

COMMUNITY FIRST BANCORP

Form 10-Q

August 15, 2011

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2011

Commission File No. 000-29640

COMMUNITY FIRST BANCORPORATION

(Exact name of registrant as specified in its charter)

South Carolina

(State or other jurisdiction of
incorporation or organization)

58-2322486

(IRS Employer Identification No.)

449 HIGHWAY 123 BYPASS

SENECA, SOUTH CAROLINA 29678

(Address of principal executive offices, zip code)

(864) 886-0206

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). (This is the first report for which an Interactive Data File is required to be filed and posted by the registrant). Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐
(Do not check if a 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 stock, as of the latest practicable date: Common Stock, no par or stated value, 3,972,976 Shares Outstanding on August 2, 2011

Table of Contents

COMMUNITY FIRST BANCORPORATION

FORM 10-Q

Index

	Page
<u>PART I</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets</u> 3
	<u>Consolidated Statements of Income</u> 4
	<u>Consolidated Statements of Changes in Shareholders' Equity</u> 6
	<u>Consolidated Statements of Cash Flows</u> 7
	<u>Notes to Unaudited Consolidated Financial Statements</u> 9
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 25
<u>Item 4.</u>	<u>Controls and Procedures</u> 36
<u>PART II -</u>	<u>OTHER INFORMATION</u>
<u>Item 6.</u>	<u>Exhibits</u> 37
<u>SIGNATURE</u>	38

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

COMMUNITY FIRST BANCORPORATION

Consolidated Balance Sheets

	(Unaudited) June 30, 2011	December 31, 2010
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 1,913	\$ 1,711
Interest bearing balances due from banks	37,754	39,171
Cash and cash equivalents	39,667	40,882
Securities available-for-sale	158,366	169,369
Securities held-to-maturity (fair value \$5,722 for 2011 and \$6,817 for 2010)	5,303	6,389
Other investments	1,254	1,363
Loans	237,656	256,834
Allowance for loan losses	(5,953)	(5,756)
Loans - net	231,703	251,078
Premises and equipment - net	8,002	8,170
Accrued interest receivable	2,226	2,491
Bank-owned life insurance	9,841	9,666
Foreclosed assets	15,382	11,395
Net deferred tax assets	1,921	2,233
Other assets	2,114	2,723
Total assets	\$ 475,779	\$ 505,759
Liabilities		
Deposits		
Noninterest bearing	\$ 46,748	\$ 46,844
Interest bearing	372,453	398,466
Total deposits	419,201	445,310
Accrued interest payable	1,152	1,698
Short-term borrowings		5,000
Long-term debt	6,500	6,500
Other liabilities	2,287	1,939
Total liabilities	429,140	460,447
Shareholders' equity		
Preferred stock - Series A - non-voting 5% cumulative - \$1,000 per share liquidation preference; 5,000 shares authorized; issued and outstanding - 3,150 shares	3,126	3,126
Preferred stock - no par value; 9,995,000 shares authorized; None issued and outstanding		
Common stock - no par value; 10,000,000 shares authorized; issued and outstanding - 3,972,976 for 2011 and 2010	39,931	39,931

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Additional paid-in capital	748	748
Retained earnings	1,763	1,396
Accumulated other comprehensive income	1,071	111
Total shareholders' equity	46,639	45,312
Total liabilities and shareholders' equity	\$ 475,779	\$ 505,759

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Income

	(Unaudited) Period Ended June 30,			
	Three Months		Six Months	
2011	2010	2011	2010	
	(Dollars in thousands, except per share)			
Interest income				
Loans, including fees	\$ 3,655	\$ 4,053	\$ 7,278	\$ 8,057
Interest bearing balances due from banks	15	32	43	70
Securities				
Taxable	1,108	1,332	2,232	2,617
Tax-exempt	175	197	352	396
Other investments	3	2	5	2
Total interest income	4,956	5,616	9,910	11,142
Interest expense				
Time deposits \$100M and over	469	746	1,031	1,479
Other deposits	743	1,436	1,613	2,855
Long-term debt	63	73	127	149
Total interest expense	1,275	2,255	2,771	4,483
Net interest income	3,681	3,361	7,139	6,659
Provision for loan losses	1,450	1,125	2,700	2,250
Net interest income after provision	2,231	2,236	4,439	4,409
Other income				
Service charges on deposit accounts	268	309	528	610
Debit card transaction fees	198	214	381	350
Net losses on sales of securities available-for-sale	(6)		(6)	
Increase in value of bank-owned life insurance	86	90	175	182
Other income	44	79	100	86
Total other income	590	692	1,178	1,228
Other expenses				
Salaries and employee benefits	1,198	1,204	2,418	2,323
Net occupancy expense	134	138	273	283
Furniture and equipment expense	94	96	173	186
Amortization of computer software	99	97	196	209
Debit card transaction expenses	125	123	241	223
FDIC insurance expense	232	235	464	633
Other expense	694	570	1,398	1,091
Total other expenses	2,576	2,463	5,163	4,948
Income before income taxes	245	465	454	689
Income tax expense (benefit)	(26)	66	8	83
Net income	271	399	446	606
Deductions for amounts not available to common shareholders:				
	(40)	(40)	(99)	(99)

