ISABELLA BANK CORP
Form 10-Q
July 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015
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: 0-18415

Isabella Bank Corporation
(Exact name of registrant as specified in its charter)

Michigan	38-2830092
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 N. Main St, Mt. Pleasant, MI	48858
(Address of principal executive offices)	(Zip code)

(989) 772-9471
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ý
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 ý No
The number of common shares outstanding of the registrant's Common Stock (no par value) was 7,786,962 as of July 27, 2015.

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Forward Looking Statements

This report contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995, and are included in this statement for purposes of these safe harbor provisions. Forward looking statements, which are based on certain assumptions and describe future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects include, but are not limited to, changes in: interest rates, general economic conditions, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the FRB, the quality or composition of the loan or investment portfolios, demand for loan products, fluctuation in the value of collateral securing our loan portfolio, deposit flows, competition, demand for financial services in our market area, and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward looking statements and undue reliance should not be placed on such statements. Further information concerning our business, including additional factors that could materially affect our financial results, is included in our filings with the SEC.

The acronyms and abbreviations identified below may be used throughout this Quarterly Report on Form 10-Q, or in our other SEC filings. You may find it helpful to refer back to this page while reading this report.

AFS: Available-for-sale
ALLL: Allowance for loan and lease losses
AOCI: Accumulated other comprehensive income (loss)
ASC: FASB Accounting Standards Codification
ASU: FASB Accounting Standards Update
ATM: Automated Teller Machine
BHC Act: Bank Holding Company Act of 1956
CFPB: Consumer Financial Protection Bureau
CIK: Central Index Key
CRA: Community Reinvestment Act
DIF: Deposit Insurance Fund
DIFS: Department of Insurance and Financial Services
Directors Plan: Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors
Dividend Reinvestment Plan: Isabella Bank Corporation Stockholder Dividend Reinvestment Plan and Employee Stock Purchase Plan
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
ESOP: Employee stock ownership plan
Exchange Act: Securities Exchange Act of 1934
FASB: Financial Accounting Standards Board
FDI Act: Federal Deposit Insurance Act
FDIC: Federal Deposit Insurance Corporation
FFIEC: Federal Financial Institutions Examinations Council
FRB: Federal Reserve Bank
FHLB: Federal Home Loan Bank
Freddie Mac: Federal Home Loan Mortgage Corporation
FTE: Fully taxable equivalent
GAAP: U.S. generally accepted accounting principles
GLB Act: Gramm-Leach-Bliley Act of 1999
IFRS: International Financial Reporting Standards
IRR: Interest rate risk
JOBS Act: Jumpstart our Business Startups Act
LIBOR: London Interbank Offered Rate
N/A: Not applicable
N/M: Not meaningful
NASDAQ: NASDAQ Stock Market Index
NASDAQ Banks: NASDAQ Bank Stock Index
NAV: Net asset value
NOW: Negotiable order of withdrawal
NSF: Non-sufficient funds
OCI: Other comprehensive income (loss)
OMSR: Originated mortgage servicing rights
OREO: Other real estate owned
OTTI: Other-than-temporary impairment
PBO: Projected benefit obligation
PCAOB: Public Company Accounting Oversight Board
Rabbi Trust: A trust established to fund the Directors Plan
SEC: U.S. Securities & Exchange Commission
SOX: Sarbanes-Oxley Act of 2002
TDR: Troubled debt restructuring
XBRL: eXtensible Business Reporting Language

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Dollars in thousands)

	June 30 2015	December 31 2014
ASSETS		
Cash and cash equivalents		
Cash and demand deposits due from banks	$20,955	$18,058
Interest bearing balances due from banks	8,686	1,268
Total cash and cash equivalents	29,641	19,326
Certificates of deposit held in other financial institutions	340	580
AFS securities (amortized cost of $591,841 in 2015 and $561,893 in 2014)	595,318	567,534
Mortgage loans AFS	1,029	901
Loans		
Commercial	430,981	431,961
Agricultural	113,134	104,721
Residential real estate	250,208	264,595
Consumer	34,279	32,305
Gross loans	828,602	833,582
Less allowance for loan and lease losses	9,000	10,100
Net loans	819,602	823,482
Premises and equipment	26,155	25,881
Corporate owned life insurance policies	26,034	25,152
Accrued interest receivable	5,469	5,851
Equity securities without readily determinable fair values	21,142	20,076
Goodwill and other intangible assets	46,052	46,128
Other assets	16,193	14,632
TOTAL ASSETS	$1,586,975	$1,549,543
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$182,259	$181,826
NOW accounts	193,680	190,984
Certificates of deposit under $100 and other savings	468,773	456,774
Certificates of deposit over $100	245,757	244,900
Total deposits	1,090,469	1,074,484
Borrowed funds	307,599	289,709
Accrued interest payable and other liabilities	10,882	10,756
Total liabilities	1,408,950	1,374,949
Shareholders' equity		
Common stock — no par value 15,000,000 shares authorized; issued and outstanding 7,797,188 shares (including 14,215 shares held in the Rabbi Trust) in 2015 and 7,776,274 shares (including 13,934 shares held in the Rabbi Trust) in 2014	139,201	138,755
Shares to be issued for deferred compensation obligations	4,378	4,242
Retained earnings	36,317	32,103
Accumulated other comprehensive income (loss)	(1,871)	(506)
Total shareholders' equity	178,025	174,594
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,586,975	$1,549,543

See notes to interim condensed consolidated financial statements (unaudited).

