

Village Bank & Trust Financial Corp.
Form 10-Q
November 13, 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 September 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

Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company)

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

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 November 3, 2012

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

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

	September 30, 2012	December 31, 2011
Assets		
Cash and due from banks	\$26,064,313	\$55,557,541
Federal funds sold	154,012	7,228,475
Total cash and cash equivalents	26,218,325	62,786,016
Investment securities available for sale	33,415,951	30,163,292
Loans held for sale	22,526,733	16,168,405
Loans		
Outstandings	374,350,768	427,870,716
Allowance for loan losses	(12,055,844)	(16,071,424)
Deferred fees and costs	776,064	767,775
	363,070,988	412,567,067
Premises and equipment, net	26,071,219	26,826,524
Accrued interest receivable	1,800,872	2,046,524
Bank owned life insurance	6,525,838	6,065,305
Other real estate owned	20,575,964	9,177,167
Restricted equity securities	2,511,786	2,989,286
Other assets	5,582,300	12,914,733
	\$508,299,976	\$581,704,319
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$58,469,352	\$66,534,956
Interest bearing	376,672,785	418,986,096
	435,142,137	485,521,052
Federal Home Loan Bank advances	28,000,000	37,750,000
Long-term debt - trust preferred securities	8,764,000	8,764,000
Other borrowings	5,351,393	5,778,661
Accrued interest payable	816,390	592,283
Other liabilities	6,128,731	7,050,681
Total liabilities	484,202,651	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 September 30, 2012		
4,243,378 shares issued and outstanding at December 31, 2011	17,007,180	16,973,512
Additional paid-in capital	40,705,016	40,732,178
Retained earnings (deficit)	(34,026,317)	(21,895,557)
Preferred stock warrant	732,479	732,479
Discount on preferred stock	(236,004)	(346,473)
Accumulated other comprehensive income (loss)	(143,981)	(7,449)
Total stockholders' equity	24,097,325	36,247,642
	\$508,299,976	\$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 Nine Months Ended September 30, 2012 and 2011
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest income				
Loans	\$5,488,927	\$6,586,170	\$17,002,398	\$20,394,359
Investment securities	166,684	356,893	532,229	1,010,017
Federal funds sold	11,570	19,464	44,123	58,268
Total interest income	5,667,181	6,962,527	17,578,750	21,462,644
Interest expense				
Deposits	1,187,060	1,693,205	3,791,427	5,638,873
Borrowed funds	263,747	305,307	798,868	885,156
Total interest expense	1,450,807	1,998,512	4,590,295	6,524,029
Net interest income	4,216,374	4,964,015	12,988,455	14,938,615
Provision for loan losses	700,000	9,507,884	9,095,000	11,410,884
Net interest income after provision for loan losses	3,516,374	(4,543,869)	3,893,455	3,527,731
Noninterest income				
Service charges and fees	604,377	495,165	1,652,355	1,366,547
Gain on sale of loans	2,394,138	1,724,730	6,336,030	4,733,648
Gain (loss) on sale of securities	556,805	108,473	820,482	171,617
Rental income	187,839	168,311	557,920	484,540
Other	285,723	100,804	497,927	303,348
Total noninterest income	4,028,882	2,597,483	9,864,714	7,059,700
Noninterest expense				
Salaries and benefits	3,484,073	3,060,285	9,888,166	9,305,684
Occupancy	513,278	540,929	1,579,976	1,552,537
Equipment	231,556	224,334	710,522	668,554
Supplies	125,514	98,621	322,727	324,565
Professional and outside services	708,554	599,893	2,077,845	1,689,339
Advertising and marketing	48,362	84,740	172,408	319,163
Expenses related to foreclosed real estate	1,724,348	387,666	3,520,971	1,211,878
Other operating expenses	915,333	973,426	2,946,054	2,850,734
Total noninterest expense	7,751,018	5,969,894	21,218,669	17,922,454
Net loss before income taxes	(205,762)	(7,916,280)	(7,460,500)	(7,335,023)
Income tax expense (benefit)	161,315	(2,671,535)	4,043,229	(2,429,829)
Net income (loss)	(367,077)	(5,244,745)	(11,503,729)	(4,905,194)

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Preferred stock dividends and amortization of discount	221,142	222,281	627,031	660,508
Net loss available to common shareholders	\$(588,219)	\$(5,467,026)	\$(12,130,760)	\$(5,565,702)
Earnings (loss) per share, basic	\$(0.14)	\$(1.29)	\$(2.85)	\$(1.31)
Earnings (loss) per share, diluted	\$(0.14)	\$(1.29)	\$(2.85)	\$(1.31)

