FIRST PACTRUST BANCORP INC
Form 10-Q
May 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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 number 001-35522

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of

incorporation or organization)

04-3639825

(IRS Employer Identification No.)

18500 Von Karman Ave, Suite 1100, Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 236-5211

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (Section 232.405 of this chapter) during the proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

As of April 30, 2012 the registrant had outstanding 10,599,677 shares of voting common stock and 1,078,807 shares of Class B non-voting common stock.

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FIRST PACTRUST BANCORP, INC.

Form 10-Q Quarterly Report

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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

When used in this report and in public shareholder communications, in other documents of First PacTrust Bancorp, Inc. (the Company, we, us and our)) filed with or furnished to the Securities and Exchange Commission (the SEC), or in oral statements made with the approval of an authorized executive officer, the words or phrases believe, will, should, will likely result, are expected to, will continue, is anticipated, project, plans, guidance or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These statements may relate to our future financial performance, strategic plans or objectives, revenue, expense or earnings projections, or other financial items. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

Factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: (i) the occurrence of any event, change or other circumstances that could give rise to the termination of the stock purchase agreement for the Company s pending acquisition of Gateway Bancorp or the merger agreement for the Company s pending acquisition of Beach Business Bank; (ii) the inability to complete the Gateway Bancorp or Beach Business Bank transaction due to the failure to satisfy each transaction s respective conditions to completion, including the receipt of regulatory approvals; (iii) risks that the Gateway Bancorp or Beach Business Bank transaction disrupts current plans and operations, the potential difficulties in customer and employee retention as a result of the pending transactions and the amount of the costs, fees, expenses and charges related to the proposed transactions; (iv) continuation or worsening of current recessionary conditions, as well as continued turmoil in the financial markets; (v) the credit risks of lending activities, which may be affected by further deterioration in the real estate markets, may lead to increased loan delinquencies, losses and nonperforming assets in our loan portfolio, and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our loan loss reserves; (vi) the quality and composition of our securities portfolio; (vii) changes in general economic conditions, either nationally or in our market areas; (viii) changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources; (ix) fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in commercial and residential real estate values in our market area; (x) results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; (xi) legislative or regulatory changes that adversely affect our business, including changes in the interpretation of regulatory capital or other rules; (xii) our ability to control operating costs and expenses; (xiii) staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; (xiv) errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation; (xv) the network and computer systems on which we depend could fail or experience a security breach; (xvi) our ability to attract and retain key members of our senior management team; (xvii) costs and effects of litigation, including settlements and judgments; (xviii) increased competitive pressures among financial services companies; (xix) changes in consumer spending, borrowing and saving habits; (xx) adverse changes in the securities markets; (xxi) earthquake, fire or other natural disasters affecting the condition of real estate collateral; (xxii) the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions; (xxiii) inability of key third-party providers to perform their obligations to us; (xxiv) changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business or final audit adjustments, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; (xxv) war or terrorist activities; and (xxvi) other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC. You should not place undue reliance on forward-looking statements, and we undertake no obligation to update any such statements to reflect circumstances or events that occur after the date on which the forward-looking statement is made.

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ITEM 1 FINANCIAL STATEMENTS

First PacTrust Bancorp, Inc.

Consolidated Statements of Financial Condition

(In thousands of dollars except share and per share data)

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 7,718	$ 6,755
Interest-bearing deposits	66,115	37,720
Total cash and cash equivalents	73,833	44,475
Securities available for sale	101,452	101,616
Federal Home Loan Bank stock, at cost	6,639	6,972
Loans, net of allowance of $11,173 at March 31, 2012 and $12,780 at December 31, 2011	828,285	775,609
Accrued interest receivable	3,891	3,569
Other real estate owned (OREO), net	12,843	14,692
Premises and equipment, net	12,412	10,585
Capital lease assets, net	126	
Bank owned life insurance investment	18,520	18,451
Prepaid FDIC assessment	2,100	2,405
Other assets	22,981	20,667
Total assets	$ 1,083,082	$ 999,041
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest-bearing demand	$ 24,961	$ 20,039
Interest-bearing demand	96,902	68,578
Money market accounts	177,314	188,658
Savings accounts	42,761	39,176
Certificates of deposit	511,905	469,883
Total deposits	853,843	786,334
Advances from Federal Home Loan Bank	35,000	20,000
Capital lease obligation	126	
Accrued expenses and other liabilities	10,111	8,212
Total liabilities	898,080	814,546
Commitments and contingent liabilities		
SHAREHOLDERS EQUITY		
Preferred stock, $.01 par value per share, $1,000 per share liquidation preference for a total of $32,000; 50,000,000 shares authorized, 32,000 shares issued and outstanding at March 31, 2012 and December 31, 2011	31,934	31,934
Common stock, $.01 par value per share, 196,863,844 shares authorized; 11,767,879 shares issued and 10,592,719 shares outstanding at March 31, 2012; 11,756,636 shares issued and 10,581,704 shares outstanding at December 31, 2011	117	117
Class B non-voting non-convertible Common stock, $.01 par value per share, 3,136,156 shares authorized; 1,067,725 shares issued and outstanding at March 31, 2012 and 1,054,991 shares issued and outstanding at	11	11

December 31, 2011		
Additional paid-in capital	151,277	150,786
Retained earnings	26,201	27,623
Treasury stock, at cost (March 31, 2012-1,175,160 shares, December 31, 2011-1,174,932 shares)	(25,110)	(25,037)
Accumulated other comprehensive income/(loss), net	(428)	(939)
Total shareholders equity	184,002	184,495
Total liabilities and shareholders equity	$ 1,083,082	$ 999,041

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Income and Comprehensive Income

(In thousands of dollars except share and per share data)

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Interest and dividend income		
Loans, including fees	$ 9,528	$ 7,666
Securities	737	1,244
Dividends and other interest-earning assets	60	39
Total interest and dividend income	10,325	8,949
Interest expense		
Savings	11	90
NOW	112	16
Money market	137	66
Certificates of deposit	1,089	1,105
Federal Home Loan Bank advances	100	517
Total interest expense	1,449	1,794
Net interest income	8,876	7,155
Provision for loan losses	691	
Net interest income after provision for loan losses	8,185	7,155
Noninterest income		
Customer service fees	361	338
Mortgage loan prepayment penalties	16	
Income from bank owned life insurance	69	64
Net gain/(loss) on sales of securities available for sale	(39)	319
Other	96	46
Total noninterest income	503	767
Noninterest expense		
Salaries and employee benefits	4,867	3,381
Occupancy and equipment	999	664
Advertising	239	60
Professional fees	543	335
Stationery paper, supplies, and postage	113	115
Data processing	407	293
ATM costs	93	64
FDIC expense	318	383
Loan servicing and foreclosure expense (income)	338	(76)
Operating loss on equity investment	76	78
OREO valuation allowance	14	421
Net (gain)/loss on sales of other real estate owned	(316)	768
Other general and administrative	527	330
Total noninterest expense	8,218	6,816

Income before income taxes	470	1,106
Income tax expense	93	413
Net income	$ 377	$ 693
Preferred stock dividends	$ 400	$
Net income/(loss) available to common shareholders	$ (23)	$ 693
Basic earnings/(loss) per common share	$ (0.00)	$ 0.07
Diluted earnings/(loss) per common share	$ (0.00)	$ 0.07
Other comprehensive income, before tax:		
Change in net unrealized gains on securities:		
Net unrealized holding gains arising during the period	829	893
Less: reclassification adjustment for (gains)/losses included in net income	39	(319)
Net unrealized gains, net of reclassification adjustments	868	574
Income tax expense related to items of other comprehensive income	357	229
Total other comprehensive income, net of tax	511	345
Comprehensive income	888	1,038

