HMN FINANCIAL INC
Form 10-Q
August 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) FOR THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 0-24100

HMN FINANCIAL, INC.

(Exact name of Registrant as specified in its Charter)

Delaware	**41-1777397**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
1016 Civic Center Drive N.W., Rochester, MN	**55901**
(Address of principal executive offices)	**(ZIP Code)**

Registrant s telephone number, including area code: (507) 535-1200

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 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). Yes x 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 x

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 at July 18, 2012**
Common stock, $0.01 par value	4,423,589

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HMN FINANCIAL, INC.

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Part I FINANCIAL INFORMATION

Item 1: Financial Statements

HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollars in thousands)	June 30, 2012 (unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	$ 65,618	67,840
Securities available for sale:		
Mortgage-backed and related securities (amortized cost $14,035 and $19,586)	14,869	20,645
Other marketable securities (amortized cost $61,699 and $105,700)	61,420	105,469
	76,289	126,114
Loans held for sale	2,601	3,709
Loans receivable, net	496,178	555,908
Accrued interest receivable	1,980	2,449
Real estate, net	12,732	16,616
Federal Home Loan Bank stock, at cost	4,063	4,222
Mortgage servicing rights, net	1,533	1,485
Premises and equipment, net	7,576	7,967
Prepaid expenses and other assets	1,744	2,262
Assets held for sale	0	1,583
Deferred tax asset, net	0	0
Total assets	$ 670,314	790,155
Liabilities and Stockholders Equity		
Deposits	$ 534,297	620,128
Deposits held for sale	0	36,048
Federal Home Loan Bank advances	70,000	70,000
Accrued interest payable	518	780
Customer escrows	713	933
Accrued expenses and other liabilities	5,255	5,205
Total liabilities	610,783	733,094
Commitments and contingencies		
Stockholders equity:		
Serial preferred stock ($.01 par value): authorized 500,000 shares; issued shares 26,000	25,053	24,780
Common stock ($.01 par value): authorized 11,000,000; issued shares 9,128,662	91	91
Additional paid-in capital	52,096	53,462
Retained earnings, subject to certain restrictions	45,532	42,983
Accumulated other comprehensive income	199	471
Unearned employee stock ownership plan shares	(3,094)	(3,191)
Treasury stock, at cost 4,705,073 and 4,740,711 shares	(60,346)	(61,535)

Total stockholders equity	59,531	57,061
Total liabilities and stockholders equity	$ 670,314	790,155

See accompanying notes to consolidated financial statements.

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HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2012	2011	2012	2011
Interest income:				
Loans receivable	$ 7,523	9,301	15,319	19,204
Securities available for sale:				
Mortgage-backed and related	164	290	357	614
Other marketable	192	407	441	824
Cash equivalents	19	2	46	3
Other	54	45	64	114
Total interest income	7,952	10,045	16,227	20,759
Interest expense:				
Deposits	1,061	1,806	2,278	3,746
Federal Home Loan Bank advances	844	1,240	1,689	2,569
Total interest expense	1,905	3,046	3,967	6,315
Net interest income	6,047	6,999	12,260	14,444
Provision for loan losses	1,088	3,463	960	5,409
Net interest income after provision for loan losses	4,959	3,536	11,300	9,035
Non-interest income:				
Fees and service charges	834	925	1,663	1,849
Mortgage servicing fees	236	250	468	500
Gain on sales of loans	620	301	1,529	796
Gain on sale of branch office	0	0	552	0
Other	104	113	288	230
Total non-interest income	1,794	1,589	4,500	3,375
Non-interest expense:				
Compensation and benefits	3,219	3,512	6,632	7,072
Loss on real estate owned	174	143	97	190
Occupancy	839	916	1,721	1,856
Deposit insurance	305	407	575	811
Data processing	336	305	673	558
Other	1,485	2,209	2,903	3,797
Total non-interest expense	6,358	7,492	12,601	14,284
Income (loss) before income tax benefit	395	(2,367)	3,199	(1,874)
Income tax benefit	0	(76)	0	0

