

NORTHEAST BANCORP /ME/
Form 10-Q
February 09, 2017
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2016

Commission File Number: 1-14588

Northeast Bancorp

(Exact name of registrant as specified in its charter)

Maine **01-0425066**
(State or other jurisdiction of incorporation or organization) **(I.R.S. Employer Identification No.)**

500 Canal Street, Lewiston, Maine **04240**
(Address of Principal executive offices) **(Zip Code)**

(207) 786-3245

Registrant's telephone number, including area code

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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 subjected to such filing requirements for the past 90 days. Yes No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No ___

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 definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one): Large accelerated filer ___ Accelerated filer Non-accelerated filer ___ Smaller Reporting Company ___

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of February 2, 2017, the registrant had outstanding 7,518,705 shares of voting common stock, \$1.00 par value per share and 1,312,530 shares of non-voting common stock, \$1.00 par value per share.

Table of Contents

Part I.	<u>Financial Information</u>	3
	Item 1. <u>Financial Statements (unaudited)</u>	3
	<u>Consolidated Balance Sheets December 31, 2016 and June 30, 2016</u>	3
	<u>Consolidated Statements of Income Three Months Ended December 31, 2016 and 2015 Six Months Ended December 31, 2016 and 2015</u>	4
	<u>Consolidated Statements of Comprehensive Income Three Months Ended December 31, 2016 and 2015 Six Months Ended December 31, 2016 and 2015</u>	5
	<u>Consolidated Statements of Changes in Shareholders' Equity Six Months Ended December 31, 2016 and 2015</u>	6
	<u>Consolidated Statements of Cash Flows Six Months Ended December 31, 2016 and 2015</u>	7
	<u>Notes to Consolidated Financial Statements</u>	8
	Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
	Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u>	44
	Item 4. <u>Controls and Procedures</u>	45
Part II.	<u>Other Information</u>	45
	Item 1. <u>Legal Proceedings</u>	45
	Item 1A. <u>Risk Factors</u>	45
	Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
	Item 3. <u>Defaults Upon Senior Securities</u>	46
	Item 4. <u>Mine Safety Disclosures</u>	46
	Item 5. <u>Other Information</u>	46
	Item 6. <u>Exhibits</u>	46

Table of Contents

PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

**NORTHEAST
BANCORP AND
SUBSIDIARY
CONSOLIDATED
BALANCE
SHEETS**

(Unaudited)
(Dollars in
thousands, except
share and per share
data)

	December 31, 2016	June 30, 2016
Assets		
Cash and due from banks	\$2,586	\$2,459
Short-term investments	109,610	148,698
Total cash and cash equivalents	112,196	151,157
Available-for-sale securities, at fair value	90,533	100,572
Residential real estate loans held for sale	5,217	6,449
SBA loans held for sale	3,762	1,070
Total loans held for sale	8,979	7,519
Loans		
Commercial real estate	503,448	426,568
Residential real estate	106,949	113,962
Commercial and industrial	151,228	145,956
Consumer	5,313	5,950
Total loans	766,938	692,436
Less: Allowance for loan losses	3,107	2,350
Loans, net	763,831	690,086
Premises and equipment, net	7,179	7,801
Real estate owned and other repossessed collateral, net	3,145	1,652
Federal Home Loan Bank stock, at cost	1,938	2,408
Intangible assets, net	1,514	1,732
Bank owned life insurance	15,953	15,725
Other assets	7,391	7,501

Total assets	\$1,012,659	\$986,153
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand	\$76,721	\$66,686
Savings and interest checking	107,386	107,218
Money market	319,933	275,437
Time	335,531	351,091
Total deposits	839,571	800,432
Federal Home Loan Bank advances	20,024	30,075
Subordinated debt	23,469	23,331
Capital lease obligation	1,003	1,128
Other liabilities	13,650	14,596
Total liabilities	897,717	869,562
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at December 31, 2016 and June 30, 2016	-	-
Voting common stock, \$1.00 par value, 25,000,000 shares authorized; 7,487,552 and 8,089,790 shares issued and outstanding at December 31, 2016 and June 30, 2016, respectively	7,487	8,089
Non-voting common stock, \$1.00 par value, 3,000,000 shares authorized; 1,343,683 and 1,227,683 shares issued and outstanding at December 31, 2016 and June 30, 2016, respectively	1,344	1,228
Additional paid-in capital	77,046	83,020
Retained earnings	30,830	26,160
Accumulated other comprehensive loss	(1,765)	(1,906)
Total shareholders' equity	114,942	116,591
Total liabilities and shareholders' equity	\$1,012,659	\$986,153