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Shareholder s Equity

(In thousands of dollars, except share and per share data)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned ESOP	Accumulated Other Comprehensive Income (Loss), net	Total
Balance at January 1, 2011	$	$ 109	$ 123,170	$ 35,773	$ (25,135)	$ (507)	$ 2,599	$ 136,009
Net Loss				(2,728)				(2,728)
Other comprehensive income, net							(3,538)	(3,538)
Forfeiture and retirement of shares and common stock			13		(13)			
Stock option compensation expense			816					816
ESOP forfeitures used to reduce ESOP contribution			7					7
Stock awards earned			412					412
Issuance of stock awards			(611)		107			(504)
Purchase of 5,224 shares of treasury stock					(55)			(55)
Employee stock ownership plan shares earned			98			507		605
Tax benefit/(loss) of restricted share awards vesting			(4)					(4)
Dividends declared ($.45 per common share)			516	(4,888)				(4,372)
Repurchase of warrants TARP			(1,003)					(1,003)
Tax effect of ESOP			256					256
Tax effect of options redeemed			147					147
Reissuance of ESOP shares			(59)		59			
Preferred stock dividends				(534)				(534)
Issuance of 32,000 shares of preferred stock, net of issuance costs of $66	31,934							31,934
Net proceeds from stock issuance		19	27,028					27,047
Balance at December 31, 2011	31,934	128	150,786	27,623	(25,037)		(939)	184,495
Net Income				377				377
Other comprehensive income, net							511	511
Stock option compensation expense			214					214
Stock awards earned			70					70
Purchase of 6,864 shares of treasury stock					(73)			(73)
Tax benefit/(loss) of restricted share awards vesting			(1)					(1)
Dividends declared ($0.12 per common share)			214	(1,399)				(1,185)
Preferred stock dividends				(400)				(400)
Capital raising expenses			(6)					(6)
Balance at March 31, 2012	$ 31,934	$ 128	$ 151,277	$ 26,201	$ (25,110)	$	$ (428)	$ 184,002

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Cash Flows

(In thousands of dollars)

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Cash flows from operating activities		
Net income	$ 377	$ 693
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	691	
Net amortization/(accretion) of securities	180	(240)
Depreciation and amortization	220	130
Employee stock ownership plan compensation expense		183
Stock option compensation expense	214	164
Stock award compensation expense	70	32
Bank owned life insurance income	(69)	(64)
Operating loss on equity investment	76	78
Net (gain)/loss on sales of securities available-for-sale	39	(319)
Net (gain)/loss on sales of other real estate owned	(316)	768
Deferred income tax (benefit)/expense	326	(1,018)
Decrease in valuation allowances on other real estate owned	14	(170)
Net change in:		
Deferred loan costs	60	60
Premiums and discounts on purchased loans	(177)	
Accrued interest receivable	(223)	66
Other assets	3,702	2,749
Accrued interest payable and other liabilities	1,499	1,584
Net cash from operating activities	6,683	4,696
Cash flows from investing activities		
Proceeds from sales of securities available-for-sale	2,938	6,478
Proceeds from maturities, calls and principal repayments of securities available-for-sale	8,624	4,826
Purchases of securities available-for-sale	(10,782)	(20,342)
Loan originations and principal collections, net	(43,454)	1,787
Purchase of loans	(19,546)	
Redemption of Federal Home Loan Bank stock	333	330
Proceeds from sales of other real estate owned	5,765	2,517
Additions to premises and equipment	(2,045)	(2,035)
Payments on capital lease obligations	(2)	
Net cash from investing activities	(58,169)	(6,439)
Cash flows from financing activities		
Repurchase of warrants, TARP		(1,003)
Net increase/(decrease) in deposits	67,509	(11,898)
Repayments of Federal Home Loan Bank advances	(20,000)	(15,000)
Proceeds from Federal Home Loan Bank advances	35,000	
SBLF expense	(6)	
Net proceeds from issuance of common stock		(45)
Purchase of treasury stock	(73)	(4)
Tax benefit/(loss) from RRP shares vesting	(1)	(1)

Tax effect of ESOP		148
Tax effect of options redeemed		147
Dividends paid on preferred stock	(400)	
Dividends paid on common stock	(1,185)	(1,018)
Net cash from financing activities	80,844	(28,674)
Net change in cash and cash equivalents	29,358	(30,417)
Cash and cash equivalents at beginning of period	44,475	59,100
Cash and cash equivalents at end of period	$ 73,833	$ 28,683
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	$ 1,425	$ 1,824
Income taxes paid		
Supplemental disclosure of noncash activities		
Transfer from loans to loans provided for sales of other real estate owned		
Transfer from loans to other real estate owned, net	3,614	3,232
Equipment acquired under capital leases	128	

See accompanying notes to consolidated financial statements.

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FIRST PACTRUST BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Amounts in thousands of dollars, except share and per share data)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of First PacTrust Bancorp, Inc. (the Company) and its wholly owned subsidiaries, Pacific Trust Bank (the Bank) and PTB Property Holdings, LLC, as of March 31, 2012 and December 31, 2011 and for the three month periods ended March 31, 2012 and March 31, 2011. Significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission. The December 31, 2011 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission, but does not include all of the disclosures required by U.S. generally accepted accounting principles.

Interim statements are subject to possible adjustment in connection with the annual audit of the Company for the year ending December 31, 2012. In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation.

The results of operations for the three month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, the Bank and PTB Property Holdings, LLC. All significant intercompany transactions and balances are eliminated in consolidation.

Nature of Operations: The principal business of the Company is the ownership of the Bank. The Bank is a federally chartered stock savings bank and a member of the Federal Home Loan Bank (FHLB) system, which maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC).

The Bank is engaged in the business of retail banking, with operations conducted through its main office, eleven full-service branch offices, three limited-service deposit gathering branches and one loan production office, primarily serving San Diego, Los Angeles, Orange and Riverside Counties, California. There are no significant concentrations of loans to any one industry or customer. However, the customer s ability to repay their loans is dependent on the real estate market and general economic conditions in the area.

The accounting and reporting polices of the Company are based upon U.S. generally accepted accounting principles and conform to predominant practices within the banking industry. Significant accounting policies followed by the Company are presented below.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan losses, other real estate owned, realization of deferred tax assets, and the fair value of financial instruments are particularly subject to change and such change could have a material effect on the consolidated financial statements.

Affordable Housing Fund: The Company has a 19% equity investment in an affordable housing fund originally totaling $4.2 million for purposes of obtaining tax credits and for Community Reinvestment Act purposes. This investment is accounted for using the equity method of accounting. Under the equity method of accounting, the Company recognizes its ownership share of the profits and losses of the fund. The Company obtains tax credits from these investments which reduce income tax expense for a period of 10 years. This investment is regularly evaluated for impairment by comparing the carrying value to the remaining tax credits expected to be received. For the three month periods ending March 31, 2012 and 2011, our share of the fund s operating loss was $76 thousand and $78 thousand, respectively. The balance of the investment at March 31, 2012 and December 31, 2011 was $1.5 million and $1.6 million, respectively, and is included in other assets.

