First Internet Bancorp
Form 10-Q
May 07, 2015

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

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period March 31, 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 001-35750

First Internet Bancorp
(Exact Name of Registrant as Specified in Its Charter)

Indiana (State or Other Jurisdiction of Incorporation or Organization)	20-3489991 (I.R.S. Employer Identification No.)
8888 Keystone Crossing, Suite 1700 Indianapolis, Indiana (Address of Principal Executive Offices)	46240 (Zip Code)

(317) 532-7900
(Registrant’s Telephone Number, Including Area Code)

(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. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes þ 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 (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer ¨ Accelerated Filer þ

Non-accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

As of May 4, 2015, the registrant had 4,484,513 shares of common stock issued and outstanding.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance, or business of First Internet Bancorp (“we,” “our,” “us” or the “Company”). Forward-looking statements are generally identifiable by the use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “should,” “will,” “would,” or other similar expressions. Forward-looking statements are not a guarantee of future performance or results, are based on information available at the time the statements are made, and involve known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the information in the forward-looking statements. Factors that may cause such differences include: failures of or interruptions in the communications and information systems on which we rely to conduct our business; our plans to grow our commercial real estate and commercial and industrial loan portfolios; competition with national, regional, and community financial institutions; the loss of any key members of senior management; fluctuations in interest rates; general economic conditions and risks relating to the regulation of financial institutions. Additional factors that may affect our results include those discussed in our most recent Annual Report on Form 10-K under the heading “Risk Factors” and in other reports filed with the Securities and Exchange Commission (“SEC”). All statements in this Quarterly Report on Form 10-Q, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

(i)

PART I

ITEM 1. FINANCIAL STATEMENTS

First Internet Bancorp
Condensed Consolidated Balance Sheets
(Amounts in thousands except share data)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$1,472	$1,940
Interest-bearing demand deposits	38,100	26,349
Total cash and cash equivalents	39,572	28,289
Interest-bearing time deposits	2,000	2,000
Securities available-for-sale, at fair value (amortized cost of $163,067 and $137,727, respectively)	163,676	137,518
Loans held-for-sale (includes $26,771 and $32,618 at fair value, respectively)	27,584	34,671
Loans receivable	767,682	732,426
Allowance for loan losses	(6,378)	(5,800)
Net loans receivable	761,304	726,626
Accrued interest receivable	3,040	2,833
Federal Home Loan Bank of Indianapolis stock	5,350	5,350
Cash surrender value of bank-owned life insurance	12,423	12,325
Premises and equipment, net	7,040	7,061
Goodwill	4,687	4,687
Other real estate owned	4,488	4,488
Accrued income and other assets	4,513	4,655
Total assets	$1,035,677	$970,503
Liabilities and Shareholders’ Equity		
Liabilities		
Noninterest-bearing deposits	$19,178	$21,790
Interest-bearing deposits	801,991	736,808
Total deposits	821,169	758,598
Advances from Federal Home Loan Bank	106,921	106,897
Subordinated debt	2,894	2,873
Accrued interest payable	104	97
Accrued expenses and other liabilities	5,227	5,253
Total liabilities	936,315	873,718
Commitments and Contingencies		
Shareholders’ Equity		
Preferred stock, no par value; 4,913,779 shares authorized; issued and outstanding - none	—	—
Voting common stock, no par value; 45,000,000 shares authorized; 4,484,513 and 4,439,575 shares issued and outstanding, respectively	72,032	71,774
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none	—	—
Retained earnings	26,938	25,146
Accumulated other comprehensive income (loss)	392	(135)

Total shareholders' equity	99,362	96,785
Total liabilities and shareholders' equity	$1,035,677	$970,503

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Condensed Consolidated Statements of Income – Unaudited
(Amounts in thousands except share and per share data)

	Three Months Ended March 31,	
	2015	2014
Interest Income		
Loans	$8,390	$6,129
Securities – taxable	722	750
Securities – non-taxable	—	58
Other earning assets	75	96
Total interest income	9,187	7,033
Interest Expense		
Deposits	1,953	1,860
Other borrowed funds	460	307
Total interest expense	2,413	2,167
Net Interest Income	6,774	4,866
Provision for Loan Losses	442	147
Net Interest Income After Provision for Loan Losses	6,332	4,719
Noninterest Income		
Service charges and fees	176	167
Mortgage banking activities	2,886	900
Gain on sale of securities	—	359
Loss on asset disposals	(14)	(13)
Other	100	98
Total noninterest income	3,148	1,511
Noninterest Expense		
Salaries and employee benefits	3,578	3,007
Marketing, advertising, and promotion	452	380
Consulting and professional services	592	433
Data processing	248	234
Loan expenses	181	114
Premises and equipment	642	701
Deposit insurance premium	150	144
Other	414	425
Total noninterest expense	6,257	5,438
Income Before Income Taxes	3,223	792
Income Tax Provision	1,160	192
Net Income	$2,063	$600
Income Per Share of Common Stock		
Basic	$0.46	$0.13
Diluted	$0.46	$0.13
Weighted-Average Number of Common Shares Outstanding		
Basic	4,516,776	4,494,670
Diluted	4,523,246	4,501,705
Dividends Declared Per Share	$0.06	$0.06

