WILSON BANK HOLDING CO
Form 10-Q
November 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 0-20402

WILSON BANK HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Tennessee	62-1497076
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
623 West Main Street, Lebanon, TN	37087
(Address of principal executive offices)	(Zip Code)

(615) 444-2265
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company”, and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

(Do not check if a
smaller reporting
company)

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o 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 outstanding: 10,622,172 shares at November 8, 2018

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Part I. Financial Information
Item 1. Financial Statements
WILSON BANK HOLDING COMPANY
Consolidated Balance Sheets
September 30, 2018 and December 31, 2017

	(Unaudited) September 30, 2018	(Audited) December 31, 2017
	(Dollars in Thousands Except Share Amounts)	
Assets		
Loans	$ 1,967,744	$ 1,751,162
Less: Allowance for loan losses	(26,628)	(23,909)
Net loans	1,941,116	1,727,253
Securities:		
Held to maturity, at cost (market value $0 and $32,111, respectively)	—	32,480
Available-for-sale, at market (amortized cost $302,724 and $338,449, respectively)	287,524	332,716
Total securities	287,524	365,196
Loans held for sale	6,620	5,106
Interest bearing deposits	77,292	83,787
Restricted equity securities	3,012	3,012
Total earning assets	2,315,564	2,184,354
Cash and due from banks	10,129	11,731
Bank premises and equipment, net	58,539	54,215
Accrued interest receivable	6,634	6,266
Deferred income tax asset	10,205	7,424
Other real estate	2,032	1,635
Bank owned life insurance	30,739	29,475
Other assets	21,450	17,128
Goodwill	4,805	4,805
Total assets	$ 2,460,097	$ 2,317,033
Liabilities and Stockholders’ Equity		
Deposits	$ 2,159,686	$ 2,037,745
Securities sold under repurchase agreements	—	864
Accrued interest and other liabilities	18,244	10,694
Total liabilities	2,177,930	2,049,303
Stockholders’ equity:		
Common stock, $2.00 par value; authorized 50,000,000 shares, issued and outstanding 10,622,022 and 10,450,711 shares, respectively	21,244	20,901
Additional paid-in capital	73,818	66,047
Retained earnings	198,332	185,017
Net unrealized losses on available-for-sale securities, net of income taxes of $3,973 and $1,498, respectively	(11,227)	(4,235)
Total stockholders’ equity	282,167	267,730
Total liabilities and stockholders’ equity	$ 2,460,097	$ 2,317,033

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Earnings
Three Months and Nine Months Ended September 30, 2018 and 2017 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in Thousands Except Per Share Amounts)			
Interest income:				
Interest and fees on loans	$24,342	$ 20,944	$69,522	$ 61,813
Interest and dividends on securities:				
Taxable securities	1,362	1,316	4,630	3,950
Exempt from Federal income taxes	245	280	846	925
Interest on loans held for sale	53	77	134	210
Interest on Federal funds sold	10	30	40	65
Interest on balances held at depository institutions	215	234	633	481
Interest and dividends on restricted securities	71	23	135	89
Total interest income	26,298	22,904	75,940	67,533
Interest expense:				
Interest on negotiable order of withdrawal accounts	483	338	1,257	968
Interest on money market and savings accounts	1,147	630	2,737	1,560
Interest on time deposits	2,024	1,361	5,398	3,909
Interest on federal funds purchased	2	—	4	8
Interest on securities sold under repurchase agreements	—	3	16	5
Total interest expense	3,656	2,332	9,412	6,450
Net interest income before provision for loan losses	22,642	20,572	66,528	61,083
Provision for loan losses	1,088	436	3,201	1,245
Net interest income after provision for loan losses	21,554	20,136	63,327	59,838
Non-interest income:				
Service charges on deposit accounts	1,770	1,607	4,981	4,530
Other fees and commissions	3,390	2,760	10,198	8,931
Income on BOLI and annuity contracts	206	215	627	656
Gain on sale of loans	1,287	1,124	3,311	3,214
Gain (loss) on the sale of fixed assets	(2)	—	(2)	8
Gain (loss) on sale of other real estate	(38)	(14)	(38)	40
Loss on sale of securities	(79)	(23)	(650)	(61)
Loss on sale of other assets	—	—	(3)	(2)
Total non-interest income	6,534	5,669	18,424	17,316
Non-interest expense:				
Salaries and employee benefits	10,005	9,442	30,561	27,313
Occupancy expenses, net	1,194	997	3,249	2,782
Advertising & public relations expense	576	611	1,817	1,700
Furniture and equipment expense	778	528	2,022	1,572
Data processing expense	751	713	2,204	2,094
ATM & interchange expense	807	673	2,228	1,891
Directors' fees	117	163	396	476
Other operating expenses	3,142	2,240	8,605	7,140
Total non-interest expense	17,370	15,367	51,082	44,968
Earnings before income taxes	10,718	10,438	30,669	32,186