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Concentration of Credit Risk: Most of the Company s business activity is with customers located within San Diego, Los Angeles, Orange and Riverside Counties, California. Therefore, the Company s exposure to credit risk is significantly affected by changes in the economy in these areas.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level considered adequate by management to provide for probable incurred credit losses. The allowance is increased by provisions charged against income, while loan losses are charged against the allowance when management deems a loan balance to be uncollectible. Subsequent recoveries, if any, are credited to the allowance. The Company performs an analysis of the adequacy of the allowance on a monthly basis. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged off. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company evaluates all impaired loans individually under the guidance of ASC 310, primarily through the evaluation of collateral values and cash flows. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance is allocated 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. Troubled debt restructurings are also measured at the present value of estimated future cash flows using the loan s effective rate at inception or at the fair value of collateral if repayment is expected solely from the collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses covers loans that are not impaired and is determined by portfolio segment and is based on actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; effects of changes in credit concentrations and other factors. The historical loss analysis is also combined with a comprehensive loan to value analysis to analyze the associated risks in the current loan portfolio. For 2011 and 2012, the Company used a three year loss look back for determining the level of its allowance for loan losses. Prior to this, the Company used a one year look back. This change, which was not material, was made to better reflect the improving state of the loan portfolio as delinquencies have declined and loan losses have leveled. An updated loan to value analysis is obtained from an independent firm semi-annually, most recently in November 2011. Management uses available information to recognize loan losses, however, future loan loss provisions may be necessary based on changes in the above mentioned factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination.

The following portfolio segments have been identified: commercial and industrial, commercial real estate mortgage, multi-family, land, residential real estate one-to four- family first mortgage, residential real estate one-to four- family junior lien mortgage, and other revolving credit and installment. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans delinquent over 60 days and non-homogenous loans such as commercial and commercial real estate loans. Classification of problem single-family residential loans is performed on a monthly basis while analysis of non-homogenous loans is performed on a quarterly basis.

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Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than one-to four- family residential mortgage loans. Because payments on loan secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy. Commercial business loans are also considered to have a greater degree of credit risk than one- to four-family residential mortgage loans due to the fact commercial business loans are typically 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 (which, in turn, is often dependent in part upon general economic conditions). Consumer and other real estate loans may entail greater risk than do one- to four- family residential mortgage loans given that collection of these loans is dependent on the borrower s continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Negatively amortizing and interest only loans are also considered to carry a higher degree of credit risk due to their unique cash flows. The Bank s Green Account Mortgages tend to have lower levels of delinquencies as a result of the borrower s ability to meet their monthly payments obligations by increasing the level of their line of credit. Credit risk on this asset class is also managed through the completion of regular re-appraisals of the underlying collateral and monitoring of the borrowers usage of this account to determine if the borrower is making monthly payments from external sources or draw downs on their line. In cases where the property values have declined to levels less than the original loan-to-value, or other levels deemed prudent by the Bank, the Bank may freeze the line and/or require monthly payments or principal reductions to bring the loan in balance.

Classified Assets: Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the Office of Thrift Supervision, and, as of July 21, 2011, the Office of the Comptroller of the Currency, its successor regulator (collectively referred to as the the Office of the Comptroller of the Currency or OCC), to be of lesser quality, as substandard, doubtful or loss. An asset is consider substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. The Bank includes in its classification of Substandard Assets loans that are performing under terms of a TDR, but where the borrower has yet to make twelve or more payments under the TDR, and where the loan remains impaired, as well as loans where the borrower is current in his or her payments on the subject Classified Loan but may be a guarantor on another loan that is classified as a result of weakness in the credit or collateral (Relationship). TDR loans that have continued to make payments for twelve months or more, but where the collateral remains impaired, retain a Substandard classification. As of March 31, 2012, the Bank had $3.8 million of TDR loans classified as substandard with less than twelve months of payment performance and $6.2 million of TDR loans classified as substandard with payment performance for more than twelve months. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. When an insured institution classifies problem assets as either substandard or doubtful, it may establish general or specific allowances for loan losses in an amount deemed prudent by management and approved by the Board of Directors. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as loss, it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OCC, which may order the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic reports with the OCC and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations.

Purchased Credit-impaired Loans: The Company purchases loans with and without evidence of credit quality deterioration since origination. Evidence of credit quality deterioration as of the purchase date may include statistics such as prior loan modification history, updated borrower credit scores and updated loan-to-value (LTV) ratios, some of which are not immediately available as of the purchase date. Purchased loans with evidence of credit quality deterioration where the Company estimates that it will not receive all contractual payments are accounted for as purchased credit impaired loans (PCI loans). The excess of the cash flows expected to be collected on PCI loans, measured as of the acquisition date, over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan using a level yield methodology. The difference between contractually required payments as of the acquisition date and the cash flows expected to be collected is referred to as the nonaccretable difference. PCI loans that have similar risk characteristics, primarily credit risk, collateral type and interest rate risk, are pooled and accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

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The Company estimates cash flows expected to be collected over the life of the loan using management s best estimate of current key assumptions such as default rates, loss severity and payment speeds. If, upon subsequent evaluation, the Company determines it is probable that the present value of the expected cash flows have decreased, the PCI loan is considered further impaired which will result in a charge to the provision for credit losses and a corresponding increase to a valuation allowance included in the allowance for loan losses. If, upon subsequent evaluation, it is probable that there is an increase in the present value of the expected cash flows, the Company will reduce any remaining valuation allowance. If there is no remaining valuation allowance, the Company will recalculate the amount of accretable yield as the excess of the revised expected cash flows over the current carrying value resulting in a reclassification from nonaccretable difference to accretable yield. The present value of the expected cash flows is determined using the PCI loans effective interest rate, adjusted for changes in the PCI loans interest rate indexes. Loan dispositions, which may include sales of loans, receipt of payments in full from the borrower or foreclosure, result in removal of the loan from the PCI loan pool. Write-downs are not recorded on the PCI loan pool until actual losses exceed the remaining nonaccretable difference. To date, no write-downs have been recorded for any of the PCI loan pools held by the Company, all of which were purchased by the Company during the three months ended March 31, 2012.

Capital Lease Assets and Capital Lease Obligation: A capital lease asset and capital lease obligation are recorded when the Company determines that the terms of a lease include at least one of the following: (i) transfer of ownership of the leased property at the end of the lease term; (ii) a bargain purchase option; (iii) lease term equal to 75% or more of the estimated economic life of the leased property; (iv) present value of minimum lease payments at the beginning of the lease term equal to or in excess of 90% of the fair value of the leased property. The capital lease asset and capital lease obligation are initially recorded at the present value of the minimum lease payments. The Company calculates the present value of the minimum lease payments using the lower of the interest rate implicit in the lease and the Company s own incremental borrowing rate. If the use of the lower rate results in the present value of minimum lease payments being greater than the fair value of the leased property, the Company records the capital lease asset and capital lease obligation at the fair value of the leased property. The capital lease asset is depreciated using the straight-line method over the appropriate term which is determined through the analysis of criteria (i) through (iv) discussed above. During the lease term, each minimum lease payment is allocated between a reduction of the capital lease obligation and interest expense to produce a constant periodic rate of interest on the remaining balance of the obligation.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company had a $1.3 million valuation allowance for its net deferred tax asset at March 31, 2012 and December 31, 2011. See further discussion in Note 11, Income Taxes, of the Notes to Consolidated Financial Statements.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2008 and for all state income taxes before 2007.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company had $0 accrued for interest and penalties at March 31, 2012 and December 31, 2011.

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Comprehensive Income: Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as a separate component of shareholders equity.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders equity.