See Notes to Condensed Consolidated Financial Statements

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First Internet Bancorp
Condensed Consolidated Statements of Comprehensive Income – Unaudited
(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	$2,063	$600
Other comprehensive income		
Net unrealized holding gains on securities available-for-sale	818	925
Reclassification adjustment for gains realized	—	(359)
Net unrealized holding gains on securities available-for-sale for which an other-than-temporary impairment has been recognized in income	—	63
Other comprehensive income before income tax	818	629
Income tax provision	291	224
Other comprehensive income	527	405
Comprehensive income	$2,590	$1,005

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Condensed Consolidated Statements of Shareholders' Equity - Unaudited
Three Months Ended March 31, 2015
(Dollar amounts in thousands except per share data)

	Voting and Nonvoting Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2015	$71,774	$(135)	$25,146	$96,785
Net income	—	—	2,063	2,063
Other comprehensive income	—	527	—	527
Dividends declared ($0.06 per share)	—	—	(271)	(271)
Recognition of the fair value of share-based compensation	282	—	—	282
Deferred stock rights issued in lieu of cash dividends payable on outstanding deferred stock rights	5	—	—	5
Excess tax benefit on shared-based compensation	9	—	—	9
Common stock redeemed for the net settlement of share-based awards	(38)	—	—	(38)
Balance, March 31, 2015	$72,032	$392	$26,938	$99,362

See Notes to Condensed Consolidated Financial Statements

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First Internet Bancorp
Condensed Consolidated Statements of Cash Flows – Unaudited
(Dollar amounts in thousands)

	Three Months Ended March 31, 2015	2014
Operating Activities		
Net income	$2,063	$600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	456	458
Increase in cash surrender value of bank-owned life insurance	(98)	(96)
Provision for loan losses	442	147
Share-based compensation expense	282	125
Gain from sale of available-for-sale securities	—	(359)
Loans originated for sale	(134,159)	(76,952)
Proceeds from sale of loans	143,737	89,293
Gain on loans sold	(2,314)	(807)
Increase in fair value of loans held-for-sale	(177)	(197)
(Gain) loss on derivatives	(395)	104
Net change in:		
Accrued income and other assets	128	820
Accrued expenses and other liabilities	(17)	438
Net cash provided by operating activities	9,948	13,574
Investing Activities		
Net change in loans	(35,120)	(31,281)
Maturities of securities available-for-sale	5,092	3,196
Proceeds from sale of securities available-for-sale	—	46,373
Purchase of securities available-for-sale	(30,598)	(72,231)
Purchase of premises and equipment	(316)	(24)
Net cash used in investing activities	(60,942)	(53,967)
Financing Activities		
Net increase in deposits	62,571	54,557
Cash dividends paid	(265)	(264)
Proceeds from advances from Federal Home Loan Bank	90,000	—
Repayment of advances from Federal Home Loan Bank	(90,000)	(10,000)
Other, net	(29)	(130)
Net cash provided by financing activities	62,277	44,163
Net Increase in Cash and Cash Equivalents	11,283	3,770
Cash and Cash Equivalents, Beginning of Period	28,289	53,690
Cash and Cash Equivalents, End of Period	$39,572	$57,460
Supplemental Disclosures of Cash Flows Information		
Cash paid during the period for interest	$2,406	$2,186
Cash dividends declared, not paid	268	264

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Notes to Condensed Consolidated Financial Statements – Unaudited
(Dollar amounts in thousands except per share data)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, or cash flows in accordance with U.S. GAAP. In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results expected for the year ending December 31, 2015 or any other period. The March 31, 2015 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the First Internet Bancorp Annual Report on Form 10-K for the year ended December 31, 2014.