Net income (loss)	395	(2,291)	3,199	(1,874)
Preferred stock dividends and discount	464	457	925	906
Net income (loss) available to common shareholders	$ (69)	(2,748)	2,274	(2,780)
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) arising during the period	$ (93)	438	(272)	324
Other comprehensive income (loss), net of tax	$ (93)	438	(272)	324
Comprehensive income (loss) attributable to common shareholders	$ (162)	(2,310)	2,002	(2,456)
Basic earnings (loss) per common share	$ (0.02)	(0.72)	0.58	(0.73)
Diluted earnings (loss) per common share	$ (0.02)	(0.72)	0.57	(0.73)

See accompanying notes to consolidated financial statements.

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HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

For the Six-Month Period Ended June 30, 2012

(unaudited)

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Stock-Holders Equity
Balance, December 31, 2011	$ 24,780	91	53,462	42,983	471	(3,191)	(61,535)	57,061
Net income				3,199				3,199
Other comprehensive loss					(272)			(272)
Preferred stock discount amortization	273		(273)					0
Stock compensation tax benefits			4					4
Unearned compensation restricted stock awards			(1,199)				1,199	0
Restricted stock awards forfeited			10				(10)	0
Amortization of restricted stock awards			133					133
Preferred stock dividends accrued				(650)				(650)
Earned employee stock ownership plan shares			(41)			97		56
Balance, June 30, 2012	$ 25,053	91	52,096	45,532	199	(3,094)	(60,346)	59,531

See accompanying notes to consolidated financial statements.

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HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 3,199	(1,874)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Provision for loan losses	960	5,409
Depreciation	570	640
Amortization of premiums, net	65	166
Amortization of deferred loan fees	(169)	(294)
Amortization of mortgage servicing rights, net	348	213
Capitalized mortgage servicing rights	(396)	(147)
Loss on real estate	97	190
Gains on sales of loans	(1,529)	(796)
Proceeds from sale of loans held for sale	55,066	25,350
Disbursements on loans held for sale	(48,390)	(19,237)
Amortization of restricted stock awards	133	152
Amortization of unearned ESOP shares	97	97
Earned employee stock ownership shares priced below original cost	(41)	(38)
Stock option compensation	4	14
Decrease in accrued interest receivable	469	379
Decrease in accrued interest payable	(262)	(194)
Decrease in other assets	521	867
Increase (decrease) in accrued expenses and other liabilities	(2,355)	1,965
Other, net	99	119
Net cash provided by operating activities	8,486	12,981
Cash flows from investing activities:		
Principal collected on securities available for sale	5,556	6,635
Proceeds collected on maturities of securities available for sale	60,000	80,000
Purchases of securities available for sale	(16,000)	(69,028)
Purchase of Federal Home Loan Bank Stock	0	(17)
Redemption of Federal Home Loan Bank Stock	159	1,186
Proceeds from sales of real estate	4,219	2,463
Net decrease in loans receivable	54,508	45,473
Gain on sale of branch office	(552)	0
Payment on sale of branch office	(36,981)	0
Purchases of premises and equipment	(175)	(115)
Net cash provided by investing activities	70,734	66,597
Cash flows from financing activities:		
Decrease in deposits	(81,222)	(36,247)
Repayment of borrowings	0	(37,500)
Decrease in customer escrows	(220)	(88)
Net cash used by financing activities	(81,442)	(73,835)

Increase (decrease) in cash and cash equivalents	(2,222)	5,743
Cash and cash equivalents, beginning of period	67,840	20,981
Cash and cash equivalents, end of period	$ 65,618	26,724
Supplemental cash flow disclosures:		
Cash paid for interest	$ 4,229	6,509
Cash paid for income taxes	10	0
Supplemental noncash flow disclosures:		
Transfer of loans to real estate	525	8,259
Loans transferred to loans held for sale	4,073	3,607

See accompanying notes to consolidated financial statements.

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HMN FINANCIAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(unaudited)

June 30, 2012 and 2011

(1) HMN Financial, Inc.

