Oak Valley Bancorp
Form 10-Q
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

Commission file number 001-34142

OAK VALLEY BANCORP

(Exact name of registrant as specified in its charter)

California	**26-2326676**
State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification No.

125 N. Third Ave., Oakdale, CA 95361

(Address of principal executive offices)

(209) 848-2265

Issuer's telephone number

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 8,075,355 shares of common stock outstanding as of April 30, 2015.

Oak Valley Bancorp

March 31, 2015

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PART I – FINANCIAL STATEMENTS

Item 1. Consolidated Financial Statements (Unaudited)

OAK VALLEY BANCORP

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(dollars in thousands)	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$130,638	$132,078
Federal funds sold	19,060	12,210
Cash and cash equivalents	149,698	144,288
Securities available for sale	121,188	121,277
Loans, net of allowance for loan loss of $7,409 and $7,534 at March 31, 2015 and December 31, 2014, respectively	445,316	446,492
Bank premises and equipment, net	13,894	14,066
Other real estate owned	834	884
Interest receivable and other assets	22,622	22,658
	$753,552	$749,665
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$672,991	$669,581
Interest payable and other liabilities	4,745	5,043
Total liabilities	677,736	674,624
Commitments and contingencies		
Shareholders' equity		
Preferred stock, 10,000,000 shares authorized, no shares issued and outstanding at March 31, 2015 and December 31, 2014	0	0

Common stock, no par value; 50,000,000 shares authorized, 8,075,355 and 8,074,855 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	24,682	24,682
Additional paid-in capital	2,972	2,910
Retained earnings	46,300	45,582
Accumulated other comprehensive income, net of tax	1,862	1,867
Total shareholders' equity	75,816	75,041
	$753,552	$749,665

The accompanying notes are an integral part of these consolidated financial statements.

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OAK VALLEY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except per share amounts)	THREE MONTHS ENDED MARCH 31, 2015	2014
INTEREST INCOME		
Interest and fees on loans	$5,403	$5,305
Interest on securities available for sale	875	916
Interest on federal funds sold	7	13
Interest on deposits with banks	67	43
Total interest income	6,352	6,277
INTEREST EXPENSE		
Deposits	151	173
Total interest expense	151	173
Net interest income	6,201	6,104
(Reversal of) provision for loan losses	(125)	0
Net interest income after (reversal of) provision for loan losses	6,326	6,104
OTHER INCOME		
Service charges on deposits	312	309
Earnings on cash surrender value of life insurance	108	101
Mortgage commissions	45	30
Net gain on sales and calls of securities	109	8
Other	453	362
Total non-interest income	1,027	810
OTHER EXPENSES		
Salaries and employee benefits	2,983	2,714
Occupancy expenses	747	745
Data processing fees	353	326
Regulatory assessments (FDIC & DBO)	114	120
Other operating expenses	902	976
Total non-interest expense	5,099	4,881
Net income before provision for income taxes	2,254	2,033
PROVISION FOR INCOME TAXES	728	625

NET INCOME	$1,526	$1,408
NET INCOME PER COMMON SHARE	$0.19	$0.18
NET INCOME PER DILUTED COMMON SHARE	$0.19	$0.18

The accompanying notes are an integral part of these consolidated financial statements.

OAK VALLEY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	THREE MONTHS ENDED MARCH 31, 2015	2014
Net income	$1,526	$1,408
Available for sale securities:		
Unrealized holding gains on securities arising during the current period, net of tax effect of $41 thousand and $615 thousand for the periods March 31, 2015 and 2014, respectively	59	880
Reclassification adjustment due to net gains realized on sales and calls of securities, net of tax effect of $45 thousand and $3 thousand for March 31, 2015 and 2014, respectively	(64)	(5)
Other comprehensive (loss) income	(5)	875
Comprehensive income	$1,521	$2,283

The accompanying notes are an integral part of these consolidated financial statements.