Income taxes	2,746	3,969	7,908	12,234
Net earnings	$7,972	$ 6,469	$22,761	$ 19,952
Weighted average number of common shares outstanding-basic	10,601,882	10,435,032	10,544,584	10,392,828
Weighted average number of common shares outstanding-diluted	10,611,766	10,440,277	10,551,536	10,397,826
Basic earnings per common share	$0.75	$ 0.62	$2.16	$ 1.92
Diluted earnings per common share	$0.75	$ 0.62	$2.16	$ 1.92
Dividends per share	$0.55	$ 0.35	$0.90	$ 0.65

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Comprehensive Earnings
Three Months and Nine Months Ended September 30, 2018 and 2017
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In Thousands)			
Net earnings	$7,972	$6,469	$22,761	$19,952
Other comprehensive earnings (loss), net of tax:				
Unrealized gains (losses) on available-for-sale securities arising during period, net of taxes of $614, $44, $2,645 and $1,280, respectively	(1,737)	(73)	(7,472)	2,062
Reclassification adjustment for net losses on the sale of securities included in net earnings, net of taxes of $21, $8, $170 and $23, respectively	58	15	480	38
Other comprehensive earnings (loss)	(1,679)	(58)	(6,992)	2,100
Comprehensive earnings	$6,293	$6,411	$15,769	$22,052

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2018 and 2017
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
	(In Thousands)	
Cash flows from operating activities:		
Interest received	$77,403	$70,032
Fees and commissions received	15,179	13,461
Proceeds from sale of loans held for sale	96,428	109,054
Origination of loans held for sale	(94,631)	(102,167)
Interest paid	(8,741)	(6,423)
Cash paid to suppliers and employees	(45,786)	(36,172)
Income taxes paid	(8,011)	(13,712)
Net cash provided by operating activities	31,841	34,073
Cash flows from investing activities:		
Proceeds from maturities, calls, and principal payments of held-to-maturity securities	4,651	3,578
Proceeds from maturities, calls, and principal payments of available-for-sale securities	30,334	29,556
Proceeds from the sale of available-for-sale securities	35,093	25,207
Proceeds from the sale of held-to-maturity securities	4,764	—
Purchase of available-for-sale securities	(9,118)	(53,967)
Loans made to customers, net of repayments	(217,539)	(60,743)
Purchase of bank owned life insurance and annuity contracts	(637)	—
Purchase of premises and equipment	(6,958)	(8,836)
Proceeds from sale of premises and equipment	—	8
Proceeds from sale of other real estate	33	2,696
Proceeds from sale of other assets	4	1
Net cash used in investing activities	(159,373)	(62,500)
Cash flows from financing activities:		
Net increase in non-interest bearing, savings and NOW deposit accounts	64,729	71,280
Net increase in time deposits	57,212	7,900
Net increase (decrease) in securities sold under repurchase agreements	(864)	618
Dividends paid	(9,446)	(6,730)
Proceeds from sale of common stock pursuant to dividend reinvestment	7,470	5,266
Proceeds from exercise of stock options	334	116
Net cash provided by financing activities	119,435	78,450
Net increase in cash and cash equivalents	(8,097)	50,023
Cash and cash equivalents at beginning of period	95,518	47,918
Cash and cash equivalents at end of period	$87,421	$97,941