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in thousands except per share amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Interest income				
Loans, including fees	$9,909	$9,799	$19,593	$19,550
AFS securities				
Taxable	2,238	1,993	4,345	3,991
Nontaxable	1,507	1,486	2,989	2,943
Federal funds sold and other	139	113	278	271
Total interest income	13,793	13,391	27,205	26,755
Interest expense				
Deposits	1,459	1,589	2,925	3,205
Borrowings	1,059	879	2,081	1,763
Total interest expense	2,518	2,468	5,006	4,968
Net interest income	11,275	10,923	22,199	21,787
Provision for loan losses	(535)	(200)	(1,261)	(442)
Net interest income after provision for loan losses	11,810	11,123	23,460	22,229
Noninterest income				
Service charges and fees	1,393	1,360	2,556	2,754
Net gain on sale of mortgage loans	166	151	315	266
Earnings on corporate owned life insurance policies	195	190	382	374
Other	875	733	1,504	1,289
Total noninterest income	2,629	2,434	4,757	4,683
Noninterest expenses				
Compensation and benefits	5,374	5,385	10,799	10,871
Furniture and equipment	1,426	1,219	2,740	2,487
Occupancy	672	676	1,393	1,418
Other	1,892	2,020	3,766	4,010
Total noninterest expenses	9,364	9,300	18,698	18,786
Income before federal income tax expense	5,075	4,257	9,519	8,126
Federal income tax expense	977	692	1,748	1,252
NET INCOME	$4,098	$3,565	$7,771	$6,874
Earnings per common share				
Basic	$0.53	$0.46	$1.00	$0.89
Diluted	$0.52	$0.45	$0.98	$0.87
Cash dividends per common share	$0.23	$0.22	$0.46	$0.44

See notes to interim condensed consolidated financial statements (unaudited).

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollars in thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Net income	$4,098	$3,565	$7,771	$6,874
Unrealized gains (losses) on AFS securities arising during the period	(6,520)	4,448	(2,164)	9,968
Tax effect (1)	2,165	(1,420)	799	(3,159)
Other comprehensive income (loss), net of tax	(4,355)	3,028	(1,365)	6,809
Comprehensive income (loss)	$(257)	$6,593	$6,406	$13,683

(1) See “Note 11 – Accumulated Other Comprehensive Income (Loss)” for tax effect reconciliation.

See notes to interim condensed consolidated financial statements (unaudited).

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(Dollars in thousands except per share amounts)

	Common Stock					
	Common Shares Outstanding	Amount	Common Shares to be Issued for Deferred Compensation Obligations	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balance, January 1, 2014	7,723,023	$137,580	$ 4,148	$25,222	$ (6,341)	$160,609
Comprehensive income (loss)	—	—	—	6,874	6,809	13,683
Issuance of common stock	76,341	1,778	—	—	—	1,778
Common stock issued for deferred compensation obligations	6,126	143	(143)	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	258	(258)	—	—	—
Share-based payment awards under equity compensation plan	—	—	237	—	—	237
Common stock purchased for deferred compensation obligations	—	(166)	—	—	—	(166)
Common stock repurchased pursuant to publicly announced repurchase plan	(70,334)	(1,648)	—	—	—	(1,648)
Cash dividends paid ($0.44 per common share)	—	—	—	(3,394)	—	(3,394)
Balance, June 30, 2014	7,735,156	$137,945	$ 3,984	$28,702	$ 468	$171,099
Balance, January 1, 2015	7,776,274	$138,755	$ 4,242	$32,103	$ (506)	$174,594
Comprehensive income (loss)	—	—	—	7,771	(1,365)	6,406
Issuance of common stock	94,807	2,192	—	—	—	2,192
Common stock issued for deferred compensation obligations	—	—	—	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	123	(123)	—	—	—
Share-based payment awards under equity compensation plan	—	—	259	—	—	259
Common stock purchased for deferred compensation obligations	—	(165)	—	—	—	(165)
Common stock repurchased pursuant to publicly announced repurchase plan	(73,893)	(1,704)	—	—	—	(1,704)

Cash dividends paid ($0.46 per common share)	—	—	—	(3,557)	—	(3,557)
Balance, June 30, 2015	7,797,188	$139,201	$ 4,378	$36,317	$ (1,871)	$178,025

See notes to interim condensed consolidated financial statements (unaudited).

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in thousands)

	Six Months Ended June 30	
	2015	2014
OPERATING ACTIVITIES		
Net income	$7,771	$6,874
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	(1,261)	(442)
Impairment of foreclosed assets	22	63
Depreciation	1,272	1,242
Amortization of OMSR	186	139
Amortization of acquisition intangibles	76	95
Net amortization of AFS securities	986	920
Net unrealized (gains) losses on trading securities	—	5
Net gain on sale of mortgage loans	(315)	(266)
Increase in cash value of corporate owned life insurance policies	(382)	(374)
Share-based payment awards under equity compensation plan	259	237
Origination of loans held-for-sale	(25,231)	(12,878)
Proceeds from loan sales	25,418	13,908
Net changes in operating assets and liabilities which provided (used) cash:		
Accrued interest receivable	382	(6)
Other assets	(2,026)	270
Accrued interest payable and other liabilities	126	1,215
Net cash provided by (used in) operating activities	7,283	11,002
INVESTING ACTIVITIES		
Net change in certificates of deposit held in other financial institutions	240	—
Activity in AFS securities		
Maturities, calls, and principal payments	42,200	32,354
Purchases	(73,134)	(61,762)
Net loan principal (originations) collections	4,332	(9,551)
Proceeds from sales of foreclosed assets	799	1,140
Purchases of premises and equipment	(1,546)	(1,224)
Purchases of corporate owned life insurance policies	(500)	—
Net cash provided by (used in) investing activities	(27,609)	(39,043)

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Dollars in thousands)

	Six Months Ended June 30 2015	2014
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	$15,985	$17,162
Net increase (decrease) in borrowed funds	17,890	131
Cash dividends paid on common stock	(3,557)	(3,394)
Proceeds from issuance of common stock	2,192	1,778
Common stock repurchased	(1,704)	(1,648)
Common stock purchased for deferred compensation obligations	(165)	(166)
Net cash provided by (used in) financing activities	30,641	13,863
Increase (decrease) in cash and cash equivalents	10,315	(14,178)
Cash and cash equivalents at beginning of period	19,326	41,558
Cash and cash equivalents at end of period	$29,641	$27,380
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Interest paid	$5,042	$5,074
Federal income taxes paid	2,143	715
SUPPLEMENTAL NONCASH INFORMATION:		
Transfers of loans to foreclosed assets	$809	$923

See notes to interim condensed consolidated financial statements (unaudited).

