
Loans originated for sale	(15,311)	(14,907)
Proceeds from loan sales	16,065	20,681
Provision for change in OREO valuation	805	337
Earnings on bank-owned life insurance	(258)	(261)
Decrease in accrued interest receivable and other assets	854	1,165
Increase (decrease) in accrued interest payable and other liabilities	648	(491)
Net cash provided by operating activities	5,612	9,072
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	18,179	20,065
Proceeds from principal repayments from available-for-sale government-sponsored mortgage-backed securities	6,524	4,069
Purchases of available-for-sale securities	(65,151)	(39,245)
Proceeds from sale of available-for-sale securities	20,773	27,351
Net (increase) decrease in loans	(8,897)	1,605
Proceeds from sale of other real estate	3,344	4,259
Proceeds from sale of other vehicles	64	24
Purchase of premises and equipment	(887)	(123)
Net cash (used in) provided by investing activities	(26,051)	18,005

Continued on next page.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(In thousands)

(Continued)

	For the Nine Months Ended September 30, 2012	2011
Cash Flows from Financing Activities:		
Net increase in demand, interest bearing and savings deposits	$ 22,116	$ 16,999
Net decrease in time deposits	(6,989)	(31,943)
Net (decrease) increase in securities sold under agreements to repurchase	(2,816)	7,072
Net cash provided by (used in) financing activities	12,311	(7,872)
(Decrease) increase in cash and cash equivalents	(8,128)	19,205
Cash and Cash Equivalents at Beginning of Year	63,076	64,628
Cash and Cash Equivalents at End of Period	$ 54,948	$ 83,833
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	$ 753	$ 1,397
Income taxes	$ 2	$ 2
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	$ 550	$ 5,275

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. GENERAL

During 2002, Plumas Bancorp (the Company) was incorporated as a bank holding company for the purpose of acquiring Plumas Bank (the Bank) in a one bank holding company reorganization. This corporate structure gives the Company and the Bank greater flexibility in terms of operation expansion and diversification. The Company formed Plumas Statutory Trust I (Trust I) for the sole purpose of issuing trust preferred securities on September 26, 2002. The Company formed Plumas Statutory Trust II (Trust II) for the sole purpose of issuing trust preferred securities on September 28, 2005.

The Bank operates eleven branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. The Bank s administrative headquarters is in Quincy, California. In addition, the Bank operates a loan administrative office in Reno, Nevada and a lending office specializing in government-guaranteed lending in Auburn, California. The Bank s primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which, in part, permanently raised the current standard maximum deposit insurance amount to $250,000. Amendments related to the enactment of the Dodd-Frank Act provide full deposit insurance coverage for noninterest bearing deposit transaction accounts beginning December 31, 2010 for a two year period.

2. REGULATORY MATTERS

On February 15, 2012, the Bank received notice from the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions (DFI) that the Consent Order (Order) with the FDIC and the DFI which was effective on March 16, 2011 had been terminated. While the Bank is no longer subject to an Order, the Bank has entered into an informal agreement with the FDIC and DFI which, among other things, requests that the Bank continue to maintain a Tier 1 Leverage Capital Ratio of 9% which is in excess of that required for well capitalized institutions and continue to reduce its level of classified asset balances that were outstanding as of September 30, 2011 to not more than 50% of Tier 1 Capital plus the allowance for loan losses. At September 30, 2012 this ratio was 37% down from 68% at December 31, 2011 and the Bank s tier 1 leverage capital ratio was 10.5%.

On July 28, 2011 the Company entered into an agreement with the Federal Reserve Bank of San Francisco (the FRB Agreement). Under the terms of the FRB Agreement, Plumas Bancorp has agreed to take certain actions that are designed to maintain its financial soundness so that it may continue to serve as a source of strength to the Bank. Among other things, the FRB Agreement requires prior written approval related to the payment or taking of dividends and distributions, making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities, incurrence of debt, and the purchase or redemption of stock. In addition, the FRB Agreement requires Plumas Bancorp to annually submit a written statement of Plumas Bancorp s planned sources and uses of cash for debt service, operating expense and other purposes (Cash Flow Statement). The Company has submitted the Cash Flow Statements within the required time frames.

3. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, Plumas Bank. Plumas Statutory Trust I and Plumas Statutory Trust II are not consolidated into the Company s consolidated financial statements and, accordingly, are accounted for under the equity method. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company s financial position at September 30, 2012 and December 31, 2011 and its results of operations for the three-month and nine-month periods ended September 30, 2012 and 2011 and its cash flows for the nine-month periods ended September 30, 2012 and 2011. Our condensed consolidated balance sheet at December 31, 2011 is derived from audited financial statements. Certain reclassifications have been made to prior period s balances to conform to classifications used in 2012. These reclassifications had no impact on the Company s consolidated financial position, results of operations or net change in cash and cash equivalents.

The unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting on Form 10-Q. Accordingly, certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2011 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month and nine-month periods ended September 30, 2012 may not necessarily be indicative of future operating results. In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods reported. Actual results could differ significantly from those estimates.

Management has determined that because all of the commercial banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No single customer accounts for more than 10% of the revenues of the Company or the Bank.

4. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of investment securities at September 30, 2012 and December 31, 2011 consisted of the following:

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$ 41,327,000	$ 179,000	$	$ 41,506,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	35,984,000	561,000		36,545,000
	$ 77,311,000	$ 740,000	$	$ 78,051,000

Unrealized gains on available-for-sale investment securities totaling $740,000 were recorded, net of $306,000 in tax expense, as accumulated other comprehensive income within shareholders equity at September 30, 2012. During the nine months ended September 30, 2012, the Company sold twenty-five available-for-sale securities for total proceeds of $20,773,000, which resulted in the recognition of a $403,000 gain on sale. No securities were sold at a loss. During the nine months ended September 30, 2011 the Company sold twenty-five available-for-sale securities for $27,351,000. The Company realized a gain on sale from twenty-three of these securities totaling $636,000 and a loss on sale on two securities of $24,000 resulting in the recognition of a $612,000 net gain on sale. During the three months ended September 30, 2012, the Company sold seven available-for-sale securities for total proceeds of $8,492,000, which resulted in the recognition of a $191,000 gain on sale. No securities were sold at a loss during the three months ended September 30, 2012. No securities were sold during the three months ended September 30, 2011.

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$ 32,708,000	$ 92,000	$ (23,000)	$ 32,777,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	24,941,000	251,000	(52,000)	25,140,000
	$ 57,649,000	$ 343,000	$ (75,000)	$ 57,917,000

Net unrealized gains on available-for-sale investment securities totaling $268,000 were recorded, net of $110,000 in tax expense, as accumulated other comprehensive income within shareholders equity at December 31, 2011. During the year ended December 31, 2011 the Company sold twenty-seven available-for-sale securities for total proceeds of $29,404,000. The Company realized a gain on sale from twenty-five of these securities totaling $690,000 and a loss on sale on two securities of $24,000 resulting in the recognition of a $666,000 net gain on sale.

There were no investment securities with unrealized losses as of September 30, 2012.

Investment securities with unrealized losses at December 31, 2011 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months	
	Fair Value	Unrealized Losses
Debt securities:		
U.S. Government-sponsored agencies	$ 11,044,000	$ 23,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	9,144,000	52,000
	$ 20,188,000	$ 75,000

There were no securities in a loss position for more than one year at December 31, 2011.

The amortized cost and estimated fair value of investment securities at September 30, 2012 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Estimated Amortized Cost	Estimated Fair Value
After one year through five years	$ 41,327,000	$ 41,506,000
Investment securities not due at a single maturity date:		
Government-sponsored mortgage- backed securities	35,984,000	36,545,000
	$ 77,311,000	$ 78,051,000

Investment securities with amortized costs totaling $44,849,000 and $44,878,000 and estimated fair values totaling $45,125,000 and $45,149,000 at September 30, 2012 and December 31, 2011, respectively, were pledged to secure deposits and repurchase agreements.

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below, in thousands:

	September 30, 2012	December 31, 2011
Commercial	$ 28,018	$ 30,235
Agricultural	37,610	38,868
Real estate residential	36,273	39,019
Real estate commercial	122,569	119,412
Real estate construction and land development	16,508	17,063
Equity lines of credit	37,785	37,581
Installment	2,637	2,515
Other	17,748	9,172
	299,148	293,865
Deferred loan costs, net	865	475
Allowance for loan losses	(5,527)	(6,908)
	$ 294,486	$ 287,432

Effective for the third quarter of 2012, the Company modified its method of estimating the allowance for loan losses for non-impaired loans. This modification incorporated historical losses from the beginning of the latest business cycle. Previously we utilized historical loss experience based on a rolling eight quarters ending with the most recently completed calendar quarter. This modification had the effect of increasing the required allowance related to the expanded historical loss period. The Company believes that, given the recent trend in historical losses, it was prudent to increase the period examined and that a full business cycle was the appropriate period.

