

NORTHRIM BANCORP INC
Form 10-Q
November 07, 2013
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2013

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 000-33501

NORTHRIM BANCORP, INC.

(Exact name of registrant as specified in its charter)

Alaska

(State or other jurisdiction of incorporation or organization)

92-0175752

(I.R.S. Employer Identification No.)

3111 C Street

Anchorage, Alaska 99503

(Address of principal executive offices) (Zip Code)

(907) 562-0062

(Registrant's telephone number, including area code)

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 (§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 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 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 Exchange Act).

Yes No

The number of shares of the issuer's Common Stock, par value \$1 per share, outstanding at November 7, 2013 was 6,519,983.

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PART I. FINANCIAL INFORMATION

These consolidated financial statements should be read in conjunction with the financial statements, accompanying notes and other relevant information included in Northrim BanCorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012.

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

NORTHRIM BANCORP, INC.

Consolidated Balance Sheets

(In Thousands, Except Share Data)	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$ 34,686	\$ 40,834
Interest bearing deposits in other banks	50,909	113,979
Investment securities available for sale	238,488	203,918
Investment securities held to maturity	2,745	2,749
Total portfolio investments	241,233	206,667
Investment in Federal Home Loan Bank stock	1,914	1,967
Loans held for sale	13,901	11,705
Loans	754,355	704,213
Allowance for loan losses	(16,528)	(16,408)
Net loans	751,728	699,510
Purchased receivables, net	13,801	19,022
Accrued interest receivable	2,762	2,618
Other real estate owned, net	3,698	4,543
Premises and equipment, net	28,194	27,908
Goodwill and intangible assets, net	7,994	8,170
Other assets	42,218	34,889
Total assets	\$ 1,179,137	\$ 1,160,107
LIABILITIES		
Deposits:		
Demand	\$ 361,334	\$ 361,167
Interest-bearing demand	134,955	146,262
Savings	93,717	87,241
Alaska CDs	106,228	101,165
Money market	182,227	181,598
Certificates of deposit less than \$100,000	35,737	39,343
Certificates of deposit greater than \$100,000	54,031	53,353
Total deposits	968,229	970,129
Securities sold under repurchase agreements	23,015	19,038

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Borrowings	6,578	4,479
Junior subordinated debentures	18,558	18,558
Other liabilities	20,154	11,550
Total liabilities	1,036,534	1,023,754

SHAREHOLDERS' EQUITY

Preferred stock, \$1 par value, 2,500,000 shares authorized, none issued or outstanding		
Common stock, \$1 par value, 10,000,000 shares authorized, 6,515,537 and 6,511,649 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	6,516	6,512
Additional paid-in capital	54,051	53,638
Retained earnings	81,293	74,742
Accumulated other comprehensive income	749	1,368
Total Northrim BanCorp shareholders' equity	142,609	136,260
Noncontrolling interest	(6)	93
Total shareholders' equity	142,603	136,353
Total liabilities and shareholders' equity	\$ 1,179,137	\$ 1,160,107

See notes to consolidated financial statements

NORTHRIM BANCORP, INC.

Consolidated Statements of Income

(In Thousands, Except Per Share Data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest Income				
Interest and fees on loans	\$ 10,803	\$ 10,416	\$ 31,879	\$ 30,946
Interest on investment securities available for sale	635	673	1,924	2,140
Interest on investment securities held to maturity	29	35	88	110
Interest on deposits in other banks	57	80	165	183
Total Interest Income	11,524	11,204	34,056	33,379
Interest Expense				
Interest expense on deposits, borrowings and junior subordinated debentures	502	611	1,543	1,936
Net Interest Income	11,022	10,593	32,513	31,443
Provision (benefit) for loan losses	(785)	(1,437)	(635)	(1,259)
Net Interest Income After Provision (Benefit) for Loan Losses	11,807	12,030	33,148	32,702
Other Operating Income				
Purchased receivable income	757	826	2,227	2,250
Employee benefit plan income	541	609	1,742	1,765
Service charges on deposit accounts	549	536	1,613	1,673
Electronic banking income	567	520	1,607	1,496
Equity in earnings from RML	336	963	1,116	1,669
Gain on sale of securities	-	-	318	273
Rental income	26	196	81	594
Other income	467	507	1,380	1,369
Total Other Operating Income	3,243	4,157	10,084	11,089
Other Operating Expense				
Salaries and other personnel expense	6,108	5,484	17,429	16,344
Occupancy expense	851	842	2,597	2,758
Marketing expense	473	436	1,365	1,308
Professional and outside services	479	427	1,137	1,103
Equipment expense	321	257	900	893
Software expense	257	304	789	825
Amortization of low income housing tax investments	240	231	732	693
Internet banking expense	207	171	580	528
Insurance expense	205	236	610	655

