CENTRAL VALLEY COMMUNITY BANCORP
Form 10-Q
August 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2015

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: 000—31977

CENTRAL VALLEY COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

California	77-0539125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7100 N. Financial Dr., Suite 101, Fresno, California	93720
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number (559) 298-1775

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 past 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 ý No o

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 ý No o

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 o	Accelerated filer ý

Non-accelerated filer o (Do not check if a smaller reporting company)

Small reporting company 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 ý

As of August 5, 2015 there were 10,993,663 shares of the registrant’s common stock outstanding.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

2015 QUARTERLY REPORT ON FORM 10-Q

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PART 1: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	June 30, 2015	December 31, 2014
	(Unaudited)	
ASSETS		
Cash and due from banks	$22,924	$21,316
Interest-earning deposits in other banks	59,171	55,646
Federal funds sold	237	366
Total cash and cash equivalents	82,332	77,328
Available-for-sale investment securities (Amortized cost of $426,092 at June 30, 2015 and $423,639 at December 31, 2014)	430,260	432,535
Held-to-maturity investment securities (Fair value of $34,444 at June 30, 2015 and $35,096 at December 31, 2014)	32,230	31,964
Loans, less allowance for credit losses of $8,714 at June 30, 2015 and $8,308 at December 31, 2014	586,783	564,280
Bank premises and equipment, net	9,577	9,949
Bank owned life insurance	20,414	20,957
Federal Home Loan Bank stock	4,823	4,791
Goodwill	29,917	29,917
Core deposit intangibles	1,176	1,344
Accrued interest receivable and other assets	19,590	19,118
Total assets	$1,217,102	$1,192,183
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$388,999	$376,402
Interest bearing	673,624	662,750
Total deposits	1,062,623	1,039,152
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	16,016	16,831
Total liabilities	1,083,794	1,061,138
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, no par value; 80,000,000 shares authorized; issued and outstanding: 10,993,783 at June 30, 2015 and 10,980,440 at December 31, 2014	54,378	54,216
Retained earnings	76,337	71,452
Accumulated other comprehensive income, net of tax	2,593	5,377
Total shareholders' equity	133,308	131,045
Total liabilities and shareholders' equity	$1,217,102	$1,192,183

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands, except share and per share amounts)	2015	2014	2015	2014
INTEREST INCOME:				
Interest and fees on loans	$7,644	$7,278	$14,930	$14,896
Interest on deposits in other banks	52	44	98	97
Interest and dividends on investment securities:				
Taxable	1,136	1,439	2,243	2,786
Exempt from Federal income taxes	1,496	1,434	3,034	2,836
Total interest income	10,328	10,195	20,305	20,615
INTEREST EXPENSE:				
Interest on deposits	239	267	472	564
Interest on junior subordinated deferrable interest debentures	24	23	48	47
Total interest expense	263	290	520	611
Net interest income before provision for credit losses	10,065	9,905	19,785	20,004
PROVISION FOR CREDIT LOSSES	500	(400)	500	(400)
Net interest income after provision for credit losses	9,565	10,305	19,285	20,404
NON-INTEREST INCOME:				
Service charges	749	822	1,621	1,630
Appreciation in cash surrender value of bank owned life insurance	155	157	308	303
Interchange fees	306	342	584	629
Net realized gains on sales of investment securities	732	64	1,459	333
Federal Home Loan Bank dividends	268	75	353	151
Loan placement fees	255	131	553	189
Other income	631	453	909	786
Total non-interest income	3,096	2,044	5,787	4,021
NON-INTEREST EXPENSES:				
Salaries and employee benefits	5,055	4,845	10,218	9,756
Occupancy and equipment	1,168	1,320	2,318	2,450
Professional services	337	270	818	512
Data processing	294	463	574	913
Regulatory assessments	263	193	598	391
ATM/Debit card expenses	129	160	265	310
License and maintenance contracts	131	128	269	258
Advertising	158	153	316	308
Internet banking expense	171	96	375	225
Amortization of core deposit intangibles	84	84	168	168
Other	907	1,022	2,067	2,179
Total non-interest expenses	8,697	8,734	17,986	17,470
Income before provision for income taxes	3,964	3,615	7,086	6,955
Provision for income taxes	886	922	1,542	1,646
Net income available to common shareholders	$3,078	$2,693	$5,544	$5,309
Earnings per common share:				

Basic earnings per share	$0.28	$0.25	$0.51	$0.49
Weighted average common shares used in basic computation	10,924,437	10,918,065	10,924,015	10,917,010
Diluted earnings per share	$0.28	$0.24	$0.50	$0.48
Weighted average common shares used in diluted computation	11,009,916	10,999,663	11,006,051	10,996,572
Cash dividend per common share	$0.06	$0.05	$0.06	$0.10