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

**NORTHEAST
BANCORP AND
SUBSIDIARY
CONSOLIDATED
STATEMENTS
OF INCOME**

(Unaudited)

(Dollars in thousands, except share and per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Interest and dividend income:				
Interest and fees on loans	\$13,913	\$11,719	\$25,716	\$22,509
Interest on available-for-sale securities	247	236	486	464
Other interest and dividend income	172	80	387	176
Total interest and dividend income	14,332	12,035	26,589	23,149
Interest expense:				
Deposits	1,798	1,425	3,553	2,789
Federal Home Loan Bank advances	220	259	475	519
Wholesale repurchase agreements	-	-	-	67
Short-term borrowings	-	5	-	13
Junior subordinated debentures issued to affiliated trusts	468	158	927	312
Obligation under capital lease agreements	13	16	27	33
Total interest expense	2,499	1,863	4,982	3,733
Net interest and dividend income before provision for loan losses	11,833	10,172	21,607	19,416
Provision for loan losses	628	896	820	1,065
Net interest and dividend income after provision for loan losses	11,205	9,276	20,787	18,351
Noninterest income:				
Fees for other services to customers	481	428	889	836
Gain on sales of residential loans held for sale	337	398	878	957
Gain on sales of portfolio loans	1,734	679	2,476	1,354
Loss recognized on real estate owned and other repossessed collateral, net	3	(14)	(11)	(74)
Bank-owned life insurance income	114	112	228	224
Other noninterest income	21	21	38	29
Total noninterest income	2,690	1,624	4,498	3,326

Noninterest expense:				
Salaries and employee benefits	5,161	4,854	10,475	9,110
Occupancy and equipment expense	1,252	1,320	2,481	2,610
Professional fees	399	264	895	694
Data processing fees	410	366	832	714
Marketing expense	97	66	184	136
Loan acquisition and collection expense	547	219	774	663
FDIC insurance premiums	22	116	146	229
Intangible asset amortization	109	131	218	262
Other noninterest expense	959	860	1,577	1,589
Total noninterest expense	8,956	8,196	17,582	16,007
Income before income tax expense	4,939	2,704	7,703	5,670
Income tax expense	1,839	960	2,852	2,059
Net income	3,100	1,744	4,851	3,611
Weighted-average shares outstanding:				
Basic	8,831,235	9,559,369	8,968,690	9,560,913
Diluted	8,864,618	9,569,585	8,999,062	9,567,138
Earnings per common share:				
Basic	\$0.35	\$0.18	\$0.54	\$0.38
Diluted	0.35	0.18	0.54	0.38
Cash dividends declared per common share	\$0.01	\$0.01	\$0.02	\$0.02

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

**NORTHEAST
BANCORP AND
SUBSIDIARY
CONSOLIDATED
STATEMENTS OF
COMPREHENSIVE
INCOME**

(Unaudited)

(Dollars in thousands)

	Three Months Ended December 31, 2016		Six Months Ended December 31, 2016	
	2015	2016	2015	2016
Net income	\$3,100	\$1,744	\$4,851	\$3,611
Other comprehensive income, before tax:				
Available-for-sale securities:				
Change in net unrealized loss on available-for-sale securities	(1,336)	(692)	(1,414)	(226)
Derivatives and hedging activities:				
Change in accumulated gain (loss) on effective cash flow hedges	1,486	284	1,633	(554)
Reclassification adjustments included in net income	8	-	14	-
Total derivatives and hedging activities	1,494	284	1,647	(554)
Total other comprehensive income (loss), before tax	158	(408)	233	(780)
Income tax expense (benefit) related to other comprehensive (loss) income	62	(155)	92	(296)
Other comprehensive income (loss), net of tax	96	(253)	141	(484)
Comprehensive income	\$3,196	\$1,491	\$4,992	\$3,127

