

Village Bank & Trust Financial Corp.
Form 10-Q
May 15, 2013

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 March 31, 2013

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) 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 May 8, 2013

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
March 31, 2013 (Unaudited) and December 31, 2012

	March 31, 2013	December 31, 2012
Assets		
Cash and due from banks	\$ 12,340,643	\$ 13,945,105
Federal funds sold	56,796,937	39,185,837
Total cash and cash equivalents	69,137,580	53,130,942
Investment securities available for sale	29,635,046	25,154,046
Loans held for sale	16,377,826	24,188,384
Loans		
Outstandings	324,004,492	354,910,266
Allowance for loan losses	(10,319,965)	(10,807,827)
Deferred fees and costs	783,137	787,823
	314,467,664	344,890,262
Premises and equipment, net	23,992,037	25,815,342
Accrued interest receivable	1,580,147	1,676,518
Bank owned life insurance	6,625,325	6,575,018
Other real estate owned	21,382,831	20,203,691
Other assets	7,855,987	8,453,169
	\$491,054,443	\$510,087,372
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$62,301,743	\$57,049,348
Interest bearing	359,117,502	379,273,614
Total deposits	421,419,245	436,322,962
Federal Home Loan Bank advances	27,000,000	28,000,000
Long-term debt - trust preferred securities	8,764,000	8,764,000
Other borrowings	1,882,346	4,851,811
Accrued interest payable	981,527	911,635
Other liabilities	6,780,872	6,272,163
Total liabilities	466,827,990	485,122,571
Stockholders' equity		
Preferred stock, \$4 par value, \$1,000 liquidation preference, 1,000,000 shares authorized, 14,738 shares issued and outstanding	58,952	58,952
Common stock, \$4 par value - 10,000,000 shares authorized; 4,251,795 shares issued and outstanding at March 31, 2013 4,251,795 shares issued and outstanding at December 31, 2012	17,007,180	17,007,180

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Additional paid-in capital	40,705,498	40,705,257
Retained earnings (deficit)	(33,905,887)	(33,173,525)
Common stock warrant	732,479	732,479
Discount on preferred stock	(161,887)	(198,993)
Accumulated other comprehensive loss	(209,882)	(166,549)
Total stockholders' equity	24,226,453	24,964,801
	\$491,054,443	\$510,087,372

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Operations
Three Months Ended March 31, 2013 and 2012
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Interest income		
Loans	\$5,142,951	\$5,899,208
Investment securities	188,099	150,349
Federal funds sold	25,115	20,932
Total interest income	5,356,165	6,070,489
Interest expense		
Deposits	1,042,384	1,358,238
Borrowed funds	224,392	290,986
Total interest expense	1,266,776	1,649,224
Net interest income	4,089,389	4,421,265
Provision for loan losses	823,000	1,735,000
Net interest income after provision for loan losses	3,266,389	2,686,265
Noninterest income		
Service charges and fees	511,504	507,643
Gain on sale of loans	1,955,717	1,750,663
Gain (loss) on sale of assets	598,182	-
Gain (loss) on sale of investment securities	90,067	164,207
Rental income	264,697	176,496
Other	186,305	89,644
Total noninterest income	3,606,472	2,688,653
Noninterest expense		
Salaries and benefits	3,439,408	3,098,224
Occupancy	556,930	546,367
Equipment	177,855	205,364
Supplies	105,272	91,902
Professional and outside services	686,360	635,382
Advertising and marketing	63,301	76,063
OREO expense	1,574,700	1,118,775
Other operating expenses	780,069	1,003,221
Total noninterest expense	7,383,895	6,775,298
Net income (loss) before income taxes	(511,034)	(1,400,380)
Income tax expense (benefit)	-	-

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Net income (loss)	(511,034)	(1,400,380)
Preferred stock dividends and amortization of discount	221,328	220,448
Net income (loss) available to common shareholders	\$(732,362)	\$(1,620,828)
Earnings (loss) per share, basic	\$(0.17)	\$(0.38)
Earnings (loss) per share, diluted	\$(0.17)	\$(0.38)

