COMMUNITY CENTRAL BANK CORP
Form 10-Q
November 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

Commission File No. 000-33373
COMMUNITY CENTRAL BANK CORPORATION

(Exact name of small business issuer as specified in its charter)

Michigan	38-3291744
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

100 North Main Street, PO Box 7, Mount Clemens, MI 48046-0007

(Address of principal executive offices and zip code)
(586) 783-4500

(Issuer s telephone number)

Indicate by check mark whether the registrant (1) 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

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

Class	Outstanding at November 13, 2009
Common Stock	3,737,181 Shares

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)

PART I

Item 1. Financial Statements
Consolidated Balance Sheet

	September 30, 2009 (Unaudited)	December 31, 2008
	(In thousands)	
Assets		
Cash and due from banks	$ 30,622	$ 9,162
Federal funds sold	773	7,000
Cash and Cash Equivalents	31,395	16,162
Trading securities at fair value option		17,463
Securities available for sale, at fair value	64,939	76,552
Securities held to maturity, at amortized cost	3,480	1,515
FHLB stock	5,877	5,877
Residential mortgage loans held for sale	2,625	3,302
Loans		
Commercial real estate	279,369	284,811
Commercial and industrial	53,134	38,714
Residential real estate	49,710	54,409
Home equity lines of credit	22,723	21,230
Consumer loans	7,169	7,107
Credit card loans	829	846
Total Loans	412,934	407,117
Allowance for credit losses	(12,195)	(7,315)
Net Loans	400,739	399,802
Net property and equipment	9,129	9,361
Accrued interest receivable	2,190	2,479
Other real estate	6,528	2,913
Goodwill	638	638
Intangible assets, net of amortization	63	80
Cash surrender value of Bank Owned Life Insurance	11,201	10,975
Other assets	7,977	9,831
Total Assets	$ 546,781	$ 556,950

(continued)

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Consolidated Balance Sheet

	September 30, 2009 (Unaudited)	December 31, 2008
	(In thousands)	
Liabilities		
Deposits		
Noninterest bearing demand deposits	$ 59,262	$ 34,169
NOW and money market accounts	37,190	38,154
Savings deposits	8,962	8,585
Time deposits	265,215	276,468
Total Deposits	370,629	357,376
Repurchase agreements	44,771	39,394
Federal Home Loan Bank advances ($5.0 million at fair value option at 12-31-2008)	87,700	108,200
Accrued interest payable	748	1,050
Other liabilities	2,616	3,779
Subordinated debentures at fair value option	9,842	12,757
Total Liabilities	516,306	522,556
Stockholders Equity		
Preferred stock (1,000,000 shares authorized, no par value, in total. Series A-liquidation preference $1,000 per share, 7,000 authorized, with 3,550 and 3,050 issued and outstanding as of 9-30-09 and 12-31-08.	3,550	3,050
Common stock (No par value; 9,000,000 shares, authorized, and 3,737,181 and 3,734,781 issued and outstanding at September 30, 2009 and December 31, 2008, respectively)	32,192	32,125
Accumulated deficit	(5,489)	(516)
Accumulated other comprehensive (loss) income	222	(265)
Total Stockholders Equity	30,475	34,394
Total Liabilities and Stockholders Equity	$ 546,781	$ 556,950

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(In thousands, except per share data)			
Interest Income				
Loans (including fees)	$ 6,510	$ 6,378	$ 19,423	$ 19,242
Taxable securities	645	954	2,304	2,722
Tax exempt securities	74	141	272	517
Federal funds sold	9	64	22	373
Total interest income	7,238	7,537	22,021	22,854
Interest Expense				
NOW and money market accounts	55	175	205	637
Savings deposits	13	73	44	187
Time deposits	2,297	2,639	7,472	8,409
Repurchase agreements and fed funds purchased	327	304	959	823
Federal Home Loan Bank advances	1,015	1,218	3,286	3,692
ESOP loan interest expense				1
Subordinated debentures	311	195	924	702
Total interest expense	4,018	4,604	12,890	14,451
Net Interest Income	3,220	2,933	9,131	8,403
Provision for Credit Losses	4,400	1,084	9,650	4,068
Net Interest Income (Expense) after Provision for Credit Losses	(1,180)	1,849	(519)	4,335
Noninterest Income				
Fiduciary income	80	82	245	288
Deposit service charges	110	109	300	383
Net realized security gain	80	84	436	195
Change in fair value of assets/liabilities carried at fair value under SFAS 159	1,313	1,109	2,383	4,120
Mortgage banking income	623	461	2,384	1,341
Other income	251	250	715	1,127
Total noninterest income	2,457	2,095	6,463	7,454
Noninterest Expense				