See accompanying notes to consolidated financial statements

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

	For the Three Months Ended September 30,					
	Amount	2012		Amount	2011	
Expense (Benefit)		Total	Expense (Benefit)		Total	
Net income (loss)	\$ (205,762)	\$ 161,315	\$ (367,077)	\$ (7,916,280)	\$ (2,671,535)	\$ (5,244,745)
Other comprehensive income (loss)						
Unrealized holding gains (losses) arising during the period	(62,063)	(21,101)	(40,962)	640,049	217,617	422,432
Reclassification adjustment realized in income	(556,805)	(189,314)	(367,491)	(108,473)	(36,881)	(71,592)
Minimum pension adjustment	3,250	1,105	2,145	3,250	1,105	2,145
Total other comprehensive income (loss)	(615,618)	(209,310)	(406,308)	534,826	181,841	352,985
Total comprehensive income (loss)	\$ (821,380)	\$ (47,995)	\$ (773,385)	\$ (7,381,454)	\$ (2,489,694)	\$ (4,891,760)

	For the Nine Months Ended September 30,					
	2012			2011		
	Amount	Tax Expense (Benefit)	Total	Amount	Tax Expense (Benefit)	Total
Net Income (loss)	\$ (7,460,500)	\$ 4,043,229	\$ (11,503,729)	\$ (7,335,023)	\$ (2,429,829)	\$ (4,905,194)
Other comprehensive income (loss)						
Unrealized holding gains arising during the period	603,865	205,314	398,551	1,744,020	592,967	1,151,053
Reclassification adjustment realized in income	(820,482)	(278,964)	(541,518)	(171,617)	(58,350)	(113,267)

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Minimum pension adjustment	9,750	3,315	6,435	9,750	3,315	6,435
Total other comprehensive income (loss)	(206,867)	(70,335)	(136,532)	1,582,153	537,932	1,044,221
Total comprehensive income (loss)	\$ (7,667,367)	\$ 3,972,894	\$ (11,640,261)	\$ (5,752,870)	\$ (1,891,897)	\$ (3,860,973)

See accompanying notes to consolidated financial statements

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Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 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 (loss)	Total
Balance, December 31, 2011	\$58,952	\$16,973,512	\$40,732,178	\$(21,895,557)	\$732,479	\$(346,473)	\$(7,449)	\$36,247,642
Amortization of preferred stock discount	-	-	-	(110,469)	-	110,469	-	-
Preferred stock dividend	-	-	-	(516,562)	-	-	-	(516,562)
Issuance of common stock	-	33,668	(33,668)	-	-	-	-	-
Stock based compensation	-	-	6,506	-	-	-	-	6,506
Minimum pension adjustment (net of income taxes of \$2,917)	-	-	-	-	-	-	6,435	6,435
Net income (loss)	-	-	-	(11,503,729)	-	-	-	(11,503,729)
Change in unrealized gain on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	(142,967)	(142,967)
Balance, September 30, 2012	\$58,952	\$17,007,180	\$40,705,016	\$(34,026,317)	\$732,479	\$(236,004)	\$(143,981)	\$24,097,325
Balance, December 31, 2010	\$58,952	\$16,953,664	\$40,633,581	\$(9,192,552)	\$732,479	\$(492,456)	\$(373,474)	\$48,320,194
Amortization of preferred stock discount	-	-	-	(109,348)	-	109,348	-	-

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Preferred stock dividend	-	-	(551,160)	-	-	-	(551,160)	
Issuance of common stock	-	19,848	(19,848)	-	-	-	-	
Stock based compensation			88,835				88,835	
Minimum pension adjustment (net of income taxes of \$3,315)	-	-	-	-	-	6,435	6,435	
Net income (loss)	-	-	-	(4,905,194)	-	-	(4,905,194)	
Change in unrealized gain on investment securities available-for-sale net of reclassification and tax effect	-	-	-	-	-	1,037,786	1,037,786	
Balance, September 30, 2011	\$58,952	\$16,973,512	\$40,702,568	\$(14,758,254)	\$732,479	\$(383,108)	\$670,747	\$43,996,896

