MidWestOne Financial Group, Inc.
Form 10-Q
August 04, 2011

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, 2011

OR

o 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 000-24630

MIDWESTONE FINANCIAL GROUP, INC.

102 South Clinton Street
Iowa City, IA 52240
(Address of principal executive offices, including Zip Code)

Registrant's telephone number: 319-356-5800

Iowa	42-1206172
(State of Incorporation)	(I.R.S. Employer Identification No.)

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. x Yes o 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). x Yes o 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of August 2, 2011, there were 8,628,221 shares of common stock, $1.00 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	$23,193	$ 13,720
Interest-bearing deposits in banks	18,153	6,077
Federal funds sold	419	726
Cash and cash equivalents	41,765	20,523
Investment securities:		
Available for sale	501,211	461,954
Held to maturity (fair value of $2,502 as of June 30, 2011 and $4,086 as of December 31, 2010)	2,493	4,032
Loans held for sale	312	702
Loans	958,199	938,035
Allowance for loan losses	(15,603)	(15,167)
Net loans	942,596	922,868
Loan pool participations, net	56,664	65,871
Premises and equipment, net	25,472	26,518
Accrued interest receivable	9,199	10,648
Other intangible assets, net	10,695	11,143
Bank-owned life insurance	27,227	26,772
Other real estate owned	3,418	3,850
Deferred income taxes	3,370	6,430
Other assets	20,951	19,948
Total assets	$1,645,373	$ 1,581,259
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	$153,617	$ 129,978
Interest-bearing checking	461,197	442,878
Savings	77,329	74,826
Certificates of deposit under $100,000	369,023	380,082
Certificates of deposit $100,000 and over	195,121	191,564
Total deposits	1,256,287	1,219,328
Securities sold under agreements to repurchase	48,189	50,194
Federal Home Loan Bank borrowings	144,961	127,200
Deferred compensation liability	3,681	3,712
Long-term debt	15,464	15,464
Accrued interest payable	1,777	1,872
Other liabilities	6,377	5,023
Total liabilities	1,476,736	1,422,793
Shareholders' equity:		
	$15,802	$ 15,767

Preferred stock, no par value, with a liquidation preference of $1,000.00 per share; authorized 500,000 shares; issued 16,000 shares as of June 30, 2011 and December 31, 2010		
Common stock, $1.00 par value; authorized 15,000,000 shares at June 30, 2011 and December 31, 2010; issued 8,690,398 shares at June 30, 2011 and December 31, 2010; outstanding 8,628,221 shares at June 30, 2011 and 8,614,790 shares at December 31, 2010	8,690	8,690
Additional paid-in capital	81,232	81,268
Treasury stock at cost, 62,177 shares as of June 30, 2011 and 75,608 shares at December 31, 2010	(865)	(1,052)
Retained earnings	60,449	55,619
Accumulated other comprehensive income (loss)	3,329	(1,826)
Total shareholders' equity	168,637	158,466
Total liabilities and shareholders' equity	$1,645,373	$ 1,581,259

