PARKE BANCORP, INC.
Form 10-Q
August 09, 2018

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, 2018.
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 No. 000-51338

PARKE BANCORP, INC.
(Exact name of registrant as specified in its charter)

New Jersey	65-1241959
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
601 Delsea Drive, Washington Township, New Jersey	08080
(Address of principal executive offices)	(Zip Code)

856-256-2500
(Registrant's telephone number, including area code)

N/A
(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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

Large accelerated filer [ ]   Accelerated filer [X]   Non-accelerated filer [ ]   Smaller reporting company [ ]
Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
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 31, 2018, there were 9,774,221 shares of the registrant's common stock ($0.10 par value) outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
(unaudited)
(in thousands except share and per share data)

	June 30, 2018	December 31, 2017
Assets		
Cash and due from financial institutions	$6,319	$ 14,452
Federal funds sold and cash equivalents	103,892	27,661
Total cash and cash equivalents	110,211	42,113
Investment securities available for sale, at fair value	34,235	37,991
Investment securities held to maturity (fair value of $1,258 at June 30, 2018 and $2,468 at December 31, 2017)	1,086	2,268
Total investment securities	35,321	40,259
Loans held for sale	1,839	1,541
Loans, net of unearned income	1,101,243	1,011,717
Less: Allowance for loan losses	(17,273)	(16,533)
Net loans	1,083,970	995,184
Accrued interest receivable	4,271	4,025
Premises and equipment, net	6,964	7,025
Other real estate owned (OREO)	6,158	7,248
Restricted stock, at cost	5,858	6,172
Bank owned life insurance (BOLI)	25,499	25,196
Deferred tax asset	6,624	6,420
Other assets	2,920	2,269
Total Assets	$1,289,635	$ 1,137,452
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	$210,669	$ 124,356
Interest-bearing deposits	807,227	742,027
Total deposits	1,017,896	866,383
FHLBNY borrowings	104,650	114,650
Subordinated debentures	13,403	13,403
Accrued interest payable	1,116	719
Other liabilities	7,928	7,517
Total liabilities	1,144,993	1,002,672
Equity		
Preferred stock, 1,000,000 shares authorized, $1,000 liquidation value Series B - non-cumulative convertible; 9,195 shares outstanding at June 30, 2018 and 15,971 shares outstanding at December 31, 2017	9,195	15,971
Common stock, $0.10 par value; authorized 15,000,000 shares; Issued: 9,956,210 shares at June 30, 2018 and 8,301,497 shares at December 31, 2017	996	830
Additional paid-in capital	104,866	81,940
Retained earnings	32,156	39,184

Accumulated other comprehensive loss	(797)	(130)
Treasury stock, at cost, 284,522 shares at June 30, 2018 and at December 31, 2017, respectively,	(3,015)	(3,015)
Total shareholders’ equity	143,401	134,780
Non-Controlling Interest	1,241	—
Total equity	144,642	134,780
Total liabilities and equity	$ 1,289,635	$ 1,137,452

See accompanying notes to consolidated financial statements

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Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands except share data)			
Interest income:				
Interest and fees on loans	$14,243	$11,356	$27,256	$22,006
Interest and dividends on investments	332	351	681	725
Interest on federal funds sold and cash equivalents	305	63	448	135
Total interest income	14,880	11,770	28,385	22,866
Interest expense:				
Interest on deposits	2,620	1,547	4,573	3,012
Interest on borrowings	665	420	1,196	795
Total interest expense	3,285	1,967	5,769	3,807
Net interest income	11,595	9,803	22,616	19,059
Provision for loan losses	200	1,000	600	1,500
Net interest income after provision for loan losses	11,395	8,803	22,016	17,559
Noninterest income:				
Gain on sale of SBA loans	36	84	214	84
Loan fees	409	175	560	241
Gain on Bank Owned Life Insurance	153	163	303	323
Service fees on deposit accounts	399	99	685	187
Loss on sale of OREO and valuation adjustments	(509)	(389)	(509)	(395)
Other	161	459	265	547
Total noninterest income	649	591	1,518	987
Noninterest expense:				
Compensation and benefits	1,953	1,692	3,907	3,593
Professional services	418	382	792	747
Occupancy and equipment	419	326	840	669
Data processing	194	186	391	368
FDIC insurance	92	71	169	142
OREO expense	165	146	334	303
Other operating expense	753	758	1,456	1,428
Total noninterest expense	3,994	3,561	7,889	7,250
Income before income tax expense	8,050	5,833	15,645	11,296
Income tax expense	1,923	2,151	3,758	4,155
Net income attributable to Company and noncontrolling interest	6,127	3,682	11,887	7,141
Net (income) loss attributable to noncontrolling interest	(16)	17	(16)	18
Net income attributable to Company	6,111	3,699	11,871	7,159
Preferred stock dividend and discount accretion	168	297	407	596
Net income available to common shareholders	$5,943	$3,402	$11,464	$6,563
Earnings per common share:				
Basic	$0.66	$0.41	$1.28	$0.79
Diluted	$0.56	$0.34	$1.09	$0.66
Weighted average shares outstanding:				