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Reserve for (recovery from) purchased receivables	-	349	(31)	349
Intangible asset amortization expense	58	64	175	193
OREO expense, net rental income and gains on sale	(18)	249	(12)	464
Other operating expense	895	942	2,893	2,932
Total Other Operating Expense	10,076	9,992	29,164	29,045
Income Before Provision for Income Taxes	4,974	6,195	14,068	14,746
Provision for income taxes	1,510	1,991	4,235	4,568
Net Income	3,464	4,204	9,833	10,178
Less: Net income (loss) attributable to the noncontrolling interest	(10)	138	189	394
Net Income Attributable to Northrim BanCorp	\$ 3,474	\$ 4,066	\$ 9,644	\$ 9,784
Earnings Per Share, Basic	\$ 0.53	\$ 0.63	\$ 1.48	\$ 1.51
Earnings Per Share, Diluted	\$ 0.53	\$ 0.62	\$ 1.46	\$ 1.49
Weighted Average Shares Outstanding, Basic	6,515,455	6,471,572	6,514,441	6,469,673
Weighted Average Shares Outstanding, Diluted	6,607,201	6,570,772	6,594,482	6,570,287

See notes to consolidated financial statements

NORTHRIM BANCORP, INC.

Consolidated Statements of Comprehensive Income

(In Thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Net income	\$ 3,464	\$ 4,204	\$ 9,833	\$ 10,178
Other comprehensive income, net of tax:				
Securities available for sale:				
Unrealized gains (losses) arising during the period	\$ 156	\$ 757	\$ (763)	\$ 2,220
Reclassification of net gains included in net income (net of tax expense of \$131,000 and \$112,000 for the first nine months of 2013 and 2012, respectively)	-	-	(187)	(161)
Income tax benefit (expense) related to unrealized (losses) gains	(46)	(311)	331	(912)
Total other comprehensive income (loss)	110	446	(619)	1,147
Comprehensive income	3,574	4,650	9,214	11,325
Less: comprehensive income (loss) attributable to the noncontrolling interest	10	(138)	(189)	(394)
Total comprehensive income attributable to Northrim BanCorp	\$ 3,584	\$ 4,512	\$ 9,025	\$ 10,931

See notes to consolidated financial statements

NORTHRIM BANCORP, INC.

Consolidated Statements of Changes in Shareholders' Equity

(In Thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated	Non- controlling Interest	Total
	Number of Shares	Par Value			Other Comprehensive Income		
Balance as of January 1, 2012	6,467	\$ 6,467	\$ 53,164	\$ 65,469	\$ 283	\$ 52	\$ 125,435
Cash dividend declared	-	-	-	(3,673)	-	-	(3,673)
Stock based compensation expense	-	-	454	-	-	-	454
Exercise of stock options	45	45	(213)	-	-	-	(168)
Excess tax benefits from share-based payment arrangements	-	-	233	-	-	-	233
Distributions to noncontrolling interest	-	-	-	-	-	(471)	(471)
Other comprehensive income	-	-	-	-	1,085	-	1,085
Net income attributable to the noncontrolling interest	-	-	-	-	-	512	512
Net income attributable to Northrim BanCorp	-	-	-	12,946	-	-	12,946
Twelve Months Ended December 31, 2012	6,512	\$ 6,512	\$ 53,638	\$ 74,742	\$ 1,368	\$ 93	\$ 136,353
Cash dividend declared	-	-	-	(3,093)	-	-	(3,093)
Stock based compensation expense	-	-	391	-	-	-	391
Exercise of stock options	4	4	(9)	-	-	-	(5)
Excess tax benefits from share-based payment arrangements	-	-	31	-	-	-	31
Distributions to noncontrolling interest	-	-	-	-	-	(288)	(288)
Other comprehensive income (loss)	-	-	-	-	(619)	-	(619)
Net income attributable to the noncontrolling interest	-	-	-	-	-	189	189
Net income attributable to Northrim BanCorp	-	-	-	9,644	-	-	9,644
Nine Months Ended September 30, 2013	6,516	\$ 6,516	\$ 54,051	\$ 81,293	\$ 749	\$ (6)	\$ 142,603

See notes to consolidated financial statements

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NORTHRIM BANCORP, INC.

