MVB FINANCIAL CORP
Form 10-Q
November 14, 2014
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United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to .

Commission File number 000-50567

MVB Financial Corp.

(Exact name of registrant as specified in its charter)

West Virginia	20-0034461
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

301 Virginia Avenue

Fairmont, West Virginia 26554-2777

(Address of principal executive offices)

304-363-4800

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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

Large accelerated filer

Accelerated filer

Non-accelerated filer [X]

Smaller reporting company

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

Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

As of November 13, 2014, the number of shares outstanding of the issuer's only class of common stock was 8,083,439.

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MVB Financial Corp.

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Part I. Financial Information

Item 1. Financial Statements

MVB Financial Corp. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands except per share data)

	September 30, 2014 (Unaudited)	December 31, 2013 (Note 1)
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 15,240	$ 28,907
Interest bearing balances	47,269	10,936
Total cash and cash equivalents	62,509	39,843
Certificates of deposits in other banks	9,427	9,427
Investment securities:		
Securities available-for-sale	71,392	106,411
Securities held-to-maturity (fair value of $56,328 for 2014 and $54,118 for 2013)	55,633	56,670
Loans held for sale	50,616	89,186
Loans:	762,926	622,305
Less: Allowance for loan losses	(6,364)	(4,935)
Net loans	756,562	617,370
Bank premises, furniture and equipment	24,006	16,919
Bank owned life insurance	21,515	16,062
Accrued interest receivable and other assets	17,375	17,393
Goodwill	17,779	17,779
Total assets	$ 1,086,814	$ 987,060
Liabilities		
Deposits		
Non-interest bearing	$ 64,529	$ 63,336
Interest bearing	781,792	632,475
Total deposits	846,321	695,811
Accrued interest, taxes and other liabilities	6,953	6,878
Repurchase agreements	33,894	81,578
FHLB and other borrowings	55,465	104,647
Subordinated debt	33,524	4,124
Total liabilities	976,157	893,038

Stockholders’ equity		
Preferred stock, par value $1,000; 20,783 and 20,000 shares authorized and 9,283 and 8,500 shares issued in 2014 and 2013, respectively	16,334	8,500
Common stock, par value $1, 10,000,000 shares authorized; 8,083,439 and 7,705,894 shares issued; and 8,032,362 and 7,654,817 shares outstanding in 2014 and 2013, respectively	8,083	7,706
Additional paid-in capital	74,209	68,518
Retained earnings	15,503	13,343
Accumulated other comprehensive loss	(2,388)	(2,961)
Treasury stock, 51,077 shares, at cost	(1,084)	(1,084)
Total stockholders’ equity	110,657	94,022
Total liabilities and stockholders’ equity	$ 1,086,814	$ 987,060

See accompanying notes to unaudited financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Income

(Unaudited) (Dollars in thousands except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
Interest income				
Interest and fees on loans	$ 22,840	$ 16,438	$ 7,970	$ 5,540
Interest on deposits with other banks	150	151	53	54
Interest on investment securities – taxable	1,022	917	253	363
Interest on tax exempt loans and securities	2,138	1,560	627	589
Total interest income	26,150	19,066	8,903	6,546
Interest expense				
Deposits	4,104	2,921	1,325	1,065
Repurchase agreements	262	402	29	131
FHLB and other borrowings	841	697	282	206
Subordinated debt	589	59	544	20
Total interest expense	5,796	4,079	2,180	1,422
Net interest income	20,354	14,987	6,723	5,124
Provision for loan losses	2,192	1,993	784	326
Net interest income after provision for loan losses	18,162	12,994	5,939	4,798
Noninterest income				
Service charges on deposit accounts	500	489	183	183
Income on bank owned life insurance	424	342	169	118
Visa debit card income	501	410	176	148
Gain on loans held for sale	14,048	17,718	5,272	5,360
Capitalized servicing retained income	156	749	(85)	93
Insurance income	2,553	781	846	570
Gain on sale of securities	396	82	271	-
Gain on sale of subsidiary	-	626	-	626
Gain (loss) on derivatives	548	423	(391)	(276)
Other operating income	1,181	1,621	485	812
Total noninterest income	20,307	23,241	6,926	7,634
Noninterest expense				
Salary and employee benefits	22,327	20,872	7,598	7,215
Occupancy expense	1,994	1,358	714	448
Equipment depreciation and maintenance	1,153	916	418	341
Data processing	1,199	730	434	279

