

PARKE BANCORP, INC.  
Form 10-K  
March 25, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

ANNUAL REPORT  
PURSUANT TO SECTIONS 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended: December 31, 2009 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-51338

PARKE BANCORP, INC.

(Exact name of Registrant as specified in its Charter)

New Jersey  
(State or other Jurisdiction of  
Incorporation or Organization)

65-1241959  
(I.R.S. Employer Identification  
No.)

601 Delsea Drive, Washington Township, New  
Jersey

08080

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: 856-256-2500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.10 par value	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
YES  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller company. See the 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  Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock as quoted on the Nasdaq Capital Market on June 30, 2009, was approximately \$36.9 million.

As of March 25, 2010 there were issued and outstanding 4,034,639 shares of the Registrant's common stock.

#### DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders for the Fiscal Year Ended December 31, 2009. (Parts II and IV)
2. Portions of the Proxy Statement for the 2010 Annual Meeting of Shareholders. (Parts II and III)

PARKE BANCORP, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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## PART I

### Forward-Looking Statements

Parke Bancorp, Inc. (the “Company”) may from time to time make written or oral “forward-looking statements,” including statements contained in the Company’s filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits hereto), in its reports to shareholders and in other communications by the Company, which are made in good faith by the Company pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company’s plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company’s control). The following factors, among others, could cause the Company’s financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company’s wholly-owned subsidiary, Parke Bank (the “Bank”), conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Bank and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors’ products and services; the impact of changes in financial services’ laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; changes in consumer spending and saving habits; and the success of the Company at managing the risks resulting from these factors.

The Company cautions that the listed factors are not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

### Item 1. Business

#### General

The Company is a bank holding company incorporated under the laws of the State of New Jersey in January 2005 for the sole purpose of becoming the holding company of the Bank. The Company commenced operations on June 1, 2005, upon completion of the reorganization of the Bank into the holding company form of organization following approval of the reorganization by shareholders of the Bank at its 2005 Annual Meeting of Shareholders. The Company’s business and operations primarily consist of its ownership of the Bank.

The Bank is a commercial bank, which commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and insured by the Federal Deposit Insurance Corporation (“FDIC”). The Company and the Bank maintain their principal offices at 601 Delsea Drive, Washington Township, New Jersey. The Bank also conducts business through offices in Northfield and Washington Township, New Jersey, and in Philadelphia, Pennsylvania. The Bank is a full service bank, with an emphasis on providing personal and business financial services to individuals and small to mid-sized businesses in Gloucester, Atlantic and Cape May Counties in New Jersey and the Philadelphia area in Pennsylvania. At December 31, 2009, the Company had assets of \$654.2 million, net loans of \$591.0 million, deposits of \$520.3 million and shareholders’ equity of \$62.0 million.



The Bank focuses its commercial loan originations on small and mid-sized businesses (generally up to \$25 million in annual sales). Commercial loan products include residential and commercial real estate construction loans; working capital loans and lines of credit; demand, term and time loans; and equipment, inventory and accounts receivable financing. Residential construction loans in tract development are also included in the commercial loan category. The Bank also offers a range of deposit products to its commercial customers. Commercial customers also have the ability to use overnight depository, ACH, wire transfer services and merchant capture electronic check processing services.

The Bank's retail banking activities emphasize consumer deposit and checking accounts. An extensive range of these services is offered by the Bank to meet the varied needs of its customers in all age groups. In addition to traditional products and services, the Bank offers contemporary products and services, such as debit cards, Internet banking and online bill payment. Retail lending activities by the Bank include residential mortgage loans, home equity lines of credit, fixed rate second mortgages, new and used auto loans and overdraft protection.

#### Market Area

Substantially all of the Bank's business is with customers in its market areas of Southern New Jersey and the Philadelphia area of Pennsylvania. Most of the Bank's customers are individuals and small and medium-sized businesses which are dependent upon the regional economy. Adverse changes in economic and business conditions in the Bank's markets could adversely affect the Bank's borrowers, their ability to repay their loans and to borrow additional funds, and consequently the Bank's financial condition and performance.

Additionally, most of the Bank's loans are secured by real estate located in Southern New Jersey and the Philadelphia area. A decline in local economic conditions could adversely affect the values of such real estate. Consequently, a decline in local economic conditions may have a greater effect on the Bank's earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse.