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income (loss)	\$(11,503,729)	\$(4,905,194)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,030,061	1,065,855
Deferred income taxes	(6,584,167)	(3,710,085)
Valuation allowance on deferred tax asset	10,513,053	-
Provision for loan losses	9,095,000	11,410,884
Write-down of other real estate owned	1,157,613	546,331
Gain on securities sold	(820,483)	(172,994)
Gain on loans sold	(6,336,030)	(4,733,648)
Loss on sale of other real estate owned	137,252	239,532
Stock compensation expense	6,506	88,835
Proceeds from sale of mortgage loans	224,700,116	175,498,993
Origination of mortgage loans for sale	(224,722,414)	(164,679,796)
Amortization of premiums and accretion of discounts on securities, net	237,964	106,229
(Increase) decrease in interest receivable	245,652	(13,360)
Increase in bank owned life insurance	(460,533)	(147,399)
Decrease in other assets	3,961,133	(117,566)
Increase in interest payable	224,107	109,479
Decrease in other liabilities	(1,438,512)	2,623,546
Net cash provided by (used in) operating activities	(557,411)	13,209,642
Cash Flows from Investing Activities		
Purchases of available for sale securities	(62,813,678)	(76,141,951)
Proceeds from the sale or calls of available for sale securities	57,581,103	803,100
Proceeds from maturities and principal payments of available for sale securities	2,345,817	73,883,951
Net decrease in loans	25,205,931	10,462,525
Proceeds from sale of other real estate owned	2,501,486	5,155,942
Purchases of premises and equipment	(274,756)	(735,137)
Net cash provided by investing activities	24,545,903	13,428,430
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	(50,378,915)	5,159,007
Net increase (decrease) in Federal Home Loan Bank Advances	(9,750,000)	9,000,000
Net increase (decrease) in other borrowings	(427,268)	941,972
Net cash provided by (used in) financing activities	(60,556,183)	15,100,979
Net increase (decrease) in cash and cash equivalents	(36,567,691)	41,739,051
Cash and cash equivalents, beginning of period	62,786,016	12,012,311

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Cash and cash equivalents, end of period	\$26,218,325	\$53,751,362
Supplemental Schedule of Non Cash Activities		
Real estate owned assets acquired in settlement of loans	\$15,195,148	\$2,714,621
Dividends on preferred stock accrued	\$516,562	\$551,160

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary
Notes to Condensed Consolidated Financial Statements
Three and Nine Months Ended September 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 nine month periods ended September 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:

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Numerator				
Net income (loss) - basic and diluted	\$ (367,077)	\$ (5,244,745)	\$ (11,503,729)	\$ (4,905,194)
Preferred stock dividend and accretion	221,142	222,281	627,031	660,508
Net income (loss) available to common shareholders	\$ (588,219)	\$ (5,467,026)	\$ (12,130,760)	\$ (5,565,702)
Denominator				
Weighted average shares outstanding - basic	4,250,990	4,243,378	4,250,990	4,242,905
Dilutive effect of common stock options and restricted stock awards	-	-	-	-
Weighted average shares outstanding - diluted	4,250,990	4,243,378	4,250,990	4,242,905
Earnings (loss) per share - basic and diluted				
Earnings (loss) per share - basic	\$ (0.14)	\$ (1.29)	\$ (2.85)	\$ (1.31)
Effect of dilutive common stock options	-	-	-	-
Earnings (loss) per share - diluted	\$ (0.14)	\$ (1.29)	\$ (2.85)	\$ (1.31)

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 266,530 shares of common stock were not included in computing diluted earnings per share for the three and nine months ended September 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 September 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	
September 30, 2012							
US Government Agencies							
More than ten years	\$14,500	\$16,985	\$31	\$(62)	\$16,953	2.57	%
Mortgage-backed securities							
More than ten years	2,068	2,177	2	(17)	2,162	0.80	%
Total	2,068	2,177	2	(17)	2,162	0.80	%
Municipals							
One to five years	1,000	1,105	-	(20)	1,085	3.25	%
Five to ten years	1,500	1,748	1	-	1,749	2.33	%
More than ten years	7,280	8,500	8	(38)	8,470	2.86	%
Total	9,780	11,353	9	(58)	11,304	2.81	%
US Treasury Notes							
Five to ten years	3,000	2,973	24	-	2,997	1.73	%
Total investment securities	\$29,348	\$33,487	\$66	\$(137)	\$33,416	2.46	%
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 September 30, 2012 and December 31, 2011 are detailed below (dollars in thousands).

