

MidWestOne Financial Group, Inc.
Form 10-Q
November 03, 2011

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

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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

For the transition period from _____ to _____
Commission file number 000-24630

MIDWESTONE FINANCIAL GROUP, INC.

102 South Clinton Street
Iowa City, IA 52240
(Address of principal executive offices, including Zip Code)

Registrant's telephone number: 319-356-5800

Iowa 42-1206172
(State of Incorporation) (I.R.S. Employer Identification No.)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 1, 2011, there were 8,571,762 shares of common stock, \$1.00 par value per share, outstanding.

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MIDWESTONE FINANCIAL GROUP, INC.

Form 10-Q Quarterly Report

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	\$ 25,117	\$ 13,720
Interest-bearing deposits in banks	13,841	6,077
Federal funds sold	2,739	726
Cash and cash equivalents	41,697	20,523
Investment securities:		
Available for sale	491,769	461,954
Held to maturity (fair value of \$2,498 as of September 30, 2011 and \$4,086 as of December 31, 2010)	2,490	4,032
Loans held for sale	1,689	702
Loans	955,755	938,035
Allowance for loan losses	(15,663)	(15,167)
Net loans	940,092	922,868
Loan pool participations, net	53,458	65,871
Premises and equipment, net	25,638	26,518
Accrued interest receivable	10,885	10,648
Other intangible assets, net	10,471	11,143
Bank-owned life insurance	27,454	26,772
Other real estate owned	3,916	3,850
Deferred income taxes	1,888	6,430
Other assets	21,112	19,948
Total assets	\$ 1,632,559	\$ 1,581,259
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	\$ 142,345	\$ 129,978
Interest-bearing checking	481,745	442,878
Savings	68,422	74,826
Certificates of deposit under \$100,000	360,605	380,082
Certificates of deposit \$100,000 and over	213,550	191,564
Total deposits	1,266,667	1,219,328
Securities sold under agreements to repurchase	41,929	50,194
Federal Home Loan Bank borrowings	138,988	127,200
Deferred compensation liability	3,662	3,712
Long-term debt	15,464	15,464
Accrued interest payable	1,717	1,872
Other liabilities	7,435	5,023
Total liabilities	1,475,862	1,422,793
Shareholders' equity:		
	\$ —	\$ 15,767

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Preferred stock, no par value, with a liquidation preference of \$1,000.00 per share; authorized 500,000 shares; no shares issued and outstanding at September 30, 2011 and 16,000 shares issued and outstanding at December 31, 2010		
Common stock, \$1.00 par value; authorized 15,000,000 shares at September 30, 2011 and December 31, 2010; issued 8,690,398 shares at September 30, 2011 and 8,690,398 shares at December 31, 2010; outstanding 8,583,337 shares at September 30, 2011 and 8,614,790 shares at December 31, 2010	8,690	8,690
Additional paid-in capital	80,285	81,268
Treasury stock at cost, 107,061 shares as of September 30, 2011 and 75,608 shares at December 31, 2010	(1,521)	(1,052)
Retained earnings	63,461	55,619
Accumulated other comprehensive income (loss)	5,782	(1,826)
Total shareholders' equity	156,697	158,466
Total liabilities and shareholders' equity	\$ 1,632,559	\$ 1,581,259

See accompanying notes to consolidated financial statements.