Consolidated Statements of Cash Flows

(In Thousands)	Nine Months Ended September 30,	
	2013	2012
Operating Activities:		
Net income	\$ 9,833	\$ 10,178
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Gain on sale of securities, net	(318)	(273)
Depreciation and amortization of premises and equipment	1,336	1,242
Amortization of software	137	137
Intangible asset amortization	175	193
Amortization of investment security premium, net of discount accretion	34	156
Deferred tax liability	(306)	(11)
Stock-based compensation	391	339
Excess tax benefits from share-based payments	(31)	(55)
Deferral of loan fees and costs, net	377	346
Provision (benefit) for loan losses	(635)	(1,259)
Reserve for (recovery from) purchased receivables	(31)	349
Purchases of loans held for sale	(125,497)	(185,673)
Proceeds from the sale of loans held for sale	123,301	176,204
(Gain) loss on sale of other real estate owned	(190)	18
Impairment on other real estate owned	70	173
Equity in undistributed earnings from mortgage affiliate	76	(320)
Net changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(144)	66
Proceeds from refund of prepaid FDIC premiums	3,405	-
(Increase) decrease in other assets	514	(506)
Increase (decrease) in other liabilities	(2,053)	2
Net Cash Provided by Operating Activities	10,444	1,306
Investing Activities:		
Investment in securities:		
Purchases of investment securities available for sale	(94,679)	(63,491)
Proceeds from sales/maturities of securities available for sale	59,316	115,299
Proceeds from calls/maturities of securities held to maturity	-	1,065
Purchases of domestic certificates of deposit	(13,500)	(11,500)
Proceeds from maturities of domestic certificates of deposit	13,500	10,000
Proceeds from redemption of FHLB stock	53	18
Decrease in purchased receivables, net	5,252	6,534
Increase in loans, net	(50,129)	(26,866)
Proceeds from sale of other real estate owned	1,307	964
Investment in other real estate owned	-	(44)

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(Increase) decrease in loan to Elliott Cove, net	(17)	110
Purchases of premises and equipment	(1,622)	(1,238)
Net Cash Provided (Used) by Investing Activities	(80,519)	30,851
Financing Activities:		
(Decrease) increase in deposits	(1,900)	33,696
Increase in securities sold under repurchase agreements	3,977	6,275
Increase (decrease) in borrowings	2,099	(109)
Distributions to noncontrolling interest	(288)	(341)
Excess tax benefits from share-based payments	31	55
Cash dividends paid	(3,062)	(2,656)
Net Cash (Used) by Financing Activities	857	36,920
Net Increase (Decrease) in Cash and Cash Equivalents	(69,218)	69,077
Cash and Cash Equivalents at Beginning of Period	141,313	79,530
Cash and Cash Equivalents at End of Period	\$ 72,095	\$ 148,607
Supplemental Information:		
Income taxes paid	\$ 3,547	\$ 5,077
Interest paid	\$ 1,538	\$ 1,940
Transfer of loans to other real estate owned	\$ 365	\$ 1,684
Loans made to facilitate sales of other real estate owned	\$ -	\$ 300
Cash dividends declared but not paid	\$ 31	\$ 30

See notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Northrim BanCorp, Inc. (the “Company”) in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and with instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to prior year amounts to maintain consistency with the current year with no impact on net income or total shareholders’ equity. The Company determined that it operates as a single operating segment. Operating results for the interim period ended September 30, 2013, are not necessarily indicative of the results anticipated for the year ending December 31, 2013. These consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

2. Significant Accounting Policies and Recent Accounting Pronouncements

The Company’s significant accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

In February 2013, the Financial Accounting Standards Board (“FASB”) issued ASU 2013-02, Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-02”). The amendments to the Codification in ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require 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 those amounts. This ASU was effective for the Company’s financial statements for annual and interim periods beginning on or after December 15, 2012, and has been applied prospectively. The adoption of this standard did not have a material impact on the Company’s consolidated financial position or results of operations.

3. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with other banks, banker’s acceptances, commercial paper, securities purchased under agreement to resell, federal funds sold, and securities with maturities of less than 90 days at acquisition. As of September 30, 2013, the Company had two certificates of deposit totaling \$13.5 million in another bank with original maturities greater than 90 days. Cash and cash equivalent balances placed with the Federal Reserve of San Francisco is the only concentration representing more than 10% of the Company’s equity.

4. Investment Securities

The carrying values and approximate fair values of investment securities at the periods indicated are presented below:

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
Securities available for sale				
U.S. Treasury and government sponsored entities	\$ 158,029	\$ 168	\$ 189	\$ 158,008
Municipal securities	20,031	351	63	20,319
U.S. Agency mortgage-backed securities	26	1	-	27
Corporate bonds	56,161	987	18	57,130
Preferred stock	2,999	22	17	3,004
Total securities available for sale	\$ 237,246	\$ 1,529	\$ 287	\$ 238,488
Securities held to maturity				
Municipal securities	\$ 2,745	\$ 150	\$ -	\$ 2,895
Total securities held to maturity	\$ 2,745	\$ 150	\$ -	\$ 2,895
December 31, 2012				
Securities available for sale				
U.S. Treasury and government sponsored entities	\$ 123,959	\$ 455	\$ -	\$ 124,414
Municipal securities	21,124	613	9	21,728
U.S. Agency mortgage-backed securities	35	1	-	36
Corporate bonds	52,951	1,081	50	53,982
Preferred stock	3,524	234	-	3,758
Total securities available for sale	\$ 201,593	\$ 2,384	\$ 59	\$ 203,918
Securities held to maturity				
Municipal securities	\$ 2,749	\$ 229	\$ -	\$ 2,978
Total securities held to maturity	\$ 2,749	\$ 229	\$ -	\$ 2,978

There were twenty three and six securities with unrealized losses as of September 30, 2013 and December 31, 2012, respectively, that have been in a loss position for less than twelve months. There were no securities with unrealized losses as of September 30, 2013 and December 31, 2012 that have been in an unrealized loss position for more than twelve months. The contractual terms of the investments in a loss position do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company does not intend to sell, nor is it required to sell these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At September 30, 2013, \$45.8 million in securities, or 20%, of the investment portfolio was pledged, as compared to \$42.7 million, or 20%, at December 31, 2012. We held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders' equity at September 30, 2013 December 31, 2012.

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The amortized cost and fair values of debt securities at September 30, 2013, are distributed by contractual maturity as shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Although preferred stock has no stated maturity, it is aggregated in the calculation of weighted average yields presented below in the category of investments that mature in ten years or more.

(In Thousands)	Amortized Cost	Fair Value	Weighted Average Yield
US Treasury and government sponsored entities			
Within 1 year	\$ 45,112	\$ 45,229	0.77 %
1-5 years	112,917	112,779	0.56 %
Total	\$ 158,029	\$ 158,008	0.62 %
U.S. Agency mortgage-backed securities			
1-5 years	\$ 26	\$ 27	4.45 %
Total	\$ 26	\$ 27	4.45 %
Corporate bonds			
Within 1 year	\$ 6,674	\$ 6,703	1.43 %
1-5 years	47,487	48,435	2.24 %
5-10 years	2,000	1,992	1.08 %
Total	\$ 56,161	\$ 57,130	2.10 %
Preferred stock			
Over 10 years	2,999	3,004	5.26 %
Total	\$ 2,999	\$ 3,004	5.26 %
Municipal securities			
Within 1 year	\$ 4,216	\$ 4,234	2.27 %
1-5 years	10,318	10,496	1.71 %
5-10 years	8,242	8,484	4.80 %
Total	\$ 22,776	\$ 23,214	2.93 %

The proceeds and resulting gains and losses, computed using specific identification, from sales of investment securities for the nine months ending September 30, 2013 and 2012, respectively, are as follows:

(In Thousands)	Proceeds	Gross Gains	Gross Losses
2013			
Available for sale securities	\$ 22,013	\$ 318	\$ -
2012			
Available for sale securities	\$ 30,424	\$ 273	\$ -

A summary of interest income for the nine months ending September 30, 2013 and 2012 on available for sale investment securities is as follows:

(In Thousands)	2013	2012
US Treasury and government sponsored entities	\$ 638	\$ 755
U.S. Agency mortgage-backed securities	1	2
Other	856	954
Total taxable interest income	\$ 1,495	\$ 1,711
Municipal securities	\$ 429	\$ 429
Total tax-exempt interest income	429	429
Total	\$ 1,924	\$ 2,140

