

OLD SECOND BANCORP INC  
Form 10-Q  
August 14, 2012  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2012  
OR  
**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0 -10537

**OLD SECOND BANCORP, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**36-3143493**  
(I.R.S. Employer Identification Number)

**37 South River Street, Aurora, Illinois 60507**

(Address of principal executive offices) (Zip Code)

**(630) 892-0202**

(Registrant's telephone number, including area code)

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

Yes  No

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

Indicate by check mark whether 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 Act). (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of August 10, 2012, the Registrant had outstanding 14,084,328 shares of common stock, \$1.00 par value per share.

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**OLD SECOND BANCORP, INC.**

Form 10-Q Quarterly Report

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Old Second Bancorp, Inc. and Subsidiaries****Consolidated Balance Sheets***(In thousands, except share data)*

	(Unaudited) June 30, 2012	December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 45,015	\$ 2,692
Interest bearing deposits with financial institutions	85,014	48,257
Cash and cash equivalents	130,029	50,949
Securities available-for-sale	398,895	307,564
Federal Home Loan Bank and Federal Reserve Bank stock	12,177	14,050
Loans held-for-sale	6,445	12,806
Loans	1,238,134	1,368,985
Less: allowance for loan losses	40,286	51,997
Net loans	1,197,848	1,316,988
Premises and equipment, net	49,196	50,477
Other real estate owned	89,671	93,290
Mortgage servicing rights, net	3,531	3,487
Core deposit and other intangible assets, net	4,233	4,678
Bank-owned life insurance (BOLI)	53,416	52,595
Other assets	40,217	34,534
Total assets	\$ 1,985,658	\$ 1,941,418
<b>Liabilities</b>		
Deposits:		
Noninterest bearing demand	\$ 412,635	\$ 361,963
Interest bearing:		
Savings, NOW, and money market	800,200	761,335
Time	557,189	617,483
Total deposits	1,770,024	1,740,781
Securities sold under repurchase agreements	13,802	901
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Other liabilities	27,807	21,856
Total liabilities	1,915,511	1,867,416
<b>Stockholders Equity</b>		
Preferred stock	71,358	70,863
Common stock	18,729	18,628
Additional paid-in capital	66,051	65,999
Retained earnings	12,930	17,107
Accumulated other comprehensive loss	(3,965)	(3,702)
Treasury stock	(94,956)	(94,893)
Total stockholders equity	70,147	74,002
Total liabilities and stockholders equity	\$ 1,985,658	\$ 1,941,418

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	June 30, 2012		December 31, 2011	
	Preferred Stock	Common Stock	Preferred Stock	Common Stock
Par value	\$ 1	\$ 1	\$ 1	\$ 1
Liquidation value	1,000	n/a	1,000	n/a
Shares authorized	300,000	60,000,000	300,000	60,000,000
Shares issued	73,000	18,729,134	73,000	18,627,858
Shares outstanding	73,000	14,084,328	73,000	14,034,991
Treasury shares	-	4,644,806	-	4,592,867

See accompanying notes to consolidated financial statements.

Table of Contents**Old Second Bancorp, Inc. and Subsidiaries****Consolidated Statements of Operations**

(In thousands, except share data)