HMN Financial, Inc. (HMN or the Company) is a stock savings bank holding company that owns 100 percent of Home Federal Savings Bank (the Bank). The Bank has a community banking philosophy and operates retail banking and loan production offices in Minnesota and Iowa. The Bank has one wholly owned subsidiary, Osterud Insurance Agency, Inc. (OIA), which offers financial planning products and services. HMN has another wholly owned subsidiary, Security Finance Corporation (SFC), which is currently not actively engaged in any activities.

The consolidated financial statements included herein are for HMN, SFC, the Bank and OIA. All significant intercompany accounts and transactions have been eliminated in consolidation.

(2) Basis of Preparation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and therefore, do not include all disclosures necessary for a complete presentation of the consolidated balance sheets, consolidated statements of comprehensive income (loss), consolidated statement of stockholders equity and consolidated statements of cash flows in conformity with U.S. generally accepted accounting principles. However, all normal recurring adjustments which are, in the opinion of management, necessary for the fair presentation of the interim financial statements have been included. The results of operations for the six-month period ended June 30, 2012 is not necessarily indicative of the results which may be expected for the entire year.

(3) New Accounting Standards

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements.* This ASU prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred assets. The amendments in this ASU removed from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this ASU. This ASU is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modification of existing transactions that occur on or after the effective date. The adoption of this ASU in the first quarter of 2012 did not have a material impact on the Company s consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The amendments in this ASU change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in wording between U.S. GAAP and IFRS. Also, the amendments in the ASU require that for each class of assets and liabilities not measured at fair value on the balance sheet but for which the fair value is disclosed, the Company shall disclose the fair value hierarchy for each asset and liability class. This ASU is effective for interim or annual period beginning on or after December 15, 2011. The adoption of this ASU in the first quarter of 2012 did not have a material impact on the Company s consolidated financial statements other than to change the disclosures relating to fair value measurements.

June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income.* Prior to this ASU, U.S. GAAP allowed reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. The first two options were to present this information in a single continuous statement of comprehensive income or in two separate but consecutive statements. The third option, which was used by the Company, was to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This ASU eliminates the third option and therefore the

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Company selected to present this information in a single continuous statement of comprehensive income. This ASU is effective for fiscal years, and interim periods beginning after December 15, 2011. The adoption of this ASU in the first quarter of 2012 did not have a material impact on the Company s consolidated financial statements other than to change the presentation of other comprehensive income as discussed above.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210).* The objective of this ASU is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of rights of setoff associated with an entity s financial position. This includes the effect or potential effect of rights of setoff associated with an entity s recognized assets and recognized liabilities within the scope of this ASU. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods with those annual periods. The adoption of this ASU in the first quarter of 2013 is not anticipated to have any impact on the Company s consolidated financial statements as it currently has no outstanding rights of setoff.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220).* The amendments in this ASU supersede certain pending paragraphs in ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income,* to effectively defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. All other requirements in ASU 2011-05 are not affected by this ASU, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in this ASU will be temporary to allow the FASB time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. The adoption of this ASU in the first quarter of 2012 did not have a material impact on the Company s consolidated financial statements other than to change the presentation of other comprehensive income as discussed above.

(4) Derivative Instruments and Hedging Activities

The Company has commitments outstanding to extend credit to future borrowers that have not closed prior to the end of the quarter. The Company intends to sell these commitments, which are referred to as its mortgage pipeline. As commitments to originate or purchase loans enter the mortgage pipeline, the Company generally enters into commitments to sell the mortgage pipeline into the secondary market on a firm commitment or best efforts basis. The commitments to originate, purchase or sell loans on a firm commitment basis are derivatives. As a result of marking to market the mortgage pipeline and the related firm commitments to sell for the period ended June 30, 2012, the Company recorded an increase in other assets of $1,000, an increase in other liabilities of $2,000 and a loss included in the gain on sales of loans of $1,000.