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Net income	$3,078	$2,693	$5,544	$5,309
Other Comprehensive Income (Loss):				
Unrealized gains on securities:				
Unrealized holdings (losses) gains arising and transferred during the period	(5,654)	4,424	(3,269)	11,441
Less: reclassification for net gains included in net income	732	64	1,459	333
Amortization of net unrealized gains transferred	(1)	—	(2)	(18)
Other comprehensive (loss) income, before tax	(6,387)	4,360	(4,730)	11,090
Tax benefit (expense) related to items of other comprehensive income	2,628	(1,794)	1,946	(4,504)
Total other comprehensive (loss) income	(3,759)	2,566	(2,784)	6,586
Comprehensive (loss) income	$(681)	$5,259	$2,760	$11,895

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30,	
(In thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$5,544	$5,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Net decrease in deferred loan fees	(44)	(146)
Depreciation	688	675
Accretion	(566)	(451)
Amortization	4,008	3,807
Stock-based compensation	123	54
Tax benefit from exercise of stock options	(4)	(6)
Provision for credit losses	500	(400)
Net realized gains on sales of available-for-sale investment securities	(1,459)	(333)
Net loss on disposal of premises and equipment	6	66
Net gain on sale of other real estate owned	(11)	(63)
Increase in bank owned life insurance, net of expenses	(308)	(303)
Net gain on bank owned life insurance	(345)	—
Net decrease in accrued interest receivable and other assets	1,689	22
Net decrease in accrued interest payable and other liabilities	(937)	(903)
(Benefit) provision for deferred income taxes	(56)	815
Net cash provided by operating activities	8,828	8,143
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investment securities	(124,240)	(96,574)
Proceeds from sales or calls of available-for-sale investment securities	92,647	52,241
Proceeds from maturity and principal repayments of available-for-sale investment securities	27,058	22,856
Net increase in loans	(23,186)	(34,388)
Proceeds from sale of other real estate owned	359	488
Purchases of premises and equipment	(322)	(739)
Purchases of bank owned life insurance	(325)	(900)
FHLB stock purchased	(32)	(292)
Proceeds from bank owned life insurance	1,365	—
Net cash used in investing activities	(26,676)	(57,308)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, interest bearing and savings deposits	27,778	10,157
Net decrease in time deposits	(4,307)	(5,088)
Proceeds from exercise of stock options	36	25
Excess tax benefit from exercise of stock options	4	6
Cash dividend payments on common stock	(659)	(1,092)
Net cash provided by financing activities	22,852	4,008
Increase (decrease) in cash and cash equivalents	5,004	(45,157)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	77,328	112,052
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$82,332	$66,895

(In thousands)	For the Six Months Ended June 30, 2015	2014
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the period for:		
Interest	$519	$627
Income taxes	$345	$620
Non-cash investing and financing activities:		
Foreclosure of loan collateral and recognition of other real estate owned	$227	$235
Assumption of other real estate owned liabilities	$121	$—
Transfer of securities from available-for-sale to held-to-maturity	$—	$31,346
Unrealized gain on transfer of securities from available-for-sale to held-to-maturity	$—	$163

See notes to unaudited consolidated financial statements.

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Note 1. Basis of Presentation

The interim unaudited condensed consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim condensed consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2014 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position at June 30, 2015, and the results of its operations and its cash flows for the three and six month interim periods ended June 30, 2015 and 2014 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2015 presentation. Reclassifications had no effect on prior period net income or shareholders' equity. The results of operations for interim periods are not necessarily indicative of results for the full year.

The preparation of these interim unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment, and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

Note 2. Fair Value Measurements

Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In accordance with applicable guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 — Quoted market prices (unadjusted) for identical instruments traded in active exchange markets that the Company has the ability to access as of the measurement date.

Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 — Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, we report the transfer at the beginning of the reporting period. The estimated carrying and fair values of the Company's financial instruments are as follows (in thousands):

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	June 30, 2015				
	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$22,924	$22,924	$—	$—	$22,924
Interest-earning deposits in other banks	59,171	59,171	—	—	59,171
Federal funds sold	237	237	—	—	237
Available-for-sale investment securities	430,260	7,550	422,710	—	430,260
Held-to-maturity investment securities	32,230	—	34,444	—	34,444
Loans, net	586,783	—	—	585,211	585,211
Federal Home Loan Bank stock	4,823	N/A	N/A	N/A	N/A
Accrued interest receivable	5,930	23	3,029	2,878	5,930
Financial liabilities:					
Deposits	1,062,623	913,296	149,045	—	1,062,341
Junior subordinated deferrable interest debentures	5,155	—	—	3,100	3,100
Accrued interest payable	115	—	90	25	115

	December 31, 2014				
	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$21,316	$21,316	$—	$—	$21,316
Interest-earning deposits in other banks	55,646	55,646	—	—	55,646
Federal funds sold	366	366	—	—	366
Available-for-sale investment securities	432,535	7,585	424,950	—	432,535
Held-to-maturity investment securities	31,964	—	35,096	—	35,096
Loans, net	564,280	—	—	564,667	564,667
Federal Home Loan Bank stock	4,791	N/A	N/A	N/A	N/A
Accrued interest receivable	5,793	25	3,212	2,556	5,793
Financial liabilities:					
Deposits	1,039,152	885,704	153,475	—	1,039,179
Junior subordinated deferrable interest debentures	5,155	—	—	3,119	3,119
Accrued interest payable	114	—	90	24	114

These estimates do not reflect any premium or discount that could result from offering the Company’s entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The methods and assumptions used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents — The carrying amounts of cash and due from banks, interest-earning deposits in other banks, and Federal funds sold approximate fair values and are classified as Level 1.