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands except per share amounts)

Note 1 – Basis of Presentation

As used in these notes as well as in Management's Discussion and Analysis of Financial Condition and Results of Operations, references to “Isabella,” “we,” “our,” “us,” and similar terms refer to the consolidated entity consisting of Isabella Bank Corporation and its subsidiaries. Isabella Bank Corporation refers solely to the parent holding company, and Isabella Bank refers to Isabella Bank Corporation’s subsidiary, Isabella Bank.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Our accounting policies are materially the same as those discussed in Note 1 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Note 2 – Computation of Earnings Per Common Share

Basic earnings per common share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued relate solely to outstanding shares in the Directors Plan.

Earnings per common share have been computed based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Average number of common shares outstanding for basic calculation	7,779,365	7,722,367	7,776,413	7,721,814
Average potential effect of common shares in the Directors Plan (1)	176,690	168,715	176,845	170,984
Average number of common shares outstanding used to calculate diluted earnings per common share	7,956,055	7,891,082	7,953,258	7,892,798
Net income	$4,098	$3,565	$7,771	$6,874
Earnings per common share				
Basic	$0.53	$0.46	$1.00	$0.89
Diluted	$0.52	$0.45	$0.98	$0.87

(1) Exclusive of shares held in the Rabbi Trust

Note 3 – Accounting Standards Updates

Recently Adopted Accounting Standards Updates

ASU No. 2014-04: “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)”

In January 2014, ASU No. 2014-04 amended ASC Topic 310, "Receivables" to provide clarification as to when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. Specifically, the update defined physical possession to appropriately derecognize the loan and recognize the real estate as OREO. The adoption of this ASU did not have a significant impact on our operations or financial statement disclosures.

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ASU No. 2014-11: “Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”
In June 2014, ASU No. 2014-11 amended ASC Topic 860, “Transfers and Servicing” to address concerns that current accounting guidance distinguishes between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle any time before maturity. The update changed the accounting for repurchase-to-maturity transactions to secured borrowing accounting and, for repurchase financing arrangements, separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which resulted in secured borrowing accounting for the repurchase agreement. The adoption of this ASU did not have a significant impact on our operations or financial statement disclosures.
Pending Accounting Standards Updates
ASU No. 2015-01: “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items”
In January 2015, ASU No. 2015-01 amended ASC Topic 225, “Income Statement” to eliminate the concept of extraordinary items. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations.
ASU No. 2015-02: “Consolidation (Topic 810): Amendments to the Consolidation Analysis”
In February 2015, ASU No. 2015-02 amended ASC Topic 810, “Consolidation” to provide consolidation guidance on legal entities when the reporting entity’s contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity’s voting rights, or the reporting entity is not exposed to a majority of the legal entity’s economic benefits or obligations. The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments:

1. Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities.
2. Eliminate the presumption that a general partner should consolidate a limited partnership.
3. Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships.
4. Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

The amendments of this update affect limited partnerships and similar legal entities including fees paid and fee arrangements on the primary beneficiary. The following three main provisions affect limited partnerships and similar legal entities:

1. There is an additional requirement that limited partnerships and similar legal entities must meet to qualify as voting interest entities. A limited partnership must provide partners with either substantive kick-out rights or substantive participating rights over the general partner to meet this requirement.
2. The specialized consolidation model and guidance for limited partnerships and similar legal entities have been eliminated. There is no longer a presumption that a general partner should consolidate a limited partnership.
3. For limited partnerships and similar legal entities that qualify as voting interest entities, a limited partner with a controlling financial interest should consolidate a limited partnership. A controlling financial interest may be achieved through holding a limited partner interest that provides substantive kick-out rights.

The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations.
ASU No. 2015-5: “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement“
In April 2015, ASU No. 2015-05 amended ASC Topic 350, “Goodwill and Other” to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent

with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts.

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The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations.

ASU No. 2015-7: “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)“

In May 2015, ASU No. 2015-07 amended ASC Topic 820, “Fair Value Measurement” to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations.

Note 4 – AFS Securities

The amortized cost and fair value of AFS securities, with gross unrealized gains and losses, are as follows at:

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$24,520	$8	$325	$24,203
States and political subdivisions	212,152	5,550	1,055	216,647
Auction rate money market preferred	3,200	—	481	2,719
Preferred stocks	3,800	—	570	3,230
Mortgage-backed securities	210,615	1,298	1,719	210,194
Collateralized mortgage obligations	137,554	1,692	921	138,325
Total	$591,841	$8,548	$5,071	$595,318

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$24,597	$10	$471	$24,136
States and political subdivisions	209,153	6,986	794	215,345
Auction rate money market preferred	3,200	—	581	2,619
Preferred stocks	6,800	31	691	6,140
Mortgage-backed securities	165,888	2,042	1,004	166,926
Collateralized mortgage obligations	152,255	1,533	1,420	152,368
Total	$561,893	$10,602	$4,961	$567,534

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The amortized cost and fair value of AFS securities by contractual maturity at June 30, 2015 are as follows:

	Maturing					
	Due in One Year or Less	After One Year But Within Five Years	After Five Years But Within Ten Years	After Ten Years	Securities with Variable Monthly Payments or Noncontractual Maturities	Total
Government sponsored enterprises	$—	$24,068	$452	$—	$ —	$24,520
States and political subdivisions	16,230	64,293	89,386	42,243	—	212,152
Auction rate money market preferred	—	—	—	—	3,200	3,200
Preferred stocks	—	—	—	—	3,800	3,800
Mortgage-backed securities	—	—	—	—	210,615	210,615
Collateralized mortgage obligations	—	—	—	—	137,554	137,554
Total amortized cost	$16,230	$88,361	$89,838	$42,243	$ 355,169	$591,841
Fair value	$16,346	$90,400	$91,896	$42,208	$ 354,468	$595,318

Expected maturities for government sponsored enterprises and states and political subdivisions may differ from contractual maturities because issuers may have the right to call or prepay obligations.

As the auction rate money market preferred and preferred stocks have continual call dates, they are not reported by a specific maturity group. Because of their variable monthly payments, mortgage-backed securities and collateralized mortgage obligations are not reported by a specific maturity group.