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
 Consolidated Statements of Changes in Comprehensive Income (Loss)
 Three Months Ended March 31, 2013 and 2012
 (Unaudited)

	Three Months Ended March 31,					
	Amount	2013 Tax Expense (Benefit)	Total	Amount	2012 Tax Expense (Benefit)	Total
Net loss	\$(511,034)	\$-	\$(511,034)	\$(1,400,380)	\$-	\$(1,400,380)
Other comprehensive income (loss)						
Unrealized holding gains (losses)						
arising during the period	21,161	7,195	13,966	(377,355)	(128,301)	(249,054)
Reclassification adjustment for losses realized in income	(90,067)	(30,623)	(59,444)	(164,207)	(55,830)	(108,377)
Minimum pension adjustment	3,250	1,105	2,145	3,250	1,105	2,145
Total other comprehensive loss	(65,656)	(22,323)	(43,333)	(538,312)	(183,026)	(355,286)
Total comprehensive loss	\$(576,690)	\$(22,323)	\$(554,367)	\$(1,938,692)	\$(183,026)	\$(1,755,666)

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2013 and 2012
(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, 2012	\$58,952	\$17,007,180	\$40,705,257	\$(33,173,525)	\$732,479	\$(198,993)	\$(166,549)	\$24,964,801
Amortization of preferred stock discount	-	-	-	(37,106)	-	37,106	-	-
Preferred stock dividend	-	-	-	(184,222)	-	-	-	(184,222)
Issuance of common stock	-	-	-	-	-	-	-	-
Stock based compensation	-	-	241	-	-	-	-	241
Minimum pension adjustment (net of income taxes of \$2,917)	-	-	-	-	-	-	2,145	2,145
Net loss	-	-	-	(511,034)	-	-	-	(511,034)
Change in unrealized gain on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	(45,478)	(45,478)
Balance, March 31, 2013	\$58,952	\$17,007,180	\$40,705,498	\$(33,905,887)	\$732,479	\$(161,887)	\$(209,882)	\$24,226,453
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	-	-	-	-	-	-	-	-

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discount	-			(36,729)	-	36,729		-
Preferred stock dividend	-	-		(183,719)	-	-	-	(183,719)
Issuance of common stock	-	33,668	(33,668)	-	-	-	-	-
Stock based compensation			1,589					1,589
Minimum pension adjustment (net of income taxes of \$2,917)	-	-	-	-	-	-	2,145	2,145
Net loss	-	-	-	(1,400,380)	-	-	-	(1,400,380)
Change in unrealized gain on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	(357,431)	(357,431)
Balance, March 31, 2012	\$58,952	\$17,007,180	\$40,700,099	\$(23,516,385)	\$732,479	\$(309,744)	\$(362,735)	\$34,309,846

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2013 and 2012
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net loss	\$(511,034)	\$(1,400,380)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	258,649	344,244
Deferred income taxes	(108,145)	1,104
Valuation allowance	-	476,129
Provision for loan losses	823,000	1,735,000
Write-down of other real estate owned	397,053	670,023
Gain on securities sold	(90,067)	(164,207)
Gain on loans sold	(1,955,717)	(1,750,663)
Gain on sale of premises and equipment	(598,182)	-
(Gain) loss on sale of other real estate owned	129,821	4,355
Stock compensation expense	241	1,589
Proceeds from sale of mortgage loans	67,727,357	64,848,047
Origination of mortgage loans for sale	(57,961,082)	(64,120,807)
Amortization of premiums and accretion of discounts on securities, net	86,934	39,306
Decrease in interest receivable	96,371	146,743
Increase in bank owned life insurance	(50,307)	(50,392)
(Increase) decrease in other assets	730,900	2,899,037
Increase (decrease) in interest payable	69,892	74,487
Increase (decrease) in other liabilities	324,488	(2,959,078)
Net cash provided by operating activities	9,370,172	794,537
Cash Flows from Investing Activities		
Purchases of available for sale securities	(12,791,077)	(20,764,694)
Proceeds from the sale or calls of available for sale securities	8,244,304	14,277,005
Proceeds from maturities and principal payments of available for sale securities	-	874,715
Net decrease (increase) in loans	26,731,220	5,847,047
Proceeds from sale of other real estate owned	1,162,364	526,370
Purchases of premises and equipment	481,213	(44,839)
Proceeds from sale of premises and equipment	1,681,624	-
Net cash provided by investing activities	25,509,648	715,604
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	(14,903,717)	(20,127,993)
Net increase (decrease) in Federal Home Loan Bank Advances	(1,000,000)	(1,000,000)
Net increase (decrease) in other borrowings	(2,969,465)	(571,092)
Net cash used in financing activities	(18,873,182)	(21,699,085)