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Dividends declared or accumulated on preferred
stock

Net income available to common shareholders	\$	231	\$	359	\$	347	\$	507
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See accompanying notes to unaudited consolidated financial statements.

Table of Contents

COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Income - continued

		(Unaudited) Period Ended June 30,				
	2011	Three Months	2010	2011	Six Months	2010
			(Dollars in thousands, except per share)			
Per common share*						
Net income	\$	0.06	\$	0.09	\$	0.13
Net income, assuming dilution		0.06		0.09		0.13

* Per common share information has been retroactively adjusted to reflect a 5% stock dividend effective December 16, 2010.

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Shares of Common Stock	Preferred Stock	Common Stock	Additional Paid-in Capital (Dollars in thousands)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2010	3,782,415	\$ 3,126	\$ 38,923	\$ 748	\$ 1,434	\$ 587	\$ 44,818
Comprehensive income:							
Net income					606		606
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$817						1,459	1,459
Total other comprehensive income							1,459
Total comprehensive income							2,065
Dividends paid on preferred stock					(79)		(79)
Exercise of employee stock options	1,744		17				17
Balance, June 30, 2010	3,784,159	\$ 3,126	\$ 38,940	\$ 748	\$ 1,961	\$ 2,046	\$ 46,821
Balance, January 1, 2011	3,972,976	\$ 3,126	\$ 39,931	\$ 748	\$ 1,396	\$ 111	\$ 45,312
Comprehensive income:							
Net income					446		446
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$535						956	956
Reclassification adjustment, net of income tax effects of \$2						4	4
Total other comprehensive income							960
Total comprehensive income							1,406
Dividends paid on preferred stock					(79)		(79)
Balance, June 30, 2011	3,972,976	\$ 3,126	\$ 39,931	\$ 748	\$ 1,763	\$ 1,071	\$ 46,639

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Cash Flows

	(Unaudited) Six Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
Operating activities		
Net income	\$ 446	\$ 606
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	2,700	2,250
Depreciation	186	192
Amortization of net loan fees and costs	36	(21)
Securities accretion and premium amortization	493	661
Net losses on sales of securities available-for-sale	6	
Increase in value of bank-owned life insurance	(175)	(182)
Writedowns of foreclosed assets	45	
Net losses (gains) on sale of foreclosed assets	67	(8)
Decrease (increase) in interest receivable	265	(427)
(Decrease) increase in interest payable	(546)	1,038
Decrease in prepaid expenses and other assets	609	856
Deferred income taxes	(225)	
Increase in other accrued expenses	348	312
Net cash provided by operating activities	4,255	5,277
Investing activities		
Purchases of securities available-for-sale	(28,974)	(95,381)
Maturities, calls and paydowns of securities available-for-sale	38,527	58,537
Maturities, calls and paydowns of securities held-to-maturity	1,085	1,253
Proceeds from sales of securities available-for-sale	2,449	
Proceeds from sales of other investments	109	
Net decrease (increase) in loans made to customers	11,835	(1,440)
Purchases of premises and equipment	(18)	(67)
Additional investments in foreclosed assets		(29)
Proceeds from sale of foreclosed assets	705	461
Net cash provided (used) by investing activities	25,718	(36,666)
Financing activities		
Net increase (decrease) in demand deposits, interest bearing transaction accounts and savings accounts	1,182	(3,689)
Net (decrease) increase in certificates of deposit and other time deposits	(27,291)	33,644
Repayments of short-term borrowings	(5,000)	
Repayments of long-term debt		(1,500)
Cash dividends paid on preferred stock	(79)	(79)
Exercise of employee stock options		17
Net cash (used) provided by financing activities	(31,188)	28,393
Decrease in cash and cash equivalents	(1,215)	(2,996)
Cash and cash equivalents, beginning	40,882	47,483
Cash and cash equivalents, ending	\$ 39,667	\$ 44,487