Basic	9,044,159	8,335,041	8,933,820	8,328,093
Diluted	10,909,130	10,913,227	10,909,294	10,901,965

All share and per share information has been adjusted for the stock dividend paid on May 18, 2018.
See accompanying notes to consolidated financial statements

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Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Net income	6,127	3,682	11,887	7,141
Unrealized (losses) gains on investment securities:				
Non-credit related net unrealized gains (losses) on OTTI securities	—	8	—	18
Unrealized (losses) gains on non-OTTI securities	(194)	144	(844)	211
Tax impact on unrealized gain (loss)	47	(61)	204	(91)
Reclassification of stranded tax effects	(27)	—	(27)	—
Total unrealized (losses) gains on investment securities	(174)	91	(667)	138
Comprehensive income	$5,953	$3,773	$11,220	$7,279
Less: Comprehensive income attributable to noncontrolling interests	(16)	17	(16)	18
Comprehensive income attributable to the Company	$5,937	$3,790	$11,204	$7,297

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)

	Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
	(in thousands except share data)									
Balance, December 31, 2016	$20,000	7,147,952	$715	$62,300	$47,483	$(349)	$(3,015)	$127,134	$(44)	$127,090
Capital withdrawal by non-controlling interest	—	—	—	—	—	—	—	—	(53)	(53)
Net income	—	—	—	—	7,159	—	—	7,159	(18)	7,141
Common stock options exercised	—	7,260	—	232	—	—	—	232	—	232
Preferred stock shares conversion	(172)	17,774	2	13	—	—	—	(157)	—	(157)
Other comprehensive income	—	—	—	—	—	138	—	138	—	138
Stock compensation expense	—	—	—	36	—	—	—	36	—	36
Stock dividend	—	688,846	69	15,499	(15,568)	—	—	—	—	—
Dividend on preferred stock	—	—	—	—	(596)	—	—	(596)	—	(596)
Dividend on common stock	—	—	—	—	(1,599)	—	—	(1,599)	—	(1,599)
Balance, June 30, 2017	$19,828	7,861,832	$786	$78,080	$36,879	$(211)	$(3,015)	$132,347	$(115)	$132,232
Balance, December 31, 2017	$15,971	8,301,497	$830	$81,940	$39,184	$(130)	$(3,015)	$134,780	$—	$134,780
Retained earnings adjustment for stranded tax effects	—	—	—	—	27	—	—	27	—	27
Capital activity by	—	—	—	—	—	—	—	—	1,225	1,225

non-controlling interest										
Net income	—	—	—	—	11,871	—	—	11,871	16	11,887
Common stock options exercised		5,406	1	40	—	—	—	41	—	41
Preferred stock shares conversion	(6,776)	847,023	85	6,692	—	—	—	1	—	1
Other comprehensive income	—	—	—	—	—	(667)	—	(667)	—	(667)
Stock compensation expense				41			—	41	—	41
Stock dividend	—	802,284	80	16,153	(16,236)	—	—	(3)	—	(3)
Dividend on preferred stock	—	—	—	—	(407)	—	—	(407)	—	(407)
Dividend on common stock	—	—	—	—	(2,283)	—	—	(2,283)	—	(2,283)
Balance, June 30, 2018	$9,195	9,956,210	$996	$104,866	$32,156	$(797)	$(3,015)	$143,401	$1,241	$144,642