Adoption of New Accounting Standards: In May, 2011, the Financial Accounting Standards Board (FASB) issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The effect of adopting this standard did not have a material effect on the Company s consolidated operating results or financial condition, but the additional disclosures are included in Note 5.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of shareholder s equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The adoption of this amendment changed the presentation of the components of comprehensive income for the Company as part of the consolidated statement of shareholder s equity and the Company has included comprehensive income in a single statement with the consolidated statements of income and comprehensive income.

In September 2011, the FASB issued ASU 2011-08 Intangibles-Goodwill and Other. The amendments in ASU 2011-08 will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of ASU 2011-08 did not impact the Company s consolidated financial statements or disclosures

Newly Issued But Not Yet Effective Accounting Standards: In December 2011, the FASB issued an accounting standards update to increase the disclosure requirements surrounding derivative instruments that are offset within the balance sheet pursuant to the provisions of current generally accepted accounting principles. The objective of the update is to provide greater comparability between issuers reporting under U.S. versus International accounting principles and provide users the ability to evaluate the effect of netting arrangements on a company s financial statements. The provisions of the update are effective for annual and interim periods beginning on or after January 1, 2013 and are not currently expected to add to the Company s current level of disclosures.

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NOTE 3 EMPLOYEE STOCK COMPENSATION

The Company has multiple share based compensation plans as described below. Total compensation cost that has been charged against income for the Company s stock compensation plans was $284 thousand and $196 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively. The total income tax benefit and/or recovery was $1 thousand and $1 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively.

Restricted Share Awards

2003 Recognition and Retention Plan

The Company s 2003 Recognition and Retention Plan (RRP) provides for the issuance of up to 211,600 shares to directors, officers, and employees. Compensation expense is recognized over the vesting period of the shares based on the market value at date of grant. At March 31, 2012, all 211,600 shares were issued. These shares vest over a five-year period. Compensation expense for the RRP awards totaled approximately $10 thousand and $6 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively. As of March 31, 2012, there was $92 thousand of total unrecognized compensation cost related to 8,318 nonvested awards under the RRP. The cost is expected to be recognized over a weighted-average period of less than five years.

A summary of changes in the Company s nonvested shares awarded under the RRP for the three months ended March 31, 2012 follows:

Nonvested shares	**Shares**		**Weighted-Average Grant-Date Fair-Value**
Nonvested at January 1, 2012	8,958	$	18.91
Granted			
Vested	(640)		17.00
Forfeited/expired			
Nonvested at March 31, 2012	8,318	$	11.78

A summary of changes in the Company s nonvested shares awarded under the RRP for the three months ended March 31, 2011 follows:

Nonvested shares	**Shares**		**Weighted-Average Grant-Date Fair-Value**
Nonvested at January 1, 2011	12,378	$	17.67
Granted			
Vested	(860)		13.60
Forfeited/expired			
Nonvested at March 31, 2011	11,518	$	17.67

Inducement Grants

One-time inducement restricted shares were granted during 2010 and 2011 to newly hired executive officers. No inducement restricted shares were granted during the three months ended March 31, 2012. These one-time inducement grants were made outside of the RRP and the Omnibus Incentive Plan (described below). These shares vest over a three year period. Compensation expense for the inducement restricted share awards totaled approximately $25 thousand and $21 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively. As of March 31, 2012, there was $197 thousand of total unrecognized compensation cost related to the 19,333 nonvested inducement restricted share awards. The cost is expected to be recognized over a weighted-average period of less than three years.

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A summary of changes related to the Company s nonvested inducement restricted share awards for the three months ended March 31, 2012 follows:

	Shares	Weighted Average Exercise Price
Nonvested at January 1, 2012	26,500	$ 12.12
Granted		
Vested	(7,167)	11.57
Forfeited or expired		
Nonvested at March 31, 2012	19,333	$ 12.32

A summary of changes related to the Company s nonvested inducement restricted share awards for the three months ended March 31, 2011 follows:

	Shares	Weighted Average Exercise Price
Nonvested at January 1, 2011	21,500	$ 11.57
Granted		
Vested		
Forfeited or expired		
Nonvested at March 31, 2011	21,500	$ 11.57

2011 Omnibus Incentive Plan

During June, 2011, the Company adopted its 2011 Omnibus Incentive Plan under the terms of which participating employees and directors may be awarded stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards or cash awards. The total number of shares of common stock available for awards under the plan is 950,000, of which no more than 300,000 shares may be used for awards other than stock options and stock appreciation rights. There were 43,606 shares awarded as restricted shares from this plan as of March 31, 2012. These shares vest over a one year period. Compensation expense for these awards totaled approximately $17 thousand for the three months ended March 31, 2012. As of March 31, 2012, there was $226 thousand of total unrecognized compensation cost related to the 23,158 nonvested shares awarded under the Omnibus Incentive Plan. The cost is expected to be recognized over a weighted-average period of less than one year.

A summary of changes related to the Company s nonvested restricted share awards under the Omnibus Incentive Plan for the three months ended March 31, 2012 follows:

	Shares	Weighted Average Exercise Price
Nonvested at January 1, 2012	23,158	$ 12.42
Granted		
Vested		
Forfeited or expired		

Nonvested at March 31, 2012	23,158	$ 12.42

Stock Options

2003 Stock Option Plan

In addition to the Omnibus Incentive Plan discussed above, the Company has a 2003 Stock Option Plan (SOP) which provides for the issuance of options to directors, officers, and employees. The Company recorded stock compensation expense of $214 thousand and $164 thousand as salary and employee benefits expense during the three months ended March 31, 2012 and March 31, 2011, respectively. The Company adopted the SOP during 2003 under the terms of which 529,000 shares of the Company s common stock may be awarded. At March 31, 2012, the number of shares available for future awards was 16,500. The options become exercisable in equal installments over a five-year period from the date of grant. The options expire ten years from the date of grant. The fair value of options granted are computed using option pricing models, using the following weighted-average assumptions as of grant date. The fair value of each option is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Company s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no options granted in 2012 or 2011 under the SOP. There were no options exercised or forfeited during the three months ended March 31, 2012 or March 31, 2011 and no options are outstanding under this plan at March 31, 2012.

Inducement Grants

During 2010 and 2011, 850,000 inducement options were granted to newly hired executive officers. No inducement options were granted during the three months ended March 31, 2012 or 2011. These one-time inducement options were granted outside of the SOP and the Omnibus Incentive Plan. None of these options were exercised during 2012 or 2011. These options have a three year vesting. As of March 31, 2012, there was $1.2 million of total unrecognized compensation cost related to nonvested inducement options. The cost is expected to be recognized over a weighted-average period of less than three years.

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The following table represents inducement option activity during the three months ended March 31, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2012	850,000	$ 11.71	1.91
Granted			
Exercised			
Forfeited or expired			
Outstanding at March 31, 2012	850,000	$ 11.71	1.66
Fully vested and expected to vest	807,500	$ 11.12	1.66
Options exercisable at March 31, 2012	256,664	$ 11.42	1.61

Omnibus Incentive Plan

During 2011, 68,569 shares were awarded as stock options under the Omnibus Incentive Plan. These options were awarded to Company and Bank directors in lieu of, or in combination with cash compensation for director services. No options were issued during the quarter ended March 31, 2012. The options become exercisable one year from the date of grant. The options expire ten years from the date of grant. The fair value of options granted are computed using option pricing models, using the following weighted-average assumptions as of grant date. The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black Scholes) model. Expected volatilities are based on historical volatilities of the Company s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

As of March 31, 2012, there was $100 thousand of total unrecognized compensation cost related to nonvested stock options awarded under the Omnibus Incentive Plan. The cost is expected to be recognized over a weighted-average period of less than 1 year.