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Cash Flows - continued

	(Unaudited) Six Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for		
Interest	\$ 3,317	\$ 3,445
Income taxes	59	4
Net transfers from loans to foreclosed assets	4,804	1,485
Noncash investing and financing activities:		
Other comprehensive income	960	1,459

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

COMMUNITY FIRST BANCORPORATION

Notes to Unaudited Consolidated Financial Statements

(Dollar amounts in thousands, except per share)

Accounting Policies A summary of significant accounting policies is included in Community First Bancorporation's (the Company, our, we, and similar references) Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission. Certain amounts in the 2010 financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on net income or retained earnings for any period.

Management Opinion In the opinion of management, the accompanying unaudited consolidated financial statements of Community First Bancorporation reflect all adjustments necessary for a fair presentation of the results of the periods presented. Such adjustments were of a normal, recurring nature.

Table of Contents

Investment Securities The following table presents information about amortized cost, unrealized gains, unrealized losses, and estimated fair values of securities:

	June 30, 2011			
	Amortized Cost	Gross Unrealized Holding Gains (Dollars in thousands)	Gross Unrealized Holding Losses	Estimated Fair Value
Available-for-sale				
Mortgage-backed securities issued by US				
Government agencies	\$ 1,001	\$ 65	\$	\$ 1,066
Government sponsored enterprises (GSEs)	113,947	667	534	114,080
Mortgage-backed securities issued by GSEs	25,497	1,138		26,635
State, county and municipal	16,251	401	67	16,585
Total	\$ 156,696	\$ 2,271	\$ 601	\$ 158,366

Held-to-maturity				
Mortgage-backed securities issued by US				
Government agencies	\$	\$	\$	\$
Government sponsored enterprises (GSEs)				
Mortgage-backed securities issued by GSEs	5,303	419		5,722
State, county and municipal				
Total	\$ 5,303	\$ 419	\$	\$ 5,722

	December 31, 2010			
	Amortized Cost	Gross Unrealized Holding Gains (Dollars in thousands)	Gross Unrealized Holding Losses	Estimated Fair Value
Available-for-sale				
Mortgage-backed securities issued by US				
Government agencies	\$ 1,128	\$ 52	\$	\$ 1,180
Government sponsored enterprises (GSEs)	130,492	863	1,495	129,860
Mortgage-backed securities issued by GSEs	20,145	983		21,128
State, county and municipal	17,432	130	361	17,201
Total	\$ 169,197	\$ 2,028	\$ 1,856	\$ 169,369

Held-to-maturity				
Mortgage-backed securities issued by US				
Government agencies	\$	\$	\$	\$
Government sponsored enterprises (GSEs)				
Mortgage-backed securities issued by GSEs	6,389	428		6,817
State, county and municipal				
Total	\$ 6,389	\$ 428	\$	\$ 6,817

Table of Contents

The fair value and amortized cost of securities by contractual maturity are shown below:

	June 30, 2011					
	Due within one year	Due after one through five years	Due after five through ten years	Due after ten years	Total	
(Dollars in thousands)						
<u>Available-for-sale at fair value</u>						
Non-mortgage-backed securities issued by GSEs	\$	\$ 31,045	\$ 47,144	\$ 35,891	\$ 114,080	
State, county and municipal issuers		533	4,036	12,016	16,585	
		31,578	51,180	47,907	130,665	
Mortgage-backed securities issued by:						
US Government agencies					1,066	
GSEs					26,635	
Total available-for-sale					\$ 158,366	
<u>Held-to-maturity at amortized cost</u>						
Mortgage-backed securities issued by:						
GSEs					\$ 5,303	
Total held-to-maturity					\$ 5,303	

Table of Contents

The estimated fair values and gross unrealized losses of our investment securities whose fair values were less than amortized cost as of June 30, 2011 and December 31, 2010 which had not been determined to be other-than-temporarily impaired are presented below. We evaluate all available-for-sale securities and all held-to-maturity securities for impairment as of each balance sheet date. The securities have been segregated in the table by investment category and the length of time that individual securities have been in a continuous unrealized loss position.