OAK VALLEY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014 AND THREE MONTHS ENDED MARCH 31, 2015

	Common Stock		Preferred Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Total Shareholders'
(dollars in thousands)	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	Equity
Balances, January 1, 2014	7,929,730	$23,758	0	$ 0	$ 2,537	$38,985	$ (763)	$ 64,517
Stock options exercised	122,625	924						924
Tax benefit on stock based compensation					102			102
Restricted stock issued	24,500							
Restricted stock cancelled	(2,000)							
Cash dividends declared						(525)		(525)
Stock based compensation					271			271
Other comprehensive loss							2,630	2,630
Net income						7,122		7,122
Balances, December 31, 2014	8,074,855	$24,682	0	$ 0	$ 2,910	$45,582	$ 1,867	$ 75,041
Restricted stock issued	500							
Cash dividends declared						(808)		(808)
Stock based compensation					62			62
Other comprehensive loss							(5)	(5)
Net income						1,526		1,526
Balances, March 31, 2015	8,075,355	$24,682	0	$ 0	$ 2,972	$46,300	$ 1,862	$ 75,816

The accompanying notes are an integral part of these consolidated financial statements

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OAK VALLEY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)	THREE MONTHS ENDED MARCH 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,526	$1,408
Adjustments to reconcile net earnings to net cash from operating activities:		
(Reversal of) provision for loan losses	(125)	0
Decrease in deferred fees/costs, net	(4)	(154)
Depreciation	296	304
Amortization of investment securities, net	40	46
Stock based compensation	62	84
Excess tax benefits from stock-based payment arrangements	0	(49)
Gain on sale of premises and equipment	(5)	0
OREO write downs	50	0
Gain on sales and calls of available for sale securities	(109)	(8)
Earnings on cash surrender value of life insurance	(108)	(101)
Decrease in interest payable and other liabilities	(298)	(138)
Decrease in interest receivable	181	213
(Increase) decrease in other assets	(33)	457
Net cash from operating activities	1,473	2,062
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available for sale securities	(8,948)	(5,065)
Proceeds from maturities, calls, and principal paydowns of securities available for sale	9,097	4,662
Net decrease (increase) in loans	1,305	(3,116)
Purchase of BOLI policies	0	(1,029)
Proceeds from sales of premises and equipment	5	0
Net purchases of premises and equipment	(124)	(560)
Net cash from (used in) investing activities	1,335	(5,108)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Shareholder cash dividends paid	(808)	(793)
Net increase in demand deposits and savings accounts	3,792	14,812
Net decrease in time deposits	(382)	(1,449)
Excess tax benefits from stock-based payment arrangements	0	49
Proceeds from sale of common stock and exercise of stock options	0	890
Net cash from financing activities	2,602	13,509

NET INCREASE IN CASH AND CASH EQUIVALENTS	5,410	10,463
CASH AND CASH EQUIVALENTS, beginning of period	144,288	105,191
CASH AND CASH EQUIVALENTS, end of period	$149,698	$115,654
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$160	$189
Income taxes	$890	$845
NON-CASH INVESTING ACTIVITIES:		
Change in unrealized (loss) gain on available-for-sale securities	$(9)	$1,487

The accompanying notes are an integral part of these consolidated financial statements.

OAK VALLEY BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

On July 3, 2008 (the "Effective Date"), a bank holding company reorganization was completed whereby Oak Valley Bancorp ("Bancorp") became the parent holding company for Oak Valley Community Bank (the "Bank"). On the Effective Date, a tax-free exchange was completed whereby each outstanding share of the Company was converted into one share of Bancorp and the Company became the sole wholly-owned subsidiary of the holding company.

The consolidated financial statements include the accounts of Bancorp and its wholly-owned bank subsidiary. All material intercompany transactions have been eliminated. In the opinion of Management, the consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations, changes in shareholders' equity and cash flows. All adjustments are of a normal, recurring nature.

Oak Valley Community Bank is a California State chartered bank. The Company was incorporated under the laws of the state of California on May 31, 1990, and began operations in Oakdale on May 28, 1991. The Company operates branches in Oakdale, Sonora, Bridgeport, Bishop, Mammoth Lakes, Modesto, Manteca, Patterson, Turlock, Ripon, Stockton, Tracy and Escalon, California. The Bridgeport, Mammoth Lakes, and Bishop branches operate as a separate division, Eastern Sierra Community Bank. The Company's primary source of revenue is providing loans to customers who are predominantly middle-market businesses.

