GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission file number 0-23325

Guaranty Federal Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**43-1792717**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2144 E Republic Rd, Suite F200	
Springfield, Missouri	**65804**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (417) 520-4333

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X] Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period of complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act [ ]

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 1, 2018
Common Stock, Par Value $0.10 per share	4,451,723 Shares

GUARANTY FEDERAL BANCSHARES, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC. CONDENSED CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2018 (UNAUDITED) AND DECEMBER 31, 2017

	9/30/18	12/31/17
ASSETS		
Cash and due from banks	$5,222,458	$4,094,694
Interest-bearing deposits in other financial institutions	25,989,332	33,312,236
Cash and cash equivalents	31,211,790	37,406,930
Available-for-sale securities	85,605,143	81,478,673
Held-to-maturity securities	12,722	16,457
Stock in Federal Home Loan Bank, at cost	5,043,200	4,597,500
Mortgage loans held for sale	961,654	1,921,819
Loans receivable, net of allowance for loan losses of September 30, 2018 - $7,731,707 - December 31, 2017 - $7,107,418	780,316,319	629,605,009
Accrued interest receivable	3,403,810	2,449,847
Prepaid expenses and other assets	7,518,208	3,846,686
Goodwill	2,615,352	-
Core deposit intangible	3,205,714	-
Foreclosed assets held for sale	1,133,160	282,785
Premises and equipment, net	22,158,095	10,607,094
Bank owned life insurance	20,083,039	19,740,623
Deferred and income taxes receivable	3,112,541	2,506,097
	$966,380,747	$794,459,520

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Deposits	$760,729,322	$607,364,350
Federal Home Loan Bank advances	96,700,000	94,300,000
Note payable to bank	5,000,000	-
Subordinated debentures	21,782,794	15,465,000
Advances from borrowers for taxes and insurance	730,438	180,269
Accrued expenses and other liabilities	2,032,290	1,962,865
Accrued interest payable	791,216	295,543
	887,766,060	719,568,027
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Common stock, $0.10 par value; authorized 10,000,000 shares; issued September 30, 2018 and December 31, 2017 - 6,895,503 and 6,878,503 shares; respectively	689,550	687,850
Additional paid-in capital	51,266,714	50,856,069
Retained earnings, substantially restricted	64,025,061	60,679,308
Accumulated other comprehensive loss	(391,610)	(206,193)
	115,589,715	112,017,034
Treasury stock, at cost; September 30, 2018 and December 31, 2017 - 2,443,780 and 2,453,728 shares, respectively	(36,975,028)	(37,125,541)
	78,614,687	74,891,493
	$966,380,747	$794,459,520

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

	Three months ended		Nine months ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Interest Income				
Loans	$12,773,881	$7,052,544	$29,971,163	$20,042,667
Investment securities	523,736	431,560	1,466,036	1,361,069
Other	80,258	41,083	276,117	134,361
	13,377,875	7,525,187	31,713,316	21,538,097
Interest Expense				
Deposits	1,825,559	893,197	4,967,743	2,261,752
FHLB advances	481,968	419,918	1,221,312	1,269,543
Subordinated debentures	282,393	160,075	728,954	467,665
Other	58,949	-	62,782	-
	2,648,869	1,473,190	6,980,791	3,998,960
Net Interest Income	10,729,006	6,051,997	24,732,525	17,539,137
Provision for Loan Losses	200,000	450,000	925,000	1,500,000
Net Interest Income After Provision for Loan Losses	10,529,006	5,601,997	23,807,525	16,039,137
Noninterest Income				
Service charges	475,484	311,070	1,344,661	869,102
Net gain (loss) on sale of investment securities	(885)	11,199	(8,090)	73,473
Gain on sale of mortgage loans held for sale	595,384	618,732	1,591,869	1,550,880
Gain on sale of Small Business Administration loans	263,755	228,895	659,996	484,240
Net gain (loss) on foreclosed assets	(459,308)	47,787	(338,496)	56,051
Other income	587,328	353,186	1,484,669	1,133,548
	1,461,758	1,570,869	4,734,609	4,167,294
Noninterest Expense				
Salaries and employee benefits	3,887,582	3,052,417	11,162,747	8,844,836
Occupancy	1,112,702	591,961	2,920,774	1,563,344
FDIC deposit insurance premiums	101,762	63,522	296,897	176,011
Impairment on investment tax credits	-	146,857	-	146,857
Data processing	328,692	268,508	1,095,584	730,260
Advertising	131,250	131,250	397,150	393,750

Merger costs	150,877	-	3,570,927	-
Other expense	952,984	757,317	2,920,262	2,144,310
	6,665,849	5,011,832	22,364,341	13,999,368
Income Before Income Taxes	5,324,915	2,161,034	6,177,793	6,207,063
Provision for Income Taxes	1,390,673	443,651	1,230,790	1,467,866
Net Income Available to Common Shareholders	$3,934,242	$1,717,383	$4,947,003	$4,739,197
Basic Income Per Common Share	$0.89	$0.39	$1.12	$1.08
Diluted Income Per Common Share	$0.88	$0.39	$1.10	$1.07