Mortgage processing	1,711	1,908	596	723
Visa debit card expense	417	345	140	132
Advertising	1,000	1,109	373	540
Legal and accounting fees	715	755	351	370
Printing, stationery and supplies	333	387	102	137
Consulting fees	587	421	197	196
FDIC insurance	542	364	203	90
Travel	443	391	121	179
Other operating expenses	2,828	2,414	978	932
Total noninterest expense	35,249	31,970	12,225	11,582
Income before income taxes	3,220	4,265	640	850
Income tax expense	556	836	103	93
Net income	$ 2,664	$ 3,429	$ 537	$ 757
Preferred dividends	187	64	144	21
Net income available to common shareholders	$ 2,477	$ 3,365	$ 393	$ 736
Earnings per share – basic	$ 0.31	$ 0.51	$ 0.05	$ 0.11
Earnings per share – diluted	$ 0.31	$ 0.50	$ 0.05	$ 0.10
Weighted average shares outstanding - basic	7,863,820	6,552,176	8,032,362	6,908,792
Weighted average shares outstanding - diluted	8,077,895	6,784,200	8,246,437	7,140,816

See accompanying notes to unaudited financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)(Dollars in thousands)

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
Net Income	$ 2,664	$ 3,429	$ 537	$ 757
Other comprehensive income (loss):				
Unrealized holding gains (losses) during the year	1,855	(2,258)	209	(685)
Income tax effect	(742)	903	(83)	274
Reclassification adjustment for gain recognized in income	(396)	(82)	(271)	—
Income tax effect	159	33	108	—
Change in defined benefit pension plan	(505)	—	(190)	—
Income tax effect	202	—	76	—
Other comprehensive income (loss)	573	(1,404)	(151)	(411)
Comprehensive income	$ 3,237	$ 2,025	$ 386	$ 346

See accompanying notes to unaudited financial statements.

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MVB Financial Corp. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited) (Dollars in thousands)

	Nine months ended September 30, 2014	September 30, 2013
Operating activities		
Net income	$ 2,664	$ 3,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization and accretion of investments	628	806
Net amortization of deferred loan cost	166	84
Provision for loan losses	2,192	1,993
Depreciation and amortization	898	661
Stock based compensation	222	126
Loans originated for sale	(596,844)	(777,016)
Proceeds of loans sold	649,462	833,608
Gain on sale of subsidiary	—	(626)
Gain on sale of loans held for resale	(14,048)	(17,718)
Gain on sale of investment securities	(396)	(82)
Income on bank owned life insurance	(424)	(342)
Deferred taxes	(1,016)	(41)
Other, net	(1,405)	(3,697)
Net cash provided by operating activities	42,099	41,185
Investing activities		
Purchases of investment securities available-for-sale	(24,268)	(47,807)
Purchases of investment securities held-to-maturity	(250)	(20,042)
Maturities/paydowns of investment securities held-to-maturity	1,000	-
Maturities/paydowns of investment securities available-for-sale	6,533	10,984
Sales of investment securities available-for-sale	54,268	3,637
Purchases of premises and equipment	(7,985)	(4,264)
Net increase in loans	(141,548)	(77,168)
Purchases of restricted bank stock	(8,080)	(6,496)
Redemptions of restricted bank stock	9,602	4,756
Proceeds from sale of other real estate owned	76	—
Purchase of bank owned life insurance	(5,000)	(5,078)
Net cash used in investing activities	(115,652)	(141,478)
Financing activities		
Net increase in deposits	150,510	133,491
Net (decrease) increase in repurchase agreements	(47,684)	15,913
Net change in short-term FHLB borrowings	(48,062)	(36,494)
Principal payments on FHLB borrowings	(1,120)	(2,877)
Proceeds from subordinated debt	29,400	—
Proceeds from stock offering	5,617	13,355

Preferred stock issuance	7,834	—
Dividend reinvestment plan proceeds	180	310
Common stock options exercised	48	42
Cash dividends paid on common stock	(317)	(241)
Cash dividends paid on preferred stock	(187)	(64)
Net cash provided by financing activities	96,219	123,435
Increase in cash and cash equivalents	22,666	23,142
Cash and cash equivalents at beginning of period	39,843	25,340
Cash and cash equivalents at end of period	$ 62,509	$ 48,482
Supplemental disclosure of cash flow information		
Loans transferred to other real estate owned	$ 346	$ 472
Cash payments for:		
Interest on deposits, repurchase agreements and borrowings	$ 6,444	3,691
Income taxes	$ 1,600	776

See accompanying notes to unaudited financial statements.

