

Village Bank & Trust Financial Corp.
Form 10-Q
August 15, 2012

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

FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

16-1694602
(I.R.S. Employer
Identification No.)

15521 Midlothian Turnpike, Midlothian, Virginia
(Address of principal executive offices)

23113
(Zip code)

804-897-3900
(Registrant's telephone number, including area code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 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 No .

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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 <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/> (Do not check if smaller reporting company)	Smaller Reporting Company <input checked="" type="checkbox"/>

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

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

4,251,795 shares of common stock, \$4.00 par value, outstanding as of August 3, 2012

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheet
June 30, 2012 (Unaudited) and December 31, 2011

	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	\$ 23,271,435	\$ 55,557,541
Federal funds sold	3,834,563	7,228,475
Total cash and cash equivalents	27,105,998	62,786,016
Investment securities available for sale	36,696,282	30,163,292
Loans held for sale	19,729,508	16,168,405
Loans		
Outstandings	393,035,350	427,870,716
Allowance for loan losses	(14,865,722)	(16,071,424)
Deferred fees and costs	751,748	767,775
	378,921,376	412,567,067
Premises and equipment, net	26,286,493	26,826,524
Accrued interest receivable	1,910,147	2,046,524
Bank owned life insurance	6,159,335	6,065,305
Other real estate owned	17,677,080	9,177,167
Restricted equity securities	2,767,886	2,989,286
Other assets	7,208,307	12,914,733
	\$ 524,462,412	\$ 581,704,319
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$ 64,348,408	\$ 66,534,956
Interest bearing	386,071,500	418,986,096
Total deposits	450,419,908	485,521,052
Federal Home Loan Bank advances	29,000,000	37,750,000
Long-term debt - trust preferred securities	8,764,000	8,764,000
Other borrowings	5,062,344	5,778,661
Accrued interest payable	703,817	592,283
Other liabilities	5,458,402	7,050,681
Total liabilities	499,408,471	545,456,677
Stockholders' equity		
Preferred stock, \$4 par value, \$1,000 liquidation preference	58,952	58,952
1,000,000 shares authorized, 14,738 shares issued and outstanding		

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Common stock, \$4 par value - 10,000,000 shares
issued and outstanding

4,251,795 shares issued and outstanding at June
30, 2012

4,243,378 shares issued and outstanding at
December 31, 2011

Additional paid-in capital

Retained earnings (deficit)

Preferred stock warrant

Discount on preferred stock

Accumulated other comprehensive income (loss)

Total stockholders' equity

17,007,180

40,704,021

(33,438,097)

732,479

(272,921)

262,327

25,053,941

16,973,512

40,732,178

(21,895,557)

732,479

(346,473)

(7,449)

36,247,642

\$ 524,462,412

\$ 581,704,319

See accompanying notes to consolidated financial
statements

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Village Bank and Trust Financial Corp. and Subsidiary
 Consolidated Statements of Operations
 Three and Six Months Ended June 30, 2012 and 2011
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income				
Loans	\$5,614,263	\$6,767,421	\$11,513,471	\$13,808,189
Investment securities	215,196	352,798	365,545	653,124
Federal funds sold	11,621	20,481	32,553	38,804
Total interest income	5,841,080	7,140,700	11,911,569	14,500,117
Interest expense				
Deposits	1,245,465	1,905,320	2,604,018	3,944,196
Borrowed funds	244,135	297,158	535,121	579,849
Total interest expense	1,489,600	2,202,478	3,139,139	4,524,045
Net interest income	4,351,480	4,938,222	8,772,430	9,976,072
Provision for loan losses	6,660,000	900,000	8,395,000	1,903,000
Net interest income (loss) after provision for loan losses	(2,308,520)	4,038,222	377,430	8,073,072
Noninterest income				
Service charges and fees	540,335	498,432	1,047,978	871,382
Gain on sale of loans	2,191,229	1,636,240	3,941,892	3,008,918
Gain (loss) on sale of securities	99,470	19	263,677	63,144
Rental income	182,199	164,620	393,197	299,069
Other	121,896	106,554	211,855	201,072
Total noninterest income	3,135,129	2,405,865	5,858,599	4,443,585
Noninterest expense				
Salaries and benefits	3,305,869	3,195,283	6,404,093	6,245,399
Occupancy	579,931	518,712	1,160,800	994,448
Equipment	202,616	224,150	407,980	444,220
Supplies	105,311	109,785	197,213	225,944
Professional and outside services	733,909	523,092	1,369,291	1,089,446
Advertising and marketing	47,983	111,584	124,046	234,423
Expenses related to foreclosed real estate	677,848	361,896	1,796,623	824,212
Other operating expenses	1,027,500	1,010,448	2,030,721	1,877,307
Total noninterest expense	6,680,967	6,054,950	13,490,767	11,935,399
Net income (loss) before income taxes	(5,854,358)	389,137	(7,254,738)	581,258
Income tax expense	3,881,914	132,306	3,881,914	241,706
Net income (loss)	(9,736,272)	256,831	(11,136,652)	339,552
Preferred stock dividends and amortization of discount	185,449	220,169	405,898	438,227