For the periods ending September 30, 2013 and December 31, 2012, we held Federal Home Loan Bank of Seattle (“FHLB”) stock with a book value approximately equal to its market value in the amount of \$1.9 and \$2.0 million, respectively. The Company evaluated its investment in FHLB stock for other-than-temporary impairment as of September 30, 2013, consistent with its accounting policy. Based on the Company’s evaluation of the underlying investment, including the fact that the FHLB of Seattle recently began redeeming stock at par, the long-term nature of the investment, the liquidity position of the FHLB of Seattle, and the Company’s intent and ability to hold the investment for a period of time sufficient to recover the par value, the Company did not recognize an other-than-temporary impairment loss.

5. Loans Held for Sale

From time to time, the Company has purchased residential loans from our mortgage affiliate, Residential Mortgage Holding Company LLC (“RML”). The Company then sells these loans in the secondary market. The Company purchased \$125.5 million and sold \$123.3 million in loans during the nine-month period ending September 30, 2013. The Company purchased \$185.7 million and sold \$176.2 million in loans during the nine-month period ending September 30, 2012.

6. Loans

The following table presents total portfolio loans by portfolio segment and class of financing receivable, based on our risk classification criteria:

(In Thousands)	Commercial	Real estate construction one-to-four family	Real estate construction other	Real estate term owner occupied	Real estate term non-owner occupied	Real estate term other	Consumer secured by 1st deeds of trust	Consumer other	Total
September 30, 2013									
AQR Pass	\$ 296,308	\$ 28,801	\$ 26,118	\$ 79,677	\$ 234,131	\$ 31,169	\$ 16,201	\$ 17,718	\$ 730,123
AQR Special Mention	7,293	4,542	985	2,628	7,596	-	401	153	23,598
AQR Substandard	780	-	-	375	1,338	1,293	213	293	4,292
AQR Doubtful	150	-	-	-	-	-	-	-	150
AQR Loss	-	-	-	-	-	-	-	-	-
Subtotal	\$ 304,531	\$ 33,343	\$ 27,103	\$ 82,680	\$ 243,065	\$ 32,462	\$ 16,815	\$ 18,164	\$ 758,163
Less: Unearned origination fees, net of origination costs									(3,808)
									\$ 754,355
December 31, 2012									
AQR Pass	\$ 265,562	\$ 28,780	\$ 21,061	\$ 73,985	\$ 230,010	\$ 28,304	\$ 16,911	\$ 17,817	\$ 682,430
AQR Special Mention	6,064	1,282	-	2,522	2,546	126	620	238	13,398
AQR Substandard	1,597	2,511	-	1,600	2,087	3,379	183	250	11,607
AQR Doubtful	189	-	-	-	-	-	-	-	189
AQR Loss	20	-	-	-	-	-	-	-	20
Subtotal	\$ 273,432	\$ 32,573	\$ 21,061	\$ 78,107	\$ 234,643	\$ 31,809	\$ 17,714	\$ 18,305	\$ 707,644
Less: Unearned origination fees, net of origination costs									(3,431)
									\$ 704,213

Loans are carried at their principal amount outstanding, net of charge-offs, unamortized fees and direct loan origination costs. Loan balances are charged to the allowance for loan losses (the "Allowance") when management believes that collection of principal is unlikely. Interest income on loans is accrued and recognized on the principal amount outstanding except for loans in a nonaccrual status. All classes of loans are placed on nonaccrual and considered impaired when management believes doubt exists as to the collectability of the interest or principal. Cash payments received on nonaccrual loans are applied directly to the principal balance. Generally, a loan may be returned to accrual status when the delinquent principal and interest are brought current in accordance with the terms of the loan agreement. Additionally, certain ongoing performance criteria, which generally includes a performance period of six months, must be met in order for a loan to be returned to accrual status. Loans are reported as past due when installment payments, interest payments, or maturity payments are past due based on contractual terms.