#### Competition

The Bank faces significant competition, both in making loans and attracting deposits. The Bank's competition in both areas comes principally from other commercial banks, thrift and savings institutions, including savings and loan associations and credit unions, and other types of financial institutions, including brokerage firms and credit card companies. The Bank faces additional competition for deposits from short-term money market mutual funds and other corporate and government securities funds.

Most of the Bank's competitors, whether traditional or nontraditional financial institutions, have a longer history and significantly greater financial and marketing resources than does the Bank. Among the advantages certain of these institutions have over the Bank are their ability to finance wide-ranging and effective advertising campaigns, to access international money markets and to allocate their investment resources to regions of highest yield and demand. Major banks operating in the primary market area offer certain services, such as international banking and trust services, which are not offered directly by the Bank.

In commercial transactions, the Bank's legal lending limit to a single borrower enables the Bank to compete effectively for the business of individuals and smaller enterprises. However, the Bank's legal lending limit is considerably lower than that of various competing institutions, which have substantially greater capitalization. The Bank has a relatively smaller capital base than most other competing institutions which, although above regulatory minimums, may constrain the Bank's effectiveness in competing for loans.

## Lending Activities

Composition of Loan Portfolio. Set forth below is selected data relating to the composition of the Bank's loan portfolio by type of loan at the dates indicated. (1) Except as set forth below, the Bank had no concentrations of loans exceeding 10% of its loans. Refer to pages 5 through 8 for descriptions of the loan categories presented.

	2009		2008		At December 31, 2007		2006		2005	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Amounts in thousands, except percentages)									
Commercial	\$ 20,174	3.3%	\$ 19,935	3.6%	\$ 14,899	3.7%	\$ 13,436	4.3%	\$ 11,053	
Real estate construction										
Residential	89,006	14.7	87,327	15.9	2,091	0.5	2,465	0.8	1,174	
Commercial	27,327	4.5	31,582	5.8	106,320	26.0	69,254	22.3	70,157	
Real estate mortgage										
Residential	143,385	23.8	90,226	16.5	24,488	6.0	19,727	6.4	17,309	
Commercial	310,484	51.5	308,457	56.3	242,668	59.4	198,668	64.0	154,288	
Consumer	13,025	2.2	10,133	1.9	17,923	4.4	7,005	2.2	5,054	
Total Loans	\$ 603,401	100.00%	\$ 547,660	100.00%	\$ 408,389	100.0%	\$ 310,555	100.0%	\$ 259,035	

(1) Amounts presented include adjustments for related unamortized deferred costs and fees.



Loan Maturity. The following table sets forth the contractual maturity of certain loan categories at December 31, 2009.

	Due within one year	Due after one through five years (Amounts in thousands)	Due after five years	Total
Commercial	\$ 9,136	\$ 4,642	\$ 6,396	\$ 20,174
Real estate construction				
Residential	62,513	15,080	11,413	89,006
Commercial	15,276	6,447	5,604	27,327
Real estate mortgage				
Residential	36,622	8,446	98,317	143,385
Commercial	72,740	47,644	190,100	310,484
Consumer	1,546	145	11,334	13,025
Total Loans	\$ 197,833	\$ 82,404	\$ 323,164	\$ 603,401

The following table sets forth the dollar amount of loans in certain loan categories due one year or more after December 31, 2009, which have predetermined interest rates and which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates (Amounts in thousands)	Total
Commercial	\$ 3,013	\$ 8,025	\$ 11,038
Real estate construction			
Residential	11,586	14,907	26,493
Commercial	2,490	9,561	12,051
Real estate mortgage			
Residential	46,391	60,372	106,763
Commercial	23,764	213,980	237,744
Consumer	11,107	372	11,479
Total Loans	\$ 98,351	\$ 307,217	\$ 405,568

Commercial Loans. The Bank originates secured loans for business purposes. Loans are made to provide working capital to businesses in the form of lines of credit, which may be secured by real estate, accounts receivable, inventory, equipment or other assets. The financial condition and cash flow of commercial borrowers are closely monitored by means of corporate financial statements, personal financial statements and income tax returns. The frequency of submissions of required financial information depends on the size and complexity of the credit and the collateral that secures the loan. The Bank's general policy is to obtain personal guarantees from the principals of the commercial loan borrowers. Such loans are made to businesses located in the Bank's market area.

Commercial business loans generally involve a greater degree of risk than residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the mobility of collateral, the



effects of general economic conditions and the increased difficulty of evaluating and monitoring these types of loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired.