Table of ContentsMIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (dollars in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income:				
Interest and fees on loans	\$13,128	\$13,777	\$38,904	\$41,242
Interest and discount on loan pool participations	311	552	1,101	2,360
Interest on bank deposits	9	2	25	29
Interest on federal funds sold	—	—	1	4
Interest on investment securities:				
Taxable securities	2,703	2,445	8,257	7,115
Tax-exempt securities	1,092	946	3,199	2,922
Total interest income	17,243	17,722	51,487	53,672
Interest expense:				
Interest on deposits:				
Interest-bearing checking	954	1,010	2,956	3,213
Savings	47	47	164	126
Certificates of deposit under \$100,000	1,903	2,311	6,210	7,309
Certificates of deposit \$100,000 and over	827	859	2,514	2,744
Total interest expense on deposits	3,731	4,227	11,844	13,392
Interest on federal funds purchased	2	4	5	6
Interest on securities sold under agreements to repurchase	65	75	206	221
Interest on Federal Home Loan Bank borrowings	869	1,170	2,682	3,560
Interest on notes payable	9	10	29	34
Interest on long-term debt	165	157	490	457
Total interest expense	4,841	5,643	15,256	17,670
Net interest income	12,402	12,079	36,231	36,002
Provision for loan losses	750	1,250	2,550	4,250
Net interest income after provision for loan losses	11,652	10,829	33,681	31,752
Noninterest income:				
Trust, investment, and insurance fees	1,159	1,049	3,588	3,497
Service charges and fees on deposit accounts	973	1,118	2,779	3,016
Mortgage origination and loan servicing fees	531	958	1,790	1,983
Other service charges, commissions and fees	648	633	2,004	1,793
Bank-owned life insurance income	227	158	681	472
Impairment losses on investment securities	—	—	—	(189)
Gain (loss) on sale and call of available for sale securities	345	(158)	430	312
Gain (loss) on sale of premises and equipment	48	(1)	(195)	(282)
Total noninterest income	3,931	3,757	11,077	10,602
Noninterest expense:				
Salaries and employee benefits	5,703	5,838	17,312	17,319
Net occupancy and equipment expense	1,537	1,598	4,652	5,004
Professional fees	799	696	2,164	2,104
Data processing expense	406	421	1,282	1,292

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FDIC Insurance expense	331	726	1,284	2,123
Other operating expense	1,535	1,605	4,546	4,752
Total noninterest expense	10,311	10,884	31,240	32,594
Income before income tax expense	5,272	3,702	13,518	9,760
Income tax expense	1,434	916	3,552	2,365
Net income	\$3,838	\$2,786	\$9,966	\$7,395
Less: Preferred stock dividends and discount accretion	\$210	\$216	\$645	\$650
Net income available to common shareholders	\$3,628	\$2,570	\$9,321	\$6,745
Share and Per share information:				
Ending number of shares outstanding	8,583,337	8,613,982	8,583,337	8,613,982
Average number of shares outstanding	8,610,837	8,613,754	8,620,083	8,611,418
Diluted average number of shares	8,640,231	8,642,424	8,646,816	8,633,509
Earnings per common share - basic	\$0.42	\$0.30	\$1.08	\$0.78
Earnings per common share - diluted	0.42	0.30	1.08	0.78
Dividends paid per common share	0.06	0.05	0.16	0.15
See accompanying notes to consolidated financial statements.				

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$3,838	\$2,786	\$9,966	\$7,395
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	4,268	2,253	12,573	5,286
Reclassification adjustment for impairment losses included in net income	—	—	—	189
Reclassification adjustment for (gains) losses included in net income	(345)	158	(430)	(312)
Income tax expense	(1,470)	(892)	(4,535)	(1,927)
Other comprehensive income, net of tax	2,453	1,519	7,608	3,236
Comprehensive income	\$6,291	\$4,305	\$17,574	\$10,631
See accompanying notes to consolidated financial statements.				