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (dollars in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest income:				
Interest and fees on loans	$12,976	$13,761	$25,776	$27,465
Interest and discount on loan pool participations	436	909	790	1,808
Interest on bank deposits	8	17	16	27
Interest on federal funds sold	1	4	1	4
Interest on investment securities:				
Taxable securities	2,866	2,445	5,554	4,670
Tax-exempt securities	1,072	986	2,107	1,976
Total interest income	17,359	18,122	34,244	35,950
Interest expense:				
Interest on deposits:				
Interest-bearing checking	994	1,133	2,002	2,203
Savings	58	43	117	79
Certificates of deposit under $100,000	2,120	2,455	4,307	4,998
Certificates of deposit $100,000 and over	839	918	1,687	1,885
Total interest expense on deposits	4,011	4,549	8,113	9,165
Interest on federal funds purchased	3	1	3	2
Interest on securities sold under agreements to repurchase	67	70	141	146
Interest on Federal Home Loan Bank borrowings	868	1,183	1,813	2,390
Interest on notes payable	10	11	20	24
Interest on long-term debt	163	152	325	300
Total interest expense	5,122	5,966	10,415	12,027
Net interest income	12,237	12,156	23,829	23,923
Provision for loan losses	900	1,500	1,800	3,000
Net interest income after provision for loan losses	11,337	10,656	22,029	20,923
Noninterest income:				
Trust, investment, and insurance fees	1,156	1,214	2,429	2,448
Service charges and fees on deposit accounts	955	1,034	1,806	1,898
Mortgage origination and loan servicing fees	382	525	1,259	1,025
Other service charges, commissions and fees	677	576	1,356	1,160
Bank-owned life insurance income	225	147	454	314
Impairment losses on investment securities	—	—	—	(189)
Gain on sale of available for sale securities	85	233	85	470
Loss on sale of premises and equipment	(195)	(204)	(243)	(281)
Total noninterest income	3,285	3,525	7,146	6,845
Noninterest expense:				
Salaries and employee benefits	5,739	5,691	11,609	11,481
Net occupancy and equipment expense	1,498	1,630	3,115	3,406
Professional fees	688	659	1,365	1,408
Data processing expense	426	414	876	871

FDIC Insurance expense	356	705	953	1,397
Other operating expense	1,588	1,563	3,011	3,147
Total noninterest expense	10,295	10,662	20,929	21,710
Income before income tax expense	4,327	3,519	8,246	6,058
Income tax expense	1,104	914	2,118	1,449
Net income	$3,223	$2,605	$6,128	$4,609
Less: Preferred stock dividends and discount accretion	$218	$217	$435	$434
Net income available to common shareholders	$3,005	$2,388	$5,693	$4,175
Share and Per share information:				
Ending number of shares outstanding	8,628,221	8,612,582	8,628,221	8,612,582
Average number of shares outstanding	8,627,810	8,612,582	8,624,782	8,610,231
Diluted average number of shares	8,674,558	8,643,233	8,678,787	8,628,756
Earnings per common share - basic	$0.35	$0.27	$0.66	$0.48
Earnings per common share - diluted	0.35	0.27	0.66	0.48
Dividends paid per common share	0.05	0.05	0.10	0.10

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND OTHER COMPREHENSIVE INCOME (LOSS)

(unaudited) (dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Captial	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2009	$15,699	$ 8,690	$ 81,179	$(1,183)	$48,079	$ (256)	$152,208
Comprehensive income:							
Net income	—	—	—	—	4,609	—	4,609
Change in net unrealized gains arising during the period on securities available for sale, net of tax	—	—	—	—	—	1,717	1,717
Total comprehensive income							6,326
Dividends paid on common stock ($0.10 per share)	—	—	—	—	(861)	—	(861)
Dividends paid on preferred stock	—	—	—	—	(400)	—	(400)
Stock options exercised (1,945 shares)	—	—	(11)	27	—	—	16
Release/lapse of restriction on 5,404 RSUs	—	—	(74)	74	—	—	—
Preferred stock discount accretion	34	—	—	—	(34)	—	—
Stock compensation	—	—	98	—	—	—	98
Balance at June 30, 2010	$15,733	$ 8,690	$ 81,192	$(1,082)	$51,393	$ 1,461	$157,387
Balance at December 31, 2010	$15,767	$ 8,690	$ 81,268	$(1,052)	$55,619	$ (1,826)	$158,466
Comprehensive income:							
Net income	—	—	—	—	6,128	—	6,128
Change in net unrealized gains arising during the period on securities available for sale, net of tax	—	—	—	—	—	5,155	5,155
Total comprehensive income							11,283
Dividends paid on common stock ($0.10 per share)	—	—	—	—	(863)	—	(863)
Dividends paid on preferred stock	—	—	—	—	(400)	—	(400)
Stock options exercised (3,488 shares)	—	—	(9)	49	—	—	40
Release/lapse of restriction on 10,650 RSUs	—	—	(135)	138	—	—	3
Preferred stock discount accretion	35	—	—	—	(35)	—	—
Stock compensation	—	—	108	—	—	—	108
Balance at June 30, 2011	$15,802	$ 8,690	$ 81,232	$(865)	$60,449	$ 3,329	$168,637

See accompanying notes to consolidated financial statements.

