PARKE BANCORP, INC.
Form 10-Q
August 16, 2010

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

FORM 10-Q

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

For the quarterly period ended: June 30, 2010.

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 No. 000-51338

PARKE BANCORP, INC.
(Exact name of registrant as specified in its charter)

New Jersey	65-1241959
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

601 Delsea Drive, Washington Township, New Jersey	08080
(Address of principal executive offices)	(Zip Code)

856-256-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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 [ ] No [ ]

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

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

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

As of August 13, 2010, there were issued and outstanding 4,437,827 shares of the registrant's common stock.

PARKE BANCORP, INC.

FORM 10-Q

FOR THE QUARTER ENDED June 30, 2010

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2010	December 31, 2009
	(in thousands except share data)	
ASSETS		
Cash and due from financial institutions	$ 20,201	$ 4,099
Federal funds sold and cash equivalents	105	55
Cash and cash equivalents	20,306	4,154
Investment securities available for sale, at fair value	31,406	29,420
Investment securities held to maturity (fair value of $2,551 at June 30, 2010 and $2,404 at December 31, 2009)	2,524	2,509
Total investment securities	33,930	31,929
Loans, net of unearned income	620,078	603,401
Less: Allowance for loan and lease losses	14,893	12,404
Net loans and leases	605,185	590,997
Accrued interest receivable	3,094	2,808
Premises and equipment, net	4,384	2,861
Other real estate owned (OREO)	10,383	—
Restricted stock, at cost	3,088	3,094
Bank owned life insurance (BOLI)	5,273	5,184
Other assets	13,535	13,171
Total Assets	$ 699,178	$ 654,198
LIABILITIES AND EQUITY		
Liabilities		
Deposits		
Noninterest-bearing deposits	$ 21,047	$ 21,488
Interest-bearing deposits	540,160	498,825
Total deposits	561,207	520,313
FHLB borrowings	41,832	44,428
Other borrowed funds	10,000	10,000
Subordinated debentures	13,403	13,403
Accrued interest payable	785	821
Other liabilities	4,279	3,260
Total liabilities	631,506	592,225
Equity		
Preferred stock, $1,000 liquidation value; authorized 1,000,000 shares; Issued: 16,288 shares at June 30, 2010 and December 31, 2009	15,594	15,508
Common stock, $.10 par value; authorized 10,000,000 shares; Issued: 4,648,727 shares at June 30, 2010; and 4,224,867 shares at December 31, 2009	465	421
Additional paid-in capital	41,907	37,020

Retained earnings		12,446		14,071
Accumulated other comprehensive loss		(811)		(2,867)
Treasury stock, 210,900 shares at June 30, 2010 and 191,729 shares at December 31, 2009, at cost		(2,180)		(2,180)
Total shareholders' equity		67,421		61,973
Noncontrolling (minority) interest in consolidated subsidiaries		251		—
Total equity		67,672		61,973
Total liabilities and equity	$	699,178	$	654,198

See accompanying notes to consolidated financial statements

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Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the six months ended June 30,		For the three months ended June 30,	
	2010	2009	2010	2009
Interest income:				
Interest and fees on loans	$ 19,577	$ 18,966	$ 9,927	$ 9,711
Interest and dividends on investments	863	1,014	436	496
Interest on federal funds sold and cash equivalents	—	1	—	—
Total interest income	20,440	19,981	10,363	10,207
Interest expense:				
Interest on deposits	4,866	7,566	2,362	3,547
Interest on borrowings	886	1,105	436	524
Total interest expense	5,752	8,671	2,798	4,071
Net interest income	14,688	11,310	7,565	6,136
Provision for loan losses	4,301	1,750	2,200	980
Net interest income after provision for loan losses	10,387	9,560	5,365	5,156
Noninterest income (loss)				
Loan fees	81	140	32	56
Net income from BOLI	89	89	45	45
Service fees on deposit accounts	129	90	67	44
Other than temporary impairment losses	(44)	(1,281)	—	(1,281)
Portion of loss recognized in other comprehensive income (before taxes)	26	93	—	93
Net impairment losses recognized in earnings	(18)	(1,188)	—	(1,188)
Gain (loss) on sale of real estate owned	46	(159)	46	—
Gain on sale of loans	676	—	676	—
Other	60	198	37	42
Total noninterest income (loss)	1,063	(830)	903	(1,001)
Noninterest expense				
Compensation and benefits	2,478	2,012	1,285	1,002
Professional services	581	452	321	209
Occupancy and equipment	438	438	226	190
Data processing	161	168	89	86
FDIC insurance	437	442	212	371
Loss on write down of foreclosed assets	—	54	—	20
Other operating expense	882	736	542	372
Total noninterest expense	4,977	4,302	2,675	2,250
Income before income tax expense	6,473	4,428	3,593	1,905
Income tax expense	2,621	1,720	1,470	726