The current commitments to sell loans held for sale are derivatives that do not qualify for hedge accounting. As a result, these derivatives are marked to market and the related loans held for sale are recorded at the lower of cost or market. The Company recorded a decrease in other liabilities of $30,000 and a gain included in the gain on sales of loans of $30,000.

(5) Fair Value Measurements

ASC 820, *Fair Value Measurements* establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system consisting of three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which significant assumptions are observable in the market.

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Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table summarizes the assets and liabilities of the Company for which fair values are determined on a recurring basis as of June 30, 2012 and December 31, 2011.

	Carrying value at June 30, 2012			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 76,289	146	76,143	0
Mortgage loan commitments	30	0	30	0
Total	$ 76,319	146	76,173	0

	Carrying value at December 31, 2011			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 126,114	613	125,501	0
Mortgage loan commitments	(94)	0	(94)	0
Total	$ 126,020	613	125,407	0

There were no transfers between Levels 1, 2, or 3 during the three or six month periods ended June 30, 2012.

The Company may also be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write-downs of individual assets.

For assets measured at fair value on a nonrecurring basis in the second quarter of 2012 that were still held at June 30, 2012, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at June 30, 2012 and December 31, 2011

	Carrying value at June 30, 2012					
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Three months ended June 30, 2012 Total gains (losses)	Six months ended June 30, 2012 Total gains (losses)
Loans held for sale	$ 2,601	0	2,601	0	26	(30)
Mortgage servicing rights	1,533	0	1,533	0	0	0
Loans [(1)]	41,983	0	41,983	0	(273)	(1,374)
Real estate, net [(2)]	12,732	0	12,732	0	(303)	(442)

Total	$ 58,849	0	58,849	0	(550)	(1,846)

	Carrying value at December 31, 2011				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Year ended December 31, 2011 Total Gains (Losses)
Loans held for sale	$ 3,709	0	3,709	0	129
Mortgage servicing rights	1,485	0	1,485	0	0
Loans [(1)]	38,162	0	38,162	0	(4,167)
Real estate, net [(2)]	16,616	0	16,616	0	(2,690)
Assets held for sale	1,583	0	1,583	0	0
Deposits held for sale	36,048	0	36,048	0	0
Total	$ 97,603	0	97,603	0	(6,728)

(1) Represents the carrying value and related specific reserves on loans for which adjustments are based on the appraised value of the collateral. The carrying value of loans fully charged-off is zero.

(2) Represents the fair value and related losses of foreclosed real estate and other collateral owned that were measured at fair value subsequent to their initial classification as foreclosed assets.

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(6) Fair Value of Financial Instruments

Generally accepted accounting principles require interim reporting period disclosure about the fair value of financial instruments, including assets, liabilities and off-balance sheet items for which it is practicable to estimate fair value. The fair value hierarchy level for each asset and liability, as defined in note 5, have been included in the following table for June 30, 2012 as required by the adoption of ASU 2011-04 in the first quarter of 2012. The fair value estimates are made based upon relevant market information, if available, and upon the characteristics of the financial instruments themselves. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based upon judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. The estimated fair value of the Company s financial instruments as of June 30, 2012 and December 31, 2011 are shown below.

	June 30, 2012						December 31, 2011		
			Fair value hierarchy						
(Dollars in thousands)	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3	Contract amount	Carrying amount	Estimated fair value	Contract Amount
Financial assets:									
Cash and cash equivalents	$ 65,618	65,618	65,618				67,840	67,840	
Securities available for sale	76,289	76,289	146	76,143			126,114	126,114	
Loans held for sale	2,601	2,601		2,601			3,709	3,709	
Loans receivable, net	496,178	505,096		505,096			555,908	566,266	
Federal Home Loan Bank stock	4,063	4,063		4,063			4,222	4,222	
Accrued interest receivable	1,980	1,980		1,980			2,449	2,449	
Assets held for sale	0	0					1,583	1,605	
Financial liabilities:									
Deposits	534,297	534,297		534,297			620,128	620,128	
Deposits held for sale	0	0					36,048	36,048	
Federal Home Loan Bank advances	70,000	74,296		74,296			70,000	74,433	
Accrued interest payable	518	518		518			780	780	
Off-balance sheet financial instruments:									
Commitments to extend credit	30	30				90,266	29	29	91,113
Commitments to sell loans	(67)	(67)				5,810	(94)	(94)	7,263

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates their fair value.

