RIVERVIEW BANCORP INC
Form 10-K
June 14, 2013
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended March 31, 2013OR

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

Commission File Number: 0-22957

RIVERVIEW BANCORP, INC.

(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	91-1838969 (I.R.S. Employer I.D. Number)
900 Washington St., Ste. 900, Vancouver, Washington (Address of principal executive offices)	98660 (Zip Code)
Registrant's telephone number, including area code:	(360) 693-6650
Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, Par Value $.01 per share (Title of Each Class)	Nasdaq Stock Market LLC (Name of Each Exchange on Which Registered)
Securities registered pursuant to Section 12(g) of the Act:	None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and disclosure will not be contained, to the best of the registrant's knowledge, in any definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K [X]

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 definition 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 Act). Yes [ ] No [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing sales price of the registrant's Common Stock as quoted on the Nasdaq Global Select Market System under the symbol "RVSB" on September 30, 2012 was $30,786,489 (22,471,890 shares at $1.37 per share). As of May 31, 2013, there were issued and outstanding 22,471,890 shares of the registrant’s common stock.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of registrant's Definitive Proxy Statement for the 2013 Annual Meeting of Shareholders (Part III).

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Special Note Regarding Forward-Looking Statements

As used in this Form 10-K, the terms “we,” “our” “us”, “Riverview” and “Company” refer to Riverview Bancorp, Inc. and consolidated subsidiaries, including its wholly-owned subsidiary, Riverview Community Bank, unless the context indicates otherwise.

“Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995: When used in this Form 10-K the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probab “outlook,” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would,” and “could,” or si expression are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future performance. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in the Company’s allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; changes in general economic conditions, either nationally or in the Company’s market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, the Company’s net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in the Company’s market areas; secondary market conditions for loans and the Company’s ability to sell loans in the secondary market; results of examinations of our bank subsidiary, Riverview Community Bank by the Office of the Comptroller of the Currency and of the Company by the Board of Governors of the Federal Reserve System, or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require the Company to increase its reserve for loan losses, write-down assets, reclassify its assets, change Riverview Community Bank’s regulatory capital position or affect the Company’s ability to borrow funds or maintain or increase deposits, which could adversely affect its liquidity and earnings; the Company’s compliance with regulatory enforcement actions entered into with its banking regulators and the possibility that noncompliance could result in the imposition of additional enforcement actions and additional requirements or restrictions on its operations; legislative or regulatory changes that adversely affect the Company’s business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; the Company’s ability to attract and retain deposits; further increases in premiums for deposit insurance; the Company’s ability to control operating costs and expenses; the use of estimates in determining fair value of certain of the Company’s assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on the Company’s balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect the Company’s workforce and potential associated charges; computer systems on which the Company depends could fail or experience a security breach; the Company’s ability to retain key members of its senior management team; costs and effects of litigation, including settlements and judgments; the Company’s ability to implement its business strategies; the Company’s ability to successfully integrate any assets, liabilities, customers, systems, and management personnel it may acquire into its operations and the Company’s ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; the Company’s ability to pay dividends on its common stock and interest or principal payments on its junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; other economic, competitive, governmental, regulatory, and technological factors affecting the Company’s operations, pricing, products and services and the other risks described from time to time in our filings with the Securities and Exchange Commission.

The Company cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for fiscal 2014 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company's financial condition and results of operations as well as its stock price performance.

PART I

Item 1. Business

General

Riverview Bancorp, Inc. (the “Company" or “Riverview”), a Washington corporation, is the savings and loan holding company of Riverview Community Bank (the “Bank”). At March 31, 2013, the Company had total assets of $777.0 million, total deposit accounts of $663.8 million and shareholders' equity of $78.4 million. The Company’s executive offices are located in Vancouver Washington.

The Company is subject to regulation by the Board of Governors of the Federal Reserve Systems (“Federal Reserve”). Substantially all of the Company’s business is conducted through the Bank which is regulated by the Office of the Comptroller of the Currency ("OCC"), its primary regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are insured by the FDIC up to applicable legal limits under the Deposit Insurance Fund ("DIF"). The Bank has been a member of the Federal Home Loan Bank ("FHLB") of Seattle since 1937.