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

**NORTHEAST
BANCORP
AND
SUBSIDIARY
CONSOLIDATED
STATEMENTS
OF CHANGES
IN
SHAREHOLDERS'
EQUITY**

(Unaudited)
(Dollars in
thousands, except
share and per
share data)

	Preferred Stock	Voting Common Stock	Common Amount	Non-voting Common Stock	Non-voting Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	
	Shares	Amount	Shares	Amount	Shares	Amount	Amount	Amount	Amount	
Balance at June 30, 2015	-	\$ -	8,575,144	\$ 8,575	1,012,739	\$ 1,013	\$ 85,506	\$ 18,921	\$ (1,288)	\$ 112,727
Net income	-	-	-	-	-	-	3,611	-	3,611	
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	(484)	(484)	
Common stock repurchased	-	-	(125,100)	(125)	-	-	(1,204)	-	(1,329)	
Conversion of voting common stock to non-voting common stock	-	-	(16,371)	(16)	16,371	16	-	-	-	
Dividends on common stock at \$0.02 per share	-	-	-	-	-	-	(192)	-	(192)	
Stock-based compensation	-	-	-	-	-	280	-	-	280	
Issuance of restricted common stock	-	-	100,000	100	-	-	(100)	-	-	
	-	-	(43,054)	(43)	-	-	43	-	-	

Cancellation and forfeiture of restricted common stock										
Balance at December 31, 2015	-	\$ -	8,490,619	\$8,491	1,029,110	\$1,029	\$84,525	\$22,340	\$ (1,772)	\$ 114,613
Balance at June 30, 2016	-	-	8,089,790	\$8,089	1,227,683	\$1,228	\$83,020	\$26,160	\$ (1,906)	\$ 116,591
Net income	-	-	-	-	-	-	-	4,851	-	4,851
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	141	141
Common stock repurchased	-	-	(645,238)	(645)	-	-	(6,298)	-	-	(6,943)
Conversion of voting common stock to non-voting common stock	-	-	(116,000)	(116)	116,000	116	-	-	-	-
Dividends on common stock at \$0.02 per share	-	-	-	-	-	-	-	(181)	-	(181)
Stock-based compensation	-	-	-	-	-	-	483	-	-	483
Issuance of restricted common stock	-	-	160,000	160	-	-	(160)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(1,000)	(1)	-	-	1	-	-	-
Balance at December 31, 2016	-	\$ -	7,487,552	\$7,487	1,343,683	\$1,344	\$77,046	\$30,830	\$ (1,765)	\$ 114,942

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents**NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Dollars in thousands)

	Six Months Ended December 31,	
	2016	2015
Operating activities:		
Net income	\$4,851	\$3,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	820	1,065
(Gain) loss on sale and impairment of real estate owned and other repossessed collateral, net	(70)	68
Loss on sale and disposal of premises and equipment, net	82	6
Accretion of fair value adjustments on loans, net	(5,640)	(5,600)
Accretion of fair value adjustments on deposits, net	(2)	(4)
Accretion of fair value adjustments on borrowings, net	(51)	3
Amortization of subordinated debt issuance costs	138	-
Originations of loans held for sale	(66,778)	(49,640)
Net proceeds from sales of loans held for sale	71,100	64,525
Gain on sales of residential loans held for sale	(878)	(957)
Gain on sales of SBA loans held for sale	(2,476)	(1,354)
Amortization of intangible assets	218	262
Bank-owned life insurance income, net	(228)	(224)
Depreciation of premises and equipment	769	824
Stock-based compensation	483	280
Amortization of available-for-sale securities, net	555	490
Changes in other assets and liabilities:		
Other assets	18	165
Other liabilities	701	(1,027)
Net cash provided by operating activities	3,612	12,493
Investing activities:		
Purchases of available-for-sale securities	(9,056)	(17,548)
Proceeds from maturities and principal payments on available-for-sale securities	17,126	14,400
Loan purchases	(59,886)	(59,311)
Loan originations, principal collections, and purchased loan paydowns, net	(13,413)	(15,424)
Purchases and disposals of premises and equipment, net	(229)	(1,038)
Redemption of Federal Home Loan Bank stock	470	1,531
Proceeds from sales of real estate owned and other repossessed collateral	523	959
Net cash used in investing activities	(64,465)	(76,431)
Financing activities:		
Net increase in deposits	39,141	52,011
Net increase in short-term borrowings	-	77