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, or assumptions that could have a material effect on the carrying value of certain assets and liabilities. These estimates, judgments, and assumptions affect the amounts reported in the condensed consolidated financial statements and the disclosures provided. The determination of the allowance for loan losses, valuations and impairments of investment securities, and the accounting for income tax expense are highly dependent upon management's estimates, judgments, and assumptions where changes in any of these could have a significant impact on the financial statements.

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations, and cash flows of the Company.

The condensed consolidated financial statements include the accounts of First Internet Bancorp (the "Company"), its wholly-owned subsidiary, First Internet Bank of Indiana (the "Bank"), and the Bank's wholly-owned subsidiary, JKH Realty Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Earnings Per Share

Earnings per share of common stock are based on the weighted-average number of basic shares and dilutive shares outstanding during the period.

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015	2014
Basic earnings per share		
Net income available to common shareholders	$2,063	$600
Weighted-average common shares	4,516,776	4,494,670
Basic earnings per common share	$0.46	$0.13
Diluted earnings per share		
Net income applicable to diluted earnings per share	$2,063	$600
Weighted-average common shares	4,516,776	4,494,670
Dilutive effect of warrants	—	6,852
Dilutive effect of equity compensation	6,470	183
Weighted-average common and incremental shares	4,523,246	4,501,705
Diluted earnings per common share	$0.46	$0.13
Number of warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company's common stock during the period	48,750	—

Note 3: Securities

Securities at March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015 Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$28,238	$130	$(305)	$28,063
Mortgage-backed securities	112,401	966	(235)	113,132
Asset-backed securities	19,428	29	—	19,457
Other securities	3,000	24	—	3,024
Total available-for-sale	$163,067	$1,149	$(540)	$163,676

	December 31, 2014 Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Securities available-for-sale				
U.S. Government-sponsored agencies	$13,680	$129	$(257)	$13,552
Mortgage-backed securities	117,134	282	(368)	117,048
Asset-backed securities	4,913	—	(1)	4,912
Other securities	2,000	6	—	2,006
Total available-for-sale	$137,727	$417	$(626)	$137,518

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The carrying value of securities at March 31, 2015 is shown below by their contractual maturity date. Actual maturities will differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	$—	$—
One to five years	—	—
Five to ten years	10,739	10,630
After ten years	17,499	17,433
	28,238	28,063
Mortgage-backed securities	112,401	113,132
Asset-backed securities	19,428	19,457
Other securities	3,000	3,024
Totals	$163,067	$163,676

Gross gains of $0 and $1.4 million, and gross losses of $0 and $1.0 million resulting from sales of available-for-sale securities were realized for the three months ended March 31, 2015 and 2014, respectively.

Certain investments in debt securities are reported in the condensed consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at March 31, 2015 and December 31, 2014 was $49.7 million and $86.9 million, which is approximately 30% and 63%, respectively, of the Company's available-for-sale investment portfolio. These declines primarily resulted from fluctuations in market interest rates after purchase.

Except as discussed below, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment ("OTTI") is identified.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2015 and December 31, 2014:

	March 31, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale						
U.S. Government-sponsored agencies	$15,621	$(109)	$8,582	$(196)	$24,203	$(305)
Mortgage-backed securities	4,772	(7)	20,719	(228)	25,491	(235)
	$20,393	$(116)	$29,301	$(424)	$49,694	$(540)

	December 31, 2014					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale						

U.S. Government-sponsored agencies	$801	$(10)	$8,719	$(247)	$9,520	$(257)
Mortgage-backed securities	51,204	(57)	21,237	(311)	72,441	(368)
Asset-backed securities	4,912	(1)	—	—	4,912	(1)
	$56,917	$(68)	$29,956	$(558)	$86,873	$(626)

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U. S. Government-Sponsored Agencies

The unrealized losses on the Company's investments in securities issued by U.S. Government-sponsored agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2015.

Mortgage-Backed Securities

The unrealized losses on the Company's investments in mortgage-backed securities were caused by interest rate changes. The Company expects to recover the amortized cost bases over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2015.

For identified mortgage-backed securities in the investment portfolio, an extensive, quarterly review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other-than-temporary. The most significant inputs are voluntary prepayment rates, default rates, liquidation rates, and loss severity.

To determine if the unrealized loss for mortgage-backed securities is other-than-temporary, the Company projects total estimated defaults of the underlying assets (mortgages) and multiplies that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected collateral loss. The Company also evaluates the current credit enhancement underlying the security to determine the impact on cash flows. If the Company determines that a given mortgage-backed security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

Credit Losses Recognized on Investments

Certain debt securities have experienced fair value deterioration due to credit losses and other market factors, but are not considered other-than-temporarily impaired.