**Real Estate Development and Construction Loans.** The Bank has emphasized the origination of construction loans to individuals and real estate developers in its market area. The advantages of construction lending are that the market is typically less competitive than more standard mortgage products, the interest rate typically charged is a variable rate, which permits the Bank to protect against sudden changes in its costs of funds, and the fees or "points" charged by the Bank to its customers can be amortized over the shorter term of a construction loan, typically, one to two years, which permits the Bank to recognize income received over a shorter period of time. The Bank from time to time structures construction loans in excess of the legal lending limit of the Bank, with respect to which the Bank sells participation interests in the construction loans to other lenders, while maintaining and servicing the construction loan.

The Bank provides interim real estate acquisition development and construction loans to builders and developers. Real estate development and construction loans to provide interim financing on the property are based on acceptable percentages of the appraised value of the property securing the loan in each case. Real estate development and construction loan funds are disbursed periodically at pre-specified stages of completion. Interest rates on these loans are generally adjustable. The Bank carefully monitors these loans with on-site inspections and control of disbursements. These loans are generally made on properties located in the Bank's market area.

Development and construction loans are secured by the properties under development and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely in the value of the underlying property, the Bank considers the financial condition and reputation of the borrower and any guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information.

Loans to residential builders are for the construction of residential homes for which a binding sales contract exists and the prospective buyers have been pre-qualified for permanent mortgage financing. Loans to residential developers are made only to developers with a proven sales record. Generally, these loans are extended only when the borrower provides evidence that the lots under development will be sold to potential buyers satisfactory to the Bank.

The Bank also originates loans to individuals for construction of single family dwellings. These loans are for the construction of the individual's primary residence. They are typically secured by the property under construction, occasionally include additional collateral (such as second mortgage on the borrower's present home), and commonly have maturities of six to twelve months.

Construction financing is labor intensive for the Bank, requiring employees of the Bank to expend substantial time and resources in monitoring and servicing each construction loan to completion. Construction financing is generally considered to involve a higher degree of risk of loss than long-term

financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and development, the accuracy of projections, such as the sales of homes or the future leasing of commercial space, and the accuracy of the estimated cost (including interest) of construction. Substantial deviations can occur in such projections. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. Also, a construction loan that is in default can cause problems for the Bank such as designating replacement builders for a project, considering alternate uses for the project and site and handling any structural and environmental issues that might arise.

**Commercial Real Estate Mortgage Loans.** The Bank originates mortgage loans secured by commercial real estate. Such loans are primarily secured by office buildings, retail buildings, warehouses and general purpose business space. Although terms may vary, the Bank's commercial mortgages generally have maturities of twenty years, but re-price within five years.

Loans secured by commercial real estate are generally larger and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in commercial and multi-family real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties are often dependent on successful operation or management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

The Bank seeks to reduce the risks associated with commercial mortgage lending by generally lending in its primary market area and obtaining periodic financial statements and tax returns from borrowers. It is also the Bank's general policy to obtain personal guarantees from the principals of the borrowers and assignments of all leases related to the collateral.

**Residential Real Estate Mortgage Loans.** The Bank originates adjustable and fixed-rate residential mortgage loans. Such mortgage loans are generally originated under terms, conditions and documentation acceptable to the secondary mortgage market. Although the Bank has placed all of these loans into its portfolio, a substantial majority of such loans can be sold in the secondary market or pledged for potential borrowings.

**Consumer Loans.** The Bank offers a variety of consumer loans. These loans are typically secured by residential real estate or personal property, including automobiles. Home equity loans (closed-end and lines of credit) are typically made up to 80% of the appraised or assessed value of the property securing the loan in each case, less the amount of any existing prior liens on the property, and generally have maximum terms of ten years, although the Bank does offer a 90% loan to value product if certain conditions related to the borrower and property are satisfied. The interest rates on second mortgages are generally fixed, while interest rates on home equity lines of credit are variable.

**Loans to One Borrower.** Federal regulations limit loans to one borrower in an amount equal to 15% of unimpaired capital and unimpaired surplus. At December 31, 2009, the Bank's loan to one borrower limit was approximately \$12.8 million and the Bank had no borrowers with loan balances in excess of \$10.0 million. At December 31, 2009, the Bank's largest loan to one borrower was a loan for



commercial real estate, with a balance of \$10.0 million and was secured by real estate. At December 31, 2009, this loan was current and performing in accordance with the terms of the loan agreement.

The size of loans which the Bank can offer to potential borrowers is less than the size of loans which many of the Bank's competitors with larger capitalization are able to offer. The Bank may engage in loan participations with other banks for loans in excess of the Bank's legal lending limits. However, no assurance can be given that such participations will be available at all or on terms which are favorable to the Bank and its customers.