Information pertaining to AFS securities with gross unrealized losses at June 30, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	June 30, 2015				
	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Government sponsored enterprises	$—	$—	$325	$23,671	$325
States and political subdivisions	494	26,761	561	3,259	1,055
Auction rate money market preferred	—	—	481	2,719	481
Preferred stocks	—	—	570	3,230	570
Mortgage-backed securities	740	91,235	979	40,154	1,719
Collateralized mortgage obligations	182	45,121	739	28,981	921
Total	$1,416	$163,117	$3,655	$102,014	$5,071
Number of securities in an unrealized loss position:		103		28	131

	December 31, 2014				
	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Government sponsored enterprises	$—	$—	$471	$23,525	$471
States and political subdivisions	48	5,323	746	17,416	794
Auction rate money market preferred	—	—	581	2,619	581
Preferred stocks	—	—	691	3,109	691
Mortgage-backed securities	5	9,456	999	52,407	1,004

Collateralized mortgage obligations	105	29,435	1,315	39,540	1,420
Total	$158	$44,214	$4,803	$138,616	$4,961
Number of securities in an unrealized loss position:		22		72	94

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As of June 30, 2015 and December 31, 2014, we conducted an analysis to determine whether any AFS securities currently in an unrealized loss position should be other-than-temporarily impaired. Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than what is deemed to be reasonable based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable the issuer will be unable to pay the amount when due?
- Is it more likely than not that we will have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended?

Based on our analyses, the fact that we have asserted that we do not have the intent to sell AFS securities in an unrealized loss position, and considering it is unlikely that we will have to sell any AFS securities in an unrealized loss position before recovery of their cost basis, we do not believe that the values of any AFS securities were other-than-temporarily impaired as of June 30, 2015, or December 31, 2014.

Note 5 – Loans and ALLL

We grant commercial, agricultural, residential real estate, and consumer loans to customers situated primarily in Clare, Gratiot, Isabella, Mecosta, Midland, Montcalm, and Saginaw counties in Michigan. The ability of the borrowers to honor their repayment obligations is often dependent upon the real estate, agricultural, light manufacturing, retail, gaming, tourism, higher education, and general economic conditions of this region. Substantially all of our consumer and residential real estate loans are secured by various items of property, while commercial loans are secured primarily by real estate, business assets, and personal guarantees; a portion of loans are unsecured.

Loans that we have the intent and ability to hold in our portfolio are reported at their outstanding principal balance adjusted for any charge-offs, the ALLL, and any deferred fees or costs. Interest income is accrued over the term of the loan based on the principal amount outstanding. Loan origination fees and certain direct loan origination costs are capitalized and recognized as a component of interest income over the term of the loan using the level yield method.

The accrual of interest on commercial, agricultural, and residential real estate loans is typically discontinued at the time the loan is 90 days or more past due unless the credit is well-secured and in the process of collection. Upon transferring the loans to nonaccrual status, we perform an evaluation to determine the net realizable value of the underlying collateral. This evaluation is used to help determine if any charge-offs are necessary. Consumer loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

For loans that are placed on nonaccrual status or charged-off, all interest accrued in the current calendar year, but not collected, is reversed against interest income while interest accrued in prior calendar years, but not collected, is charged against the ALLL. Loans may be returned to accrual status after six months of continuous performance. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

Commercial and agricultural loans include loans for commercial real estate, commercial operating loans, farmland and agricultural production, and states and political subdivisions. Repayment of these loans is often dependent upon the successful operation and management of a business. We minimize our risk by limiting the amount of direct credit exposure to any one borrower to $15,000. Borrowers with direct credit needs of more than $15,000 are serviced through the use of loan participations with other commercial banks. Commercial and agricultural real estate loans commonly require loan-to-value limits of 80% or less. Depending upon the type of loan, past credit history, and current operating results, we may require the borrower to pledge accounts receivable, inventory, and property and equipment. Personal guarantees are generally required from the owners of closely held corporations, partnerships, and sole proprietorships. In addition, we require annual financial statements, prepare cash flow analyses, and review credit reports as deemed necessary.

We offer adjustable rate mortgages, construction loans, and fixed rate residential real estate loans which typically have amortization periods up to a maximum of 30 years. Fixed rate residential real estate loans with an amortization of greater than 15 years are generally sold upon origination to Freddie Mac. Fixed rate residential real estate loans with an amortization of 15 years or less may be held in our portfolio or sold to Freddie Mac upon origination. We consider the direction of interest rates, the sensitivity of our balance sheet to changes in interest rates, and overall loan demand to determine whether or not to sell these loans to Freddie Mac.

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Our lending policies generally limit the maximum loan-to-value ratio on residential real estate loans to 95% of the lower of the appraised value of the property or the purchase price, with the condition that private mortgage insurance is required on loans with loan-to-value ratios in excess of 80%. Substantially all loans upon origination have a loan to value ratio of less than 80%.

Underwriting criteria for residential real estate loans include:

- Evaluation of the borrower’s ability to make monthly payments.
- Evaluation of the value of the property securing the loan.
- Ensuring the payment of principal, interest, taxes, and hazard insurance does not exceed 28% of a borrower’s gross income.
- Ensuring all debt servicing does not exceed 36% of income.
- Verification of acceptable credit reports.
- Verification of employment, income, and financial information.

Appraisals are performed by independent appraisers and reviewed internally. All mortgage loan requests are reviewed by our mortgage loan committee or through a secondary market automated underwriting system; loans in excess of $500 require the approval of our Internal Loan Committee, the Executive Loan Committee, the Board of Directors’ Loan Committee, or the Board of Directors.

Consumer loans include secured and unsecured personal loans. Loans are amortized for a period of up to 12 years based on the age and value of the underlying collateral. The underwriting emphasis is on a borrower’s perceived intent and ability to pay rather than collateral value. No consumer loans are sold to the secondary market.

The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the ALLL when we believe the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL.