The following tables provide information about debt securities for which only a credit loss was recognized in income and other losses are recorded in accumulated other comprehensive loss. The Company did not own any OTTI securities during the three months ended March 31, 2015.

	Accumulated Credit Losses	
Credit losses on debt securities held		
January 1, 2014	$1,183	
Realized losses related to OTTI	(33	)
March 31, 2014	$1,150	

There were no amounts reclassified from accumulated other comprehensive income during the three months ended March 31, 2015. Amounts reclassified from accumulated other comprehensive loss and the affected line items in the condensed consolidated statements of income during the three months ended March 31, 2014, were as follows:

Details About Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss for the	Affected Line Item in the Statements of Income

	Three Months Ended March 31, 2014	
Unrealized gains and losses on securities available for sale		
Gain realized in earnings	$359	Gain on sale of securities
Total reclassified amount before tax	359	Income Before Income Taxes
Tax expense	126	Income Tax Provision
Total reclassifications out of accumulated other comprehensive loss	$233	Net Income

Note 4: Loans Receivable

Loans that management intends to hold until maturity are reported at their outstanding principal balance adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

For loans recorded at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

Categories of loans include:

	March 31, 2015	December 31, 2014
Commercial loans		
Commercial and industrial	$83,849	$77,232
Owner-occupied commercial real estate	38,536	34,295
Investor commercial real estate	18,491	22,069
Construction	26,847	24,883
Single tenant lease financing	227,229	192,608
Total commercial loans	394,952	351,087
Consumer loans		
Residential mortgage	215,910	220,612
Home equity	54,838	58,434
Other consumer	97,192	97,094
Total consumer loans	367,940	376,140
Total loans	762,892	727,227
Deferred loan origination costs and premiums and discounts on purchased loans	4,790	5,199
Allowance for loan losses	(6,378)	(5,800)
Net loans receivable	$761,304	$726,626

The risk characteristics of each loan portfolio segment are as follows:

Commercial and Industrial: Commercial and industrial loans' source of repayment are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Loans are made for working capital, equipment purchases, or other purposes. Most commercial and industrial loans are secured by the assets being financed and may incorporate a personal guarantee.

Owner-occupied Commercial Real Estate: The primary source of repayment is the cash flow from the ongoing operations and activities conducted by the borrower, or an affiliate of the borrower, who owns the property. This portfolio is diverse in terms of property type and geographic location and often times are secured by recreational facilities, retail establishments and office buildings.

Investor Commercial Real Estate: These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. These loans may also incorporate a personal guarantee. This portfolio typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Investor commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s investor commercial real estate portfolio are diverse in terms of property type and geographic location. Management monitors and evaluates commercial real estate loans based on property financial performance, collateral value, and other risk grade criteria. As a general rule, the Company avoids financing special use projects or properties outside of its designated market areas (Central Indiana and Phoenix, Arizona, as well as markets adjacent to these area) unless other underwriting factors are present to help mitigate risk.

Construction: Construction loans are secured by real estate made to finance land development in preparation to erecting new structures or the on-site construction of industrial, commercial or residential. These loans are typically made for vacant land, as well as the acquisition and improvement of developed and undeveloped property. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value.
Single Tenant Lease Financing: These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Unlike the owner-occupied and investor commercial real estate loan portfolios, these loans are financed for properties supporting the operations and activities of an individual business with strong creditworthiness and are typically nationally branded. Similar to the other loan portfolios, management monitors and evaluates these loans based on property financial performance, collateral value, and other risk grade criteria.

Residential Mortgage: With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the financial circumstances of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers in geographically diverse locations throughout the country.
Home Equity: Home equity loans and lines of credit are typically secured by a subordinate interest in 1-4 family residences. The properties securing the Company's home equity portfolio are generally geographically diverse as the Company offers these products on a nationwide basis. Repayment of home equity loans and lines of credit may be impacted by changes in property values on residential properties and unemployment levels, among other economic conditions and financial circumstances in the market.
Other Consumer: These loans primarily consist of consumer loans and credit cards. Consumer loans may be secured by consumer assets such as horse trailers or recreational vehicles. Some consumer loans are unsecured, such as small installment loans and certain lines of credit. Repayment of consumer loans is primarily dependent upon the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers in geographically diverse locations throughout the country.
Allowance for Loan Losses Methodology

