Home Federal Bancorp, Inc.
Form 10-Q
November 08, 2013

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 September 30, 2013
or

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

Commission File Number: 001-33795

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

Maryland	68-0666697
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 12th Avenue South, Nampa, Idaho	83651
(Address of principal executive offices)	(Zip Code)
Registrant’s telephone number, including area code:	(208) 466-4634

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, 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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 par value per share, 14,523,315 shares outstanding as of November 1, 2013.

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FORM 10-Q
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Item 1. Financial Statements

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS (In thousands, except share data) (unaudited)	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$102,269	$115,529
Investments available-for-sale, at fair value	414,026	420,505
FHLB stock, at cost	16,929	17,401
Loans receivable, net of allowance for loan losses of $10,583 and $12,528	401,842	409,846
Accrued interest receivable	2,852	2,776
Property and equipment, net	26,592	29,057
Bank owned life insurance (“BOLI”)	15,635	15,938
Real estate owned and other repossessed assets (“REO”)	6,513	10,386
FDIC indemnification receivable, net	6,129	10,846
Core deposit intangible	2,168	2,523
Deferred tax assets, net	15,853	9,022
Other assets	5,022	4,791
TOTAL ASSETS	$1,015,830	$1,048,620
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES		
Deposit accounts:		
Noninterest-bearing demand	$161,335	$142,207
Interest-bearing demand	247,099	248,836
Money market	158,231	167,202
Savings	86,792	83,401
Certificates	178,319	209,242
Total deposit accounts	831,776	850,888
Advances by borrowers for taxes and insurance	1,334	490
Accrued interest payable	127	167
Deferred compensation	6,422	6,149
Repurchase agreements	511	4,775
Other liabilities	5,490	6,366
Total liabilities	845,660	868,835
STOCKHOLDERS’ EQUITY		
Serial preferred stock, $0.01 par value; 10,000,000 authorized; issued and outstanding: none	—	—
Common stock, $0.01 par value; 90,000,000 authorized; issued and outstanding: Sep. 30, 2013 - 17,542,217 issued; 14,522,196 outstanding Dec. 31, 2012 - 17,512,997 issued; 14,453,399 outstanding	145	145
Additional paid-in capital	133,354	131,934
Retained earnings	45,942	46,337
Unearned shares issued to employee stock ownership plan (“ESOP”)	(6,254)	(6,823)
Accumulated other comprehensive income (loss)	(3,017)	8,192
Total stockholders’ equity	170,170	179,785

TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$1,015,830	$1,048,620

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Loans	$7,762	$10,150	$24,751	$30,400
Investments	2,661	2,249	7,841	6,662
Other interest income	51	38	167	179
Total interest income	10,474	12,437	32,759	37,241
Interest expense:				
Deposits	707	891	2,253	2,984
Repurchase agreements	0	17	19	54
Total interest expense	707	908	2,272	3,038
Net interest income	9,767	11,529	30,487	34,203
Provision for loan losses	(970)	105	(1,553)	(1,112)
Net interest income after provision for loan losses	10,737	11,424	32,040	35,315
Noninterest income:				
Service charges and fees	2,120	2,110	6,234	6,491
Gain on sale of investments ($485 of gains during the nine months ended September 30, 2013, are comprised of accumulated other comprehensive income reclassifications)	—	79	485	1,217
Increase in cash surrender value of BOLI	116	122	350	365
FDIC indemnification recovery (provision)	(648)	50	(695)	(1,180)
Impairment of FDIC indemnification asset, net	(1,164)	(2,994)	(5,480)	(8,042)
Other income	331	282	591	827
Total noninterest income	755	(351)	1,485	(322)
Noninterest expense:				
Compensation and benefits	5,822	5,717	17,491	18,029
Occupancy and equipment	1,302	1,466	4,096	4,543
Data processing	860	920	2,723	2,867
Advertising	138	219	427	596
Postage and supplies	195	210	616	763
Professional services	702	678	1,821	1,947
Insurance and taxes	427	503	1,231	1,585
Amortization of intangibles	112	137	354	433
Provision for REO	1	56	644	454
Other expenses	374	580	1,024	1,335
Total noninterest expense	9,933	10,486	30,427	32,552
Income before income taxes	1,559	587	3,098	2,441
Income tax provision	506	265	1,009	858
Net income	$1,053	$322	$2,089	$1,583
Earnings per common share:				
Basic	$0.08	$0.02	$0.15	$0.11
Diluted	0.08	0.02	0.15	0.11
Weighted average number of shares outstanding:				
Basic	13,742,613	14,109,468	13,696,484	14,505,210

Diluted	13,836,734	14,117,621	13,776,096	14,505,210
Dividends declared per share:	$0.06	$0.06	$0.18	$0.17

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (In thousands) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Comprehensive income (loss):				
Net income	$1,053	$322	$2,089	$1,583
Other comprehensive income (loss):				
Change in unrealized holding gain (loss) on securities available-for-sale, net of taxes of $(847), $1,282, $(6,963) and $2,687, respectively	(1,328)	2,009	(10,913)	4,212
Adjustment for realized gains, net of taxes of $0, $(31), $(189) and $(474), respectively	—	(48)	(296)	(743)
Other comprehensive income (loss)	(1,328)	1,961	(11,209)	3,469
Comprehensive income (loss)	$(275)	$2,283	$(9,120)	$5,052

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data) (unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to ESOP	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at December 31, 2012	14,453,399	$145	$131,934	$46,337	$(6,823)	$ 8,192	$179,785
Restricted stock issued, net of forfeitures	45,457	—					—
Repurchased restricted stock to pay taxes	(5,880)		(73)				(73)
ESOP shares committed to be released			172		569		741
Exercise of stock options	29,220		341				341
Share-based compensation			982				982
Dividends paid ($0.18 per share)				(2,484)			(2,484)
Tax adjustments for equity comp. plans			(2)				(2)
Net income				2,089			2,089
Other comprehensive loss						(11,209)	(11,209)
Balance at September 30, 2013	14,522,196	$145	$133,354	$45,942	$(6,254)	$ (3,017)	$170,170