The following table represents option activity under the Omnibus Incentive Plan during the three months ended March 31, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2012	68,569	$ 15.81	
Granted			
Exercised			
Forfeited or expired			
Outstanding at March 31, 2012	68,569	$ 15.81	.22
Fully vested and expected to vest	65,141	$ 15.02	.22
Options exercisable at March 31, 2012			

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. ASC 718 and 505 require the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 5% for senior management and the board of directors and 45% for all other employees. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

NOTE 4 EARNINGS/(LOSS) PER COMMON SHARE

Basic earnings/(loss) per common share were computed by dividing net income/(loss) available to common shareholders after subtracting preferred stock dividends by the weighted average number of common shares outstanding. Diluted earnings/(loss) per common share were computed by dividing net income/(loss) available to common shareholders by the weighted average number of shares outstanding, adjusted for the dilutive effect, if any, of the outstanding stock options, restricted stock awards and warrants to purchase common stock. Computations for basic and diluted earnings/(loss) per common share are provided below.

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	Three months ended March 31, 2012	2011
Basic		
Net income	$ 377	$ 693
Less: Dividends on preferred stock	(400)	
Net income/(loss) available to common shareholders	$ (23)	$ 693
Weighted average common shares outstanding	11,664,797	9,661,447
Basic earnings/(loss) per common share	$ (0.00)	$ 0.07
Diluted		
Net income/(loss) available to common shareholders	$ (23)	$ 693
Weighted average common shares outstanding for basic earnings per common share	11,664,797	9,661,447
Add: Dilutive effects of stock options		
Add: Dilutive effects of stock awards		3,826
Add: Dilutive effects of warrants		
Average shares and dilutive potential common shares	11,664,797	9,665,273
Diluted earnings per common share	$ (0.00)	$ 0.07

All outstanding options, stock awards, and 0 warrants were not considered in computing diluted earnings per common share for the three months ended March 31, 2012 because they were anti-dilutive. All outstanding options and 1,514 stock awards were not considered in computing diluted earnings per common share for the three months ended March 31, 2011 because they were anti-dilutive. They were anti-dilutive since there was a net loss available to common shareholders and/or the exercise prices were greater than the average market price of the common stock.

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy. ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Securities Available for Sale. The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs). 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 (Level 3). The fair values of the Company s Level 3 securities are determined by the Company and an independent third-party provider using a discounted cash flow methodology. The methodology uses discount rates that are based upon observed market yields for similar securities. Prepayment speeds are estimated based upon the prepayment history of each bond and a detailed analysis of the underlying collateral. Gross weighted average coupon, geographic concentrations, loan to value, FICO and seasoning are among the different loan attributes that are factored into our prepayment curve. Default rates and severity are estimated based upon geography of the collateral, delinquency, modifications, loan to value ratios, FICO scores, and past performance.

Impaired Loans. The fair value of impaired loans with specific allocations of the allowance for loan losses based on collateral values is generally 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 appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. For the three months ended March 31, 2012, the Company charged off $2.3 million of specific valuation allowance allocations related to changes in reporting requirements for OCC regulated thrifts.

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Other Real Estate Owned Assets. Other real estate owned assets OREO are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. 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 appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Only OREO with a valuation allowance are considered to be carried at fair value. For the three months ended March 31, 2012 and March 31, 2011, the Company experienced $14 thousand and $421 thousand in valuation allowance expense for those assets, respectively.

Assets and Liabilities Measured on a Recurring and Non Recurring Basis

Available for sale securities are measured at fair value on a recurring basis, impaired loans and other real estate owned are measured at fair value on a non-recurring basis.

		Fair Value Measurements at March 31, 2012 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Assets				
Available-for-sale securities:				
U.S. government-sponsored entities and agency securities (recurring)	$ 4,009	$	$ 4,009	$
Municipal securities (recurring)	5,753		5,753	
Private label residential mortgage-backed securities (recurring)	91,688			91,688
Federal National Mortgage Association mortgage-backed securities (recurring)	2		2	
Other real estate owned assets (non recurring)				
Real estate 1-4 family first mortgage	2,979			2,979
Multi-family	2,480			2,480
Land	2,518			2,518

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The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month period ended March 31, 2012:

	Investment Securities Available-for-sale
Balance of recurring Level 3 assets at January 1, 2012	$ 91,862
Total gains or (losses) (realized/unrealized):	
Included in earnings realized	(39)
Included in earnings unrealized	
Included in other comprehensive income	860
Amortization of premium/discount	(182)
Purchases	10,743
Sales, issuances and settlements	(11,556)
Net transfers in and/or out of Level 3	
Balance of recurring Level 3 assets at March 31, 2012	$ 91,688

There were no significant transfers between Level 1 and Level 2 during the three months ended March 31, 2012.

Other real estate owned which is measured at fair value less costs to sell having a valuation allowance, had a net carrying amount of $8.0 million, which is made up of the outstanding balance of $11.3 million, net of a valuation allowance of $3.3 million at March 31, 2012.

		Fair Value Measurements at December 31, 2011 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Assets				
Available-for-sale securities:				
U.S. government-sponsored entities and agency securities (recurring)	$ 4,038	$	$ 4,038	$
Municipal securities (recurring)	5,713		5,713	
Private label residential mortgage-backed securities (recurring)	91,862			91,862
Federal National Mortgage Association mortgage-backed securities (recurring)	3		3	
Impaired loans: (non recurring)				
Real estate 1-4 family first mortgage	6,893			6,893
Multi-family	1,638			1,638
Land	1,164			1,164
Other real estate owned assets: (non recurring)				
Real estate 1-4 family first mortgage	8,224			8,224
Multi-family	2,480			2,480
Land	3,988			3,988

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The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month period ended March 31, 2011:

	Investment Securities Available-for-sale
Balance of recurring Level 3 assets at January 1, 2011	$ 54,246
Total gains or losses (realized/unrealized):	
Included in earnings realized	319
Included in earnings unrealized	
Included in other comprehensive income (loss)	(2,282)
Purchases	20,342
Sales, issuances and settlements	(20,528)
Net transfers in and/or out of Level 3	
Balance of recurring Level 3 assets at March 31, 2011	$ 52,097

There were no significant transfers between Level 1 and Level 2 during the three months ended March 31, 2011.

Impaired loans measured at fair value on a non-recurring basis with specific allowances allocations are measured for impairment using the fair value of the collateral for collateral dependent loans. These loans totaled $12.6 million and had a carrying amount of $9.7 million, net of specific allowance allocations of $2.9 million at December 31, 2011.

Other real estate owned which is measured at fair value less costs to sell having a valuation allowance, had a net carrying amount of $14.7 million, which is made up of the outstanding balance of $18.8 million, net of a valuation allowance of $4.1 million at December 31, 2011.

