COMMUNITY FINANCIAL CORP /MD/
Form 10-Q
August 03, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2015

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 0-18279

The Community Financial Corporation

(Exact name of registrant as specified in its charter)

Maryland	52-1652138

(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3035 Leonardtown Road, Waldorf, Maryland	20601
(Address of principal executive offices)	(Zip Code)

(301) 645-5601

(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 (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 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 x
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 x

As of July 30, 2015, the registrant had 4,715,696 shares of common stock outstanding.

THE COMMUNITY FINANCIAL CORPORATION

FORM 10-Q

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PART 1 - FINANCIAL INFORMATION
ITEM 1 – FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	**June 30, 2015 (Unaudited)**	**December 31, 2014**
Assets		
Cash and due from banks	$ 29,982	$ 17,275
Federal funds sold	4,385	965
Interest-bearing deposits with banks	7,565	3,133
Securities available for sale (AFS), at fair value	38,378	41,939
Securities held to maturity (HTM), at amortized cost	85,985	84,506
Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock - at cost	6,550	6,434
Loans receivable - net of allowance for loan losses of $8,757 and $8,481	885,914	862,409
Premises and equipment, net	21,418	20,586
Other real estate owned (OREO)	6,422	5,883
Accrued interest receivable	3,182	3,036
Investment in bank owned life insurance	27,432	27,021
Other assets	9,523	9,691
Total Assets	$ 1,126,736	$ 1,082,878
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Non-interest-bearing deposits	$ 132,367	$ 122,195
Interest-bearing deposits	768,018	747,189
Total deposits	900,385	869,384
Short-term borrowings	12,000	2,000
Long-term debt	70,645	74,672
Guaranteed preferred beneficial interest in junior subordinated debentures (TRUPs)	12,000	12,000
Subordinated notes - 6.25%	23,000	-
Accrued expenses and other liabilities	9,622	8,263
Total Liabilities	1,027,652	966,319
Stockholders' Equity		
Preferred Stock, Senior Non-Cumulative Perpetual, Series C - par value $1,000; authorized and issued 20,000 at December 31, 2014 and none at June 30, 2015	-	20,000
Common stock - par value $.01; authorized - 15,000,000 shares; issued 4,715,212 and 4,702,715 shares, respectively	47	47
Additional paid in capital	46,702	46,416

Retained earnings	53,125	50,936
Accumulated other comprehensive loss	(300)	(378)
Unearned ESOP shares	(490)	(462)
Total Stockholders' Equity	99,084	116,559
Total Liabilities and Stockholders' Equity	$ 1,126,736	$ 1,082,878

See notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share amounts)	**2015**	**2014**	**2015**	**2014**
Interest and Dividend Income				
Loans, including fees	$ 10,373	$ 9,685	$ 20,550	$ 19,268
Taxable interest and dividends on investment securities	560	565	1,107	1,155
Interest on deposits with banks	2	4	6	6
Total Interest and Dividend Income	10,935	10,254	21,663	20,429
Interest Expense				
Deposits	1,042	1,159	2,030	2,367
Short-term borrowings	12	1	21	7
Long-term debt	848	524	1,516	1,051
Total Interest Expense	1,902	1,684	3,567	3,425
Net Interest Income	9,033	8,570	18,096	17,004
Provision for loan losses	392	563	570	766
Net Interest Income After Provision For Loan Losses	8,641	8,007	17,526	16,238
Noninterest Income				
Loan appraisal, credit, and miscellaneous charges	90	92	148	192
Gain on sale of asset	1	7	19	7
Net (losses) gains on sale of OREO	(18)	4	(18)	4
Net (losses) gains on sale of investment securities	-	-	(1)	24
Income from bank owned life insurance	205	152	410	303
Service charges	677	524	1,262	1,076
Gain on sale of loans held for sale	7	76	104	144
Total Noninterest Income	962	855	1,924	1,750
Noninterest Expense				
Salary and employee benefits	3,888	3,992	8,033	8,021
Occupancy expense	605	654	1,235	1,219
Advertising	183	201	286	323
Data processing expense	507	381	1,025	652
Professional fees	272	288	567	518
Depreciation of furniture, fixtures, and equipment	204	182	405	367
Telephone communications	39	41	85	91
Office supplies	31	74	70	154
FDIC Insurance	190	199	388	338
OREO valuation allowance and expenses	334	165	553	294
Other	635	590	1,184	1,121
Total Noninterest Expense	6,888	6,767	13,831	13,098
Income before income taxes	2,715	2,095	5,619	4,890

Income tax expense	1,004	760	2,087	1,834
Net Income	$ 1,711	$ 1,335	$ 3,532	$ 3,056
Preferred stock dividends	-	50	23	100
Net Income Available to Common Stockholders	$ 1,711	$ 1,285	$ 3,509	$ 2,956
Earnings Per Common Share				
Basic	$ 0.37	$ 0.28	$ 0.75	$ 0.64
Diluted	$ 0.37	$ 0.28	$ 0.75	$ 0.63
Cash dividends paid per common share	$ 0.10	$ 0.10	$ 0.20	$ 0.20

See notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Net Income	$ 1,711	$ 1,335	$ 3,532	$ 3,056
Net unrealized holding gains (losses) arising during period, net of tax (benefit) expense of $(130) and $126; $51 and $87, respectively	(200)	244	78	167
Reclassification adjustment for gains included in net income, net of tax expense (benefit) of $0 and $0; $0 and $(3), respectively	-	-	-	(5)
Comprehensive Income	$ 1,511	$ 1,579	$ 3,610	$ 3,218

See notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)	Six months ended June 30, 2015	2014
Cash Flows from Operating Activities		
Net income	$ 3,532	$ 3,056
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	570	766
Depreciation and amortization	699	632
Loans originated for resale	(4,192)	(5,309)
Proceeds from sale of loans originated for sale	4,296	4,456
Gain on sale of loans held for sale	(104)	(144)
Net loss (gains) on the sale of OREO	18	(4)
Losses (gains) on sales of HTM investment securities	1	(16)
Gains on sales of AFS investment securities	-	(8)
Gain on sale of asset	(19)	(7)
Net amortization of premium/discount on investment securities	48	151
Increase in OREO valuation allowance	374	234
Increase in cash surrender of bank owned life insurance	(411)	(303)
(Increase) decrease in deferred income tax benefit	(395)	600
(Increase) decrease in accrued interest receivable	(146)	43
Stock based compensation	122	146
Increase in deferred loan fees	72	78
Increase (decrease) in accrued expenses and other liabilities	1,359	(85)
Decrease in other assets	636	452
Net Cash Provided by Operating Activities	6,460	4,738
Cash Flows from Investing Activities		
Purchase of AFS investment securities	(45)	(43)
Proceeds from redemption or principal payments of AFS investment securities	3,649	4,512
Purchase of HTM investment securities	(9,842)	(750)
Proceeds from maturities or principal payments of HTM investment securities	8,332	6,360
Net increase of FHLB and FRB stock	(116)	(1,068)
Loans originated or acquired	(143,256)	(137,242)
Principal collected on loans	117,578	97,335
Purchase of premises and equipment	(1,546)	(847)
Proceeds from sale of OREO	623	1,106
Proceeds from sale of HTM investment securities	66	3,179
Proceeds from sale of AFS investment securities	-	2,056
Proceeds from disposal of asset	34	20
Net Cash Used in Investing Activities	(24,523)	(25,382)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(continued)

(dollars in thousands)	Six months ended June 30, 2015	2014
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	$ 31,001	$ (2,751)
Proceeds from long-term debt	-	5,000
Payments of long-term debt	(4,027)	(777)
Net increase in short term borrowings	10,000	7,000
Exercise of stock options	-	106
Proceeds from subordinated notes	23,000	-
Redemption of Small Business Lending Fund Preferred Stock	(20,000)	-
Dividends paid	(995)	(1,035)
Net change in unearned ESOP shares	(28)	-
Repurchase of common stock	(329)	-
Net Cash Provided by Financing Activities	38,622	7,543
Increase (Decrease) in Cash and Cash Equivalents	$ 20,559	$ (13,101)
Cash and Cash Equivalents - January 1	21,373	24,519
Cash and Cash Equivalents - June 30	$ 41,932	$ 11,418
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for		
Interest	$ 2,994	$ 3,423
Income taxes	$ 1,088	$ 2,145
Supplemental Schedule of Non-Cash Operating Activities		
Issuance of common stock for payment of compensation	$ 216	$ 182
Transfer from loans to OREO	$ 1,556	$ 1,082

See notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION

The consolidated financial statements of The Community Financial Corporation (the "Company") and its wholly owned subsidiary, Community Bank of the Chesapeake (the "Bank"), and the Bank's wholly owned subsidiary, Community Mortgage Corporation of Tri-County, included herein are unaudited.

The consolidated financial statements reflect all adjustments consisting only of normal recurring accruals that, in the opinion of management, are necessary to present fairly the Company's financial condition, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company believes that the disclosures are adequate to make the information presented not misleading. The balances as of December 31, 2014 have been derived from audited financial statements. There have been no significant changes to the Company's accounting policies as disclosed in the 2014 Annual Report. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results of operations to be expected for the remainder of the year or any other period. Certain previously reported amounts have been restated to conform to the 2015 presentation.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2014 Annual Report.

NOTE 2 – NATURE OF BUSINESS

The Company provides a variety of financial services to individuals and businesses through its offices in Southern Maryland and King George and Fredericksburg, Virginia. Its primary deposit products are demand, savings and time deposits, and its primary lending products are commercial and residential mortgage loans, commercial loans, construction and land development loans, home equity and second mortgages and commercial equipment loans.

The Bank conducts business through its main office in Waldorf, Maryland, and eleven branch offices in Waldorf, Bryans Road, Dunkirk, Leonardtown, La Plata, Charlotte Hall, Prince Frederick, Lusby, California, Maryland; and King George and Fredericksburg, Virginia. The Company maintains five loan production offices ("LPOs") in Annapolis, La Plata, Prince Frederick and Leonardtown, Maryland; and Fredericksburg, Virginia. The Leonardtown and Fredericksburg LPOs are co-located with branches. The Company opened its branch in Fredericksburg, Virginia in July 2014 and its LPO in Annapolis, Maryland in October 2014.

NOTE 3 – INCOME TAXES

The Company files a consolidated federal income tax return with its subsidiaries. Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws and when it is considered more likely than not that deferred tax assets will be realized. It is the Company’s policy to recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. The Company’s income tax returns for the past three years are subject to examinations by tax authorities, and may change upon examination.

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS)

The following tables present the components of comprehensive gain (loss) for the three and six months ended June 30, 2015 and 2014. The Company’s comprehensive gain (loss) was solely related to securities for the three and six months ended June 30, 2015 and 2014.

(dollars in thousands)	Three Months Ended June 30, 2015 Before Tax	Tax Effect	Net of Tax	Three Months Ended June 30, 2014 Before Tax	Tax Effect	Net of Tax
Net unrealized holding gains (losses) arising during period	$ (330)	$ (130)	$ (200)	$ 370	$ 126	$ 244
Reclassification adjustments	-	-	-	-	-	-
Other comprehensive gain (loss)	$ (330)	$ (130)	$ (200)	$ 370	$ 126	$ 244

(dollars in thousands)	Six Months Ended June 30, 2015 Before Tax	Tax Effect	Net of Tax	Six Months Ended June 30, 2014 Before Tax	Tax Effect	Net of Tax
Net unrealized holding gains arising during period	$ 129	$ 51	$ 78	$ 254	$ 87	$ 167
Reclassification adjustments	-	-	-	(8)	(3)	(5)
Other comprehensive gain	$ 129	$ 51	$ 78	$ 246	$ 84	$ 162

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the three and six months ended June 30, 2015 and 2014.