See accompanying notes to consolidated financial statements

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Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended June 30,	
	2018	2017
	(amounts in thousands)	
Cash Flows from Operating Activities:		
Net income	$11,887	$7,141
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	185	144
Provision for loan losses	600	1,500
Increase in value of bank-owned life insurance	(303)	(323)
Gain on sale of SBA loans	(214)	(84)
SBA loans originated for sale	(3,075)	(2,546)
Proceeds from sale of SBA loans originated for sale	2,991	748
Loss on sale of OREO and valuation adjustments	509	395
Net accretion of purchase premiums and discounts on securities	27	33
Stock based compensation	41	36
Deferred income tax benefit	—	179
Net changes in:		
Increase in accrued interest receivable and other assets	(897)	(2,794)
Increase (decrease) in accrued interest payable and other accrued liabilities	523	(254)
Net cash provided by operating activities	$12,274	$4,175
Cash Flows from Investing Activities:		
Proceeds from sale and call of investment securities	1,205	—
Proceeds from maturities and principal payments on mortgage backed securities	2,862	3,178
Net increase in loans	(90,443)	(77,217)
Purchases of bank premises and equipment	(124)	(1,846)
Donated OREO property	—	(30)
Sale of OREO, net	1,638	1,500
Redemptions(purchases) of restricted stock	314	(1,035)
Net cash used in investing activities	$(84,548)	$(75,450)
Cash Flows from Financing Activities:		
Cash dividend payment	(2,407)	(1,973)
Proceeds from exercise of stock options	41	247
Capital contribution (withdrawal) from non-controlling interest	1,225	(53)
Net (decrease) increase in FHLBNY and short-term borrowings	(10,000)	20,000
Net increase (decrease) in noninterest-bearing deposits	86,313	(12,179)
Net increase in interest-bearing deposits	65,200	14,013
Net cash provided by financing activities	140,372	20,055
Net increase (decrease) in cash and cash equivalents	68,098	(51,220)
Cash and Cash Equivalents, January 1,	42,113	70,720
Cash and Cash Equivalents, June 30,	$110,211	$19,500

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:		
Interest on deposits and borrowed funds	$5,384	$3,835
Income taxes	$3,354	$5,654
Non-cash Investing and Financing Items		
Loans transferred to OREO	$1,057	$59

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Parke Bancorp, Inc. (the “Company, we, us, our”) is a bank holding company headquartered in Sewell, New Jersey. Through subsidiaries, the Company provides individuals, corporations and other businesses, and institutions with commercial and retail banking services, principally loans and deposits. The Company was incorporated in January 2005 under the laws of the State of New Jersey for the sole purpose of becoming the holding company of Parke Bank (the "Bank").
The Bank is a commercial bank, which was incorporated on August 25, 1998, and commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and Insurance and its deposits are insured by the Federal Deposit Insurance Corporation. The Bank maintains its principal office at 601 Delsea Drive, Sewell, New Jersey, and seven additional branch office locations; 501 Tilton Road, Northfield, New Jersey, 567 Egg Harbor Road, Washington Township, New Jersey, 67 East Jimmie Leeds Road, Galloway Township, New Jersey, 1150 Haddon Avenue, Collingswood, New Jersey, 1610 Spruce Street, Philadelphia, Pennsylvania, and 1032 Arch Street, Philadelphia, Pennsylvania.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation: We prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary the Bank, and certain partnership interests. Parke Capital Trust I, Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the requirements for consolidation under applicable accounting guidance. We have eliminated inter-company balances and transactions. We have also reclassified certain prior year amounts to conform to the current year presentation, which did not have a material impact on our consolidated financial condition or results of operations.

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The accompanying interim financial statements for the three and six months ended June 30, 2018 and 2017 are unaudited. The balance sheet as of December 31, 2017, was derived from the audited financial statements. In the opinion of management, these financial statements include all normal and recurring adjustments necessary for a fair statement of the results for such interim periods. Results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results for the full year.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the allowance for loan losses, other than temporary impairment losses on investment securities, the valuation of deferred income taxes, and carrying value of other real estate owned ("OREO").