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MVB Financial Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with instructions to Form 10 Q. Accordingly, they do not include all the information and footnotes required by GAAP for annual year-end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, have been included and are of a normal, recurring nature. The consolidated balance sheet as of December 31, 2013 has been derived from audited financial statements included in the Company’s 2013 filing on Form 10-K. Operating results for the nine and three months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The accounting and reporting policies of MVB Financial Corp. (“the Company” or “MVB”) and its subsidiaries (“Subsidiaries”), including MVB Bank, Inc. (the “Bank”), the Bank’s subsidiary Potomac Mortgage Group, Inc., which does business as MVB Mortgage (“MVB Mortgage”) and MVB Insurance, LLC, conform to accounting principles generally accepted in the United States and practices in the banking industry. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates, such as the allowance for loan losses, are based upon known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. Actual results could differ from those estimates. All significant inter-company accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in MVB’s December 31, 2013, Form 10-K filed with the Securities and Exchange Commission.

In certain instances, amounts reported in prior periods’ consolidated financial statements have been reclassified to conform to the current presentation. Specifically, a portion of the prior periods’ interest income and interest expense was classified as gain on loans held for sale and has been reclassified in the current presentation. In addition, all share amounts have been revised to reflect the two for one stock split effected as a stock dividend as disclosed in Note 12.

Information is presented in these notes with dollars expressed in thousands, unless otherwise noted or specified.

Note 2 – Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of

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residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on MVB Financials Corp’s Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of this ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU will be effective for us in our first quarter of 2018. Early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. We are evaluating the transition method that will be elected and the potential effects of the adoption of this ASU on our financial statements.

In June 2014, the FASB issued an update to the accounting standards related to stock compensation and accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendments clarify the proper method of accounting for share-based payments when the terms of an award provide that a performance target could as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized be achieved after the requisite service period. This update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Management is currently evaluating the impact of adoption on the consolidated financial statements, but does not believe that adoption will have a material impact.

In August 2014, the FASB issued ASU No. 2014-14 – Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure, to address the diversity in practice regarding the classification and measurement of foreclosed loans which were part of a government-sponsored loan guarantee program (e.g. HUD, FHA, VA). The ASU outlines certain criteria that, if met, the loan (residential or commercial) should be derecognized and a separate other receivable should be recorded upon foreclosure at the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This ASU will be effective for annual reporting periods beginning after December 15, 2014, including interim periods within that reporting period. Early adoption is permitted, provided the entity has adopted ASU 2014-04. The ASU should be adopted either prospectively or on a modified retrospective basis. Management is currently evaluating the impact of adoption on the consolidated financial statements, but does not believe that adoption will have a material impact.

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In August 2014, the FASB issued ASU No. 2014-15 Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, to reduce diversity in the timing and content of going concern disclosures. This ASU clarifies management's responsibility to evaluate and provide related disclosures if there are any conditions or events, as a whole, that raise substantial doubt about the entity's ability to continue as a going concern for one year after the date the financial statements are issued (or, if applicable, available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. Management is currently evaluating the impact of adoption on the consolidated financial statements, but does not believe that adoption will have a material impact.

Note 3 – Investments

Amortized cost and fair values of investment securities held-to-maturity at September 30, 2014, including gross unrealized gains and losses, are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Municipal securities	$ 55,633	$ 1,305	$ (610)	$ 56,328
Total investment securities held-to-maturity	$ 55,633	$ 1,305	$ (610)	$ 56,328

Amortized cost and fair values of investment securities held-to-maturity at December 31, 2013, including gross unrealized gains and losses, are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Municipal securities	$ 56,670	$ 367	$ (2,919)	$ 54,118
Total investment securities held–to-maturity	$ 56,670	$ 367	$ (2,919)	$ 54,118

Amortized cost and fair values of investment securities available-for-sale at September 30, 2014 are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Agency securities	$ 44,809	$ 27	$ (790)	$ 44,046
U.S. Sponsored Mortgage-backed securities	26,774	31	(489)	26,316
Total debt securities	71,583	58	(1,279)	70,362
Equity and other securities	810	220	—	1,030
Total investment securities available-for-sale	$ 72,393	$ 278	$ (1,279)	$ 71,392

Amortized cost and fair values of investment securities available-for-sale at December 31, 2013 are summarized as follows:

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Agency securities	$ 60,744	$ —	$ (1,922)	$ 58,822
U.S. Sponsored Mortgage-backed securities	47,317	118	(843)	46,592
Total debt securities	108,061	118	(2,765)	105,414
Equity and other securities	810	187	—	997
Total investment securities available-for-sale	$ 108,871	$ 305	$ (2,765)	$ 106,411

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The following tables summarize amortized cost and fair values of debt securities by maturity:

	September 30, 2014			
	Held to Maturity		Available for sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ —	$ —	$ —	$ —
After one year, but within five	2,422	2,475	27,064	26,863
After five years, but within ten	15,304	15,628	23,197	22,643
After ten years	37,907	38,225	21,322	20,856
Total	$ 55,633	$ 56,328	$ 71,583	$ 70,362

Investment securities with a carrying value of $121,327 at September 30, 2014, were pledged to secure public funds, repurchase agreements and potential borrowings at the Federal Reserve discount window.