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Net income (loss) available to common shareholders	\$ (9,921,721)	\$ 36,662	\$ (11,542,550)	\$ (98,675))
Earnings (loss) per share, basic	\$ (2.33) \$ 0.01	\$ (2.72) \$ (0.02)
Earnings (loss) per share, diluted	\$ (2.33) \$ 0.01	\$ (2.72) \$ (0.02)

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
Three and Six Months Ended June 30, 2012 and 2011
(Unaudited)

	For the Three Months Ended June 30,					
	Amount	2012 Tax Expense (Benefit)	Total	Amount	2011 Tax Expense (Benefit)	Total
Net Income (loss)	\$ (5,854,358)	\$ 3,881,914	\$ (9,736,272)	\$ 389,137	\$ 132,306	\$ 256,831
Other comprehensive income:						
Unrealized holding gains arising during the period	1,046,534	355,821	690,712	(692,993)	(235,618)	(457,375)
Reclassification adjustment for gains realized in income	(99,470)	(33,820)	(65,650)	(19)	(6)	(13)
Minimum pension adjustment	3,250	1,105	2,145	3,250	1,105	2,145
Total other comprehensive income	950,314	323,107	627,207	(689,762)	(234,519)	(455,243)
Total comprehensive income (loss)	\$ (4,904,044)	\$ 4,205,021	\$ (9,109,065)	\$ (300,625)	\$ (102,213)	\$ (198,412)

	For the Six Months Ended June 30,					
	2012 Amount	Tax Expense (Benefit)	Total	2011 Amount	Tax Expense (Benefit)	Total
Net Income (loss)	\$ (7,254,738)	\$ 3,881,914	\$ (11,136,652)	\$ 581,258	\$ 241,706	\$ 339,552
Other comprehensive income:						
Unrealized holding gains arising during the period	665,929	226,416	439,513	1,103,971	375,350	728,621
Reclassification adjustment for gains realized in income	(263,677)	(89,650)	(174,027)	(63,144)	(21,469)	(41,675)
Minimum pension adjustment	6,500	2,210	4,290	6,500	2,210	4,290
	408,752	138,976	269,776	1,047,327	356,091	691,236

Total other
comprehensive
income

Total
comprehensive
income (loss)

\$ (6,845,986)	\$ 4,020,890	\$ (10,866,876)	\$ 1,628,585	\$ 597,797	\$ 1,030,788
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See accompanying notes to consolidated financial statements

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Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2012 and 2011
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Warrant	Discount on Preferred Stock	Accumulated Other Comprehensive Income
Balance, December 31, 2005		7,418,472	9,191,567	585,416			
Issuance of common stock		2,829,880	4,374,314	-			
Stock based compensation		-	23,007	-			
Minimum pension adjustment (net of income taxes of \$75,112)		-	-	-			
Balance, December 31, 2011	\$ 58,952	\$ 16,973,512	\$ 40,732,178	\$ (21,895,557)	\$ 732,479	\$ (346,473)	\$ -
Amortization of preferred stock discount	-			(73,552)	-	73,552	
Preferred stock dividend	-	-		(332,336)	-	-	
Issuance of common stock	-	33,668	(33,668)	-	-	-	
Stock based compensation			5,511				
Minimum pension adjustment (net of income taxes of \$2,917)	-	-	-	-	-	-	
Net income (loss)	-	-	-	(11,136,652)	-	-	
Change in unrealized gain on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	