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	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
	(in thousands)					
September 30, 2012						
Investment Securities available for sale						
US Treasuries	\$9,132	\$(62)	\$-	\$-	\$9,132	\$(62)
Municipals	8,319	(58)	-	-	8,319	(58)
Mortgage-backed securities	1,979	(17)	-	-	1,979	(17)
Total	\$19,430	\$(137)	\$-	\$-	\$19,430	\$(137)
December 31, 2011						
Investment Securities available for sale						
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)

Management does not believe that any individual unrealized loss as of September 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 September 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).

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	September 30, 2012		December 31, 2011		
	Amount	%	Amount	%	
Construction and land development					
Residential	\$4,938	1	% \$7,906	2	%
Commercial	48,416	13	% 72,621	17	%
Total	53,354	14	% 80,527	19	%
Commercial real estate					
Farmland	2,591	1	% 2,465	1	%
Commercial real estate					
Owner occupied	97,187	25	% 105,592	24	%
Non-owner occupied	55,295	15	% 54,059	13	%
Multifamily	7,569	2	% 6,680	2	%
Total	162,642	43	% 168,796	39	%
Consumer real estate					
Home equity lines	26,712	7	% 30,687	7	%
Secured by 1-4 family residential					
Secured by first deed of trust	82,487	22	% 93,219	22	%
Secured by second deed of trust	9,892	3	% 12,042	3	%
Total	119,091	32	% 135,948	32	%
Commercial and industrial loans (except those secured by real estate)	35,966	10	% 37,734	9	%
Consumer and other	3,298	1	% 4,865	1	%
Total loans	374,351	100	% 427,870	100	%
Deferred fees and costs	776		768		
Allowance for loan losses	(12,056)		(16,071)		
	\$363,071		\$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.

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

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	September 30, 2012				Total Loans
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	
Construction and land development					
Residential	\$4,074,705	\$671,709	\$191,544	\$-	\$4,937,958
Commercial	26,816,617	5,516,377	15,731,836	350,984	48,415,814
Total	30,891,322	6,188,086	15,923,380	350,984	53,353,772
Commercial real estate					
Farmland	1,541,788		1,049,489	-	2,591,277
Commercial real estate					
Owner occupied	69,783,788	8,412,897	18,770,066	220,195	97,186,946
Non-owner occupird	25,558,925	12,118,805	17,616,609	-	55,294,339
Multifamily	4,652,304	1,751,451	1,165,284	-	7,569,039
Total	101,536,805	22,283,153	38,601,448	220,195	162,641,601
Consumer real estate					
Home equity lines	21,960,295	1,889,385	2,805,308	57,000	26,711,988
Secured by 1-4 family residential					
Secured by first deed of trust	54,705,786	10,670,351	17,110,672	-	82,486,809
Secured by second deed of trust	7,866,200	455,326	1,570,968	-	9,892,494
Total	84,532,281	13,015,062	21,486,948	57,000	119,091,291
Commercial and industrial loans (except those secured by real estate)	28,469,590	1,626,538	5,217,585	652,480	35,966,193
Consumer and other	2,936,909	206,052	154,950	-	3,297,911
Total loans	\$248,366,907	\$43,318,891	\$81,384,311	\$1,280,659	\$374,350,768