(dollars in thousands)	Three Months Ended June 30, 2015 Net Unrealized Gains And Losses	Three Months Ended June 30, 2014 Net Unrealized Gains And Losses	Six Months Ended June 30, 2015 Net Unrealized Gains And Losses	Six Months Ended June 30, 2014 Net Unrealized Gains And Losses
Beginning of period	$ (100)	$ (1,139)	$ (378)	$ (1,057)
Other comprehensive gain (loss) before reclassifications	(200)	244	78	167
Amounts reclassified from accumulated other comprehensive income	-	-	-	(5)
Net other comprehensive gain (loss)	(200)	244	78	162
End of period	$ (300)	$ (895)	$ (300)	$ (895)

NOTE 5 - EARNINGS PER SHARE (“EPS”)

Basic earnings per common share represent income available to common shareholders, divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and are determined using the treasury stock method. At both June 30, 2015 and 2014, there were 87,436 options, which were excluded from the calculation as their effect would be anti-dilutive, because the exercise price of the options were greater than the average market price of the common shares. The Company has not granted any stock options since 2007 and all options outstanding at June 30, 2015 were anti-dilutive. Unvested restricted stock is excluded from the calculation of basic earnings per share. At June 30, 2015 there were 37,078 unvested shares of restricted stock. Basic and diluted earnings per share have been computed based on weighted-average common and common equivalent shares outstanding as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Net Income	$1,711	$1,335	$3,532	$3,056
Less: dividends paid and accrued on preferred stock	-	(50)	(23)	(100)
Net income available to common shareholders	$1,711	$1,285	$3,509	$2,956
Average number of common shares outstanding	4,650,153	4,651,716	4,653,763	4,645,963
Dilutive effect of common stock equivalents	37,048	17,793	37,048	16,632
Average number of shares used to calculate diluted EPS	4,687,201	4,669,509	4,690,811	4,662,595

NOTE 6 - STOCK-BASED COMPENSATION

The Company has stock-based incentive arrangements to attract and retain key personnel. In May 4, 2015, the 2015 Equity Compensation Plan (the "Plan") was approved by shareholders, which authorizes the issuance of restricted stock, stock appreciation rights, stock units and stock options to the Board of Directors and key employees. Compensation expense for service-based awards is recognized over the vesting period. Performance-based awards are recognized based on a vesting schedule, if applicable, and the probability of achieving goals specified at the time of the grant.

Stock-based compensation expense totaled $68,000 and $122,000 for the three and six months ended June 30, 2015 and $10,000 and $146,000 for the three and six months ended June 30, 2014. Stock-based compensation expense consisted of the vesting of grants of restricted stock. In addition, in 2014 stock-based compensation expense included the vesting of restricted stock units.

All outstanding options were fully vested and the Company has not granted any stock options since 2007. The fair value of the Company's outstanding employee stock options is estimated on the date of grant using the Black-Scholes option pricing model. The Company estimates expected market price volatility and expected term of the options based on historical data and other factors.

The exercise price for options granted is set at the discretion of the committee administering the Plan, but is not less than the market value of the shares as of the date of grant. An option's maximum term is 10 years and the options vest at the discretion of the committee.

The following tables below summarize outstanding and exercisable options at June 30, 2015 and December 31, 2014.

(dollars in thousands, except per share amounts)	**Shares**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**	**Weighted-Average Contractual Life Remaining In Years**
Outstanding at January 1, 2015	87,436	$ 23.60	$ -	
Exercised	-	-	-	
Forfeited	-	-		
Outstanding at June 30, 2015	87,436	$ 23.60	$ -	-
Exercisable at June 30, 2015	87,436	$ 23.60	$ -	-

(dollars in thousands, except per share amounts)	**Shares**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**	**Weighted-Average Contractual Life Remaining In Years**
Outstanding at January 1, 2014	159,517	$ 20.12	$ 347	
Exercised	(45,163)	15.89	207	
Forfeited	(26,918)	15.89		
Outstanding at December 31, 2014	87,436	$ 23.60	$ -	-
Exercisable at December 31, 2014	87,436	$ 23.60	$ -	-

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Options outstanding are all currently exercisable and are summarized as follows:

Shares Outstanding June 30, 2015	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
66,225	1 years	$ 22.29
21,211	2 years	27.70
87,436		$ 23.60

The aggregate intrinsic value of outstanding stock options and exercisable stock options was $0 at June 30, 2015 and December 31, 2014. All options outstanding at June 30, 2015 and December 31, 2014 were anti-dilutive and therefore the intrinsic value was $0. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $21.50 and $20.07 per share at June 30, 2015 and December 31, 2014, respectively, and the exercise price multiplied by the number of in the money options outstanding.

The Company granted restricted stock and stock units in accordance with the Plan. The vesting period for granted restricted stock is between three and five years. As of June 30, 2015, unrecognized stock compensation expense was $804,000. The following tables summarize the unvested restricted stock awards and units outstanding at June 30, 2015 and December 31, 2014, respectively. There were no outstanding stock units at June 30, 2015 and December 31, 2014, respectively.

	Restricted Stock	
	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2015	29,472	$ 20.83
Granted	28,040	18.63
Vested	(20,464)	19.62
Nonvested at June 30, 2015	37,048	$ 19.83

	Restricted Stock		Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Fair Value
Nonvested at January 1, 2014	16,832	$ 17.86	4,210	$ 20.71
Granted	33,460	21.35	-	-
Vested	(20,820)	19.26	(4,210)	20.28

Nonvested at December 31, 2014	29,472	$	20.83	-	$ -

NOTE 7 - GUARANTEED PREFERRED BENEFICIAL INTEREST IN JUNIOR SUBORDINATED DEBENTURES ("TRUPs")

On June 15, 2005, Tri-County Capital Trust II ("Capital Trust II"), a Delaware business trust formed, funded and wholly owned by the Company, issued $5.0 million of variable-rate capital securities in a private pooled transaction. The variable rate is based on the 90-day LIBOR rate plus 1.70%. The Trust used the proceeds from this issuance, along with the $155,000 for Capital Trust II's common securities, to purchase $5.2 million of the Company's junior subordinated debentures. The interest rate on the debentures and the trust preferred securities is variable and adjusts quarterly. These capital securities qualify as Tier I capital and are presented in the Consolidated Balance Sheets as "Guaranteed Preferred Beneficial Interests in Junior Subordinated Debentures." Both the capital securities of Capital Trust II and the junior subordinated debentures are scheduled to mature on June 15, 2035, unless called by the Company.