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (unaudited)

	Nine Months Ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$2,089	$1,583
Adjustments to reconcile net income to cash provided from operating activities:		
Depreciation and amortization	2,111	2,292
Amortization of core deposit intangible	354	433
Impairment of FDIC indemnification receivable	5,480	8,042
Net amortization of premiums and discounts on investments	2,102	4,311
Gain on sale of investments available-for-sale (“AFS”)	(485)	(1,217)
Gain on insurance proceeds	(161)	—
Gain on sale of fixed assets and repossessed assets	(233)	(554)
ESOP shares committed to be released	741	592
Share based compensation expense	982	758
Provision for loan losses	(1,553)	(1,112)
Valuation allowance on real estate and other property owned	644	454
Accrued deferred compensation expense, net	273	185
Net deferred loan fees	130	203
Deferred income tax provision (benefit)	321	(4,495)
Net increase in cash surrender value of BOLI	(350)	(365)
Change in assets and liabilities:		
Interest receivable	(76)	(205)
Other assets	(250)	(2,227)
Interest payable	(39)	(46)
Other liabilities	(879)	(1,938)
Net cash provided from operating activities	11,201	6,694
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal repayments, maturities and calls of investments AFS	78,166	77,602
Proceeds from sales of investments AFS	19,460	62,849
Purchase of investments AFS	(111,124)	(182,435)
Proceeds from redemption of FHLB stock	473	158
Reimbursement (repayment) of loan losses under loss share agreement	(492)	2,932
Net decrease in loans	7,864	28,493
Loans purchased	—	(7,711)
Proceeds from sales of fixed assets and repossessed assets	5,444	14,980
Purchases of fixed assets	(318)	(682)
Proceeds from BOLI policies	814	—
Net cash provided from (used by) investing activities	287	(3,814)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	(19,112)	(47,717)
Net increase in advances by borrowers for taxes and insurance	844	963
Net decrease in repurchase agreements	(4,264)	(155)
Repurchased restricted stock to pay taxes	(73)	(87)
Proceeds from exercise of stock options	341	—
Repurchases of common stock	—	(11,464)
Dividends paid	(2,484)	(2,479)
Net cash used by financing activities	(24,748)	(60,939)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,260)	(58,059)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	115,529	144,293
CASH AND CASH EQUIVALENTS, END OF PERIOD	$102,269	$86,234

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands) (unaudited)

	Nine Months Ended September 30,	
	2013	2012
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$2,312	$3,084
Income taxes	865	7,489
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of real estate and other assets in settlement of loans	$1,630	$9,851
Fair value adjustment to securities AFS, net of taxes	(11,209)	3,469
Transfer of fixed assets into REO	609	—

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Basis of Presentation

The consolidated financial statements presented in this report include the accounts of Home Federal Bancorp, Inc., a Maryland corporation (the "Company"), and its wholly-owned subsidiary, Home Federal Bank (the "Bank"), which is a state-chartered commercial bank headquartered in Nampa, Idaho. As used throughout this report, the term the "Company" refers to Home Federal Bancorp, Inc., and its consolidated subsidiary, unless the context otherwise requires.

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and are unaudited. All significant intercompany transactions and balances have been eliminated. In the opinion of the Company's management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made. Operating results for the three and nine months ended September 30, 2013, are not necessarily indicative of the results that may be expected for future periods.

On July 30, 2010, the Bank entered into a purchase and assumption agreement with the FDIC to assume all of the deposits and acquire certain assets of LibertyBank, headquartered in Eugene, Oregon ("LibertyBank Acquisition"). In August 2009, the Bank entered into a purchase and assumption agreement with the FDIC to assume all of the deposits and certain assets of Community First Bank, headquartered in Prineville, Oregon ("CFB Acquisition"). All of the loans purchased in the CFB Acquisition and the majority of loans and leases purchased in the LibertyBank Acquisition are included under the loss sharing agreements with the FDIC and are referred to as "covered loans." Real estate owned and repossessed assets ("REO") acquired in the CFB Acquisition and the LibertyBank Acquisition that are also included in the loss sharing agreements are referred to as "covered REO." The covered loans and covered REO are collectively referred to as "covered assets." Loans and foreclosed and repossessed assets not subject to loss sharing agreements with the FDIC are referred to as "noncovered loans" or "noncovered assets."

Certain information and note disclosures normally included in the Company's annual consolidated financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("2012 Form 10-K"), filed with the Securities and Exchange Commission ("SEC") on March 15, 2013.

Certain reclassifications have been made to prior year's financial statements in order to conform to the current year presentation. The reclassifications had no effect on previously reported net income or equity.

Note 2 – Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about these amounts. The new guidance was effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements but the disclosures are included.

In October 2012, the FASB issued ASU 2012-06, Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU 2012-06 addresses the diversity in practice about how to interpret the terms “on the same basis” and “contractual limitations” when subsequently measuring an indemnification asset. The adoption of this ASU was effective for fiscal years and interim periods beginning on or after December 15, 2012. This ASU did not have a significant impact on the Company's Consolidated Financial Statements as the Company accounted for its indemnification asset in a manner consistent with this ASU.

Note 3 – Earnings Per Share ("EPS")

Basic earnings per common share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the period, which excludes the participating securities (securities that may participate in undistributed earnings with common stock). Diluted earnings per common share includes the dilutive effect of additional potential common shares from stock compensation awards, but excludes awards considered participating securities. ESOP shares are not considered outstanding for earnings per share purposes until they are committed to be released.