Recently Issued Accounting Pronouncements:

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendment in this update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the December

22, 2017, enactment of the reduced federal corporate income tax rate, which is effective in 2018. For public companies, the update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The amendment can be adopted at the beginning of the period or on a retrospective basis. The Company early adopted the ASU in the second quarter of 2018. The reclassification of the cumulative-effect of $27,000 from accumulated other comprehensive income to retained earnings was immaterial to our consolidated financial statements.

During August 2016, the FASB issued ASU 2016-15, which is new guidance related to the Statement of Cash Flows. The new guidance clarifies the classification within the statement of cash flows for certain transactions, including debt extinguishment costs, zero-coupon debt, contingent consideration related to business combinations, insurance proceeds, equity method distributions and beneficial interests in securitizations. The guidance also clarifies that cash flows with aspects of multiple classes of cash flows or that cannot be separated by source or use should be classified based on the activity that is likely to be the predominant source or use of cash flows for the item. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of this guidance does not have a material effect on the consolidated financial statements.

During June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses. ASU 2016-13 (Topic 326), replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently in the process of gathering historical loan data required for the credit loss methodology and is reviewing a model from a third-party vendor. While we expect this standard will have an impact on the Company’s financial statements, we are still in process of conducting our evaluation.

On January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU's changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. Also, the ASU requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. Upon adoption, the Company is no longer required to disclose the methodologies used for estimating fair value of financial assets and liabilities that are not measured at fair value on a recurring or nonrecurring basis. The remaining requirements of this update did not have a material impact on the Company's consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 includes a lessee accounting model that recognizes two types of leases - finance leases and operating leases. The standard requires that a lessee recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Leases with terms of less than 12 months are exempt from the new standard. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as finance or operating lease. New disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases are also required. These disclosures include qualitative and quantitative requirements, providing information about the amounts recorded in the financial statements. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; that is, for a calendar year-end public entity, the changes take effect beginning January 1, 2019. The Company is working on gathering all key lease data elements to meet the requirements of the new guidance. The resulting change from this ASU should not have a major impact on the Company's financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 (Topic 606) supersedes the revenue recognition requirements in Accounting Standards Codification, Topic 605. The amendment requires a contract-based approach revenue model. For public companies, this update was effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. The Company’s revenue is primarily composed of interest income on financial instruments, including investment securities and loans, which are excluded from the scope of this update. Also excluded from the scope of the update is revenue from bank-owned life insurance, loan fees, and letter of credit fees. Deposit account related fees are within the scope of the guidance; however, revenue recognition practices did not change under the guidance, as deposits agreements are considered day to day contracts. Deposits account transaction related fees will continue to be recognized as the services are performed. Implementation of this guidance did not change current business practices. Implementation of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of Topic 718 to include share based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The ASU is effective for public business entities for fiscal years beginning after December 15, 2018. The Company does not expect the amendments will have any material impact on our consolidated financial statements.

NOTE 3. INVESTMENT SECURITIES

The following is a summary of the Company's investments in available for sale and held to maturity securities as of June 30, 2018 and December 31, 2017:

As of June 30, 2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(amounts in thousands)			
Available for sale:				
Corporate debt obligations	$1,000	$ 28	$ —	$1,028
Residential mortgage-backed securities	34,213	62	1,142	33,133
Collateralized mortgage obligations	73	1	—	74
Total available for sale	$35,286	$ 91	$ 1,142	$34,235
Held to maturity:				
States and political subdivisions	$1,086	$ 172	$ —	$1,258

As of December 31, 2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(amounts in thousands)			
Available for sale:				
Corporate debt obligations	$1,000	$ 33	$ —	$1,033
Residential mortgage-backed securities	37,105	194	436	36,863
Collateralized mortgage obligations	93	2	—	95
Total available for sale	$38,198	$ 229	$ 436	$37,991
Held to maturity:				
States and political subdivisions	$2,268	$ 200	$ —	$2,468

The amortized cost and fair value of debt securities classified as available for sale and held to maturity, by contractual maturity as of June 30, 2018 are as follows:

	Amortized Cost	Fair Value
	(amounts in thousands)	
Available for sale:		
Due within one year	$6	$6
Due after one year through five years	349	331
Due after five years through ten years	8,537	8,224
Due after ten years	26,394	25,674
Total available for sale	$35,286	$34,235
Held to maturity:		
Due within one year	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	1,086	1,258
Due after ten years	—	—
Total held to maturity	$1,086	$1,258

Expected maturities may differ from contractual maturities because the issuers of certain debt securities do have the right to call or prepay their obligations without any penalty.