Company policy is designed to ensure that an adequate allowance for loan losses (“ALLL”) is maintained. The portfolio is segmented by loan type. The required ALLL for types of performing homogeneous loans which do not have a specific reserve is determined by applying a factor based on average historical losses, adjusted for current economic factors and portfolio trends. Management believes the historical loss experience methodology is appropriate in the current economic environment as it captures loss rates that are comparable to the current period being analyzed. Management adds qualitative factors for observable trends, changes in internal practices, changes in delinquencies and impairments, and external factors. Observable factors include changes in the composition and size of portfolios, as well as loan terms or concentration levels. The Company evaluates the impact of internal changes such as management and staff experience levels or modification to loan underwriting processes. Delinquency trends are scrutinized for both volume and severity of past due, nonaccrual, or classified loans as well as any changes in the value of underlying collateral. Finally, the Company considers the effect of other external factors such as national, regional, and local economic and business conditions, as well as competitive, legal, and regulatory requirements.
Loans that are considered to be impaired are evaluated to determine the need for a specific allowance by applying at least one of three methodologies: present value of future cash flows; fair value of collateral less cost to sell; or the loan’s observable market price. All troubled debt restructurings (“TDR”) are considered impaired loans. Loans evaluated for impairment are removed from other pools to prevent double-counting.

Provision for Loan Losses

A provision for estimated losses on loans is charged to operations based upon management's evaluation of the potential losses. Such an evaluation, which includes a review of all loans for which full collectability may not be reasonably assured considers, among other factors, the estimated net realizable value of the underlying collateral, economic conditions, loan loss experience, and other factors that are particularly susceptible to changes that could result in a material adjustment in the near term. While management attempts to use the best information available in making its evaluations, future allowance adjustments may be necessary if economic conditions change substantially from the assumptions used in making the evaluations.

Accounting Standards Codification ("ASC") Topic 310, Receivables, requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loans' effective interest rates or the fair value of the underlying collateral less costs to sell and allows existing methods for recognizing interest income.

Policy for Charging Off Loans

The Company's policy is to charge off a loan at any point in time when it no longer can be considered a bankable asset, meaning collectible within the parameters of policy. A secured loan is generally charged down to the estimated fair value of the collateral, less costs to sell, no later than when it is 120 days past due as to principal or interest. An unsecured loan generally is charged off no later than when it is 180 days past due as to principal or interest.

The following tables present changes in the balance of the ALLL during the three month periods ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015								
	Commercial and industrial	Owner-occupied commercial real estate	Investor commercial real estate	Construction	Single tenant lease financing	Residential mortgage	Home equity	Other consumer	Total
Allowance for loan losses:									
Balance, beginning of period	$920	$ 345	$261	$330	$2,061	$985	$207	$691	$5,800
Provision (credit) charged to expense	90	46	(43)	29	391	(194)	(4)	127	442
Losses charged off	—	—	—	—	—	(71)	—	(157)	(228)
Recoveries	—	—	—	—	—	268	—	96	364
Balance, end of period	$1,010	$ 391	$218	$359	$2,452	$988	$203	$757	$6,378

	Three Months Ended March 31, 2014								
	Commercial and industrial	Owner-occupied commercial real estate	Investor commercial real estate	Construction	Single tenant lease financing	Residential mortgage	Home equity	Other consumer	Total
Allowance for loan losses:									
Balance, beginning of period	$819	$ 290	$219	$277	$1,731	$1,008	$211	$871	$5,426
	52	15	12	15	137	(40)	(26)	(18)	147

Provision (credit) charged to expense									
Losses charged off	—	—	—	—	—	(122)	—	(169)	(291)
Recoveries	—	—	—	—	—	13	—	93	106
Balance, end of period	$871	$ 305	$231	$292	$1,868	$859	$185	$777	$5,388

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The following tables present the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2015, and December 31, 2014:

	March 31, 2015								
	Commercial and industrial	Owner-occupied commercial real estate	Investor commercial real estate	Construction	Single tenant lease financing	Residential mortgage	Home equity	Other consumer	Total
Loans:									
Ending balance: collectively evaluated for impairment	$83,849	$ 38,536	$18,408	$26,847	$227,229	$214,852	$54,838	$97,041	$761,600
Ending balance: individually evaluated for impairment	—	—	83	—	—	1,058	—	151	1,292
Ending balance	$83,849	$ 38,536	$18,491	$26,847	$227,229	$215,910	$54,838	$97,192	$762,892
Allowance for loan losses:									
Ending balance: collectively evaluated for impairment	$1,010	$ 391	$218	$359	$2,452	$988	$203	$738	$6,359
Ending balance: individually evaluated for impairment	—	—	—	—	—	—	—	19	19
Ending balance									