The preparation of 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 period. Significant accounting estimates reflected in the Company's consolidated financial statements include the allowance for loan losses, determination of non-accrual loans, other-than-temporary impairment of investment securities, the fair value measurements, deferred compensation plans, and the determination, recognition and measurement of impaired loans. Actual results could differ from these estimates.

The interim consolidated financial statements included in this report are unaudited but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three month period ended March 31, 2015 are not necessarily indicative of the results of a full year's operations. Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on net income or shareholders' equity as a result of reclassifications. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Form 10-K for the year ended December 31, 2014.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU No. 2014 – 01, *Investments – Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects.* This Update provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of ASU No. 2014-01 did not have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014 – 04, *Receivables – Troubled Debt Restructurings by Creditors*. This ASU provides clarification that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of ASU No. 2014-04 did not have a material impact on the Company's consolidated financial statements.

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-14 *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.* This update addresses classification of government-guaranteed mortgage loans, including those where guarantees are offered by the Federal Housing Administration (“FHA”), the U.S. Department of Housing and Urban Development (“HUD”), and the U.S. Department of Veterans Affairs (“VA”). Although current accounting guidance stipulates proper measurement and classification in situations where a creditor obtains from a debtor, assets in satisfaction of a receivable (such as through foreclosure), current guidance does not specify how to measure and classify foreclosed mortgage loans that are government-guaranteed. Under the provisions of this update, a creditor would derecognize a mortgage loan that has been foreclosed upon, and recognize a separate receivable if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The amendments within this update are effective for annual and interim periods beginning after December 15, 2014. The adoption of ASU No. 2014-14 did not have a material impact on the Company's consolidated financial statements.

NOTE 3 – SECURITIES

The amortized cost and estimated fair values of investment securities as of March 31, 2015 are as follows:

(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale securities:				
U.S. agencies	$ 37,173	$ 1,562	$ (68)	$ 38,667
Collateralized mortgage obligations	5,611	96	(23)	5,684
Municipalities	54,251	1,899	(249)	55,901
SBA pools	883	0	(3)	880
Corporate debt	8,733	72	(1)	8,804
Asset backed securities	8,272	27	(52)	8,247
Mutual fund	3,100	0	(95)	3,005
	$ 118,023	$ 3,656	$ (491)	$ 121,188

The following tables detail the gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2015.

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Description of Securities	Value	Loss	Value	Loss	Value	Loss
U.S. agencies	$1,415	$ (13)	$4,839	$ (55)	$6,254	$ (68)
Collateralized mortgage obligations	0	0	1,413	(23)	1,413	(23)
Municipalities	12,863	(169)	3,287	(80)	16,150	(249)
SBA pools	0	0	880	(3)	880	(3)
Corporate debt	750	(1)	0	0	750	(1)
Asset backed securities	1,979	(21)	2,847	(31)	4,826	(52)
Mutual fund	0	0	3,005	(95)	3,005	(95)
Total temporarily impaired securities	$17,007	$ (204)	$16,271	$ (287)	$33,278	$ (491)

At March 31, 2015, there were three U.S. agencies, five municipalities, two SBA pools, one collateralized mortgage obligation, two asset backed securities and one mutual fund that comprised the total securities in an unrealized loss position for greater than 12 months and one U.S. agency, eleven municipalities, one corporate debt, and one asset backed security that make up the total securities in a loss position for less than 12 months. Management periodically evaluates each available-for-sale investment security in an unrealized loss position to determine if the impairment is temporary or other than temporary. This evaluation encompasses various factors including, the nature of the investment, the cause of the impairment, the severity and duration of the impairment, credit ratings and other credit related factors such as third party guarantees and volatility of the security's fair value. Management has determined that no investment security is other than temporarily impaired. The unrealized losses are due primarily to interest rate changes and the Company does not intend to sell the securities and it is not likely that we will be required to sell the securities before the earlier of the forecasted recovery or the maturity of the underlying investment security.