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MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$6,128	$4,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,800	3,000
Depreciation, amortization and accretion	2,588	3,003
Loss on sale of premises and equipment	243	281
Deferred income taxes	(5)	(553)
Stock-based compensation	108	98
Net gains on sale of available for sale securities	(85)	(470)
Net gains on sale of other real estate owned	(158)	(53)
Writedown of other real estate owned	—	112
Other-than-temporary impairment of investment securities	—	189
Decrease (increase) in loans held for sale	390	(9)
Decrease in accrued interest receivable	1,449	1,634
Increase in other assets	(1,003)	(541)
Decrease in deferred compensation liability	(31)	(46)
Increase in accounts payable, accrued expenses, and other liabilities	1,259	2,515
Net cash provided by operating activities	12,683	13,769
Cash flows from investing activities:		
Sales of available for sale securities	—	14,458
Maturities of available for sale securities	64,238	49,369
Purchases of available for sale securities	(96,412)	(116,428)
Maturities of held to maturity securities	1,540	2,647
Loans made to customers, net of collections	(21,716)	8,076
Decrease in loan pool participations, net	9,207	6,163
Purchases of premises and equipment	(531)	(2,182)
Proceeds from sale of other real estate owned	778	1,543
Proceeds from sale of premises and equipment	175	1,610
Purchases of bank-owned life insurance	—	—
Increase in cash value of bank-owned life insurance	(454)	(314)
Net cash used in investing activities	(43,175)	(35,058)
Cash flows from financing activities:		
Net increase in deposits	36,959	15,719
Net increase in federal funds purchased	—	7,967
Net decrease in securities sold under agreements to repurchase	(2,005)	(4,545)
Proceeds from Federal Home Loan Bank borrowings	51,000	25,000
Repayment of Federal Home Loan Bank borrowings	(33,000)	(23,000)
Stock options exercised	43	16
Payments on long-term debt	—	(24)
Dividends paid	(1,263)	(1,261)
Net cash provided by financing activities	51,734	19,872
Net increase (decrease) in cash and cash equivalents	21,242	(1,417)
Cash and cash equivalents at beginning of period	20,523	27,588
Cash and cash equivalents at end of period	$41,765	$26,171

Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$10,509	$12,428
Cash paid during the period for income taxes	$857	$1,683
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$188	$601

See accompanying notes to consolidated financial statements.

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MidWestOne Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1.Principles of Consolidation and Presentation

MidWestOne Financial Group, Inc. (“MidWestOne” or the “Company,” which is also referred to herein as “we,” “our” or “us”) is an Iowa corporation incorporated in 1983, a bank holding company under the Bank Holding Company Act of 1956 and a financial holding company under the Gramm-Leach-Bliley Act of 1999. Our principal executive offices are located at 102 South Clinton Street, Iowa City, Iowa 52240.

The Company owns 100% of the outstanding common stock of MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa (the “Bank”), and 100% of the common stock of MidWestOne Insurance Services, Inc., Oskaloosa, Iowa. We operate primarily through our bank subsidiary, MidWestOne Bank, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business, through three offices located in central and east-central Iowa.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with generally accepted accounting principles. The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of MidWestOne, which contains the latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2010 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2011, and the results of operations and cash flows for the three and six months ended June 30, 2011 and 2010. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring items, considered necessary for fair presentation. The results for the three and six months ended June 30, 2011 may not be indicative of results for the year ending December 31, 2011, or for any other period.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the December 31, 2010 Annual Report on Form 10-K. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold.