Net income attributable to Company and noncontrolling (minority) interest		3,852		2,708		2,123		1,179
Net income attributable to noncontrolling (minority) interest		(55)		—		(119)		—
Net income attributable to Company		3,797		2,708		2,004		1,179
Preferred stock dividend and discount accretion		493		410		247		244
Net income available to common shareholders	$	3,304	$	2,298	$	1,757	$	935
Earnings per common share								
Basic	$	0.74	$	0.52	$	0.40	$	0.21
Diluted	$	0.74	$	0.52	$	0.39	$	0.21
Weighted average shares outstanding								
Basic		4,437,876		4,428,846		4,437,979		4,436,452
Diluted		4,493,496		4,428,846		4,516,947		4,436,452

See accompanying notes to consolidated financial statements

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Parke Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGE IN TOTAL EQUITY
(unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity	Non-Controlling (Minority) Interest	Total Equity
	(in thousands)								
Balance, December 31, 2008	$ —	$ 414	$ 35,656	$ 8,870	$ (2,791)	$ (1,848)	$ 40,301	$ —	$ 40,301
Stock warrants exercised		7	415			(332)	90		90
Stock compensation			11				11		11
Comprehensive income (loss):									
Net income				2,708			2,708		2,708
Non-credit unrealized losses on debt securities with OTTI, net of taxes					(55)		(55)		(55)
Net unrealized losses on available for sale securities without OTTI, net of taxes					(596)		(596)		(596)
Pension liability adjustments, net of tax					(18)		(18)		(18)
Total comprehensive income							2,039	—	2,039
Preferred stock issued	15,358		930				16,288		16,288
Dividend on preferred stock (5% annually)				(342)			(342)		(342)
Accretion of discount on preferred stock	68			(68)			0		0
Balance, June 30, 2009	$ 15,426	$ 421	$ 37,012	$ 11,168	$ (3,460)	$ (2,180)	$ 58,387	$ —	$ 58,387

Balance, December 31, 2009	$ 15,508	$ 421	$ 37,020	$ 14,071	$ (2,867)	$ (2,180)	$ 61,973		$ 61,973
Stock options exercised			8				8		8
Capital contribution by noncontrolling (minority) interest								196	196
10% common stock dividend		44	4,879	(4,929)			(6)		(6)
Comprehensive income (loss):									
Net income				3,797			3,797	55	3,852
Non-credit unrealized gains on debt securities with OTTI, net of taxes					47		47		47
Net unrealized gains on available for sale securities without OTTI, net of taxes					1,987		1,987		1,987
Pension liability adjustments, net of taxes					22		22		22
Total comprehensive income							5,853	55	5,908
Dividend on preferred stock (5% annually)				(407)			(407)		(407)
Accretion of discount on preferred stock	86			(86)			—		—
Balance, June 30, 2010	$ 15,594	$ 465	$ 41,907	$ 12,446	$ (811)	$ (2,180)	$ 67,421	$ 251	$ 67,672