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows, Continued
Nine Months Ended September 30, 2018 and 2017
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Nine Months Ended September 30, 2018	2017
	(In Thousands)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	22,761	19,952
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization, and accretion	4,463	4,146
Provision for loan losses	3,201	1,245
Loss (gain) on sale of other real estate	38	(40)
Loss on sale of securities	650	61
Stock-based compensation expense	310	261
Loss on the sale of other assets	3	2
Loss (gain) on the sale of bank premises and equipment	2	(8)
Decrease (increase) in loans held for sale	(1,514)	3,673
Decrease (increase) in deferred tax asset	(306)	(851)
Increase in other assets, bank owned life insurance and annuity contract earnings, net	(4,949)	(700)
Decrease (increase) in interest receivable	(368)	501
Increase in other liabilities	6,676	6,431
Increase (decrease) in taxes payable	203	(627)
Increase in interest payable	671	27
Total adjustments	9,080	14,121
Net cash provided by operating activities	$31,841	$34,073
Supplemental schedule of non-cash activities:		
Unrealized gain (loss) in value of securities available-for-sale, net of taxes of $2,475 and $1,303 for the nine months ended September 30, 2018 and 2017, respectively	$(6,992)	$2,100
Non-cash transfers from held-to-maturity securities to available-for-sale securities	$22,800	$—
Non-cash transfers from loans to other real estate	$563	$173
Non-cash transfers from other real estate to loans	$95	$195
Non-cash transfers from loans to other assets	$7	$2

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Notes to Consolidated Financial Statements
(Unaudited)
Note 1. Summary of Significant Accounting Policies
Nature of Business — Wilson Bank Holding Company (the “Company”) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Wilson Bank & Trust (the “Bank”). The Bank is a commercial bank headquartered in Lebanon, Tennessee. The Bank provides a full range of banking services in its primary market areas of Wilson, Davidson, Rutherford, Trousdale, Sumner, Dekalb, Putnam and Smith Counties, Tennessee.

Basis of Presentation — The accompanying unaudited, consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated audited financial statements and related notes appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.
These consolidated financial statements include the accounts of the Company and the Bank. Significant intercompany transactions and accounts are eliminated in consolidation.
Use of Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, the valuation of deferred tax assets, determination of any impairment of goodwill or other intangibles, other-than-temporary impairment of securities, the valuation of other real estate, and the fair value of financial instruments. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes to the Company’s significant accounting policies as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.
Loans — Loans are reported at their outstanding principal balances less unearned income, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method.
Loans are charged off when management believes that the full collectability of the loan is unlikely. As such, a loan may be partially charged-off after a “confirming event” has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely.
Loans are placed on nonaccrual status when there is a significant deterioration in the financial condition of the borrower, which often is determined when the principal or interest on the loan is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Generally, all interest accrued but not collected for loans that are placed on nonaccrual status, is reversed against current income. Interest income is subsequently recognized only to the extent cash payments are received while the loan is classified as nonaccrual, but interest income recognition is reviewed on a case-by-case basis. A nonaccrual loan is returned to accruing status once the loan has been brought current and collection is reasonably assured or the loan has been “well-secured” through other techniques. Past due status is determined based on the contractual due date per the underlying loan agreement.

All loans that are placed on nonaccrual are further analyzed to determine if they should be classified as impaired loans. At December 31, 2017 and September 30, 2018, there were no loans classified as nonaccrual that were not also deemed to be impaired except for those loans not individually evaluated for impairment as described below. A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan. This determination is made using one or more of a variety of techniques, which include a review of the borrower's financial condition, debt-service coverage ratios, global cash flow analysis, guarantor support, other loan file information, meetings with borrowers, inspection or reappraisal of collateral and/or consultation with legal counsel as well as results of reviews of other similar industry credits (e.g. builder loans, development loans, church loans, etc). Loans with an identified weakness and principal balance of $500,000 or more are subject to individual identification for impairment. Individually identified impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a specific valuation allowance is established as a component of the allowance for loan losses or, in the case of collateral dependent loans, the excess may be charged off. Changes to the valuation allowance are recorded as a component of the provision for loan losses. Any subsequent adjustments to present value calculations for impaired loan valuations as a result of the passage of time, such as changes in the anticipated payback period for repayment, are recorded as a component of the provision for loan losses. For loans less than $500,000, the Company assigns a valuation allowance to these loans utilizing an allocation rate equal to the allocation rate calculated for non-impaired loans of a similar type.

Allowance for Loan Losses — The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable losses in the loan portfolio. Loan losses are charged against the allowance when they are known. Subsequent recoveries are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, volume, growth, composition of the loan portfolio, homogeneous pools of loans, risk ratings of specific loans, historical loan loss factors, loss experience of various loan segments, identified impaired loans and other factors related to the portfolio. This evaluation is performed quarterly and is inherently subjective, as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on any impaired loans.