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Nonaccrual loans totaled \$2.9 million and \$4.5 million at September 30, 2013 December 31, 2012, respectively. Nonaccrual loans at the periods indicated, by segment are presented below:

(In Thousands)	September 30, 2013	December 31, 2012
Commercial	\$ 623	\$ 1,214
Real estate construction one-to-four family	470	1,264
Real estate term owner occupied	92	-
Real estate term non-owner occupied	153	185
Real estate term other	1,137	1,451
Consumer secured by 1st deeds of trust	190	183
Consumer other	239	234
Total	\$ 2,904	\$ 4,531

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Past due loans and nonaccrual loans at the periods indicated are presented below by loan class:

(In Thousands)	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater Than 90 Days Still Accruing	Nonaccrual	Total Past Due	Current	Total
September 30, 2013							
AQR Pass	\$ 31	\$ -	\$ -	\$ 470	\$ 501	\$ 729,622	\$ 730,123
AQR Special Mention	-	-	-	-	-	23,598	23,598
AQR Substandard	-	-	-	2,284	2,284	2,008	4,292
AQR Doubtful	-	-	-	150	150	-	150
AQR Loss	-	-	-	-	-	-	-
Subtotal	\$ 31	\$ -	\$ -	\$ 2,904	\$ 2,935	\$ 755,228	\$ 758,163
Less: Unearned origination fees, net of origination costs							(3,808)
							\$ 754,355
December 31, 2012							
AQR Pass	\$ 401	\$ -	\$ -	\$ -	\$ 401	\$ 682,029	\$ 682,430
AQR Special Mention	534	-	-	596	1,130	12,268	13,398
AQR Substandard	-	-	-	3,726	3,726	7,881	11,607
AQR Doubtful	-	-	-	189	189	-	189
AQR Loss	-	-	-	20	20	-	20
Subtotal	\$ 935	\$ -	\$ -	\$ 4,531	\$ 5,466	\$ 702,178	\$ 707,644
Less: Unearned origination fees, net of origination costs							(3,431)
							\$ 704,213

The Company considers a loan to be impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, the impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate, except that if the loan is collateral dependent, the impairment is measured by using the fair value of the loan's collateral. Nonperforming loans greater than \$50,000 are individually evaluated for impairment based upon the borrower's overall financial condition, resources, and payment record, and the prospects for support from any financially responsible guarantors.

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At September 30, 2013 and December 31, 2012, the recorded investment in loans that are considered to be impaired was \$11.0 million and \$13.1 million, respectively. The following table presents information about impaired loans by class as of the periods indicated:

(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
September 30, 2013			
With no related allowance recorded			
Commercial - AQR pass	\$ 182	\$ 182	\$ -
Commercial - AQR special mention	325	325	-
Commercial - AQR substandard	637	682	-
Real estate construction one-to-four family - AQR pass	470	470	-
Real estate construction one-to-four family - AQR special mention	353	353	-
Real estate construction other - AQR pass	1,998	1,998	-
Real estate construction other - AQR special mention	850	850	-
Real estate term owner occupied- AQR pass	515	515	-
Real estate term owner occupied- AQR special mention	913	913	-
Real estate term owner occupied- AQR substandard	375	375	-
Real estate term non-owner occupied- AQR pass	351	352	-
Real estate term non-owner occupied- AQR special mention	804	804	-
Real estate term non-owner occupied- AQR substandard	1,328	1,328	-
Real estate term other - AQR substandard	1,293	1,572	-
Consumer secured by 1st deeds of trust - AQR pass	89	89	-
Consumer other - AQR substandard	66	66	-
Subtotal	\$ 10,549	\$ 10,874	\$ -
With an allowance recorded			
Commercial - AQR doubtful	\$ 150	\$ 150	\$ 150
Real estate construction one-to-four family - AQR substandard	190	190	15
Consumer other - AQR substandard	158	240	19
Subtotal	\$ 498	\$ 580	\$ 184
Total			
Commercial - AQR pass	\$ 182	\$ 182	\$ -
Commercial - AQR special mention	325	325	-
Commercial - AQR substandard	637	682	-
Commercial - AQR doubtful	150	150	150
Real estate construction one-to-four family - AQR pass	470	470	-
Real estate construction one-to-four family - AQR special mention	353	353	-
Real estate construction one-to-four family - AQR substandard	190	190	15

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Real estate construction other - AQR pass	1,998	1,998	-
Real estate construction other - AQR special mention	850	850	-
Real estate term owner-occupied - AQR pass	515	515	-
Real estate term owner-occupied - AQR special mention	913	913	-
Real estate term owner-occupied - AQR substandard	375	375	-
Real estate term non-owner occupied - AQR pass	351	352	-
Real estate term non-owner occupied - AQR special mention	804	804	-