On July 22, 2004, Tri-County Capital Trust I ("Capital Trust I"), a Delaware business trust formed, funded and wholly owned by the Company, issued $7.0 million of variable-rate capital securities in a private pooled transaction. The variable rate is based on the 90-day LIBOR rate plus 2.60%. The Trust used the proceeds from this issuance, along with the Company's $217,000 capital contribution for Capital Trust I's common securities, to purchase $7.2 million of the Company's junior subordinated debentures. The interest rate on the debentures and the trust preferred securities is variable and adjusts quarterly. These debentures qualify as Tier I capital and are presented in the Consolidated Balance Sheets as "Guaranteed Preferred Beneficial Interests in Junior Subordinated Debentures." Both the capital securities of Capital Trust I and the junior subordinated debentures are scheduled to mature on July 22, 2034, unless called by the Company.

NOTE 8 – SUBORDINATED NOTES

On February 6, 2015 the Company issued $23.0 million of unsecured 6.25% fixed to floating rate subordinated notes due February 15, 2025 (“subordinated notes”). On February 13, 2015, the Company used proceeds of the offering to redeem all $20 million of the Company’s outstanding preferred stock issued under the Small Business Lending Fund (“SBLF”) program. The subordinated notes qualify as Tier 2 regulatory capital and replaced SBLF Tier 1 capital. The subordinated notes are not listed on any securities exchange or included in any automated dealer quotation system and there is no market for the notes. The notes are unsecured obligations and are subordinated in right of payment to all existing and future senior debt, whether secured or unsecured. The notes are not guaranteed obligations of any of the Company’s subsidiaries.

Interest will accrue at a fixed per annum rate of 6.25% from and including the issue date to but excluding February 15, 2020. From and including February 15, 2020 to but excluding the maturity date interest will accrue at a floating rate equal to the three-month LIBOR plus 479 basis points. Interest is payable on the notes on February 15 and August 15 of each year, commencing August 15, 2015, through February 15, 2020, and thereafter February 15, May 15, August 15 and November 15 of each year through the maturity date or earlier redemption date.

The subordinated notes may be redeemed in whole or in part on February 15, 2020 or on any scheduled interest payment date thereafter and upon the occurrence of certain special events. The redemption price is equal to 100% of the principal amount of the subordinated notes to be redeemed plus accrued and unpaid interest to the date of redemption. Any partial redemption will be made pro rata among all holders of the subordinated notes. The subordinated notes are not subject to repayment at the option of the holders. The subordinated notes may be redeemed at any time, if (1) a change or prospective change in law occurs that could prevent the Company from deducting interest payable on the notes for U.S. federal income tax purposes, (2) a subsequent event occurs that precludes the notes from being recognized as Tier 2 Capital for regulatory capital purposes, or (3) the Company is required to register as an investment company under the Investment Company Act of 1940, as amended.

NOTE 9 - OTHER REAL ESTATE OWNED (“OREO”)

OREO assets are presented net of valuation allowances. The Company considers OREO as classified assets for regulatory and financial reporting. An analysis of OREO activity follows.

	Six Months Ended June 30,		**Year Ended December 31,**
(dollars in thousands)	**2015**	**2014**	**2014**
Balance at beginning of year	$ 5,883	$ 6,797	$ 6,797
Additions of underlying property	1,556	1,082	2,742
Disposals of underlying property	(643)	(1,092)	(2,422)
Transfers of OREO to loans	-	-	(1,000)
Valuation allowance	(374)	(234)	(234)

Balance at end of period	$ 6,422	$ 6,553	$ 5,883

During the six months ended June 30, 2015, additions of $1.6 million consisted of $784,000 for five residential properties, $378,000 for three residential lots and $400,000 for a commercial building. During the six months ended June 30, 2014, additions of $1.1 million consisted of two residential properties totaling $442,000 and a commercial building of $640,000. The Company disposed of two residential properties and two finished residential lots at a loss of $18,000 for the six months ended June 30, 2015 compared to disposals of three residential properties at a gain of $4,000 for the six months ended June 30, 2014. Additions to the valuation allowances of $374,000 and $234,000 were taken to adjust properties to current appraised values for the six months ended June 30, 2015 and 2014, respectively. OREO carrying amounts reflect management's estimate of the realizable value of these properties incorporating current appraised values, local real estate market conditions and related costs.

Expenses applicable to OREO assets include the following.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Valuation allowance	$ 249	$ 152	$ 374	$ 234
Operating expenses	85	13	179	60
	$ 334	$ 165	$ 553	$ 294

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NOTE 10 – SECURITIES

	June 30, 2015			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale (AFS)				
Asset-backed securities issued by GSEs				
Residential Mortgage Backed Securities ("MBS")	$25	$ 5	$ -	$ 30
Residential Collateralized Mortgage Obligations ("CMOs")	34,568	64	673	33,959
Corporate equity securities	37	3	-	40
Bond mutual funds	4,243	106	-	4,349
Total securities available for sale	$38,873	$ 178	$ 673	$ 38,378
Securities held to maturity (HTM)				
Asset-backed securities issued by GSEs				
Residential MBS	$17,877	$ 601	$ 58	$ 18,420
Residential CMOs	66,087	392	591	65,888
Asset-backed securities issued by Others:				
Residential CMOs	1,271	-	114	1,157
Total debt securities held to maturity	85,235	993	763	85,465
U.S. government obligations	750	-	-	750
Total securities held to maturity	$85,985	$ 993	$ 763	$ 86,215

	December 31, 2014			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale (AFS)				
Asset-backed securities issued by GSEs				
Residential MBS	$33	$ 4	$ -	$ 37
Residential CMOs	38,294	77	830	37,541
Corporate equity securities	37	3	-	40
Bond mutual funds	4,199	122	-	4,321
Total securities available for sale	$42,563	$ 206	$ 830	$ 41,939
Securities held to maturity (HTM)				
Asset-backed securities issued by GSEs				
Residential MBS	$19,501	$ 767	$ 45	$ 20,223
Residential CMOs	62,683	379	580	62,482
Asset-backed securities issued by Others:				
Residential CMOs	1,472	-	112	1,360
Total debt securities held to maturity	83,656	1,146	737	84,065

U.S. government obligations	850	-	-	850
Total securities held to maturity	$84,506	$ 1,146	$ 737	$ 84,915

At June 30, 2015, certain asset-backed securities with an amortized cost of $21.6 million were pledged to secure certain deposits. At June 30, 2015, asset-backed securities with an amortized cost of $2.1 million were pledged as collateral for advances from the Federal Home Loan Bank ("FHLB") of Atlanta.