The following table presents the computation of basic and diluted earnings per share for the periods indicated (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$1,053	$322	$2,089	$1,583
Allocated to participating securities	(7)	(3)	(15)	(14)
Net income allocated to common stock	$1,046	$319	$2,074	$1,569
Weighted average common shares outstanding, gross	14,485,554	14,964,693	14,468,721	15,377,013
Less: Average unearned ESOP shares	(651,909)	(729,749)	(671,370)	(749,210)
Less: Average participating securities	(91,032)	(125,476)	(100,867)	(122,593)
Weighted average common shares outstanding, net	13,742,613	14,109,468	13,696,484	14,505,210
Net effect of dilutive stock options	94,121	8,153	79,612	—
Weighted average shares and common stock equivalents	13,836,734	14,117,621	13,776,096	14,505,210
Income per common share:				
Basic	$0.08	$0.02	$0.15	$0.11
Diluted	0.08	0.02	0.15	0.11
Options excluded from the calculation due to their anti-dilutive effect on EPS	322,349	968,092	361,399	968,092

Note 4 – Investments

The Company's investment policies are designed to provide and maintain adequate liquidity and to generate favorable rates of return without incurring undue interest rate or credit risk, and generally limit investments to mortgage-backed securities, securities issued by U.S. Government-sponsored enterprises ("GSE"), municipal bonds, certificates of deposit and marketable corporate debt obligations. Investments available-for-sale consisted of the following at September 30, 2013 and December 31, 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
September 30, 2013					
Obligations of U.S. GSE	$57,157	$331	$(1,417)	$56,071	13.5 %
Obligations of states and political subdivisions	42,025	578	(1,315)	41,288	10.0
U.S. Treasury bonds	9,604	—	(1,117)	8,487	2.1
Mortgage-backed securities, GSE-issued	309,933	5,155	(7,152)	307,936	74.3
Mortgage-backed securities, private label	249	—	(5)	244	0.1
Total	$418,968	$6,064	$(11,006)	$414,026	100.0 %
December 31, 2012					
Obligations of U.S. GSE	$56,179	$1,481	$—	$57,660	13.7 %
Obligations of states and political subdivisions	38,932	2,009	(51)	40,890	9.7
Mortgage-backed securities, GSE-issued	311,690	10,116	(134)	321,672	76.5
Mortgage-backed securities, private label	287	—	(4)	283	0.1
Total	$407,088	$13,606	$(189)	$420,505	100.0 %

For the nine months ended September 30, 2013 and 2012, proceeds from sales of investments available-for-sale amounted to $19.5 million and $62.8 million, respectively. Gross realized gains for the nine months ended September 30, 2013 and 2012 were $518,000 and $1.2 million respectively, against gross realized losses of $33,000 and $0, respectively. All gains and losses were included in noninterest income on the Consolidated Statements of Operations.

The fair value of investments with unrealized losses, the amount of unrealized losses and the length of time these unrealized losses existed as of September 30, 2013 and December 31, 2012, were as follows (in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013						
Obligations of U.S. GSE	$31,276	$(1,417)	$—	$—	$31,276	$(1,417)
Obligations of states and political subdivisions	27,639	(1,315)	—	—	27,639	(1,315)
U.S. Treasury bonds	8,487	(1,117)	—	—	8,487	(1,117)
Mortgage-backed securities, GSE-issued	144,722	(7,150)	111	(2)	144,833	(7,152)
Mortgage-backed securities, private label	—	—	244	(5)	244	(5)
Total	$212,124	$(10,999)	$355	$(7)	$212,479	$(11,006)
December 31, 2012						
	$6,117	$(51)	$—	$—	$6,117	$(51)

Obligations of states and political subdivisions								
Mortgage-backed securities, GSE-issued	20,461	(131	)	114	(3	)	20,575	(134	)
Mortgage-backed securities, private label	—	—		283	(4	)	283	(4	)
Total	$26,578	$(182	)	$397	$(7	)	$26,975	$(189	)

Management has evaluated these investments and has determined that the decline in value is not other than temporary and not related to the underlying credit quality of the issuers or an industry specific event. The declines in value are on investments that have contractual maturity dates and future principal payments that will be sufficient to recover the current amortized cost of the investments. The Company does not have the intent to sell these investments and it is likely that it will not be required to sell these investments before their anticipated recovery.

The contractual maturities of investments available-for-sale at the dates indicated are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties.

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$10,006	$10,047	$14,136	$14,206
Due after one year through five years	3,333	3,506	7,051	7,280
Due after five years through ten years	23,725	23,760	20,719	21,908
Due after ten years	71,722	68,533	53,205	55,156
Mortgage-backed securities	310,182	308,180	311,977	321,955
Total	$418,968	$414,026	$407,088	$420,505

As of September 30, 2013, and December 31, 2012, the Bank pledged investments for the following obligations (in thousands):

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
FHLB borrowings	$17,076	$18,408	$23,482	$25,397
Federal Reserve Bank	805	836	1,166	1,222
Repurchase agreements	5,421	5,632	4,607	4,855
Deposits of municipalities and public units	7,605	8,111	9,871	10,573
Total	$30,907	$32,987	$39,126	$42,047

Note 5 – Loans and Leases Receivable and the Allowance for Loan Losses

Loans and leases receivable are summarized as follows at September 30, 2013, and December 31, 2012 (dollars in thousands):

	September 30, 2013		December 31, 2012	
	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:				
One-to-four family residential	$72,039	17.5 %	$87,833	20.8 %
Multifamily residential	38,532	9.3	34,377	8.1
Commercial	176,467	42.8	185,132	43.8
Total real estate	287,038	69.6	307,342	72.7
Real estate construction:				
One-to-four family residential	24,362	5.9	13,016	3.1
Multifamily residential	4,598	1.1	520	0.1
Commercial and land development	25,169	6.1	25,391	6.0
Total real estate construction	54,129	13.1	38,927	9.2
Consumer:				
Home equity	37,970	9.2	41,793	9.9
Automobile	844	0.2	966	0.2
Other consumer	3,067	0.8	4,012	1.1
Total consumer	41,881	10.2	46,771	11.2
Commercial business	29,422	7.1	29,249	6.9
Gross loans	412,470	100.0 %	422,289	100.0 %
Deferred loan (fees) costs, net	(45)		85	
Allowance for loan losses	(10,583)		(12,528)	
Loans receivable, net	$401,842		$409,846	

The following tables present loans at their recorded investment. Recorded investment includes the unpaid principal balance, net of purchase adjustments, plus accrued interest less charge offs and net deferred loan fees. Accrued interest on loans was $1.1 million at both September 30, 2013, and December 31, 2012.

