NORWOOD FINANCIAL CORP
Form 10-Q
November 07, 2014

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

FORM 10-Q

(Mark One)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

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

For the quarterly period _______________ to ___________________

Commission file number 0-28366

Norwood Financial Corp.
(Exact name of Registrant as specified in its charter)

Pennsylvania	23-2828306
(State or other jurisdiction of Incorporation or organization)	(I.R.S. employer identification no.)
717 Main Street, Honesdale, Pennsylvania	18431
(Address of principal executive offices)	(Zip Code)

(570) 253-1455
(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 (x) whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 [X] No [ ]

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

Large accelerated filer[ ]   Accelerated filer [X]
Non-accelerated filer [ ]   Smaller reporting company [ ]

(Do not check if a 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 [X] No

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

Class	Outstanding as of November 3, 2014
Common stock, par value $0.10 per share	3,645,699

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NORWOOD FINANCIAL CORP.

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NORWOOD FINANCIAL CORP.
Consolidated Balance Sheets (unaudited)
(dollars in thousands, except share and per share data)

	September 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 13,105	$ 7,528
Interest bearing deposits with banks	158	335
Cash and cash equivalents	13,263	7,863
Securities available for sale, at fair value	158,701	158,132
Securities held to maturity, fair value 2013: $177	-	174
Loans receivable (net of unearned income)	500,844	503,097
Less: Allowance for loan losses	5,651	5,708
Net loans receivable	495,193	497,389
Regulatory stock, at cost	3,210	2,877
Bank premises and equipment, net	6,825	7,125
Bank owned life insurance	18,143	17,790
Accrued interest receivable	2,367	2,422
Foreclosed real estate owned	4,962	1,009
Goodwill	9,715	9,715
Other intangibles	418	510
Deferred tax asset	3,691	4,819
Other assets	1,725	1,409
TOTAL ASSETS	$ 718,213	$ 711,234
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 102,343	$ 92,684
Interest-bearing	445,995	448,498
Total deposits	548,338	541,182
Short-term borrowings	44,704	49,914
Other borrowings	22,592	23,761
Accrued interest payable	975	1,022
Other liabilities	4,197	3,491
TOTAL LIABILITIES	620,806	619,370
STOCKHOLDERS' EQUITY		
Common stock, $.10 par value per share, authorized 10,000,000 shares; issued 3,708,718 shares	371	371
Surplus	35,143	35,010
Retained earnings	63,637	60,798
Treasury stock at cost: 2014: 63,019 shares, 2013: 64,628 shares	(1,673)	(1,713)

Accumulated other comprehensive loss		(71)		(2,602)
TOTAL STOCKHOLDERS' EQUITY		97,407		91,864
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	718,213	$	711,234

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Income (unaudited)
(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
INTEREST INCOME				
Loans receivable, including fees	$5,972	$6,202	$17,885	$18,557
Securities	968	939	2,981	2,685
Other	1	5	3	17
Total interest income	6,941	7,146	20,869	21,259
INTEREST EXPENSE				
Deposits	600	701	1,852	2,174
Short-term borrowings	19	17	62	44
Other borrowings	168	158	501	525
Total interest expense	787	876	2,415	2,743
NET INTEREST INCOME	6,154	6,270	18,454	18,516
PROVISION FOR LOAN LOSSES	420	400	1,260	2,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,734	5,870	17,194	16,516
OTHER INCOME				
Service charges and fees	587	614	1,746	1,834
Income from fiduciary activities	125	111	328	285
Net realized gains on sales of securities	301	198	904	590
(Losses) gains on sale of loans and servicing rights	(15)	(12)	50	(9)
Earnings and proceeds on bank owned life insurance	170	150	514	1,224
Other	94	155	241	381
Total other income	1,262	1,216	3,783	4,305
OTHER EXPENSES				
Salaries and employee benefits	2,028	2,103	6,364	6,438
Occupancy, furniture & equipment, net	505	507	1,601	1,586
Data processing related	240	221	680	673
Taxes, other than income	161	179	488	531
Professional fees	136	139	475	498
Federal Deposit Insurance Corporation insurance assessment	104	114	320	335
Foreclosed real estate owned	271	217	733	494
Other	679	693	2,068	2,052
Total other expenses	4,124	4,173	12,729	12,607
INCOME BEFORE INCOME TAXES	2,872	2,913	8,248	8,214
INCOME TAX EXPENSE	754	777	2,132	1,930
NET INCOME	$2,118	$2,136	$6,116	$6,284
BASIC EARNINGS PER SHARE	$0.58	$0.59	$1.68	$1.73