2.Shareholders' Equity

Repurchase of Preferred Stock and Common Stock Warrant: On July 6, 2011, the Company announced that it had repurchased the 16,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Preferred Stock"), issued to the U.S. Department of the Treasury (the “Treasury”) under the Capital Purchase Program (the “CPP”) for an aggregate repurchase price of $16.0 million. As a result of the repurchase of the Preferred Stock, the Company accelerated the amortization of the issuance discount on the Preferred Stock in the amount of $193,000, which along with accrued dividends paid of $113,000, will reduce net income available to common shareholders in the results of operations of the third quarter of 2011 in the same manner as that for preferred dividends. It is projected that the acceleration of the issuance discount amortization will reduce net earnings available to common shareholders by approximately 2 cents per share.

On July 27, 2011, the Company announced that it had repurchased the common stock warrant issued to the Treasury as part of the CPP for $1.0 million. The warrant had allowed Treasury to purchase 198,675 shares of MidWestOne common stock at $12.08 per share.

Common Stock: The number of authorized shares of common stock for the Company is 15,000,000.

3.Earnings per Common Share

Basic earnings per common share computations are based on the weighted average number of shares of common stock actually outstanding during the period. The weighted average number of shares outstanding for the three months ended

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June 30, 2011 and 2010 was 8,627,810 and 8,612,582, respectively. The weighted average number of shares outstanding for the six months ended June 30, 2011 and 2010 was 8,624,782 and 8,610,231, respectively. Diluted earnings per share amounts are computed by dividing net income available to common shareholders by the weighted average number of shares outstanding and all dilutive potential shares outstanding during the period. The computation of diluted earnings per share used a weighted average diluted number of shares outstanding of 8,674,558 and 8,643,233 for the three months ended June 30, 2011 and 2010, respectively, and 8,678,787 and 8,628,756 for the six months ended June 30, 2011 and 2010, respectively.

The following table presents the computation of earnings per common share for the respective periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share amounts)	2011	2010	2011	2010
Weighted average number of shares outstanding during the period	8,627,810	8,612,582	8,624,782	8,610,231
Weighted average number of shares outstanding during the period including all dilutive potential shares	8,674,558	8,643,233	8,678,787	8,628,756
Net income	$3,223	$2,605	$6,128	$4,609
Preferred stock dividend accrued and discount accretion	(218)	(217)	(435)	(434)
Net income available to common stockholders	$3,005	$2,388	$5,693	$4,175
Earnings per share - basic	$0.35	$0.27	$0.66	$0.48
Earnings per share - diluted	$0.35	$0.27	$0.66	$0.48

4.Investment Securities

A summary of investment securities available for sale is as follows:

	As of June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	$67,051	$1,586	$(22)	$68,615
State and political subdivisions	194,286	6,609	(247)	200,648
Mortgage-backed securities and collateralized mortgage obligations	218,667	5,934	(39)	224,562
Corporate debt securities	6,405	257	(801)	5,861
	486,409	14,386	(1,109)	499,686
Other equity securities	1,188	337	—	1,525
Total	$487,597	$14,723	$(1,109)	$501,211

	As of December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. Government agencies and corporations	$79,181	$1,492	$(339)	$80,334
State and political subdivisions	187,847	3,994	(1,753)	190,088
Mortgage-backed securities and collateralized mortgage obligations	177,453	2,743	(412)	179,784
Corporate debt securities	10,896	349	(973)	10,272
	455,377	8,578	(3,477)	460,478
Other equity securities	1,183	296	(3)	1,476

Total	$456,560	$8,874	$(3,480)	$461,954

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A summary of investment securities held to maturity is as follows:

	As of June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	$1,577	$4	$—	$1,581
Mortgage-backed securities	47	5	—	52
Corporate debt securities	869	—	—	869
Total	$2,493	$9	$—	$2,502

	As of December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
State and political subdivisions	$3,115	$49	$—	$3,164
Mortgage-backed securities	50	5	—	55
Corporate debt securities	867	—	—	867
Total	$4,032	$54	$—	$4,086

The summary of available for sale investment securities shows that some of the securities in the available for sale investment portfolio had unrealized losses, or were temporarily impaired, as of June 30, 2011 and December 31, 2010. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date. Securities which were temporarily impaired are shown below, along with the length of the impairment period.