The Company's investment portfolio includes securities that are in an unrealized loss position as of September 30, 2014, the details of which are included in the following table. Although these securities, if sold at September 30, 2014 would result in a pretax loss of $1,889, the Company has no intent to sell the applicable securities at such market values, and maintains the Company has the ability to hold these securities until all principal has been recovered. Declines in the market values of these securities can be traced to general market conditions which reflect the prospect for the economy as a whole. When determining other-than-temporary impairment on securities, the Company considers such factors as adverse conditions specifically related to a certain security or to specific conditions in an industry or geographic area, the time frame securities have been in an unrealized loss position, the Company's ability to hold the security for a period of time sufficient to allow for anticipated recovery in value, whether or not the security has been downgraded by a rating agency, and whether or not the financial condition of the security issuer has severely deteriorated. As of September 30, 2014, the Company considers all securities with unrealized loss positions to be temporarily impaired, and consequently, does not believe the Company will sustain any material realized losses as a result of the current temporary decline in market value.

The following table discloses investments in an unrealized loss position at September 30, 2014:

Description and number of positions	Less than 12 months		12 months or more	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (11)	$ 6,904	$ (19)	$ 28,374	$ (771)

U.S. Sponsored Mortgage-backed securities (10)	3,809	(15)	16,089	(474)
Municipal securities (57)	3,352	(12)	20,323	(598)
	$ 14,065	$ (46)	$ 64,786	$ (1,843)

The following table discloses investments in an unrealized loss position at December 31, 2013:

Description and number of positions	Less than 12 months		12 months or more	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Agency securities (19)	$ 58,822	$ (1,922)	$ —	$ —
U.S. Sponsored Mortgage-backed securities (18)	14,969	(113)	19,781	(730)
Municipal securities (103)	35,502	(2,535)	4,471	(384)
	$ 109,293	$ (4,570)	$ 24,252	$ (1,114)

For the nine month period ended September 30, 2014 and 2013, the Company sold investments available-for-sale of $54.3 million and $3.7 million, respectively, resulting in net gains of $396 and $82.

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For the three month period ended September 30, 2014 and 2013, the Company sold investments available-for-sale of $17.1 million and $0, respectively, resulting in net gains of $271 and $0.

Note 4 – Loans and Allowance for Loan Losses

The following table summarizes the primary segments of the allowance for loan losses (“ALL”), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of September 30, 2014. Activity in the allowance is presented for the periods indicated (in thousands):

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance June 30, 2014	$ 4,485	$ 685	$ 825	$ 232	$ 14	$ 6,241
Charge-offs	(634)	(30)	—	—	(1)	(665)
Recoveries	2	—	2	—	—	4
Provision	634	224	(38)	(49)	13	784
ALL balance September 30, 2014	$ 4,487	$ 879	$ 789	$ 183	$ 26	$ 6,364

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance December 31, 2013	$ 3,609	$ 519	$ 554	$ 239	$ 14	$ 4,935
Charge-offs	(632)	(133)	—	(9)	(2)	(776)
Recoveries	7	—	3	3	—	13
Provision	1,503	493	232	(50)	14	2,192
ALL balance September 30, 2014	$ 4,487	$ 879	$ 789	$ 183	$ 26	$ 6,364
Individually evaluated for impairment	$ 893	$ 278	$ 29	$ 10	$ -	$ 1,210
Collectively evaluated for impairment	$ 3,594	$ 601	$ 760	$ 173	$ 26	$ 5,154

Home Credit

	Commercial	Residential	Equity	Installment	Card	Total
ALL balance June 30, 2013	$ 3,740	$ 490	$ 351	$ 231	$ 16	$ 4,828
Charge-offs	(485)	(36)	—	—	—	(521)
Recoveries	30	24	1	—	—	55
Provision	135	57	96	38	—	326
ALL balance September 30, 2013	$ 3,420	$ 535	$ 448	$ 269	$ 16	$ 4,688

