UNITED SECURITY BANCSHARES
Form 10-Q
August 05, 2013
Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission file number: 000-32897

UNITED SECURITY BANCSHARES
(Exact name of registrant as specified in its charter)

CALIFORNIA	91-2112732
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2126 Inyo Street, Fresno, California	93721
(Address of principal executive offices)	(Zip Code)

Registrants telephone number, including area code (559) 248-4943

Indicate by check mark whether 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 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 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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Large accelerated filer o Accelerated filer o Non-accelerated filer o Small reporting company x

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

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter - June 30, 2013: $43,148,493

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value
(Title of Class)

Shares outstanding as of July 31, 2013: 14,508,275

1

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. Financial Information

United Security Bancshares and Subsidiaries
Consolidated Balance Sheets – (unaudited)
June 30, 2013 and December 31, 2012

(in thousands except shares)	June 30, 2013	December 31, 2012
Assets		
Cash and due from banks	$23,754	$27,481
Cash and due from FRB	114,515	114,146
Cash and cash equivalents	138,269	141,627
Interest-bearing deposits in other banks	1,511	1,507
Investment securities available for sale (at fair value)	25,527	31,844
Loans and leases	405,041	400,057
Unearned fees and unamortized loan origination costs	(6)	(24)
Allowance for credit losses	(11,157)	(11,784)
Net loans	393,878	388,249
Accrued interest receivable	1,536	1,694
Premises and equipment – net	11,922	12,262
Other real estate owned	17,221	23,932
Intangible assets	155	249
Goodwill	4,488	4,488
Cash surrender value of life insurance	16,941	16,681
Investment in limited partnerships	4,240	4,312
Deferred income taxes - net	10,146	9,724
Other assets	9,828	12,308
Total assets	$635,662	$648,877
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$219,693	$217,014
Interest bearing	327,408	346,273
Total deposits	547,101	563,287
Accrued interest payable	60	71
Accounts payable and other liabilities	5,911	6,010
Junior subordinated debentures (at fair value)	10,882	10,068
Total liabilities	563,954	579,436
Shareholders' Equity		
Common stock, no par value 20,000,000 shares authorized, 14,508,275 issued and outstanding at June 30, 2013, and 14,217,303 at December 31, 2012	44,416	43,173
Retained earnings	27,429	26,179
Accumulated other comprehensive (loss) income	(137)	89
Total shareholders' equity	71,708	69,441
Total liabilities and shareholders' equity	$635,662	$648,877

3

Table of Contents

United Security Bancshares and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
(In thousands except shares and EPS)	2013	2012	2013	2012
Interest Income:				
Loans, including fees	$5,554	$5,966	$11,020	$12,009
Investment securities – AFS – taxable	140	457	338	978
Interest on deposits in FRB	70	43	135	94
Interest on deposits in other banks	2	10	4	20
Total interest income	5,766	6,476	11,497	13,101
Interest Expense:				
Interest on deposits	331	437	742	915
Interest on other borrowings	93	72	153	136
Total interest expense	424	509	895	1,051
Net Interest Income Before Provision for Credit Losses	5,342	5,967	10,602	12,050
Provision for Credit Losses	39	1,004	30	1,006
Net Interest Income	5,303	4,963	10,572	11,044
Noninterest Income:				
Customer service fees	902	897	1,681	1,801
Increase in cash surrender value of bank-owned life insurance	140	144	277	280
Impairment loss on investment securities	—	(149)	—	(172)
(Loss) gain on fair value of financial liability	(103)	364	(660)	(112)
Gain on sale of other investment	—	1,807	—	1,807
Other	168	177	328	445
Total noninterest income	1,107	3,240	1,626	4,049
Noninterest Expense:				
Salaries and employee benefits	2,113	2,176	4,474	4,598
Occupancy expense	883	840	1,788	1,605
Data processing	33	19	93	37
Professional fees	375	439	820	683
Regulatory assessments	339	417	698	783
Director fees	59	69	117	136
Amortization of intangibles	46	79	93	170
Correspondent bank service charges	81	80	157	160
Loss on California tax credit partnership	32	81	65	184
Net cost (gain) on operation of OREO	(336)	(293)	(1,218)	329
Other	529	646	1,140	1,272
Total noninterest expense	4,154	4,553	8,227	9,957
Income Before Provision for Taxes	2,256	3,650	3,971	5,136
Provision for Taxes on Income	859	1,478	1,499	1,912
Net Income	$1,397	$2,172	$2,472	$3,224
Net Income per common share				
Basic	$0.10	$0.15	$0.17	$0.22
Diluted	$0.10	$0.15	$0.17	$0.22
Shares on which net income per common shares were based				
Basic	14,506,389	14,364,176	14,504,740	14,364,176

Diluted	14,507,783	14,364,176	14,508,329	14,364,176

4

Table of Contents

United Security Bancshares and Subsidiaries
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net Income	$1,397	$2,172	$2,472	$3,224
Unrealized holdings gains (losses) on securities	(305)	39	(415)	628
Unrealized gains on unrecognized post retirement costs	21	—	40	—
Other comprehensive (loss) income, before tax	(284)	39	(375)	628
Tax benefit (expense) related to securities	122	15	166	(218)
Tax expense related to unrecognized post retirement costs	(8)	—	(17)	—
Total other comprehensive (loss) income	(170)	54	(226)	410
Comprehensive income	$1,227	$2,226	$2,246	$3,634