The ALLL is evaluated on a regular basis and is based upon a periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The primary factors behind the determination of the level of the ALLL are specific allocations for impaired loans, historical loss percentages, as well as unallocated components. Specific allocations for impaired loans are primarily determined based on the difference between the loan’s outstanding balance to the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, less cost to sell. Historical loss allocations were calculated at the loan class and segment levels based on a migration analysis of the loan portfolio over the preceding five years. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A summary of changes in the ALLL and the recorded investment in loans by segments follows:

	Allowance for Loan Losses					
	Three Months Ended June 30, 2015					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
April 1, 2015	$3,810	$206	$3,729	$711	$1,144	$9,600
Charge-offs	(11)	—	(205)	(80)	—	(296)
Recoveries	106	—	86	39	—	231
Provision for loan losses	(422)	157	(96)	(79)	(95)	(535)
June 30, 2015	$3,483	$363	$3,514	$591	$1,049	$9,000

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	Allowance for Loan Losses Six Months Ended June 30, 2015					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
January 1, 2015	$3,823	$216	$4,238	$645	$1,178	$10,100
Charge-offs	(28)	—	(255)	(173)	—	(456)
Recoveries	319	72	119	107	—	617
Provision for loan losses	(631)	75	(588)	12	(129)	(1,261)
June 30, 2015	$3,483	$363	$3,514	$591	$1,049	$9,000

	Allowance for Loan Losses and Recorded Investment in Loans June 30, 2015					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
ALLL						
Individually evaluated for impairment	$1,295	$—	$1,906	$1	$—	$3,202
Collectively evaluated for impairment	2,188	363	1,608	590	1,049	5,798
Total	$3,483	$363	$3,514	$591	$1,049	$9,000
Loans						
Individually evaluated for impairment	$9,050	$2,312	$10,313	$41		$21,716
Collectively evaluated for impairment	421,931	110,822	239,895	34,238		806,886
Total	$430,981	$113,134	$250,208	$34,279		$828,602

	Allowance for Loan Losses Three Months Ended June 30, 2014					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
April 1, 2014	$4,814	$425	$4,727	$630	$504	$11,100
Charge-offs	(79)	—	(264)	(68)	—	(411)
Recoveries	92	—	86	33	—	211
Provision for loan losses	185	(206)	(568)	207	182	(200)
June 30, 2014	$5,012	$219	$3,981	$802	$686	$10,700

	Allowance for Loan Losses Six Months Ended June 30, 2014					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
January 1, 2014	$6,048	$434	$3,845	$639	$534	$11,500
Charge-offs	(271)	(31)	(377)	(182)	—	(861)
Recoveries	306	—	122	75	—	503
Provision for loan losses	(1,071)	(184)	391	270	152	(442)
June 30, 2014	$5,012	$219	$3,981	$802	$686	$10,700

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	Allowance for Loan Losses and Recorded Investment in Loans					
	December 31, 2014					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
ALLL						
Individually evaluated for impairment	$1,283	$—	$2,143	$1	$—	$3,427
Collectively evaluated for impairment	2,540	216	2,095	644	1,178	6,673
Total	$3,823	$216	$4,238	$645	$1,178	$10,100
Loans						
Individually evaluated for impairment	$12,029	$1,595	$12,160	$64		$25,848
Collectively evaluated for impairment	419,932	103,126	252,435	32,241		807,734
Total	$431,961	$104,721	$264,595	$32,305		$833,582

The following table displays the credit quality indicators for commercial and agricultural credit exposures based on internally assigned credit risk ratings as of:

	June 30, 2015					
	Commercial			Agricultural		
	Real Estate	Other	Total	Real Estate	Other	Total
Rating						
1 - Excellent	$—	$492	$492	$—	$—	$—
2 - High quality	6,089	8,599	14,688	4,148	1,436	5,584
3 - High satisfactory	95,744	45,705	141,449	28,296	12,807	41,103
4 - Low satisfactory	197,605	57,353	254,958	36,822	23,792	60,614
5 - Special mention	7,101	808	7,909	2,188	1,278	3,466
6 - Substandard	10,278	280	10,558	1,801	292	2,093
7 - Vulnerable	927		927	274	—	274
8 - Doubtful	—	—	—	—	—	—
Total	$317,744	$113,237	$430,981	$73,529	$39,605	$113,134

	December 31, 2014					
	Commercial			Agricultural		
	Real Estate	Other	Total	Real Estate	Other	Total
Rating						
1 - Excellent	$—	$492	$492	$—	$—	$—
2 - High quality	13,620	14,423	28,043	5,806	3,582	9,388
3 - High satisfactory	94,556	51,230	145,786	28,715	12,170	40,885
4 - Low satisfactory	184,000	49,869	233,869	33,361	17,560	50,921
5 - Special mention	8,456	1,322	9,778	1,607	65	1,672
6 - Substandard	11,055	123	11,178	1,602	147	1,749
7 - Vulnerable	2,687	116	2,803	106	—	106
8 - Doubtful	—	12	12	—	—	—
Total	$314,374	$117,587	$431,961	$71,197	$33,524	$104,721

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Internally assigned credit risk ratings are reviewed, at a minimum, when loans are renewed or when management has knowledge of improvements or deterioration of the credit quality of individual credits. Descriptions of the internally assigned credit risk ratings for commercial and agricultural loans are as follows:

1. EXCELLENT – Substantially Risk Free

Credit has strong financial condition and solid earnings history, characterized by:

- High liquidity, strong cash flow, low leverage.
- Unquestioned ability to meet all obligations when due.
- Experienced management, with management succession in place.
- Secured by cash.

2. HIGH QUALITY – Limited Risk

Credit with sound financial condition and has a positive trend in earnings supplemented by:

- Favorable liquidity and leverage ratios.
- Ability to meet all obligations when due.
- Management with successful track record.
- Steady and satisfactory earnings history.
- If loan is secured, collateral is of high quality and readily marketable.
- Access to alternative financing.
- Well defined primary and secondary source of repayment.
- If supported by guaranty, the financial strength and liquidity of the guarantor(s) are clearly evident.

3. HIGH SATISFACTORY – Reasonable Risk

Credit with satisfactory financial condition and further characterized by:

- Working capital adequate to support operations.
- Cash flow sufficient to pay debts as scheduled.
- Management experience and depth appear favorable.
- Loan performing according to terms.
- If loan is secured, collateral is acceptable and loan is fully protected.