The recorded investment in impaired loans totaled $18,790,000 and $24,402,000 at September 30, 2012 and December 31, 2011. The Company had specific allowances for loan losses of $1,088,000 on impaired loans of $7,028,000 at September 30, 2012 as compared to specific allowances for loan losses of $2,066,000 on impaired loans of $14,130,000 at December 31, 2011. The balance of impaired loans for which no specific reserves were required totaled $11,761,000 and $10,272,000 at September 30, 2012 and December 31, 2011, respectively. The average recorded investment in impaired loans for the nine months ended September 30, 2012 and September 30, 2011 was $18,527,000 and $27,405,000, respectively. The Company recognized $370,000 and $372,000 in interest income on impaired loans during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended September 30, 2012 and 2011 the Company recognized interest income of $39,000 and $123,000, respectively.

Included in impaired loans are troubled debt restructurings. A troubled debt restructuring is a formal restructure of a loan where the Company for economic or legal reasons related to the borrower s financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company s internal underwriting policy.

The carrying value of troubled debt restructurings at September 30, 2012 and December 31, 2011 was $11,087,000 and $12,188,000, respectively. The Company has allocated $571,000 and $1,164,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2012 and December 31, 2011, respectively. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at September 30, 2012 and December 31, 2011.

During the three and nine month periods ended September 30, 2012, the terms of certain loans were modified as troubled debt restructurings. Modifications involving a reduction of the stated interest rate of the loan was for periods ranging from 1 month to 10 years. During the twelve month period ended December 31, 2011, the terms of certain loans were modified as troubled debt restructurings. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 month to 2 years. For the periods described above, modifications involving an extension of the maturity date were for periods ranging from 1 month to 10 years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2012, dollars in thousands:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	1	$ 24	$ 24
Real estate residential	2	819	800
Real estate commercial	1	516	516
Real estate construction	2	180	180
Other	2	11	11
Total	8	$ 1,550	$ 1,531

The troubled debt restructurings described above decreased the allowance for loan losses by $118,000 and resulted in no charge offs during the nine months ended September 30, 2012.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended September 30, 2012, dollars in thousands:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Other	2	$ 11	$ 11
Total	2	$ 11	$ 11

The troubled debt restructurings described above resulted in no allowance for loan losses or charge offs during the three months ended September 30, 2012.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the nine months ended September 30, 2012.

	Number of Loans	Recorded Investment
Troubled Debt Restructurings:		
Real estate construction	1	$ 2,978
Total	1	$ 2,978

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ending December 31, 2011, dollars in thousands:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded

					Investment
Troubled Debt Restructurings:					
Commercial	2	$	129	$	129
Agricultural	4		996		996
Real estate-construction and land development	5		4,977		4,977
Equity lines of credit	1		787		787
Other	19		179		179
Total	31	$	7,068	$	7,068

The troubled debt restructurings described above increased the allowance for loan losses by $132,000 and resulted in no charge offs during the year ending December 31, 2011.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2011:

	Number of Loans	Recorded Investment
Troubled Debt Restructurings:		
Agricultural	3	$ 630,000
Real estate construction and land development	2	139,000
Equity lines of credit	1	787,000
Total	6	$ 1,556,000

The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by $81,000 and resulted in charge-offs of $51,000 during the year ending December 31, 2011.

The terms of certain other loans were modified during the nine months ending September 30, 2012 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of September 30, 2012 of $5.3 million. The terms of certain other loans were modified during the year ending December 31, 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2011 of $13.5 million.

These loans which were modified during the nine months ended September 30, 2012 and twelve months ended December 31, 2011 did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment ranging from 30 days to 3 months that was considered to be insignificant or the borrower was not considered to be experiencing financial difficulties.

