First Internet Bancorp
Form 10-Q
May 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended March 31, 2016
OR
¨ 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 001-35750

First Internet Bancorp
(Exact Name of Registrant as Specified in Its Charter)

Indiana (State or Other Jurisdiction of Incorporation or Organization)	20-3489991 (I.R.S. Employer Identification No.)
11201 USA Parkway Fishers, IN (Address of Principal Executive Offices)	46037 (Zip Code)

(317) 532-7900
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 þ 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 such shorter period that the registrant was required to submit and post such files).
Yes þ 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 (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer ¨ Accelerated Filer þ

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 Rule 12b-2 of the Exchange Act).
Yes ¨ No þ

As of May 2, 2016, the registrant had 4,497,284 shares of common stock issued and outstanding.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the federal securities laws. These statements are not historical facts, rather statements based on the current expectations of First Internet Bancorp and its consolidated subsidiaries (“we,” “our,” “us” or the “Company”) regarding its business strategies, intended results and future performance. Forward-looking statements are generally preceded by terms such as “expects,” “believes,” “anticipates,” “intends,” “plan,” and similar expressions. Such statements are subject to certain risks and uncertainties including: general economic conditions, whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products; our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that we own or that is the collateral for our loans; failures of or interruptions in the communication and information systems on which we rely to conduct our business that could reduce our revenues, increase our costs or lead to disruptions in our business; our plans to grow our commercial real estate and commercial and industrial loan portfolios which may carry greater risks of non-payment or other unfavorable consequences; our dependence on capital distributions from First Internet Bank of Indiana (the “Bank”); results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses or to write-down assets; changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, that could lead to restrictions on activities of banks generally, or the Bank in particular; more restrictive regulatory capital requirements; increased costs, including deposit insurance premiums; regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products; changes in market rates and prices that may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet; our liquidity requirements could be adversely affected by changes in our assets and liabilities; the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry; competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals; the growth and profitability of noninterest or fee income being less than expected; the loss of any key members of senior management; the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board and other regulatory agencies; and the effect of fiscal and governmental policies of the United States federal government. Additional factors that may affect our results include those discussed in our most recent Annual Report on Form 10-K under the heading “Risk Factors” and in other reports filed with the SEC. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The factors listed above could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

Except as required by law, we do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

PART I

ITEM 1. FINANCIAL STATEMENTS

First Internet Bancorp
Condensed Consolidated Balance Sheets
(Amounts in thousands except share data)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$2,411	$ 1,063
Interest-bearing demand deposits	98,533	24,089
Total cash and cash equivalents	100,944	25,152
Interest-bearing time deposits	1,000	1,000
Securities available-for-sale, at fair value (amortized cost of $315,315 and $215,576 in 2016 and 2015, respectively)	315,311	213,698
Loans held-for-sale (includes $26,688 and $24,065 at fair value in 2016 and 2015, respectively)	29,491	36,518
Loans receivable	1,040,683	953,859
Allowance for loan losses	(9,220)	(8,351)
Net loans receivable	1,031,463	945,508
Accrued interest receivable	4,528	4,105
Federal Home Loan Bank of Indianapolis stock	8,595	8,595
Cash surrender value of bank-owned life insurance	12,826	12,727
Premises and equipment, net	8,485	8,521
Goodwill	4,687	4,687
Other real estate owned	4,488	4,488
Accrued income and other assets	5,901	4,871
Total assets	$1,527,719	$ 1,269,870
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	$28,945	$ 23,700
Interest-bearing deposits	1,214,233	932,354
Total deposits	1,243,178	956,054
Advances from Federal Home Loan Bank	150,969	190,957
Subordinated debt, net of unamortized discounts and debt issuance costs of $249 and $276 in 2016 and 2015, respectively	12,751	12,724
Accrued interest payable	108	117
Accrued expenses and other liabilities	12,883	5,688
Total liabilities	1,419,889	1,165,540
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, no par value; 4,913,779 shares authorized; issued and outstanding - none	—	—
Voting common stock, no par value; 45,000,000 shares authorized; 4,497,284 and 4,481,347 shares issued and outstanding in 2016 and 2015, respectively	72,697	72,559
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none	—	—
Retained earnings	35,135	32,980

Accumulated other comprehensive loss	(2)	(1,209)
Total shareholders' equity	107,830	104,330
Total liabilities and shareholders' equity	$ 1,527,719	$ 1,269,870