(b) Investment Securities — Investment securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for investment securities classified in Level 2 are based on

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quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

(c) Loans — Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Purchased credit impaired (PCI) loans are measured at estimated fair value on the date of acquisition. Carrying value is calculated as the present value of expected cash flows and approximates fair value. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are initially valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(d) FHLB Stock — It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(e) Other real estate owned — OREO is measured at fair value less estimated costs to sell when acquired, establishing a new cost basis. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. The Company records OREO as non-recurring with level 3 measurement inputs.

(f) Deposits — Fair value of demand deposit, savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), resulting in a Level 1 classification. Fair value for fixed and variable rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Company for certificates with similar remaining maturities resulting in a Level 2 classification.

(g) Short-Term Borrowings — The fair values of the Company's federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, are based on the market rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(h) Other Borrowings — The fair values of the Company’s long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company’s Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(i) Accrued Interest Receivable/Payable — The fair value of accrued interest receivable and payable is based on the fair value hierarchy of the related asset or liability.

(j) Off-Balance Sheet Instruments — Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. The fair value of commitments is not considered significant for financial reporting purposes.

Assets Recorded at Fair Value

The following tables present information about the Company’s assets and liabilities measured at fair value on a recurring and non-recurring basis as of June 30, 2015:

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Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of June 30, 2015 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$49,766	$—	$49,766	$—
Obligations of states and political subdivisions	163,005	—	163,005	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	205,679	—	205,679	—
Private label residential mortgage backed securities	4,260	—	4,260	—
Other equity securities	7,550	7,550	—	—
Total assets measured at fair value on a recurring basis	$430,260	$7,550	$422,710	$—

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the six months ended June 30, 2015, no transfers between levels occurred.
There were no Level 3 assets measured at fair value on a recurring basis at or during the six month period ended June 30, 2015. Also there were no liabilities measured at fair value on a recurring basis at June 30, 2015.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at June 30, 2015 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Assets:				
Impaired loans:				
Commercial:				
Commercial and industrial	$11	$—	$—	$11
Total commercial	11	—	—	11
Consumer:				
Equity loans and lines of credit	$142	$—	$—	$142
Total impaired loans	153	—	—	153
Other real estate owned	—	—	—	—
Total assets measured at fair value on a non-recurring basis	$153	$—	$—	$153

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The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2015 (dollars in thousands):

Description	Fair Value	Valuation Technique(s)	Significant Unobservable Input(s)	Range (Weighted Average)
Commercial and industrial	$11	Management estimates	Management adjustments for depreciation in values depending on property types	100%
Equity loans and lines of credit	$142	Sales comparison	Appraiser adjustments on sales comparable data	9.60%-18.00%
		Management estimates	Management adjustments for depreciation in values depending on property types	15.00%

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow methods as prescribed by ASC Topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the six month period ended June 30, 2015.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $190,000 with a valuation allowance of $37,000 at June 30, 2015, resulting in fair value of $153,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

During the three and six months ended June 30, 2015, there was $76,000 and $241,000 provision for credit losses recorded related to loans carried at fair value. During the three months ended June 30, 2014, there was no provision for credit losses. For the six months ended June 30, 2014, there was $2,000 provision for credit losses recorded related to loans carried at fair value. During the three and six months ended June 30, 2015 and June 30, 2014, there were no charge-offs.

Certain residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals and/or evaluations. These appraisals and/or evaluations may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available.

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The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2014:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of December 31, 2014 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$33,090	$—	$33,090	$—
Obligations of states and political subdivisions	149,295	—	149,295	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	237,872	—	237,872	—
Private label residential mortgage backed securities	4,693	—	4,693	—
Other equity securities	7,585	7,585	—	—
Total assets measured at fair value on a recurring basis	$432,535	$7,585	$424,950	$—

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the year ended December 31, 2014, no transfers between levels occurred.

There were no Level 3 assets measured at fair value on a recurring basis at or during the year ended December 31, 2014. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2014.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2014 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Commercial:				
Commercial and industrial	$7,019	$—	$—	$7,019
Total commercial	7,019	—	—	7,019
Consumer:				
Equity loans and lines of credit	$777	$—	$—	$777
Total consumer	777	—	—	777
Total impaired loans	7,796	—	—	7,796
Total assets measured at fair value on a non-recurring basis	$7,796	$—	$—	$7,796

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The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014 (dollars in thousands):

Description	Fair Value	Valuation Technique(s)	Significant Unobservable Input(s)	Range (Weighted Average)
Commercial and industrial	$7,019	Sales comparison	Appraiser adjustments on sales comparable data	0.00%-6.00%
		Management estimates	Management adjustments for depreciation in values depending on property types	8.00%-25.00%
Equity loans and lines of credit	$777	Sales comparison	Appraiser adjustments on sales comparable data	0.00%-3.50%
		Management estimates	Management adjustments for depreciation in values depending on property types	11.00%

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by ASC Topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2014.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $8,239,000 with a valuation allowance of $443,000 at December 31, 2014, resulting in fair value of $7,796,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

During the year ended December 31, 2014, there was $3,921,000 provision for credit losses related to loans carried at fair value. During the year ended December 31, 2014, there was $3,539,000 net charge-offs related to loans carried at fair value.