The following table presents quantitative information about level 3 fair value measurements at March 31, 2012:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Private label residential mortgage backed securities (recurring)	$ 91,688	Discounted cash flow	Voluntary prepayment rate	36.1 0.9 (8.9)
			Collateral default rate	10.2 1.0 (3.8)
			Loss severity at default	73.1 2.0 (39.1)
Other real estate owned assets 1-4 family first mortgage (non-recurring)	2,979	Sales comparison approach	Adjustment for differences between the comparable sales	-10.845% 11.496% (-1.387%)
Other real estate owned assets Multi-family (non-recurring)	2,480	Sales comparison approach	Adjustment for differences between the comparable sales	-51.200% 50.600% (-18.420%)
Other real estate owned assets Land (non-recurring)	2,518	Sales comparison approach	Adjustment for differences between the comparable sales	-37.700% 6.360% (-12.080%)

The significant unobservable inputs used in the fair value measurement of the Company s private label residential mortgage backed securities are prepayment rates, collateral default rates, and loss severity in the event of default. Significant increases/(decreases) in any of those inputs in isolation would result in a significantly lower/(higher) fair value measurement. Generally, a change in the assumption used for the collateral default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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The carrying amounts and estimated fair values of financial instruments, at March 31, 2012 and December 31, 2011 were as follows:

	Carrying Value	Fair Value Measurements at March 31, 2012 Using			
		Level One	Level Two	Level Three	Total
Financial assets					
Cash and cash equivalents	$ 73,833	$ 73,833	$	$	$ 73,833
Securities available-for-sale	101,452		9,764	91,688	101,452
FHLB stock	6,639			N/A	N/A
Loans receivable, net	828,285			827,453	827,453
Accrued interest receivable	3,891	10	28	3,853	3,891
Financial liabilities					
Deposits	853,843	341,938	514,483		856,421
Advances from FHLB	35,000		35,085		35,085
Accrued interest payable	244	5	239		244

	Carrying Value	Fair Value Measurements at December 31, 2011 Using			
		Level One	Level Two	Level Three	Total
Financial assets					
Cash and cash equivalents	$ 44,475	$ 44,475	$	$	$ 44,475
Securities available-for-sale	101,616		9,754	91,862	101,616
FHLB stock	6,972			N/A	N/A
Loans receivable, net	775,609			777,053	777,053
Accrued interest receivable	3,569	3	8	3,558	3,569
Financial liabilities					
Deposits	786,334	316,451	472,509		788,960
Advances from FHLB	20,000		20,095		20,095
Accrued interest payable	217	1	216		217

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

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that re-price frequently and fully. The methods for determining the fair values for securities available for sale were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent re-pricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of long-term debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material (or is based on the current fees or costs that would be charged to enter into or terminate such arrangements) and is not presented.

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NOTE 6 SECURITIES AVAILABLE FOR SALE

The following tables summarize the amortized cost and fair value of the available-for-sale investment securities portfolio at March 31, 2012 and December 31, 2011, respectively, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2012				
Available-for-sale				
U.S government-sponsored entities and agency securities	$ 4,000	$ 9	$	$ 4,009
Municipal securities	5,644	114	(5)	5,753
Private label residential mortgage-backed securities	92,532	220	(1,064)	91,688
Federal National Mortgage Association mortgage-backed securities	2			2
Total securities available for sale	$ 102,178	$ 343	$ (1,069)	$ 101,452

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2011				
Available-for-sale				
U.S. government-sponsored entities and agency securities	$ 4,000	$ 38	$	$ 4,038
Municipal securities	5,641	88	(16)	5,713
Private label residential mortgage-backed securities	93,567	148	(1,853)	91,862
Federal National Mortgage Association mortgage-backed securities	3			3
Total securities available for sale	$ 103,211	$ 274	$ (1,869)	$ 101,616

The amortized cost and fair value of the available-for-sale securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2012	
	Amortized Cost	Fair Value
Maturity		
Available-for-sale		
Within one year	$	$
One to five years	2,519	2,530
Five to ten years	4,000	4,009
Greater than ten years	3,125	3,223
Private label residential mortgage backed and FNMA mortgage-backed securities	92,534	91,690
Total	$ 102,178	$ 101,452

At March 31, 2012 and December 31, 2011, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders equity.

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The following table summarizes the investment securities with unrealized losses at March 31, 2012 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
Municipal securities	$ 1,078	$ (5)	$	$	$ 1,078	$ (5)
Private label residential mortgage-backed securities	62,236	(1,064)			62,236	(1,064)
Total available-for-sale	$ 63,314	$ (1,069)	$	$	$ 63,314	$ (1,069)

The following table summarizes the investment securities with unrealized losses at December 31, 2011 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
Municipal securities	$ 1,072	$ (16)	$	$	$ 1,072	$ (16)
Private label residential mortgage-backed securities	64,911	(1,763)	8,145	(90)	73,056	(1,853)
Total available-for-sale	$ 65,983	$ (1,779)	$ 8,145	$ (90)	$ 74,128	$ (1,869)

As of March 31, 2012, the Company s securities available for sale portfolio consisted of sixty-one securities, thirty-two of which were in an unrealized loss position. The unrealized losses are related to the Company s municipal securities and private label residential mortgage-backed securities as discussed below.

The Company s private label residential mortgage-backed securities that are in an unrealized loss position had a fair value of $62.2 million with unrealized losses of $1.1 million at March 31, 2012. These non-agency private label residential mortgage-backed securities were rated AA or above at purchase and are not within the scope of ASC 325. The Company monitors to insure it has adequate credit support and as of March 31, 2012, the Company believes there is no OTTI and it does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery. Of the $101.5 million securities portfolio, $97.1 million were rated AAA, AA or A, and $4.4 million were rated BBB based on the most recent credit rating as of March 31, 2012. The Company considers the lowest credit rating for identification of OTTI. During the first quarter of 2012, the Company sold one downgraded security for a net loss of $39 thousand.

During the three months ended March 31, 2012 and 2011, the Company determined that no securities were other-than-temporarily impaired due to current market conditions.

NOTE 7 LOANS

Loans receivable consist of the following:

	Loans Receivable Outstanding (1)		Purchased Credit-Impaired Loan Portfolio	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Commercial:				
Commercial and industrial	$ 8,967	$ 9,019	$	$
Real estate mortgage	160,018	124,013		

Multi-family	84,220	87,290		
Land	1,070	2,375		
Consumer:				
Real estate 1-4 family first mortgage	547,264	546,760	19,452	
Real estate 1-4 family junior lien mortgage	9,129	9,219		
Other revolving credit and installment	8,289	8,604		
Total	818,957	787,280	19,452	
Less: Net deferred loan costs	1,049	1,109		
Allowance for loan losses	(11,173)	(12,780)		
Loans receivable, net	$ 808,833	$ 775,609	$ 19,452	$

(1) Does not include purchased credit-impaired loans.

At March 31, 2012, the Company had a total of $385.7 million in interest only mortgage loans (including Green Account loans) and $21.8 million in loans with potential for negative amortization. At December 31, 2011, the Company had a total of $382.0 million in interest only mortgage loans (including Green Account loans) and $23.4 million in loans with potential for negative amortization. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization, however, management believes the risk is mitigated through the Company s loan terms and underwriting standards, including its policies on loan-to-value ratios.

Activity in the allowance for loan losses is summarized as follows for the three months ended March 31, 2012 and March 31, 2011:

	2012	2011
Balance at beginning of year	$ 12,780	$ 14,637
Loans charged off	(2,299)	(2,735)
Recoveries of loans previously charged off	1	3
Provision for loan losses	691	
Balance at end of period	$ 11,173	$ 11,905

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The following table presents the activity in the allowance for loan losses and the recorded investment in loans, excluding accrued interest receivable and net deferred loan costs as they are not considered to be material, in loans by portfolio segment and is based on the impairment method for the three months ended March 31, 2012. Total accrued interest receivable and net deferred loan costs were $3.4 million and $1.0 million, respectively at March 31, 2012.