See accompanying notes to consolidated financial statements

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Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the six months ended June 30, 2010	2009
	(in thousands)	
Cash Flows from Operating Activities		
Net income	$ 3,852	$ 2,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157	157
Provision for loan losses	4,301	1,750
Stock compensation	—	11
Bank owned life insurance	(89)	(89)
Supplemental executive retirement plan	222	118
Gain on sale of SBA loans	(676)	—
SBA loans originated for sale	(6,902)	—
Proceeds from sale of SBA loans originated for sale	7,526	—
(Gain) loss on sale of other real estate owned	(46)	159
Loss on write down of foreclosed assets	—	54
Other than temporary decline in value of investments	18	1,188
Net accretion of purchase premiums and discounts on securities	(45)	(87)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable and other assets	(649)	(2,227)
Increase (decrease) in accrued interest payable and other accrued liabilities	983	(147)
Net cash provided by operating activities	8,650	3,595
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	(1,796)	(2,309)
Redemptions of restricted stock	6	185
Principal payments on mortgage-backed securities	3.212	3,000
Proceeds from sale of other real estate owned	375	700
Net increase in loans	(30,508)	(44,846)
Purchases of bank premises and equipment	(1,680)	(110)
Net cash used in investing activities	(30,391)	(40,320)
Cash Flows from Financing Activities		
Proceeds from issuance of preferred stock	—	16,288
Payment of dividend on preferred stock	(407)	(238)
Proceeds from exercise of stock options and warrants	8	422
	(6)	—

Fractional share cash payment on 10% stock dividend				
Purchase of treasury stock		—		(332)
Net decrease in Federal Home Loan Bank short term borrowings		(2,525)		(9,500)
Payments of Federal Home Loan Bank advances		(71)		(68)
Net decrease in noninterest-bearing deposits		(441)		(2,065)
Net increase in interest-bearing deposits		41,335		31,305
Net cash provided by financing activities		37,893		35,812
Increase (decrease) in cash and cash equivalents		16,152		(913)
Cash and Cash Equivalents, January 1,		4,154		7,270
Cash and Cash Equivalents, June 30,	$	20,306	$	6,357
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the six months for:				
Interest on deposits and borrowed funds	$	5,788	$	8,945
Income taxes	$	4,150	$	3,701
Supplemental Schedule of Noncash Activities:				
Real estate acquired in settlement of loans	$	10,712	$	254

See accompanying notes to consolidated financial statements

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Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Parke Bancorp, Inc. ("Parke Bancorp" or the "Company") is a bank holding company incorporated under the laws of the State of New Jersey in January 2005 for the sole purpose of becoming the holding company of Parke Bank (the "Bank").

The Bank is a commercial bank which commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and insured by the Federal Deposit Insurance Corporation ("FDIC"). Parke Bancorp and the Bank maintain their principal offices at 601 Delsea Drive, Washington Township, New Jersey. The Bank also conducts business through branches in Northfield and Washington Township, New Jersey and Philadelphia, Pennsylvania.

The Bank competes with other banking and financial institutions in its primary market areas. Commercial banks, savings banks, savings and loan associations, credit unions and money market funds actively compete for savings and time certificates of deposit and all types of loans. Such institutions, as well as consumer financial and insurance companies, may be considered competitors of the Bank with respect to one or more of the services it renders.

The Bank is subject to regulations of certain state and federal agencies, and accordingly, the Bank is periodically examined by such regulatory authorities. As a consequence of the regulation of commercial banking activities, the Bank's business is particularly susceptible to future state and federal legislation and regulations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation: The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (GAAP) and predominant practices within the banking industry.

The financial statements include the accounts of Parke Bancorp, Inc. and its wholly owned subsidiaries, Parke Bank, Parke Capital Markets, Farm Folly LLC, 601 Sewell Walnut LLC, 601 Sewell Sturdy LLC, 601 Sewell Seafar LLC, 601 Sewell Baker LLC and Woolwich Lots LLC. Parke Capital Markets and Farm Folly LLC are presently inactive. Parke Capital Trust I, Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the consolidation requirements. Parke Bank has entered into a joint venture, 44 Capital Partners LLC, with a 51% ownership interest. The LLC was formed to originate, sell and service Small Business Administration (SBA) loans. All significant inter-company balances and transactions have been eliminated.