#### Non-Performing and Problem Assets

**Non-Performing Assets.** Non-accrual loans are those on which the accrual of interest has ceased. Loans are generally placed on non-accrual status if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more unless the collateral is considered sufficient to cover principal and interest and the loan is in the process of collection. Interest accrued, but not collected at the date a loan is placed on non-accrual status, is reversed and charged against interest income. Subsequent cash receipts are applied either to the outstanding principal or recorded as interest income, depending on management's assessment of ultimate collectibility of principal and interest. Loans are returned to an accrual status when the borrower's ability to make periodic principal and interest payments has returned to normal (i.e., brought current with respect to principal or interest or restructured) and the paying capacity of the borrower and/or the underlying collateral is deemed sufficient to cover principal and interest.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above. Total impaired loans, which includes non-accrual loans, were \$50.8 million, \$10.2 million, \$2.0 million, \$2.4 million and \$500,000 at December 31 2009, 2008, 2007, 2006, and 2005, respectively.

The Company maintains interest reserves for the purpose of making periodic and timely interest payments for borrowers that qualify. Total loans with interest reserves were \$74.8 million, \$120.8 million and \$110.5 million at December 31, 2009, December 31, 2008 and December 31, 2007, respectively. Management on a monthly basis reviews loans with interest reserves to assess current and projected performance.

The following table sets forth information regarding non-accrual loans at the dates indicated. As of the dates indicated, the Bank did not have any troubled restructurings as defined within accounting guidance and regulatory literature.

	At December 31,				
	2009	2008	2007	2006	2005
	(Amounts in thousands, except percentages)				
Loans accounted for on a non-accrual basis:					
Commercial	\$ 350	\$ 41	\$ 52	\$ 91	\$ 50
Real Estate Construction					
Residential	18,895	5,905	—	—	—
Commercial	198	—	325	—	—
Real Estate Mortgage					
Residential	2,511	897	7	—	20
Commercial	3,381	1,380	367	687	1,865
Consumer	117	—	54	—	—
Total non-accrual loans	25,452	8,223	805	778	1,935
Accruing loans delinquent 90 days or more:					
Commercial	—	—	—	—	—
Real Estate Construction					
Residential	—	—	—	—	—
Commercial	—	—	—	—	—
Real Estate Mortgage					
Residential	—	—	—	—	—
Commercial	—	—	—	267	655
Consumer	—	—	—	—	—
Total	—	—	—	267	655
Total non-performing loans	\$ 25,452	\$ 8,223	\$ 805	\$ 1,045	\$ 2,600
Total non-performing loans as a percentage of loans	4.2%	1.50 %	0.20%	0.34%	1.00%

When a loan is more than 30 days delinquent, the borrower is contacted by mail or phone and payment is requested. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower. In certain instances, the Company may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize their financial affairs. If the loan continues in a delinquent status for 90 days or more, the Company generally will initiate foreclosure proceedings.

Loans are generally placed on non-accrual status when either principal or interest is 90 days or more past due. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Such interest, when ultimately collected, is applied either to the outstanding principal or recorded as interest income, depending on management's assessment of ultimate collectibility of principal and interest. At December 31, 2009, the Bank had \$25.5 million of loans that were on a non-accrual basis. Gross interest income of \$1.3 million would have been recorded during the year ended December 31, 2009 if these loans had been performing in accordance with their terms. Interest income of \$10,000 was recognized on these loans during the year ended December 31, 2009.

Classified Assets. Federal Regulations provide for a classification system for problem assets of insured institutions. Under this classification system, problem assets of insured institutions are classified as substandard, doubtful or loss. An asset is considered “substandard” if it involves more than an



acceptable level of risk due to a deteriorating financial condition, unfavorable history of the borrower, inadequate payment capacity, insufficient security or other negative factors within the industry, market or management. Substandard loans have clearly defined weaknesses that can jeopardize the timely payments of the loan.

Assets classified as “doubtful” exhibit all of the weakness defined under the Substandard Category but with enough risk to present a high probability of some principal loss on the loan, although not yet fully ascertainable in amount. Assets classified as “loss” are those considered un-collectable or of little value, even though a collection effort may continue after the classification and potential charge-off.

The Bank also internally classifies certain assets as “special mention;” such assets do not demonstrate a current potential for loss but are monitored in response to negative trends which, if not reversed, could lead to a substandard rating in the future.