In assessing the adequacy of the allowance, we also consider the results of our ongoing independent loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, independent loan reviewers, and reviews that may have been conducted by third-party reviewers. We incorporate relevant loan review results in the loan impairment determination. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company's allowance for loan losses, and may require the Company to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

Recently Issued Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We adopted ASU 2014-09 effective January 1, 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, "Leases (Topic 842)." The amendments in this ASU are effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. As a result of the amendment, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustments, such as adjustments for initial direct costs. For income statement purposes, FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. We currently do not expect this ASU to have a material impact on our consolidated financial statements.

In June 2016, FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting

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for credit losses on held-to-maturity debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. We are currently evaluating the potential impact of ASU 2016-13 on our financial statements. We are also evaluating the sufficiency of current systems and data needed to comply with this ASU. While we are currently unable to reasonably estimate the impact on our consolidated financial statements of adopting ASU 2016-13, we expect that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.

In March 2017, FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 provides guidance on the amortization period for certain purchased callable debt securities held at a premium. This update shortens the amortization period for the premium to the earliest call date. Under current generally accepted accounting principles, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument related to certain cash flow issues. ASU 2017-08 will be effective for us on January 1, 2019. We are currently evaluating the potential impact of ASU 2017-08 on our consolidated financial statements. We expect that the impact of adoption will be significantly influenced by the composition of our securities portfolio as of the adoption date.

In February 2018, FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)." On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act). The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The Company elected to adopt this update as of December 31, 2017 and as a result reclassified $697,000 from retained earnings to accumulated other comprehensive income.

In August 2018, FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) - Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in this update remove disclosures that no longer are considered cost beneficial, modify/clarify the specific requirements of certain disclosures, and add disclosure requirements identified as relevant. ASU 2018-13 will be effective for us on January 1, 2020, with early adoption permitted, and is not expected to have a significant impact on our consolidated financial statements.

Other than those previously discussed, there were no other recently issued accounting pronouncements that we believe are reasonably likely to materially impact the Company.

Subsequent Events - Accounting Standards Codification (ASC) Topic 855, Subsequent Events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Wilson Bank Holding Company evaluated all events or transactions that occurred after June 30, 2018 through the date of the issued financial statements.

Note 2. Loans and Allowance for Loan Losses

For financial reporting purposes, the Company classifies its loan portfolio based on the underlying collateral utilized to secure each loan. This classification is consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the Federal Deposit Insurance Corporation ("FDIC").

The following schedule details the loans of the Company at September 30, 2018 and December 31, 2017:

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	(In Thousands) September 30, 2018	December 31, 2017
Mortgage loans on real estate		
Residential 1-4 family	$443,392	$406,667
Multifamily	124,515	91,992
Commercial	709,067	661,223
Construction and land development	478,835	392,039
Farmland	24,834	34,212
Second mortgages	9,424	8,952
Equity lines of credit	75,713	60,650
Total mortgage loans on real estate	1,865,780	1,655,735
Commercial loans	51,226	47,939
Agricultural loans	1,737	1,665
Consumer installment loans		
Personal	43,412	39,624
Credit cards	3,494	3,385
Total consumer installment loans	46,906	43,009
Other loans	9,231	10,193
Total loans before net deferred loan fees	1,974,880	1,758,541
Net deferred loan fees	(7,136)	(7,379)
Total loans	1,967,744	1,751,162
Less: Allowance for loan losses	(26,628)	(23,909)
Net loans	$1,941,116	$1,727,253

Risk characteristics relevant to each portfolio segment are as follows:

Construction and land development: Loans for non-owner-occupied real estate construction or land development are generally repaid through cash flow related to the operation, sale or refinance of the property. The Company also finances construction loans for owner-occupied properties. A portion of the Company's construction and land portfolio segment is comprised of loans secured by residential product types (residential land and single-family construction). With respect to construction loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction and land development loans are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption and lease rates, market sales activity, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayments substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