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in Parke Bancorp Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 since they do not include all of the information and footnotes required by U.S. generally accepted accounting principles. The accompanying interim financial statements for the three months and six months ended June 30, 2010 and 2009 are unaudited. The balance sheet as of December 31, 2009, was derived from the audited financial statements. In the opinion of management, these financial statements include all normal and recurring adjustments necessary for a fair statement of the results for such interim periods. Results of operations for the three months and six months ended June 30, 2010 are not necessarily indicative of the results for the full year.

Use of Estimates: In preparing the interim financial statements, management makes estimates and assumptions based on available information that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of expenses and revenues. Actual results could differ from such estimates. The allowance for loan losses, deferred taxes, evaluation of investment securities for other-than-temporary impairment and fair values of financial instruments are significant estimates and particularly subject to change.

Recently Issued Accounting Pronouncements:

On July 1, 2009, the Accounting Standards Codification became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles applicable to all public and non-public non-governmental entities, superseding existing FASB, AICPA, EITF and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

FASB ASC Topic 320, "Investments Debt and Equity Securities."

Effective April 1, 2009, ASC Topic 320 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security or it is not more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, ASC Topic 320 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement for debt securities. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. Accordingly, management has expanded the presentation and disclosure of OTTI of investment securities as more fully described in Note 3.

FASB ASC Topic 820, "Fair Value Measurements and Disclosures."

New authoritative accounting guidance under ASC Topic 820,"Fair Value Measurements and Disclosures," affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. ASC Topic 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. The new accounting guidance amended prior guidance to expand certain disclosure requirements. The Company adopted the new authoritative accounting guidance under ASC Topic 820 during the first quarter of 2009 and has, accordingly, expanded the fair value disclosures presented.

Further new authoritative accounting guidance (Accounting Standards Update No. 2010-6), which became effective January 1, 2010, provides amendments to ASC Topic 820 that require new disclosures as follows: 1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

The new authoritative guidance also clarifies existing disclosures as follows:

1) A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.

2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3.

These new disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009 and did not have a significant impact of the Company's consolidated financial statements. The disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. See Note 8, "Fair Value".

FASB ASC Topic 855, "Subsequent Events."

The Company adopted ASC Topic 855, "Subsequent Events", as of June 30, 2009. This new accounting guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Accordingly, Management has evaluated subsequent events after June 30, 2010 through the date the financial statements were issued and determined that no subsequent events warranted recognition in or disclosure in the interim financial statements.

FASB ASC Topic 860, "Transfers and Servicing."

New authoritative accounting guidance under ASC Topic 860, "Transfers and Servicing" amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 was effective January 1, 2010 and accordingly, impacted the manner in which the Company accounts for the sale of the guaranteed portion on SBA loans. Gains of $591,000 for the three months ended June 30, 2010 were deferred to the third quarter as a result of this new guidance.

FASB ASC Topic 310, “Receivables.”

New authoritative accounting guidance (Accounting Standards Update No. 2010-20) under ASC Topic 310, "Receivables", amends the current disclosures required by ASC Topic 310. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company is currently evaluating this new disclosure guidance, but does not expect it to have any effect on the Company's reported financial condition or results of operations.

NOTE 3. INVESTMENT IN DEBT AND MARKETABLE EQUITY SECURITIES

The following is a summary of the Company's investment in available-for-sale and held-to-maturity securities as of June 30, 2010 and December 31, 2009:

As of June 30, 2010	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in OCI	Fair value
		(amounts in thousands)			
Available-for-sale:					
U.S. Government sponsored entities	$ 4,263	$ 39	$ —	$ —	$ 4,302
Corporate debt obligations	2,000	36	68	—	1,968
Residential mortgage-backed securities	16,443	974	—	—	17,417
Collateralized mortgage obligations	4,119	104	16	110	4,097
Collateralized debt obligations	5,562	—	1,375	565	3,622
Total available-for-sale	$ 32,387	$ 1,153	$ 1,459	$ 675	$ 31,406
Held to maturity:					
States and political subdivisions	$ 2,524	$ 27	$ —	$ —	$ 2,551