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2014.

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Note 3. Investments

The investment portfolio consists primarily of U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligations, private label residential mortgage backed securities (PLRMBS), and obligations of states and political subdivisions securities. As of June 30, 2015, $112,265,000 of these securities were held as collateral for borrowing arrangements, public funds, and for other purposes.

The fair value of the available-for-sale investment portfolio reflected a net unrealized gain of $4,168,000 at June 30, 2015 compared to an unrealized gain of $8,896,000 at December 31, 2014. The unrealized gain recorded is net of $1,715,000 and $3,661,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at June 30, 2015 and December 31, 2014, respectively.

The following table sets forth the carrying values and estimated fair values of our investment securities portfolio at the dates indicated (in thousands):

	June 30, 2015			
Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$49,663	$314	$(211)	$49,766
Obligations of states and political subdivisions	161,817	3,867	(2,679)	163,005
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	204,476	1,943	(740)	205,679
Private label residential mortgage backed securities	2,636	1,624	—	4,260
Other equity securities	7,500	50	—	7,550
Total available-for-sale	$426,092	$7,798	$(3,630)	$430,260

	June 30, 2015			
Held-to-Maturity Securities	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Debt securities:				
Obligations of states and political subdivisions	$32,230	$2,233	$(19)	$34,444

	December 31, 2014			
Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$33,088	$245	$(243)	$33,090
Obligations of states and political subdivisions	143,343	6,266	(314)	149,295
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	236,629	2,033	(790)	237,872
Private label residential mortgage backed securities	3,079	1,614	—	4,693
Other equity securities	7,500	85	—	7,585
Total available-for-sale	$423,639	$10,243	$(1,347)	$432,535

	December 31, 2014			
Held-to-Maturity Securities	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Debt securities:				

Obligations of states and political subdivisions	31,964	3,138	(6	) $35,096

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Proceeds and gross realized gains (losses) from the sales or calls of investment securities for the periods ended June 30, 2015 and 2014 are shown below (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Available-for-Sale Securities	2015	2014	2015	2014
Proceeds from sales or calls	$53,716	$25,525	$92,647	$52,241
Gross realized gains from sales or calls	927	190	1,692	1,152
Gross realized losses from sales or calls	(195)	(126)	(233)	(819)

Losses recognized in 2015 and 2014 were incurred in order to reposition the investment securities portfolio based on the current rate environment. The securities which were sold at a loss were acquired when the rate environment was not as volatile. The securities which were sold were primarily purchased several years ago to serve a purpose in the rate environment in which the securities were purchased. The Company is addressing risks in the security portfolio by selling these securities and using proceeds to purchase securities that fit with the Company's current risk profile.

The provision for income taxes includes $601,000 and $137,000 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the six months ended June 30, 2015 and 2014, respectively. The provision for income taxes includes $301,000 and $26,000 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the three months ended June 30, 2015 and 2014, respectively.

Investment securities, aggregated by investment category, with unrealized losses as of the dates indicated are summarized and classified according to the duration of the loss period as follows (in thousands):

	June 30, 2015					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	$14,786	$(211)	$—	$—	$14,786	$(211)
Obligations of states and political subdivisions	80,312	(2,679)	—	—	80,312	(2,679)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	35,966	(382)	24,357	(358)	60,323	(740)
Total available-for-sale	$131,064	$(3,272)	$24,357	$(358)	$155,421	$(3,630)

	June 30, 2015					
	Less than 12 Months		12 Months or More		Total	
Held-to-Maturity Securities	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Debt securities:						
Obligations of states and political subdivisions	$1,044	$(19)	$—	$—	$1,044	$(19)

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	$10,950	$(193)	$1,737	$(50)	$12,687	$(243)
	16,776	(89)	15,290	(225)	32,066	(314)

Obligations of states and political subdivisions						
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	52,905	(420)	31,000	(370)	83,905	(790)
Total available-for-sale	$80,631	$(702)	$48,027	$(645)	$128,658	$(1,347)

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	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
Held-to-Maturity Securities	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Debt securities:						
Obligations of states and political subdivisions	$1,067	$(6)	$—	$—	$1,067	$(6)

We periodically evaluate each investment security for other-than-temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. The portion of the impairment that is attributable to a shortage in the present value of expected future cash flows relative to the amortized cost should be recorded as a current period charge to earnings. The discount rate in this analysis is the original yield expected at time of purchase.

As of June 30, 2015, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all available-for-sale investment securities with an unrealized loss at June 30, 2015 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at June 30, 2015 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. Management also analyzed any securities that may have been downgraded by credit rating agencies.