The amortized cost and estimated fair value of investment securities at March 31, 2015, by contractual maturity or call date, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale securities:		
Due in one year or less	$ 11,222	$ 11,611
Due after one year through five years	28,557	30,098
Due after five years through ten years	41,072	41,417
Due after ten years	37,172	38,062
	$ 118,023	$ 121,188

The amortized cost and estimated fair values of investment securities as of December 31, 2014, are as follows:

(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale securities:				
U.S. agencies	$ 40,316	$ 1,760	$ (146)	$ 41,930
Collateralized mortgage obligations	6,927	184	(39)	7,072
Municipalities	49,396	1,713	(212)	50,897
SBA pools	895	0	(3)	892
Corporate debt	6,726	95	(17)	6,804
Asset backed securities	10,766	50	(106)	10,710
Mutual fund	3,077	0	(105)	2,972
	$ 118,103	$ 3,802	$ (628)	$ 121,277

The following tables detail the gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014.

(dollars in thousands)	**Less than 12 months**		**12 months or more**		**Total**	
<u>Description of Securities</u>	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**

U.S. agencies	$0	$ 0	$8,446	$ (146)	$8,446	$ (146)
Collateralized mortgage obligations	0	0	1,445	(39)	1,445	(39)
Municipalities	3,530	(22)	12,791	(190)	16,321	(212)
SBA pools	0	0	892	(3)	892	(3)
Corporate debt	1,983	(17)	0	0	1,983	(17)
Asset backed securities	3,798	(79)	971	(27)	4,769	(106)
Mutual fund	0	0	2,972	(105)	2,972	(105)
Total temporarily impaired securities	$9,311	$ (118)	$27,517	$ (510)	$36,828	$ (628)

We recognized a gain of $128,000 for the three month period ended March 31, 2015, on certain available-for-sale securities that were called, which compares to $8,000 in the same period of 2014. There were two available-for-sale securities sold during the first three months of 2015 which resulted in a net loss of $19,000, compared to no sales of securities resulting in losses during the first three months of 2014.

Securities carried at $57,182,000 and $60,474,000 at March 31, 2015 and December 31, 2014, respectively, were pledged to secure deposits of public funds.

NOTE 4 – LOANS

Our customers are primarily located in Stanislaus, San Joaquin, Tuolumne, Inyo, and Mono Counties. As of March 31, 2015, approximately 81% of the Company's loans are commercial real estate loans which include construction loans. Approximately 11% of the Company's loans are for general commercial uses including professional, retail, and small business. Additionally, 6% of the Company's loans are for residential real estate and other consumer loans. The remaining 2% are agriculture loans. Loan totals were as follows:

(in thousands)	March 31, 2015	December 31, 2014
Commercial real estate:		
Commercial real estate- construction	$16,328	$9,181
Commercial real estate- mortgages	316,807	315,506
Land	9,053	10,620
Farmland	25,368	23,091
Commercial and industrial	50,828	54,051
Consumer	857	805
Consumer residential	24,493	25,464
Agriculture	9,431	15,753
Total loans	453,165	454,471
Less:		
Deferred loan fees and costs, net	(440)	(445)
Allowance for loan losses	(7,409)	(7,534)
Net loans	$445,316	$446,492

Loan Origination/Risk Management. The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentration of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower’s management possesses sound ethics and solid business acumen, our management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company’s exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At March 31, 2015, commercial real estate loans equal to approximately 37.8% of the outstanding principal balance of our commercial real estate loans were secured by owner-occupied properties.

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Agricultural production, real estate and development lending is susceptible to credit risks including adverse weather conditions, pest and disease, as well as market price fluctuations and foreign competition. Agricultural loan underwriting standards are maintained by following Company policies and procedures in place to minimize risk in this lending segment. These standards consist of limiting credit to experienced farmers who have demonstrated farm management capabilities, requiring cash flow projections displaying margins sufficient for repayment from normal farm operations along with equity injected as required by policy, as well as providing adequate secondary repayment and sponsorship including satisfactory collateral support. Credit enhancement obtained through government guarantee programs may also be used to provide further support as available.

The Company originates consumer loans utilizing common underwriting criteria specified in policy. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for 1-4 family, home equity lines and loans follow bank policy, which include, but are not limited to, a maximum loan-to-value percentage of 80%, a maximum housing and total debt ratio of 36% and 42%, respectively and other specified credit and documentation requirements.