As of December 31, 2009	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in OCI	Fair value
		(amounts in thousands)			
Available-for-sale:					
U.S. Government sponsored entities	$ 3,273	$ —	$ 41	$ —	$ 3,232
Corporate debt obligations	2,000	17	47	—	1,970
Residential mortgage-backed securities	19,098	679	79	—	19,698
Collateralized mortgage obligations	3,859	68	50	68	3,809
Collateralized debt obligations	5,562	—	4,166	685	711
Total available-for-sale	$ 33,792	$ 764	$ 4,383	$ 753	$ 29,420
Held to maturity:					
States and political subdivisions	$ 2,509	$ 10	$ 115	$ —	$ 2,404

The Company's unrealized loss on investments in collateralized debt obligations (CDOs) relates to four securities issued by financial institutions, totaling $5.6 million. The unrealized loss decreased from $4.2 million at December 31, 2009 to $1.4 million at June 30, 2010. In the first quarter of 2010, the Company engaged an independent third party valuation firm to assess three of its pooled trust preferred collateralized debt obligations for other than temporary impairment ("OTTI"). The OTTI analysis is based on a best estimate of cash flows, including potential credit losses and prepayments, discounted at

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the securities' effective yields. The valuation firm also discounts the best estimate cash flows using a discount rate derived through the build-up method to estimate fair value. The fair value discount rate is based on the appropriate risk free rate, given the estimated duration of the security, plus a spread for liquidity under normal market conditions, plus a spread to account for the uncertainty of the cash flows. Prior to the first quarter, the Company had relied on a pricing service that utilized a matrix pricing approach to estimate fair value. The Company believes that a fair value derived from best estimate cash flows represents a better estimate of the fair values of the securities.

The amortized cost and fair value of debt securities classified as available-for-sale and held-to-maturity, by contractual maturity, as of June 30, 2010 are as follows:

	Amortized Cost	Fair Value
	(in thousands)	
Available-for-sale:		
Due within one year	$ —	$ —
Due after one year through three years	—	—
Due after three years through five years	4,257	4,295
Due after five years	7,568	5,597
Residential mortgage-backed securities and collateralized mortgage obligations	20,562	21,514
Total available-for-sale	$ 32,387	$ 31,406
Held-to-maturity:		
Due within one year	$ 540	$ 541
Due after one year through three years	—	—
Due after three years through five years	—	—
Due after five years	1,984	2,010
Total held-to-maturity	$ 2,524	$ 2,551

Expected maturities will differ from contractual maturities for mortgage related securities because the issuers of certain debt securities do have the right to call or prepay their obligations without any penalties.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2010 and December 31, 2009:

As of June 30, 2010	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(amounts in thousands)			
Available-for-sale:						
U.S. Government sponsored entities	$ —	$ —	$ —	$ —	$ —	$ —
Corporate debt obligations	—	—	932	68	932	68
Residential mortgage-backed securities and collateralized mortgage obligations	1,707	16	—	—	1,707	16
Collateralized debt obligations	—	—	3,375	1,375	3,375	1,375
Total available-for-sale	$ 1,707	$ 16	$ 4,307	$ 1,443	$ 6,014	$ 1,459
Held-to-maturity:						
States and political subdivisions	$ —	$ —	$ —	$ —	$ —	$ —

As of December 31, 2009	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(amounts in thousands)			
Available-for-sale:						
U.S. Government sponsored entities	$ 3,225	$ 41	$ —	$ —	$ 3,225	$ 41
Corporate debt obligations	—	—	653	47	653	47
Residential mortgage-backed securities and collateralized mortgage obligations	6,289	129	—	—	6,289	129
Collateralized debt obligations	—	—	585	4,166	585	4,166
Total available-for-sale	$ 9,514	$ 170	$ 1,238	$ 4,213	$ 10,752	$ 4,383
Held-to-maturity:						
States and political subdivisions	$ —	$ —	$ 610	$ 115	$ 610	$ 115

U.S. Government Sponsored Entities: The unrealized losses on the Company's one investment in U.S. Government sponsored entities were caused by movement in interest rates. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell this investments before recovery of its amortized cost basis, which may be maturity, it does not consider the investment to be other-than-temporarily impaired at December 31, 2009.