For those bonds that met the evaluation criteria, management obtained and reviewed the most recently published national credit ratings for those bonds. For those bonds that were municipal debt securities with an investment grade rating by the rating agencies, management also evaluated the financial condition of the municipality and any applicable municipal bond insurance provider and concluded that no credit related impairment existed.

U.S. Government Agencies

At June 30, 2015, the Company held 14 U.S. Government agency securities, of which four were in a loss position for less than 12 months and none were in a loss position or had been in a loss position for 12 months or more. The unrealized losses on the Company’s investments in direct obligations of U.S. government agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized costs of the investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold, and it is more likely than not that it will not be required to sell, those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2015.

Obligations of States and Political Subdivisions

At June 30, 2015, the Company held 145 obligations of states and political subdivision securities of which 32 were in a loss position for less than 12 months and none were in a loss position or had been in a loss position for 12 months or more. The unrealized losses on the Company’s investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability to hold and does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2015.

U.S. Government Sponsored Entities and Agencies Collateralized by Residential Mortgage Obligations

At June 30, 2015, the Company held 180 U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligations of which 18 were in a loss position for less than 12 months and 13 have been in a loss position for more than 12 months. The unrealized losses on the Company’s investments in U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency or sponsored entity of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company’s investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability to hold and does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2015.

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Private Label Residential Mortgage Backed Securities

At June 30, 2015, the Company had a total of 17 PLRMBS with a remaining principal balance of $2,636,000 and a net unrealized gain of approximately $1,624,000. None of these securities were recorded with an unrealized loss at June 30, 2015. Nine of these PLRMBS with a remaining principal balance of $2,234,000 had credit ratings below investment grade. The Company continues to monitor these securities for indications that declines in value, if any, may be other-than-temporary.

Other Equity Securities

At June 30, 2015, the Company had one mutual fund equity investment. The equity investment was not recorded with an unrealized loss at June 30, 2015.

The following tables provide a roll forward for the three and six month periods ended June 30, 2015 and 2014 of investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. Additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred on securities for which OTTI credit losses have been previously recognized.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Beginning balance	$747	$800	$747	$800
Amounts related to credit loss for which an OTTI charge was not previously recognized	—	—	—	—
Increases to the amount related to credit loss for which OTTI was previously recognized	—	—	—	—
Realized losses for securities sold	—	—	—	—
Ending balance	$747	$800	$747	$800

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities at June 30, 2015 by contractual maturity is shown below (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2015	
Available-for-Sale Securities	Amortized Cost	Estimated Fair Value
Within one year	$—	$—
After one year through five years	3,815	4,119
After five years through ten years	26,314	26,607
After ten years	131,688	132,279
	161,817	163,005
Investment securities not due at a single maturity date:		
U.S. Government agencies	49,663	49,766
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	204,476	205,679
Private label residential mortgage backed securities	2,636	4,260
Other equity securities	7,500	7,550
Total available-for-sale	$426,092	$430,260

	June 30, 2015	
Held-to-Maturity Securities	Amortized Cost	Estimated Fair Value
After ten years	$32,230	$34,444

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During 2014, to better manage our interest rate risk, the Company transferred from available-for-sale to held-to-maturity selected municipal securities in our portfolio having a book value of approximately $31 million, a market value of approximately $32 million, and a net unrecognized gain of approximately $163,000. This transfer was completed after careful consideration of our intent and ability to hold these securities to maturity. There were no transfers or reclassifications of securities in or out of held-to-maturity during the quarter ended June 30, 2015. At June 30, 2015 and December 31, 2014 the remaining unaccreted balance of these securities included in accumulated other comprehensive income was $140,000 and $142,000, respectively.

Note 4. Loans and Allowance for Credit Losses

Outstanding loans are summarized as follows:

Loan Type (Dollars in thousands)	June 30, 2015	% of Total Loans	December 31, 2014	% of Total Loans
Commercial:				
Commercial and industrial	$91,596	15.4 %	$89,007	15.5 %
Agricultural land and production	46,268	7.8 %	39,140	6.8 %
Total commercial	137,864	23.2 %	128,147	22.3 %
Real estate:				
Owner occupied	172,804	29.0 %	176,804	30.9 %
Real estate construction and other land loans	34,663	5.8 %	38,923	6.8 %
Commercial real estate	122,281	20.5 %	106,788	18.7 %
Agricultural real estate	67,724	11.4 %	57,501	10.0 %
Other real estate	8,258	1.4 %	6,611	1.2 %
Total real estate	405,730	68.1 %	386,627	67.6 %
Consumer:				
Equity loans and lines of credit	44,419	7.5 %	47,575	8.3 %
Consumer and installment	7,294	1.2 %	10,093	1.8 %
Total consumer	51,713	8.7 %	57,668	10.1 %
Net deferred origination costs	190		146	
Total gross loans	595,497	100.0 %	572,588	100.0 %
Allowance for credit losses	(8,714)		(8,308)	
Total loans	$586,783		$564,280	

The table above includes loans acquired at fair value on July 1, 2013 when the Company acquired Visalia Community Bank (VCB), in a combined cash and stock transaction. The acquired VCB assets and liabilities were recorded at fair value at the date of acquisition. Loans acquired in the VCB acquisition had outstanding balances of $71,030,000 and $77,882,000 as of June 30, 2015 and December 31, 2014, respectively.