	(unaudited) Three Months Ended June 30,		(unaudited) Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Interest and Dividend Income</b>				
Loans, including fees	\$ 17,617	\$ 20,749	\$ 35,283	\$ 41,965
Loans held-for-sale	49	75	133	126
Securities:				
Taxable	1,856	885	3,354	1,763
Tax exempt	102	127	205	269
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	77	74	151	143
Federal funds sold	-	1	-	1
Interest bearing deposits with financial institutions	35	69	60	139
Total interest and dividend income	19,736	21,980	39,186	44,406
<b>Interest Expense</b>				
Savings, NOW, and money market deposits	254	372	554	948
Time deposits	2,342	3,791	4,947	7,784
Securities sold under repurchase agreements	1	-	1	-
Other short-term borrowings	1	-	4	-
Junior subordinated debentures	1,220	1,133	2,417	2,246
Subordinated debt	224	206	461	409
Notes payable and other borrowings	4	4	8	8
Total interest expense	4,046	5,506	8,392	11,395
Net interest and dividend income	15,690	16,474	30,794	33,011
Provision for loan losses	200	500	6,284	4,500
Net interest and dividend income after provision for loan losses	15,490	15,974	24,510	28,511
<b>Noninterest Income</b>				
Trust income	1,463	1,715	3,114	3,499
Service charges on deposits	1,893	2,047	3,724	3,864
Secondary mortgage fees	311	236	607	463
Mortgage servicing (loss) income, net of changes in fair value	(397)	(263)	(210)	107
Net gain on sales of mortgage loans	2,358	1,117	5,005	2,353
Securities gains, net	692	512	793	651
Increase in cash surrender value of bank-owned life insurance	326	434	821	897
Debit card interchange income	1,113	784	1,873	1,484
Lease revenue from other real estate owned	911	957	2,090	1,477
Net gain on sale of other real estate owned	355	402	378	636
Litigation related income	3	-	119	-
Other income	1,368	1,456	2,546	2,907
Total noninterest income	10,396	9,397	20,860	18,338
<b>Noninterest Expense</b>				
Salaries and employee benefits	8,823	8,580	17,872	17,509
Occupancy expense, net	1,207	1,310	2,442	2,655
Furniture and equipment expense	1,183	1,475	2,338	2,935
FDIC insurance	1,029	1,113	2,029	2,852
General bank insurance	841	826	1,687	1,651
Amortization of core deposit and other intangible asset	250	206	445	435
Advertising expense	264	187	582	420
Debit card interchange expense	453	324	795	697
Legal fees	770	1,040	1,455	1,983
Other real estate expense	6,788	5,951	11,442	11,265
Other expense	3,026	3,346	5,999	6,554

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Total noninterest expense	24,634	24,358	47,086	48,956
Income (Loss) before income taxes	1,252	1,013	(1,716)	(2,107)
Income taxes	-	-	-	-
<b>Net income (loss)</b>	1,252	1,013	(1,716)	(2,107)
Preferred stock dividends and accretion	1,238	1,175	2,461	2,334
<b>Net income (loss) available to common stockholders</b>	\$ 14	\$ (162)	\$ (4,177)	\$ (4,441)
Basic earnings (loss) per share	\$ 0.00	\$ (0.01)	\$ (0.29)	\$ (0.31)
Diluted earnings (loss) per share	0.00	(0.01)	(0.29)	(0.31)
Dividends declared per share	-	-	-	-

See accompanying notes to consolidated financial statements.

Table of Contents**Old Second Bancorp, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income (Loss)**

(In thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ 1,252	\$ 1,013	\$ (1,716)	\$ (2,107)
Total unrealized holding (loss) gains on available-for-sale securities arising during the period	(657)	1,300	347	1,462
Related tax benefit (expense)	272	(534)	(141)	(526)
Holding (loss) income after tax	(385)	766	206	936
Less: Reclassification adjustment for the net gains and losses realized during the period				
Net realized gains	692	512	793	651
Income tax expense on net realized gains	(283)	(209)	(324)	(266)
Net realized gains after tax	409	303	469	385
Total other comprehensive (loss) income	(794)	463	(263)	551
Comprehensive income (loss)	\$ 458	\$ 1,476	\$ (1,979)	\$ (1,556)

See accompanying notes to consolidated financial statements.



Table of Contents**Old Second Bancorp, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(In thousands)