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

	Three months ended		Nine months ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
NET INCOME	$3,934,242	$1,717,383	$4,947,003	$4,739,197
OTHER ITEMS OF COMPREHENSIVE INCOME:				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(766,021)	(39,661)	(2,455,951)	1,408,504
Change in unrealized gain (loss) on interest rate swaps, before income taxes	430,248	(76,222)	2,198,977	151,420
Less: Reclassification adjustment for realized (gains) losses on investment securities included in net income, before income taxes	885	(11,199)	8,090	(73,473)
Total other items of comprehensive income (loss)	(334,888)	(127,082)	(248,884)	1,486,451
Income tax expense related to other items of comprehensive income (loss)	(85,397)	(47,022)	(63,467)	549,986
Other comprehensive income (loss)	(249,491)	(80,060)	(185,417)	936,465
TOTAL COMPREHENSIVE INCOME	$3,684,751	$1,637,323	$4,761,586	$5,675,662

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2018 (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2018	$687,850	$50,856,069	$(37,125,541)	$60,679,308	$ (206,193)	$74,891,493
Net income	-	-	-	4,947,003	-	4,947,003
Other comprehensive income (loss)	-	-	-	-	(185,417)	(185,417)
Dividends on common stock ($0.36 per share)	-	-	-	(1,601,250)	-	(1,601,250)
Stock award plans	-	125,878	150,513	-	-	276,391
Stock options exercised	1,700	284,767	-	-	-	286,467
Balance, September 30, 2018	$689,550	$51,266,714	$(36,975,028)	$64,025,061	$ (391,610)	$78,614,687

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

	9/30/2018	9/30/2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$4,947,003	$4,739,197
Items not requiring (providing) cash:		
Deferred income taxes	706,286	(603,683)
Depreciation	1,096,490	791,473
Provision for loan losses	925,000	1,500,000
Gain on sale of mortgage loans held for sale and investment securities	(1,583,779)	(1,624,353)
Gain (loss) on sale of foreclosed assets	308,811	(119,157)
Gain on sale of Small Business Administration Loans	(659,996)	(484,240)
Amortization of deferred income, premiums and discounts	453,575	728,144
Amortization of intangible assets	314,286	-
Accretion of purchase accounting adjustments	(3,282,074)	-
Stock award plan expense	276,391	330,985
Origination of loans held for sale	(52,789,116)	(52,757,873)
Proceeds from sale of loans held for sale	55,341,150	53,975,866
Increase in cash surrender value of bank owned life insurance	(342,416)	(350,826)
Changes in:		
Accrued interest receivable	(953,963)	(217,215)
Prepaid expenses and other assets	6,203,190	44,393
Accounts payable and accrued expenses	(1,441,136)	529,150
Income taxes receivable	(8,972)	232,186
Net cash provided by operating activities	9,510,730	6,714,047
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of loans	9,489,176	24,919,859
Net change in loans	(13,591,488)	(105,083,322)
Principal payments on available-for-sale securities	12,202,207	5,153,878
Principal payments on held-to-maturity securities	3,735	9,104
Purchase of premises and equipment	(2,581,491)	(1,633,608)
Net cash received for acquisition	2,455,964	-
Purchase of available-for-sale securities	(25,151,079)	(13,350,996)
Proceeds from sale of available-for-sale securities	13,602,508	18,388,216

Redemption (purchase) of Federal Home Loan Bank stock	(445,700)	473,500
Purchase of tax credit investments	(3,617,366)	(1,214,781)
Proceeds from sale of foreclosed assets held for sale	187,468	2,433,660
Net cash used in investing activities	(7,446,066)	(69,904,490)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid on common stock	(1,598,016)	(1,325,308)
Net increase in demand deposits, NOW accounts and savings accounts	69,132,414	50,768,740
Net increase (decrease) in certificates of deposit	(76,871,838)	27,957,127
Proceeds from Federal Home Loan Bank advances	470,835,000	333,700,000
Repayments of Federal Home Loan Bank and Federal Reserve advances	(470,435,000)	(346,600,000)
Proceeds from issuance of notes payable	5,000,000	-
Repayment of notes payable	(3,000,000)	-
Net decrease of securities sold under agreements to repurchase	(2,159,000)	-
Advances from borrowers for taxes and insurance	550,169	322,627
Stock options exercised	286,467	-
Net cash provided by (used in) financing activities	(8,259,804)	64,823,186
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,195,140)	1,632,743
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	37,406,930	9,088,441
CASH AND CASH EQUIVALENTS, END OF PERIOD	$31,211,790	$10,721,184

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Annual Report") filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2017, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with GAAP have been condensed or omitted.