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Net increase (decrease) in cash and cash equivalents	16,006,638	(20,188,944)
Cash and cash equivalents, beginning of period	53,130,942	62,786,016
Cash and cash equivalents, end of period	\$69,137,580	\$42,597,072
Supplemental Schedule of Non Cash Activities		
Real estate owned assets acquired in settlement of loans	\$2,868,378	\$6,614,046
Dividends on preferred stock accrued	\$184,224	\$183,719

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2013 and 2012
(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 subsidiaries. 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 month period ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year ending December 31, 2013. 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, 2012 as filed with the Securities and Exchange Commission.

Note 2 - Use of estimates

The preparation of consolidated 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 statements of financial condition and revenues and expenses during the reporting 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 March 31,	
	2013	2012
Numerator		
Net income (loss) - basic and diluted	\$ (511,034)	\$ (1,400,380)
Preferred stock dividend and accretion	221,328	220,448
Net income (loss) available to common shareholders	\$ (732,362)	\$ (1,620,828)
Denominator		
Weighted average shares outstanding - basic	4,253,932	4,249,336
Dilutive effect of common stock options and restricted stock awards	-	-
Weighted average shares outstanding - diluted	4,253,932	4,249,336
Earnings (loss) per share - basic and diluted		
Earnings (loss) per share - basic	\$ (0.17)	\$ (0.38)
Effect of dilutive common stock options	-	-
Earnings (loss) per share - diluted	\$ (0.17)	\$ (0.38)

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 254,630 and 264,530 shares of common stock were not included in computing diluted earnings per share for the three months ended March 31, 2013 and 2012, respectively, because their effects were anti-dilutive. Warrants for 499,029 shares of common stock were not included in computing earnings per share in 2013 and 2012 because their effects were also anti-dilutive.

Note 4 – Investment securities

At March 31, 2013 and December 31, 2012, 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	
March 31, 2013							
US Government Agencies							
Five to ten years	\$3,500	\$4,375	\$-	\$(33)	\$4,342	1.97	%
More than ten years	12,000	11,715	40	-	11,755	2.91	%
Total	15,500	16,090	40	(33)	16,097	2.65	%
Mortgage-backed securities							
More than ten years	1,445	1,513	2	(2)	1,513	0.97	%
Total	1,445	1,513	2	(2)	1,513	0.97	%
Municipals							
Five to ten years	3,700	4,226	2	(26)	4,202	2.16	%
More than ten years	6,280	7,984	3	(164)	7,823	2.27	%
Total	9,980	12,210	5	(190)	12,025	2.23	%
Total investment securities	\$26,925	\$29,813	\$47	\$(225)	\$29,635	2.40	%
December 31, 2012							
US Government Agencies							
More than ten years	\$10,500	\$11,394	\$8	\$(15)	\$11,387	2.27	%
Total	10,500	11,394	8	(15)	11,387	2.27	%
Mortgage-backed securities							
More than ten years	1,744	1,830	1	(2)	1,829	0.97	%
Total	1,744	1,830	1	(2)	1,829	0.97	%
Municipals							
One to five years	1,000	1,100	-	(22)	1,078	3.25	%
Five to ten years	3,500	4,031	-	(47)	3,984	2.29	%
More than ten years	5,280	6,908	10	(42)	6,876	2.70	%
Total	9,780	12,039	10	(111)	11,938	2.61	%
Total investment securities	\$22,024	\$25,263	\$19	\$(128)	\$25,154	2.34	%