Table of ContentsMIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited) (dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2009	\$ 15,699	\$ 8,690	\$ 81,179	\$(1,183)	\$48,079	\$ (256)	\$ 152,208
Net income	—	—	—	—	7,395	—	7,395
Dividends paid on common stock (\$0.15 per share)	—	—	—	—	(1,293)	—	(1,293)
Dividends paid on preferred stock	—	—	—	—	(600)	—	(600)
Stock options exercised (3,145 shares)	—	—	(19)	42	—	—	23
Release/lapse of restriction on 5,604 RSUs	—	—	(78)	78	—	—	—
Preferred stock discount accretion	50	—	—	—	(50)	—	—
Stock compensation	—	—	147	—	—	—	147
Other comprehensive income	—	—	—	—	—	3,236	3,236
Balance at September 30, 2010	\$ 15,749	\$ 8,690	\$ 81,229	\$(1,063)	\$53,531	\$ 2,980	\$ 161,116
Balance at December 31, 2010	\$ 15,767	\$ 8,690	\$ 81,268	\$(1,052)	\$55,619	\$ (1,826)	\$ 158,466
Net income	—	—	—	—	9,966	—	9,966
Dividends paid on common stock (\$0.16 per share)	—	—	—	—	(1,378)	—	(1,378)
Dividends paid on preferred stock	—	—	—	—	(513)	—	(513)
Stock options exercised (3,488 shares)	—	—	(9)	49	—	—	40
Release/lapse of restriction on 10,850 RSUs	—	—	(138)	140	—	—	2
Preferred stock discount accretion	233	—	—	—	(233)	—	—
Redemption of preferred stock	(16,000)	—	—	—	—	—	(16,000)
Repurchase of common stock warrant	—	—	(1,000)	—	—	—	(1,000)
Repurchase of common stock (45,039 shares)	—	—	—	(658)	—	—	(658)
Stock compensation	—	—	164	—	—	—	164
Other comprehensive income	—	—	—	—	—	7,608	7,608
Balance at September 30, 2011	\$ —	\$ 8,690	\$ 80,285	\$(1,521)	\$63,461	\$ 5,782	\$ 156,697

See accompanying notes to consolidated financial statements.

Table of ContentsMIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$9,966	\$7,395
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,550	4,250
Depreciation, amortization and accretion	3,673	4,454
Loss on sale of premises and equipment	195	282
Deferred income taxes	7	(895)
Stock-based compensation	164	147
Net gains on sale of available for sale securities	(430)	(312)
Net gains on sale of other real estate owned	(192)	(23)
Writedown of other real estate owned	9	112
Other-than-temporary impairment of investment securities	—	189
Increase in loans held for sale	(987)	(3,728)
Increase in accrued interest receivable	(237)	(262)
Increase in cash value of bank-owned life insurance	(682)	(472)
Increase in other assets	(1,164)	(821)
Decrease in deferred compensation liability	(50)	(71)
Increase in accounts payable, accrued expenses, and other liabilities	2,257	1,342
Net cash provided by operating activities	15,079	11,587
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	—	16,742
Proceeds from maturities and calls of available for sale securities	105,909	70,628
Purchases of available for sale securities	(124,636)	(128,595)
Proceeds from maturities and calls of held to maturity securities	1,545	3,766
Decrease (increase) in loans	(20,726)	3,997
Decrease in loan pool participations, net	12,413	11,892
Purchases of premises and equipment	(1,342)	(2,676)
Proceeds from sale of other real estate owned	1,069	2,137
Proceeds from sale of premises and equipment	296	1,893
Net cash used in investing activities	(25,472)	(20,216)
Cash flows from financing activities:		
Net increase in deposits	47,339	3,188
Net decrease in federal funds purchased	—	(175)
Net decrease in securities sold under agreements to repurchase	(8,265)	(319)
Proceeds from Federal Home Loan Bank borrowings	51,000	35,000
Repayment of Federal Home Loan Bank borrowings	(39,000)	(29,000)
Stock options exercised	42	23
Payments on long-term debt	—	(36)
Dividends paid	(1,891)	(1,893)
Repurchase of common stock	(658)	—
Redemption of preferred stock	(16,000)	—
Repurchase of common stock warrant	(1,000)	—
Net cash provided by financing activities	31,567	6,788

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Net increase (decrease) in cash and cash equivalents	21,174	(1,841)
Cash and cash equivalents at beginning of period	20,523	27,588
Cash and cash equivalents at end of period	\$41,697	\$25,747
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$15,410	\$17,897
Cash paid during the period for income taxes	\$2,204	\$3,725
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	\$952	\$3,329
See accompanying notes to consolidated financial statements.		

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MidWestOne Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1.Principles of Consolidation and Presentation

MidWestOne Financial Group, Inc. (“MidWestOne” or the “Company,” which is also referred to herein as “we,” “our” or “us”) is an Iowa corporation incorporated in 1983, a bank holding company under the Bank Holding Company Act of 1956 and a financial holding company under the Gramm-Leach-Bliley Act of 1999. Our principal executive offices are located at 102 South Clinton Street, Iowa City, Iowa 52240.