Table of Contents

United Security Bancshares and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

	Common stock				
(In thousands except shares)	Number of Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2011	13,531,832	$41,435	$21,447	$(709)	$62,173
Other comprehensive income				410	410
Common stock dividends	271,974	642	(642)		0
Stock-based compensation expense		10			10
Net Income			3,224		3,224
Balance June 30, 2012	13,803,806	$42,087	$24,029	$(299)	$65,817
Other comprehensive income				388	388
Common stock dividends	278,736	694	(694)		
Common stock issuance	134,761	383			383
Stock-based compensation expense		9			9
Net Income			2,844		2,844
Balance December 31, 2012	14,217,303	$43,173	$26,179	$89	$69,441
Other comprehensive (loss) income				(226)	(226)
Common stock dividends	285,770	1,222	(1,222)		0
Stock options exercised	5,202	12			12
Stock-based compensation expense		9			9
Net Income			2,472		2,472
Balance June 30, 2013	14,508,275	$44,416	$27,429	$(137)	$71,708

Table of Contents

United Security Bancshares and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended June 30,	
(In thousands)	2013	2012
Cash Flows From Operating Activities:		
Net Income	$2,472	$3,224
Adjustments to reconcile net income:to cash provided by operating activities:		
Provision for credit losses	30	1,006
Depreciation and amortization	620	603
Amortization of investment securities	14	16
Accretion of investment securities	(34)	(129)
Decrease in accrued interest receivable	158	191
Decrease in accrued interest payable	(11)	(16)
Increase (decrease) in accounts payable and accrued liabilities	89	(40)
Decrease in unearned fees	(18)	(51)
Increase in income taxes payable	1,771	1,852
Stock-based compensation expense	9	10
Deferred income taxes	272	(332)
Gain on sale of other real estate owned	(1,949)	(337)
Impairment loss on other real estate owned	118	—
Impairment loss on investment securities	—	172
Impairment loss on investment in bank stock	—	69
Increase in surrender value of life insurance	(294)	(280)
Loss on fair value option of financial liabilities	660	112
Loss on tax credit limited partnership interest	65	184
Amortization of Goodwill and CDI	93	170
Gain on sale of other investment	—	(1,807)
Net (increase) decrease in other assets	(221)	349
Net cash provided by operating activities	3,844	4,966
Cash Flows From Investing Activities:		
Net (increase) decrease in interest-bearing deposits with banks	(4)	84
Redemption of correspondent bank stock	433	293
Maturities and calls of available-for-sale securities	3,600	—
Principal payments of available-for-sale securities	2,322	3,476
Net (increase) decrease in loans	(3,750)	10,590
Cash proceeds from sales of other real estate owned	6,651	3,532
Cash proceeds from sale of other investment	—	2,174
Cash proceeds from sale of premises and equipment	—	36
Capital expenditures for premises and equipment	(280)	(520)
Net cash provided by investing activities	8,972	19,665
Cash Flows From Financing Activities:		
Net decrease in demand deposits and savings accounts	(10,786)	(20,686)
Net decrease in certificates of deposit	(5,400)	(28,739)

Table of Contents

Proceeds from exercise of stock options	12	—
Net cash used in financing activities	(16,174)	(49,425)
Net decrease in cash and cash equivalents	(3,358)	(24,794)
Cash and cash equivalents at beginning of period	141,627	124,184
Cash and cash equivalents at end of period	$138,269	$99,390

Table of Contents

United Security Bancshares and Subsidiaries - Notes to Consolidated Financial Statements - (Unaudited)

1. Organization and Summary of Significant Accounting and Reporting Policies

The consolidated financial statements include the accounts of United Security Bancshares, and its wholly owned subsidiary United Security Bank (the “Bank”) and two bank subsidiaries, USB Investment Trust (the “REIT”) and United Security Emerging Capital Fund, (collectively the “Company” or “USB”). Intercompany accounts and transactions have been eliminated in consolidation.

These unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information on a basis consistent with the accounting policies reflected in the audited financial statements of the Company included in its 2012 Annual Report on Form 10-K. These interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring, nature) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

Certain reclassifications have been made to the 2012 financial statements to conform to the classifications used in 2013.

Recently Issued Accounting Standards:

In February 2013, The Financial Accounting Standards Board (FASB) today issued Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an organization to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income–but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments are effective for reporting periods beginning after December 15, 2012. The amounts reclassified out of net income were not significant and this ASU did not have a significant impact on the Company’s financial statements.

In January 2013, the FASB issued ASU No. 2013-01 Balance Sheet (Topic 210) Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which clarifies that ordinary trade receivables and receivables are not in the scope of ASU 2011-11. It further clarifies that the scope of ASU No. 2011-11 applies to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in FASB Accounting Standards Codification® or subject to a master netting arrangement or similar agreement. Both ASU 2011-11 and ASU 2013-1 are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company adopted these ASU’s during the first quarter of 2013 and they did not have a material impact on its financial statements.

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11 Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. The ASU enhances disclosures in order to improve the comparability of offsetting (netting) assets and liabilities reported in accordance
with U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("I FRS") by requiring entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statements of condition and instruments and transactions subject to an agreement similar to a master netting arrangement. This ASU did not have a significant impact on the Company’s financial

statements.