Note 2: Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Acquisition

On April 2, 2018, the Company completed the acquisition of Carthage, Missouri-based Hometown Bancshares, Inc. ("Hometown"), including its wholly owned bank subsidiary, Hometown Bank, National Association. Under the terms of the Agreement and Plan of Merger, each share of Hometown common stock was exchanged for $20.00 in cash and the transaction was valued at approximately $4.6 million. Hometown's subsidiary bank, Hometown Bank, National Association, was merged into Guaranty Bank on June 8, 2018.

Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $178.8 million in assets, including approximately $143.9 million in loans (inclusive of loan discounts) and approximately $161.2 million in deposits. Goodwill of $2.6 million was recorded as a result of the transaction. The merger strengthened the Company's position in Southwest Missouri and the Company will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions all of which gave rise to the goodwill recorded. The goodwill will not be deductible for tax purposes.

A summary, at fair value, of the assets acquired and liabilities assumed in the Hometown transaction, as of acquisition date, is as follows:

Guaranty Federal Bancshares, Inc.

Net Assets Acquired from Hometown

April 2, 2018

(In Thousands)

	Acquired from Hometown	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and Due From Banks	$ 7,083	$ -	$ 7,083
Investment Securities	7,521	-	7,521
Loans	150,390	(6,471)	143,919
Allowance for Loan Losses	(2,348)	2,348	-
Net Loans	148,042	(4,123)	143,919
Fixed Assets	9,268	798	10,066
Foreclosed Assets held for sale	1,647	(400)	1,247
Core Deposit Intangible	-	3,520	3,520
Other Assets	4,146	1,283	5,429
Total Assets Acquired	$ 177,707	$ 1,078	$ 178,785
Liabilities Assumed			
Deposits	161,001	247	161,248
Federal Home Loan Bank advances	2,000	-	2,000
Securities Sold Under Agreements to Repurchase	2,159	-	2,159
Other borrowings	3,000	-	3,000
Subordinated debentures	6,186	176	6,362
Other Liabilities	2,003	-	2,003
Total Liabilities Assumed	176,349	$ 423	176,772
Stockholders' Equity			
Common Stock	231	(231)	-
Capital Surplus	18,936	(18,936)	-
Retained Earnings	(17,587)	17,587	-
Accumulated Other Comprehensive Loss	(222)	222	-
Treasury Stock	-	-	-

Total Stockholders' Equity Assumed	1,358	$ (1,358)	-
Total Liabilities and Stockholders' Equity Assumed	$ 177,707	$ (935)	$ 176,772
Net Assets Acquired			$ 2,013
Purchase Price			4,628
Goodwill			**$ 2,615**

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The following is a description of the methods used to determine the fair values of significant assets and liabilities presented in the acquisitions above.

Cash and due from banks – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities – Investment securities were acquired with an adjustment to fair value based upon quoted market prices if material. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

Fixed assets – Fixed assets were acquired with an adjustment to fair value, which represents the difference between the Company's current analysis of property and equipment values completed in connection with the acquisition and book value acquired.

Foreclosed assets held for sale – These assets are presented at the estimated present values that management expects to receive when the properties are sold, net of related costs of disposal.

Core deposit intangible – This intangible asset represents the value of the relationships that Hometown had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base and the net maintenance cost attributable to customer deposits.

Other assets – The fair value adjustment results from recording additional deferred tax assets related to the transaction. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Company performed a fair value analysis of the estimated weighted average interest rate of the certificates of deposits compared to the current market rates and recorded a fair value adjustment for the difference when material.

Federal Home Loan Bank advances and Other borrowings – The fair value of Federal Home Loan Bank advances and other borrowings are estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Securities sold under agreement to repurchase – The carrying amount of securities sold under agreement to repurchase is a reasonable estimate of fair value based on the short-term nature of these liabilities.

Subordinated debentures – The fair value of subordinated debentures is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Other liabilities – The carrying amount of these other liabilities was deemed to be reasonable estimate of fair value.

Pro Forma Financial Information

The results of operations of Hometown have been included in the Company's consolidated financial statements since the acquisition date. The following schedule includes pro forma results (unaudited) for the three and nine months ended September 30, 2018 and 2017, as if the Hometown acquisition occurred as of the beginning of the reporting periods presented.

	Three months ended September 30,	
	2018	**2017**
	(In Thousands, Except Per Share Data)	
Summary of Operations		
Net interest income	$10,729	$7,597
Provision for loan losses	200	437
Net interest income after provision for loan losses	10,529	7,160
Non interest income	1,462	1,753
Non interest expense	6,666	6,898
Income before income taxes	5,325	2,015
Provision for income taxes	1,391	680
Net income	$3,934	$1,335
Basic income per common share	$0.89	$0.31
Diluted income per common share	$0.88	$0.30

	Nine months ended September 30,	
	2018	**2017**
	(In Thousands, Except Per Share Data)	
Summary of Operations		
Net interest income	$26,445	$22,792
Provision for loan losses	925	1,313
Net interest income after provision for loan losses	25,520	21,479
Non interest income	5,036	5,258
Non interest expense	24,391	20,693
Income before income taxes	6,165	6,044
Provision for income taxes	1,260	2,040
Net income	$4,905	$4,004
Basic income per common share	$1.12	$0.92

Diluted income per common share	$1.10	$0.90

The pro forma information is presented for information purposes only and not indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results. The pro forma information includes net losses from Hometown of approximately ($163,000) and ($313,000) for the three and nine months ended September 30, 2017, respectively.