Delinquent and nonaccrual loans. The following tables present the recorded investment in nonperforming loans and an aging of performing loans by class as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013 Nonperforming Loans						
	Nonaccrual	Past Due 90 or More Days, Still Accruing	Total	Loans Delinquent 30-59 Days	Loans Delinquent 60-89 Days	Loans Not Past Due	Total Loans
Noncovered loans							
Real estate:							
One-to-four family residential	$2,790	$—	$2,790	$ —	$ 117	$62,470	$65,377
Multifamily residential	780	—	780	—	—	36,013	36,793
Commercial real estate	114	—	114	—		134,279	134,393
Total real estate	3,684	—	3,684	—	117	232,762	236,563
Real estate construction:							
One-to-four family residential	596	—	596	—	—	23,676	24,272
Multifamily residential	—	—	—	—	—	4,598	4,598
Commercial real estate	185	—	185	—	—	21,066	21,251
Total real estate construction	781	—	781	—	—	49,340	50,121
Consumer:							
Home equity	473	—	473	—	29	29,135	29,637
Automobile	6	—	6	—	—	733	739
Other consumer	—	—	—	5	—	2,527	2,532
Total consumer	479	—	479	5	29	32,395	32,908
Commercial business	223	—	223	—	—	23,164	23,387
Total noncovered loans	5,167	—	5,167	5	146	337,661	342,979
Covered loans							
Real estate:							
One-to-four family residential	243	—	243	—	332	6,144	6,719
Multifamily residential	68	—	68	—	—	2,516	2,584
Commercial real estate	3,301	—	3,301	—		38,809	42,110
Total real estate	3,612	—	3,612	—	332	47,469	51,413
Commercial real estate construction	223	—	223	—	—	3,655	3,878
Consumer:							
Home equity	34	—	34	—	—	8,515	8,549
Automobile	—	—	—	9	—	96	105
Other consumer	—	—	—	—	—	566	566
Total consumer	34	—	34	9	—	9,177	9,220
Commercial business	—	—	—	—	—	6,029	6,029
Total covered loans	3,869	—	3,869	9	332	66,330	70,540
Total gross loans	$9,036	$—	$9,036	$ 14	$ 478	$403,991	$413,519

	December 31, 2012 Nonperforming Loans						
	Nonaccrual	Past Due 90 or More Days, Still Accruing	Total	Loans Delinquent 30-59 Days	Loans Delinquent 60-89 Days	Loans Not Past Due	Total Loans
Noncovered loans							
Real estate:							
One-to-four family residential	$3,240	$—	$3,240	$ 498	$ 217	$75,741	$79,696
Multifamily residential	825	—	825	—	—	30,228	31,053
Commercial real estate	3,727	—	3,727	—		132,825	136,552
Total real estate	7,792	—	7,792	498	217	238,794	247,301
Real estate construction:							
One-to-four family residential	593	—	593	—	—	12,423	13,016
Multifamily residential	—	—	—	—	—	520	520
Commercial real estate	218	—	218	—	—	19,756	19,974
Total real estate construction	811	—	811	—	—	32,699	33,510
Consumer:							
Home equity	643	—	643	31	7	30,979	31,660
Automobile	—	—	—	—	3	752	755
Other consumer	—	—	—	13	—	3,257	3,270
Total consumer	643	—	643	44	10	34,988	35,685
Commercial business	351	—	351	—	—	17,183	17,534
Total noncovered loans	9,597	—	9,597	542	227	323,664	334,030
Covered loans							
Real estate:							
One-to-four family residential	338	—	338	—	—	7,835	8,173
Multifamily residential	—	—	—	—	—	3,325	3,325
Commercial real estate	4,108	—	4,108	—		44,471	48,579
Total real estate	4,446	—	4,446	—	—	55,631	60,077
Commercial real estate construction	248	—	248	—	—	5,169	5,417
Consumer:							
Home equity	85	—	85	30	—	10,164	10,279
Automobile	—	—	—	—	—	210	210
Other consumer	10	—	10	5	5	742	762
Total consumer	95	—	95	35	5	11,116	11,251
Commercial business	—	—	—	—	—	12,699	12,699
Total covered loans	4,789	—	4,789	35	5	84,615	89,444
Total gross loans	$14,386	$—	$14,386	$ 577	$ 232	$408,279	$423,474

Loan classification. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. The Company uses the following definitions for risk classification ratings:

Watch. A loan is categorized as watch if it possesses some reason for additional management oversight, such as correctable documentation deficiencies, recent financial setbacks, deteriorating financial position, industry concerns, and failure to perform on other borrowing obligations. Loans with this classification are to be monitored in an effort to correct deficiencies and upgrade the credit if warranted. At the time of this classification, they are not believed to expose the Company to significant risk.

Special Mention. Performing loans that have developed minor credit weaknesses since origination are categorized as special mention. Evidence of credit weakness include the primary source of repayment has deteriorated and no longer meets debt service requirements as defined in Company policy, the borrower may have a short track record and little depth of management, inadequate current financial information, marginal capitalization, and susceptibility to negative industry trends. The primary source of repayment remains viable but there is increasing reliance on collateral or guarantor support.

Substandard. A loan is considered substandard if it is inadequately protected by the current net worth, liquidity and paying capacity of the borrower or collateral pledged. Substandard assets include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions and values.

Loss. This classification of loans includes loans that are considered uncollectible and of such little value that their continuance as an active asset is not warranted. This does not mean the loan has no salvage value, however, is neither desirable nor practical to defer writing off this asset at this time. Once a determination has been made that a loss exists, the loss amount will be charged-off. As a result, generally, the Company will not report loan balances as "Loss."