Securities Available for Sale

The fair values of securities were based upon quoted market prices for identical or similar instruments in active markets.

Loans Held for Sale

The fair values of loans held for sale were based upon quoted market prices for loans with similar interest rates and terms to maturity.

Loans Receivable

The fair values of loans receivable were estimated for groups of loans with similar characteristics. The fair value of the loan portfolio, with the exception of the adjustable rate portfolio, was calculated by discounting the scheduled cash flows through the estimated maturity using anticipated prepayment speeds and using discount rates that reflect the credit and interest rate risk inherent in each loan portfolio. The fair value of the adjustable loan portfolio was estimated by grouping the loans with similar characteristics and comparing the characteristics of each group to the prices quoted for similar types of loans in the secondary market. This method of estimating fair value does not incorporate the exit-price concept of fair value prescribed by ASC 820, Fair Value Measurements and Disclosures.

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Federal Home Loan Bank Stock

The carrying amount of FHLB stock approximates its fair value.

Accrued Interest Receivable

The carrying amount of accrued interest receivable approximates its fair value since it is short-term in nature and does not present unanticipated credit concerns.

Deposits

The fair value of demand deposits, savings accounts and certain money market account deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. If the fair value of the fixed maturity certificates of deposit is calculated at less than the carrying amount, the carrying value of these deposits is reported as the fair value.

The fair value estimate for deposits does not include the benefit that results from the low cost funding provided by the Company s existing deposits and long-term customer relationships compared to the cost of obtaining different sources of funding. This benefit is commonly referred to as the core deposit intangible.

Federal Home Loan Bank Advances

The fair values of advances with fixed maturities are estimated based on discounted cash flow analysis using as discount rates the interest rates charged by the FHLB for borrowings of similar remaining maturities.

Accrued Interest Payable

The carrying amount of accrued interest payable approximates its fair value since it is short-term in nature.

Commitments to Extend Credit

The fair values of commitments to extend credit are estimated using the fees normally charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties.

Commitments to Sell Loans

The fair values of commitments to sell loans are estimated using the quoted market prices for loans with similar interest rates and terms to maturity.

(7) Other Comprehensive Income (Loss)

Other comprehensive income (loss) is defined as the change in equity during a period from transactions and other events from nonowner sources. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss), which for the Company is comprised of unrealized gains and losses on securities available for sale. The components of other comprehensive income (loss) and the related tax effects were as follows:

	For the three months ended June 30,					
		2012			2011	
(Dollars in thousands)	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Securities available for sale:						
Net unrealized gains (losses) arising during the period	$ (93)	0	(93)	514	76	438

Other comprehensive income (loss)	$ (93)	0	(93)	514	76	438

	For the six months ended June 30,					
		2012			2011	
(Dollars in thousands)	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Securities available for sale:						
Net unrealized gains (losses) arising during the period	$ (272)	0	(272)	324	0	324
Other comprehensive income (loss)	$ (272)	0	(272)	324	0	324

(8) Securities Available For Sale

The following table shows the gross unrealized losses and fair value for the securities available for sale portfolio, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2012 and December 31, 2011.

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	June 30, 2012							
	Less than twelve months			Twelve months or more			Total	
(Dollars in thousands)	# of Investments	Fair Value	Unrealized Losses	# of Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other marketable securities:								
Corporate preferred stock	0	$ 0	0	1	$ 245	(455)	$ 245	(455)
Total temporarily impaired securities	0	$ 0	0	1	$ 245	(455)	$ 245	(455)

	December 31, 2011							
	Less than twelve months			Twelve months or more			Total	
(Dollars in thousands)	# of Investments	Fair Value	Unrealized Losses	# of Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other marketable securities:								