4. LOW SATISFACTORY – Acceptable Risk

Credit with bankable risks, although some signs of weaknesses are shown:

- Would include most start-up businesses.
- Occasional instances of trade slowness or repayment delinquency – may have been 10-30 days slow within the past year.
- Management's abilities are apparent, yet unproven.
- Weakness in primary source of repayment with adequate secondary source of repayment.
- Loan structure generally in accordance with policy.
- If secured, loan collateral coverage is marginal.
- Adequate cash flow to service debt, but coverage is low.

To be classified as less than satisfactory, only one of the following criteria must be met.

5. SPECIAL MENTION – Criticized

Credit constitutes an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific loan:

- Downward trend in sales, profit levels, and margins.
- Impaired working capital position.
- Cash flow is strained in order to meet debt repayment.
- Loan delinquency (30-60 days) and overdrafts may occur.
-

- Shrinking equity cushion.
- Diminishing primary source of repayment and questionable secondary source.

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- Management abilities are questionable.
- Weak industry conditions.
- Litigation pending against the borrower.
- Collateral or guaranty offers limited protection.
- Negative debt service coverage, however the credit is well collateralized and payments are current.

6. SUBSTANDARD – Classified

Credit where the borrower’s current net worth, paying capacity, and value of the collateral pledged is inadequate. There is a distinct possibility that we will implement collection procedures if the loan deficiencies are not corrected. In addition, the following characteristics may apply:

- Sustained losses have severely eroded the equity and cash flow.
- Deteriorating liquidity.
- Serious management problems or internal fraud.
- Original repayment terms liberalized.
- Likelihood of bankruptcy.
- Inability to access other funding sources.
- Reliance on secondary source of repayment.
- Litigation filed against borrower.
- Collateral provides little or no value.
- Requires excessive attention of the loan officer.
- Borrower is uncooperative with loan officer.

7. VULNERABLE – Classified

Credit is considered “Substandard” and warrants placing on nonaccrual status. Risk of loss is being evaluated and exit strategy options are under review. Other characteristics that may apply:

- Insufficient cash flow to service debt.
- Minimal or no payments being received.
- Limited options available to avoid the collection process.
- Transition status, expect action will take place to collect loan without immediate progress being made.

8. DOUBTFUL – Workout

Credit has all the weaknesses inherent in a “Substandard” loan with the added characteristic that collection and/or liquidation is pending. The possibility of a loss is extremely high, but its classification as a loss is deferred until liquidation procedures are completed, or reasonably estimable. Other characteristics that may apply:

- Normal operations are severely diminished or have ceased.
- Seriously impaired cash flow.
- Original repayment terms materially altered.
- Secondary source of repayment is inadequate.
- Survivability as a “going concern” is impossible.
- Collection process has begun.
- Bankruptcy petition has been filed.
- Judgments have been filed.
- Portion of the loan balance has been charged-off.

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Our primary credit quality indicator for residential real estate and consumer loans is the individual loan's past due aging. The following tables summarize the past due and current loans as of:

	June 30, 2015						
	Accruing Interest and Past Due:				Total Past Due and Nonaccrual		
	30-59 Days	60-89 Days	90 Days or More	Nonaccrual		Current	Total
Commercial							
Commercial real estate	$696	$25	$—	$927	$1,648	$316,096	$317,744
Commercial other	133	6	—	—	139	113,098	113,237
Total commercial	829	31	—	927	1,787	429,194	430,981
Agricultural							
Agricultural real estate	21	138	—	274	433	73,096	73,529
Agricultural other	187	—	—	—	187	39,418	39,605
Total agricultural	208	138	—	274	620	112,514	113,134
Residential real estate							
Senior liens	2,156	335	19	329	2,839	198,074	200,913
Junior liens	15	55	—	—	70	10,059	10,129
Home equity lines of credit	86	—	—	—	86	39,080	39,166
Total residential real estate	2,257	390	19	329	2,995	247,213	250,208
Consumer							
Secured	96	22	—	—	118	30,141	30,259
Unsecured	8	—	—	—	8	4,012	4,020
Total consumer	104	22	—	—	126	34,153	34,279
Total	$3,398	$581	$19	$1,530	$5,528	$823,074	$828,602

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	December 31, 2014						
	Accruing Interest and Past Due:						
	30-59 Days	60-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial							
Commercial real estate	$1,155	$282	$—	$2,764	$4,201	$310,173	$314,374
Commercial other	153	24	2	116	295	117,292	117,587
Total commercial	1,308	306	2	2,880	4,496	427,465	431,961
Agricultural							
Agricultural real estate	101	—	—	106	207	70,990	71,197
Agricultural other	102	—	—	—	102	33,422	33,524
Total agricultural	203	—	—	106	309	104,412	104,721
Residential real estate							
Senior liens	1,821	425	146	668	3,060	210,138	213,198
Junior liens	235	18	—	130	383	10,750	11,133
Home equity lines of credit	468	20	—	250	738	39,526	40,264
Total residential real estate	2,524	463	146	1,048	4,181	260,414	264,595
Consumer							
Secured	107	2	—	10	119	28,229	28,348
Unsecured	19	—	—	—	19	3,938	3,957
Total consumer	126	2	—	10	138	32,167	32,305
Total	$4,161	$771	$148	$4,044	$9,124	$824,458	$833,582

Impaired Loans

Loans may be classified as impaired if they meet one or more of the following criteria:

1. There has been a charge-off of its principal balance (in whole or in part);
2. The loan has been classified as a TDR; or
3. The loan is in nonaccrual status.

Impairment is measured on a loan-by-loan basis for commercial and agricultural loans by comparing the loan’s outstanding balance to the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, less cost to sell, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Impairment is measured on a loan-by-loan basis for residential real estate and consumer loans by comparing the loan’s unpaid principal balance to the present value of expected future cash flows discounted at the loan’s effective interest rate.