At June 30, 2015 and December 31, 2014, loans originated under Small Business Administration (SBA) programs totaling $11,497,000 and $8,782,000, respectively, were included in the real estate and commercial categories.

Purchased Credit Impaired Loans

At December 31, 2013, the Company had loans that were acquired in an acquisition, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. There were no such loans outstanding at June 30, 2015 or December 31, 2014.

These purchased credit impaired loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. The Company estimates the amount and timing of expected cash flows for each loan and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

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Accretable yield, or income expected to be collected for the three months ended June 30, 2015 and 2014 is as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$—	$8	$—	$94
Additions	—	—	—	—
Accretion	—	(129)	—	(907)
Reclassification from non-accretable difference	—	121	—	813
Disposals	—	—	—	—
Balance at end of period	$—	$—	$—	$—

The allowance for credit losses (the "Allowance") is a valuation allowance for probable incurred credit losses in the Company's loan portfolio. The Allowance is established through a provision for credit losses which is charged to expense. Additions to the Allowance are expected to maintain the adequacy of the total Allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the Allowance. Cash received on previously charged off credits is recorded as a recovery to the Allowance. The overall Allowance consists of two primary components, specific reserves related to impaired loans and general reserves for probable incurred losses related to loans that are not impaired.

For all portfolio segments, the determination of the general reserve for loans that are not impaired is based on estimates made by management, including but not limited to, consideration of historical losses by portfolio segment (and in certain cases peer data) over the most recent 20 quarters, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The following table shows the summary of activities for the Allowance as of and for the three months ended June 30, 2015 and 2014 by portfolio segment (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, April 1, 2015	$ 3,129	$ 4,457	$ 765	$ 48	$ 8,399
Provision charged to operations	610	(36)	(26)	(48)	500
Losses charged to allowance	(287)	—	(42)	—	(329)
Recoveries	101	8	35	—	144
Ending balance, June 30, 2015	$ 3,553	$ 4,429	$ 732	$ —	$ 8,714
Allowance for credit losses:					
Beginning balance, April 1, 2014	$ 2,012	$ 4,672	$ 1,391	$ 246	$ 8,321
Provision charged to operations	78	(340)	(187)	49	(400)
Losses charged to allowance	(265)	(183)	(325)	—	(773)
Recoveries	49	8	102	—	159
Ending balance, June 30, 2014	$ 1,874	$ 4,157	$ 981	$ 295	$ 7,307

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The following table shows the summary of activities for the allowance for loan losses as of and for the six months ended June 30, 2015 and 2014 by portfolio segment of loans (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, January 1, 2015	$3,130	$4,058	$1,078	$42	$8,308
Provision charged to operations	917	355	(730)	(42)	500
Losses charged to allowance	(697)	—	(73)	—	(770)
Recoveries	203	16	457	—	676
Ending balance, June 30, 2015	$3,553	$4,429	$732	$—	$8,714
Allowance for credit losses:					
Beginning balance, January 1, 2014	$2,444	$5,174	$1,168	$422	$9,208
Provision charged to operations	526	(850)	51	(127)	(400)
Losses charged to allowance	(1,194)	(183)	(410)	—	(1,787)
Recoveries	98	16	172	—	286
Ending balance, June 30, 2014	$1,874	$4,157	$981	$295	$7,307

The following is a summary of the Allowance by impairment methodology and portfolio segment as of June 30, 2015 and December 31, 2014 (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Ending balance, June 30, 2015	$3,553	$4,429	732	$—	$8,714
Ending balance: individually evaluated for impairment	$12	$150	40	$—	$202
Ending balance: collectively evaluated for impairment	$3,541	$4,279	692	$—	$8,512
Ending balance, December 31, 2014	$3,130	$4,058	$1,078	$42	$8,308
Ending balance: individually evaluated for impairment	$230	$162	$220	$—	$612
Ending balance: collectively evaluated for impairment	$2,900	$3,896	$858	$42	$7,696

The following table shows the ending balances of loans as of June 30, 2015 and December 31, 2014 by portfolio segment and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Total
Loans:				
Ending balance, June 30, 2015	$ 137,864	$405,730	$51,713	$595,307
Ending balance: individually evaluated for impairment	$ 276	$8,334	$1,982	$10,592
Ending balance: collectively evaluated for impairment	$ 137,588	$397,396	$49,731	$584,715
Loans:				
Ending balance, December 31, 2014	$ 128,147	$386,627	$57,668	$572,442
Ending balance: individually evaluated for impairment	$ 7,268	$8,512	$3,046	$18,826
Ending balance: collectively evaluated for impairment	$ 120,879	$378,115	$54,622	$553,616

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The following table shows the loan portfolio by class allocated by management's internal risk ratings at June 30, 2015 (in thousands):