See Notes to Condensed Consolidated Financial Statements

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First Internet Bancorp
Condensed Consolidated Statements of Income – Unaudited
(Amounts in thousands except share and per share data)

	Three Months Ended March 31,	
	2016	2015
Interest Income		
Loans	$11,189	$ 8,390
Securities – taxable	1,169	722
Securities – non-taxable	165	—
Other earning assets	170	75
Total interest income	12,693	9,187
Interest Expense		
Deposits	2,888	1,953
Other borrowed funds	664	460
Total interest expense	3,552	2,413
Net Interest Income	9,141	6,774
Provision for Loan Losses	946	442
Net Interest Income After Provision for Loan Losses	8,195	6,332
Noninterest Income		
Service charges and fees	200	176
Mortgage banking activities	2,254	2,886
Loss on asset disposals	(16)	(14)
Other	102	100
Total noninterest income	2,540	3,148
Noninterest Expense		
Salaries and employee benefits	3,898	3,578
Marketing, advertising, and promotion	464	452
Consulting and professional services	638	592
Data processing	274	248
Loan expenses	184	181
Premises and equipment	798	642
Deposit insurance premium	180	150
Other	569	414
Total noninterest expense	7,005	6,257
Income Before Income Taxes	3,730	3,223
Income Tax Provision	1,298	1,160
Net Income	$2,432	$ 2,063
Income Per Share of Common Stock		
Basic	$0.54	$ 0.46
Diluted	$0.53	$ 0.46
Weighted-Average Number of Common Shares Outstanding		
Basic	4,541,728	4,516,776
Diluted	4,575,555	4,523,246
Dividends Declared Per Share	$0.06	$ 0.06

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Condensed Consolidated Statements of Comprehensive Income – Unaudited
(Amounts in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income	$2,432	$2,063
Net unrealized holding gains on securities available-for-sale recorded within other comprehensive income before income tax	1,874	818
Income tax provision	667	291
Other comprehensive income	1,207	527
Comprehensive income	$3,639	$2,590

See Notes to Condensed Consolidated Financial Statements

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First Internet Bancorp
Condensed Consolidated Statement of Shareholders’ Equity - Unaudited
Three Months Ended March 31, 2016
(Amounts in thousands except per share data)

	Voting and Nonvoting Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders’ Equity
Balance, January 1, 2016	$ 72,559	$ (1,209)	$ 32,980	$ 104,330
Net income	—	—	2,432	2,432
Other comprehensive income	—	1,207	—	1,207
Dividends declared ($0.06 per share)	—	—	(277)	(277)
Recognition of the fair value of share-based compensation	173	—	—	173
Deferred stock rights and restricted stock units issued in lieu of cash dividends payable on outstanding deferred stock rights and restricted stock units	7	—	—	7
Excess tax benefit on share-based compensation	49	—	—	49
Common stock redeemed for the net settlement of share-based awards	(91)	—	—	(91)
Balance, March 31, 2016	$ 72,697	$ (2)	$ 35,135	$ 107,830

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Condensed Consolidated Statements of Cash Flows – Unaudited
(Amounts in thousands)

	Three Months Ended March 31,	
	2016	2015
Operating Activities		
Net income	$2,432	$2,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	575	456
Increase in cash surrender value of bank-owned life insurance	(99)	(98)
Provision for loan losses	946	442
Share-based compensation expense	173	282
Loans originated for sale	(107,984)	(134,159)
Proceeds from sale of loans	116,965	143,737
Gain on loans sold	(1,600)	(2,314)
Increase in fair value of loans held-for-sale	(354)	(177)
Gain on derivatives	(300)	(395)
Net change in accrued income and other assets	(1,449)	128
Net change in accrued expenses and other liabilities	(1,319)	(17)
Net cash provided by operating activities	7,986	9,948
Investing Activities		
Net loan activity, excluding sales and purchases	(78,894)	(35,120)
Maturities of securities available-for-sale	6,088	5,092
Purchase of securities available-for-sale	(97,928)	(30,598)
Purchase of premises and equipment	(268)	(316)
Loans purchased	(8,007)	—
Net cash used in investing activities	(179,009)	(60,942)
Financing Activities		
Net increase in deposits	287,124	62,571
Cash dividends paid	(267)	(265)
Proceeds from advances from Federal Home Loan Bank	40,000	90,000
Repayment of advances from Federal Home Loan Bank	(80,000)	(90,000)
Other, net	(42)	(29)
Net cash provided by financing activities	246,815	62,277
Net Increase in Cash and Cash Equivalents	75,792	11,283
Cash and Cash Equivalents, Beginning of Period	25,152	28,289
Cash and Cash Equivalents, End of Period	$100,944	$39,572
Supplemental Disclosures of Cash Flows Information		
Cash paid during the period for interest	$3,561	$2,406
Cash paid during the period for taxes	1,521	—
Cash dividends declared, not paid	269	268