As a progressive, community-oriented financial services company, the Company emphasizes local, personal service to residents of its primary market area. The Company considers Clark, Cowlitz, Klickitat and Skamania counties of Washington and Multnomah and Marion counties of Oregon as its primary market area. The counties of Multnomah, Clark and Skamania are part of the Portland metropolitan area as defined by the U.S. Census Bureau. The Company is engaged predominantly in the business of attracting deposits from the general public and using such funds in its primary market area to originate commercial business, commercial real estate, multi-family real estate, real estate construction, residential real estate and other consumer loans. Commercial business, commercial real estate and real estate construction loans have increased to 81.5% of the loan portfolio at March 31, 2013 from 80.0% at March 31, 2012. The Company’s strategy over the past several years has been to control balance sheet growth, including the targeted reduction of residential construction related loans, in order to improve its regulatory capital ratios. The Company’s loan portfolio declined over the last fiscal year from $664.9 million to $520.4 million due to the Company’s effort in the past fiscal year to restructure its balance sheet and reduce its overall loans receivable as part of the Company’s asset quality, capital and liquidity strategies

Over the last several years, we have steadily reduced our exposure to speculative construction and land acquisition and development loans through write-downs, collections, modifications and sales of nonperforming loans. Speculative construction loans, consisting of unsold properties under construction, represented $3.5 million, or 87.9% of the residential construction portfolio at March 31, 2013, compared to $10.8 million a year ago, a decline of 67.7%. Total real estate construction loans at March 31, 2013 declined to $9.7 million from $25.8 million a year ago. Land acquisition and development loans were $23.4 million at March 31, 2013 compared to $38.9 million a year ago, which represents a decline of 39.8%. Most recently, the Company’s primary focus has been on increasing commercial business loans and owner occupied commercial real estate loans with a specific focus on medical professionals and the medical industry. The Company executed a planned bulk sale of $31.4 million in single-family mortgage loans to the Federal Home Loan Mortgage Corporation (“FHLMC”) during June 2012 which decreased the overall balance of single-family mortgage loans for the twelve months ended March 31, 2013 compared to the same prior year period. The Company plans to continue to sell conforming, newly originated one-to-four family mortgage loans to the FHLMC.

The Company’s strategic plan includes targeting the commercial banking customer base in its primary market area for loan originations and deposit growth, specifically small and medium size businesses, professionals and wealth building individuals. Most recently, the Company’s primary focus has been on originating commercial business loans and owner occupied commercial real estate loans with a specific focus on medical professionals and the medical industry. In pursuit of these goals, the Company will seek to modestly increase the loan portfolio consistent with its strategic plan and asset/liability and regulatory capital objectives, which includes maintaining a significant amount of commercial and commercial real estate loans in its loan portfolio. Significant portions of our new loan originations carry adjustable rates, higher yields or shorter terms and higher credit risk than traditional fixed-rate mortgages.

At March 31, 2013, checking accounts totaled $204.3 million, or 30.8% of our total deposit mix compared to $223.8 million or 30.1% a year ago. Our strategic plan also stresses increased emphasis on non-interest income, including increased fees for asset management through our trust and financial services company, Riverview Asset Management Corp. ("RAMCorp"), and deposit service charges. The strategic plan is designed to enhance earnings, reduce interest rate risk and provide a more complete range of financial services to customers and the local communities the Company serves. We believe we are well positioned to attract new customers and to increase our market share through our 18 branches, including ten in Clark County, three in the Portland metropolitan area and three lending centers, including our new full-service branch in Gresham, Oregon.

Market Area

The Company conducts operations from its home office in Vancouver and 18 branch offices located in Camas, Washougal, Stevenson, White Salmon, Battle Ground, Goldendale, Vancouver (seven branch offices) and Longview, Washington and Portland, Gresham, Wood Village and Aumsville, Oregon. RAMCorp, our trust and financial services company is located in downtown Vancouver, Washington. Riverview Mortgage, a mortgage broker division of the Bank, originates mortgage loans for various mortgage companies predominantly in the Vancouver/Portland metropolitan areas, as well as for the Bank. The Bank's Business and Professional Banking Division, with one lending office in Vancouver and one lending office in Portland, Oregon offers commercial and business banking services. The Bank also operates a lending office for mortgage banking activities.