When an insured institution classifies problem assets as either “substandard” or “doubtful,” it may establish specific allowances for loan losses in an amount deemed prudent by management. When an insured institution classifies problem assets as “loss,” it is required either to establish an allowance for losses equal to 100% of that portion of the assets so classified or to charge off such amount. All of the Bank’s loans rated “substandard” and worse are also on non-accrual and deemed impaired.

At December 31, 2009, the Bank had assets classified as follows:

	Loan Balance (Amounts in thousands)
Special mention	\$ 25,123
Substandard	26,426
Doubtful	—
Loss	—
	\$ 51,549

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. When real estate owned is acquired, it is recorded at the lower of the unpaid principal balance of the related loan or its fair value less disposal costs. Management also periodically performs valuations of real estate owned and establishes allowances to reduce book values of the properties to their net realizable values when necessary. Any write-down of real estate owned is charged to operations. At December 31, 2009, the Bank had no real estate owned.

Allowance for Losses on Loans and Real Estate Owned. It is the policy of management to provide for possible losses on all loans in its portfolio, whether classified or not. A provision for loan losses is charged to operations based on management’s evaluation of the inherent losses estimated to have occurred in the Bank’s loan portfolio.

Management’s judgment as to the level of probable losses on existing loans is based on its internal review of the loan portfolio, including an analysis of the borrowers’ current financial position; the level and trends in delinquencies, non-accruals and impaired loans; the consideration of national and local economic conditions and trends; concentrations of credit; the impact of any changes in credit policy; the experience and depth of management and the lending staff; and any trends in loan volume and terms. In



determining the collectibility of certain loans, management also considers the fair value of any underlying collateral. However, management's determination of the appropriate allowance level which is based upon the factors outlined above, which are believed to be reasonable, may or may not prove to be valid. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required.

The following table sets forth information with respect to the Bank's allowance for losses on loans at the dates and for the periods indicated.

	For the Year Ended December 31,				
	2009	2008	2007	2006	2005
	(Amounts in thousands, except percentages)				
Balance at beginning of the period	\$ 7,777	\$ 5,706	\$ 4,511	\$ 3,574	\$ 2,621
Charge-offs:					
Commercial	(73)	—	—	—	—
Real estate construction					
Residential	(600)	—	—	—	—
Commercial	—	—	—	—	(227)
Real estate mortgage					
Residential	—	—	—	—	—
Commercial	—	—	(200)	—	—
Consumer	—	(5)	—	(3)	—
Total charge-offs:	(673)	(5)	(200)	(3)	(227)
Recoveries:					
Commercial	—	—	—	—	—
Real estate construction					
Residential	—	—	—	—	—
Commercial	—	—	—	—	—
Real estate mortgage					
Residential	—	—	—	—	—
Commercial	—	—	234	—	—
Consumer	—	13	—	—	—
Total recoveries:	—	13	234	—	—
Net recoveries (charge-offs)	(673)	8	34	(3)	(227)
Provision for loan losses	5,300	2,063	1,161	940	1,180
Balance at end of period	\$ 12,404	\$ 7,777	\$ 5,706	\$ 4,511	\$ 3,574
Period-end loans outstanding (net of deferred costs/fees)	\$ 603,401	\$ 547,660	\$ 408,389	\$ 310,555	\$ 295,035
Average loans outstanding	\$ 621,619	\$ 476,994	\$ 365,884	\$ 286,691	\$ 219,217
Allowance as a percentage of period end loans	2.06%	1.42%	1.40%	1.45%	1.38%
Net loans charged off as a percentage of average loans outstanding	0.11%	0.00%	( 0.01)%	0.00%	0.10%



Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the Bank's allowance for loan losses by loan category at the dates indicated. The portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses that may occur within the loan category as the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

	2009		2008		2007		2006		2005	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Amounts in thousands, except percentages)									
Commercial	\$ 409	3.3%	\$ 283	3.6%	\$ 209	3.7%	\$ 188	4.3%	\$ 154	4.3%
Real estate construction:										
Residential	1,823	14.7	1,240	15.9	22	0.4	25	0.8	18	0.5
Commercial	558	4.5	448	5.8	1,489	26.1	847	22.3	969	27.1
Real estate mortgage:										
Residential	2,952	23.8	1,281	16.5	257	4.5	218	6.4	239	6.7
Commercial	6,389	51.5	4,381	56.3	3,568	62.5	3,185	64.0	2,130	59.6
Consumer										