DILUTED EARNINGS PER SHARE	$0.58	$0.59	$1.68	$1.73

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Comprehensive Income (unaudited)
(dollars in thousands)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Net income	$ 2,118	$ 2,136
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized holding gains (losses)	186	(385)
Tax effect	(63)	130
Reclassification of gains recognized in net income	(301)	(198)
Tax effect	102	68
Other comprehensive loss	(76)	(385)
Comprehensive Income	$ 2,042	$ 1,751

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income	$ 6,116	$ 6,284
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized holding gains (losses)	4,742	(6,028)
Tax effect	(1,614)	2,048
Reclassification of gains recognized in net income	(904)	(590)
Tax effect	307	201
Other comprehensive income (loss)	2,531	(4,369)
Comprehensive Income	$ 8,647	$ 1,915

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Changes in Stockholders' Equity (unaudited)
Nine Months Ended September 30, 2014
(dollars in thousands, except share and per share data)

	Common Stock			Retained	Treasury Stock		Accumulated Other Comprehensive Income	
	Shares	Amount	Surplus	Earnings	Shares	Amount	(Loss)	Total
Balance December 31, 2013	3,708,718	$ 371	$ 35,010	$ 60,798	64,628	$ (1,713)	$ (2,602)	$ 91,864
Net Income				6,116				6,116
Other comprehensive income							2,531	2,531
Cash dividends declared ($.90 per share)				(3,277)				(3,277)
Acquisition of treasury stock					6,669	(179)		(179)
Stock options exercised			8		(8,278)	219		227
Tax benefit of stock options			5					5
Compensation expense related to stock options			120					120
Balance, September 30, 2014	3,708,718	$ 371	$ 35,143	$ 63,637	63,019	$ (1,673)	$ (71)	$ 97,407

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$6,116	$6,284
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,260	2,000
Depreciation	433	447
Amortization of intangible assets	92	104
Deferred income taxes	(179)	(36)
Net amortization of securities premiums and discounts	645	831
Net realized gain on sales of securities	(904)	(590)
Gain on life insurance policy	(5)	(770)
Net increase in value of life insurance	(509)	(454)
Loss on sale of bank premises and equipment and foreclosed real estate	182	290
Net gain on sale of mortgage loans	(72)	(25)
Mortgage loans originated for sale	(2,228)	(1,609)
Proceeds from sale of mortgage loans originated for sale	2,300	1,634
Compensation expense related to stock options	120	119
(Increase) decrease in accrued interest receivable and other assets	(157)	428
Increase in accrued interest payable and other liabilities	659	1,006
Net cash provided by operating activities	7,753	9,659
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Proceeds from sales	39,117	29,962
Proceeds from maturities and principal reductions on mortgage-backed securities	12,021	16,998
Purchases	(47,611)	(59,334)
Proceeds from maturities on securities held to maturity	175	-
Purchase of FHLB stock	(1,811)	-
Redemption of FHLB stock	1,478	489
Net increase in loans	(3,752)	(12,908)
Proceeds from life insurance policy	75	1,859
Purchase of bank premises and equipment	(145)	(371)
Proceeds from sale of bank premises and equipment and foreclosed real estate	547	333
Net cash provided by (used in) investing activities	94	(22,972)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	7,156	24,273
Net (decrease) increase in short-term borrowings	(5,210)	9,769
Repayments of other borrowings	(1,169)	(5,531)
Proceeds from other borrowings	-	3,000
Stock options exercised	227	320
Tax benefit of stock options exercised	5	23
Acquisition of treasury stock	(179)	(319)
Cash dividends paid	(3,277)	(3,103)

Net cash (used in) provided by financing activities	(2,447)	28,432
Increase in cash and cash equivalents	5,400	15,119
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,863	12,295
CASH AND CASH EQUIVALENTS, END OF PERIOD	$13,263	$27,414

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited) (continued)

(dollars in thousands)

	Nine Months Ended September 30, 2014	2013
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest on deposits and borrowings	$ 2,462	$ 2,910
Income taxes paid, net of refunds	2,016	1,664
Supplemental Schedule of Noncash Investing Activities		
Transfers of loans to foreclosed real estate and repossession of other assets	$ 4,670	$ 787

See accompanying notes to the unaudited consolidated financial statements.

Notes to the Unaudited Consolidated Financial Statements

1. Basis of Presentation

The unaudited consolidated financial statements include the accounts of Norwood Financial Corp. (Company) and its wholly-owned subsidiary, Wayne Bank (Bank) and the Bank's wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp., Norwood Settlement Services, LLC, and WTRO Properties, Inc. All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial statements and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The financial statements reflect, in the opinion of management, all normal, recurring adjustments necessary to present fairly the financial position and results of operations of the Company. The operating results for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or any other future interim period.

These statements should be read in conjunction with the consolidated financial statements and related notes which are incorporated by reference in the Company's Annual Report on Form 10-K for the year-ended December 31, 2013.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

The following table sets forth the weighted average shares outstanding used in the computations of basic and diluted earnings per share.