1-4 family residential real estate: Residential real estate loans represent loans to consumers or investors to finance a residence. These loans are typically financed on 15 to 30 year amortization terms, but generally with shorter maturities of 5 to 15 years. Many of these loans are extended to borrowers to finance their primary or secondary residence. Loans to an investor secured by a 1-4 family residence will be repaid from either the rental income from the property or from the sale of the property. This loan segment also includes closed-end home equity loans that are secured by a first or second mortgage on the borrower’s residence. This allows customers to borrow against the equity in their home. Loans in this portfolio segment are underwritten and approved based on a number of credit quality criteria including limits on maximum Loan-to-Value ("LTV") ratios, minimum credit scores, and maximum debt to income ratios. Real estate market values as of the time the loan is made directly affect the amount of credit extended and, in addition, changes in these residential property values impact the depth of potential losses in this portfolio segment.

1-4 family HELOC: This loan segment includes open-end home equity loans that are secured by a first or second mortgage on the borrower's residence. This allows customers to borrow against the equity in their home utilizing a revolving line of credit. These loans are underwritten and approved based on a number of credit quality criteria including limits on maximum LTV ratios, minimum credit scores, and maximum debt to income ratios. Real estate market values as of the time the loan is made directly affect the amount of credit extended and, in addition, changes in these residential property values impact the depth of potential losses in this portfolio segment. Because of the revolving nature of these loans, as well as the fact that many represent second mortgages, this portfolio segment can contain more risk than the amortizing 1-4 family residential real estate loans.

Multi-family and commercial real estate: Multi-family and commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate.

Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting the market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. Non-owner occupied commercial real estate loans are loans secured by multifamily and commercial properties where the primary source of repayment is derived from rental income associated with the property (that is, loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. These loans are made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail properties. Owner-occupied commercial real estate loans are loans where the primary source of repayment is the cash flow from the ongoing operations and business activities conducted by the party, or affiliate of the party, who owns the property.

Commercial and Industrial: The commercial and industrial loan portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower, if any. The cash flows of borrowers, however, may not be as expected and any collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and usually incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Consumer: The consumer loan portfolio segment includes non-real estate secured direct loans to consumers for household, family, and other personal expenditures. Consumer loans may be secured or unsecured and are usually structured with short or medium term maturities. These loans are underwritten and approved based on a number of consumer credit quality criteria including limits on maximum LTV ratios on secured consumer loans, minimum credit scores, and maximum debt to income ratios. Many traditional forms of consumer installment credit have standard monthly payments and fixed repayment schedules of one to five years. These loans are made with either fixed or variable interest rates that are based on specific indices. Installment loans fill a variety of needs, such as financing the purchase of an automobile, a boat, a recreational vehicle or other large personal items, or for consolidating debt. These loan may be unsecured or secured by an assignment of title, as in an automobile loan, or by money in a bank account. In addition to consumer installment loans, this portfolio segment also includes secured and unsecured personal lines of credit as well as overdraft protection lines. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

The adequacy of the allowance for loan losses is assessed at the end of each calendar quarter. The level of the allowance is based upon evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, current and anticipated economic conditions, historical loss experience, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations.

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Transactions in the allowance for loan losses for the nine months ended September 30, 2018 and year ended December 31, 2017 are summarized as follows:

	(In Thousands)									
	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
September 30, 2018										
Allowance for loan losses:										
Beginning balance	$5,156	1,011	9,267	6,094	487	94	723	401	676	23,909
Provision	1,147	296	322	1,001	(271)	1	123	4	578	3,201
Charge-offs	(78)	—	—	(18)	—	—	—	—	(839)	(935)
Recoveries	40	—	—	68	—	—	1	3	341	453
Ending balance	$6,265	1,307	9,589	7,145	216	95	847	408	756	26,628
Ending balance individually evaluated for impairment	$884	—	310	—	—	—	—	—	—	1,194
Ending balance collectively evaluated for impairment	$5,381	1,307	9,279	7,145	216	95	847	408	756	25,434
Loans:										
Ending balance	$443,392	124,515	709,067	478,835	24,834	9,424	75,713	51,226	57,874	1,974,880
Ending balance individually evaluated for impairment	$3,342	—	2,477	844	310	—	—	—	—	6,973
Ending balance collectively evaluated for impairment	$440,050	124,515	706,590	477,991	24,524	9,424	75,713	51,226	57,874	1,967,907