Pass. Loans not meeting the criteria above are considered to be pass rated loans. The pass classification also includes homogeneous loans (such as one-to-four family residential and consumer loans) unless the borrower experiences a delinquency or requests a modification, at which point the loan is graded as specified above.

As of September 30, 2013, and December 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans was as follows (in thousands):

	September 30, 2013					
	Pass	Watch	Special Mention	Substandard	Doubtful	Total Loans
Noncovered loans						
Real estate:						
One-to-four family residential	$61,729	$—	$—	$3,648	$—	$65,377
Multifamily residential	35,859	20	45	869	—	36,793
Commercial real estate	108,234	9,672	9,577	6,910	—	134,393
Total real estate	205,822	9,692	9,622	11,427	—	236,563
Real estate construction:						
One-to-four family residential	21,606	2,070	—	596	—	24,272
Multifamily residential	4,598	—	—	—	—	4,598
Commercial real estate	20,897	169	—	185	—	21,251
Total real estate construction	47,101	2,239	—	781	—	50,121
Consumer:						
Home equity	29,120	44	—	473	—	29,637
Automobile	723	10	—	6	—	739
Other consumer	2,477	32	15	8	—	2,532
Total consumer	32,320	86	15	487	—	32,908
Commercial business	21,972	1,049	96	270	—	23,387
Total noncovered loans	307,215	13,066	9,733	12,965	—	342,979
Covered loans						
Real estate:						
One-to-four family residential	3,179	149	—	3,391	—	6,719
Multifamily residential	1,934	187	—	463	—	2,584
Commercial real estate	27,303	908	2,380	11,519	—	42,110
Total real estate	32,416	1,244	2,380	15,373	—	51,413
Commercial real estate construction	3,656	—	—	222	—	3,878
Consumer:						
Home equity	8,409	3	103	34	—	8,549
Automobile	96	9	—	—	—	105

Other consumer	532	34	—	—	—	566
Total consumer	9,037	46	103	34	—	9,220
Commercial business	3,592	933	792	712	—	6,029
Total covered loans	48,701	2,223	3,275	16,341	—	70,540
Total gross loans	$355,916	$15,289	$13,008	$29,306	$—	$413,519

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	December 31, 2012					
	Pass	Watch	Special Mention	Substandard	Doubtful	Total Loans
Noncovered loans						
Real estate:						
One-to-four family residential	$74,974	$603	$—	$4,119	$—	$79,696
Multifamily residential	30,073	—	39	941	—	31,053
Commercial real estate	91,684	11,477	11,456	21,935	—	136,552
Total real estate	196,731	12,080	11,495	26,995	—	247,301
Real estate construction:						
One-to-four family residential	11,771	594	—	651	—	13,016
Multifamily residential	520	—	—	—	—	520
Commercial real estate	19,365	391	—	218	—	19,974
Total real estate construction	31,656	985	—	869	—	33,510
Consumer:						
Home equity	30,901	116	—	643	—	31,660
Automobile	755	—	—	—	—	755
Other consumer	3,159	26	21	64	—	3,270
Total consumer	34,815	142	21	707	—	35,685
Commercial business	16,249	675	175	435	—	17,534
Total noncovered loans	279,451	13,882	11,691	29,006	—	334,030
Covered loans						
Real estate:						
One-to-four family residential	3,494	151	—	4,528	—	8,173
Multifamily residential	2,617	205	—	503	—	3,325
Commercial real estate	22,272	10,302	1,813	14,192	—	48,579
Total real estate	28,383	10,658	1,813	19,223	—	60,077
Real estate construction:	849	3,939	—	629	—	5,417
Consumer:						
Home equity	10,024	109	—	146	—	10,279
Automobile	210	—	—	—	—	210
Other consumer	725	12	—	25	—	762
Total consumer	10,959	121	—	171	—	11,251
Commercial business	8,361	742	1,175	2,421	—	12,699
Total covered loans	48,552	15,460	2,988	22,444	—	89,444
Total gross loans	$328,003	$29,342	$14,679	$51,450	$—	$423,474

Impaired loans. A loan is considered impaired when, based upon currently known information, it is deemed probable that the Company will be unable to collect all amounts due as scheduled according to the original terms of the agreement with the borrower. Additionally, all troubled debt restructurings ("TDRs") are considered impaired.

The following table presents loans deemed impaired by class of loans as of and during the three and nine months ended September 30, 2013 (in thousands):

	September 30, 2013			Average Recorded Investment	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Noncovered loans					
With no related allowance recorded:					
Real estate:					
One-to-four family residential	$3,564	$3,038	$—	$3,130	$3,344
Commercial real estate	3,960	3,878	—	3,895	6,028
Total real estate	7,524	6,916	—	7,025	9,372
Real estate construction:					
One-to-four family residential	379	357	—	335	294
Commercial real estate	185	185	—	189	180
Total real estate construction	564	542	—	524	474
Home equity	412	277	—	301	363
Commercial business	232	232	—	245	313
Total noncovered loans with no related allowance	8,732	7,967	—	8,095	10,522
With an allowance recorded:					
Real estate:					
One-to-four family residential	1,009	1,006	(270)	1,013	1,031
Multifamily residential	780	780	(66)	788	803
Commercial real estate	86	86	(3)	88	216
Total real estate	1,875	1,872	(339)	1,889	2,050
Real estate construction:					
One-to-four family residential	239	239	(60)	279	333
Commercial real estate	—	—	—	—	18
Total real estate construction	239	239	(60)	279	351
Consumer:					
Home equity	210	210	(117)	213	218
Automobile	5	5	(1)	5	3
Total consumer	215	215	(118)	218	221
Total noncovered loans with an allowance recorded	2,329	2,326	(517)	2,386	2,622
Covered loans					
With no related allowance recorded:					
Real estate:					
One-to-four family residential	—	—	—	—	31
Multifamily residential	68	68	—	34	17
Commercial real estate	2,904	2,149	—	2,168	2,439
Total real estate	2,972	2,217	—	2,202	2,487
Commercial real estate construction	493	223	—	226	233
Home equity	415	34	—	35	72
Commercial business	—	—	—	—	3
Total covered loans with no related allowance	3,880	2,474	—	2,463	2,795

Total impaired loans	$14,941	$12,767	$(517)	$12,944	$15,939

At September 30, 2013, the unpaid principal balance for purposes of this table includes $2.2 million that was partially charged-off but not forgiven.