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Notes to Condensed Consolidated Financial Statements – Unaudited
(Table amounts in thousands except share and per share data)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, or cash flows in accordance with GAAP. In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results expected for the year ending December 31, 2016 or any other period. The March 31, 2016 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the First Internet Bancorp Annual Report on Form 10-K for the year ended December 31, 2015.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates, judgments, or assumptions that could have a material effect on the carrying value of certain assets and liabilities. These estimates, judgments, and assumptions affect the amounts reported in the condensed consolidated financial statements and the disclosures provided. The determination of the allowance for loan losses, valuations and impairments of investment securities, and the accounting for income tax expense are highly dependent upon management's estimates, judgments, and assumptions where changes in any of these could have a significant impact on the financial statements.

The condensed consolidated financial statements include the accounts of First Internet Bancorp (the "Company"), its wholly-owned subsidiary, First Internet Bank of Indiana (the "Bank"), and the Bank's wholly-owned subsidiary, JKH Realty Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations, and cash flows of the Company.

Certain reclassifications have been made to the 2015 financial statements to conform to the presentation of the 2016 financial statements. These reclassifications had no effect on net income.

Note 2: Earnings Per Share

Earnings per share of common stock are based on the weighted-average number of basic shares and dilutive shares outstanding during the period.

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,	
	2016	2015
Basic earnings per share		
Net income	$2,432	$ 2,063
Weighted-average common shares	4,541,724	4,516,776
Basic earnings per common share	$0.54	$ 0.46
Diluted earnings per share		
Net income	$2,432	$ 2,063
Weighted-average common shares	4,541,724	4,516,776
Dilutive effect of warrants	11,293	—
Dilutive effect of equity compensation	22,534	6,470
Weighted-average common and incremental shares	4,575,551	4,523,246
Diluted earnings per common share	$0.53	$ 0.46
Number of warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company’s common stock during the period	—	48,750

Note 3: Securities

The following tables summarize securities available-for-sale as of March 31, 2016 and December 31, 2015.

	March 31, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$60,511	$466	$(185)	$60,792
Municipal securities	35,016	626	(3)	35,639
Mortgage-backed securities	177,337	771	(119)	177,989
Asset-backed securities	19,451	—	(559)	18,892
Corporate securities	20,000	—	(1,022)	18,978
Other securities	3,000	21	—	3,021
Total available-for-sale	$315,315	$1,884	$(1,888)	$315,311

	December 31, 2015			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$38,093	$139	$(482)	$37,750
Municipal securities	21,091	385	(7)	21,469
Mortgage-backed securities	113,948	110	(1,006)	113,052

Asset-backed securities	19,444	—	(83)	19,361
Corporate securities	20,000	—	(913)	19,087
Other securities	3,000	—	(21)	2,979
Total available-for-sale	$215,576	$634	$(2,512)	$213,698

The carrying value of securities at March 31, 2016 is shown below by their contractual maturity date. Actual maturities will differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	$—	$—
One to five years	403	364
Five to ten years	33,739	33,361
After ten years	81,385	81,684
	115,527	115,409
Mortgage-backed securities	177,337	177,989
Asset-backed securities	19,451	18,892
Other securities	3,000	3,021
Total	$315,315	$315,311

The Company did not sell any available-for-sale securities during the three months ended March 31, 2016 and 2015, and therefore, did not recognize any gross realized gains or losses.

Certain investments in debt securities are reported in the condensed consolidated financial statements at an amount less than their historical cost. The total fair value of these investments at March 31, 2016 and December 31, 2015 was $91.9 million and $166.1 million, which was approximately 29% and 78%, respectively, of the Company's available-for-sale securities portfolio. These declines resulted primarily from fluctuations in market interest rates after purchase.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the security will be reduced, with the resulting loss recognized in net income in the period in which the other-than-temporary impairment ("OTTI") is identified.