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Repurchase of common stock	(6,943)	(1,329)
Dividends paid on common stock	(181)	(192)
Repayment of wholesale repurchase agreements	-	(10,000)
Repayment of Federal Home Loan Bank advances	(10,000)	-
Repayment of capital lease obligation	(125)	(116)
Net cash provided by financing activities	21,892	40,451
Net decrease in cash and cash equivalents	(38,961)	(23,487)
Cash and cash equivalents, beginning of period	151,157	89,850
Cash and cash equivalents, end of period	\$112,196	\$66,363
Supplemental schedule of noncash investing activities:		
Transfers from loans to real estate owned and other repossessed collateral	\$1,946	\$614

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

NORTHEAST BANCORP AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

December 31, 2016

1. Basis of Presentation

The accompanying unaudited condensed and consolidated interim financial statements include the accounts of Northeast Bancorp (“Northeast” or the “Company”) and its wholly-owned subsidiary, Northeast Bank (the “Bank”).

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2016 (“Fiscal 2016”) included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”) was issued in August 2015 which defers adoption to annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values, however; the exception requires the Company to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This guidance also changes certain disclosure requirements and other aspects of current US GAAP. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within the fiscal year. Early adoption is permitted for only one of the six amendments. The Company is currently evaluating the impact of the adoption of ASU 2016-01 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities will be required to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within the fiscal year. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships* (“ASU 2016-05”). The new guidance clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company’s financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). The new guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Entities will be required to recognize the income tax effects of awards in the income statement when the awards vest or are settled. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this guidance is not expected to have a significant impact on the Company’s financial statements.

Table of Contents

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* (“ASU 2016-13”). This update is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for fiscal years beginning after December 15, 2019. Early adoption is available as of the fiscal year beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)* (“ASU 2016-15”). This update clarifies and provides guidance on several cash receipt and cash payment classification issues, including debt prepayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a significant impact on the Company’s financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)* (“ASU 2016-18”). This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of ASU 2016-18 on its consolidated financial statements.

Table of Contents**3. Securities Available-for-Sale**

The following presents a summary of the amortized cost, gross unrealized holding gains and losses, and fair value of securities available for sale.

	December 31, 2016			
	Amortized	Gross Unrealized	Gross Unrealized	Fair
	Cost	Gains	Losses	Value
	(Dollars in thousands)			
U.S. Government agency securities	\$48,711	\$ 5	\$ (216)) \$48,500
Agency mortgage-backed securities	37,882	-	(882)) 37,000
Other investment measured at net asset value	5,157	-	(124)) 5,033
	\$91,750	\$ 5	\$ (1,222)) \$90,533

	June 30, 2016			
	Amortized	Gross Unrealized	Gross Unrealized	Fair
	Cost	Gains	Losses	Value
	(Dollars in thousands)			
U.S. Government agency securities	\$51,948	\$ 98	\$ -) \$52,046
Agency mortgage-backed securities	43,330	90	(52)) 43,368
Other investment measured at net asset value	5,097	61	-) 5,158
	\$100,375	\$ 249	\$ (52)) \$100,572

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the three and six months ended December 31, 2016 or 2015. At December 31, 2016, no investment securities were pledged as collateral to secure outstanding borrowings.