The Company maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Bank’s policies and procedures.

Non-Accrual and Past Due Loans. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management’s opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Non-accrual loans, segregated by class of loans, were as follows:

(in thousands)	March 31, 2015	December 31, 2014
Commercial real estate:		
Commercial real estate- construction	$0	$ 0
Commercial real estate- mortgages	0	1,296
Land	2,983	2,995
Farmland	67	72
Commercial and industrial	1,362	337
Consumer	0	0
Consumer residential	0	0
Agriculture	0	0
Total non-accrual loans	$4,412	$ 4,700

Had non-accrual loans performed in accordance with their original contract terms, we would have recognized additional interest income of approximately $82,000 in the three month period ended March 31, 2015, as compared to $130,000 in the same period of 2014.

The following table analyzes past due loans including the non-accrual loans in the above table, segregated by class of loans, as of March 31, 2015 (in thousands):

March 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	Greater Than 90 Days Past Due and Still Accruing
Commercial real estate:							
Commercial R.E. - construction	$ 0	$ 0	$ 0	$ 0	$ 16,328	$ 16,328	$ 0
Commercial R.E. - mortgages	34	0	0	34	316,773	316,807	0
Land	0	500	2,483	2,983	6,070	9,053	0
Farmland	0	0	67	67	25,301	25,368	0
Commercial and industrial	0	0	1,362	1,362	49,466	50,828	0
Consumer	38	0	0	38	819	857	0
Consumer residential	0	0	0	0	24,493	24,493	0
Agriculture	0	0	0	0	9,431	9,431	0
Total	$ 72	$ 500	$ 3,912	$ 4,484	$ 448,681	$ 453,165	$ 0

The following table analyzes past due loans including the non-accrual loans in the above table, segregated by class of loans, as of December 31, 2014 (in thousands):

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	Greater Than 90 Days Past Due and Still Accruing
Commercial real estate:							
Commercial R.E. - construction	$ 0	$ 0	$ 0	$ 0	$ 9,181	$ 9,181	$ 0
Commercial R.E. - mortgages	35	1,296	0	1,331	314,175	315,506	0
Land	0	0	2,493	2,493	8,127	10,620	0
Farmland	0	0	72	72	23,019	23,091	0
Commercial and industrial	14	0	323	337	53,714	54,051	0
Consumer	0	0	0	0	805	805	0
Consumer residential	0	0	0	0	25,464	25,464	0
Agriculture	0	0	0	0	15,753	15,753	0
Total	$ 49	$ 1,296	$ 2,888	$ 4,233	$ 450,238	$ 454,471	$ 0

Impaired Loans. Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. There was no interest income realized on impaired loans for the three months ended March 31, 2015 and 2014. Average recorded investment in impaired loans was $4.6 million for the three months ended March 31, 2015, as compared to $3.0 million for the same period of 2014. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Impaired loans as of March 31, 2015 and December 31, 2014 are set forth in the following table.

(in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
March 31, 2015						
Commercial real estate:						
Commercial R.E. - construction	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Commercial R.E. - mortgages	0	0	0	0	0	648
Land	3,215	0	2,983	2,983	862	2,989
Farmland	76	67	0	67	0	69
Commercial and Industrial	1,387	334	1,028	1,362	95	849
Consumer	0	0	0	0	0	0
Consumer residential	0	0	0	0	0	0
Agriculture	0	0	0	0	0	0
Total	$ 4,678	$ 401	$ 4,011	$ 4,412	$ 957	$ 4,555
December 31, 2014						
Commercial real estate:						
Commercial R.E. - construction	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Commercial R.E. - mortgages	1,301	0	1,296	1,296	125	555
Land	3,215	0	2,995	2,995	868	3,155
Farmland	80	72	0	72	0	82
Commercial and Industrial	359	337	0	337	0	304
Consumer	0	0	0	0	0	0
Consumer residential	0	0	0	0	0	0
Agriculture	0	0	0	0	0	0
Total	$ 4,956	$ 408	$ 4,291	$ 4,700	$ 993	$ 4,096