Salaries, benefits and payroll taxes	2,050	1,884	6,231	5,551
Net occupancy expense	424	444	1,304	1,357
Other operating expense	2,439	1,549	5,708	4,284
Total noninterest expense	4,913	3,877	13,243	11,192
Income (loss) Before Taxes	(3,636)	67	(7,299)	597
Income Tax (Benefit)	(1,271)	(37)	(2,588)	(22)
Net income (loss)	$ (2,365)	$ 104	$ (4,711)	$ 619
Dividends declared on preferred shares	107		263	
Net income (loss) available on common shares	$ (2,472)	$ 104	$ (4,974)	$ 619
Per share data:				
Basic earnings (loss)	$ (0.66)	$ 0.03	$ (1.33)	$ 0.17
Diluted earnings (loss)	$ (0.66)	$ 0.03	$ (1.33)	$ 0.17
Cash dividends	$	$ 0.02	$	$ 0.10

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Net Income (Loss) as Reported	($2,365)	$ 104	($4,711)	$ 619
Other Comprehensive Income (Loss), Net of Tax				
Change in unrealized net gain (loss) on securities available for sale	428	200	487	(120)
Comprehensive Income (loss)	($1,937)	$ 304	($4,224)	$ 499

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Consolidated Statements of Cash Flow
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
	(In thousands)	
Operating Activities		
Net income (loss)	($4,711)	$ 619
Adjustments to reconcile net income to net cash flow from operating activities:		
Net amortization of security premium	320	60
Net gain on available for sale securities	(436)	(195)
Net gain on instruments at fair value	(2,383)	(4,120)
Provision for credit losses	9,650	4,068
Depreciation expense	483	504
Deferred income tax (benefit) expense	(1,676)	306
ESOP compensation expense		42
SFAS 123R option expense	67	33
Decrease in accrued interest receivable	289	142
Decrease in other assets	1,896	4,044
(Decrease) increase in accrued interest payable	(302)	103
Increase (decrease) in other liabilities	(1,163)	328
Decrease in loans sold / held for sale	677	3,486
Increase in other real estate	(3,615)	(1,307)
Net Cash (Used in) Provided By Operating Activities	(904)	8,113
Investing Activities		
Sales, maturities, calls and prepayments of securities available for sale	89,201	61,721
Purchases of securities available for sale	(79,824)	(65,538)
Maturities, calls, sales and prepayments of trading securities	24,700	2,646
Transfer and purchase of trading securities	(7,237)	
Maturities, calls, and prepayments of held to maturity securities	143	119
Purchases of held to maturity securities	(2,088)	(1,265)
Increase in loans	(7,693)	(10,943)
Purchases of property and equipment	(55)	(1,045)
Net Cash (Ussed in) Provided by Investing Activities	17,147	(14,305)
Financing Activities		
Net increase in demand and savings deposits	24,506	18,770
Net decrease in time deposits	(11,253)	13,602
Net increase in short term borrowings	5,377	2,506
FHLB advances		13,000
Repayment of FHLB advances	(20,500)	(12,000)
Payment of ESOP debt		(33)

Stock options exercised / awarded				17
Preferred Stock Issuance		500		
Preferred Stock dividend paid		(263)		
Cash dividends paid				(358)
Repurchase of stock		623		(7)
Net Cash (Used in) Provided by Financing Activities		(1,010)		35,497
Increase in Cash and Cash Equivalents		15,233		29,305
Cash and Cash Equivalents at the Beginning of the Period		16,162		9,183
Cash and Cash Equivalents at the End of the Period	$	31,395	$	38,488
Supplemental Disclosure of Cash Flow Information				
Interest paid	$	13,192	$	14,451
Loans transferred to other real estate owned	$	5,746	$	3,854

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Community Central Bank Corporation

Notes to Consolidated Financial Statements
(unaudited)

1. The financial statements of Community Central Bank Corporation (the Corporation) include the consolidation of its wholly-owned subsidiaries: Community Central Bank (the Bank) and Community Central Mortgage Company, LLC (the Mortgage Company).

   The Corporation s Consolidated Balance Sheets are presented as of September 30, 2009 and December 31, 2008, and Consolidated Statements of Income and Comprehensive Income for the three and nine month periods ended September 30, 2009 and 2008, and Consolidated Statements of Cash Flow for the nine months ended September 30, 2009 and 2008. These unaudited financial statements are for interim periods and do not include all disclosures normally provided with annual financial statements. The interim statements should be read in conjunction with the financial statements and footnotes contained in the Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

   In the opinion of management, the interim statements referred to above contain all adjustments (consisting of normal, recurring items) necessary for a fair presentation of the financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

   New Accounting Pronouncements:

   In April 2009, the FASB issued a new standard now codified in ASC 820, *Fair Value Measurements and Disclosures* (formerly Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*). This standard emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The standard provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The standard also requires increased disclosures. This standard is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Adoption of this standard in June of 2009 did not have a material effect on the Company s results of operations or financial position.