	Pass	Special Mention	Sub-Standard	Doubtful	Total
Commercial:					
Commercial and industrial	$80,040	$10,691	$ 865	$—	$91,596
Agricultural land and production	46,268	—	—	—	46,268
Real Estate:					
Owner occupied	165,108	5,530	2,166	—	172,804
Real estate construction and other land loans	28,951	1,975	3,737	—	34,663
Commercial real estate	112,198	3,747	6,336	—	122,281
Agricultural real estate	64,806	2,558	360	—	67,724
Other real estate	8,258	—	—	—	8,258
Consumer:					
Equity loans and lines of credit	40,190	464	3,765	—	44,419
Consumer and installment	7,278	—	16	—	7,294
Total	$553,097	$24,965	$ 17,245	$—	$595,307

The following table shows the loan portfolio by class allocated by management's internally assigned risk grade ratings at December 31, 2014 (in thousands):

	Pass	Special Mention	Sub-Standard	Doubtful	Total
Commercial:					
Commercial and industrial	$78,333	$2,345	$ 8,329	$—	$89,007
Agricultural land and production	39,140	—	—	—	39,140
Real Estate:					
Owner occupied	170,568	2,778	3,458	—	176,804
Real estate construction and other land loans	32,114	1,130	5,679	—	38,923
Commercial real estate	95,831	215	10,742	—	106,788
Agricultural real estate	55,018	2,123	360	—	57,501
Other real estate	6,611	—	—	—	6,611
Consumer:					
Equity loans and lines of credit	42,334	72	5,169	—	47,575
Consumer and installment	10,072	—	21	—	10,093
Total	$530,021	$8,663	$ 33,758	$—	$572,442

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The following table shows an aging analysis of the loan portfolio by class and the time past due at June 30, 2015 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$—	$—	$227	$227	$91,369	$91,596	$—	$ 275
Agricultural land and production	—	—	—	—	46,268	46,268	—	—
Real estate:	—			—	—	—		
Owner occupied	—	—	572	572	172,232	172,804	—	939
Real estate construction and other land loans	—	—	547	547	34,116	34,663	—	547
Commercial real estate	—	—	1,408	1,408	120,873	122,281	—	2,112
Agricultural real estate	360	—	—	360	67,364	67,724	—	360
Other real estate	—	—	—	—	8,258	8,258	—	—
Consumer:				—	—	—		
Equity loans and lines of credit	—	—	1,743	1,743	42,676	44,419	—	1,967
Consumer and installment	57	—	—	57	7,237	7,294	—	16
Total	$417	$—	$4,497	$4,914	$590,393	$595,307	$—	$ 6,216

The following table shows an aging analysis of the loan portfolio by class and the time past due at December 31, 2014 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ 172	$88	$—	$260	$88,747	$89,007	$—	$7,265
Agricultural land and production	—	—	—	—	39,140	39,140	—	—
Real estate:	—							
Owner occupied	164	—	249	413	176,391	176,804	—	1,363
Real estate construction and other land loans	547	—	—	547	38,376	38,923	—	547
Commercial real estate	—	—	—	—	106,788	106,788	—	1,468
Agricultural real estate	—	—	—	—	57,501	57,501	—	360
Other real estate	—	—	—	—	6,611	6,611	—	—

Consumer:								
Equity loans and lines of credit	—	—	227	227	47,348	47,575	—	3,030
Consumer and installment	30	—	—	30	10,063	10,093	—	19
Total	$ 913	$ 88	$ 476	$ 1,477	$ 570,965	$ 572,442	$ —	$ 14,052

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The following table shows information related to impaired loans by class at June 30, 2015 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$211	$213	$—
Real estate:			
Owner occupied	749	820	—
Real estate construction and other land loans	547	799	—
Commercial real estate	2,594	2,774	—
Agricultural real estate	360	360	—
Total real estate	4,250	4,753	—
Consumer:			
Equity loans and lines of credit	1,755	2,435	—
Total with no related allowance recorded	6,216	7,401	—
With an allowance recorded:			
Commercial:			
Commercial and industrial	65	67	12
Real estate:			
Owner occupied	190	215	25
Real estate construction and other land loans	3,190	3,190	1
Commercial real estate	704	713	124
Total real estate	4,084	4,118	150
Consumer:			
Equity loans and lines of credit	211	223	39
Consumer and installment	16	18	1
Total consumer	227	241	40
Total with an allowance recorded	4,376	4,426	202
Total	$10,592	$11,827	$202

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

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The following table shows information related to impaired loans by class at December 31, 2014 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$6,440	$9,991	$—
Agricultural land and production	—	1,722	—
Total commercial	6,440	11,713	—
Real estate:			
Owner occupied	1,188	1,255	—
Real estate construction and other land loans	547	799	—
Commercial real estate	1,794	1,794	—
Agricultural real estate	360	360	—
Total real estate	3,889	4,208	—
Consumer:			
Equity loans and lines of credit	2,019	2,707	—
Consumer and installment	—	—	—
Total consumer	2,019	2,707	—
Total with no related allowance recorded	12,348	18,628	—
With an allowance recorded:			
Commercial:			
Commercial and industrial	828	835	230
Real estate:			
Owner occupied	199	219	30
Real estate construction and other land loans	3,542	3,542	72
Commercial real estate	882	1,022	60
Total real estate	4,623	4,783	162
Consumer:			
Equity loans and lines of credit	1,008	1,026	217
Consumer and installment	19	21	3
Total consumer	1,027	1,047	220
Total with an allowance recorded	6,478	6,665	612
Total	$18,826	$25,293	$612

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three months ended June 30, 2015 and 2014.