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Balance, June 30, 2012	\$	58,952	\$	17,007,180	\$	40,704,021	\$	(33,438,097)	\$	732,479	\$	(272,921)	\$
Balance, December 31, 2010	\$	58,952	\$	16,953,664	\$	40,633,581	\$	(9,192,552)	\$	732,479	\$	(492,456)	\$
Amortization of preferred stock discount		-						(72,806)		-		72,806	
Preferred stock dividend		-		-				(365,421)		-		-	
Issuance of common stock		-		19,848		(19,848)		-		-		-	
Stock based compensation						59,223							
Minimum pension adjustment (net of income taxes of \$2,917)		-		-		-		-		-		-	
Net income (loss)		-		-		-		339,552		-		-	
Change in unrealized gain on investment securities available-for-sale, net of reclassification and tax effect		-		-		-		-		-		-	
Balance, June 30, 2011	\$	58,952	\$	16,973,512	\$	40,672,956	\$	(9,291,227)	\$	732,479	\$	(419,650)	\$

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2012 and 2011
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income (loss)	\$ (11,136,652)	\$ 339,552
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	764,926	716,443
Deferred income taxes	(4,290,620)	(3,710,085)
Valuation allowance on deferred tax asset	6,281,101	-
Provision for loan losses	8,395,000	1,903,000
Write-down of other real estate owned	943,560	427,237
Gain on securities sold	(263,678)	(63,144)
Gain on loans sold	(3,941,892)	(3,008,918)
Loss on sale of other real estate owned	43,618	86,824
Stock compensation expense	5,511	59,223
Proceeds from sale of mortgage loans	140,739,661	114,982,327
Origination of mortgage loans for sale	(140,358,872)	(104,077,018)
Amortization of premiums and accretion of discounts on securities, net	130,888	56,757
(Increase) decrease in interest receivable	136,377	(231,244)
Increase in bank owned life insurance	(94,030)	(100,228)
Decrease in other assets	5,901,368	4,188,569
Increase in interest payable	111,534	82,335
Decrease in other liabilities	(4,021,112)	1,176,406
Net cash provided by (used in) operating activities	(653,312)	12,828,036
Cash Flows from Investing Activities		
Purchases of available for sale securities	(36,395,416)	(62,377,306)
Proceeds from the sale or calls of available for sale securities	28,804,399	803,100
Proceeds from maturities and principal payments of available for sale securities	1,593,068	62,996,221
Net decrease in loans	14,634,257	5,347,767
Proceeds from sale of other real estate owned	1,129,343	2,382,588
Purchases of premises and equipment	(224,896)	(579,743)
Net cash provided by investing activities	9,540,755	8,572,627
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	(35,101,144)	6,964,761
Net increase (decrease) in Federal Home Loan Bank Advances	(8,750,000)	10,000,000
Net increase (decrease) in other borrowings	(716,317)	1,568,180
Net cash provided by (used in) financing activities	(44,567,461)	18,532,941

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Net increase (decrease) in cash and cash equivalents		(35,680,018)		39,933,604
Cash and cash equivalents, beginning of period		62,786,016		12,012,311
Cash and cash equivalents, end of period	\$	27,105,998	\$	51,945,915
Supplemental Schedule of Non Cash Activities				
Real estate owned assets acquired in settlement of loans	\$	10,616,434	\$	2,850,739
Dividends on preferred stock accrued	\$	332,336	\$	-

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Notes to Condensed Consolidated Financial Statements
Three and Six Months Ended June 30, 2012 and 2011 (Unaudited)

Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the “Company”) is the holding company of Village Bank (the “Bank”). The consolidated financial statements include the accounts of the Company, the Bank and the Bank’s three wholly-owned subsidiaries, Village Bank Mortgage Company, Village Insurance Agency, Inc., and Village Financial Services Company. All material intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year ending December 31, 2012. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission.