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December 31, 2011

	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
Construction and land development:					
Residential					
Commercial	4,943,061		2,963,404	-	\$7,906,465
Total construction and land					
development	44,315,474	-	28,305,063	-	72,620,537
	49,258,535	-	31,268,467	-	80,527,002
Commercial real estate:					
Farmland					
Commercial real estate - owner occupied	2,464,981	-	-	-	2,464,981
Commercial real estate - non-owner					
occupied	46,958,816	16,352,920	42,280,412	-	105,592,148
Multifamily	37,581,904	3,036,887	13,440,358	-	54,059,149
Total commercial real estate	5,511,882	-	1,167,446	-	6,679,328
	92,517,583	19,389,807	56,888,216	-	168,795,606
Consumer real estate:					
Home equity lines					
Secured by 1-4 family residential, secured					
by first deeds of trust	26,403,850	1,373,002	2,910,374	-	30,687,226
Secured by 1-4 family residential, secured					
by second deeds of trust	80,670,887	6,052,128	6,495,783	-	93,218,798
Total consumer real estate	9,960,928	706,484	1,374,651	-	12,042,063
	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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September 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	\$ -	\$ -	\$ -	\$ -	\$ 4,937,958	\$ 4,937,958	\$ -
Commercial	11,291	449,955	-	461,246	47,954,568	48,415,814	-
Total	11,291	449,955	-	461,246	52,892,526	53,353,772	-
Commercial real estate							
Farmland	-	-	-	-	2,591,277	2,591,277	-
Commercial real estate Owner occupied	-	379,961	-	379,961	96,806,985	97,186,946	-
Non-owner occupied	-	718,354	-	718,354	54,575,985	55,294,339	-
Multifamily	-	-	-	-	7,569,039	7,569,039	-
Total	-	1,098,315	-	1,098,315	161,543,286	162,641,601	-
Consumer real estate							
Home equity lines	188,130	782,639	97,158	1,067,927	25,644,061	26,711,988	97,158
Secured by 1-4 family residential							
Secured by first deed of trust	2,204,913	707,010	369,792	3,281,715	79,205,094	82,486,809	369,792
Secured by second deed of trust	-	106,287	-	106,287	9,786,207	9,892,494	-
Total	2,393,043	1,595,936	466,950	4,455,929	114,635,362	119,091,291	466,950
Commercial and industrial loans (except those secured by real	68,652	357,954	15,418	442,024	35,524,169	35,966,193	15,418

estate)

Consumer and
other

16,998	3,000	-	19,998	3,277,913	3,297,911	-
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Total loans

\$ 2,489,984	\$ 3,505,160	\$ 482,368	\$ 6,477,512	\$ 367,873,256	\$ 374,350,768	\$ 482,368
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	December 31, 2011						Recorded Investment > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	
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	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	-
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	765,286	965,729	-	1,731,015	167,064,591	168,795,606	-
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 deed of trust	985,116	1,572,973	624,740	3,182,829	90,035,969	93,218,798	624,740
Secured by second deed of trust	12,673	132,928	156,026	301,627	11,740,436	12,042,063	156,026
Total	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	46,392	3,313	54,918	104,623	37,629,893	37,734,516	54,918

real estate)

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. September 30, 2012 and December 31, 2011 impaired loans are set forth in the following table.

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September 30, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Residential	\$ 191,544	\$ 471,544	\$-
Commercial	9,219,142	15,132,049	-
Total	9,410,686	15,603,593	-
Commercial real estate			
Farmland			
Commercial real estate - owner occupied	1,049,489	1,049,489	-
Commercial real estate - non-owner occupied	8,484,371	8,514,955	-
Multifamily	12,915,719	13,061,948	-
Total	1,574,878	1,574,878	-
24,024,457	24,201,270	-	
Consumer real estate			
Home equity lines			
Secured by 1-4 family residential, secured by first deeds of trust	1,175,230	1,307,554	-
Secured by 1-4 family residential, secured by second deeds of trust	9,328,458	10,460,195	-
Total	640,995	864,571	-
11,144,683	12,632,320	-	
Commercial and industrial loans (except those secured by real estate)			
Consumer and other	748,040	1,535,397	-
52,019	52,019	-	
\$45,379,885	\$54,024,599	\$-	
With an allowance recorded			
Construction and land development			
Residential	\$-	\$-	\$-
Commercial	5,748,863	7,531,385	344,651
Total	5,748,863	7,531,385	344,651
Commercial real estate			
Farmland			
Commercial real estate - owner occupied	7,101,305	7,616,761	917,527
Commercial real estate - non-owner occupied	4,221,512	4,221,512	513,685
Multifamily	-	-	-
Total	11,322,817	11,838,273	1,431,212
Consumer real estate			
Home equity lines			
Secured by 1-4 family residential, secured by first deeds of trust	399,312	447,596	79,550
Secured by 1-4 family residential, secured by second deeds of trust	1,508,740	1,508,740	59,277
Total	117,002	117,002	105,997
2,025,054	2,073,338	244,824	
Commercial and industrial loans (except those secured by real estate)			
Consumer and other	417,541	927,130	124,646
-	-	-	
\$19,514,275	\$22,370,126	\$2,145,333	
Total			
Construction and land development			
Residential	\$ 191,544	\$ 471,544	\$-
Commercial	14,968,005	22,663,434	344,651