The following tables show the available-for-sale securities portfolio's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2016 and December 31, 2015.

	March 31, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale						
U.S. Government-sponsored agencies	$12,548	$ (116)	$8,307	$ (69)	$20,855	$ (185)
Municipal securities	1,299	(3)	—	—	1,299	(3)
Mortgage-backed securities	27,993	(93)	3,906	(26)	31,899	(119)
Asset-backed securities	14,003	(365)	4,889	(194)	18,892	(559)
Corporate securities	18,978	(1,022)	—	—	18,978	(1,022)
Total	$74,821	$ (1,599)	$17,102	$ (289)	$91,923	$ (1,888)

	December 31, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale						
U.S. Government-sponsored agencies	$18,289	$ (237)	$8,537	$ (245)	$26,826	$ (482)
Municipal securities	1,026	(7)	—	—	1,026	(7)
Mortgage-backed securities	74,198	(562)	22,655	(444)	96,853	(1,006)
Asset-backed securities	19,361	(83)	—	—	19,361	(83)
Corporate securities	19,087	(913)	—	—	19,087	(913)
Other securities	2,979	(21)	—	—	2,979	(21)
Total	$134,940	$ (1,823)	$31,192	$ (689)	$166,132	$ (2,512)

U. S. Government-Sponsored Agencies, Municipal Securities and Corporate Securities

The unrealized losses on the Company's investments in securities issued by U.S. Government-sponsored agencies, municipal organizations and corporate entities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2016.

Mortgage-Backed and Asset-Backed Securities

The unrealized losses on the Company's investments in mortgage-backed and asset-backed securities were caused by interest rate changes. The Company expects to recover the amortized cost bases over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2016.

Note 4: Loans Receivable

Loans that management intends to hold until maturity are reported at their outstanding principal balance adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

For loans recorded at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

Categories of loans include:

	March 31, 2016	December 31, 2015
Commercial loans		
Commercial and industrial	$106,431	$ 102,000
Owner-occupied commercial real estate	47,010	44,462
Investor commercial real estate	14,756	16,184
Construction	52,591	45,898
Single tenant lease financing	445,534	374,344
Total commercial loans	666,322	582,888
Consumer loans		
Residential mortgage	208,636	214,559
Home equity	40,000	43,279
Other consumer	121,323	108,312
Total consumer loans	369,959	366,150
Total commercial and consumer loans	1,036,281	949,038
Deferred loan origination costs and premiums and discounts on purchased loans	4,402	4,821
Total loans receivable	1,040,683	953,859
Allowance for loan losses	(9,220)	(8,351)
Net loans receivable	$1,031,463	$ 945,508

The risk characteristics of each loan portfolio segment are as follows:

Commercial and Industrial: Commercial and industrial loans' sources of repayment are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Loans are made for working capital, equipment purchases, or other purposes. Most commercial and industrial loans are secured by the assets being financed and may incorporate a personal guarantee.

Owner-Occupied Commercial Real Estate: The primary source of repayment is the cash flow from the ongoing operations and activities conducted by the borrower, or an affiliate of the borrower, who owns the property. This portfolio segment is generally concentrated in the Central Indiana and greater Phoenix, Arizona markets and its loans often times are secured by manufacturing and service facilities, as well as office buildings.

Investor Commercial Real Estate: These loans are underwritten primarily based on the cash flow expected to be generated from the property and are secondarily supported by the value of the real estate. These loans typically incorporate a personal guarantee. This portfolio segment typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Investor commercial real estate loans may be more adversely affected by conditions in the real estate markets, changing industry dynamics, or the overall health of the general economy. The properties securing the Company's investor commercial real estate portfolio tend to be diverse in terms of property type and are typically located in the state of Indiana and markets adjacent to Indiana. Management monitors and evaluates commercial real estate loans based on property financial performance, collateral value, guarantor strength, and other risk grade criteria. As a general rule, the Company avoids financing special use projects or properties outside of its designated market areas unless other underwriting factors are present to help mitigate risk.