Note 2 - Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of income for the period. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and the related provision.

Note 3 - Earnings (loss) per common share

The following table presents the basic and diluted earnings per share computations:

	Three Months Ended June		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator				
Net income (loss) - basic and diluted	\$(9,736,272)	\$256,831	\$(11,136,652)	\$339,552
Preferred stock dividend and accretion	185,449	220,169	405,898	438,227
Net income (loss) available to common shareholders	\$(9,921,721)	\$36,662	\$(11,542,550)	\$(98,675)
Denominator				
Weighted average shares outstanding - basic	4,250,579	4,243,378	4,250,579	4,242,665
Dilutive effect of common stock options and restricted stock awards	-	-	-	-
Weighted average shares outstanding - diluted	4,250,579	4,243,378	4,250,579	4,242,665
Earnings (loss) per share - basic and diluted				
Earnings (loss) per share - basic	\$(2.33)	\$0.01	\$(2.72)	\$(0.02)
Effect of dilutive common stock options	-	-	-	-
Earnings (loss) per share - diluted	\$(2.33)	\$0.01	\$(2.72)	\$(0.02)

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. Stock options for 261,530 shares of common stock were not included in computing diluted earnings per share for the three and six months ended June 30, 2012 because their effects were anti-dilutive. Warrants for 499,029 shares of common stock were not included in computing earnings per share in 2012 and 2011 because their effects were also anti-dilutive.

Note 4 – Investment securities available for sale

At June 30, 2012 and December 31, 2011, all of our securities were classified as available-for-sale. The following table presents the composition of our investment portfolio at the dates indicated (dollars in thousands).

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	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Yield	
June 30, 2012							
US Government Agencies							
More than ten years	\$ 15,300	\$ 18,264	\$ 472	\$ -	\$ 18,736	3.27	%
	15,300	18,264	472	-	18,736	3.27	%
Mortgage-backed securities							
One to five years	3	3	-	-	3	0.01	%
More than ten years	11,363	11,961	64	(10)	12,016	1.51	%
Total	11,366	11,964	64	(10)	12,019	1.51	%
Municipals							
Five to ten years	3,500	4,137	5	-	4,142	2.56	%
More than ten years	1,550	1,784	15	-	1,799	3.52	%
Total	5,050	5,921	20	-	5,941	2.85	%
Total investment securities	\$ 31,716	\$ 36,149	\$ 557	\$ (10)	\$ 36,696	2.63	%
December 31, 2011							
US Government Agencies							
More than ten years	\$ 2,000	\$ 2,000	\$ 1	\$ -	\$ 2,001	3.81	%
Mortgage-backed securities							
One to five years	11	11	-	-	11	0.01	%
More than ten years	19,870	20,621	220	(49)	20,792	1.83	%
Total	19,881	20,632	220	(49)	20,803	1.83	%
Other investments							
More than ten years	7,356	7,386	-	(27)	7,359	0.55	%
Total investment securities	\$ 29,237	\$ 30,018	\$ 221	\$ (76)	\$ 30,163	1.65	%

Investment securities available for sale that have an unrealized loss position at June 30, 2012 and December 31, 2011 are detailed below (dollars in thousands).

	Securities in a loss Position for less than 12 Months		Securities in a loss Position for more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2012						
Mortgage-backed securities	\$ 2,331	\$(10)	\$ 3	\$ -	\$ 2,334	\$(10)
Total	\$ 2,331	\$(10)	\$ 3	\$ -	\$ 2,334	\$(10)

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December 31, 2011

US Treasuries	\$7,358	\$(27) \$-	\$-	\$7,358	\$(27)
Mortgage-backed securities	10,221	(47) 205	(2) 10,426	(49)
Total	\$17,579	\$(74) \$205	\$(2) \$17,784	\$(76)

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Management does not believe that any individual unrealized loss as of June 30, 2012 and December 31, 2011 is other than a temporary impairment. These unrealized losses are primarily attributable to changes in interest rates. As of June 30, 2012, management does not have the intent to sell any of the securities classified as available for sale and management believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost.