Corporate Debt Obligations: The Company's unrealized loss on investments in corporate bonds relates to two trust preferred securities (TruPS) issued by financial institutions, totaling $1.0 million. The unrealized loss was primarily caused by an illiquid market for this sector of security. All two issues have been rated A or above by Moody's. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment to be other-than-temporarily impaired at June 30, 2010 or December 31, 2009.

Residential Mortgage-Backed Securities and Collateralized Mortgage Obligations: The unrealized losses on the Company's investment in mortgage-backed securities were caused by movement in interest rates. The security was issued by GNMA, a government agency. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in this security to be other-than-temporarily impaired at June 30, 2010 or December 31, 2009.

Collateralized Debt Obligations: CDOs are pooled securities primarily secured by trust preferred securities (TruPS), subordinated debt and surplus notes issued by small and mid-sized banks and insurance companies. These securities are generally floating rate instruments with 30-year maturities, and are callable at par by the issuer after five years. The current economic downturn has had a significant adverse impact on the financial services industry, consequently, TruPS CDOs do not have an active trading market. With the assistance of a competent third-party valuation specialist, the Company utilized the following methodology to determine the fair value:

Cash flows were developed based on the estimated speeds at which the trust preferred securities are expected to prepay, the estimated rates at which the trust preferred securities are expected to defer payments, the estimated rates at which the trust preferred securities are expected to default, and the severity of the losses on securities which default. Trust preferred securities generally allow for prepayment by the issuer without a prepayment penalty any time after five years. Due to the lack of new trust preferred issuances and the relatively poor conditions of the financial institution industry, a relatively modest rate of prepayment was assumed going forward. Estimates for conditional default rates are based on the payment characteristics of the trust preferred securities themselves (e.g. current, deferred, or defaulted) as well as the financial condition of the trust preferred issuers in the pool. Estimates for the near-term rates of deferral and CDR are based on key financial ratios relating to the financial institutions' capitalization, asset quality, profitability and liquidity. Finally, we consider whether or not the financial institution has received TARP funding, and if it has, the amount. Longer-term rates of deferral and defaults are based on historical averages. The estimated cash flows were than discounted. The fair value of each bond was assessed by discounting their projected cash flows by a discount rate ranging from 10% to 20%. The discount rates were based on the yields of publicly traded TruPS and preferred stock issued by comparably rated banks. The fair value for previous reporting periods was based on indicative market bids and resulted in much lower values due to the inactive trading market.

The underlying issuers have been analyzed, and projections have been made regarding the future performance, considering factors including defaults and interest deferrals. The analysis indicates that the Company should expect to receive all contractual cash flows. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the

investments before recovery of its amortized cost basis, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at June 30, 2010 or December 31, 2009.

Other-Than-Temporarily Impaired Debt Securities

We assess whether we intend to sell or it is more likely than not that we will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income.

The present value of expected future cash flows is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. The asset-backed securities cash flow estimates are based on bond specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate bond cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using bond specific facts and circumstances including timing, security interest and loss severity.

We have a process in place to identify debt securities that could potentially have a credit impairment that is other than temporary. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues. On a quarterly basis, we review all securities to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events and (4) for fixed maturity securities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value.

The following table presents a roll-forward of the credit loss component of the amortized cost of debt securities that we have written down for OTTI and the credit component of the loss that is recognized in earnings. OTTI recognized in earnings subsequent to adoption in 2009 for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows for the six month and three month periods ended June 30, 2010 and 2009.

