

CITIZENS HOLDING CO /MS/
Form 10-Q
November 10, 2014
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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 September 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 001-15375

CITIZENS HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Mississippi
**(State or other jurisdiction of
incorporation or organization)**

64-0666512
**(IRS Employer
Identification No.)**

521 Main Street, Philadelphia, MS
(Address of principal executive offices)

39350
(Zip Code)

601-656-4692

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

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

Number of shares outstanding of each of the issuer's classes of common stock, as of November 10, 2014:

Title	Outstanding
Common Stock, \$0.20 par value	4,877,614

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CITIZENS HOLDING COMPANY

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

CITIZENS HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CONDITION

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Cash and due from banks	\$ 19,112,785	\$ 16,040,195
Interest bearing deposits with other banks	14,868,718	684,100
Investment securities held to maturity, at amortized cost	206,261,065	
Investment securities available for sale, at fair value	200,389,756	398,176,402
Loans, net of allowance for loan losses of \$6,727,494 in 2014 and \$8,077,499 in 2013	381,992,340	384,104,766
Premises and equipment, net	19,490,487	18,623,154
Other real estate owned, net	2,272,213	3,751,168
Accrued interest receivable	4,782,450	4,132,053
Cash value of life insurance	22,081,375	22,208,962
Intangible assets, net	3,149,657	3,149,657
Other assets	15,492,593	22,198,442
TOTAL ASSETS	\$ 889,893,439	\$ 873,068,899
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 137,845,185	\$ 120,424,895
Interest-bearing NOW and money market accounts	273,569,192	248,015,410
Savings deposits	59,549,048	53,745,787
Certificates of deposit	224,327,784	232,443,704
Total deposits	695,291,209	654,629,796
Securities sold under agreement to repurchase	82,318,447	82,420,781
Federal funds purchased		27,500,000
Federal Home Loan Bank advances	23,500,000	33,500,000
Accrued interest payable	188,787	199,513
Deferred compensation payable	7,227,777	6,719,948
Other liabilities	1,773,327	1,832,659
Total liabilities	810,299,547	806,802,697
SHAREHOLDERS EQUITY		
	975,482	974,023

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Common stock; \$.20 par value, 22,500,000 shares authorized, 4,877,614 shares outstanding at September 30, 2014 and 4,870,114 shares outstanding at December 31, 2013

Additional paid-in capital	3,827,217	3,748,176
Retained earnings	85,361,191	82,792,524
Accumulated other comprehensive loss, net of tax benefit of \$6,288,053 in 2014 and \$12,640,667 in 2013	(10,569,998)	(21,248,521)
Total shareholders equity	79,593,892	66,266,202
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 889,893,439	\$ 873,068,899

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

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CITIZENS HOLDING COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
INTEREST INCOME				
Loans, including fees	\$ 4,998,738	\$ 5,150,046	\$ 15,110,093	\$ 15,469,869
Investment securities	2,822,783	2,923,893	8,570,907	8,545,222
Other interest	8,285	4,781	20,247	42,195
Total interest income	7,829,806	8,078,720	23,701,247	24,057,286
INTEREST EXPENSE				
Deposits	450,901	458,497	1,291,067	1,473,254
Other borrowed funds	307,841	367,229	930,485	1,769,780
Total interest expense	758,742	825,726	2,221,552	3,243,034
NET INTEREST INCOME	7,071,064	7,252,994	21,479,695	20,814,252
PROVISION FOR LOAN LOSSES	205,027	1,079,838	777,930	1,828,942
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,866,037	6,173,156	20,701,765	18,985,310
OTHER INCOME				
Service charges on deposit accounts	1,043,505	1,028,592	2,937,062	2,833,391
Other service charges and fees	575,169	550,167	1,584,301	1,476,680
Other income	437,223	604,768	1,801,636	1,483,317
Total other income	2,055,897	2,183,527	6,322,999	5,793,388
OTHER EXPENSES				
Salaries and employee benefits	3,242,294	3,280,877	9,850,501	9,923,364
Occupancy expense	1,360,039	1,144,231	3,904,096	3,367,937
Other operating expense	1,836,925	1,425,135	6,099,519	5,263,137
Total other expenses	6,439,258	5,850,243	19,854,116	18,554,438
INCOME BEFORE PROVISION FOR INCOME TAXES	2,482,676	2,506,440	7,170,648	6,224,260
PROVISION FOR INCOME TAXES	584,456	496,977	1,382,756	1,196,607
NET INCOME	\$ 1,898,220	\$ 2,009,463	\$ 5,787,892	\$ 5,027,653

