

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

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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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Village Bank and Trust Financial Corp.  
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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
<b>Assets</b>		
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
<b>Loans</b>		
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
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
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
<b>Stockholders' equity</b>		
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
<b>Cash Flows from Operating Activities</b>		
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
<b>Cash Flows from Investing Activities</b>		
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
<b>Cash Flows from Financing Activities</b>		
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
<b>Supplemental Schedule of Non Cash Activities</b>				
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	-	