2. Investment Securities Available for Sale and Other Investments

Following is a comparison of the amortized cost and fair value of securities available-for-sale, as of June 30, 2013 and December 31, 2012:

9

Table of Contents

(In thousands) June 30, 2013 Securities available for sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
U.S. Government agencies	$18,306	$739	$(8)	$19,037
U.S. Government collateralized mortgage obligations	2,492	193	—	2,685
Mutual Funds	4,000	—	(195)	3,805
Total securities available for sale	$24,798	$932	$(203)	$25,527

December 31, 2012 Securities available for sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
U.S. Government agencies	$23,433	$933	$—	$24,366
U.S. Government collateralized mortgage obligations	3,266	251	—	3,517
Mutual Funds	4,000	—	(39)	3,961
Total securities available for sale	$30,699	$1,184	$(39)	$31,844

The amortized cost and fair value of securities available for sale at June 30, 2013, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties. Contractual maturities on collateralized mortgage obligations cannot be anticipated due to allowed paydowns. Mutual funds are included in the due in the one year or less category below.

	June 30, 2013	
(In thousands)	Amortized Cost	Fair Value (Carrying Amount)
Due in one year or less	$4,034	$3,839
Due after one year through five years	9,129	9,164
Due after five years through ten years	2,186	2,347
Due after ten years	6,957	7,492
Collateralized mortgage obligations	2,492	2,685
	$24,798	$25,527

There were no realized gains or losses on sales of available-for-sale securities for the periods ended June 30, 2013 and 2012, respectively. There were no other-than-temporary impairment losses for the three and six months ended June 30, 2013. There were other-than-temporary impairment losses on certain of the Company's private label mortgage-backed securities of $149,000 and $172,000 for the three and six months ended June 30, 2012.

At June 30, 2013 available-for-sale securities with an amortized cost of approximately $20,794,000 (fair value of $21,718,000) were pledged as collateral for FHLB borrowings and public funds balances.

The Company had no held-to-maturity or trading securities at June 30, 2013 or December 31, 2012.

Management periodically evaluates each available-for-sale investment security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary.

The following summarizes temporarily impaired investment securities:

Table of Contents

(In thousands)	Less than 12 Months		12 Months or More		Total	
June 30, 2013 Securities available for sale:	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses
U.S. Government agencies	$7,128	$(8)	$—	$—	$7,128	$(8)
U.S. Government agency collateral mortgage obligations	—	—	—	—	—	—
Mutual Funds	3,805	(195)	—	—	3,805	(195)
Total impaired securities	$10,933	$(203)	$—	$—	$10,933	$(203)
December 31, 2012: Securities available for sale:						
U.S. Government agencies	$—	$—	$—	$—	$—	$—
U.S. Government agency collateral mortgage obligations	—	—	—	—	—	—
Mutual Funds	3,961	(39)	—	—	3,961	(39)
Total impaired securities	$3,961	$(39)	$—	$—	$3,961	$(39)

The Company evaluates investment securities for other-than-temporary impairment ("OTTI") at least quarterly, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under ASC Topic 320, "Investments – Debt and Equity Instruments." Certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, are evaluated under ASC Topic 325-40 "Beneficial Interest in Securitized Financial Assets."

In the first segment, the Company considers many factors in determining OTTI, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to the Company at the time of the evaluation.

The second segment of the portfolio uses the OTTI guidance that is specific to purchased beneficial interests including private label mortgage-backed securities. Under this model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Other-than-temporary-impairment occurs when the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary-impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary-impairment related to the credit loss is recognized in earnings, and is determined based on the difference between the present value of cash flows expected to be collected and the current amortized cost of the security. The amount of the total other-than-temporary-impairment related to

Table of Contents

other factors shall be recognized in other comprehensive (loss) income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

At June 30, 2013, the decline in market value of the impaired securities is attributable to changes in interest rates, and not credit quality. Because the Company does not have the intent to sell these impaired securities and it is not more likely than not that it will be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

At June 30, 2013 and December 31, 2012, the Company had no securities which have been impaired more than twelve months. At June 30, 2013, the Company had two U.S. Government agency securities and a mutual fund which have been impaired for less than twelve months. The two U.S. Government agency securities had an aggregate fair value of $7,128,000 and unrealized losses of $8,000. The mutual fund had a fair value of $3,805,000 and an unrealized loss of $195,000.

At June 30, 2012, the Company had three private label mortgage-backed securities which have been impaired more than twelve months. The three private label mortgage-backed securities had an aggregate fair value of $8,312,000 and unrealized losses of approximately $1,283,000 at June 30, 2012. All three private label mortgage-backed securities were rated less than high credit quality at June 30, 2012. The Company evaluated these three private label mortgage-backed securities for OTTI by comparing the present value of expected cash flows to previous estimates to determine whether there had been adverse changes in cash flows during the period. The OTTI evaluation was conducted utilizing the services of a third party specialist and consultant in Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) products. The cash flow assumptions used in the evaluation at June 30, 2012 utilized a discounted cash flow valuation technique using a “Liquidation Scenario” whereby loans are evaluated by delinquency and are assigned probability of default and loss factors deemed appropriate in the current economic environment. The liquidation scenario assumes that all loans 60 or more days past due are liquidated and losses are realized over a period of between six and twenty-four months based upon current 3-month trailing loss severities obtained from reputable financial data sources. In determining fair value under the discounted cash flow analysis, all loans within the mortgage pools, including those less than 60 or more past due, are evaluated for other-than-temporary impairment utilizing the following components:

- Collateral Cash Flows: Loan level cash flows are evaluated based upon estimated prepayment speeds, default rates, and estimated loss severities of liquidated assets.