At June 30, 2015, 99% of the asset-backed securities portfolio was rated AAA by Standard & Poor's or the equivalent credit rating from another major rating agency. AFS asset-backed securities issued by government sponsored entities ("GSEs") had an average life of 4.55 years and an average duration of 4.19 years and are guaranteed by their issuer as to credit risk. HTM asset-backed securities issued by GSEs had an average life of 4.65 years and an average duration of 4.32 years and are guaranteed by their issuer as to credit risk.

At December 31, 2014, 99% of the asset-backed securities portfolio was rated AAA by Standard & Poor's or the equivalent credit rating from another major rating agency. AFS asset-backed securities issued by GSEs had an average life of 3.66 years and average duration of 3.41 years and are guaranteed by their issuer as to credit risk. HTM asset-backed securities issued by GSEs had an average life of 3.40 years and average duration of 3.21 years and are guaranteed by their issuer as to credit risk.

We believe that AFS securities with unrealized losses will either recover in market value or be paid off as agreed. The Company intends to, and has the ability to, hold these securities until recovery of the market value which may be at maturity. We believe that the losses are the result of general perceptions of safety and creditworthiness of the entire sector and a general disruption of orderly markets in the asset class.

Management has the ability and intent to hold the HTM securities with unrealized losses until they mature, at which time the Company will receive full value for the securities. Because our intention is not to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, management considers the unrealized losses in the held-to-maturity portfolio to be temporary.

No charges related to other-than-temporary impairment were made during the six months ended June 30, 2015 and 2014.

During the six months ended June 30, 2015, the Company sold one HTM security with a carrying value of $68,000 and recognized a loss of $1,000. During the six months ended June 30, 2014, the Company recognized net gains on the sale of securities of $24,000. The Company sold five AFS securities with a carrying value of $2.1 million and ten HTM securities with aggregate carrying values of $3.2 million, recognizing gains of $8,000 and $16,000, respectively. The sale of HTM securities were permitted under ASC 320 "Investments - Debt and Equity Securities." ASC 320 permits the sale of HTM securities for certain changes in circumstances. Securities were disposed of using the safe harbor rule that allows for the sale of HTM securities that have principal payments paid down to less than 15% of original purchased par. ASC 320 10-25-15 indicates that a sale of a debt security after a substantial portion of the principal has been collected is equivalent to holding the security to maturity. In addition, HTM securities were disposed of under ASC 320-10-25-6 due to a significant deterioration in the issues' creditworthiness and the increase in regulatory risk weights mandated for risk-based capital purposes.

AFS Securities

Gross unrealized losses and estimated fair value by length of time that the individual AFS securities have been in a continuous unrealized loss position at June 30, 2015 were as follows:

June 30, 2015	**Less Than 12 Months**		**More Than 12 Months**		**Total**	
(dollars in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**
Asset-backed securities issued by GSEs	$ 2,261	$ 14	$ 22,193	$ 659	$ 24,454	$ 673

At June 30, 2015, the AFS investment portfolio had an estimated fair value of $38.4 million, of which $24.5 million of the securities had some unrealized losses from their amortized cost. The securities with unrealized losses were CMOs issued by GSEs.

AFS securities issued by GSEs are guaranteed by the issuer. Total unrealized losses on the asset-backed securities issued by GSEs were $673,000 of the portfolio amortized cost of $34.6 million. AFS asset-backed securities issued by GSEs with unrealized losses had an average life of 4.56 years and an average duration of 4.14 years. We believe that the securities will either recover in market value or be paid off as agreed.

Gross unrealized losses and estimated fair value by length of time that the individual AFS securities have been in a continuous unrealized loss position at December 31, 2014 were as follows:

December 31, 2014	**Less Than 12 Months**		**More Than 12 Months**		**Total**	
(dollars in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**
Asset-backed securities issued by GSEs	$ 294	$ -	$26,856	$ 830	$27,150	$ 830

At December 31, 2014, the AFS investment portfolio had an estimated fair value of $41.9 million, of which $27.2 million of the securities had some unrealized losses from their amortized cost. The securities with unrealized losses were CMOs issued by GSEs.

AFS securities issued by GSEs are guaranteed by the issuer. Total unrealized losses on the asset-backed securities issued by GSEs were $830,000 of the portfolio amortized cost of $38.3 million. AFS asset-backed securities issued by GSEs with unrealized losses had an average life of 3.77 years and an average duration of 3.46 years. We believe that the securities will either recover in market value or be paid off as agreed.

HTM Securities

Gross unrealized losses and estimated fair value by length of time that the individual HTM securities have been in a continuous unrealized loss position at June 30, 2015 were as follows:

June 30, 2015	**Less Than 12 Months**		**More Than 12 Months**		**Total**	
(dollars in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**
Asset-backed securities issued by GSEs	8,207	89	18,880	560	27,087	649
Asset-backed securities issued by other	-	-	1,155	114	1,155	114
	$ 8,207	$ 89	$20,035	$ 674	$28,242	$ 763

At June 30, 2015, the HTM investment portfolio had an estimated fair value of $86.2 million, of which $28.2 million of the securities had some unrealized losses from their amortized cost. Of these securities, $27.0 million were asset-backed securities issued by GSEs and the remaining $1.2 million were asset-backed securities issued by others.

HTM securities issued by GSEs are guaranteed by the issuer. Total unrealized losses on the asset-backed securities issued by GSEs were $649,000 of the portfolio amortized cost of $84.0 million. HTM asset-backed securities issued by GSEs with unrealized losses had an average life of 4.30 years and an average duration of 3.95 years. We believe that the securities will either recover in market value or be paid off as agreed. The Company intends to, and has the ability to, hold these securities to maturity.

HTM asset-backed securities issued by others are collateralized mortgage obligation securities. All of the securities have credit support tranches that absorb losses prior to the tranches that the Company owns. The Company reviews credit support positions on its securities regularly. Total unrealized losses on the asset-backed securities issued by others were $114,000 of the portfolio amortized cost of $1.3 million. HTM asset-backed securities issued by others with unrealized losses have an average life of 4.74 years and an average duration of 3.90 years.