Note 5 – Loans and allowance for loan losses

The following table presents the composition of our loan portfolio (excluding mortgage loans held for sale) at the dates indicated (dollars in thousands).

	June 30, 2012		December 31, 2011		
	Amount	%	Amount	%	
Construction and land development					
Residential	\$7,442	1.89	% \$7,906	1.85	%
Commercial	55,828	14.20	% 72,621	16.97	%
Total construction and land development	63,270	16.09	% 80,527	18.82	%
Commercial real estate					
Farmland	2,447	0.62	% 2,465	0.58	%
Commercial real estate - owner occupied	100,149	25.48	% 105,592	24.68	%
Commercial real estate - non-owner occupied	55,891	14.22	% 54,059	12.63	%
Multifamily	6,960	1.77	% 6,680	1.56	%
Total commercial real estate	165,447	42.09	% 168,796	39.45	%
Consumer real estate					
Home equity lines	28,365	7.22	% 30,687	7.17	%
Secured by 1-4 family residential, secured by first deeds of trust	84,775	21.58	% 93,219	21.79	%
Secured by 1-4 family residential, secured by second deeds of trust	10,095	2.57	% 12,042	2.81	%
Total consumer real estate	123,235	31.37	% 135,948	31.77	%
Commercial and industrial loans (except those secured by real estate)	37,529	9.55	% 37,734	8.82	%
Consumer and other	3,554	0.90	% 4,865	1.14	%
Total Loans	393,035	100.0	% 427,870	100.0	%
Deferred loan cost (unearned income), net	752		768		
Less: Allowance for loan losses	(14,866)		(16,071)		
	\$378,921		\$412,567		

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

- Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. 1-4 assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;
 - Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;
- Risk rated 6 loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any, and;
- Risk rated 7 loans have all the weaknesses inherent in substandard loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values,

highly questionable and improbable.

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The following tables provide information on the risk rating of loans at the dates indicated:

	June 30, 2012				Total Loans
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	
Construction and land development					
Residential	\$6,197,776	\$671,709	\$572,439	\$-	\$7,441,924
Commercial	29,535,994	1,403,600	24,388,336	500,472	55,828,402
Total construction and land development	35,733,770	2,075,309	24,960,775	500,472	63,270,326
Commercial real estate					
Farmland	1,397,310		1,049,489	-	2,446,799
Commercial real estate - owner occupied	73,149,268	11,261,166	15,480,900	257,898	100,149,232
Commercial real estate - non-owner occupied	25,607,380	11,142,004	19,141,489	-	55,890,873
Multifamily	4,702,665	1,091,058	1,166,632	-	6,960,355
Total commercial real estate	104,856,623	23,494,228	36,838,510	257,898	165,447,259
Consumer real estate					
Home equity lines	22,888,912	2,267,061	3,134,202	75,000	28,365,175
Secured by 1-4 family residential, secured by first deeds of trust	58,547,748	7,258,617	18,968,098	-	84,774,463
Secured by 1-4 family residential, secured by second deeds of trust	8,218,980	419,994	1,456,145	-	10,095,119
Total consumer real estate	89,655,640	9,945,672	23,558,445	75,000	123,234,757
Commercial and industrial loans (except those secured by real estate)	29,206,043	1,732,430	5,740,435	850,305	37,529,213
Consumer and other	3,311,242	182,600	59,953	-	3,553,795
Total Loans	\$262,763,318	\$37,430,239	\$91,158,118	\$1,683,675	\$393,035,350

December 31, 2011

	December 31, 2011				Total Loans
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	
Construction and land development					
Residential	\$4,943,061		\$2,963,404	\$-	\$7,906,465
Commercial	44,315,474	-	28,305,063	-	72,620,537
Total construction and land development	49,258,535	-	31,268,467	-	80,527,002
Commercial real estate					
Farmland	2,464,981	-	-	-	2,464,981
Commercial real estate - owner occupied	46,958,816	16,352,920	42,280,412	-	105,592,148