The Company owns 100% of the outstanding common stock of MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa (the “Bank”), and 100% of the common stock of MidWestOne Insurance Services, Inc., Oskaloosa, Iowa. We operate primarily through our bank subsidiary, MidWestOne Bank, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business, through three offices located in central and east-central Iowa.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with generally accepted accounting principles. The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of MidWestOne, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2010 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2011, and the results of operations and cash flows for the three and nine months ended September 30, 2011 and 2010. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring items, considered necessary for fair presentation. The results for the three and nine months ended September 30, 2011 may not be indicative of results for the year ending December 31, 2011, or for any other period.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the December 31, 2010 Annual Report on Form 10-K. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold.

2.Shareholders' Equity

Repurchase of Preferred Stock and Common Stock Warrant: On July 6, 2011, the Company announced that it had repurchased the 16,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (“Preferred Stock”), issued to the U.S. Department of the Treasury (the “Treasury”) under the Capital Purchase Program (the “CPP”) for an aggregate repurchase price of \$16.0 million.

On July 27, 2011, the Company announced that it had repurchased the common stock warrant issued to the Treasury as part of the CPP for \$1.0 million. The warrant had allowed Treasury to purchase 198,675 shares of MidWestOne common stock at \$12.08 per share.

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. None are currently issued or outstanding.

Common Stock: The number of authorized shares of common stock for the Company is 15,000,000.

On July 26, 2011, our Board of Directors authorized the implementation of a share repurchase program to repurchase up to \$1.0 million of the Company's outstanding shares of common stock through December 31, 2011. Pursuant to the program, we repurchased 45,039 shares of common stock during the third quarter of 2011 for an aggregate cost of \$658,000. Thus, as of September 30, 2011, \$342,000 in additional repurchases remained authorized under the program.

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On October 18, 2011, our Board of Directors amended the Company's share repurchase program by increasing the remaining amount of authorized repurchases to \$5.0 million, and extending the expiration of the program to December 31, 2012. As of September 30, 2011 the remaining amount of repurchases had been \$342,000, and the program was set to expire December 31, 2011. Pursuant to the program, we may repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company's management. The repurchase program does not require us to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available.

3.Earnings per Common Share

Basic earnings per common share computations are based on the weighted average number of shares of common stock actually outstanding during the period. The weighted average number of shares outstanding for the three months ended September 30, 2011 and 2010 was 8,610,837 and 8,613,754, respectively. The weighted average number of shares outstanding for the nine months ended September 30, 2011 and 2010 was 8,620,083 and 8,611,418, respectively. Diluted earnings per share amounts are computed by dividing net income available to common shareholders by the weighted average number of shares outstanding and all dilutive potential shares outstanding during the period. The computation of diluted earnings per share used a weighted average diluted number of shares outstanding of 8,640,231 and 8,642,424 for the three months ended September 30, 2011 and 2010, respectively, and 8,646,816 and 8,633,509 for the nine months ended September 30, 2011 and 2010, respectively.

The following table presents the computation of earnings per common share for the respective periods:

(dollars in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Weighted average number of shares outstanding during the period	8,610,837	8,613,754	8,620,083	8,611,418
Weighted average number of shares outstanding during the period including all dilutive potential shares	8,640,231	8,642,424	8,646,816	8,633,509
Net income	\$3,838	\$2,786	\$9,966	\$7,395
Preferred stock dividend accrued and discount accretion	(210) (216) (645) (650
Net income available to common stockholders	\$3,628	\$2,570	\$9,321	\$6,745
Earnings per share - basic	\$0.42	\$0.30	\$1.08	\$0.78
Earnings per share - diluted	\$0.42	\$0.30	\$1.08	\$0.78

4.Investment Securities

A summary of investment securities available for sale is as follows:

(in thousands)	As of September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	\$49,784	\$1,269	\$—	\$51,053
State and political subdivisions	194,528	9,973	(36) 204,465
Mortgage-backed securities and collateralized mortgage obligations	215,126	7,245	—	222,371
Corporate debt securities	13,604	213	(1,252) 12,565
	473,042	18,700	(1,288) 490,454