The following presents information pertaining to securities with gross unrealized losses as of June 30, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

		As of June 30, 2011					
	Number of Securities	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands, except number of securities)							
U.S. Government agencies and corporations	1	$7,420	$ (22)	$—	$ —	$7,420	$ (22)
State and political subdivisions	38	15,489	(247)	—	—	15,489	(247)
Mortgage-backed securities and collateralized mortgage obligations	1	8,548	(39)	—	—	8,548	(39)
Corporate debt securities	4	—	—	971	(801)	971	(801)
Common stocks	—	—	—	—	—	—	—
Total	44	$31,457	$ (308)	$971	$ (801)	$32,428	$ (1,109)

		As of December 31, 2010					
	Number of Securities	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

(in thousands, except number of securities)							
U.S. Government agencies and corporations	2	$12,828	$ (339)	$—	$ —	$12,828	$ (339)
State and political subdivisions	93	53,326	(1,750)	112	(3)	53,438	(1,753)
Mortgage-backed securities and collateralized mortgage obligations	9	77,115	(412)	—	—	77,115	(412)
Corporate debt securities	4	799	(973)	—	—	799	(973)
Common stocks	1	71	(3)	—	—	71	(3)
Total	109	$144,139	$ (3,477)	$112	$ (3)	$144,251	$ (3,480)

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The Company's assessment of other-than-temporary impairment (“OTTI”) is based on its reasonable judgment of the specific facts and circumstances impacting each individual security at the time such assessments are made. The Company reviews and considers factual information, including expected cash flows, the structure of the security, the credit quality of the underlying assets and the current and anticipated market conditions.

All of the Company's mortgage-backed securities are issued by government-sponsored agencies. The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities do not expose the Company to credit-related losses. The Company's mortgage-backed securities portfolio consisted of securities underwritten to the standards of, and guaranteed by, the government-sponsored agencies of FHLMC, FNMA and GNMA.

The Company believes that the decline in the value of certain obligations of state and political subdivisions was primarily related to an overall widening of market spreads for many types of fixed income products since 2008, reflecting, among other things, reduced liquidity and the downgrades on the underlying credit default insurance providers. At June 30, 2011, approximately 60% of the municipal bonds held by the Company were Iowa based. The Company does not intend to sell these municipal obligations, and it is more likely than not that the Company will not be required to sell them until the recovery of its cost at maturity. Due to the issuers' continued satisfaction of their obligations under the securities in accordance with their contractual terms and the expectation that they will continue to do so, management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the municipal obligations identified in the tables above were temporarily depressed as of June 30, 2011 and December 31, 2010.

At June 30, 2011, the Company owned six collateralized debt obligations backed by pools of trust preferred securities with an original cost basis of $9.75 million. They are secured by trust preferred securities of banks and insurance companies throughout the United States, and were rated as investment grade securities when purchased between March 2006 and December 2007. However, due to several impairment charges recognized since 2008, the book value of these securities at June 30, 2011 had been reduced to $1.8 million. Two of the securities have been written down to a value of zero, with the remaining four having an average cost basis of 29.5% of their original face value. All of the Company's trust preferred collateralized debt obligations are in mezzanine tranches and are currently rated less than investment grade by Moody's Investor Services. The market for these securities is considered to be inactive according to the guidance issued in FASB ASC Topic 820, “Fair Value Measurements and Disclosures.” The Company used a discounted cash flow model to determine the estimated fair value of its pooled trust preferred collateralized debt obligations and to assess OTTI. The discounted cash flow analysis was performed in accordance with FASB ASC Topic 325. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), estimated deferral and default rates on collateral, and estimated cash flows. As part of its analysis of the collateralized debt obligations, the Company subjects the securities to a stress scenario which involves a level of deferrals or defaults in the collateral pool in excess of what the Company believes is likely.