- Prepayment Assumptions: Prepayment speeds are based upon the borrower’s incentive to pay as well as their ability to pay based upon their credit. In addition, CPR and CRR rates are evaluated.

- Default Rates: The default assumptions are vectored and are expressed as conditional default rates (CDR), which are based upon the current status of the loan. The model assumes that the 60 day plus population will move to repossession inventory subject to loss migration assumptions and liquidate over the next 24 months. Defaults vector from month 25 to month 36 to the month 37 CDR value. The loans less than 60 days delinquent influence the month 37 CDR value. The default assumptions continue from month 37 but vector down over an extended period of at least 15 years from the valuation date. Default rate assumptions are benchmarked to the recent results experienced by major servicers of of non-Agency MBS for securities with similar attributes and forecasts from the industry experts and industry research.

- Loss Severity: Estimates of loss severity for each loan are based upon initial LTV ratios, loan’s lien position, mortgage insurance coverage, and any change in the property’s price since loan was originated.

- Bond Waterfall: With other components of the individual loans within the collateralized mortgage pools evaluated, the cash flows are allocated to securities based upon contractual waterfall rules provided in the securities prospectus.

- Internal Rate of Return: Future estimated cash flow streams are discounted at pre-tax yield rates calculated using both credit and non-credit components to determine what the required IRR's would be for similar securities in a market that is generally illiquid.

As a result of the impairment evaluation, the Company determined that there had been adverse changes in cash flows in all three of the private label mortgage-backed securities, and concluded that these three private label mortgage-backed securities were other-than-temporarily impaired. At June 30, 2012, the three private label mortgage-backed securities had cumulative other-than-temporary-impairment losses of $3,560,000, $1,283,000 of which was recorded in other comprehensive loss. During the six months ended June 30, 2012, the company recorded OTTI impairment expense of $172,000 on the three private label

Table of Contents

mortgage-backed securities. These three private label mortgage-backed securities remained classified as available for sale at June 30, 2012 and were subsequently sold during the fourth quarter of 2012.

The following table details the three private label mortgage-backed securities with other-than-temporary-impairment, their credit rating at June 30, 2012, the related credit losses recognized in earnings during the quarter, and impairment losses in other comprehensive loss:

June 30, 2012	RALI 2006-QS1G A10	RALI 2006 QS8 A1	CWALT 2007-8CB A9	
(in thousands)	Rated D	Rated D	Rated CCC	Total
Amortized cost – before OTTI	$3,719	$1,138	$7,015	$11,872
Credit loss	(713)	(239)	(1,325)	(2,277)
Other impairment (OCI)	(403)	(122)	(758)	(1,283)
Carrying amount – June 30, 2012	$2,603	$777	$4,932	$8,312
Total impairment - June 30, 2012	$(1,116)	$(361)	$(2,083)	$(3,560)

The following table summarizes amounts related to credit losses recognized in earnings for the three and six months ended ended June 30, 2013 and 2012.

(in thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Beginning balance - credit losses	$—	$2,208	$—	$2,257
Additions:				
Initial credit impairments	—	—	—	—
Subsequent credit impairments	—	149	—	172
Reductions:				
For securities sold or credit losses realized on principal payments	—	(80)	—	(152)
Due to change in intent or requirement to sell	—	—	—	—
For increase expected in cash flows	—	—	—	—
Ending balance - credit losses	$—	$2,277	$—	$2,277

3. Loans and Leases

Loans are comprised of the following:

Table of Contents

(In thousands)	June 30, 2013	December 31, 2012
Commercial and business loans	$73,372	$69,780
Government program loans	2,407	2,337
Total commercial and industrial	75,779	72,117
Real estate – mortgage:		
Commercial real estate	146,634	133,599
Residential mortgages	54,972	55,016
Home Improvement and Home Equity loans	1,581	1,319
Total real estate mortgage	203,187	189,934
RE construction and development	86,583	90,941
Agricultural	29,027	36,169
Installment	10,465	10,884
Commercial lease financing	0	12
Total Loans	$405,041	$400,057

The Company's loans are predominantly in the San Joaquin Valley and the greater Oakhurst/East Madera County area, as well as the Campbell area of Santa Clara County, although the Company does participate in loans with other financial institutions, they are primarily in the state of California.

Commercial and industrial loans represent 18.7% of total loans at June 30, 2013 and are generally made to support the ongoing operations of small-to-medium sized commercial businesses. Commercial and industrial loans have a high degree of industry diversification and provide working capital, financing for the purchase of manufacturing plants and equipment, or funding for growth and general expansion of businesses. A substantial portion of commercial and industrial loans are secured by accounts receivable, inventory, leases, or other collateral including real estate. The remainder are unsecured; however, extensions of credit are predicated upon the financial capacity of the borrower. Repayment of commercial loans generally comes from the cash flow of the borrower.

Real estate mortgage loans, representing 50.2% of total loans at June 30, 2013, are secured by trust deeds on primarily commercial property, but are also secured by trust deeds on single family residences. Repayment of real estate mortgage loans generally comes from the cash flow of the borrower.