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Other equity securities	1,191	124	—	1,315
Total	\$474,233	\$18,824	\$(1,288)	\$491,769

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	As of December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	\$79,181	\$1,492	\$(339)	\$80,334
State and political subdivisions	187,847	3,994	(1,753)	190,088
Mortgage-backed securities and collateralized mortgage obligations	177,453	2,743	(412)	179,784
Corporate debt securities	10,896	349	(973)	10,272
	455,377	8,578	(3,477)	460,478
Other equity securities	1,183	296	(3)	1,476
Total	\$456,560	\$8,874	\$(3,480)	\$461,954

A summary of investment securities held to maturity is as follows:

	As of September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	\$1,574	\$3	\$—	\$1,577
Mortgage-backed securities	46	5	—	51
Corporate debt securities	870	—	—	870
Total	\$2,490	\$8	\$—	\$2,498

	As of December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	\$3,115	\$49	\$—	\$3,164
Mortgage-backed securities	50	5	—	55
Corporate debt securities	867	—	—	867
Total	\$4,032	\$54	\$—	\$4,086

The summary of available for sale investment securities shows that some of the securities in the available for sale investment portfolio had unrealized losses, or were temporarily impaired, as of September 30, 2011 and December 31, 2010. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date.

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The following presents information pertaining to securities with gross unrealized losses as of September 30, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	As of September 30, 2011						
	Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	—	\$—	\$—	\$—	\$—	\$—	\$—
State and political subdivisions	9	2,423	(36)	—	—	2,423	(36)
Mortgage-backed securities and collateralized mortgage obligations	—	—	—	—	—	—	—
Corporate debt securities	8	6,997	(213)	733	(1,039)	7,730	(1,252)
Common stocks	—	—	—	—	—	—	—
Total	17	\$9,420	\$ (249)	\$733	\$ (1,039)	\$10,153	\$ (1,288)

	As of December 31, 2010						
	Number of Securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	2	\$12,828	\$ (339)	\$—	\$—	\$12,828	\$ (339)
State and political subdivisions	93	53,326	(1,750)	112	(3)	53,438	(1,753)
Mortgage-backed securities and collateralized mortgage obligations	9	77,115	(412)	—	—	77,115	(412)
Corporate debt securities	4	799	(973)	—	—	799	(973)
Common stocks	1	71	(3)	—	—	71	(3)
Total	109	\$144,139	\$ (3,477)	\$112	\$ (3)	\$144,251	\$ (3,480)

The Company's assessment of other-than-temporary impairment ("OTTI") is based on its reasonable judgment of the specific facts and circumstances impacting each individual security at the time such assessments are made. The Company reviews and considers factual information, including expected cash flows, the structure of the security, the credit quality of the underlying assets and the current and anticipated market conditions.

All of the Company's mortgage-backed securities are issued by government-sponsored agencies. The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities do not expose the Company to credit-related losses. The Company's mortgage-backed securities portfolio consisted of securities underwritten to the standards of, and guaranteed by, the government-sponsored agencies of FHLMC, FNMA and GNMA.

The Company believes that the decline in the value of certain obligations of state and political subdivisions was primarily related to an overall widening of market spreads for many types of fixed income products since 2008, reflecting, among other things, reduced liquidity and the downgrades on the underlying credit default insurance providers. At September 30, 2011, approximately 60% of the municipal bonds held by the Company were Iowa based. The Company does not intend to sell these municipal obligations, and it is more likely than not that the Company will

not be required to sell them until the recovery of its cost at maturity. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, and the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily depressed as of September 30, 2011 and December 31, 2010.