June 30, 2011						
Continuously in Unrealized Loss Position for a Period of						
	Less than 12 Months		12 Months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
(Dollars in thousands)						
Available-for-sale						
US Government agencies	\$	\$	\$	\$	\$	\$
Government-sponsored enterprises (GSEs)	32,440	534			32,440	534
Mortgage-backed securities issued by GSEs						
State, county and municipal securities	1,644	38	481	29	2,125	67
Total	\$ 34,084	\$ 572	\$ 481	\$ 29	\$ 34,565	\$ 601
Held-to-maturity						
GSEs	\$	\$	\$	\$	\$	\$
Total	\$	\$	\$	\$	\$	\$
December 31, 2010						
Continuously in Unrealized Loss Position for a Period of						
	Less than 12 Months		12 Months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
(Dollars in thousands)						
Available-for-sale						
GSEs	\$ 60,543	\$ 1,495	\$	\$	\$ 60,543	\$ 1,495
Mortgage-backed securities issued by GSEs						
State, county and municipal securities	9,648	306	455	55	10,103	361
Total	\$ 70,191	\$ 1,801	\$ 455	\$ 55	\$ 70,646	\$ 1,856
Held-to-maturity						
GSEs	\$	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$	\$

As of June 30, 2011, 31 securities had been continuously in an unrealized loss position for less than 12 months and one security had been continuously in an unrealized loss position for 12 months or more. As of December 31, 2010, 74 securities had been continuously in an unrealized loss position for less than 12 months and one security had been continuously in an unrealized loss position for 12 months or more. We do not consider these investments to be other-than-temporarily impaired because the unrealized losses involve primarily issuances of state, county and municipal government issuers and mortgage-backed securities issued by GSEs. We also believe that the impairments resulted from current credit market disruptions, and note that there have been no failures by the issuers to remit periodic interest payments as required, nor are we aware that any such issuer has given notice that it expects that it will be unable to make any such future payment according to the terms of the bond indenture. Although we classify a majority of our investment securities as available-for-sale, management has not determined that any specific securities will be disposed of prior to maturity and believes that we have both the ability and the intent to hold those investments until a recovery of fair value,

Table of Contents

including until maturity. Substantially all of the issuers of state, county and municipal securities were rated at least investment grade as of June 30, 2011 and December 31, 2010.

Our subsidiary bank is a member of the Federal Home Loan Bank of Atlanta (FHLB) and, accordingly, is required to own restricted stock in that institution in amounts that may vary from time to time. Because of the restrictions imposed, the stock may not be sold to other parties, but is redeemable by the FHLB at the same price as that at which it was acquired by the subsidiary. We evaluate this security for impairment based on the probability of ultimate recoverability of the par value of the investment. No impairment has been recognized based on this evaluation.

During the first six months of 2011, we sold two available-for-sale securities for gross proceeds of \$2,449 and net losses of \$6. During the first six months of 2010, we had no sales of available-for-sale securities. There were no transfers of available-for-sale securities to other categories in the 2011 and 2010 six-month periods.

Loans Loans consisted of the following:

	June 30, 2011	December 31, 2010
	(Dollars in thousands)	
Commercial, financial and industrial	\$ 19,325	\$ 20,474
Real estate - construction	17,681	23,730
Real estate - mortgage	178,927	187,940
Consumer installment	21,723	24,690
Total	237,656	256,834
Allowance for loan losses	(5,953)	(5,756)
Loans - net	\$ 231,703	\$ 251,078

The following table provides information about the payment status of loans:

Table of Contents

As of June 30, 2011	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
			(Dollars in thousands)			
Commercial, financial and industrial	\$ 217	\$ 28	\$ 1,159	\$ 1,404	\$ 17,921	\$ 19,325
Real estate - construction	224		4,272	4,496	13,185	17,681
Real estate - mortgage	2,141	309	9,664	12,114	166,813	178,927
Consumer installment	294	29	394	717	21,006	21,723
Total	\$ 2,876	\$ 366	\$ 15,489	\$ 18,731	\$ 218,925	\$ 237,656

As of December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
			(Dollars in thousands)			
Commercial, financial and industrial	\$ 254	\$ 214	\$ 855	\$ 1,323	\$ 19,151	\$ 20,474
Real estate - construction	485	662	6,082	7,229	16,501	23,730
Real estate - mortgage	1,834	2,093	8,974	12,901	175,039	187,940
Consumer installment	294	256	433	983	23,707	24,690
Total	\$ 2,867	\$ 3,225	\$ 16,344	\$ 22,436	\$ 234,398	\$ 256,834

Nonaccrual loans totaled \$15,489 and \$16,344 as of June 30, 2011 and December 31, 2010, respectively. Troubled debt restructurings, not including such loans that are included in nonaccrual loans, totaled \$7,170 as of June 30, 2011 and \$5,457 as of December 31, 2010. As of June 30, 2011 and December 31, 2010, we had no loans past due 90 days or more and still accruing interest.