Investment securities available for sale that have an unrealized loss position at March 31, 2013 and December 31, 2012 are detailed below (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 (Loss)	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2013						
Investment Securities available for sale						
US Treasuries	\$6,241	\$(33)	\$-	\$-	\$6,241	\$(33)
Municipals	8,797	(190)	-	-	8,797	(190)
Mortgage-backed securities	162	(2)	-	-	162	(2)
Total	\$15,200	\$(225)	\$-	\$-	\$15,200	\$(225)
December 31, 2012						
Investment Securities available for sale						
US Treasuries	\$4,378	\$(15)	\$-	\$-	\$4,378	\$(15)
Municipals	8,064	(111)	-	-	8,064	(111)
Mortgage-backed securities	167	(2)	-	-	167	(2)
Total	\$12,609	\$(128)	\$-	\$-	\$12,609	\$(128)

Management does not believe that any individual unrealized loss as of March 31, 2013 and December 31, 2012 is other than a temporary impairment. These unrealized losses are primarily attributable to changes in interest rates. As of March 31, 2013, 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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	March 31, 2013		December 31, 2012		
	Amount	%	Amount	%	
Construction and land development					
Residential	\$3,002	0.93	% \$2,845	0.80	%
Commercial	36,209	11.18	% 41,210	11.61	%
Total construction and land development	39,211	12.11	% 44,055	12.41	%
Commercial real estate					
Farmland	2,571	0.79	% 2,581	0.73	%
Commercial real estate - owner occupied	81,459	25.14	% 92,773	26.14	%
Commercial real estate - non-owner occupied	47,470	14.65	% 54,551	15.37	%
Multifamily	8,908	2.75	% 7,979	2.25	%
Total commercial real estate	140,408	43.33	% 157,884	44.49	%
Consumer real estate					
Home equity lines	24,614	7.60	% 25,521	7.19	%
Secured by 1-4 family residential, secured by first deeds of trust	78,796	24.32	% 80,788	22.76	%
Secured by 1-4 family residential, secured by second deeds of trust	8,668	2.67	% 9,517	2.68	%
Total consumer real estate	112,078	34.59	% 115,827	32.63	%
Commercial and industrial loans (except those secured by real estate)	29,647	9.15	% 34,384	9.69	%
Consumer and other	2,660	0.82	% 2,761	0.78	%
Total Loans	324,004	100.0	% 354,910	100.0	%
Deferred loan cost (unearned income), net	783		788		
Less: Allowance for loan losses	(10,320)		(10,808)		
	\$314,467		\$344,890		

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:

	March 31, 2013				Total Loans
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	
Construction and land development					
Residential	\$2,794,616	\$207,597	\$-	\$-	\$3,002,213
Commercial	14,490,031	7,441,270	14,277,551	-	36,208,852
Total construction and land development	17,284,647	7,648,867	14,277,551	-	39,211,065
Commercial real estate					
Farmland	1,521,465		1,049,489	-	2,570,954
Commercial real estate - owner occupied	54,565,411	13,111,802	13,781,322	-	81,458,535
Commercial real estate - non-owner occupied	17,545,150	17,237,400	12,431,518	256,067	47,470,135
Multifamily	5,426,270	1,072,501	2,409,185	-	8,907,956
Total commercial real estate	79,058,296	31,421,703	29,671,514	256,067	140,407,580
Consumer real estate					
Home equity lines	19,225,118	1,533,770	3,855,576	-	24,614,464
Secured by 1-4 family residential, secured by first deeds of trust	48,349,677	12,472,929	17,973,830	-	78,796,436
Secured by 1-4 family residential, secured by second deeds of trust	6,756,458	205,169	1,706,021	-	8,667,648
Total consumer real estate	74,331,253	14,211,868	23,535,427	-	112,078,548
Commercial and industrial loans (except those secured by real estate)	21,795,862	2,987,775	4,863,410	-	29,647,047
Consumer and other	2,316,604	172,908	170,740	-	2,660,252
Total loans	\$194,786,662	\$56,443,121	\$72,518,642	\$256,067	\$324,004,492

December 31, 2012

	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
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