The following table presents loans deemed impaired by class of loans as of December 31, 2012, and during the three and nine months ended September 30, 2012 (in thousands):

	December 31, 2012			Average Recorded Investment	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Noncovered loans					
With no related allowance recorded:					
Real estate:					
One-to-four family residential	$4,259	$3,620	$—	$3,389	$3,998
Commercial real estate	7,403	7,316	—	4,881	4,273
Total real estate	11,662	10,936	—	8,270	8,271
Real estate construction:					
One-to-four family residential construction	317	259	—	277	341
Commercial real estate	146	146	—	229	114
Total real estate construction	463	405	—	506	455
Consumer:					
Home equity	758	434	—	437	631
Automobile	—	—	—	—	23
Other consumer	—	—	—	—	8
Total consumer	758	434	—	437	662
Commercial business	360	361	—	362	383
Total noncovered loans with no related allowance	13,243	12,136	—	9,575	9,771
With an allowance recorded:					
Real estate:					
One-to-four family residential	1,057	1,057	(309)	1,365	1,477
Multifamily residential	825	825	(114)	847	423
Commercial real estate	347	347	(41)	4,607	5,368
Total real estate	2,229	2,229	(464)	6,819	7,268
Real estate construction:					
One-to-four family residential construction	392	392	(145)	376	387
Commercial real estate	72	72	(12)	203	302
Total real estate construction	464	464	(157)	579	689
Home equity	224	224	(171)	288	294
Total noncovered loans with an allowance recorded	2,917	2,917	(792)	7,686	8,251
Covered loans					
With no related allowance recorded:					
Real estate:					
One-to-four family residential	63	63	—	32	215
Commercial real estate	3,027	2,548	—	2,560	2,641
Total real estate	3,090	2,611	—	2,592	2,856
Commercial real estate construction	508	248	—	263	481
Home equity	633	85	—	100	157
Commercial business and leases	10	10	—	8	425
Total covered loans with no related allowance	4,241	2,954	—	2,963	3,919

Total impaired loans	$20,401	$18,007	$(792)	$20,224	$21,941

At December 31, 2012, the unpaid principal balance for purposes of this table includes $2.4 million that was partially charged-off but not forgiven. Interest income recorded on impaired loans was immaterial during the three and nine months ended September 30, 2013 and 2012.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013							
	Allowance for Loan Losses				Recorded Investment			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Noncovered loans								
Real estate	$339	$4,310	$ —	$4,649	$8,788	$227,775	$ —	$236,563
Construction	60	1,275	—	1,335	781	49,340	—	50,121
Consumer	118	1,232	—	1,350	487	31,317	1,104	32,908
Commercial business	—	461	—	461	232	23,155	—	23,387
Total noncovered	517	7,278	—	7,795	10,288	331,587	1,104	342,979
Covered loans								
Real estate	—	729	1,020	1,749	2,217	19,867	29,329	51,413
Construction	—	76	49	125	223	845	2,810	3,878
Consumer	—	111	222	333	34	4,653	4,533	9,220
Commercial business	—	121	460	581	—	2,542	3,487	6,029
Total covered	—	1,037	1,751	2,788	2,474	27,907	40,159	70,540
Total	$517	$8,315	$ 1,751	$10,583	$12,762	$359,494	$ 41,263	$413,519

	December 31, 2012							
	Allowance for Loan Losses				Recorded Investment			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Noncovered loans								
Real estate	$464	$4,715	$ —	$5,179	$13,165	$234,136	$ —	$247,301
Construction	157	809	—	966	869	32,641	—	33,510
Consumer	171	1,627	—	1,798	658	33,437	1,590	35,685
Commercial business	—	668	—	668	361	17,173	—	17,534
Total noncovered	792	7,819	—	8,611	15,053	317,387	1,590	334,030
Covered loans								
Real estate	—	704	1,452	2,156	2,611	21,725	35,741	60,077
Construction	—	179	295	474	248	1,857	3,312	5,417
Consumer	—	281	278	559	85	5,263	5,893	11,241
Commercial business	—	169	559	728	10	3,832	8,867	12,709
Total covered	—	1,333	2,584	3,917	2,954	32,677	53,813	89,444
Total	$792	$9,152	$ 2,584	$12,528	$18,007	$350,064	$ 55,403	$423,474

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Activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2013 and 2012 was as follows (in thousands):

	As of June 30, 2013	Provisions	Charge-Offs	Recoveries	As of September 30, 2013
Noncovered loans					
Real estate	$5,054	$(395)	$(16)	$6	$4,649
Construction	1,175	121	(18)	57	1,335
Consumer	1,404	(75)	(26)	47	1,350
Commercial business	392	68	—	1	461
Total noncovered loans	8,025	(281)	(60)	111	7,795
Covered loans					
Real estate	1,844	(5)	(94)	4	1,749
Construction	184	(621)	(52)	614	125
Consumer	272	(11)	(7)	79	333
Commercial business	774	(52)	(165)	24	581
Total covered loans	3,074	(689)	(318)	721	2,788
Total	$11,099	$(970)	$(378)	$832	$10,583

	As of June 30, 2012	Provisions	Charge-Offs	Recoveries	As of September 30, 2012
Noncovered loans					
Real estate	$5,311	$(165)	$(166)	$38	$5,018
Construction	840	126	—	2	968
Consumer	2,047	74	(190)	24	1,955
Commercial business	707	(35)	(2)	3	673
Total noncovered loans	8,905	—	(358)	67	8,614
Covered loans					
Real estate	871	744	—	403	2,018
Construction	1,721	(1,439)	(12)	123	393
Consumer	665	188	(259)	—	594
Commercial business	458	612	(132)	31	969
Total covered loans	3,715	105	(403)	557	3,974
Total	$12,620	$105	$(761)	$624	$12,588