Gross unrealized losses and estimated fair value by length of time that the individual HTM securities have been in a continuous unrealized loss position at December 31, 2014 were as follows:

December 31, 2014	**Less Than 12 Months**		**More Than 12 Months**		**Total**	
(dollars in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**
Asset-backed securities issued by GSEs	$14,508	$ 85	$21,091	$ 540	$35,599	$ 625
Asset-backed securities issued by other	-	-	1,291	112	1,291	112
	$14,508	$ 85	$22,382	$ 652	$36,890	$ 737

At December 31, 2014, the HTM investment portfolio had an estimated fair value of $84.9 million, of which $36.9 million of the securities had some unrealized losses from their amortized cost. Of these securities, $35.6 million were asset-backed securities issued by GSEs and the remaining $1.3 million were asset-backed securities issued by others.

HTM securities issued by GSEs are guaranteed by the issuer. Total unrealized losses on the asset-backed securities issued by GSEs were $625,000 of the portfolio amortized cost of $82.2 million. HTM asset-backed securities issued by GSEs with unrealized losses had an average life of 3.23 years and an average duration of 3.01 years. We believe that the securities will either recover in market value or be paid off as agreed. The Company intends to, and has the ability to, hold these securities to maturity.

HTM asset-backed securities issued by others are collateralized mortgage obligation securities. All of the securities have credit support tranches that absorb losses prior to the tranches that the Company owns. The Company reviews credit support positions on its securities regularly. Total unrealized losses on the asset-backed securities issued by others were $112,000 of the portfolio amortized cost of $1.5 million. HTM asset-backed securities issued by others with unrealized losses have an average life of 4.27 years and an average duration of 3.62 years.

Credit Quality of Asset-Backed Securities

The tables below present the Standard & Poor’s or equivalent credit rating from other major rating agencies for AFS and HTM asset-backed securities issued by GSEs and others at June 30, 2015 and December 31, 2014 by carrying value. The Company considers noninvestment grade securities rated BB+ or lower as classified assets for regulatory and financial reporting. GSE asset-backed security downgrades by Standard and Poor’s were treated as AAA based on regulatory guidance.

June 30, 2015		December 31, 2014	
Credit Rating	**Amount**	**Credit Rating**	**Amount**
(dollars in thousands)			
AAA	$117,953	AAA	$119,762
BBB	-	BBB	68
BB	632	BB	695
CCC+	639	CCC+	709
Total	$119,224	Total	$121,234

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NOTE 11 – LOANS

Loans consist of the following:

(dollars in thousands)	June 30, 2015	December 31, 2014
Commercial real estate	$ 601,270	$ 561,080
Residential first mortgages	143,662	152,837
Construction and land development	39,159	36,370
Home equity and second mortgages	21,068	21,452
Commercial loans	63,480	73,625
Consumer loans	396	613
Commercial equipment	26,804	26,152
	895,839	872,129
Less:		
Deferred loan fees	1,168	1,239
Allowance for loan losses	8,757	8,481
	9,925	9,720
	$ 885,914	$ 862,409

At June 30, 2015, the Bank's allowance for loan losses totaled $8.8 million, or 0.98% of loan balances, as compared to $8.5 million, or 0.97% of loan balances, at December 31, 2014. Management's determination of the adequacy of the allowance is based on a periodic evaluation of the portfolio with consideration given to the overall loss experience, current economic conditions, size, growth and composition of the loan portfolio, financial condition of the borrowers and other relevant factors that, in management's judgment, warrant recognition in providing an adequate allowance.

Risk Characteristics of Portfolio Segments

The Company manages its credit products and exposure to credit losses (credit risk) by the following specific portfolio segments (classes), which are levels at which the Company develops and documents its allowance for loan loss methodology. These segments are:

Commercial Real Estate ("CRE")

Commercial and other real estate projects include office buildings, retail locations, churches, other special purpose buildings and commercial construction. Commercial construction balances were 5.2% and 4.4% of the CRE portfolio at June 30, 2015 and December 31, 2014, respectively. The Bank offers both fixed-rate and adjustable-rate loans under these product lines. The primary security on a commercial real estate loan is the real property and the leases that produce income for the real property. Loans secured by commercial real estate are generally limited to 80% of the lower of the appraised value or sales price at origination and have an initial contractual loan payment period ranging from three to 20 years.

Loans secured by commercial real estate are larger and involve greater risks than one-to four-family residential mortgage loans. Because payments on loans secured by such properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy.

Residential First Mortgages

Residential first mortgage loans are generally long-term loans, amortized on a monthly basis, with principal and interest due each month. The contractual loan payment period for residential loans typically ranges from ten to 30 years. The Bank’s experience indicates that real estate loans remain outstanding for significantly shorter time periods than their contractual terms. Borrowers may refinance or prepay loans at their option, without penalty. The Bank’s residential portfolio has both fixed-rate and adjustable-rate residential first mortgages.

The annual and lifetime limitations on interest rate adjustments may limit the increases in interest rates on these loans. There are also credit risks resulting from potential increased costs to the borrower as a result of repricing of adjustable-rate mortgage loans. During periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase due to the upward adjustment of interest cost to the borrower. The Bank’s adjustable rate residential first mortgage portfolio was $23.4 million or 2.6% of total gross loans of $895.8 million at June 30, 2015.

Construction and Land Development

The Bank offers loans for the construction of one-to-four family dwellings. Generally, these loans are secured by the real estate under construction as well as by guarantees of the principals involved. In addition, the Bank offers loans to acquire and develop land, as well as loans on undeveloped, subdivided lots for home building by individuals.

A decline in demand for new housing might adversely affect the ability of borrowers to repay these loans. Construction and land development loans are inherently riskier than providing financing on owner-occupied real estate. The Bank's risk of loss is affected by the accuracy of the initial estimate of the market value of the completed project as well as the accuracy of the cost estimates made to complete the project. In addition, the volatility of the real estate market has made it increasingly difficult to ensure that the valuation of land associated with these loans is accurate. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, a project's value might be insufficient to assure full repayment. As a result of these factors, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the project rather than the ability of the borrower or guarantor to repay principal and interest. If the Bank forecloses on a project, there can be no assurance that the Bank will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Home Equity and Second Mortgage Loans

The Bank maintains a portfolio of home equity and second mortgage loans. These products contain a higher risk of default than residential first mortgages as in the event of foreclosure, the first mortgage would need to be paid off prior to collection of the second mortgage. This risk has been heightened as the market value of residential property has declined.