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Commercial real estate - non-owner occupied	37,581,904	3,036,887	13,440,358	-	54,059,149
Multifamily	5,511,882	-	1,167,446	-	6,679,328
Total commercial real estate	92,517,583	19,389,807	56,888,216	-	168,795,606
Consumer real estate					
Home equity lines	26,403,850	1,373,002	2,910,374	-	30,687,226
Secured by 1-4 family residential, secured by first deeds of trust	80,670,887	6,052,128	6,495,783	-	93,218,798
Secured by 1-4 family residential, secured by second deeds of trust	9,960,928	706,484	1,374,651	-	12,042,063
Total consumer real estate	117,035,665	8,131,614	10,780,808	-	135,948,087
Commercial and industrial loans (except those secured by real estate)	31,322,834	4,289,037	2,122,645	-	37,734,516
Consumer and other	3,508,768	384,387	972,350	-	4,865,505
Total Loans	\$293,643,385	\$32,194,845	\$102,032,486	\$-	\$427,870,716

The following table presents the aging of the recorded investment in past due loans and leases as of the dates indicated:

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June 30, 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$ 7,441,924	\$ 7,441,924	\$ -
Commercial	346,786	509,927	-	856,713	54,971,689	55,828,402	-
Total construction and land development	346,786	509,927	-	\$ 856,713	\$ 62,413,613	\$ 63,270,326	-
Commercial real estate							
Farmland	-	-	-	-	2,446,799	2,446,799	-
Commercial real estate - owner occupied	2,873,063	341,526	-	3,214,589	96,934,643	100,149,232	-
Commercial real estate - non-owner occupied	543,138	2,772,366	-	3,315,504	52,575,369	55,890,873	-
Multifamily	-	-	-	-	6,960,355	6,960,355	-
Total commercial real estate	3,416,201	3,113,892	-	6,530,093	158,917,166	165,447,259	-
Consumer real estate							
Home equity lines	516,932	427,843	-	944,775	27,420,400	28,365,175	-
Secured by 1-4 family residential, secured by first deeds of trust	1,273,713	600,391	199,380	2,073,484	82,700,979	84,774,463	199,380
Secured by 1-4 family residential, secured by second deeds	-	125,506	-	125,506	9,969,613	10,095,119	-

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of trust Total consumer real estate	1,790,645	1,153,740	199,380	3,143,765	120,090,992	123,234,757	199,380
Commercial and industrial loans (except those secured by real estate)	3,202,797	-	-	3,202,797	34,326,416	37,529,213	-
Consumer and other	57,795	6,018	-	63,813	3,489,982	3,553,795	-
Total Loans	\$ 8,814,224	\$ 4,783,577	\$ 199,380	\$ 13,797,181	\$ 379,238,169	\$ 393,035,350	\$ 199,380

December 31, 2011

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Construction and land development:							
Residential	\$ 575,200	\$ 251,799	\$ -	\$ 826,999	\$ 7,079,466	\$ 7,906,465	\$ -
Commercial	1,367,360	408,000	36,770	1,812,130	70,808,407	72,620,537	36,770
Total construction and land development	1,942,560	659,799	36,770	\$ 2,639,129	\$ 77,887,873	\$ 80,527,002	36,770
Commercial real estate:							
Farmland	-	-	-	-	2,464,981	2,464,981	-
Commercial real estate - owner occupied	598,006	36,972	-	634,978	104,957,170	105,592,148	-
Commercial real estate - non-owner occupied	55,709	673,561	-	729,270	53,329,879	54,059,149	-
Multifamily	111,571	255,196	-	366,767	6,312,561	6,679,328	-
Total commercial real estate	765,286	965,729	-	1,731,015	167,064,591	168,795,606	-