At September 30, 2011, the Company owned six collateralized debt obligations backed by pools of trust preferred securities with an original cost basis of \$9.75 million. They are secured by trust preferred securities of banks and insurance companies throughout the United States, and were rated as investment grade securities when purchased between March 2006 and December 2007. However, due to several impairment charges recognized since 2008, the book value of these securities at September 30, 2011 had been reduced to \$1.8 million. Two of the securities have been written down to a value of zero,

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with the remaining four having an average cost basis of 29.5% of their original face value. All of the Company's trust preferred collateralized debt obligations are in mezzanine tranches and are currently rated less than investment grade by Moody's Investor Services. The market for these securities is considered to be inactive according to the guidance issued in FASB ASC Topic 820, "Fair Value Measurements and Disclosures." The Company used a discounted cash flow model to determine the estimated fair value of its pooled trust preferred collateralized debt obligations and to assess OTTI. The discounted cash flow analysis was performed in accordance with FASB ASC Topic 325. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), estimated deferral and default rates on collateral, and estimated cash flows. As part of its analysis of the collateralized debt obligations, the Company subjects the securities to a stress scenario which involves a level of deferrals or defaults in the collateral pool in excess of what the Company believes is likely.

At September 30, 2011, the analysis of the Company's six investments in pooled trust preferred securities indicated that the unrealized loss was temporary and that it is more likely than not that the Company would be able to recover the cost basis of these securities. The pace of new deferrals and/or defaults by the financial institutions underlying these pooled trust preferred securities has slowed in recent quarters, although they remain at high levels. The Company follows the provisions of FASB ASC Topic 320 in determining the amount of the OTTI recorded to earnings. The Company performed a discounted cash flow analysis, using the factors noted above, and determined that no additional OTTI existed for the three and nine months ended September 30, 2011, thus no impairment loss was charged to earnings.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if the overall economy and the financial condition of some of the issuers deteriorate further and the liquidity of these securities remains low. As a result, there is a risk that additional OTTI may occur in the future and any such amounts could be material to the Company's consolidated statements of operations.

A summary of the contractual maturity distribution of debt investment securities at September 30, 2011 is as follows:

	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
Due in one year or less	\$20,350	\$20,601	\$700	\$701
Due after one year through five years	105,351	109,105	874	876
Due after five years through ten years	82,442	86,886	—	—
Due after ten years	49,773	51,491	870	870
Mortgage-backed securities and collateralized mortgage obligations	215,126	222,371	46	51
Total	\$473,042	\$490,454	\$2,490	\$2,498

For mortgage-backed securities, actual maturities will differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

Other investment securities include investments in Federal Home Loan Bank ("FHLB") stock. The carrying value of the FHLB stock at September 30, 2011 and December 31, 2010 was \$12.3 million and \$10.6 million, respectively, which is included in the Other Assets line of the consolidated balance sheets. This security is not readily marketable and ownership of FHLB stock is a requirement for membership in the FHLB Des Moines. The amount of FHLB stock the Bank is required to hold is directly related to the amount of FHLB advances borrowed. Because there are no available market values, this security is carried at cost and evaluated for potential impairment each quarter. Redemption of this investment is at the option of the FHLB.

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Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains (losses) on investments, including impairment losses for the three and nine months ended September 30, 2011 and 2010, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
(in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	\$ 345	\$ 44	\$ 430	\$ 474
Gross realized losses	—	—	—	—
Other-than-temporary impairment	—	—	—	(189)
	345	44	430	285
Equity securities:				
Gross realized gains	—	1	—	50
Gross realized losses	—	(203)	—	(212)
Other-than-temporary impairment	—	—	—	—
	—	(202)	—	(162)
	\$ 345	\$ (158)	\$ 430	\$ 123

5.Loans Receivable and the Allowance for Loan Losses

The composition of loans and loan pools, and changes in the allowance for loan losses by portfolio segment are as follows:

	Allowance for Loan Losses and Recorded Investment in Loan Receivables As of September 30, 2011 and December 31, 2010						
(in thousands)	Agricultural	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
September 30, 2011							
Allowance for loan losses:							
Individually evaluated for impairment	\$ 267	\$ 437	\$ 335	\$ 200	\$ 13	\$ —	\$ 1,252
Collectively evaluated for impairment	1,083	4,371	4,714	3,080	283	880	14,411
Total	\$ 1,350	\$ 4,808	\$ 5,049	\$ 3,280	\$ 296	\$ 880	\$ 15,663
Loans acquired with deteriorated credit quality (loan pools)	\$ 10	\$ 225	\$ 602	\$ 390	\$ 121	\$ 786	\$