- Commercial real estate mortgage loans comprise the largest segment of this loan category and are available on all types of income producing and commercial properties, including: office buildings and shopping centers; apartments and motels; owner-occupied buildings; manufacturing facilities and more. Commercial real estate mortgage loans can also be used to refinance existing debt. Although real estate associated with the business is the primary collateral for commercial real estate mortgage loans, the underlying real estate is not the source of repayment. Commercial real estate loans are made under the premise that the loan will be repaid from the borrower's business operations, rental income associated with the real property, or personal assets.

- Residential mortgage loans are provided to individuals to finance or refinance single-family residences. Residential mortgages are not a primary business line offered by the Company, and are generally of a shorter term than conventional mortgages, with maturities ranging from 3 to 15 years on average.

- Home Improvement and Home Equity loans comprise a relatively small portion of total real estate mortgage loans, and are offered to borrowers for the purpose of home improvements, although the proceeds may be used for other purposes. Home equity loans are generally secured by junior trust deeds, but may be secured by 1st trust deeds.

Real estate construction and development loans, representing 21.4% of total loans at June 30, 2013, consist of loans for residential and commercial construction projects, as well as land acquisition and development, or land held for future development. Loans in this category are secured by real estate including improved and unimproved land, as well as single-family residential, multi-family residential, and commercial properties in various stages of completion. All real estate loans have established equity requirements. Repayment on construction loans generally comes from long-term mortgages with other lending institutions obtained at completion of the project.

Table of Contents

Agricultural loans represent 7.2% of total loans at June 30, 2013 and are generally secured by land, equipment, inventory and receivables. Repayment is from the cash flow of the borrower.

Installment loans represent 2.6% of total loans at June 30, 2013 and generally consist of loans to individuals for household, family and other personal expenditures such as credit cards, automobiles or other consumer items.

Commercial lease financing loans, consist of loans to small businesses, which are secured by commercial equipment. Repayment of the lease obligation is from the cash flow of the borrower. The Company has no commercial lease financing loans at June 30, 2013.

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. At June 30, 2013 and December 31, 2012, these financial instruments include commitments to extend credit of $51,583,000 and $60,050,000, respectively, and standby letters of credit of $2,323,000 and $2,404,000, respectively. These instruments involve elements of credit risk in excess of the amount recognized on the balance sheet. The contract amounts of these instruments reflect the extent of the involvement the Company has in off-balance sheet financial instruments.

The Company’s exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Substantially all of these commitments are at floating interest rates based on the Prime rate. Commitments generally have fixed expiration dates. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation. Collateral held varies but includes accounts receivable, inventory, leases, property, plant and equipment, residential real estate and income-producing properties.

Standby letters of credit are generally unsecured and are issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Table of Contents

Past Due Loans

The Company monitors delinquency and potential problem loans on an ongoing basis through weekly reports to the Loan Committee and monthly reports to the Board of Directors. The following is a summary of delinquent loans at June 30, 2013 (in thousands):

June 30, 2013	Loans 30-60 Days Past Due	Loans 61-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial and Business Loans	$174	$—	$—	$174	$73,198	$73,372	$—
Government Program Loans	—	—	61	61	2,346	2,407	—
Total Commercial and Industrial	174	—	61	235	75,544	75,779	—
Commercial Real Estate Loans	1,632	495	5,328	7,455	139,179	146,634	—
Residential Mortgages	451	—	257	708	54,264	54,972	—
Home Improvement and Home Equity Loans	86	34	—	120	1,461	1,581	—
Total Real Estate Mortgage	2,169	529	5,585	8,283	194,904	203,187	—
Total RE Construction and Development Loans	—	318	—	318	86,265	86,583	—
Agricultural Loans	—	—	—	—	29,027	29,027	—
Consumer Loans	108	26	—	134	10,110	10,244	—
Overdraft protection Lines	—	—	—	—	92	92	—
Overdrafts	—	—	—	—	129	129	—
Total Installment/other	108	26	—	134	10,331	10,465	—
Commercial Lease Financing	—	—	—	—	—	—	—
Total Loans	$2,451	$873	$5,646	$8,970	$396,071	$405,041	$—

Table of Contents

The following is a summary of delinquent loans at December 31, 2012 (in thousands):

December 31, 2012	Loans 30-60 Days Past Due	Loans 61-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial and Business Loans	$65	$—	$256	$321	$69,459	$69,780	$—
Government Program Loans	88	—	—	88	2,249	2,337	—
Total Commercial and Industrial	153	—	256	409	71,708	72,117	—
Commercial Real Estate Loans	3,152	2,130	5,328	10,610	122,989	133,599	—
Residential Mortgages	333	322	437	1,092	53,924	55,016	—
Home Improvement and Home Equity Loans	119	140	—	259	1,060	1,319	—
Total Real Estate Mortgage	3,604	2,592	5,765	11,961	177,973	189,934	—
Total RE Construction and Development Loans	—	—	—	—	90,941	90,941	—
Agricultural Loans	—	136	—	136	36,033	36,169	—
Consumer Loans	305	34	—	339	10,300	10,639	—
Overdraft protection Lines	—	—	—	—	90	90	—
Overdrafts	—	—	—	—	155	155	—
Total Installment	305	34	—	339	10,545	10,884	—
Commercial Lease Financing	—	—	—	—	12	12	—
Total Loans	$4,062	$2,762	$6,021	$12,845	$387,212	$400,057	$—

Nonaccrual Loans

Commercial, construction and commercial real estate loans are placed on non-accrual status under the following circumstances:

- When there is doubt regarding the full repayment of interest and principal.