The following summarizes the Company's gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

December 31, 2016					
Less than 12 Months		More than 12 Months		Total	
Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Value	Losses	Value	Losses	Value	Losses

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	(Dollars in thousands)					
U.S. Government agency securities	\$42,493	\$ (216)	\$-	\$ -	\$42,493	\$ (216)
Agency mortgage-backed securities	22,574	(375)	14,425	(507)	36,999	(882)
Other investment measured at net asset value	5,033	(124)	-	-	5,033	(124)
	\$70,100	\$ (715)	\$14,425	\$ (507)	\$84,525	\$ (1,222)

	June 30, 2016					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government agency securities	\$-	\$ -	\$-	\$ -	\$-	\$ -
Agency mortgage-backed securities	-	-	25,350	(52)	25,350	(52)
Other investment measured at net asset value	-	-	-	-	-	-
	\$-	\$ -	\$25,350	\$ (52)	\$25,350	\$ (52)

There were no other-than-temporary impairment losses on securities during the three and six months ended December 31, 2016 or 2015.

At December 31, 2016, the Company had seven securities in a continuous loss position for greater than twelve months. At December 31, 2016, all of the Company's available-for-sale securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The decline in fair value of the Company's available-for-sale securities at December 31, 2016 is attributable to changes in interest rates.

In addition to considering current trends and economic conditions that may affect the quality of individual securities within the Company's investment portfolio, management of the Company also considers the Company's ability and intent to hold such securities to maturity or recovery of cost. At December 31, 2016, the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the investment securities before recovery of its amortized cost. As such, management does not believe any of the Company's available-for-sale securities are other-than-temporarily impaired at December 31, 2016.

The investment measured at net asset value is a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies. The underlying composition of the fund is primarily government agencies or other investment-grade investments. As of December 31, 2016, the effective duration of the investments is 5.32 years.

Table of Contents

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of December 31, 2016. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within one year	\$9,230	\$9,224
Due after one year through five years	39,481	39,277
Due after five years through ten years	16,669	16,491
Due after ten years	21,213	20,508
Total	\$86,593	\$85,500

Table of Contents

4. Loans, Allowance for Loan Losses and Credit Quality

Loans are carried at the principal amounts outstanding, or amortized acquired fair value in the case of acquired loans, adjusted by partial charge-offs and net of deferred loan costs or fees. Loan fees and certain direct origination costs are deferred and amortized into interest income over the expected term of the loan using the level-yield method. When a loan is paid off, the unamortized portion is recognized in interest income. Interest income is accrued based upon the daily principal amount outstanding except for loans on nonaccrual status.

Loans purchased by the Company are accounted for under ASC 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"). At acquisition, the effective interest rate is determined based on the discount rate that equates the present value of the Company's estimate of cash flows with the purchase price of the loan. Prepayments are not assumed in determining a purchased loan's effective interest rate and income accretion. The application of ASC 310-30 limits the yield that may be accreted on the purchased loan, or the "accretable yield," to the excess of the Company's estimate, at acquisition, of the expected undiscounted principal, interest, and other cash flows over the Company's initial investment in the loan. The excess of contractually required payments receivable over the cash flows expected to be collected on the loan represents the purchased loan's "nonaccretable difference." Subsequent improvements in expected cash flows of loans with nonaccretable differences result in a prospective increase to the loan's effective yield through a reclassification of some, or all, of the nonaccretable difference to accretable yield. The effect of subsequent credit-related declines in expected cash flows of purchased loans are recorded through a specific allocation in the allowance for loan losses.

Loans are generally placed on nonaccrual status when they are past due 90 days as to either principal or interest, or when in management's judgment the collectability of interest or principal of the loan has been significantly impaired. Loans accounted for under ASC 310-30 are placed on nonaccrual when it is not possible to reach a reasonable expectation of the timing and amount of cash flows to be collected on the loan. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. Interest on nonaccrual loans is accounted for on a cash-basis or using the cost-recovery method when collectability is doubtful. A loan is returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a reasonable period of time.

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"), and therefore by definition is an impaired loan. Concessionary modifications may include adjustments to interest rates, extensions of maturity, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. For loans accounted for under ASC 310-30, the Company evaluates whether it has granted a concession by comparing the restructured debt terms to the expected cash flows at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. As a result, if an ASC 310-30 loan is modified to be consistent with, or better than, the Company's expectations at acquisition, the modified loan would not qualify as a TDR. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six

months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off. The composition of the Company's loan portfolio is as follows on the dates indicated.