	Commercial and Industrial	Commercial Real Estate Mortgage	Multi-family	Land	Real Estate 1-4 family first mortgage	Real Estate 1-4 family junior lien mortgage	Other Revolving Credit and Installment	TOTAL
Allowance for loan losses:								
Balance as of December 31, 2011	$ 128	$ 1,998	$ 1,541	$ 236	$ 8,635	$ 110	$ 132	$ 12,780
Charge-offs				(236)	(2,060)		(3)	(2,299)
Recoveries							1	1
Provision	1	922	60	8	(258)	(44)	2	691
Balance as of March 31, 2012	$ 129	$ 2,920	$ 1,601	$ 8	$ 6,317	$ 66	$ 132	$ 11,173
Individually evaluated for impairment	$	$ 357	$ 732	$	$ 164	$	$	$ 1,253
Collectively evaluated for impairment	129	2,563	869	8	6,153	66	132	9,920
Total ending allowance balance	$ 129	$ 2,920	$ 1,601	$ 8	$ 6,317	$ 66	$ 132	$ 11,173
Loans:								
Loans individually evaluated for impairment	$	$ 3,071	$ 5,485	$ 487	$ 15,704	$	$ 4	$ 24,751
Loans collectively evaluated for impairment	8,967	156,947	78,735	583	551,012	9,129	8,285	813,658
Total ending loans balance	$ 8,967	$ 160,018	$ 84,220	$ 1,070	$ 566,716	$ 9,129	$ 8,289	$ 838,409

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The following table presents the activity in the allowance for loan losses and the recorded investment in loans, excluding accrued interest receivable and net deferred loan costs as they are not considered to be material, by portfolio segment and is based on the impairment method for the three months ended March 31, 2011. Total accrued interest receivable and net deferred loan costs totaled $3.1 million and $1.8 million, respectively at March 31, 2011. Total accrued interest receivable and net deferred loan costs totaled $3.3 million and $1.1 million, respectively at December 31, 2011.

	Commercial and Industrial	Commercial Real Estate Mortgage	Multi-family	Land	Real Estate 1-4 family first mortgage	Real Estate 1-4 family junior lien mortgage	Other Revolving Credit	TOTAL
Allowance for loan losses:								
Balance as of December 31, 2010	$ 50	$ 332	$ 2,389	$ 1,067	$ 10,191	$ 258	$ 350	$ 14,637
Charge-offs				(1,674)	(1,053)		(8)	(2,735)
Recoveries							3	3
Provision	2	13	(32)	867	(668)	(70)	(112)	
Balance as of March 31, 2011	$ 52	$ 345	$ 2,357	$ 260	$ 8,470	$ 110	$ 233	$ 11,905
Balance as of December 31, 2011:								
Individually evaluated for impairment	$	$	$ 663	$ 236	$ 2,815	$	$	$ 3,714
Collectively evaluated for impairment	128	1,998	878		5,820	110	132	9,066
Total ending allowance balance	$ 128	$ 1,998	$ 1,541	$ 236	$ 8,635	$ 110	$ 132	$ 12,780
Loans:								
Loans individually evaluated for impairment	$	$	$ 5,001	$ 1,887	$ 20,650	$	$	$ 27,538
Loans collectively evaluated for impairment	9,019	124,013	82,289	488	526,110	9,219	8,604	759,742
Total ending loans balance	$ 9,019	$ 124,013	$ 87,290	$ 2,375	$ 546,760	$ 9,219	$ 8,604	$ 787,280

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The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2012. The recorded investment included represents customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs and accrued interest receivable.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment YTD	Interest Income Recognized YTD	Cash Basis Interest Recognized YTD
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$	$	$	$	$	$
Real estate mortgage	289	293		294	4	4
Multi-family						
Land	487	487		487	7	7
Consumer:						
Real estate 1-4 family first mortgage	11,179	11,199		11,616	100	63
Real estate 1-4 family junior lien mortgage						
Other revolving credit and installment	4	4		4		
With an allowance recorded:						
Commercial:						
Commercial and industrial						
Real estate mortgage	2,782	2,792	357	2,792	12	12
Multi-family	5,485	5,495	732	5,499	77	58
Land						
Consumer:						
Real estate 1-4 family first mortgage	4,525	4,517	164	4,518	55	20
Real estate 1-4 family junior lien mortgage						
Other revolving credit and installment						
Total	$ 24,751	$ 24,787	$ 1,253	$ 25,210	$ 255	$ 164

	Three months ended March 31, 2012	2011
Average of individually impaired loans during the period	$ 25,852	$ 24,019
Interest income recognized during impairment	255	112
Cash-basis interest income recognized	164	90

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The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2011. The recorded investment included represents customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs and accrued interest.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment YTD	Interest Income Recognized YTD	Cash Basis Interest Recognized YTD
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$	$	$	$	$	$
Real estate mortgage						
Multi-family						
Land	487	488		493	28	28
Consumer:						
Real estate 1-4 family first mortgage	6,849	6,915		6,872	92	39
Real estate 1-4 family junior lien mortgage						
Other revolving credit and installment		2		74	19	
With an allowance recorded:						
Commercial:						
Commercial and industrial						
Real estate mortgage						
Multi-family	5,001	5,013	663	5,030	134	43
Land	1,400	1,686	236	1,608		
Consumer:						
Real estate 1-4 family first mortgage	13,801	13,964	2,815	13,831	402	218
Real estate 1-4 family junior lien mortgage						
Other revolving credit and installment						
Total	$ 27,538	$ 28,068	$ 3,714	$ 27,908	$ 675	$ 328

Nonaccrual loans and loans past due 90 days still on accrual were as follows:

	March 31, 2012	December 31, 2011
Loans past due over 90 days still on accrual	$	$
Nonaccrual loans	$ 18,343	$ 19,254

Nonaccrual loans consist of the following:

	March 31, 2012	December 31, 2011
Commercial:		
Commercial and industrial	$	$
Real estate mortgage	3,071	
Multi-family	5,484	3,090
Land	487	1,887
Consumer:		
Real estate 1-4 family first mortgage	9,299	14,272
Real estate 1-4 family junior lien mortgage		
Other revolving credit and installment	2	5
Total	$ 18,343	$ 19,254

Nonaccrual loans at March 31, 2012 and December 31, 2011 of $17.1 million and $16.3 million were net of specific allowance allocations of $1.2 million and $2.9 million, respectively.

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The following table presents the aging of the principal balances in past due loans as of March 31, 2012 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Gross Financing Receivables	Considered Current That Have been Modified in Previous Year
March 31, 2012							
Commercial:							
Commercial and industrial	$	$	$	$	$ 8,967	$ 8,967	$
Real estate mortgage					160,018	160,018	
Multi-family	179			179	84,041	84,220	
Land					1,070	1,070	487
Consumer:							
Real estate 1-4 family first mortgage	2,746	806	2,555	6,107	541,157	547,264	2,192
Real estate 1-4 family junior lien mortgage	698			698	8,431	9,129	
Other revolving credit and installment	47	4	2	53	8,236	8,289	
Total	$ 3,670	$ 810	$ 2,557	$ 7,037	$ 811,920	$ 818,957	$ 2,679

The following table presents the aging of principal balances in past due loans for the Company s portfolio of purchased credit-impaired loans as of March 31, 2012, by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Gross Financing Receivables	Considered Current That Have been Modified in Previous Year
March 31, 2012							
Commercial:							
Commercial and industrial	$	$	$	$	$	$	$
Real estate mortgage							
Multi-family							
Land							
Consumer:							
Real estate 1-4 family first mortgage	785	86		871	18,581	19,452	
Real estate 1-4 family junior lien mortgage							
Other revolving credit and installment							
Total	$ 785	$ 86	$	$ 871	$ 18,581	$ 19,452	$

The following table displays the Company s non-performing and performing substandard loan portfolio (using unpaid principal balance).