	Commercial	Residential	Home Equity	Installment	Credit Card	Total
ALL balance December 31, 2012	$ 3,107	$ 514	$ 242	$ 200	$ 13	$ 4,076
Charge-offs	(1,457)	(38)	—	—	(11)	(1,506)
Recoveries	55	60	9	1	—	125
Provision	1,715	(1)	197	68	14	1,993
ALL balance September 30, 2013	$ 3,420	$ 535	$ 448	$ 269	$ 16	$ 4,688
Individually evaluated for impairment	$ 871	$ 180	$ -	$ 11	$ -	$ 1,061
Collectively evaluated for impairment	$ 2,549	$ 355	$ 448	$ 258	$ 16	$ 3,627

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

All loan origination fees and direct loan origination costs are deferred and recognized over the life of the loan. As of September 30, 2014 and 2013, net deferred fees and costs of $1,402 and $1,315, respectively, were included in the carryings value of loans.

During December 2013 the Bank purchased $74.3 million in performing commercial real estate secured loans in the northern Virginia area. At the time of acquisition, none of these loans were considered impaired. They were acquired at a premium of roughly 1.024 or $1.8 million, which is being amortized in accordance with ASC 310-20. These loans are collectively evaluated for impairment under ASC 450. Loans are monitored individually for payoff activity, and any necessary adjustments to the premium will be made accordingly.

The following table summarizes the primary segments of the Company loan portfolio as of September 30, 2014:

(in thousands)	Commercial	Residential	Home Equity	Installment	Credit Card	Total
Individually evaluated for impairment	$ 5,764	$ 837	$ 29	$ 16	$ —	$ 6,646
Collectively evaluated for impairment	543,327	151,331	43,576	17,318	728	756,280
Total Loans	$ 549,091	$ 152,168	$ 43,605	$ 17,334	$ 728	$ 762,926

The following table summarizes the primary segments of the Company loan portfolio as of September 30, 2013:

(in thousands)	Commercial	Residential	Home Equity	Installment	Credit Card	Total
Individually evaluated for impairment	$ 3,539	$ 264	$ —	$ 20	$ —	$ 3,823
Collectively evaluated for impairment	349,085	124,556	25,489	18,584	609	518,323
Total Loans	$ 352,624	$ 124,820	$ 25,489	$ 18,604	$ 609	$ 522,146

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The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2014 and December 31, 2013 (in thousands):

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
September 30, 2014	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
Commercial					
Commercial Real Estate	$ 1,537	$ 315	$ 123	$ 1,660	$ 1,660
Acquisition & Development	1,972	578	2,132	4,104	4,704
Total Commercial	3,509	893	2,255	5,764	6,364
Residential	837	278	—	837	839
Home Equity	29	29	—	29	29
Consumer	15	10	1	16	17
Total impaired loans	$ 4,390	$ 1,210	$ 2,256	$ 6,646	$ 7,249
December 31, 2013					
Commercial					
Commercial Real Estate	$ 1,801	$ 407	$ 120	$ 1,921	$ 2,199
Acquisition & Development	4,333	836	—	4,333	4,055
Total Commercial	6,134	1,243	120	6,254	6,254
Residential	261	175	—	261	261
Home Equity	28	28	—	28	28
Consumer	25	12	68	93	93
Total impaired loans	$ 6,448	$ 1,458	$ 188	$ 6,636	$ 6,636

The following tables present the average recorded investment in impaired loans and related interest income recognized for the periods indicated (in thousands):

	Nine months ended September 30, 2014			Three months ended September 30, 2014		
	Average Investment	Interest Income Recognized	Interest Income Recognized on	Average Investment	Interest Income Recognized	Interest Income Recognized

	in Impaired Loans	on Accrual Basis	Cash Basis	in Impaired Loans	on Accrual Basis	on Cash Basis
Commercial						
Commercial Real Estate	1,854	94	50	1,740	31	8
Acquisition & Development	4,635	119	92	4,583	2	4
Total Commercial	6,489	213	142	6,323	33	12
Residential	779	15	14	868	5	5
Home Equity	28	1	—	28	—	—
Consumer	25	1	1	16	—	-
Total	$ 7,321	$ 230	$ 157	$ 7,235	$ 38	$ 17

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Nine months ended September 30, 2013			Three months ended September 30, 2013		
Average Investment in Impaired	Interest Income Recognized on	Interest Income Recognized on	Average Investment in Impaired	Interest Income Recognized on	Interest Income Recognized on