	(Unaudited)	
	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (1,716)	\$ (2,107)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of leasehold improvement	1,580	2,144
Change in market value of mortgage servicing rights	835	500
Provision for loan losses	6,284	4,500
Originations of loans held-for-sale	(129,803)	(98,257)
Proceeds from sales of loans held-for-sale	140,323	103,549
Net gain on sales of mortgage loans	(5,005)	(2,353)
Change in current income taxes receivable	815	-
Increase in cash surrender value of bank-owned life insurance	(821)	(897)
Change in accrued interest receivable and other assets	(5,567)	(1,126)
Change in accrued interest payable and other liabilities	3,204	(866)
Net premium amortization on securities	553	98
Securities gains, net	(793)	(651)
Amortization of core deposit and other intangible assets	445	435
Stock based compensation	153	491
Net gain on sale of other real estate owned	(378)	(636)
Write-down of other real estate owned	7,796	6,502
Net cash provided by operating activities	17,905	11,326
<b>Cash flows from investing activities</b>		
Proceeds from maturities and pre-refunds including pay down of securities available-for-sale	126,358	17,299
Proceeds from sales of securities available-for-sale	8,359	15,277
Purchases of securities available-for-sale	(226,254)	(28,178)
Net sales (purchases) of Federal Reserve Bank and Federal Home Loan Bank stock	1,873	(359)
Net change in loans	93,506	114,420
Investment in other real estate owned	(515)	(2,167)
Proceeds from sales of other real estate owned	16,066	19,816
Net purchases of premises and equipment	(299)	(196)
Net cash provided by investing activities	19,094	135,912
<b>Cash flows from financing activities</b>		
Net change in deposits	29,243	(139,468)
Net change in securities sold under repurchase agreements	12,901	(687)
Net change in other short-term borrowings	-	(8)
Purchase of treasury stock	(63)	(49)
Net cash provided by (used in) financing activities	42,081	(140,212)
Net change in cash and cash equivalents	79,080	7,026
Cash and cash equivalents at beginning of period	50,949	98,758
Cash and cash equivalents at end of period	\$ 130,029	\$ 105,784

**Supplemental cash flow information**

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Income taxes received	\$	(815)	\$	-
Interest paid for deposits		6,029		9,177
Interest paid for borrowings		473		417
Non-cash transfer of loans to other real estate owned		19,350		30,513
Change in dividends declared not paid		1,966		1,870
Accretion on preferred stock warrants		495		464

See accompanying notes to consolidated financial statements.

Table of Contents**Old Second Bancorp, Inc. and Subsidiaries****Consolidated Statements of Changes in****Stockholders Equity**

(In thousands, except share data)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
Balance, December 31, 2010	\$ 18,467	\$ 69,921	\$ 65,209	\$ 28,335	\$ (3,130)	\$ (94,844)	\$ 83,958
Comprehensive loss:							
Net loss				(2,107)			(2,107)
Change in net unrealized gain on securities available-for-sale net of \$260 tax effect					551		551
Change in restricted stock	161		(161)				-
Stock based compensation			491				491
Purchase of treasury stock						(49)	(49)
Preferred dividends declared and accrued (5% per preferred share)		464		(2,334)			(1,870)
Balance, June 30, 2011	\$ 18,628	\$ 70,385	\$ 65,539	\$ 23,894	\$ (2,579)	\$ (94,893)	\$ 80,974
Balance, December 31, 2011	\$ 18,628	\$ 70,863	\$ 65,999	\$ 17,107	\$ (3,702)	\$ (94,893)	\$ 74,002
Comprehensive loss:							
Net loss				(1,716)			(1,716)
Change in net unrealized loss on securities available-for-sale net of \$183 tax effect					(263)		(263)
Change in restricted stock	101		(101)				-
Stock based compensation			153				153
Purchase of treasury stock						(63)	(63)
Preferred dividends declared and accrued (5% per preferred share)		495		(2,461)			(1,966)
Balance, June 30, 2012	\$ 18,729	\$ 71,358	\$ 66,051	\$ 12,930	\$ (3,965)	\$ (94,956)	\$ 70,147

See accompanying notes to consolidated financial statements.

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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Table amounts in thousands, except per share data, unaudited)

**Note 1 Summary of Significant Accounting Policies**

The accounting policies followed in the preparation of the interim financial statements are consistent with those used in the preparation of the annual financial information. The interim financial statements reflect all normal and recurring adjustments, which are necessary, in the opinion of management, for a fair statement of results for the interim period presented. Results for the period ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These interim financial statements should be read in conjunction with the audited financial statements and notes included in Old Second Bancorp, Inc.'s (the Company) annual report on Form 10-K for the year ended December 31, 2011. Unless otherwise indicated, amounts in the tables contained in the notes are in thousands. Certain items in prior periods have been reclassified to conform to the current presentation.

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the financial statements.

All significant accounting policies are presented in Note 1 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2011. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

In May 2011, the FASB issued ASU No. 2011-04 Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Consequently, the amendments in this update result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. ASU 2011-04 is effective prospectively during interim and annual periods beginning on or after December 15, 2011. The Company has assessed and implemented ASU 2011-04 in its fair value disclosures and found no material impact.