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Total	15,159,549	23,134,978	344,651
Commercial real estate			
Farmland	1,049,489	1,049,489	-
Commercial real estate - owner occupied	15,585,676	16,131,716	917,527
Commercial real estate - non-owner occupied	17,137,231	17,283,460	513,685
Multifamily	1,574,878	1,574,878	-
Total	35,347,274	36,039,543	1,431,212
Consumer real estate			
Home equity lines	1,574,542	1,755,150	79,550
Secured by 1-4 family residential, secured by first deeds of trust	10,837,198	11,968,935	59,277
Secured by 1-4 family residential, secured by second deeds of trust	757,997	981,573	105,997
Total	13,169,737	14,705,658	244,824
Commercial and industrial loans (except those secured by real estate)	1,165,581	2,462,527	124,646
Consumer and other	52,019	52,019	-
	\$64,894,160	\$76,394,725	\$2,145,333

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	December 31, 2011		
	Recorded	Unpaid	Related
	Investment	Principal	Allowance
With no related allowance recorded			
Construction and land development			
Residential	\$624,651	\$712,243	\$-
Commercial	9,722,132	11,094,408	-
Total	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	15,580,568	15,580,568	-
Consumer real estate			
Home equity lines			
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	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	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	11,228,083	11,372,083	2,481,740
Consumer real estate			
Home equity lines			
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	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
Commercial	24,607,673	26,879,949	3,913,820

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Total	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	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	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

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The following is a summary of average recorded investment in impaired loans with and without a valuation allowance and interest income recognized on those loans for the three and nine months ended September 30, 2012.

	For the Three Months Ended September 30, 2012		For the Nine Months Ended September 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	\$248,422	\$3,050	\$191,544	\$14,791
Commercial	12,460,662	89,431	10,188,879	270,464
Total construction and land development	12,709,084	92,481	10,380,423	285,255
Commercial real estate				
Farmland	1,049,489	2,000	1,049,489	17,405
Commercial real estate - owner occupied	7,770,119	213,499	8,631,653	439,458
Commercial real estate - non-owner occupied	12,778,883	437,034	13,340,847	677,127
Multifamily	1,361,630	44,333	1,580,204	71,631
Total commercial real estate	22,960,121	696,866	24,602,193	1,205,621
Consumer real estate				
Home equity lines	1,454,661	22,556	1,175,339	55,535
Secured by 1-4 family residential, secured by first deeds of trust	9,222,570	78,162	9,142,698	308,917
Secured by 1-4 family residential, secured by second deeds of trust	674,842	4,677	646,695	22,789
Total consumer real estate	11,352,073	105,395	10,964,732	387,241
Commercial and industrial loans (except those secured by real estate)	876,549	5,416	816,643	27,325
Consumer and other	45,710	1,006	54,754	2,099
	\$47,943,537	\$901,164	\$46,818,745	\$1,907,541

Impaired loans with an allowance recorded

Construction and land development:

Residential	\$-	\$-	\$-	\$-
Commercial	4,896,911	-	5,929,859	1,373
Total construction and land development	4,896,911	-	5,929,859	1,373
Commercial real estate:				
Farmland	-	-	-	-
Commercial real estate - owner occupied	7,380,990	398	7,362,455	52,668
Commercial real estate - non-owner occupied	4,482,345	-	4,304,172	26,222
Multifamily	-	-	-	-
Total commercial real estate	11,863,335	398	11,666,627	78,890
Consumer real estate:				
Home equity lines	431,298	-	406,192	6,814
Secured by 1-4 family residential, secured by first deeds of trust	3,233,526	-	2,315,032	52,470

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Secured by 1-4 family residential, secured by second deeds of trust	117,246	-	117,388	1,684
Total consumer real estate	3,782,070	-	2,838,612	60,968
Commercial and industrial loans (except those secured by real estate)	1,436,105	-	1,362,576	32,587
Consumer and other	-	-	-	-
	\$21,978,421	\$398	\$21,797,674	\$173,818
				-
Total				
Construction and land development				
Residential	\$248,422	\$3,050	\$191,544	\$14,791
Commercial	17,357,573	89,431	16,118,738	271,837
Total construction and land development	17,605,995	92,481	16,310,282	286,628
Commercial real estate				
Farmland	1,049,489	2,000	1,049,489	17,405
Commercial real estate - owner occupied	15,151,109	213,897	15,994,108	492,126
Commercial real estate - non-owner occupied	17,261,228	437,034	17,645,019	703,349
Multifamily	1,361,630	44,333	1,580,204	71,631
Total commercial real estate	34,823,456	697,264	36,268,820	1,284,511
Consumer real estate				
Home equity lines	1,885,959	22,556	1,581,531	62,349
Secured by 1-4 family residential, secured by first deeds of trust	12,456,096	78,162	11,457,730	361,387
Secured by 1-4 family residential, secured by second deeds of trust	792,088	4,677	764,083	24,473
Total consumer real estate	15,134,143	105,395	13,803,344	448,209
Commercial and industrial loans (except those secured by real estate)	2,312,654	5,416	2,179,219	59,912
Consumer and other	45,710	1,006	54,754	2,099
	\$69,921,958	\$901,562	\$68,616,419	\$2,081,359