   In April 2009, the FASB issued a new standard now codified in ASC 825, *Financial Instruments* (formerly Staff Position (FSP) No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments)*. This statement amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. This statement is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Adoption of this statement at June 30, 2009 did not have an impact on the results of operations or financial position as it only required disclosures included in the footnotes.

   In May 2009, the FASB issued a new standard now codified in ASC 855, *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events)*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist in the auditing standards. The standard also includes a required disclosure of the date through which the entity has evaluated subsequent events and whether the evaluation date is the date of issuance or the date the financial statements were available to be issued. The standard is effective for interim or annual periods ending after June 15, 2009. The Company has complied with the disclosure requirements. In accordance with this statement, we have evaluated subsequent events through the date of this filing. We do not believe there are any material subsequent events which would require further disclosure.

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. *The FASB Accounting Standards Codification* (Codification) will become the source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will comply with the requirements of the Statement beginning in the third quarter of 2009.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05 (ASU 2009-05), which provides amendments to ASC Top 820, *Fair Value Measurements and Disclosures*, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: a valuation technique that uses the quoted price of the identical liability when traded as an asset or a quoted price for a similar liability when traded as an asset, or another valuation method that is consistent with the principles of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASU 2009-05 also provides clarification that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustments to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The effective date is the first reporting period beginning after issuance. Accordingly, the Corporation will adopt the provisions of ASU 2009-05 in the fourth quarter of 2009. The Corporation does not expect the adoption of the provisions of ASU 2009-05 to have a material effect on the Corporation s financial condition and results of operations.

2. Critical Accounting Policies

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America and general practices within the banking industry. The following describes the critical accounting policies employed in the preparation of financial statements.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level considered by management to be adequate to absorb losses inherent in existing loans and loan commitments. The adequacy of the allowance is based on evaluations that take into consideration such factors as prior loss experience, changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific impaired or problem loans and commitments, current economic conditions that may affect the borrower s ability to pay and other subjective factors. The determination of the allowance is also based on regulatory guidance. This guidance includes, but is not limited to, generally accepted accounting principles and guidance issued from other regulatory bodies, such as the joint policy statement issued by the Federal Financial Institutions Examination Council.

3. On February 13, 2007, Community Central Bank Corporation issued $18.0 million aggregate liquidation amount of cumulative trust preferred securities through Community Central Capital Trust II, a statutory trust formed by the Corporation for the purpose of issuing the securities (the Trust II Securities). The Trust II securities bear a fixed distribution rate of 6.71% per annum through March 6, 2017, and thereafter will bear a floating distribution rate equal to 90-day LIBOR plus 1.65%. The Trust II Securities are redeemable at the Corporation s option, in whole or in part, at par beginning March 6, 2017, and if not sooner redeemed mature on March 6, 2037. The Trust II Securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended.

4. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123R, *Share-Based Payment* (SFAS 123R), a revision to Statement No. 123, *Accounting for Stock-Based Compensation*, codified in ASC 718 *Stock Compensation*. This standard requires the Corporation to measure the cost of employee services received in exchange for equity awards, including stock options, based on the grant date fair calculated value of

the awards. The Corporation adopted the provisions of SFAS 123R as of January 1, 2006. The standard provides for a modified prospective application. Under this method, the Corporation began recognizing compensation cost for equity based compensation for all new or modified grants after the date of adoption. In addition, the Corporation is recognizing the unvested portion of the grant date fair value of awards issued prior to adoption based on the fair value previously calculated for disclosure purposes. Prior periods have not been restated.

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)

The Corporation did not issue options during the third quarter of 2009 or 2008. The total amount of options outstanding at September 30, 2009 was 303,475 shares at a weighted average exercise price of $7.91 per share. During the third quarter of 2009, no options were exercised. During the third quarter of 2009, the Corporation recognized compensation expense for stock options awarded over the vesting period based on the fair value of the options granted. The fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model. The expense recorded for the third quarter of 2009 and 2008 is disclosed for comparison below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Stock-based employee compensation expense, net of related tax effects, included in reported net income	$27	$14	$67	$42

5. Fair Value

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, codified in ASC 825, *Financial Instruments*. The statement permitted an entity to immediately elect the fair value option for existing eligible items. While not required to adopt the new standard until 2008, the Corporation elected to adopt it in the first quarter of 2007. The Corporation was also required to simultaneously adopt all the requirements under SFAS 157, *Fair Value Measurements*. As a result of the Corporation s adoptions, certain financial instruments were valued at fair value using the fair value option. The Corporation adopted the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which is now codified under ASC 820, *Fair Value Measurements and Disclosures.* See Note 1 New Accounting Pronouncements.