	December 31, 2016			June 30, 2016		
	Originated	Purchased	Total	Originated	Purchased	Total
	(Dollars in thousands)					
Residential real estate	\$87,900	\$3,085	\$90,985	\$93,391	\$2,559	\$95,950
Home equity	15,964	-	15,964	18,012	-	18,012
Commercial real estate	253,601	249,847	503,448	189,616	236,952	426,568
Commercial and industrial	150,087	1,141	151,228	145,758	198	145,956
Consumer	5,313	-	5,313	5,950	-	5,950
Total loans	\$512,865	\$254,073	\$766,938	\$452,727	\$239,709	\$692,436

Total loans include net deferred loan origination costs of \$463 thousand and net deferred loan origination fees of \$58 thousand as of December 31, 2016 and June 30, 2016, respectively.

Table of ContentsPast Due and Nonaccrual Loans

The following is a summary of past due and non-accrual loans:

December 31, 2016

	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More- Nonaccrual	Total Past Due	Total Current	Total Loans	Non- Accrual Loans
(Dollars in thousands)								
Originated portfolio:								
Residential real estate	\$1,052	\$823	\$ -	\$ 1,596	\$3,471	\$84,429	\$87,900	\$2,827
Home equity	-	-	-	48	48	15,916	15,964	48
Commercial real estate	882	522	-	137	1,541	252,060	253,601	396
Commercial and industrial	48	-	-	677	725	149,362	150,087	2,659
Consumer	128	28	-	19	175	5,138	5,313	48
Total originated portfolio	2,110	1,373	-	2,477	5,960	506,905	512,865	5,978
Purchased portfolio:								
Residential real estate	1	-	-	-	1	3,084	3,085	1,066
Commercial and industrial	219	56	-	35	310	831	1,141	98
Commercial real estate	12,150	713	-	2,721	15,584	234,263	249,847	3,055
Total purchased portfolio	12,370	769	-	2,756	15,895	238,178	254,073	4,219
Total loans	\$14,480	\$2,142	\$ -	\$ 5,233	\$21,855	\$745,083	\$766,938	\$10,197

June 30, 2016

	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More- Nonaccrual	Total Past Due	Total Current	Total Loans	Non- Accrual Loans
(Dollars in thousands)								
Originated portfolio:								
Residential real estate	\$302	\$910	\$ -	\$ 1,555	\$2,767	\$90,624	\$93,391	\$2,613

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Home equity	146	-	-	48	194	17,818	18,012	48
Commercial real estate	132	-	-	188	320	189,296	189,616	474
Commercial and industrial	-	-	-	15	15	145,743	145,758	17
Consumer	73	56	-	74	203	5,747	5,950	163
Total originated portfolio	653	966	-	1,880	3,499	449,228	452,727	3,315
Purchased portfolio:								
Residential real estate	-	-	-	-	-	2,559	2,559	1,125
Commercial and industrial	-	-	-	-	-	198	198	-
Commercial real estate	-	19	-	3,387	3,406	233,546	236,952	3,387
Total purchased portfolio	-	19	-	3,387	3,406	236,303	239,709	4,512
Total loans	\$653	\$985	\$	\$ 5,267	\$6,905	\$685,531	\$692,436	\$7,827

Allowance for Loan Losses and Impaired Loans

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. For residential and consumer loans, a charge-off is recorded no later than the point at which a loan is 180 days past due if the loan balance exceeds the fair value of the collateral, less costs to sell. For commercial loans, a charge-off is recorded on a case-by-case basis when all or a portion of the loan is deemed to be uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses consists of general, specific, and unallocated reserves and reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the appropriateness of the allowance for loan losses on a quarterly basis. The calculation of the allowance for loan losses is segregated by portfolio segments, which include: commercial real estate, commercial and industrial, consumer, residential real estate, and purchased loans. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate: All loans in this segment are collateralized by residential real estate and repayment is primarily dependent on the credit quality, loan-to-value ratio and income of the individual borrower