Vancouver is located in Clark County, Washington, which is just north of Portland, Oregon. Many businesses are located in the Vancouver area because of the favorable tax structure and lower energy costs in Washington as compared to Oregon. Companies located in the Vancouver area include Sharp Microelectronics, Hewlett Packard, Georgia Pacific, Underwriters Laboratory, Wafer Tech, Nautilus, Barrett Business Services, PeaceHealth and Fisher Investments, as well as several support industries. In addition to this industry base, the Columbia River Gorge Scenic Area is a source of tourism, which has helped to transform the area from its past dependence on the timber industry.

There continue to be indications that economic conditions are improving in our market areas from the recent recessionary downturn, however, the pace of recovery has been modest and uneven and ongoing stress in the economy will likely continue to be challenging going forward. Unemployment in Clark County increased while unemployment in Portland, Oregon decreased during the quarter ended March 31, 2013. According to the Washington State Employment Security Department, unemployment in Clark County decreased to 10.1% in March 2013 compared to 11.5% at March 2012. According to the Oregon Employment Department, unemployment in Portland decreased to 7.5% in March 2013 compared to 7.7% at March 2012. Home values at March 31, 2013 and 2012 in the Company's market area remained lower than home values in 2011 and 2010, due in large part to an increase in the volume of foreclosures and short sales. However, home values have recently stabilized and even shown slight increases during the past fiscal year. According to the Regional Multiple Listing Services (RMLS), inventory levels in Portland, Oregon have fallen to 3.2 months as of March 2013, compared to 5.0 months in March 2012. Inventory levels in Clark County have decreased to 4.4 months as of March 2013, compared to 6.4 months in March 2012 and a peak of 6.7 months in April 2012. Closed home sales in Clark County increased 11.9% in March 2013 compared to March 2012. Closed home sales in Portland increased 14.2% during the same time period. Commercial real estate leasing activity in the Portland/Vancouver area has performed better than the residential real estate market, but it is generally affected by a slow economy later than other indicators. According to Norris Beggs Simpson, commercial vacancy rates have decreased in Clark County and Portland Oregon and were approximately 12.24% and 17.11%, respectively as of March 31, 2013 compared to 16.0% and 22.4%, respectively, at March 31, 2012. The Company has also seen an increase in sales activity for building lots in recent months.

Lending Activities

General. At March 31, 2013, the Company's net loans receivable totaled $520.4 million, or 67.0% of total assets at that date. The principal lending activity of the Company is the origination of loans collateralized by commercial properties and commercial business loans. A substantial portion of the Company's loan portfolio is secured by real estate, either as primary or secondary collateral, located in its primary market area. The Company's lending activities are subject to the written, non-discriminatory, underwriting standards and loan origination procedures established by the Bank's Board of Directors ("Board") and management. The customary sources of loan originations are realtors, walk-in customers, referrals and existing customers. The Bank also uses commissioned loan brokers and print advertising to market its products and services. Loans are approved at various levels of management, depending upon the amount of the loan.

Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio, excluding loans held for sale, by type of loan at the dates indicated.

	At March 31,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial and construction:										
Commercial business	$71,935	13.42 %	$87,238	12.74 %	$85,511	12.44 %	$108,368	14.76 %	$127,150	15.87 %
Other real estate mortgage	355,397	66.30	434,763	63.49	461,955	67.19	459,178	62.52	447,652	55.88
Real estate construction	9,675	1.81	25,791	3.76	27,385	3.98	75,456	10.27	139,476	17.41
Total commercial and construction	437,007	81.53	547,792	79.99	574,851	83.61	643,002	87.55	714,278	89.16
Consumer:										
Real estate one-to-four family	97,140	18.12	134,975	19.71	110,437	16.06	88,861	12.10	83,762	10.46
Other installment	1,865	0.35	2,042	0.30	2,289	0.33	2,616	0.35	3,051	0.38
Total consumer loans	99,005	18.47	137,017	20.01	112,726	16.39	91,477	12.45	86,813	10.84
Total loans	536,012	100.00%	684,809	100.00%	687,577	100.00%	734,479	100.00%	801,091	100.00%
Less:										
Allowance for loan losses	15,643		19,921		14,968		21,642		16,974	
Total loans receivable, net	$520,369		$664,888		$672,609		$712,837		$784,117	

Loan Portfolio Composition. The following tables set forth the composition of the Company's commercial and construction loan portfolio based on loan purpose at the dates indicated.