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic EPS weighted average shares outstanding	3,642	3,626	3,641	3,624
Dilutive effect of stock options	10	12	10	13
Diluted EPS weighted average shares outstanding	3,652	3,638	3,651	3,637

Stock options which had no intrinsic value, because their effect would be anti-dilutive and therefore would not be included in the diluted EPS calculation were 19,600 as of September 30, 2014 based upon the closing price of Norwood common stock of $28.60 per share on September 30, 2014. There were no anti-dilutive shares at September 30, 2013 based on Norwood's closing price of $28.95.

3. Stock-Based Compensation

The Company's shareholders approved the Norwood Financial Corp 2006 Stock Option Plan at the Annual Meeting held on April 25, 2006 and the Norwood Financial Corp 2014 Equity Incentive Plan at the Annual Meeting held on April 22, 2014. No awards were granted during the nine month period ending September 30, 2014. As of September 30, 2014, there was $37,000 of total unrecognized compensation cost related to non-vested options granted in 2013 under the 2006 Stock Option Plan, which will be fully amortized by December 31, 2014.

A summary of stock options from all plans, adjusted for stock dividends declared, is shown below.

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000)
Outstanding at January 1, 2014	219,540	$ 26.64	6.1 Yrs.	$ 147
Granted	-	-	-	-
Exercised	8,278	27.49	3.3	15
Forfeited	-	-	-	-
Outstanding at September 30, 2014	211,262	26.61	5.3	422
Exercisable at September 30, 2014	183,762	$ 26.54	4.8 Yrs.	$ 379

Intrinsic value represents the amount by which the market price of the stock on the measurement date exceeded the exercise price of the option. The stock price was $28.60 as of September 30, 2014 and $26.90 as of December 31, 2013.

4. Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (in thousands) by component net of tax for the three months and nine months ended September 30, 2014 and 2013:

	Unrealized gains (losses) on available for sale securities (a)
Balance as of December 31, 2013	$ (2,602)
Other comprehensive income before reclassification	3,128
Amount reclassified from accumulated other comprehensive income	(597)
Total other comprehensive income	2,531
Balance as of September 30, 2014	$ (71)

Unrealized gains (losses) on available for sale

	securities (a)
Balance as of December 31, 2012	$ 2,797
Other comprehensive loss before reclassification	(3,980)
Amount reclassified from accumulated other comprehensive income	(389)
Total other comprehensive loss	(4,369)
Balance as of September 30, 2013	$ (1,572)

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	Unrealized gains (losses) on available for sale securities (a)
Balance as of June 30, 2014	$ 5
Other comprehensive income before reclassification	123
Amount reclassified from accumulated other comprehensive income	(199)
Total other comprehensive loss	(76)
Balance as of September 30, 2014	$ (71)

	Unrealized gains (losses) on available for sale securities (a)
Balance as of June 30, 2013	$ (1,187)
Other comprehensive loss before reclassification	(255)
Amount reclassified from accumulated other comprehensive income	(130)
Total other comprehensive loss	(385)
Balance as of September 30, 2013	$ (1,572)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) (in thousands) for the three and nine months ended September 30, 2014 and 2013:

Details about other comprehensive income	Amount Reclassified From Accumulated Other Comprehensive Income (a)		Affected Line Item in the Statement Where Net Income is Presented
	Three months ended September 30, 2014	Three months ended September 30, 2013	
Unrealized gains on available for sale securities	$ 301	$ 198	Net realized gains on sales of securities
	(102)	(68)	Income tax expense
	$ 199	$ 130	Net of tax
	Nine months ended September 30, 2014	Nine months ended September 30, 2013	
Unrealized gains on available for sale securities	$ 904	$ 590	Net realized gains on sales of securities
	(307)	(201)	Income tax expense

$ 597	$ 389	Net of tax

(a) Amounts in parentheses indicate debits to net income

5. Off-Balance Sheet Financial Instruments and Guarantees

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments is as follows:

(in thousands)	September 30, 2014	September 30, 2013
Unfunded availability under loan commitments	$26,495	$23,223
Unfunded commitments under lines of credit	45,830	46,597
Standby letters of credit	5,688	6,991
	$78,013	$76,811

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of September 30, 2014 for guarantees under standby letters of credit issued is not material.