Construction: Construction loans are secured by real estate and improvements and are made to assist in the construction of new structures, which may include commercial (retail, industrial, office, multi-family) properties or single family residential properties offered for sale by the builder. These loans generally finance a variety of project costs, including land, site preparation, construction, closing and soft costs and interim financing needs. The cash flows of builders, while initially predictable, may fluctuate with market conditions, and the value of the collateral securing these loans may be subject to fluctuations based on general economic changes.
Single Tenant Lease Financing: These loans are made to property owners of real estate subject to long term lease arrangements with single tenant operators. The real estate is typically operated by regionally, nationally or globally branded businesses. The loans are underwritten based on the financial strength of the borrower, characteristics of the real estate, cash flows generated from the lease arrangements and the financial strength of the tenant. Similar to the other loan portfolio segments, management monitors and evaluates these loans based on borrower and tenant financial performance, collateral value, industry trends and other risk grade criteria.

Residential Mortgage: With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company typically establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the financial circumstances of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers in geographically diverse locations throughout the country.
Home Equity: Home equity loans and lines of credit are typically secured by a subordinate interest in 1-4 family residences. The properties securing the Company's home equity portfolio segment are generally geographically diverse as the Company offers these products on a nationwide basis. Repayment of home equity loans and lines of credit may be impacted by changes in property values on residential properties and unemployment levels, among other economic conditions and financial circumstances in the market.
Other Consumer: These loans primarily consist of consumer loans and credit cards. Consumer loans may be secured by consumer assets such as horse trailers or recreational vehicles. Some consumer loans are unsecured, such as small installment loans, home improvement loans and certain lines of credit. Repayment of consumer loans is primarily dependent upon the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers in geographically diverse locations throughout the country.
Allowance for Loan Losses Methodology

Company policy is designed to maintain an adequate allowance for loan losses (“ALLL”). The portfolio is segmented by loan type, and the required ALLL for types of performing homogeneous loans which do not have a specific reserve is determined by applying a factor based on average historical losses, adjusted for current economic factors and portfolio trends. Management believes the historical loss experience methodology is appropriate in the current economic environment as it captures loss rates that are comparable to the current period being analyzed. Management adds qualitative factors for observable trends, changes in internal practices, changes in delinquencies and impairments, and external factors. Observable factors include changes in the composition and size of portfolios, as well as loan terms or concentration levels. The Company evaluates the impact of internal changes such as management and staff experience levels or modification to loan underwriting processes. Delinquency trends are scrutinized for both volume and severity of past due, nonaccrual, or classified loans as well as any changes in the value of underlying collateral. Finally, the Company considers the effect of other external factors such as national, regional, and local economic and business conditions, as well as competitive, legal, and regulatory requirements. Loans that are considered to be impaired are evaluated to determine the need for a specific allowance by applying at least one of three methodologies: present value of future cash flows; fair value of collateral less costs to sell; or the loan’s observable market price. All troubled debt restructurings (“TDR”) are considered impaired loans. Loans evaluated for impairment are removed from other pools to prevent double-counting. Accounting Standards Codification (“ASC”) Topic 310, Receivables, requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loans' effective interest rates or the fair value of the underlying collateral less costs to sell and allows existing methods for recognizing interest income.

Provision for Loan Losses

A provision for estimated losses on loans is charged to income based upon management's evaluation of the potential losses. Such an evaluation, which includes a review of all loans for which full repayment may not be reasonably assured, considers, among other matters, the estimated net realizable value of the underlying collateral, as applicable, economic conditions, loan loss experience, and other factors that are particularly susceptible to changes that could result in a material adjustment in the near term. While management attempts to use the best information available in making its evaluations, future allowance adjustments may be necessary if economic conditions change substantially from the assumptions used in making the evaluations.

Policy for Charging Off Loans

The Company's policy is to charge off a loan at any point in time when it no longer can be considered a bankable asset, meaning collectible within the parameters of policy. A secured loan is generally charged down to the estimated fair value of the collateral, less costs to sell, no later than when it is 120 days past due as to principal or interest. An unsecured loan generally is charged off no later than when it is 180 days past due as to principal or interest.

The following tables present changes in the balance of the ALLL during the three month periods ended March 31, 2016 and 2015.

	Three Months Ended March 31, 2016								
	Commercial and industrial	Owner-occupied commercial real estate	Investor commercial real estate	Construction	Single tenant lease financing	Residential mortgage	Home equity	Other consumer	Total
Allowance for loan									