Commercial Loans

The Bank offers commercial loans to its business customers. The Bank offers a variety of commercial loan products including term loans and lines of credit. Such loans are generally made for terms of five years or less. The Bank offers both fixed-rate and adjustable-rate loans under these product lines. When making commercial business loans, the Bank considers the financial condition of the borrower, the borrower's payment history of both corporate and personal debt, the projected cash flows of the business, the viability of the industry in which the consumer operates, the value of the collateral, and the borrower's ability to service the debt from income. These loans are primarily secured by equipment, real property, accounts receivable, or other security as determined by the Bank.

Commercial loans are made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself.

Consumer Loans

Consumer loans consist of loans secured by automobiles, boats, recreational vehicles and trucks. The Bank also makes home improvement loans and offers both secured and unsecured personal lines of credit. Consumer loans entail greater risk from other loan types due to being secured by rapidly depreciating assets or the reliance on the borrower's continuing financial stability.

Commercial Equipment Loans

These loans consist primarily of fixed-rate, short-term loans collateralized by a commercial customer's equipment. When making commercial equipment loans, the Bank considers the same factors it considers when underwriting a commercial business loan. Commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. In the case of business failure, collateral would need to be liquidated to provide repayment for the loan. In many cases, the highly specialized nature of collateral equipment would make full recovery from the sale of collateral problematic.

Non-accrual and Past Due Loans

Non-accrual loans as of June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015		**December 31, 2014**	
(dollars in thousands)	**Total Non-accrual Loans**	**Total Number of Loans**	**Total Non-accrual Loans**	**Total Number of Loans**
Commercial real estate	$ 6,119	13	$ 3,824	11
Residential first mortgages	1,158	5	533	2
Construction and land development	3,554	2	3,634	2
Home equity and second mortgages	366	5	399	6
Commercial loans	1,472	7	1,587	6
Commercial equipment	387	5	286	4
	$ 13,056	37	$ 10,263	31

Non-accrual loans (90 days or greater delinquent and non-accrual only loans) increased $2.8 million from $10.3 million or 1.18% of total loans at December 31, 2014 to $13.1 million or 1.46% of total loans at June 30, 2015. Non-accrual only loans are loans classified as non-accrual due to customer operating results or payment history. In accordance with the Company's policy, interest income is recognized on a cash basis for these loans. There were no non-accrual only loans at June 30, 2015 or at December 31, 2014.

The Bank had 37 non-accrual loans at June 30, 2015 compared to 31 non-accrual loans at December 31, 2014. Non-accrual loans at June 30, 2015 included $10.4 million, or 80% of non-accrual loans, attributed to 18 loans representing five customer relationships classified as substandard. Non-accrual loans at December 31, 2014 included $8.8 million, or 86% of nonperforming loans, attributed to 16 loans representing six customer relationships classified as substandard. Of these loans at June 30, 2015 and December 31, 2014, four loans totaling $3.8 and $3.9 million, respectively, represented a stalled residential development project. During the second quarter of 2014, the Bank deferred the collection of principal and interest to enable the project to use available funds to build units and complete the project. The stalled development project loans are considered both troubled debt restructures ("TDRs") and non-accrual loans. Additionally at June 30, 2015 and December 31, 2014, the Bank had one TDR commercial real estate loan of $1.0 million that is greater than 90 days delinquent. These loans are classified solely as non-accrual loans for the calculation of financial ratios.

Non-accrual loans on which the recognition of interest has been discontinued, which did not have a specific allowance for impairment, amounted to $12.3 million and $9.3 million at June 30, 2015 and December 31, 2014, respectively. Interest due but not recognized on these balances at June 30, 2015 and December 31, 2014 was $898,000 and $781,000, respectively. Non-accrual loans with a specific allowance for impairment on which the recognition of interest has been discontinued amounted to $802,000 and $1.0 million at June 30, 2015 and December 31, 2014, respectively. Interest due but not recognized on these balances at June 30, 2015 and December 31, 2014 was $72,000 and $64,000, respectively.

An analysis of past due loans as of June 30, 2015 and December 31, 2014 was as follows:

	June 30, 2015					
(dollars in thousands)	**Current**	**31-60 Days**	**61-89 Days**	**90 or Greater Days**	**Total Past Due**	**Total Loan Receivables**
Commercial real estate	$593,802	$ -	$1,349	$ 6,119	$ 7,468	$ 601,270
Residential first mortgages	141,971	132	401	1,158	1,691	143,662
Construction and land dev.	35,605	-	-	3,554	3,554	39,159
Home equity and second mtg.	20,456	72	174	366	612	21,068
Commercial loans	62,008	-	-	1,472	1,472	63,480
Consumer loans	396	-	-	-	-	396
Commercial equipment	26,400	17	-	387	404	26,804
Total	$880,638	$ 221	$1,924	$ 13,056	$ 15,201	$ 895,839

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	December 31, 2014					
(dollars in thousands)	**Current**	**31-60 Days**	**61-89 Days**	**90 or Greater Days**	**Total Past Due**	**Total Loan Receivables**
Commercial real estate	$556,584	$ -	$672	$ 3,824	$ 4,496	$ 561,080
Residential first mortgages	151,375	133	796	533	1,462	152,837
Construction and land dev.	32,736	-	-	3,634	3,634	36,370
Home equity and second mtg.	20,939	90	24	399	513	21,452
Commercial loans	71,952	86	-	1,587	1,673	73,625
Consumer loans	612	1	-	-	1	613
Commercial equipment	25,848	17	1	286	304	26,152
Total	$860,046	$ 327	$1,493	$ 10,263	$ 12,083	$ 872,129

There were no loans greater than 90 days still accruing interest at June 30, 2015 and at December 31, 2014.