	For the Six Months Ended June 30,			
	2010		2009	
	(in thousands)			
Beginning balance	$	4,008		2,279
Initial credit impairment		—	$	565
Subsequent credit impairments		18		623
Reductions for amounts recognized in earnings due to intent or requirement to sell		—		—
Reductions for securities deemed worthless		1,218		—
Reductions for increases in cash flows expected to be collected		—		—
Ending balance	$	2,808	$	3,467

	For the Three Months Ended June 30,			
	2010		2009	
	(in thousands)			
Beginning balance	$	2,957		2,279
Initial credit impairment		—	$	565
Subsequent credit impairments		—		623
Reductions for amounts recognized in earnings due to intent or requirement to sell		—		—
Reductions for securities deemed worthless		149		—
Reductions for increases in cash flows expected to be collected		—		—
Ending balance	$	2,808	$	3,467

A summary of investment gains and losses recognized in income during the six months ended June 30, 2010 and 2009 are as follows:

	For the Six Months Ended June 30,			
	2010		2009	
	(in thousands)			
Available-for-sale securities:				
Realized gains	$	—	$	—
Realized (losses)		—		—
Other than temporary impairment		(18)		(1,188)
Total available-for-sale securities	$	(18)	$	(1,188)
Held-to-maturity securities:				
Realized gains	$	—	$	—
Realized (losses)		—		—
Other than temporary impairment		—		—
Total held-to-maturity securities	$	0	$	0

	For the Three Months Ended June 30,			
	2010		2009	
	(in thousands)			
Available-for-sale securities:				
Realized gains	$	—	$	—
Realized (losses)		—		—
Other than temporary impairment		—		(1,188)
Total available-for-sale securities	$	0	$	(1,188)
Held-to-maturity securities:				
Realized gains	$	—	$	—
Realized (losses)		—		—
Other than temporary impairment		—		—
Total held-to-maturity securities	$	0	$	0

During the first six months of 2010, the Company recognized $44,000 of other-than-temporary impairment losses on available-for-sale securities, attributable to impairment charges recognized on a privately issued CMO.

The impairment charges for the CMOs was recognized in light of significant deterioration of housing values in the residential real estate market, the significant rise in delinquencies and charge-offs of underlying mortgage loans and resulting decline in market value of the securities.

With the assistance of competent third-party valuation specialist, the Company utilized the following methodologies to quantify the other-than-temporary-impairment. The underlying mortgage collateral was analyzed in order to project future cash flows and to calculate the credit component of the OTTI. Four major assumptions were utilized; prepayment (CPR), constant default rate (CDR), loss severity and risk adjusted discount rate. The methodologies for the four assumptions are:

CPR assumptions were based on an evaluation of the lifetime conditional prepayment rates; 3 month CPR over the most recent period, past 6 months and past 12 months; estimated prepayment rates provided by the Securities Industry & Financial Markets Association (SIFMA), forecasts from other industry experts, and judgment given the recent deterioration in credit conditions and declines in property values

CDR estimates were based on the status of the loans – current, 30-59 days delinquent, 60-89 days delinquent, 90+ days delinquent, foreclosure or REO – and proprietary loss migration models (i.e. percentage of 30 day delinquents that will ultimately migrate to default, percentage of 60 day delinquents that will ultimately migrate to default, etc.). The model assumes that the 60 day plus population will move to repossession inventory subject to the loss migration assumptions and liquidate over the next 36 months. Defaults vector from month 37 to month 48 to the month 49 CDR value and ultimately vector to zero over an extended period of time of at least 15 years.

Loss severity estimates are based on the initial loan to value ratio, the loan's lien position, private mortgage insurance proceeds available (if any), and the estimated change in the price of the property since origination. The loss severity assumption is static for twelve months then decreases monthly based on future market appreciation. Our annual market appreciation assumption is 3.5% after 12 months. Our loss severity is subject to a floor value of 23.0%.

The risk adjusted discount rate was derived based on the spread from the most recent active market indication for either the instrument in question or a proxy of the instrument. The resulting spread was then used in conjunction with the swap curve to discount the expected cash flow stream.

NOTE 4. LOANS

The portfolio of the loans outstanding consists of:

	June 30, 2010		December 31, 2009	
	Amount	Percentage of Gross Loans	Amount	Percentage of Gross Loans
	(amounts in thousands)			
Commercial	$ 19,510	3.1%	$ 20,174	3.3%
Real estate construction:				
Residential	67,652	10.9	89,006	14.8
Commercial	31,308	5.0	27,327	4.5
Real estate mortgage:				
Residential	160,917	26.0		