In June 2011, the FASB issued ASU No. 2011-05 Comprehensive Income (Topic 220) - Presentation of Comprehensive Income. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Retrospective application of the standard is required. In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-12: Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05, to defer the effective date for the part of

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ASU No. 2011-05 that would require adjustments of items out of accumulated other income to be presented on the components of both net income and other comprehensive income in financial statements. The Company has included the consolidated statements of comprehensive income. There was no impact on the consolidated statements of operations or balance sheets based on the adoption of this standard.

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**Note 2 Securities**

**Investment Portfolio Management**

Our investment portfolio serves the liquidity and income needs of the Company. While the portfolio serves as an important component of the overall liquidity management at the Bank, portions of the portfolio will also serve as income producing assets. The size of the portfolio reflects liquidity needs, loan demand and interest income objectives.

Portfolio size and composition may be adjusted from time to time. While a significant portion of the portfolio consists of readily marketable securities to address liquidity, other parts of the portfolio may reflect funds invested pending future loan demand or to maximize interest income without undue interest rate risk.

Investments are comprised of debt securities and non-marketable equity investments. All debt securities are classified as available-for-sale and may be sold under our management and asset/liability management strategies. Securities available-for-sale are carried at fair value. Unrealized gains and losses on securities available-for-sale are reported as a separate component of equity. This balance sheet component changes as interest rates and market conditions change. Unrealized gains and losses are not included in the calculation of regulatory capital.

Non-marketable equity investments include Federal Home Loan Bank of Chicago ( FHLBC ) stock and Federal Reserve Bank of Chicago ( FRB ) stock. FHLBC stock was recorded at a value of \$7.4 million at June 30, 2012, a decrease of \$1.9 million from December 31, 2011. FRB stock was recorded at \$4.8 million at June 30, 2012, which was unchanged from December 31, 2011. Our FHLBC stock is necessary to maintain our continued access to FHLBC advances. In late 2011, management at the Bank evaluated the October 17, 2011, FHLBC Capital Plan and determined the best overall course for the Bank was to accept the stock conversion as of January 1, 2012. Subsequently, during the first half of 2012 management redeemed excess FHLBC stock held by the Bank reducing the value of FHLBC stock held by the Bank to \$7.4 million.

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The following table summarizes the amortized cost and fair value of the available-for-sale securities at June 30, 2012 and December 31, 2011 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2012:</b>				
U.S. Treasury	\$ 1,501	\$ 14	\$ -	\$ 1,515
U.S. government agencies	44,482	173	(32)	44,623
U.S. government agency mortgage-backed States and political subdivisions	93,458	1,766	(16)	95,208
Corporate Bonds	12,926	1,137	(5)	14,058
Collateralized mortgage obligations	35,127	240	(100)	35,267
Asset-backed securities	62,890	367	(870)	62,387
Collateralized debt obligations	137,341	476	(1,143)	136,674
	17,910	-	(8,747)	9,163
	\$ 405,635	\$ 4,173	\$ (10,913)	\$ 398,895
<b>December 31, 2011:</b>				
U.S. Treasury	\$ 1,501	\$ 23	\$ -	\$ 1,524
U.S. government agencies	43,112	286	-	43,398
U.S. government agency mortgage-backed States and political subdivisions	152,473	1,553	(19)	154,007
Corporate Bonds	12,152	1,657	-	13,809
Collateralized mortgage obligations	32,357	14	(982)	31,389
Asset-backed securities	25,616	242	(736)	25,122
Collateralized debt obligations	28,755	-	(414)	28,341
	17,892	-	(7,918)	9,974
	\$ 313,858	\$ 3,775	\$ (10,069)	\$ 307,564

The fair value, amortized cost and weighted average yield of debt securities at June 30, 2012, by contractual maturity, were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities and collateralized debt obligations are shown separately:

	Amortized Cost	Weighted Average Yield	Fair Value
Due in one year or less	\$ 8,256	1.81%	\$ 8,291
Due after one year through five years	48,540	2.01%	48,981
Due after five years through ten years	17,283	3.18%	18,043
Due after ten years	19,957	4.04%	20,148
	94,036	2.64%	95,463
Mortgage-backed securities	156,348	2.17%	157,595
Asset-back securities	137,341	1.63%	137,674
Collateralized debt obligations	17,910	1.89%	9,163
	\$ 405,635	2.08%	\$ 399,895