- When principal and/or interest on the loan has been in default for a period of 90-days or more, unless the asset is both well secured and in the process of collection that will result in repayment in the near future.

- When the loan is identified as having loss elements and/or is risk rated "8" Doubtful.

Other circumstances which jeopardize the ultimate collectability of the loan including certain troubled debt restructurings, identified loan impairment, and certain loans to facilitate the sale of OREO.

Loans meeting any of the preceding criteria are placed on non-accrual status and the accrual of interest for financial statement purposes is discontinued. Previously accrued but unpaid interest is reversed and charged against interest income.

All other loans where principal or interest is due and unpaid for 90 days or more are placed on non-accrual and the accrual of interest for financial statement purposes is discontinued. Previously accrued but unpaid interest is reversed and charged against interest income.

When a loan is placed on non-accrual status and subsequent payments of interest (and principal) are received, the interest received may be accounted for in two separate ways.

Cost recovery method: If the loan is in doubt as to full collection, the interest received in subsequent payments is diverted from interest income to a valuation reserve and treated as a reduction of principal for financial reporting purposes.

Cash basis: This method is only used if the recorded investment or total contractual amount is expected to be fully collectible, under which circumstances the subsequent payments of interest is credited to interest income as received.

Table of Contents

Loans on non-accrual status are usually not returned to accrual status unless all delinquent principal and/or interest has been brought current, there is no identified element of loss, and current and continued satisfactory performance is expected (loss of the contractual amount not the carrying amount of the loan). Repayment ability is generally demonstrated through the timely receipt of at least six monthly payments on a loan with monthly amortization.

Nonaccrual loans totaled $10,665,000 and $13,425,000 at June 30, 2013 and December 31, 2012, respectively. There were no remaining undisbursed commitments to extend credit on nonaccrual loans at June 30, 2013 or December 31, 2012.
The following is a summary of nonaccrual loan balances at June 30, 2013 and December 31, 2012.

	June 30, 2013	December 31, 2012
Commercial and Business Loans	$339	$1,093
Government Program Loans	61	88
Total Commercial and Industrial	400	1,181
Commercial Real Estate Loans	7,518	8,415
Residential Mortgages	1,617	1,834
Home Improvement and Home Equity Loans	—	10
Total Real Estate Mortgage	9,135	10,259
Total RE Construction and Development Loans	1,050	1,730
Total Agricultural Loans	—	136
Consumer Loans	80	119
Overdraft protection Lines	—	—
Overdrafts	—	—
Total Installment	80	119
Commercial lease Financing	—	—
Total Loans	$10,665	$13,425

Impaired Loans

A loan is considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement.

The Company applies its normal loan review procedures in making judgments regarding probable losses and loan impairment. The Company evaluates for impairment those loans on non-accrual status, graded doubtful, graded substandard or those that are troubled debt restructures. The primary basis for inclusion in impaired status under generally accepted accounting pronouncements is that it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

A loan is not considered impaired if there is merely an insignificant delay or shortfall in the amounts of payments and the Company expects to collect all amounts due, including interest accrued, at the contractual interest rate for the period of the delay.

Review for impairment does not include large groups of smaller balance homogeneous loans that are collectively evaluated to estimate the allowance for loan losses. The Company's present allowance for loan losses methodology, including migration analysis, captures required reserves for these loans in the formula allowance.

For loans determined to be impaired, the Company evaluates impairment based upon either the fair value of underlying collateral, discounted cash flows of expected payments, or observable market price.

Table of Contents

- For loans secured by collateral including real estate and equipment the fair value of the collateral less selling costs will determine the carrying value of the loan. The difference between the recorded investment in the loan and the fair value, less selling costs, determines the amount of impairment. The Company uses the measurement method based on fair value of collateral when the loan is collateral dependent and foreclosure is probable.

- The discounted cash flow method of measuring the impairment of a loan is used for unsecured loans or for loans secured by collateral where the fair value cannot be easily determined. Under this method, the Company assesses both the amount and timing of cash flows expected from impaired loans. The estimated cash flows are discounted using the loan's effective interest rate. The difference between the amount of the loan on the Bank's books and the discounted cash flow amounts determines the amount of impairment to be provided. This method is used for most of the Company's troubled debt restructurings or other impaired loans where some payment stream is being collected.

- The observable market price method of measuring the impairment of a loan is only used by the Company when the sale of loans or a loan is in process.

The method for recognizing interest income on impaired loans is dependent on whether the loan is on nonaccrual status or is a troubled debt restructuring. For income recognition, the existing nonaccrual and troubled debt restructuring policies are applied to impaired loans. Generally, except for certain troubled debt restructurings which are performing under the restructure agreement, the Company does not recognize interest income received on impaired loans, but reduces the carrying amount of the loan for financial reporting purposes.

Loans other than certain homogeneous loan portfolios are reviewed on a quarterly basis for impairment. Impaired loans are written down to estimated realizable values by the establishment of specific reserves or charge-offs when required.

Table of Contents

The following is a summary of impaired loans at, and for the six months ended June 30, 2013 (in thousands).