	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
December 31, 2017										
Allowance for loan losses:										
Beginning balance	$4,571	839	9,541	5,387	658	112	675	386	562	22,731
Provision	675	172	(414)	586	(168)	(10)	45	9	786	1,681
Charge-offs	(118)	—	—	—	(3)	(11)	—	—	(1,090)	(1,222)
Recoveries	28	—	140	121	—	3	3	6	418	719

Ending balance	$5,156	1,011	9,267	6,094	487	94	723	401	676	23,909
Ending balance individually evaluated for impairment	$136	—	291	—	—	—	—	—	—	427
Ending balance collectively evaluated for impairment	$5,020	1,011	8,976	6,094	487	94	723	401	676	23,482
Loans:										
Ending balance	$406,667	91,992	661,223	392,039	34,212	8,952	60,650	47,939	54,867	1,758,541
Ending balance individually evaluated for impairment	$2,678	—	3,046	1,182	—	—	—	—	—	6,906
Ending balance collectively evaluated for impairment	$403,989	91,992	658,177	390,857	34,212	8,952	60,650	47,939	54,867	1,751,635

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Impaired Loans

At September 30, 2018, the Company had certain impaired loans of $2.1 million which were on non-accruing interest status. At December 31, 2017, the Company had certain impaired loans of $1.7 million which were on non-accruing interest status. In each case, at the date such loans were placed on nonaccrual status, the Company reversed all previously accrued interest income against current year earnings. The following table presents the Company's impaired loans at September 30, 2018 and December 31, 2017.

	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2018					
With no related allowance recorded:					
Residential 1-4 family	$1,654	1,629	—	2,141	99
Multifamily	—	—	—	—	—
Commercial real estate	318	318	—	464	12
Construction	846	844	—	946	32
Farmland	310	310	—	233	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$3,128	3,101	—	3,784	143
With related allowance recorded:					
Residential 1-4 family	$1,768	1,988	884	1,474	63
Multifamily	—	—	—	—	—
Commercial real estate	2,161	2,159	310	2,161	13
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$3,929	4,147	1,194	3,635	76
Total					
Residential 1-4 family	$3,422	3,617	884	3,615	162
Multifamily	—	—	—	—	—
Commercial real estate	2,479	2,477	310	2,625	25
Construction	846	844	—	946	32
Farmland	310	310	—	233	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$7,057	7,248	1,194	7,419	219

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	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2017					
With no related allowance recorded:					
Residential 1-4 family	$2,314	2,322	—	742	103
Multifamily	—	—	—	—	—
Commercial real estate	893	889	—	902	39
Construction	1,185	1,182	—	1,354	64
Farmland	—	—	—	26	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$4,392	4,393	—	3,024	206
With related allowance recorded:					
Residential 1-4 family	$409	581	136	461	29
Multifamily	—	—	—	—	—
Commercial real estate	2,157	2,157	291	2,894	17
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$2,566	2,738	427	3,355	46
Total:					
Residential 1-4 family	$2,723	2,903	136	1,203	132
Multifamily	—	—	—	—	—
Commercial real estate	3,050	3,046	291	3,796	56
Construction	1,185	1,182	—	1,354	64
Farmland	—	—	—	26	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$6,958	7,131	427	6,379	252

Impaired loans also include loans that the Bank may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses that the Bank may otherwise incur. These loans are classified as impaired loans and, if on non-accruing status as of the date of restructuring, the loans are included in the nonperforming loan balances. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date.

Troubled Debt Restructuring

The Bank's loan portfolio includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic or other concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

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The following table summarizes the carrying balances of TDRs at September 30, 2018 and December 31, 2017.

	September 30, 2018	December 31, 2017
	(In thousands)	
Performing TDRs	$1,758	$ 2,250
Nonperforming TDRs	1,324	1,834
Total TDRS	$3,082	$ 4,084

The following table outlines the amount of each troubled debt restructuring categorized by loan classification for the nine months ended September 30, 2018 and the year ended December 31, 2017 (in thousands, except for number of contracts):

	September 30, 2018			December 31, 2017		
	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance
Residential 1-4 family	3	$ 49	$ 49	6	$ 610	$ 535
Multifamily	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Farmland	1	310	310	1	86	86
Second mortgages	—	—	—	—	—	—
Equity lines of credit	—	—	—	—	—	—
Commercial	—	—				