At June 30, 2011, the analysis of the Company's six investments in pooled trust preferred securities indicated that the unrealized loss was temporary and that it is more likely than not that the Company would be able to recover the cost basis of these securities. The pace of new deferrals and/or defaults by the financial institutions underlying these pooled trust preferred securities has slowed in recent quarters, although they remain at high levels. The Company follows the provisions of FASB ASC Topic 320 in determining the amount of the OTTI recorded to earnings. The Company performed a discounted cash flow analysis, using the factors noted above, and determined that no additional OTTI existed for the three and six months ended June 30, 2011, thus no impairment loss was charged to earnings.

It is reasonably possible that the fair values of the Company's investment securities could decline in the future if the overall economy and the financial condition of some of the issuers deteriorate further and the liquidity of these securities remains low. As a result, there is a risk that additional OTTI may occur in the future and any such amounts could be material to the Company's consolidated statements of operations.

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A summary of the contractual maturity distribution of debt investment securities at June 30, 2011 is as follows:

	Available For Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
Due in one year or less	$22,046	$22,386	$455	$455
Due after one year through five years	112,905	116,758	1,122	1,126
Due after five years through ten years	81,538	84,158	—	—
Due after ten years	51,253	51,822	869	869
Mortgage-backed securities and collateralized mortgage obligations	218,667	224,562	47	52
Total	$486,409	$499,686	$2,493	$2,502

For mortgage-backed securities, actual maturities will differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

Other investment securities include investments in Federal Home Loan Bank (“FHLB”) stock. The carrying value of the FHLB stock at June 30, 2011 and December 31, 2010 was $12.1 million and $10.6 million, respectively, which is included in the Other Assets line of the consolidated balance sheets. This security is not readily marketable and ownership of FHLB stock is a requirement for membership in the FHLB Des Moines. The amount of FHLB stock the Bank is required to hold is directly related to the amount of FHLB advances borrowed. Because there are no available market values, this security is carried at cost and evaluated for potential impairment each quarter. Redemption of this investment is at the option of the FHLB.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains (losses) on investments, including impairment losses for the three and six months ended June 30, 2011 and 2010, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
(in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	$85	$233	$85	$430
Gross realized losses	—	—	—	—
Other-than temporary impairment	—	—	—	(189)
	85	233	85	241
Equity securities:				
Gross realized gains	—	—	—	49
Gross realized losses	—	—	—	(9)
Other-than temporary impairment	—	—	—	—
	—	—	—	40
	$85	$233	$85	$281

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5.Loans Receivable and the Allowance for Loan Losses

The composition of loans and loan pools, and changes in the allowance for loan losses by portfolio segment are as follows:

Allowance for Loan Losses and Recorded Investment in Loan Receivables
As of June 30, 2011 and December 31, 2010

(in thousands)	Agricultural	Commercial and Financial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
June 30, 2011							
Allowance for loan losses:							
Ending balance	$1,328	$5,001	$ 5,715	$2,675	$360	$ 524	$15,603
Ending balance: Individually evaluated for impairment	267	530	342	192	8	—	$1,339
Ending balance: Collectively evaluated for impairment	1,061	4,471	5,373	2,483	352	524	$14,264
Ending balance: Loans acquired with deteriorated credit quality (loan pools)	9	262	569	372	114	808	$2,134
Loans receivable							
Ending balance	$81,277	$230,066	$ 398,757	$226,928	$21,171	$ —	$958,199
Ending balance: Individually evaluated for impairment	$1,723	$1,214	$ 3,184	$1,221	$26	$ —	$7,368
Ending balance: Collectively evaluated for impairment	$79,554	$228,852	$ 395,573	$225,707	$21,145	$ —	$950,831
Ending balance: Loans acquired with deteriorated credit quality (loan pools)	$121	$4,805	$ 34,979	$6,585	$210	$ 12,098	$58,798

(in thousands)	Agricultural	Commercial and Financial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2010							
Allowance for loan losses:							