March 31, 2013	Commercial	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
		(In thousands)		
Commercial business	$ 71,935	$ -	$ -	$ 71,935
Commercial construction	-	-	5,719	5,719
Office buildings	-	86,751	-	86,751
Warehouse/industrial	-	41,124	-	41,124
Retail/shopping centers/strip malls	-	67,472	-	67,472
Assisted living facilities	-	13,146	-	13,146
Single purpose facilities	-	89,198	-	89,198
Land	-	23,404	-	23,404
Multi-family	-	34,302	-	34,302
One-to-four family construction	-	-	3,956	3,956
Total	$ 71,935	$ 355,397	$ 9,675	$ 437,007

March 31, 2012	Commercial	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
		(In thousands)		
Commercial business	$ 87,238	$ -	$ -	$ 87,238
Commercial construction	-	-	13,496	13,496
Office buildings	-	94,541	-	94,541
Warehouse/industrial	-	48,605	-	48,605
Retail/shopping centers/strip malls	-	80,595	-	80,595
Assisted living facilities	-	35,866	-	35,866
Single purpose facilities	-	93,473	-	93,473
Land	-	38,888	-	38,888
Multi-family	-	42,795	-	42,795
One-to-four family construction	-	-	12,295	12,295
Total	$ 87,238	$ 434,763	$ 25,791	$ 547,792

Commercial Business Lending. At March 31, 2013, the commercial business loan portfolio totaled $71.9 million or 13.42% of total loans. Commercial business loans are typically secured by business equipment, accounts receivable, inventory or other property. The Company’s commercial business loans may be structured as term loans or as lines of credit. Commercial term loans are generally made to finance the purchase of assets and usually have maturities of five years or less. Commercial lines of credit are typically made for the purpose of providing working capital and usually have a term of one year or less. Lines of credit are made at variable rates of interest equal to a negotiated margin above an index rate and term loans are at either a variable or fixed rate. The Company also generally obtains personal guarantees from financially capable parties based on a review of personal financial statements.

Commercial lending involves risks that are different from those associated with residential and commercial real estate lending. Commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower.

Other Real Estate Mortgage Lending. At March 31, 2013, the other real estate lending portfolio totaled $355.4 million, or 66.30% of total loans. The Company originates other real estate loans including office buildings, warehouse/industrial, retail, assisted living facilities and single-purpose facilities (collectively "commercial real estate loans"); as well as land and multi-family loans primarily located in its market area. At March 31, 2013, owner occupied properties accounted for 28% and non-owner occupied properties accounted for 72% of the Company's commercial real estate portfolio.

Commercial real estate and multi-family loans typically have higher loan balances, are more difficult to evaluate and monitor, and involve a higher degree of risk than one-to-four family residential loans. As a result, commercial real estate and multi-family loans are generally priced at a higher rate of interest than residential one-to-four family loans. Often payments on loans secured by commercial properties are dependent on the successful operation and management of the property securing the loan or business conducted on the property securing the loan; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. The Company seeks to minimize these risks by generally limiting the maximum loan-to-value ratio to 80% and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan. Loans are secured by first mortgages and often require specified debt service coverage (“DSC”) ratios depending on the characteristics of the collateral. The Company generally imposes a minimum DSC ratio of 1.20 for loans secured by income producing properties. Rates and other terms on such loans generally depend on our assessment of credit risk after considering such factors as the borrower’s financial condition and credit history, loan-to-value ratio, DSC ratio and other factors.