During the three and six months ended June 30, 2018, the Company did not sell any securities.

At June 30, 2018, the Company used a letter of credit of $40.0 million as collateral to secure public deposits as compared to $32.5 million of securities available for sale pledged to secure public deposits at December 31, 2017.

The following tables show the gross unrealized losses and fair value of the Company's investments which are aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017:

As of June 30, 2018	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(amounts in thousands)					
Available for sale:						
Residential mortgage-backed securities	$18,472	$ 412	$13,426	$ 730	$31,898	$ 1,142
Total available for sale	$18,472	$ 412	$13,426	$ 730	$31,898	$ 1,142

As of December 31, 2017	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(amounts in thousands)					
Available for sale:						
Residential mortgage-backed securities	$2,729	$ 16	$15,117	$ 420	$17,846	$ 436
Total available for sale	$2,729	$ 16	$15,117	$ 420	$17,846	$ 436

Other Than Temporarily Impaired Debt Securities (OTTI)

On at least a quarterly basis, we review all debt securities that are in an unrealized loss position for OTTI. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, previous other-than-temporary impairments. After an investment security is determined to be impaired, we evaluate whether the decline in value is other-than-temporary. Estimating recovery of the amortized cost basis of a debt security is based upon an assessment of the cash flows expected to be collected. If the present value of the cash flows expected to be collected, discounted at the security’s effective yield, is less than the security’s amortized cost, OTTI is considered to have occurred.

For a debt security for which there has been a decline in the fair value below amortized cost basis, if we intend to sell the security, or if it is more likely than not we will be required to sell the security before recovery of amortized cost basis, an OTTI write-down is recognized in earnings equal to the entire difference between the amortized cost basis and fair value of the security. For debt securities that are considered OTTI and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security’s amortized cost basis and the present value of its expected future cash flows discounted at the security’s effective yield. The remaining difference between the security’s fair value and the present value of expected future cash flows is due to factors that are not credit-related and, therefore, is recognized in other comprehensive income.

We have a process in place to identify debt securities that could potentially have a credit impairment that is other than temporary. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events; (4) any change in rating agencies’ credit ratings at evaluation date from acquisition date and any likely imminent action; (5) for asset-backed securities, the credit performance of the underlying collateral, including delinquency rates, level of non-performing assets, cumulative losses to date, collateral value and the remaining credit enhancement compared with expected credit losses.

The Company’s unrealized loss for the debt securities is comprised of 15 securities and 11 residential mortgage backed securities at June 30, 2018 and December 31, 2017, respectively. The mortgage backed securities that had unrealized losses were issued or guaranteed by US government or government sponsored entities. The unrealized losses associated with those mortgage backed securities are generally driven by changes in interest rates and not due to credit losses given the explicit or implicit guarantees provided by the U.S. government. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost basis, the Company does not consider the unrealized loss in these securities to be OTTI at June 30, 2018.

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NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

As of June 30, 2018, the Company had $1.1 billion in loans receivable outstanding. Loans held for sale totaled $1.8 million at June 30, 2018. The portfolios of loans receivable at June 30, 2018 and December 31, 2017, consist of the following:

	June 30, 2018 Amount	December 31, 2017 Amount
	(amounts in thousands)	
Commercial and Industrial	$27,833	$ 38,972
Construction	130,383	95,625
Real Estate Mortgage:		
Commercial – Owner Occupied	130,313	126,250
Commercial – Non-owner Occupied	272,277	270,472
Residential – 1 to 4 Family	475,702	416,317
Residential – Multifamily	49,349	47,832
Consumer	15,386	16,249
Total Loans	$1,101,243	$ 1,011,717

An age analysis of past due loans by class at June 30, 2018 and December 31, 2017 as follows:

June 30, 2018	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
	(amounts in thousands)						
Commercial and Industrial	$—	$—	$ 15	$15	$27,818	$27,833	$ —
Construction	—	—	1,365	1,365	129,018	130,383	—
Real Estate Mortgage:							
Commercial – Owner Occupied	—	—	150	150	130,163	130,313	—
Commercial – Non-owner Occupied	—	—	277	277	272,000	272,277	—
Residential – 1 to 4 Family		504	1,419	1,923	473,779	475,702	—
Residential – Multifamily	—	—	—	—	49,349	49,349	—
Consumer	112	—	—	112	15,274	15,386	—
Total Loans	$112	$504	$ 3,226	$3,842	$1,097,401	$1,101,243	$ —

December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
	(amounts in thousands)						
Commercial and Industrial	$—	$—	$ 17	$17	$38,955	$38,972	$ —
Construction	—	—	1,392	1,392	94,233	95,625	—
Real Estate Mortgage:							
Commercial – Owner Occupied	—	—	155	155	126,095	126,250	—
Commercial – Non-owner Occupied	—	—	597	597	269,875	270,472	—
Residential – 1 to 4 Family	—	352	2,292	2,644	413,673	416,317	—
Residential – Multifamily	—	—	—	—	47,832	47,832	—
Consumer	92	—	81	173	16,076	16,249	—
Total Loans	$92	$352	$ 4,534	$4,978	$1,006,739	$1,011,717	$ —

Allowance For Loan and Lease Losses (ALLL)
We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan portfolios as of the balance sheet date. We established our allowance in accordance with guidance provided in Accounting Standard Codification ("ASC") - Contingencies (ASC 450) and Receivables (ASC 310).

Determining the appropriateness of the allowance is complex and requires significant judgment reflecting the best estimate of credit losses related to specifically identified impaired loans as well as probable loan losses in the remaining loan portfolio. These evaluations are inherently subjective, as they require material estimates and may be susceptible to significant change. The allowance for loan and lease losses is reviewed by the management of the Company monthly and discussed with the audit committee at least quarterly.

Our allowance for loan losses includes a formula based component and an asset-specific component. The asset-specific component of the allowance relates to loans considered to be impaired, which includes loans that have been modified in TDRs as well as nonperforming loans. To determine the asset-specific component of the allowance, the loans are evaluated individually based on the borrower's ability to repay amounts owed, collateral, relative risk grade of the loans, and other factors given current events and conditions. The Company generally measures the asset-specific allowance as the difference between the fair value (net realizable value) and the recorded investment of a loan.

The formula based component of the allowance incorporates historical valuation allowance and general valuation allowance. The historical loss experience is measured by type of credit and internal risk grade, loss severity, specific homogeneous risk pools. A historical loss ratio and valuation allowance are established for each pool of similar loans and updated periodically based on actual charge-off experience and current events. The general valuation allowance is based on general economic conditions and other qualitative risk factors both internal and external to the Company. It is generally determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Bank's lending management and staff; (ii) the effectiveness of the Bank's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in loan portfolio volume; (v) the composition and concentrations of credit; (vi) the impact of competition on loan structuring and pricing; (vii) the effectiveness of the internal loan review function; (viii) the impact of environmental risks on portfolio risks; (ix) the impact of rising interest rates on portfolio risk; and (x) national and local economic trends and conditions, and industry conditions. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, high-moderate, moderate, low-moderate or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance.

When evaluating the adequacy of the allowance, the assessment is highly judgmental as the measurement relies upon estimates such as loss severity, asset valuations, default rates, the amounts and timing of interest or principal payments or other factors that are reflective of current and expected market conditions. These estimates are, in turn, dependent on factors such as the duration of current overall economic conditions, industry, portfolio, or borrower-specific factors, the expected outcome of insolvency proceedings as well as, in certain circumstances, other economic factors, including the level of future home prices. All of these estimates and assumptions require significant management judgment and certain assumptions are highly subjective.

The following tables present the information regarding the allowance for loan and lease losses and associated loan data:

	Commercial and Industrial	Construction	Real Estate Mortgage Commercial Owner Occupied	Commercial Non-owner Occupied	Residential 1 to 4 Family	Residential Multifamily	Consumer	Total
Allowance for loan losses	(amounts in thousands)							
Three months ended June 30, 2018								
March 31, 2018	$555	$ 2,227	$1,991	$ 4,781	$ 6,644	$ 648		