	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$4,257	$ —	$155	$ —
Real estate:				
Owner occupied	1,033	—	2,532	20
Real estate construction and other land loans	547	58	1,245	—
Commercial real estate	2,598	—	632	—
Agricultural real estate	360	—	—	—
Total real estate	4,538	58	4,409	20
Consumer:				
Equity loans and lines of credit	2,091	—	1,883	—
Consumer and installment	—	—	23	—
Total consumer	2,091	—	1,906	—
Total with no related allowance recorded	10,886	58	6,470	20
With an allowance recorded:				
Commercial:				
Commercial and industrial	76	—	—	—
Real estate:				
Owner occupied	191	—	—	—
Real estate construction and other land loans	3,250	—	3,832	68
Commercial real estate	708	20	—	—
Total real estate	4,149	20	3,832	68
Consumer:				
Equity loans and lines of credit	229	—	222	—
Consumer and installment	17	—	—	—
Total consumer	246	—	222	—
Total with an allowance recorded	4,471	20	4,054	68
Total	$15,357	$ 78	$10,524	$ 88

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the six months ended June 30, 2015 and 2014.

	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$5,362	$ —	$255	$ —
Agricultural land and production	—	—	—	—
Total commercial	5,362	—	255	—
Real estate:				
Owner occupied	1,119	—	2,911	41
Real estate construction and other land loans	553	118	1,349	—
Commercial real estate	2,237	—	554	—
Agricultural real estate	360	—	—	—
Other real estate	—	—	—	—
Total real estate	4,269	118	4,814	41
Consumer:				
Equity loans and lines of credit	2,219	—	1,917	—
Consumer and installment	—	—	12	—
Total consumer	2,219	—	1,929	—
Total with no related allowance recorded	11,850	118	6,998	41
With an allowance recorded:				
Commercial:				
Commercial and industrial	415	—	498	—
Agricultural land and production	—	—	—	—
Total commercial	415	—	498	—
Real estate:				
Owner occupied	195	—	55	—
Real estate construction and other land loans	3,356	—	3,923	138
Commercial real estate	870	39	—	—
Agricultural real estate	—	—	—	—
Other real estate	—	—	—	—
Total real estate	4,421	39	3,978	138
Consumer:				
Equity loans and lines of credit	444	—	224	—
Consumer and installment	18	—	35	—
Total consumer	462	—	259	—
Total with an allowance recorded	5,298	39	4,735	138
Total	$17,148	$ 157	$11,733	$ 179

Foregone interest on nonaccrual loans totaled $355,000 and $185,000 for the six month periods ended June 30, 2015 and 2014, respectively. For the three month periods ended June 30, 2015 and 2014, foregone interest on nonaccrual loans totaled $136,000 and $95,000, respectively.

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Troubled Debt Restructurings:
As of June 30, 2015 and December 31, 2014, the Company has a recorded investment in troubled debt restructurings of $6,251,000 and $6,600,000, respectively. The Company has allocated $2,000 and $132,000 of specific reserves to loans whose terms have been modified in troubled debt restructurings as of June 30, 2015 and December 31, 2014, respectively. The Company has committed to lend no additional amounts as of June 30, 2015 to customers with outstanding loans that are classified as troubled debt restructurings.
During the six month period ended June 30, 2015 two loans were modified as a troubled debt restructuring. The modification of the terms of such loan included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk. During the same period, there were no troubled debt restructurings in which the amount of principal or accrued interest owed from the borrower was forgiven. During the three months ended June 30, 2015, no loans were modified as troubled debt restructurings.
The following table presents loans by class modified as troubled debt restructurings that occurred during the six months ended June 30, 2015 (in thousands):

Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification (2)	Post Modification Outstanding Recorded Investment (3)	Outstanding Recorded Investment
Commercial and Industrial	2	$ 42	$—	$42	$38

(1) Amounts represent the recorded investment in loans before recognizing effects of the TDR, if any.
(2) Principal Modification includes principal forgiveness at the time of modification, contingent principal forgiveness granted over the life of the loan based on borrower performance, and principal that has been legally separated and deferred to the end of the loan, with zero percent contractual interest rate.
(3) Balance outstanding after principal modification, if any borrower reduction to recorded investment.

The following table presents loans by class modified as troubled debt restructurings that occurred during the six months ended June 30, 2014 (in thousands):

Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification (2)	Post Modification Outstanding Recorded Investment (3)	Outstanding Recorded Investment
Equity loans and lines of credit	1	$ 7	$—	$7	$6

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ending June 30, 2014 (in thousands):

Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification (2)	Post Modification Outstanding Recorded Investment (3)