June 30, 2013	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Recognized
Commercial and Business Loans	$1,078	$450	$463	$913	$14	$973	$22
Government Program Loans	90	61	—	61	—	71	—
Total Commercial and Industrial	1,168	511	463	974	14	1,044	22
Commercial Real Estate Loans	10,437	5,992	4,226	10,218	380	10,246	66
Residential Mortgages	6,882	3,173	3,628	6,801	139	6,859	112
Home Improvement and Home Equity Loans	44	—	44	44	2	27	—
Total Real Estate Mortgage	17,363	9,165	7,898	17,063	521	17,132	178
Total RE Construction and Development Loans	2,411	2,420	—	2,420	—	1,917	10
Total Agricultural Loans	319	51	—	51	—	121	5
Consumer Loans	95	74	—	74	—	96	2
Overdraft protection Lines	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Total Installment/other	95	74	—	74	—	96	2
Commercial Lease Financing	—	—	—	—	—	—	—
Total Impaired Loans	$21,356	$12,221	$8,361	$20,582	$535	$20,310	$217

Table of Contents

The following is a summary of impaired loans at, and for the year ended, December 31, 2012 (in thousands).

December 31, 2012	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Recognized
Commercial and Business Loans	$1,488	$767	$576	$1,343	$37	$5,468	$26
Government Program Loans	109	88	—	88	—	147	—
Total Commercial and Industrial	1,597	855	576	1,431	37	5,615	26
Commercial Real Estate Loans	11,393	6,818	4,237	11,055	436	8,498	135
Residential Mortgages	7,461	3,726	3,666	7,392	185	4,416	251
Home Improvement and Home Equity Loans	10	10	—	10	—	21	—
Total Real Estate Mortgage	18,864	10,554	7,903	18,457	621	12,935	386
Total RE Construction and Development Loans	1,730	1,730	—	1,730	—	7,298	—
Total Agricultural Loans	504	192	—	192	—	991	50
Consumer Loans	139	121	—	121	—	200	6
Overdraft protection Lines	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Total Installment	139	121	—	121	—	200	6
Lease Financing	—	—	—	—	—	—	—
Total Impaired Loans	$22,834	$13,452	$8,479	$21,931	$658	$27,039	$468

In most cases, the Company uses the cash basis method of income recognition for impaired loans. In the case of certain troubled debt restructurings for which the loan is performing under the current contractual terms for a reasonable period of time, income is recognized under the accrual method.

The average recorded investment in impaired loans for the quarter ended June 30, 2013 and 2012 was $21,542,000 and $28,402,000, respectively. The average recorded investment in impaired loans for the six months ended June 30, 2013 and 2012 was $20,310,000 and $30,706,000, respectively.

Interest income recognized on impaired loans for the quarters ended June 30, 2013 and 2012 was approximately $121,000 and $127,000, respectively. Interest income recognized on impaired loans for the six months ended June 30, 2013 and 2012 was approximately $217,000 and $253,000, respectively.

Troubled Debt Restructurings

Under the circumstances, when the Company grants a concession to a borrower as part of a loan restructuring, the restructuring is accounted for as a troubled debt restructuring (TDR). TDRs are reported as a component of impaired loans.

Table of Contents

A TDR is a type of restructuring in which the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Bank) to the borrower that it would not otherwise consider. Although the restructuring may take different forms, the Company's objective is to maximize recovery of its investment by granting relief to the borrower.
A TDR may include, but is not limited to, one or more of the following:

- A transfer from the borrower to the Company of receivables from third parties, real estate, other assets, or an equity interest in the borrower is granted to fully or partially satisfy the loan.

- A modification of terms of a debt such as one or a combination of:

The reduction (absolute or contingent) of the stated interest rate.
The extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.
The reduction (absolute or contingent) of the face amount or maturity amount of debt as stated in the instrument or agreement.
The reduction (absolute or contingent) of accrued interest.

For a restructured loan to return to accrual status there needs to be, among other factors, at least 6 months successful payment history. In addition, the Company performs a financial analysis of the credit to determine whether the borrower has the ability to continue to meet payments over the remaining life of the loan. This includes, but is not limited to, a review of financial statements and cash flow analysis of the borrower. Only after determination that the borrower has the ability to perform under the terms of the loans, will the restructured credit be considered for accrual status. Although the Company does not have a policy which specifically addresses when a loan may be removed from TDR classification, as a matter of practice, loans classified as TDR’s generally remain classified as such until the loan either reaches maturity or its outstanding balance is paid off.