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NET INCOME PER SHARE -Basic	\$	0.39	\$	0.41	\$	1.19	\$	1.03
-Diluted	\$	0.39	\$	0.41	\$	1.19	\$	1.03
DIVIDENDS PAID PER SHARE	\$	0.22	\$	0.22	\$	0.66	\$	0.66

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

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CITIZENS HOLDING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 1,898,220	\$ 2,009,463	\$ 5,787,892	\$ 5,027,653
Other comprehensive income (loss)				
Securities available-for-sale				
Unrealized holding gains (losses)	1,230,555	(8,675,917)	33,198,668	(34,713,829)
Income tax effect	(458,997)	3,236,117	(12,383,103)	12,948,258
	771,558	(5,439,800)	20,815,565	(21,765,571)
Reclassification adjustment for gains included in net income	(5,436)	(268,733)	(14,538)	(423,388)
Income tax effect	2,028	100,238	5,423	157,924
	(3,408)	(168,495)	(9,115)	(265,464)
Securities held-to-maturity				
Unrealized losses transferred to held-to-maturity			(17,061,438)	
Amortization of net unrealized losses transferred during the period	494,536		908,444	
Income tax effect	(184,462)		6,025,067	
	310,074		(10,127,927)	
Total other comprehensive income (loss)	1,078,224	(5,608,295)	10,678,523	(22,031,035)
Comprehensive income (loss)	\$ 2,976,444	\$ (3,598,832)	\$ 16,466,415	\$ (17,003,382)

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

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CITIZENS HOLDING COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by operating activities	\$ 7,248,415	\$ 8,621,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities available for sale	6,869,327	77,076,345
Proceeds from sales of securities available for sale	1,396,134	41,550,629
Purchases of investment securities available for sale		(142,276,646)
Purchases of bank premises and equipment	(1,738,665)	(264,331)
(Decrease) increase in interest bearing deposits with other banks	(14,184,618)	15,507,692
Purchase of Federal Home Loan Bank Stock		(438,600)
Proceeds from sale of other real estate	1,640,220	1,431,927
Redemption of Federal Home Loan Bank Stock	1,292,600	1,052,000
Net decrease (increase) in loans	709,323	(11,040,218)
Net cash used by investing activities	(4,015,679)	(17,401,202)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	40,661,413	6,141,852
Net change in securities sold under agreement to repurchase	(102,334)	3,051,004
Proceeds from exercising stock options		128,949
Decrease in Federal Home Loan Bank advances	(10,000,000)	(13,000,000)
(Decrease) increase in federal funds purchased	(27,500,000)	13,200,000
Payment of dividends	(3,219,225)	(3,213,945)
Net cash (used by) provided by financing activities	(160,146)	6,307,860
Net increase (decrease) in cash and due from banks	3,072,590	(2,471,426)
Cash and due from banks, beginning of period	16,040,195	21,561,288
Cash and due from banks, end of period	\$ 19,112,785	\$ 19,089,862

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

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CITIZENS HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three and nine months ended September 30, 2014

(Unaudited)

Note 1. Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). However, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The interim consolidated financial statements are unaudited and reflect all adjustments and reclassifications, which, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition as of and for the interim periods presented. All adjustments and reclassifications are of a normal and recurring nature. Results for the period ended September 30, 2014 are not necessarily indicative of the results that may be expected for any other interim periods or for the year as a whole.