Note 4: Securities

The amortized cost and approximate fair values of securities classified as available-for-sale were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of September 30, 2018				
Debt Securities:				
Municipals	$34,569,371	$ 2,046	$(1,231,864)	$33,339,553
Corporates	3,000,000	-	(17,024)	2,982,976
Government sponsored mortgage-backed securities and SBA loan pools	51,197,672	22,354	(1,937,412)	49,282,614
	$88,767,043	$ 24,400	$(3,186,300)	$85,605,143

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2017				
Debt Securities:				
Municipals	$33,908,207	$253,872	$(263,621)	$33,898,458
Corporates	3,000,000	65,000	-	3,065,000
Government sponsored mortgage-backed securities and SBA loan pools	45,414,845	9,283	(908,913)	44,515,215
	$82,323,052	$328,155	$(1,172,534)	$81,478,673

Maturities of available-for-sale debt securities as of September 30, 2018:

	Amortized Cost	Approximate Fair Value
Less than 1 year	-	-
1-5 years	430,889	428,979

6-10 years	11,928,256	11,601,504
After 10 years	25,210,226	24,292,046
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	51,197,672	49,282,614
	$88,767,043	$85,605,143

The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of September 30, 2018				
Debt Securities:				
Government sponsored mortgage-backed securities	$ 12,722	$ 154	$ (71)	$ 12,805

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2017				
Debt Securities:				
Government sponsored mortgage-backed securities	$ 16,457	$ 327	$ (55)	$ 16,729

Maturities of held-to-maturity securities as of September 30, 2018:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	$ 12,722	$ 12,805

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $29,466,642 and $35,774,863 as of September 30, 2018 and December 31, 2017, respectively. The approximate fair value of pledged securities amounted to $28,493,596 and $35,355,969 as of September 30, 2018 and December 31, 2017, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains (losses) of ($8,090) and $73,473 as of September 30, 2018 and September 30, 2017, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains (losses) was ($2,063) and $27,185 as of September 30, 2018 and September 30, 2017, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates, or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management’s intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does not intend to sell the security prior to recovery of the unrealized loss.

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2018 and December 31, 2017, was $80,223,968 and $62,107,660, respectively, which is approximately 94% and 76% of the Company's investment portfolio.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2018 and December 31, 2017.

	September 30, 2018					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporates	$2,982,976	$(17,024)	$-	$-	$2,982,976	$(17,024)
Municipals	15,318,000	(360,210)	16,854,043	(871,654)	32,172,043	(1,231,864)
Government sponsored mortgage-backed securities and SBA loan pools	13,890,846	(324,934)	31,178,103	(1,612,549)	45,068,949	(1,937,483)
	$32,191,822	$(702,168)	$48,032,146	$(2,484,203)	$80,223,968	$(3,186,371)

	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipals	$11,024,593	$(103,747)	$8,802,796	$(159,874)	$19,827,389	$(263,621)
Government sponsored mortgage-backed securities and SBA loan pools	20,088,694	(253,907)	22,191,577	(655,006)	42,280,271	(908,913)
	$31,113,287	$(357,654)	$30,994,373	$(814,880)	$62,107,660	$(1,172,534)

Note 5: Loans and Allowance for Loan Losses

Categories of loans at September 30, 2018 and December 31, 2017 include:

	September 30, 2018	December 31, 2017
Real estate - residential mortgage:		
One to four family units	$135,292,752	$106,300,790
Multi-family	93,320,376	85,225,074
Real estate - construction	90,819,134	64,743,582
Real estate - commercial	313,283,043	261,866,285
Commercial loans	122,288,207	94,522,840
Consumer and other loans	33,745,549	24,716,447
Total loans	788,749,061	637,375,018
Less:		
Allowance for loan losses	(7,731,707)	(7,107,418)
Deferred loan fees/costs, net	(701,035)	(662,591)
Net loans	$780,316,319	$629,605,009

Classes of loans by aging at September 30, 2018 and December 31, 2017 were as follows:

As of September 30, 2018

	30-59 Days Past Due	60-89 Days Past Due	90 Days and more Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	(In Thousands)						
Real estate - residential mortgage:							
One to four family units	$68	$181	$2,238	$2,487	$132,806	$ 135,293	$ -
Multi-family	-	5,990	-	5,990	87,330	93,320	-
Real estate - construction	323	-	-	323	90,496	90,819	-
Real estate - commercial	2,667	1,054	698	4,419	308,864	313,283	-
Commercial loans	1,386	73	212	1,671	120,617	122,288	-
Consumer and other loans	909	9	7	925	32,821	33,746	-