Loans that we grade Management Attention and Special Mention are not believed to represent more than a minimal likelihood of loss. Those grades indicate that a change in the borrowers' circumstances, or some other event, has occurred such that an elevated level of monitoring is warranted. Such loans are generally evaluated collectively for purposes of estimating the allowance for loan losses. Loans graded Substandard are believed to present a moderate likelihood of loss due to the presence of well-defined weakness in the borrowers' financial condition such as a change in their demonstrated payment history, the effects of lower collateral values combined with other financial difficulties the borrowers may be experiencing, or deterioration of other indicators of the borrowers' ability to service the loan as agreed. Loans graded Doubtful are believed to present a high likelihood of loss due to severe deterioration of a borrower's financial condition, severe past due status and/or substantial deterioration of collateral value, or other factors. Loans graded Substandard or Doubtful are evaluated individually for impairment. Management updates the internal risk grading system no less often than monthly. The following table provides information about how we grade loans internally:

Table of Contents

As of June 30, 2011	Management Attention	Internally Assigned Risk Grade			Total
		Special Mention	Substandard	Doubtful	
		(Dollars in thousands)			
Commercial, financial and industrial	\$ 1,323	\$ 2,922	\$ 1,800	\$	\$ 6,045
Real estate - construction	2,683	995	7,775		11,453
Real estate - mortgage	20,775	9,858	19,365		49,998
Consumer installment	1,255	1,002	1,006		3,263
	\$ 26,036	\$ 14,777	\$ 29,946	\$	\$ 70,759

As of December 31, 2010	Management Attention	Internally Assigned Risk Grade			Total
		Special Mention	Substandard	Doubtful	
		(Dollars in thousands)			
Commercial, financial and industrial	\$ 524	\$ 577	\$ 1,385	\$	\$ 2,486
Real estate - construction	1,953	2,980	7,953		12,886
Real estate - mortgage	12,628	8,326	12,795	237	33,986
Consumer installment	1,177	684	806		2,667
	\$ 16,282	\$ 12,567	\$ 22,939	\$ 237	\$ 52,025

Impaired loans generally are nonaccrual loans, loans that are 90 days or more delinquent as to principal or interest payments, and other loans where, based on current information and events, it is probable that we will be unable to collect principal and interest payments according to the contractual terms of the loan agreements, including loans whose terms have been modified in a troubled debt restructuring. A loan is not considered to be impaired, however, if any periods of delay or shortfalls of amounts expected to be collected are insignificant or if we expect that we will be able to collect all amounts due including accrued interest during the period of delay.

Following is a summary of our impaired loans, by class:

Table of Contents

As of June 30, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance (Dollars in thousands)	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance recorded:					
Commercial, financial and industrial	\$ 250	\$ 250	\$	\$ 209	\$ 5
Real estate - construction	2,399	3,249		2,645	
Real estate - mortgage	9,767	10,254		9,878	46
Consumer installment	11	11		173	1
With an allowance recorded:					
Commercial, financial and industrial	\$ 1,080	\$ 1,080	\$ 830	\$ 924	\$ 3
Real estate - construction	1,589	1,617	19	1,218	
Real estate - mortgage	2,134	2,570	1,184	3,747	19
Consumer installment	496	496	228	331	9
Total:					
Commercial, financial and industrial	\$ 1,330	\$ 1,330	\$ 830	\$ 1,133	\$ 8
Real estate - construction and mortgage	15,889	17,690	1,203	17,488	65
Consumer installment	507	507	228	504	10
Total	\$ 17,726	\$ 19,527	\$ 2,261	\$ 19,125	\$ 83

As of December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance (Dollars in thousands)	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance recorded:					
Commercial, financial and industrial	\$ 167	\$ 167	\$	\$ 73	\$
Real estate - construction	2,890	3,462		2,569	13
Real estate - mortgage	9,989	10,638		7,761	118
Consumer installment	334	334		262	
With an allowance recorded:					
Commercial, financial and industrial	\$ 767	\$ 767	\$ 515	\$ 455	\$
Real estate - construction	846	874	45	1,523	41
Real estate - mortgage	5,360	5,529	1,632	6,465	
Consumer installment	166				