6. Securities

The amortized cost and fair value of securities were as follows:

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available for Sale:				
U.S. Treasury securities	$965	$-	$(2)	$963
U.S. Government agencies	27,900	3	(548)	27,355
States and political subdivisions	52,895	1,563	(159)	54,299
Corporate obligations	6,422	93	(30)	6,485
Mortgage-backed securities-government sponsored entities	70,329	139	(1,229)	69,239
Equity securities-financial services	292	68	-	360
	$158,803	$1,866	$(1,968)	$158,701

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available for Sale:				
U.S. Government agencies	$34,471	$-	$(1,058)	$33,413
States and political subdivisions	60,174	650	(1,794)	59,030
Corporate obligations	3,667	84	(40)	3,711
Mortgage-backed securities-government sponsored entities	63,467	81	(1,898)	61,650
Equity securities-financial services	293	50	(15)	328
	$162,072	$865	$(4,805)	$158,132
Held to Maturity:				
States and political subdivisions	$174	$3	$-	$177

The following tables show the Company's investments' gross unrealized losses and fair value aggregated by length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	September 30, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$963	$(2)	$-	$-	$963	$(2)
U.S. government agencies	7,291	(32)	17,902	(516)	25,193	(548)
States and political subdivisions	1,379	(2)	7,835	(157)	9,214	(159)
Corporate obligations	2,806	(13)	1,146	(17)	3,952	(30)
Mortgage-backed securities-government sponsored agencies	27,385	(180)	26,487	(1,049)	53,872	(1,229)
	$39,824	$(229)	$53,370	$(1,739)	$93,194	$(1,968)

	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$32,481	$(990)	$932	$(68)	$33,413	$(1,058)
State and political subdivisions	26,281	(1,415)	4,228	(379)	30,509	(1,794)
Corporate obligations	1,145	(40)	-	-	1,145	(40)
Mortgage-backed securities-government sponsored agencies	47,014	(1,524)	7,478	(374)	54,492	(1,898)
Equity securities - financial services	170	(15)	-	-	170	(15)
	$107,091	$(3,984)	$12,638	$(821)	$119,729	$(4,805)

At September 30, 2014, the Company has 32 debt securities in an unrealized loss position in the less than twelve months category and 60 debt securities in the twelve months or more category. In Management's opinion the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. No other-than-temporary-impairment charges were recorded in 2014. Management believes that all unrealized losses represent temporary impairment of the securities as the Company does not have the intent to sell the securities and it is more likely than not that it will not have to sell the securities before recovery of its cost basis.

The amortized cost and fair value of debt securities as of September 30, 2014 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	Available for Sale	
(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 747	$ 764
Due after one year through five years	21,635	21,490
Due after five years through ten years	22,090	21,797

Due after ten years	43,710	45,051
Mortgage-backed securities-government sponsored agencies	70,329	69,239
	$ 158,511	$ 158,341

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Gross realized gains and gross realized losses on sales of securities available for sale were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross realized gains	$301	$198	$918	$608
Gross realized losses	-	-	(14)	(18)
Net realized gain	$301	$198	$904	$590
Proceeds from sales of securities	$7,252	$14,663	$39,117	$29,962

7. Loans Receivable and Allowance for Loan Losses

Set forth below is selected data relating to the composition of the loan portfolio at the dates indicated:

Types of loans
(dollars in thousands)

	September 30, 2014		December 31, 2013	
Real Estate-Residential	$157,945	31.5 %	$158,842	31.6 %
Commercial	262,960	52.5	273,144	54.2
Construction	19,061	3.8	20,551	4.1
Commercial, financial and agricultural	41,962	8.4	35,745	7.1
Consumer loans to individuals	19,325	3.8	15,295	3.0
Total loans	501,253	100.0 %	503,577	100.0 %
Deferred fees, net	(409)		(480)	
Total loans receivable	500,844		503,097	
Allowance for loan losses	(5,651)		(5,708)	
Net loans receivable	$495,193		$497,389	

Changes in the accretable yield for purchased credit-impaired loans were as follows for the nine months ended September 30 (in thousands):

	2014	2013
Balance at beginning of period	$20	$76
Accretion	(12)	(49)
Reclassification and other	-	-
Balance at end of period	$8	$27

The following table presents additional information regarding loans acquired and accounted for in accordance with ASC 310-30 (in thousands):

	September 30, 2014	December 31, 2013
Outstanding Balance	$ 1,069	$ 1,110
Carrying Amount	$ 1,061	$ 1,090

There were no material increases or decreases in the expected cash flows of these loans between May 31, 2011 (the "acquisition date") and September 30, 2014. Adjustments to the allowance for loan losses recorded for acquired loans with specific evidence of deterioration in credit quality as of May 31, 2011 have been accounted for through the allowance for loan loss adequacy calculation. There has been no allowance for loan losses on these loans reversed. For loans that were acquired without specific evidence of deterioration in credit quality, adjustments to the allowance for loan losses have been accounted for through the allowance for loan loss adequacy calculation.

The Company maintains a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probably that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by 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 if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring ("TDR") loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

The following table shows the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated:

	Real Estate Loans					
	Residential	Commercial	Construction	Commercial Loans	Consumer Loans	Total
September 30, 2014			(In thousands)			