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Consumer real estate:							
Home equity lines	323,349	99,494	299,783	722,626	29,964,600	30,687,226	299,783
Secured by 1-4 family residential, secured by first deeds of trust	985,116	1,572,973	624,740	3,182,829	90,035,969	93,218,798	624,740
Secured by 1-4 family residential, secured by second deeds of trust	12,673	132,928	156,026	301,627	11,740,436	12,042,063	156,026
Total consumer real estate	1,321,138	1,805,395	1,080,549	4,207,082	131,741,005	135,948,087	1,080,549
Commercial and industrial loans (except those secured by real estate)	46,392	3,313	54,918	104,623	37,629,893	37,734,516	54,918
Consumer and other	59,697	3,176	-	62,873	4,802,632	4,865,505	-
Total Loans	\$ 4,135,073	\$ 3,437,412	\$ 1,172,237	\$ 8,744,722	\$ 419,125,994	\$ 427,870,716	\$ 1,172,237

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by

management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired then a specific reserve is established for the amount of impairment. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. June 30, 2012 and year-end impaired loans are set forth in the following table.

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		June 30, 2012	
	Recorded	Unpaid	Related
	Investment	Principal	Allowance
		Balance	
With no related allowance recorded			
Construction and land development			
Residential	\$489,503	\$978,503	\$-
Commercial	15,051,292	19,436,447	-
Total construction and land development	15,540,795	20,414,950	-
Commercial real estate			
Farmland	1,049,489	1,049,489	-
Commercial real estate - owner occupied	6,872,799	6,903,383	-
Commercial real estate - non-owner occupied	8,374,527	8,549,256	-
Multifamily	941,632	941,632	-
Total commercial real estate	17,238,447	17,443,760	-
Consumer real estate			
Home equity lines	1,725,387	1,887,187	-
Secured by 1-4 family residential, secured by first deeds of trust	10,988,639	13,033,493	-
Secured by 1-4 family residential, secured by second deeds of trust	836,754	1,012,754	-
Total consumer real estate	13,550,780	15,933,434	-
Commercial and industrial loans (except those secured by real estate)	1,071,027	1,789,527	-
Consumer and other	36,987	36,987	-
	\$47,438,036	\$55,618,658	\$-
With an allowance recorded			
Construction and land development:			
Residential	\$-	\$-	\$-
Commercial	6,509,162	8,711,930	1,133,647
Total construction and land development	6,509,162	8,711,930	1,133,647
Commercial real estate:			
Farmland	-	-	-
Commercial real estate - owner occupied	7,020,688	7,277,790	1,852,684
Commercial real estate - non-owner occupied	5,008,676	5,008,676	1,338,605
Multifamily	-	-	-
Total commercial real estate	12,029,364	12,286,466	3,191,289
Consumer real estate:			
Home equity lines	418,936	467,220	154,665
Secured by 1-4 family residential, secured by first deeds of trust	4,426,370	4,598,717	719,908
Secured by 1-4 family residential, secured by second deeds of trust	117,322	117,322	105,997
Total consumer real estate	4,962,628	5,183,259	980,570
Commercial and industrial loans (except those secured by real estate)	1,515,187	1,852,776	831,471
Consumer and other	-	-	-
	\$25,016,341	\$28,034,431	\$6,136,977
Total			
Construction and land development			
Residential	\$489,503	\$978,503	\$-

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Commercial	21,560,454	28,148,377	1,133,647
Total construction and land development	22,049,957	29,126,880	1,133,647
Commercial real estate			
Farmland	1,049,489	1,049,489	-
Commercial real estate - owner occupied	13,893,487	14,181,173	1,852,684
Commercial real estate - non-owner occupied	13,383,203	13,557,932	1,338,605
Multifamily	941,632	941,632	-
Total commercial real estate	29,267,811	29,730,226	3,191,289
Consumer real estate			
Home equity lines	2,144,323	2,354,407	154,665
Secured by 1-4 family residential, secured by first deeds of trust	15,415,009	17,632,210	719,908
Secured by 1-4 family residential, secured by second deeds of trust	954,076	1,130,076	105,997
Total consumer real estate	18,513,408	21,116,693	980,570
Commercial and industrial loans (except those secured by real estate)	2,586,214	3,642,303	831,471
Consumer and other	36,987	36,987	-
	\$72,454,377	\$83,653,089	\$6,136,977