	March 31, 2012	
	# of Loans	Balance
Substandard Loans:		
Non-Performing	9	$ 2,557

Performing:		
TDR	12	10,341
Rated substandard due to borrower relationship to distressed loans	6	4,545
Rated substandard due to other credit factors	15	8,024
Total Performing:	33	$ 22,910
Total Substandard Loans	42	$ 25,467

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The following table presents the aging of the principal balances in past due loans as of December 31, 2011 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Financing Receivables	Considered Current That Have been Modified in Previous Year
December 31, 2011							
Commercial:							
Commercial and industrial	$	$	$	$	$ 9,019	$ 9,019	$
Real estate mortgage	291			291	123,722	124,013	
Multi-family					87,290	87,290	
Land			1,400	1,400	975	2,375	487
Consumer:							
Real estate 1-4 family first mortgage	8,133	2,536	6,385	17,054	529,706	546,760	3,760
Real estate 1-4 family junior lien mortgage					9,219	9,219	
Other revolving credit and installment	4		5	9	8,595	8,604	
Total	$ 8,428	$ 2,536	$ 7,790	$ 18,754	$ 768,526	$ 787,280	$ 4,247

The following table displays the Company s non-performing and performing substandard loan portfolio (using unpaid principal balance).

	December 31, 2011	
	# of Loans	Balance
Substandard Loans:		
Non-Performing	16	$ 7,788
Performing:		
TDR	22	13,271
Rated substandard due to borrower relationship to distressed loans	13	7,811
Rated substandard due to other credit factors	7	3,660
Total Performing:	42	$ 24,742
Total Substandard Loans	58	$ 32,530

Troubled Debt Restructurings:

The Company has allocated $678 thousand and $2.1 million of specific allowance allocations to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2012 and December 31, 2011. The Company did not have any commitments to lend to customers with outstanding loans that are classified as troubled debt restructurings as of March 31, 2012 and December 31, 2011.

During the three months ended March 31, 2012, the Company did not modify any loans that would qualify as troubled debt restructurings.

The Company also did not make any loan modifications through arrangements that would not have qualified as troubled debt restructurings during the three months ended March 31, 2012.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ended March 31, 2012:

	Three Months Ended March 31, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted:			
Commercial:			
Commercial and industrial		$	$
Real estate mortgage			

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	Three Months Ended March 31, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Multi-family			
Land			
Consumer:			
Real estate 1-4 family first mortgage	2	1,060	831
Real estate 1-4 family junior lien mortgage			
Other revolving credit and installment			
Total	2	$ 1,060	$ 831

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above did not affect the allowance for loan losses and resulted in charge offs of $141 thousand during the three months ended March 31, 2012.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company s internal underwriting policy.

Troubled debt restructured loans consist of the following (in thousands):

	At March 31, 2012	At December 31, 2011
Commercial:		
Commercial and industrial	$	$
Real estate mortgage		
Multi-family	3,090	3,090
Land	487	487
Consumer:		
Real estate 1-4 family first mortgage	13,150	14,613
Real estate 1-4 family junior lien mortgage		
Other revolving credit and installment	2	2
Total	$ 16,729	$ 18,192

Troubled debt restructured loans at March 31, 2012 and December 31, 2011 totaling $16.1 million and $16.1 million were net of specific allowance allocations of $678 thousand and $2.1 million, respectively.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company performs an historical loss analysis that is combined with a comprehensive loan to value analysis to analyze the associated risks in the current loan portfolio. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans delinquent over 60 days and non-homogenous loans such as commercial and commercial real estate loans. Classification of problem single family residential loans is performed on a monthly basis while analysis of non-homogenous loans is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company s credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Consumer loans are evaluated based on payment history.

The following table displays the Company s risk categories as of March 31, 2012.

	Pass	Special Mention	Substandard	Doubtful	Loss	Not Rated	TOTAL
Commercial:							
Commercial and industrial	$ 8,967	$	$	$	$	$	$ 8,967
Real estate mortgage	155,219	816	3,983				160,018
Multi-family	78,557	179	5,484				84,220
Land	583		487				1,070
Consumer:							
Real estate 1-4 family first mortgage	516,413	15,520	15,331			19,452	566,716
Real estate 1-4 family junior lien mortgage	7,794	1,157	178				9,129
Other revolving credit and installment	8,038	243	4		4		8,289
Total	$ 775,571	$ 17,915	$ 25,467	$	$ 4	$ 19,452	$ 838,409

The loans not rated totaled $19.5 million at March 31, 2012 and represented credit impaired loans that were purchased during the quarter. See further discussion below under Purchased Credit Impaired Loans.

The following table displays the Company s risk categories as of December 31, 2011.

	Pass	Special Mention	Substandard	Doubtful	Loss	Not Rated	TOTAL
Commercial:							
Commercial and industrial	$ 9,019	$	$	$	$	$	$ 9,019
Real estate mortgage	108,841	11,463	3,709				124,013
Multi-family	81,792	497	5,001				87,290
Land	488		1,887				2,375
Consumer:							
Real estate 1-4 family first mortgage	498,794	26,381	21,585				546,760
Real estate 1-4 family junior lien mortgage	8,177	698	344				9,219
Other revolving credit and installment	8,385	215	4				8,604
Total	$ 715,496	$ 39,254	$ 32,530	$	$	$	$ 787,280

Purchased Credit Impaired Loans:

During the three months ended March 31, 2012, the Company began purchasing loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans at March 31, 2012 is as follows. There were no such loans in 2011.

March 31, 2012

Commercial	$	
Consumer - Real estate 1-4 family first mortgage		19,452
Outstanding balance	$	19,452
Carrying amount, net of allowance of $0	$	19,452

The loans identified as purchased with credit impairments were approximately $33.5 million as of the acquisition date, net of accrued interest and escrow fees of $139 thousand. A credit discount of approximately $7.7 million was recorded and an additional $6.4 million of yield discount was also recorded. The yield discount is being recognized on a method that approximates a level yield over the expected life of the loan. The Company does not accrete the credit discount into income until such time as the loan is paid off. The only exception would be on a case-by-case basis

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when a material event that significantly improves the quality of the loans and reduces the risk to the Bank such that management believes it would be prudent to start recognizing some of the discount is documented. The credit discount represents approximately 22.9% of the transaction date value of the credit impaired loans.

Accretable yield, or income expected to be collected, is as follows:

	Yield Discount	Credit Discount
Balance at January 1, 2012	$	$
New loans purchased	6,447	7,664
Accretion of income	(177)	
Reclassifications from nonaccretable difference		
Disposals		
Balance at March 31, 2012	$ 6,270	$ 7,664

For those purchased loans disclosed above, no allowance for loan losses was recorded during three months ended March 31, 2012. No allowances for loan losses were reversed during the three months ended March 31, 2012.

Purchased loans for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

	March 31, 2012
Contractually required payments receivable of loans purchased during the period:	
Commercial	$
Consumer - Real estate 1-4 family first mortgage	33,387