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	For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded				
Construction and land development				
Residential	\$343,992	\$-	\$168,361	\$4,045
Commercial	9,224,062	3,989	8,608,213	23,977
Total construction and land development	9,568,054	3,989	8,776,574	28,022
Commercial real estate				
Farmland	-	-	-	-
Commercial real estate - owner occupied	1,253,390	-	1,651,229	-
Commercial real estate - non-owner occupied	2,289,859	-	1,866,440	49,627
Multifamily	187,721	-	974,736	-
Total commercial real estate	3,730,970	-	4,492,405	49,627
Consumer real estate				
Home equity lines	32,607	765	204,024	13,153
Secured by 1-4 family residential, secured by first deeds of trust	9,045,607	-	8,154,334	56,654
Secured by 1-4 family residential, secured by second deeds of trust	160,812	348	189,526	3,397
Total consumer real estate	9,239,026	1,113	8,547,884	73,204
Commercial and industrial loans (except those secured by real estate)	3,984,776	-	2,764,133	27,667
Consumer and other	351,876	-	196,895	272
	\$26,874,702	\$5,102	\$24,777,891	\$178,792
Impaired loans with an allowance recorded				
Construction and land development:				
Residential	\$184,660	\$-	\$138,495	\$-
Commercial	14,083,611	1,630	13,828,972	4,785
Total construction and land development	14,268,271	1,630	13,967,467	4,785
Commercial real estate:				
Farmland	-	-	-	-
Commercial real estate - owner occupied	1,753,731	-	2,220,067	-
Commercial real estate - non-owner occupied	558,472	-	418,854	-
Multifamily	-	-	-	-
Total commercial real estate	2,312,203	-	2,638,921	-
Consumer real estate:				
Home equity lines	246,129	-	203,270	-
Secured by 1-4 family residential, secured by first deeds of trust	3,233,526	-	2,990,049	2,502
Secured by 1-4 family residential, secured by second deeds of trust	80,999	450	80,999	729
Total consumer real estate	3,560,654	450	3,274,318	3,231

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Commercial and industrial loans (except those secured by real estate)	-	-	-	-
Consumer and other	-	-	-	-
	\$20,141,128	\$2,080	\$19,880,706	\$8,016
				-
Total				
Construction and land development				
Residential	\$528,652	\$-	\$306,856	\$4,045
Commercial	23,307,673	5,619	22,437,185	28,762
Total construction and land development	23,836,325	5,619	22,744,041	32,807
Commercial real estate				
Farmland	-	-	-	-
Commercial real estate - owner occupied	3,007,121	-	3,871,296	-
Commercial real estate - non-owner occupied	2,848,331	-	2,285,294	49,627
Multifamily	187,721	-	974,736	-
Total commercial real estate	6,043,173	-	7,131,326	49,627
Consumer real estate				
Home equity lines	278,736	765	407,294	13,153
Secured by 1-4 family residential, secured by first deeds of trust	12,279,133	-	11,144,383	59,156
Secured by 1-4 family residential, secured by second deeds of trust	241,811	798	270,525	4,126
Total consumer real estate	12,799,680	1,563	11,822,202	76,435
Commercial and industrial loans (except those secured by real estate)	3,984,776	-	2,764,133	27,667
Consumer and other	351,876	-	196,895	272
	\$47,015,830	\$7,182	\$44,658,597	\$186,808

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Included in impaired loans are loans classified as troubled debt restructurings (TDRs). A modification of a loan's terms constitutes a TDR if the creditor grants a concession to the borrower for economic or legal reasons related to the borrowers financial difficulties that it would not otherwise consider. For loans classified as impaired TDRs, the Company further evaluates the loans as performing or nonperforming. If, at the time of restructure, the loan is not considered nonaccrual, it will be classified as performing. TDRs originally classified as nonperforming are able to be reclassified as performing if, subsequent to restructure, they experience six months of payment performance according to the restricted terms. The following is a summary of performing and nonaccrual TDRs and the related specific valuation allowance by portfolio segment as of the dates indicated.