Total	$5,353	$7,307	$3,155	$15,815	$772,934	$ 788,749	$ -

As of December 31, 2017

	30-59 Days Past Due	60-89 Days Past Due	90 Days and more Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	(In Thousands)						
Real estate - residential mortgage:							
One to four family units	$510	$731	$2,495	$3,736	$102,565	$ 106,301	$ -
Multi-family	775	-	-	775	84,450	85,225	-
Real estate - construction	-	-	-	-	64,744	64,744	-
Real estate - commercial	243	135	-	378	261,488	261,866	-
Commercial loans	276	-	588	864	93,659	94,523	-
Consumer and other loans	8	8	-	16	24,700	24,716	-
Total	$1,812	$874	$3,083	$5,769	$631,606	$ 637,375	$ -

At September 30, 2018, there were purchased credit impaired loans of $2,015,591 30-59 days past due, $560,683 60-89 days past due and $387,003 that were greater than 90 days past due.

Nonaccruing loans are summarized as follows:

	September 30, 2018	December 31, 2017
Real estate - residential mortgage:		
One to four family units	$4,407,862	$4,423,074
Multi-family	-	-
Real estate - construction	4,179,409	4,452,409
Real estate - commercial	4,212,886	161,491
Commercial loans	1,167,417	802,628
Consumer and other loans	16,561	121,915
Total	$13,984,135	$9,961,517

At September 30, 2018, purchased credit impaired loans comprised $3.0 million of nonaccrual loans.

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three and nine months ended September 30, 2018 and 2017:

Three months ended September 30, 2018	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:	*(In Thousands)*							
Balance, beginning of period	$2,484	$ 1,787	$1,237	$553	$ 1,085	$ 367	$ 60	$7,573
Provision charged to expense	(219)	158	96	97	(44)	65	47	$200
Losses charged off	-	-	(3)	-	(14)	(74)	-	$(91)
Recoveries	36	-	1	-	4	9	-	$50
Balance, end of period	$2,301	$ 1,945	$1,331	$650	$ 1,031	$ 367	$ 107	$7,732

Nine months ended September 30, 2018	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:	*(In Thousands)*							

Balance, beginning of period	$2,244	$ 1,789	$946	$464	$ 1,031	$ 454	$ 179	$7,107
Provision charged to expense	(13)	155	386	186	98	185	(72)	$925
Losses charged off	-	-	(3)	-	(110)	(301)	-	$(414)
Recoveries	70	1	2	-	12	29	-	$114
Balance, end of period	$2,301	$ 1,945	$1,331	$650	$ 1,031	$ 367	$ 107	$7,732

Three months ended September 30, 2017	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:	*(In Thousands)*							
Balance, beginning of period	$1,739	$ 1,954	$936	$323	$ 1,226	$ 335	$ 127	$6,640
Provision charged to expense	524	(116)	(81)	52	(99)	126	44	$450
Losses charged off	-	(71)	-	-	-	(46)	-	$(117)
Recoveries	16	-	1	-	7	12	-	$36
Balance, end of period	$2,279	$ 1,767	$856	$375	$ 1,134	$ 427	$ 171	$7,009

Nine months ended September 30, 2017	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:	*(In Thousands)*							
Balance, beginning of period	$1,377	$ 1,687	$856	$206	$ 1,168	$ 337	$ 111	$5,742
Provision charged to expense	847	151	2	169	40	231	60	$1,500
Losses charged off	-	(71)	(11)	-	(85)	(169)	-	$(336)
Recoveries	55	-	9	-	11	28	-	$103
Balance, end of period	$2,279	$ 1,767	$856	$375	$ 1,134	$ 427	$ 171	$7,009

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of September 30, 2018 and December 31, 2017:

As of September 30, 2018	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Ending balance: individually evaluated for impairment	$ 552	$ 51	$606	$-	$ 231	$ 26	$ -	$1,466
Ending balance: collectively evaluated for impairment	$ 1,749	$ 1,894	$725	$650	$ 800	$ 341	$ 107	$6,266
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$-	$-	$ -	$ -	$ -	$-
Loans:								

Ending balance: individually evaluated for impairment	$ 4,180	$ 922	$ 4,405	$ 5,990	$ 863	$ 153	$ -	$ 16,513
Ending balance: collectively evaluated for impairment	$ 86,639	$ 309,488	$ 130,888	$ 87,330	$ 121,382	$ 33,145	$ -	$ 768,872
Ending balance: loans acquired with deteriorated credit quality	$ -	$ 2,873	$ -	$ -	$ 43	$ 448	$ -	$ 3,364