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We do not recognize interest income on impaired loans in nonaccrual status. For impaired loans not in nonaccrual status, interest income is recognized daily, as earned, according to the terms of the loan agreement. The following is a summary of information pertaining to impaired loans as of:

	June 30, 2015			December 31, 2014		
	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance
Impaired loans with a valuation allowance						
Commercial real estate	$6,661	$6,780	$1,292	$7,115	$7,234	$1,279
Commercial other	560	560	3	609	828	4
Agricultural real estate	—	—	—	—	—	—
Residential real estate senior liens	10,033	11,018	1,878	11,645	12,782	2,015
Residential real estate junior liens	141	151	28	265	275	53
Home equity lines of credit	—	—	—	250	650	75
Consumer secured	41	41	1	54	54	1
Total impaired loans with a valuation allowance	17,436	18,550	3,202	19,938	21,823	3,427
Impaired loans without a valuation allowance						
Commercial real estate	1,765	1,898		4,116	4,462	
Commercial other	64	75		189	212	
Agricultural real estate	1,657	1,657		1,529	1,529	
Agricultural other	655	655		66	186	
Home equity lines of credit	139	439		—	—	
Consumer secured	—	—		10	10	
Total impaired loans without a valuation allowance	4,280	4,724		5,910	6,399	
Impaired loans						
Commercial	9,050	9,313	1,295	12,029	12,736	1,283
Agricultural	2,312	2,312	—	1,595	1,715	—
Residential real estate	10,313	11,608	1,906	12,160	13,707	2,143
Consumer	41	41	1	64	64	1
Total impaired loans	$21,716	$23,274	$3,202	$25,848	$28,222	$3,427

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The following is a summary of information pertaining to impaired loans for the three and six month periods ended:

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Average Outstanding Balance	Interest Income Recognized	Average Outstanding Balance	Interest Income Recognized
Impaired loans with a valuation allowance				
Commercial real estate	$7,052	$92	$7,163	$183
Commercial other	569	9	581	19
Agricultural real estate	44	—	44	1
Residential real estate senior liens	10,805	99	11,208	217
Residential real estate junior liens	196	12	227	14
Home equity lines of credit	—	—	63	—
Consumer secured	46	1	49	2
Total impaired loans with a valuation allowance	18,712	213	19,335	436
Impaired loans without a valuation allowance				
Commercial real estate	2,230	74	2,818	135
Commercial other	68	2	99	5
Agricultural real estate	1,545	20	1,513	41
Agricultural other	351	7	204	8
Home equity lines of credit	190	4	155	10
Consumer secured	—	—	3	—
Total impaired loans without a valuation allowance	4,384	107	4,792	199
Impaired loans				
Commercial	9,919	177	10,661	342
Agricultural	1,940	27	1,761	50
Residential real estate	11,191	115	11,653	241
Consumer	46	1	52	2
Total impaired loans	$23,096	$320	$24,127	$635

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	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Average Outstanding Balance	Interest Income Recognized	Average Outstanding Balance	Interest Income Recognized
Impaired loans with a valuation allowance				
Commercial real estate	$6,644	$91	$6,701	$185
Commercial other	852	11	825	29
Agricultural real estate	147	(1)	118	—
Residential real estate senior liens	12,786	126	13,188	264
Residential real estate junior liens	68	1	57	1
Home equity lines of credit	265	10	175	11
Consumer secured	63	1	77	2
Total impaired loans with a valuation allowance	20,825	239	21,141	492
Impaired loans without a valuation allowance				
Commercial real estate	5,819	91	5,797	193
Commercial other	286	1	438	7
Agricultural real estate	1,405	21	1,407	37
Agricultural other	131	—	146	28
Home equity lines of credit	—	—	48	—
Consumer secured	5	—	3	—
Total impaired loans without a valuation allowance	7,646	113	7,839	265
Impaired loans				
Commercial	13,601	194	13,761	414
Agricultural	1,683	20	1,671	65
Residential real estate	13,119	137	13,468	276
Consumer	68	1	80	2
Total impaired loans	$28,471	$352	$28,980	$757

As of June 30, 2015 and December 31, 2014, we had committed to advance $19 and $0, respectively, in connection with impaired loans, which include TDRs.

Troubled Debt Restructurings

Loan modifications are considered to be TDRs when the modification includes terms outside of normal lending practices to a borrower who is experiencing financial difficulties.

Typical concessions granted include, but are not limited to:

1. Agreeing to interest rates below prevailing market rates for debt with similar risk characteristics.
2. Extending the amortization period beyond typical lending guidelines for loans with similar risk characteristics.
3. Forgiving principal.
4. Forgiving accrued interest.

To determine if a borrower is experiencing financial difficulties, factors we consider include:

1. The borrower is currently in default on any of their debt.
2. The borrower would likely default on any of their debt if the concession was not granted.
3. The borrower’s cash flow was insufficient to service all of their debt if the concession was not granted.
4. The borrower has declared, or is in the process of declaring, bankruptcy.
5. The borrower is unlikely to continue as a going concern (if the entity is a business).

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The following is a summary of information pertaining to TDRs granted for the:

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial other	1	$ 71	$ 71	5	$ 585	$ 585
Agricultural other	7	770	770	7	770	770
Residential real estate						
Senior liens	2	210	210	4	448	448
Junior liens	1	30	30	1	30	30
Home equity lines of credit	—	—	—	1	94	94
Total residential real estate	3	240	240	6	572	572
Consumer unsecured	—	—	—	—	—	—
Total	11	$ 1,081	$ 1,081	18	$ 1,927	$ 1,927

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial other	1	$ 8	$ 8	5	$ 363	$ 363
Agricultural other	—	—	—	—	—	—
Residential real estate						
Senior liens	3	170	170	12	661	661
Junior liens	1	41	41	1	41	41
Home equity lines of credit	1	160	160	1	160	160
Total residential real estate	5	371	371	14	862	862
Consumer unsecured	2	8	8	3	8	8
Total	8	$ 387	$ 387	22	$ 1,233	$ 1,233

The following tables summarize concessions we granted to borrowers in financial difficulty for the:

	Three Months Ended June 30, 2015				Six Months Ended June 30, 2015			
	Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period		Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
Commercial other	1	$ 71	—	$ —	3	$ 254	2	$ 331
Agricultural other	6	724	1	46	6	724	1	46
Residential real estate								
Senior liens	—	—	2	210	1	50	3	398
Junior liens	—	—	1	30	—	—	1	30
Home equity lines of credit	—	—	—	—	—	—	1	94
Total residential real estate	—	—	3	240	1	50	5	522
Consumer unsecured	—	—	—	—	—	—	—	—
Total	7	$ 795	4	$ 286	10	$ 1,028	8	$ 899

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	Three Months Ended June 30, 2014				Six Months Ended June 30, 2014			
	Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period		Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
Commercial other	—	$ —	1	$ 8	4	$ 355	1	$ 8
Agricultural other	—	—	—	—	—	—	—	—
Residential real estate								
Senior liens	1	48	2	122	3	98	9	563
Junior liens	—	—	1	41	—	—	1	41
Home equity lines of credit	1	160	—	—	1	160	—	—
Total residential real estate	2	208	3	163	4	258	10	604
Consumer unsecured	1	5	1	3	2	5	1	3
Total	3	$ 213	5	$ 174	10	$ 618	12	$ 615

We did not restructure any loans by forgiving principal or accrued interest in the three and six month periods ended June 30, 2015 or 2014.

Based on our historical loss experience, losses associated with TDRs are not significantly different than other impaired loans within the same loan segment. As such, TDRs, including TDRs that have been modified in the past 12 months that subsequently defaulted, are analyzed in the same manner as other impaired loans within their respective loan segment.

Following is a summary of loans that defaulted in the three and six month periods ended June 30, 2015, which were modified within 12 months prior to the default date.

	Three Months Ended June 30, 2015				Six Months Ended June 30, 2015			
	Number of Loans	Pre-Default Recorded Investment	Charge-Off Recorded Upon Default	Post-Default Recorded Investment	Number of Loans	Pre-Default Recorded Investment	Charge-Off Recorded Upon Default	Post-Default Recorded Investment
Residential real estate junior liens	1	$ 39	$ 39	$ —	1	$ 39	$ 39	$ —

We had no loans that defaulted in the three and six month periods ended June 30, 2014, which were modified within 12 months prior to the default date.

The following is a summary of TDR loan balances as of:

	June 30, 2015	December 31, 2014
TDRs	$ 20,458	$ 23,341

The following is a summary of foreclosed assets as of:

	June 30, 2015	December 31, 2014
Consumer mortgage loans collateralized by residential real estate foreclosed as a result of obtaining physical possession (1)	$ —	N/A
Foreclosed Assets	873	885
Total	$ 873	$ 885

(1) Disclosure requirement from the adoption of ASU No. 2014-04 on January 1, 2015. As such, measurement was applicable for December 31, 2014.

Consumer mortgage loans collateralized by residential real estate in the process of foreclosure were $5 as of June 30, 2015.

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Note 6 – Equity Securities Without Readily Determinable Fair Values

Included in equity securities without readily determinable fair values are restricted securities, which are carried at cost, and investments in unconsolidated entities accounted for under the equity method of accounting.

Equity securities without readily determinable fair values consist of the following as of:

	June 30 2015	December 31 2014
FHLB Stock	$10,800	$9,800
Corporate Settlement Solutions, LLC	7,005	6,936
FRB Stock	1,999	1,999
Valley Financial Corporation	1,000	1,000
Other	338	341
Total	$21,142	$20,076

Note 7 – Borrowed Funds

Borrowed funds consist of the following obligations as of:

	June 30, 2015			December 31, 2014		
	Amount	Rate		Amount	Rate	
FHLB advances	$240,000	1.71	%	$192,000	2.05	%
Securities sold under agreements to repurchase without stated maturity dates	67,599	0.12	%	95,070	0.14	%
Securities sold under agreements to repurchase with stated maturity dates	—	—		439	3.25	%
Federal funds purchased	—	—		2,200	0.50	%
Total	$307,599	1.36	%	$289,709	1.41	%

FHLB advances are collateralized by a blanket lien on all qualified 1-4 family residential real estate loans, specific AFS securities, and FHLB stock.

The following table lists the maturity and weighted average interest rates of FHLB advances as of:

	June 30, 2015			December 31, 2014		
	Amount	Rate		Amount	Rate	
Fixed rate due 2015	$30,000	0.68	%	$—	—	
Variable rate due 2015	35,000	0.44	%	—	—	
Fixed rate due 2016	20,000	1.34	%	42,000	0.72	%
Variable rate due 2016	15,000	0.44	%	10,000	2.15	%
Fixed rate due 2017	30,000	1.95	%	30,000	1.95	%
Fixed rate due 2018	40,000	2.35	%	40,000	2.35	%
Fixed rate due 2019	20,000	3.11	%	20,000	3.11	%
Fixed rate due 2020	—	—		10,000	1.98	%
Fixed rate due 2021	40,000	2.19	%	30,000	2.26	%
Fixed rate due 2023	10,000	3.90	%	10,000	3.90	%
Total	$240,000	1.71	%	$192,000	2.05	%

Securities sold under agreements to repurchase are classified as secured borrowings and are reflected at the amount of cash received in connection with the transaction. The securities underlying the agreements have a carrying value and a fair value of $67,661 and $94,537 at June 30, 2015 and December 31, 2014, respectively. Such securities remain under our control. We may be required to provide additional collateral based on the fair value of underlying securities.

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The following table lists the maturity and weighted average interest rates of securities sold under agreements to repurchase with stated maturity dates as of:

	June 30, 2015		December 31, 2014		
	Amount	Rate	Amount	Rate	
Repurchase agreements due 2015	$—	—	$439	3.25	%

Securities sold under repurchase agreements without stated maturity dates, federal funds purchased, and FRB Discount Window advances generally mature within one to four days from the transaction date. The following table provides a summary of securities sold under repurchase agreements without stated maturity dates, federal funds purchased, and FRB Discount Window advances borrowings for the three and six month periods ended:

	Three Months Ended June 30				
	2015			2014	
	Maximum Month End Balance	Average Balance	Weighted Average Interest Rate During the Period	Maximum Month End Balance	Average Balance