At September 30, 2012 and December 31, 2011, nonaccrual loans totaled $14,991,000 and $16,757,000, respectively. Interest foregone on nonaccrual loans totaled $531,000 and $560,000 for the nine months ended September 30, 2012 and 2011, respectively. Interest foregone on nonaccrual loans totaled $181,000 and $71,000 for the three months ended September 30, 2012 and 2011, respectively. Loans past due 90 days or more and on accrual status totaled $37,000 and $72,000 at September 30, 2012 and December 31, 2011, respectively.

Salaries and employee benefits totaling $700,000 and $495,000 have been deferred as loan origination costs during the nine months ended September 30, 2012 and 2011, respectively. Salaries and employee benefits totaling $235,000 and $197,000 have been deferred as loan origination costs during the three months ended September 30, 2012 and 2011, respectively.

The Company assigns a risk rating to all loans and periodically, but not less than annually, performs detailed reviews of all such loans over $100,000 to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company s regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan.

The risk ratings can be grouped into five major categories, defined as follows:

Pass A pass loan is a strong credit with no existing or known potential weaknesses deserving of management s close attention.

Watch A Watch loan has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company s credit position at some future date. Watch loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project s lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project s failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss Loans classified as loss are considered uncollectible and charged off immediately.

The following table shows the loan portfolio allocated by management s internal risk ratings at the dates indicated, in thousands:

September 30, 2012	Credit Exposure Credit Risk Profile by Internally Assigned Grade						
	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	$ 25,196	$ 35,090	$ 32,360	$ 112,711	$ 11,372	$ 34,710	$ 251,439
Watch	1,435	1,026	1,066	4,014	291	1,126	8,958
Substandard	1,370	1,494	2,847	5,844	4,845	1,938	18,338
Doubtful	17					11	28
Total	$ 28,018	$ 37,610	$ 36,273	$ 122,569	$ 16,508	$ 37,785	$ 278,763

December 31, 2011	Credit Exposure Credit Risk Profile by Internally Assigned Grade						
	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	$ 26,077	$ 34,882	$ 34,049	$ 101,395	$ 11,383	$ 34,296	$ 242,082
Watch	1,562	1,595	629	5,575	50	1,300	10,711
Substandard	2,433	2,391	4,327	12,442	5,630	1,974	29,197
Doubtful	163		14			11	188
Total	$ 30,235	$ 38,868	$ 39,019	$ 119,412	$ 17,063	$ 37,581	$ 282,178

	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity September 30, 2012			Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2011		
	Installment	Other	Total	Installment	Other	Total
Grade:						
Performing	$ 2,594	$ 17,677	$ 20,271	$ 2,465	$ 9,024	$ 11,489
Non-performing	43	717	114	50	148	198
Total	$ 2,637	$ 17,748	$ 20,385	$ 2,515	$ 9,172	$ 11,687

The following tables show the allocation of the allowance for loan losses by impairment methodology at the dates indicated, in thousands:

Allowance for Loan Losses:

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Installment	Other	Total
Nine months ended **September 30, 2012:**									
Beginning balance	$ 1,025	$ 330	$ 698	$ 1,925	$ 2,006	$ 635	$ 117	$ 172	$ 6,908
Charge-offs	(891)	(250)	(204)	(258)	(1,524)	(216)	(63)	(89)	(3,495)
Recoveries	53			4	54	9	36	58	214
Provision	604	100	287	(200)	550	406	(17)	170	1,900
Ending balance	$ 791	$ 180	$ 781	$ 1,471	$ 1,086	$ 834	$ 73	$ 311	$ 5,527
Three months ended **September 30, 2012:**									
Beginning balance	$ 980	$ 183	$ 807	$ 1,161	$ 2,143	$ 612	$ 116	$ 181	$ 6,183
Charge-offs	(158)		(64)	(20)	(1,426)		(27)	(8)	(1,703)
Recoveries	8			1		1	2	35	47
Provision	(39)	(3)	38	329	369	221	(18)	103	1,000
Ending balance	$ 791	$ 180	$ 781	$ 1,471	$ 1,086	$ 834	$ 73	$ 311	$ 5,527
Nine months ended **September 30, 2011:**									
Beginning balance	$ 760	$ 184	$ 632	$ 1,819	$ 3,011	$ 652	$ 66	$ 200	$ 7,324
Charge-offs	(386)	(93)	(127)	(252)	(2,484)	(311)	(87)	(118)	(3,858)
Recoveries	87	102		16	5		10	74	294
Provision	489	68	(32)	228	1,494	307			