The Company actively pursues commercial real estate loans. New loan originations within the Company’s market area were very competitive in fiscal year 2013 as stabilizing economic conditions resulted in an increase in loan demand from creditworthy borrowers and permitted existing borrowers with nonaccrual loans to return to a current payment status and refinance elsewhere. The decrease was due to planned reductions in classified and nonperforming loans and principal repayments as part of the Company’s capital and liquidity strategies. At March 31, 2013, the Company had six commercial real estate loans totaling $10.3 million on non-accrual status compared to nine commercial real estate loans totaling $14.0 million at March 31, 2012. For more information concerning risks related to commercial real estate loans, see Item 1A. “Risk Factors – Our emphasis on commercial real estate lending may expose us to increased lending risks.”

Land acquisition and development loans are included in the other real estate mortgage portfolio balance, and represent loans made to developers for the purpose of acquiring raw land and/or for the subsequent development and sale of residential lots. Such loans typically finance land purchases and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sales to consumers or builders for ultimate construction of residential units. The primary source of repayment is generally the cash flow from developer sale of lots or improved parcels of land, secondary sources and personal guarantees, which may provide an additional measure of security for such loans. In recent months, statistics reflect an increase in demand and sales of building lots in the Company’s primary market area resulting in an increase in the number of closed sales for land and building lots as compared to previous years. The Company has been successful in reducing its exposure to land acquisition and development loans and plans to only originate these loans on a limited basis to developers that meet the Company’s underwriting standards. At March 31, 2013, land acquisition and development loans totaled $23.4 million, or 4.37% of total loans compared to $38.9 million, or 5.68% of total loans at March 31, 2012. The largest land acquisition and development loan had an outstanding balance at March 31, 2013 of $3.8 million and was performing according to its original payment terms. At March 31, 2013 all of the land acquisition and development loans were secured by properties located in Washington and Oregon. At March 31, 2013, the Company had five land acquisition and development loans totaling $3.3 million on non-accrual status compared to nine land acquisition and development loans totaling $13.0 million on non-accrual status at March 31, 2012.

Real Estate Construction. The Company originates three types of residential construction loans: (i) speculative construction loans, (ii) custom/presold construction loans and (iii) construction/permanent loans. The Company also originates construction loans for the development of business properties and multi-family dwellings. All of the Company’s real estate construction loans were made on properties located in Washington and Oregon.

The composition of the Company’s construction loan portfolio including undisbursed funds was as follows:

	At March 31,			
	2013		2012	
	Amount (1)	Percent	Amount (1)	Percent
	(Dollars in thousands)			
Speculative construction	$ 5,718	35.77 %	$ 11,460	34.87 %
Commercial/multi-family construction	6,495	40.63	19,096	58.11
Custom/presold construction	2,898	18.13	202	0.61
Construction/permanent	875	5.47	2,106	6.41
Total	$ 15,986	100.00 %	$ 32,864	100.00 %

(1) Includes undisbursed funds of $6.3 million and $7.1 million at March 31, 2013 and 2012, respectively.

The Company proactively manages its construction loan portfolio and has continued to be successful at reducing its overall exposure to residential construction and commercial construction loans. At March 31, 2013, the balance of the Company's construction loan portfolio, including loan commitments, was $16.0 million compared to $32.9 million at March 31, 2012. The $16.9 million reduction was a result of loan repayments and charge-offs reflecting the Company's efforts to reduce its exposure to these types of loans. The Company plans to continue to proactively manage its construction loan portfolio in fiscal year 2014. The Company has significantly slowed the origination of new construction loans and only originating new construction loans to facilitate the sale of existing loans or real estate owned ("REO") properties; or on a very limited basis to selected borrowers.

Speculative construction loans are made to home builders and are termed "speculative" because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either the Company or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to service the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant time after the completion of construction until a home buyer is identified. Included in speculative construction loans are loans to finance the construction of townhouses totaling $1.3 million. At March 31, 2013, the $1.3 million was comprised of one borrower with an outstanding loan balance of $1.2 million and was secured by properties located in the Company's market area and one loan totaling $175,000 that was on non-accrual status.

The composition of speculative construction and land acquisition and development loans by geographical area is as follows:

Northwest Oregon	Other Oregon