Securities with unrealized losses at June 30, 2012, and December 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands except for number of securities):





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June 30, 2012	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total		
	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value
U.S. government agencies	4	\$ 32	\$ 14,156		\$ -	\$ -	4	\$ 32	\$ 14,156
U.S. government agency mortgage-backed	2	16	2,555	-	-	-	2	16	2,555
States and political subdivisions	1	5	1,295	-	-	-	1	5	1,295
Corporate bonds	6	100	12,184	-	-	-	6	100	12,184
Collateralized mortgage obligations	12	870	36,439	-	-	-	12	870	36,439
Asset-backed securities	12	1,143	93,066	-	-	-	12	1,143	93,066
Collateralized debt obligations	-	-	-	2	8,747	9,163	2	8,747	9,163
	37	\$ 2,166	\$ 159,695	2	\$ 8,747	\$ 9,163	39	\$ 10,913	\$ 168,858

December 31, 2011	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total		
	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value
U.S. government agency mortgage-backed	4	\$ 19	\$ 27,935	-	\$ -	\$ -	4	\$ 19	\$ 27,935
Corporate bonds	11	982	28,605	-	-	-	11	982	28,605
Collateralized mortgage obligations	3	736	9,032	-	-	-	3	736	9,032
Asset-backed securities	4	414	28,341	-	-	-	4	414	28,341
Collateralized debt obligations	-	-	-	2	7,918	9,974	2	7,918	9,974
	22	\$ 2,151	\$ 93,913	2	\$ 7,918	\$ 9,974	24	\$ 10,069	\$ 103,887

Recognition of other-than-temporary impairment was not necessary in the six months ended June 30, 2012, or the year ended December 31, 2011. The changes in fair values related primarily to interest rate fluctuations and were generally not related to credit quality deterioration. Further to this point as shown below, the amount of deferrals and defaults in the pooled collateralized debt obligations ( CDO ) decreased in the period from December 31, 2011 to June 30, 2012.

Uncertainty in the financial markets in the periods presented has resulted in reduced liquidity for certain investments, particularly the CDO. In the case of the CDO fair value measurement, management included a risk premium adjustment as of June 30, 2012, to reflect an estimated yield that a market participant would demand because of uncertainty in cash flows, based on incomplete and sporadic levels of market activity. Accordingly, management continues to designate these securities as level 3 securities as described in Note 12 of this quarterly report as of June 30, 2012. Management did not have the intent to sell the above securities and it is more likely than not the Company will not sell the securities before recovery of its cost basis.

Below is additional information as it relates to the collateralized debt obligation, Trapeza 2007-13A, which is secured by a pool of trust preferred securities issued by trusts sponsored by multiple financial institutions.

Amortized Cost	Fair Value	Gross Unrealized Loss	S&P Credit Rating 1	Number of Banks in Issuance	Issuance Deferrals & Defaults		Issuance Excess Subordination		
					Amount	Collateral %	Amount	Collateral %	
<b>June 30, 2012</b>									

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Class A1	\$	9,084	\$	5,156	\$	(3,928)	BB+	63	\$	198,000	26.4%	\$	198,690	26.5%
Class A2A		8,826		4,007		(4,819)	B+	63		198,000	26.4%		101,690	13.6%
	\$	17,910	\$	9,163	\$	(8,747)								
<b>December 31, 2011</b>														
Class A1	\$	9,136	\$	5,584	\$	(3,552)	CCC+	63	\$	212,750	28.4%	\$	181,630	24.2%
Class A2A		8,756		4,390		(4,366)	CCC-	63		212,750	28.4%		84,630	11.3%
	\$	17,892	\$	9,974	\$	(7,918)								

1 Moody's credit rating for class A1 and A2A were Baa2 and Ba2, respectively, as of June 30, 2012, and unchanged from December 31, 2011. The Fitch ratings for class A1 and A2A were BBB and B, respectively, as of June 30, 2012, and unchanged from December 31, 2011.

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**Note 3 Loans**

Major classifications of loans were as follows:

	June 30, 2012	December 31, 2011
Commercial	\$ 90,051	\$ 98,099
Real estate - commercial	625,056	704,492
Real estate - construction	57,064	71,436
Real estate - residential		