December 31, 2017	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Ending balance: individually evaluated for impairment	$ 738	$ -	$ 127	$ -	$ 246	$ 138	$ -	$ 1,249
Ending balance: collectively evaluated for impairment	$ 1,506	$ 1,789	$ 819	$ 464	$ 785	$ 316	$ 179	$ 5,858
Loans:								
Ending balance: individually evaluated for impairment	$ 4,452	$ 161	$ 4,424	$ 775	$ 739	$ 276	$ -	$ 10,827
Ending balance: collectively evaluated for impairment	$ 60,292	$ 261,705	$ 101,877	$ 84,450	$ 93,784	$ 24,440	$ -	$ 626,548

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Included in the Company's loan portfolio are certain loans acquired in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. These loans were written down at acquisition to an amount estimated to be collectible. As a result, certain ratios regarding the Company's loan portfolio and credit quality cannot be used to compare the Company to peer companies or to compare the Company's current credit quality to prior periods. The ratios particularly affected by accounting under ASC 310-30 include the allowance for loan losses as a percentage of loans, nonaccrual loans, and performing assets, and nonaccrual loans and nonperforming loans as a percentage of total loans.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

The following table summarizes the recorded investment in impaired loans at September 30, 2018 and December 31, 2017:

	September 30, 2018			December 31, 2017		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Recorded Balance	Unpaid Principal Balance	Specific Allowance
	(In Thousands)					
Loans without a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	$836	$836	$ -	$3,180	$3,180	$ -
Multi-family	-	-	-	775	775	-
Real estate - construction	-	-	-	2,840	2,840	-
Real estate - commercial	3,549	3,549	-	161	161	-
Commercial loans	242	242	-	465	465	-
Consumer and other loans	457	457	-	3	3	-
Loans with a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	$3,569	$3,569	$ 606	$1,244	$1,244	$ 127
Multi-family	5,990	5,990	-	-	-	-
Real estate - construction	4,180	5,413	552	1,612	2,845	738
Real estate - commercial	246	246	51	-	-	-
Commercial loans	664	664	231	274	274	246
Consumer and other loans	144	144	26	273	273	138
Total						
Real estate - residential mortgage:						
One to four family units	$4,405	$4,405	$ 606	$4,424	$4,424	$ 127
Multi-family	5,990	5,990	-	775	775	-
Real estate - construction	4,180	5,413	552	4,452	5,685	738
Real estate - commercial	3,795	3,795	51	161	161	-
Commercial loans	906	906	231	739	739	246
Consumer and other loans	601	601	26	276	276	138
Total	$19,877	$21,110	$ 1,466	$10,827	$12,060	$ 1,249

The above amounts include purchased credit impaired loans. At September 30, 2018, purchased credit impaired loans comprised $3.4 million of impaired loans without a specific valuation allowance.

The following table summarizes average impaired loans and related interest recognized on impaired loans for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30, 2018		For the Three Months Ended September 30, 2017	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)			
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$1,025	$ -	$1,946	$ -
Multi-family	2,001	25	-	-
Real estate - construction	-	-	2,937	-
Real estate - commercial	2,496	-	161	-
Commercial loans	143	-	504	-
Consumer and other loans	93	-	2	-
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$3,308	$ -	$183	$ -
Multi-family	1,997	-	-	-
Real estate - construction	4,212	-	2,373	-
Real estate - commercial	190	-	-	-
Commercial loans	566	-	431	-
Consumer and other loans	84	-	123	-
Total				
Real estate - residential mortgage:				
One to four family units	$4,333	$ -	$2,129	$ -
Multi-family	3,998	25	-	-
Real estate - construction	4,212	-	5,310	-
Real estate - commercial	2,686	-	161	-
Commercial loans	709	-	935	-
Consumer and other loans	177	-	125	-
Total	$16,115	$ 25	$8,660	$ -

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	For the Nine Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)			
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$1,649	$ -	$1,886	$ -
Multi-family	1,006	25	-	-
Real estate - construction	1,525	-	2,964	-
Real estate - commercial	2,383	46	360	-
Commercial loans	658	-	557	-
Consumer and other loans	37	-	8	-
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$2,671	$ -	$90	$ -
Multi-family	666	-	-	-
Real estate - construction	2,774	-	2,395	-
Real estate - commercial	81	-	-	-
Commercial loans	457	-	481	-
Consumer and other loans	116	-	94	-
Total				
Real estate - residential mortgage:				
One to four family units	$4,320	$ -	$1,976	$ -
Multi-family	1,672	25	-	-
Real estate - construction	4,299	-	5,359	-
Real estate - commercial	2,464	46	360	-
Commercial loans	1,115	-	1,038	-
Consumer and other loans	153	-	102	-
Total	$14,023	$ 71	$8,835	$ -

At September 30, 2018, the Bank’s impaired loans shown in the table above included loans that were classified as troubled debt restructurings (“TDR”). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Bank considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor’s projected cash flow is sufficient to satisfy the contractual payments due under the original terms of the loan without a modification.

The Bank considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Bank include the debtor’s ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Bank generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction on the face amount or maturity amount of the debt as stated in the original loan, (iv) a temporary period of interest-only payments, (v) a reduction in accrued interest, and (vi) an extension of amortization.