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	December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Residential	\$624,651	\$712,243	\$-
Commercial	9,722,132	11,094,408	-
Total construction and land development	10,346,783	11,806,651	-
Commercial real estate			
Farmland	-	-	-
Commercial real estate - owner occupied	6,414,362	6,414,362	-
Commercial real estate - non-owner occupied	7,146,531	7,146,531	-
Multifamily	2,019,675	2,019,675	-
Total commercial real estate	15,580,568	15,580,568	-
Consumer real estate			
Home equity lines	702,338	702,338	-
Secured by 1-4 family residential, secured by first deeds of trust	6,319,837	6,792,837	-
Secured by 1-4 family residential, secured by second deeds of trust	336,257	336,257	-
Total consumer real estate	7,358,432	7,831,432	-
Commercial and industrial loans (except those secured by real estate)	1,194,913	1,494,913	-
Consumer and other	143,241	143,241	-
	\$34,623,937	\$36,856,805	\$-
With an allowance recorded			
Construction and land development			
Residential	\$587,235	\$587,235	\$320,250
Commercial	14,885,541	15,785,541	3,913,820
Total construction and land development	15,472,776	16,372,776	4,234,070
Commercial real estate			
Farmland	-	-	-
Commercial real estate - owner occupied	9,508,393	9,652,393	2,031,740
Commercial real estate - non-owner occupied	1,719,690	1,719,690	450,000
Multifamily	-	-	-
Total commercial real estate	11,228,083	11,372,083	2,481,740
Consumer real estate			
Home equity lines	756,892	756,892	233,606
Secured by 1-4 family residential, secured by first deeds of trust	4,224,325	4,749,325	1,007,155
Secured by 1-4 family residential, secured by second deeds of trust	167,523	167,523	119,524
Total consumer real estate	5,148,740	5,673,740	1,360,285
Commercial and industrial loans (except those secured by real estate)	818,597	818,597	452,773
Consumer and other	267,166	267,166	266,178
	\$32,935,362	\$34,504,362	\$8,795,046
Total			
Construction and land development			
Residential	\$1,211,886	\$1,299,478	\$320,250

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Commercial	24,607,673	26,879,949	3,913,820
Total construction and land development	25,819,559	28,179,427	4,234,070
Commercial real estate			
Farmland	-	-	-
Commercial real estate - owner occupied	15,922,755	16,066,755	2,031,740
Commercial real estate - non-owner occupied	8,866,221	8,866,221	450,000
Multifamily	2,019,675	2,019,675	-
Total commercial real estate	26,808,651	26,952,651	2,481,740
Consumer real estate			
Home equity lines	1,459,230	1,459,230	233,606
Secured by 1-4 family residential, secured by first deeds of trust	10,544,162	11,542,162	1,007,155
Secured by 1-4 family residential, secured by second deeds of trust	503,780	503,780	119,524
Total consumer real estate	12,507,172	13,505,172	1,360,285
Commercial and industrial loans (except those secured by real estate)	2,013,510	2,313,510	452,773
Consumer and other	410,407	410,407	266,178
	\$67,559,299	\$71,361,167	\$8,795,046

The following is a summary of average recorded investment in impaired loans with and without

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a valuation allowance and interest income recognized on those loans for the three and six months ended June 30, 2012.

	For the Three Months Ended June 30, 2012		For the Six Months Ended June 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded				
Construction and land development				
Residential	\$1,301,243	\$7,401	\$978,503	\$11,741
Commercial	17,785,898	55,716	21,838,440	181,033
Total construction and land development	19,087,141	63,117	22,816,943	192,774
Commercial real estate				
Farmland	524,745	15,405	1,049,489	15,405
Commercial real estate - owner occupied	9,571,973	73,330	9,609,792	225,959
Commercial real estate - non-owner occupied	8,599,009	110,449	9,118,068	240,093
Multifamily	777,933	27,298	942,216	27,298
Total commercial real estate	19,473,659	226,482	20,719,565	508,755
Consumer real estate				
Home equity lines	1,639,963	27,955	1,887,350	