	Three Months Ended September 30, 2012			
	Total	Performing	Nonaccrual	Specific Valuation Allowance
Construction and land development				
Commercial	\$39,769	\$-	\$39,769	\$-
Total	39,769	-	39,769	-
Commercial real estate:				
Commercial real estate - owner occupied	-	-	-	-
Commercial real estate - non-owner occupied	4,737,776	4,276,511	461,265	-
Multifamily	634,594	-	-	-
Total	5,372,370	4,276,511	461,265	-
Consumer real estate:				
Secured by 1-4 family residential, secured by first deeds of trust	1,042,595	599,242	443,353	17,949
Total	1,042,595	599,242	443,353	17,949
Commercial and industrial loans (except those secured by real estate)	199,964	-	199,964	-
	\$6,654,698	\$4,875,753	\$1,144,351	\$17,949

	Nine Months Ended September 30, 2012			
	Total	Performing	Nonaccrual	Specific Valuation Allowance
Construction and land development:				
Residential	\$191,544	\$-	\$191,544	\$-
Commercial	9,876,951	5,165,826	4,711,125	278,000
Total construction and land development	10,068,495	5,165,826	4,902,669	278,000
Commercial real estate:				
Commercial real estate - owner occupied	10,385,569	5,886,028	4,499,541	779,111
Commercial real estate - non-owner occupied	13,760,683	7,759,407	6,001,276	719,226
Multifamily	1,210,273	1,210,273	-	-
Total commercial real estate	25,356,525	14,855,708	10,500,817	1,498,337
Consumer real estate:				
Home equity lines	349,192	-	349,192	45,590
Secured by 1-4 family residential, secured by first deeds of trust	5,384,930	2,069,732	3,315,198	17,949
	69,815	-	69,815	68,200

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Secured by 1-4 family residential, secured by second deeds of trust

Total consumer real estate	5,803,937	2,069,732	3,734,205	131,739
Commercial and industrial loans (except those secured by real estate)	456,028	6,180	449,848	80,943
	\$41,684,985	\$22,097,446	\$19,587,539	\$1,989,019

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	Three Months Ended September 30, 2011			
	Total	Performing	Nonaccrual	Specific Valuation Allowance
Construction and land development				
Commercial	\$2,655,029	-	\$2,655,029	823,522
Total	2,655,029	-	2,655,029	823,522
Commercial real estate				
Commercial real estate - owner occupied	-	-	-	-
Commercial real estate - non-owner occupied	-	-	-	-
Multifamily	-	-	-	-
Total	-	-	-	-
Consumer real estate				
Secured by 1-4 family residential, secured by first deeds of trust	3,837,577	3,837,577	-	404,000
Total	3,837,577	3,837,577	-	404,000
Commercial and industrial loans (except those secured by real estate)	360,000	-	360,000	-
	\$6,852,606	\$3,837,577	\$3,015,029	\$1,227,522

	Nine Months Ended September 30, 2011			
	Total	Performing	Nonaccrual	Specific Valuation Allowance
Construction and land development				
Residential	\$-	\$-	\$-	\$-
Commercial	5,495,511	600,000	4,895,511	864,868
Total	5,495,511	600,000	4,895,511	864,868
Commercial real estate				
Commercial real estate - owner occupied	-	-	-	-
Commercial real estate - non-owner occupied	775,456	775,456	-	-
Multifamily	-	-	-	-
Total	775,456	775,456	-	-
Consumer real estate				
Home equity lines	-	-	-	-
Secured by 1-4 family residential, secured by first deeds of trust	3,837,577	3,837,577	-	404,000
Secured by 1-4 family residential, secured by second deeds of trust	-	-	-	-
Total	3,837,577	3,837,577	-	404,000
Commercial and industrial loans (except those secured by real estate)	360,000	-	360,000	-
	\$10,468,544	\$5,213,033	\$5,255,511	\$1,268,868

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The following table provides information about TDRs identified during the current period:

	September 30, 2012		
	Number	Pre-	Post-
	of	Modification	Modification
	Loans	Recorded	Recorded
		Balance	Balance
Construction and land development			
Residential	-		