Activity in the allowance for loan losses by portfolio segment for the nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	As of December 31, 2012	Provisions	Charge-Offs	Recoveries	As of September 30, 2013
Noncovered loans					
Real estate	$5,179	$(448)	$(148)	$66	$4,649
Construction	966	319	(18)	68	1,335
Consumer	1,798	(533)	(95)	180	1,350
Commercial business	668	(209)	—	2	461
Total noncovered loans	8,611	(871)	(261)	316	7,795
Covered loans				55	
Real estate	2,156	590	(1,101)	104	1,749
Construction	474	(1,158)	(129)	938	125
Consumer	559	(179)	(64)	17	333
Commercial business	728	65	(294)	82	581
Total covered loans	3,917	(682)	(1,588)	1,141	2,788
Total	$12,528	$(1,553)	$(1,849)	$1,457	$10,583

	As of December 31, 2011	Provisions	Charge-Offs	Recoveries	As of September 30, 2012
Noncovered loans					
Real estate	$6,923	$(1,045)	$(912)	$52	$5,018
Construction	722	200	—	46	968
Consumer	2,097	307	(506)	57	1,955
Commercial business	205	538	(73)	3	673
Total noncovered loans	9,947	—	(1,491)	158	8,614
Covered loans					
Real estate	1,056	(361)	(320)	1,643	2,018
Construction	2,201	(2,247)	(290)	729	393
Consumer	319	767	(492)	—	594
Commercial business	648	729	(489)	81	969
Total covered loans	4,224	(1,112)	(1,591)	2,453	3,974
Total	$14,171	$(1,112)	$(3,082)	$2,611	$12,588

Troubled Debt Restructuring (TDR). The internal process used to assess whether a modification should be reported and accounted for as a TDR includes an assessment of the borrower's payment history, considering whether the borrower is in financial difficulty, whether a concession has been granted, and whether it is likely the borrower will be able to perform under the modified terms. The modification of the terms of such loans generally includes one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for the new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

TDRs totaled $8.2 million and $11.8 million at September 30, 2013 and December 31, 2012, respectively, and are included in the impaired loan disclosures in this footnote. Of these amounts, $340,000 and $338,000 were covered under loss sharing agreements with the FDIC at September 30, 2013 and December 31, 2012, respectively. The Company has allocated $485,000 of specific reserves to customers whose loan terms have been modified in TDRs at September 30, 2013, compared to $676,000 at December 31, 2012. There were no commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs.

Modifications to loans not accounted for as TDRs totaled $127,000 at September 30, 2013, of which $70,000 was in the noncovered loan portfolio. These loans were not considered to be TDRs because the borrower was not under financial difficulty at the time of the modification or extension. Extensions are made at market rates as evidenced by comparison to newly originated loans of generally comparable credit quality and structure.

The following table presents TDRs at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013			December 31, 2012		
	Accrual Status	Nonaccrual Status	Total Modifications	Accrual Status	Nonaccrual Status	Total Modifications
Noncovered						
One-to-four family residential	$1,253	$845	$2,098	$1,436	$732	$2,168
Multifamily residential	—	780	780	—	825	825
Commercial real estate	3,844	29	3,873	3,936	3,315	7,251
Total real estate	5,097	1,654	6,751	5,372	4,872	10,244
One-to-four family residential construction	—	529	529	59	571	630
Commercial and land development	—	185	185	—	124	124
Total real estate construction	—	714	714	59	695	754
Home equity	14	148	162	15	159	174
Automobile	—	5	5	—	—	—
Commercial business	9	223	232	10	305	315
Total noncovered TDRs	5,120	2,744	7,864	5,456	6,031	11,487
Covered						
Commercial real estate	170	136	306	174	164	338
Home equity	—	34	34	—	—	—
Total covered TDRs	170	170	340	174	164	338
Total	$5,290	$2,914	$8,204	$5,630	$6,195	$11,825

During the nine months ended September 30, 2013, there were five new TDRs with pre-modification and post-modification balance of $218,000. Each involved an extension of a maturity, and, in four cases, a reduction in rate of between 1.0% and 2.0%. During the nine months ended September 30, 2012, there were fourteen new TDRs. The modifications, nine of which involved one customer relationship, involved extensions of the maturity dates by up to two years. None of the modifications involved a charge-off of a loan, although there are specific impairments on two of the loans totaling $290,000. During the three and nine months ended September 30, 2013 and 2012, the Company did not incur payment defaults on loans that had been modified within twelve months of those dates. A default on a TDR results in either a transfer to nonaccrual status or a charge-off.

The following table presents new TDRs during the nine months ended September 30, 2013 (dollars in thousands):

	Number of Contracts	Pre-Modification Balance	Post-Modification Balance
Noncovered loans			
One-to-four family residential	2	$ 100	$ 100
Commercial and land development	1	77	77
Home equity	1	36	36
Automobile	1	5	5
Total	5	$ 218	$ 218

During the three and nine months ended September 30, 2013, there were no charge-offs on any TDRs.

The following table presents TDRs at September 30, 2013 which were performing according to agreement (dollars in thousands):

	September 30, 2013	
	Number of Contracts	Recorded Investment
Noncovered loans		
One-to-four family residential	13	$2,098
Multifamily residential	1	780
Commercial real estate	3	3,873
One-to-four family residential construction	4	529
Commercial and land development	6	185
Home equity	3	162
Automobile	1	5
Commercial business	2	232
Total noncovered	33	7,864
Covered loans		
Commercial real estate	2	306
Home equity	1	34
Total covered	3	340
Total	36	$8,204

Purchased Credit Impaired Loans. The Bank has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. At the acquisition date, management estimated the fair value of the acquired loan portfolios which represented the expected cash flows from the portfolio discounted at a market-based rate. Included in the estimate of fair value was a discount credit adjustment that reflected expected credit losses. In estimating the preliminary fair value, management calculated the contractual amount and timing of undiscounted principal and interest payments (the “undiscounted contractual cash flows”) and estimated the amount and timing of undiscounted expected principal and interest payments (the “undiscounted expected cash flows”). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the “accretable yield”) is accreted into interest income over the life of the loans. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the credit risk in the acquired loan and lease portfolio at the acquisition date.