The following tables illustrates TDR activity for the periods indicated:

	Six Months Ended June 30, 2013				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts in Default	Recorded Investment on Defaulted TDRs
Troubled Debt Restructurings					
Commercial and Business Loans	—	$—	$—	—	$—
Government Program Loans	—	—	—	—	—
Commercial Real Estate Term Loans	—	—	—	1	106
Single Family Residential Loans	—	—	—	—	—
Home Improvement and Home Equity Loans	—	—	—	—	—
RE Construction and Development Loans	18	1,405	1,405	—	—
Agricultural Loans	—	—	—	—	—
Consumer Loans	—	—	—	—	—
Overdraft protection Lines	—	—	—	—	—
Commercial Lease Financing	—	—	—	—	—
Total Loans	18	$1,405	$1,405	1	$106

Table of Contents

	Three Months Ended June 30, 2013				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts in Default	Recorded Investment on Defaulted TDRs
Troubled Debt Restructurings					
Commercial and Business Loans	—	$—	$—	—	$—
Government Program Loans	—	—	—	—	—
Commercial Real Estate Term Loans	—	—	—	—	—
Single Family Residential Loans	—	—	—	—	—
Home Improvement and Home Equity Loans	1	44	44	—	—
RE Construction and Development Loans	12	793	793	—	—
Agricultural Loans	—	—	—	—	—
Consumer Loans	—	—	—	—	—
Overdraft protection Lines	—	—	—	—	—
Commercial Lease Financing	—	—	—	—	—
Total Loans	13	$ 837	$ 837	—	$—

	Six Months Ended June 30, 2012				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts in Default	Recorded Investment on Defaulted TDRs
Troubled Debt Restructurings					
Commercial and Business Loans	—	$—	$—	—	$—
Government Program Loans	—	—	—	—	—
Commercial Real Estate Term Loans	5	1,330	1,321	—	—
Single Family Residential Loans	—	—	—	—	—
Home Improvement and Home Equity Loans	—	—	—	—	—
RE Construction and Development Loans	—	—	—	—	—
Agricultural Loans	—	—	—	—	—
Consumer Loans	—	—	—	—	—
Overdraft protection Lines	—	—	—	—	—
Commercial Lease Financing	—	—	—	—	—
Total Loans	5	$ 1,330	$ 1,321	—	$—

Table of Contents

	Three Months Ended June 30, 2012				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts in Default	Recorded Investment on Defaulted TDRs
Troubled Debt Restructurings					
Commercial and Business Loans	—	$—	$—	—	$—
Government Program Loans	—	—	—	—	—
Commercial Real Estate Term Loans	1	20	20	—	—
Single Family Residential Loans	—	—	—	—	—
Home Improvement and Home Equity Loans	—	—	—	—	—
RE Construction and Development Loans	—	—	—	—	—
Agricultural Loans	—	—	—	—	—
Consumer Loans	—	—	—	—	—
Overdraft protection Lines	—	—	—	—	—
Commercial Lease Financing	—	—	—	—	—
Total Loans	1	$20	$20	—	$—

The Company makes various types of concessions when structuring TDRs including rate reductions, payment extensions, and forbearance. At June 30, 2013, the Company had 52 restructured loans totaling $14,316,000 as compared to 58 restructured loans totaling $16,773,000 at December 31, 2012.

The following tables summarize TDR activity by loan category for the six months ended June 30, 2013 and June 30, 2012.

Six Months Ended June 30, 2013	Commercial and Industrial	Commercial Real Estate	Residential Mortgages	Home Equity	RE Construction Development	Agricultural	Installment & Other	Lease Financing	Total
Beginning balance	$990	$5,395	$7,289	$10	$ 2,860	$191	$38	$—	$16,773
Defaults	—	(106)	—	—	—	—	—	—	(106)
Additions	—	—	—	44	1,361	—	—	—	1,405
Principal reductions	(178)	(1,074)	(506)	(10)	(1,810)	(140)	(38)	—	(3,756)
Ending balance	$812	$4,215	$6,783	$44	$ 2,411	$51	$—	$—	$14,316
Allowance for loan loss	$14	$380	$139	$2	$ —	$—	$—	$—	$535

24

Table of Contents

Six Months Ended June 30, 2012	Commercial and Industrial	Commercial Real Estate	Residential Mortgages	Home Equity	RE Construction Development	Agricultural	Installment & Other	Lease Financing	Total
Beginning balance	$2,619	$6,850	$3,457	$36	$ 6,034	$—	$54	$—	$19,050
Defaults	—	—	—	—	—	—	—	—	—
Additions	—	919	325	—	—	57	20	—	1,321
Principal reductions	(260)	(1,414)	(8)	(24)	(1,887)	—	(15)	—	(3,608)
Ending balance	$2,359	$6,355	$3,774	$12	$ 4,147	$57	$59	$—	$16,763
Allowance for loan loss	$166	$347	$153	$—	$ —	$—	$—	$—	$666

The following tables summarize TDR activity by loan category for the quarters ended June 30, 2013 and June 30, 2012.

Three months ended June 30, 2013	Commercial and Industrial	Commercial Real Estate	Residential Mortgages	Home Equity	RE Construction Development	Agricultural	Installment & Other	Lease Financing	Total
Beginning balance	$877	$4,258	$6,901	$9	$ 2,661	$190	$38	$—	$14,934
Defaults	—	—	—	—	—	—	—	—	—
Additions	—	—	—	44	793	—	—	—	837
Principal reductions	(65)	(43)	(118)	(9)	(1,043)	(139)	(38)	—	(1,455)
Ending balance	$812	$4,215	$6,783	$44	$ 2,411	$51	$—	$—	$14,316
Allowance for loan loss	$14	$380	$139	$2	$ —	$—	$—	$—	$535

Three months ended June 30, 2012	Commercial and Industrial	Commercial Real Estate	Residential Mortgages	Home Equity	RE Construction Development	Agricultural	Installment & Other	Lease Financing	Total
Beginning balance	$2,469	$6,413	$3,768	$36	$ 4,964	$58	$52	$—	$17,760
Defaults	—	—	—	—					