Impaired Loans and Troubled Debt Restructures ("TDRs")

Impaired loans, including TDRs, at June 30, 2015 and 2014 and at December 31, 2014 were as follows:

	June 30, 2015								
(dollars in thousands)	**Unpaid Contractual Principal Balance**	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Total Recorded Investment**	**Related Allowance**	**Three Month Average Recorded Investment**	**Three Month Interest Income Recognized**	**Year to Date Average Recorded Investment**	**Year to Date Interest Income Recognized**
Commercial real estate	$28,010	$ 25,424	$ 2,556	$ 27,980	$ 150	$ 28,090	$ 232	$ 28,155	$ 488
Residential first mortgages	3,996	3,491	505	3,996	75	4,006	34	4,016	74
Construction and land dev.	4,329	4,329	-	4,329	-	4,382	4	4,285	7
Home equity and second mtg.	488	429	-	429	-	434	2	437	6
Commercial loans	5,184	4,499	581	5,080	227	5,041	44	5,034	96
Commercial equipment	1,462	292	1,097	1,389	1,021	1,401	12	1,407	26
Total	$43,469	$ 38,464	$ 4,739	$ 43,203	$ 1,473	$ 43,354	$ 328	$ 43,334	$ 697

(dollars in thousands)	December 31, 2014 Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial real estate	$31,812	$ 28,907	$ 2,622	$ 31,529	$ 97	$ 31,672	$ 1,258
Residential first mortgages	3,407	2,526	881	3,407	76	3,426	155
Construction and land dev.	6,402	6,102	-	6,102	-	6,474	133
Home equity and second mtg.	708	649	-	649	-	630	19
Commercial loans	7,587	7,030	406	7,436	155	7,196	252
Consumer loans	-	-	-	-	-	-	-
Commercial equipment	605	373	213	586	123	623	23
Total	$50,521	$ 45,587	$ 4,122	$ 49,709	$ 451	$ 50,021	$ 1,840

(dollars in thousands)	June 30, 2014 Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Three Month Average Recorded Investment	Three Month Interest Income Recognized	Year to Date Average Recorded Investment	Year to Date Interest Income Recognized
Commercial real estate	$17,500	$13,143	$4,328	$17,471	$ 311	$17,473	$ 172	$17,446	$ 332
Residential first mortgages	3,078	2,559	519	3,078	75	3,103	35	3,113	70
Construction and land dev.	6,049	1,799	4,250	6,049	81	6,015	28	5,916	56
Home equity and second mtg.	403	330	73	403	33	378	2	335	2
Commercial loans	5,380	4,800	580	5,380	269	5,585	46	5,672	93
Consumer loans	5	5	-	5	-	8	-	12	1
Commercial equipment	399	212	168	380	90	381	4	392	8
Total	$32,814	$22,848	$9,918	$32,766	859	$32,943	$ 287	$32,886	$ 562

TDRs, included in the impaired loan schedules above, as of June 30, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	June 30, 2015 Dollars	Number of Loans	December 31, 2014 Dollars	Number of Loans
Commercial real estate	$12,237	12	$ 10,438	9
Residential first mortgages	895	3	906	3

Construction and land development	4,329	4	4,376	4
Commercial loans	1,084	7	2,262	6
Commercial equipment	140	2	154	2
Total TDRs	$ 18,685	28	$ 18,136	24
Less: TDRs included in non-accrual loans	(4,777)	(5)	(4,887)	(5)
Total accrual TDR loans	$ 13,908	23	$ 13,249	19

The Bank added six and 15 TDRs totaling $2.3 million and $12.0 million during the six months ended June 30, 2015 and the year ended December 31, 2014, respectively. Two TDRs totaling $1.6 million were disposed of during the second quarter of 2015 due to a payoff and refinancing by another lender. The Bank had specific reserves of $447,000 on seven TDRs totaling $3.0 million at June 30, 2015 and $251,000 on five TDRs totaling $2.5 million at December 31, 2014.

At June 30, 2015 and December 31, 2014, four loans totaling $3.8 and $3.9 million, respectively, represented a stalled residential development project. During the second quarter of 2014, the Bank deferred the collection of principal and interest to enable the project to use available funds to build units and complete the project. The stalled development project loans are considered both TDRs and non-accrual loans. Additionally at June 30, 2015 and December 31, 2014, the Bank had one TDR commercial real estate loan of $1.0 million that is greater than 90 days delinquent. These loans are classified solely as non-accrual loans for the calculation of financial ratios.

Interest income in the amount of $249,000 and $563,000 was recognized on TDR loans for the six months ended June 30, 2015 and the year ended December 31, 2014, respectively.

Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses at and for the three and six months ended June 30, 2015 and 2014, respectively, and for the year ended December 31, 2014 and loan receivable balances at June 30, 2015 and 2014, respectively, and at December 31, 2014. An allocation of the allowance to one category of loans does not prevent the Company's ability to utilize the allowance to absorb losses in a different category. The loan receivables are disaggregated on the basis of the Company's impairment methodology.

(dollars in thousands)	Commercial Real Estate	Residential First Mortgage	Construction and Land Development	Home Equity and Second Mtg.	Commercial Loans	Consumer Loans	Commercial Equipment	Total
At and For the Three Months Ended June 30, 2015								
Allowance for loan losses:								
Balance at April 1,	$ 4,348	$ 904	$ 1,099	$ 208	$ 1,740	$ 2	$ 320	$ 8,621
Charge-offs	-	(30)	-	-	(215)	-	(54)	(299)
Recoveries	4	-	32	-	6	-	1	43
Provisions	(493)	11	74	(2)	(165)	-	967	392
Balance at June 30,	$ 3,859	$ 885	$ 1,205	$ 206	$ 1,366	$ 2	$ 1,234	$ 8,757
At and For the Six Months Ended June 30, 2015								
Allowance for loan losses:								
Balance at January 1,	$ 4,076	$ 1,092	$ 1,071	$ 173	$ 1,677	$ 3	$ 389	$ 8,481
Charge-offs	(46)	(30)	-	-	(215)	-	(54)	(345)
Recoveries	7	1	32	-	7	-	4	51
Provisions	(178)	(178)	102	33	(103)	(1)	895	570
Balance at June 30,	$ 3,859	$ 885	$ 1,205	$ 206	$ 1,366	$ 2	$ 1,234	$ 8,757
Ending balance: individually evaluated for impairment	$ 150	$ 75	$ -	$ -	$ 227	$ -	$ 1,021	$ 1,473

Ending balance: collectively evaluated for impairment	$ 3,709	$ 810	$ 1,205	$ 206	$ 1,139	$ 2	$ 213	$7,284
Loan receivables:								