The following table details activity of accretable yield for the periods shown (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beginning balance of accretable yield	$12,126	$23,084	$15,004	$28,915
Changes in accretable yield due to:				
Transfer from nonaccretable difference	1,214	(191)	5,792	4,541
Accretable yield recognized as interest income	(2,702)	(5,510)	(10,158)	(16,073)
Ending balance of accretable yield	$10,638	$17,383	$10,638	$17,383

The carrying amount of loans for which income is not being recognized on loans individually accounted for under ASC 310-30 totaled $1.6 million and $2.0 million at September 30, 2013 and December 31, 2012, respectively, which were purchased in the CFB Acquisition. The carrying amount of purchased credit impaired loans acquired in the CFB Acquisition totaled $2.0 million and $2.4 million at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013, purchased credit impaired loans acquired in the LibertyBank Acquisition totaled $37.6 million.

The allowance for loan losses on loans accounted for under ASC 310-30 was $1.8 million and $2.6 million at September 30, 2013 and December 31, 2012, respectively. During the three months ended September 30, 2013 and 2012, provisions for loan losses on loans accounted for under ASC 310-30 totaled $34,000 and $486,000, respectively. Reductions in the allowance for loan losses on loans accounted for under ASC 310-30 due to increases in estimated cash flows totaled $240,000 and $28,000 during the three months ended September 30, 2013 and 2012, respectively.

During the nine months ended September 30, 2013 and 2012, provision for loan losses on loans accounted for under ASC 310-30 totaled $294,000 and $821,000, respectively. Reductions in the allowance for loan losses on loans accounted for under ASC 310-30 due to increases in estimated cash flows totaled $1.1 million and $521,000 during nine months ended September 30, 2013 and 2012, respectively.

Note 6 – Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The Company used the following methods and significant assumptions to estimate fair value:

Investments. The fair values for investments are determined by quoted market prices, if available (Level 1). For investments where quoted prices are not available, fair values are calculated based on market prices of similar investments (Level 2).

Impaired Loans. The fair value of impaired loans is generally based on recent collateral appraisals if the loan is collateral-based or on a cash flow analysis if repayment of the loan is generally dependent on the cash flow of the borrower. The collateral appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Collateral appraisals on loans secured by one-to-four family residential properties are updated when the loan becomes 120 days past due, or earlier if circumstances indicate the borrower will be unable to repay the loan under the terms of the note. Additionally, appraisals are updated if the borrower requests a modification to their loan. On commercial real estate and multifamily loans, appraisals are updated upon a determination that the borrower will be unable to repay the loan according to the terms of the note or upon a notice of default, whichever is earlier. Appraisals are updated on all loan types immediately prior to a foreclosure sale and at least annually thereafter once the collateral title has been transferred to the Bank. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually adjustments to the sales price of the comparable properties, as deemed appropriate by the appraiser, based on the age, condition, location or general characteristics of the subject property. If the income approach is used by an appraiser, a discount rate or a "capitalization rate" is applied to estimated net operating income for the income producing property. This capitalization rate is applied to estimate the fair value of the property. Capitalization rates vary based on the type of property (e.g., office, warehouse, retail) and local market dynamics (e.g., population, employment, absorption or saturation of specific property types), among other factors.

Real Estate Owned. Nonrecurring adjustments to certain commercial and residential real estate properties classified as REO are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. At least semi-annually, all REO is evaluated and the respective carrying balances are adjusted downward if warranted. Appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. These valuation techniques and adjustments are described in greater detail above under "Impaired Loans." Management will typically discount appraised values by 8.5%, which is based on historical experience to estimate selling costs, when determining the fair value of REO.

The following table summarizes the Company's financial assets that were measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2013				
Investments available-for-sale:				
Obligations of U.S. GSE	$—	$56,071	$—	$56,071
Obligations of states and political subdivisions	—	41,288	—	41,288
U.S. Treasury bonds	8,487	—	—	8,487
Mortgage-backed securities, GSE issued	—	307,936	—	307,936
Mortgage-backed securities, private label	—	244	—	244
December 31, 2012				
Investments available-for-sale:				
Obligations of U.S. GSE	$—	$57,660	$—	$57,660
Obligations of states and political subdivisions	—	40,890	—	40,890
Mortgage-backed securities, GSE issued	—	321,672	—	321,672
Mortgage-backed securities, private label	—	283	—	283

Additionally, certain assets are measured at fair value on a non-recurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment. The following table summarizes the Company's financial assets that were measured at fair value on a non-recurring basis at September 30, 2013, and December 31, 2012 (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2013				
Impaired loans:				
One-to-four family residential	$—	$—	$2,520	$2,520
Commercial and multifamily	—	—	2,775	2,775
Real estate construction	—	—	336	336
Home equity	—	—	128	128
Total impaired loans	—	—	5,759	5,759
REO:				
Commercial and multifamily	—	—	341	341
Real estate construction	—	—	1,949	1,949
Total REO	—	—	2,290	2,290
Total impaired loans and REO at fair value	$—	$—	$8,049	$8,049
December 31, 2012				
Impaired loans:				
One-to-four family residential	$—	$—	$2,802	$2,802
Commercial and multifamily	—	—	3,359	3,359
Real estate construction	—	—	429	429
Home equity	—	—	173	173
Total impaired loans	—	—	6,763	6,763
REO:				
One-to-four family residential	—	—	307	307
Commercial and multifamily	—	—	5,513	5,513
Real estate construction				