The following table summarizes, by class, loans that were newly classified as TDRs for the three months ended September 30, 2018:

	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	$ -	$ -
Multi-family	-	-	-
Real estate - construction	-	-	-
Real estate - commercial	-	-	-
Commercial loans	3	225,046	225,046
Consumer and other loans	-	-	-
Total	3	$ 225,046	$ 225,046

The following table summarizes, by type of concession, loans that were newly classified as TDRs for the three months ended September 30, 2018:

	Interest Rate	Term	Combination	Total Modification
Real estate - residential mortgage:				
One to four family units	$ -	$ -	$ -	$ -
Multi-family	-	-	-	-
Real estate - construction	-	-	-	-
Real estate - commercial	-	-	-	-
Commercial loans	-	30,130	194,916	225,046
Consumer and other loans	-	-	-	-
Total	$ -	$ 30,130	$ 194,916	$ 225,046

The following table presents the carrying balance of TDRs as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Real estate - residential mortgage:		
One to four family units	$ 1,219,575	$ 1,290,462
Multi-family	-	-
Real estate - construction	4,179,409	4,452,409

Real estate - commercial	5,551,695	5,666,096
Commercial loans	748,827	214,529
Consumer and other loans	-	118,855
Total	$11,699,506	$11,742,351

The Bank has allocated $877,637 and $372,321 of specific reserves to customers whose loan terms have been modified in TDR as of September 30, 2018 and December 31, 2017, respectively.

There were no TDRs for which there was a payment default within twelve months following the modification during the three and nine months ending September 30, 2018 and 2017. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management tracks loans by an internal rating system. All loans are assigned an internal credit quality rating based on an analysis of the borrower's financial condition. The criteria used to assign quality ratings to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Bank's safety and soundness. The following are the internally assigned ratings:

Pass: This rating represents loans that have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention: This rating represents loans that are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard: This rating represents loans that show signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful: This rating represents loans that have all the weaknesses of substandard classified loans with the additional characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Real estate-Residential 1-4 family: The residential 1-4 family real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact either property values or a borrower’s personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Real estate-Construction: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank’s market areas.

Real estate-Commercial: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank’s market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower’s principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

The following tables provide information about the credit quality of the loan portfolio using the Bank's internal rating system as of September 30, 2018 and December 31, 2017:

September 30, 2018	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
	(In Thousands)						
Rating:							
Pass	$86,547	$ 299,714	$128,506	$ 87,330	$ 118,593	$ 33,193	$753,883
Special Mention	-	5,574	1,095	-	2,238	-	8,907
Substandard	4,272	7,995	5,692	5,990	1,457	553	25,959
Doubtful	-	-	-	-	-	-	-
Total	$90,819	$ 313,283	$135,293	$ 93,320	$ 122,288	$ 33,746	$788,749

December 31, 2017	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
	(In Thousands)						
Rating:							
Pass	$60,291	$ 254,658	$96,723	$ 84,450	$ 93,102	$ 24,440	$613,664
Special Mention	-	5,578	3,799	-	200	-	9,577
Substandard	4,453	1,630	5,779	775	708	276	13,621
Doubtful	-	-	-	-	513	-	513
Total	$64,744	$ 261,866	$106,301	$ 85,225	$ 94,523	$ 24,716	$637,375

The above amounts include purchased credit impaired loans. At September 30, 2018, purchased credit impaired loans comprised of $3.4 million were rated "Substandard".

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Note 6: Accounting for Certain Loans Acquired

The Company acquired loans during the quarter ended June 30, 2018. At acquisition, certain acquired loans evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchased credit impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds. During the three months ended September 30, 2018, the Company had $4.3 million of unexpected full payoffs of certain purchased credit impaired loans and recognized $1.8 million of yield accretion due to these payoffs.

The carrying amount of purchased credit impaired loans are included in the balance sheet amounts of loans receivable at September 30, 2018. The amount of these loans is shown below:

	September 30, 2018 *(In Thousands)*
Real estate - commercial	$ 3,491
Commercial loans	50
Consumer and other loans	680
Outstanding balance	$ 4,221
Carrying amount, net of fair value adjustment of $857 at September 30, 2018	$ 3,364

Changes in the carrying amount of the accretable yield for all purchased credit impaired loans were as follows for the three and nine months ended September 30, 2018:

	Three months ended September 30, 2018 *(In Thousands)*	Nine months ended September 30, 2018 *(In Thousands)*
Balance at beginning of period	$ 204	$ 238
Additions	-	-
Accretion	(1,724)	(1,758)
Reclassification from nonaccretable difference	1,554	1,554
Disposals	-	-
Balance at end of period	$ 34	$ 34

During the three and nine months ended September 30, 2018, the Company did not increase or reverse the allowance for loan losses related to these purchased credit impaired loans.