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Under SFAS 157, now codified under ASC 820, *Fair Value Measurements,* the Corporation groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 Valuation contains unobservable input(s) and is used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity. Level 3 instruments typically include, in addition to unobservable or Level 3 components, observable components.

Management has elected the fair value option for the following reasons for each of the eligible items or group of similar eligible items.

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Investment Securities:
In the first quarter of 2009, the Corporation elected to sell substantially all of the investment securities recorded under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, codified in ASC 825, *Financial Instruments,* and to unwind the hedging interest rate swap position with the counterparty which resulted in realizing a combined net loss of $400,000 in the first nine months of 2009. This was based on management s determination that the combination of the securities and interest rate swap would no longer provide a benefit to the Corporation in the current historically low interest rate environment. The Corporation had held the securities and interest rate swap for an extended amount of time under ASC 825, *Financial Instruments, the Fair Value Option.*
Subordinated Debentures:
Management elected the fair value option for its subordinated debenture. Management considers the subordinated debenture a critical component for future growth and wished to utilize interest rate swaps at that point in time to hedge the risk of this longer term liability. Management elected the fair value option accounting treatment for interest rate swaps because it was less complex than alternative methods and therefore suitable for a community bank with limited resources. Management has elected the fair value option on the subordinated debenture which was issued on February 13, 2007 for $18.6 million. Additionally, an interest rate swap for a like kind notional value was secured, in part, to reduce any volatility associated with the recognition of the fair value option under ASC 825, *Financial Instruments, the Fair Value Option.* Under the interest rate swap, the Corporation has agreed to receive a fixed rate of 6.71% and pay Libor plus 170 basis points. The debenture carries an interest rate fixed for 10 years at 6.71%, and was originally based on a ten year treasury interest rate swap of 5.06%, plus 165 basis points and was prior to the settlement of the interest rate swap hedging market fluctuations. In the first quarter of 2009, the Corporation elected to unwind the interest rate swap position with the counterparty which resulted in realizing $3.3 million, which represented substantially all of the unrealized gains which had been recorded as noninterest income, under the fair value option through December 31, 2008. This was based on management s determination that the interest rate swap would no longer provide a benefit to the Corporation.
Management has the intent to utilize the fair value option on selected financial assets and liabilities on a go forward basis.
The valuations of the instruments measured under ASC 820, *Fair Value Measurements,* for 2007 were measured under a market approach using matrix pricing investment for investment securities and the income approach using observable data for the liabilities reported under ASC 825, *Financial Instruments, Fair Value Option*. The inputs were observable for the asset and liability yields on commonly quoted intervals based on similar assets and liabilities for level 2 instruments. Community Central Bank Corporation does not have a credit rating through any major credit research credit rating facility. The Trust Preferred Market from which a basis for pricing on the subordinated debenture is arrived at is reflective of changes in the commercial banking environment. The determination of fair value of the subordinated debenture is considered by management to be reflective of the current assessments as to the market for fixed rate trust preferred and subordinated debentures of similar duration and characteristics. During several quarterly periods, the trust preferred market reflected only a small base of participants in the market place. The disarray in the credit markets contributed to the lack of market transactions in this financial instrument. Under ASC 820, *Fair Value Measurements and Disclosures,* management evaluated factors to determine whether there has been a significant decrease in volume of activity for the liability compared to normal market activity. Based on the factors observable to management contained in ASC 820, *Fair Value Measurements and Disclosures*, management concluded that quoted prices may not be determinative of fair value. Management also evaluated the circumstances to determine whether the issuance of subordinated debentures and trust preferred securities was orderly based on the weight of evidence available. Based on the factors contained in ASC 820, *Fair Value Measurements and Disclosures*, management concluded the market for bank subordinated debentures and trust preferred securities was not orderly. Management has used all observable data available, including the market data for subordinated debentures and trust preferred securities traded as assets, to obtain additional observable information. The inputs and valuation techniques used by management to determine fair value included pricing models for like type financial instruments priced to a

yield to maturity of that instrument. Management uses market surveys for like type instruments in aiding the valuation process. Management also considers market data for the issuance of subordinated debentures in evaluating the appropriate fair value of the instrument. Multiple inputs are used in the valuation process including assumptions on credit spreads, projected yield curves and other modeling techniques used in pricing financial instruments to determine the fair value after incorporating all known factors and adjustments which may be significant. A determination was made, based upon the significance of unobservable parameters as of September 30, 2009 to the overall fair value measurement, to continue to report the subordinated debentures under level 3 significant unobservable inputs. In addition to the unobservable components, or level 3 components, observable components that can be validated to external sources are part of the validation methodology. The net change in fair value associated with all instruments recorded under ASC 825, *Financial Instruments, Fair Value Option,* totaled $2.4 million for the first nine months of 2