Note 7: Goodwill and Other Intangible Assets

The Company recorded $2.6 million of goodwill as a result of its 2018 Hometown acquisition and the goodwill is not deductible for tax purposes. Goodwill impairment was neither indicated nor recorded during the three months ended September 30, 2018.

Goodwill is tested annually, or more often if circumstances warrant, for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated, and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. Goodwill totaled $2.6 million at September 30, 2018.

Core deposit premiums are amortized over a seven year period and are periodically evaluated, at least annually, as to the recoverability of their carrying value. Core deposit premiums of $3.5 million were recorded during the second quarter of 2018 as part of the Hometown acquisition.

The Company's goodwill and other intangibles (carrying basis and accumulated amortization) at September 30, 2018 were as follows:

	September 30, 2018 *(In Thousands)*
Goodwill	$ 2,615
Core deposit intangible:	
Gross carrying amount	3,520
Accumulated amortization	(314)
Core deposit intangible, net	3,206
Outstanding balance	$ 5,821

The Company's estimated remaining amortization expense on intangibles as of September 30, 2018 is as follows:

Amortizaton

	Expense *(In Thousands)*
Remainder of 2018	$ 94
2019	377
2020	377
2021	377
2022	377
2023	377
Thereafter	1,227
Total	$ 3,206

Note 8: Benefit Plans

The Company has stock-based employee compensation plans, which are described in the Company's 2017 Annual Report.

The following tables below summarize transactions under the Company's equity plans for the nine months ended September 30, 2018:

Stock Options

	Number of shares		
	Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2018	46,000	25,000	$ 15.74
Granted	-	-	-
Exercised	(12,000)	(5,000)	7.78
Forfeited	(20,000)	(10,000)	28.71
Balance outstanding as of September 30, 2018	14,000	10,000	$ 5.16
Options exercisable as of September 30, 2018	14,000	10,000	$ 5.16

The total intrinsic value of stock options exercised for the nine months ended September 30, 2018 and 2017 was $267,366 and $0, respectively. The total intrinsic value of outstanding stock options (including exercisable) was $452,100 and $669,800 at September 30, 2018 and 2017, respectively.

	Number of Shares	Weighted Average Grant-Date Fair Value
Balance of shares non-vested as of January 1, 2018	45,550	$ 16.44
Granted	12,838	22.41
Vested	(25,063)	16.31
Forfeited	-	-
Balance of shares non-vested as of September 30, 2018	33,325	$ 18.83

In February 2018, the Company granted 5,852 shares of restricted stock to directors pursuant to the 2015 Equity Plan that have a cliff vesting at the end of one year and thus, expensed over that same period. These shares had a grant date market price of $22.41 per share. The total amount of expense for restricted stock grants to directors (including all previous years grants) during the nine months ended September 30, 2018 and 2017 was $103,926 and $101,099, respectively.

For the nine months ended September 30, 2018 and 2017, the Company granted 6,986 and 6,426 shares, respectively, of restricted stock to officers that have a cliff vesting at the end of three years. The expense is being recognized over the applicable vesting period. The total amount of expense for restricted stock grants to officers (including all previous years grants) during the nine months ended September 30, 2018 and 2017 was $135,810 and $159,413, respectively.

Performance Stock Units

	Performance Stock Units	Weighted Average Grant-Date Fair Value
Balance of shares non-vested as of January 1, 2018	55,823	$ 20.48
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance of shares non-vested as of September 30, 2018	55,823	$ 20.48

On March 29, 2017, the Company granted restricted stock units representing 55,823 hypothetical shares of common stock to officers. There are three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). The restricted stock units vest based on two financial performance factors over the period from March 29, 2017 to December 31, 2019 (the "Performance Period"). The two performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) Total Assets (50%) and (ii) Return on Average Assets (50%). In determining compensation expense, the fair value of the restricted stock unit awards was determined based on the closing price of the Company's common stock on the date of grant, which was $20.48 per share. The expense is being recognized over the applicable vesting period. Due to the fact that the measurements cannot be determined at the time of the grant, the Company currently estimates that the most likely outcome is the achievement between the target and maximum levels. If during the Performance Period, additional information becomes available to lead the Company to believe a different level will be achieved for the Performance Period, the Company will reassess the number of units that will vest for the grant and adjust its compensation expense accordingly on a prospective basis. The total amount of expense for restricted stock units during the nine months ended September 30, 2018 and 2017 was $253,513 and $102,529, respectively.

Total stock-based compensation expense recognized for the three months ended September 30, 2018 and 2017 was $159,115 and $136,263, respectively. Total stock-based compensation expense recognized for the nine months ended September 30, 2018 and 2017 was $493,249 and $363,041, respectively. As of September 30, 2018, there was $712,949 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the remaining vesting period.

Note 9: Income Per Common Share

	For three months ended September 30, 2018			For nine months ended September 30, 2018		
	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Income Per Common Share	$3,934,242	4,418,196	$ 0.89			