The interim consolidated financial statements of Citizens Holding Company include the accounts of its wholly-owned subsidiary, The Citizens Bank of Philadelphia (the Bank and collectively with Citizens Holding Company, the Corporation). All significant intercompany transactions have been eliminated in consolidation.

For further information and significant accounting policies of the Corporation, see the Notes to Consolidated Financial Statements of Citizens Holding Company included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission on March 14, 2014.

Note 2. Commitments and Contingent Liabilities

In the ordinary course of business, the Corporation enters into commitments to extend credit to its customers. The unused portion of these commitments is not reflected in the accompanying financial statements. As of September 30, 2014, the Corporation had entered into loan commitments with certain customers with an aggregate unused balance of \$64,321,118 compared to an aggregate unused balance of \$40,701,380 at December 31, 2013. There was \$2,860,480 of letters of credit outstanding at September 30, 2014 and \$2,809,330 at December 31, 2013. The fair value of such contracts is not considered material because letters of credit and loan commitments often are not used in their entirety, if at all, before they expire. The balances of such letters and commitments should not be used to project actual future liquidity requirements. However, the Corporation does incorporate expectations about the level of draws under its credit-related commitments into its asset and liability management program.

The Corporation is a party to lawsuits and other claims that arise in the ordinary course of business, all of which are being vigorously contested. In the regular course of business, management evaluates estimated losses or costs related to litigation, and provisions are made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. At the present time, management believes, based on the advice of legal counsel, that the final resolution of pending legal proceedings will not likely have a material impact on the Corporation s consolidated financial condition or results of operations.

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Net income per share - basic has been computed based on the weighted average number of shares outstanding during each period. Net income per share - diluted has been computed based on the weighted average number of shares outstanding during each period plus the dilutive effect of outstanding stock options using the treasury stock method. Net income per share was computed as follows:

	For the Three Months		For the Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013
Basic weighted average shares outstanding	4,870,114	4,870,114	4,870,114	4,867,475
Dilutive effect of granted options	605	50	550	1,994
Diluted weighted average shares outstanding	4,870,719	4,870,164	4,870,664	4,869,469
Net income	\$ 1,898,220	\$ 2,009,463	\$ 5,787,892	\$ 5,027,653
Net income per share-basic	\$ 0.39	\$ 0.41	\$ 1.19	\$ 1.03
Net income per share-diluted	\$ 0.39	\$ 0.41	\$ 1.19	\$ 1.03

Note 4. Equity Compensation Plans

Prior to the adoption of the 2013 Plan, as defined below, the Corporation utilized two stock-based compensation plans, the 1999 Directors Stock Compensation Plan (the Directors Plan) for directors, and prior to its expiration, the 1999 Employees Long-Term Incentive Plan, (the Employees Plan), for employees.

The following table is a summary of the stock option activity for the nine months ended September 30, 2014.

	Directors Plan Number of Shares	Weighted Average Exercise Price	Employees Plan Number of Shares	Weighted Average Exercise Price	2013 Plan Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2013	103,500	\$ 21.30	82,000	\$ 22.06		\$
Granted						
Exercised						
Expired	(7,500)	22.25	(35,500)	21.95		
Outstanding at September 30, 2014	96,000	\$ 21.23	46,500	\$ 22.14		\$

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The intrinsic value of options granted under the Directors' Plan at September 30, 2014, was \$19,890, the intrinsic value of options granted under the Employees' Plan at September 30, 2014, was \$1,770, and since there were no options granted under the 2013 Plan, the intrinsic value for the 2013 Plan is \$0 for a total intrinsic value at September 30, 2014, of \$21,660.

The Corporation has adopted the 2013 Incentive Compensation Plan (the 2013 Plan), which the Corporation intends to use for all future equity grants to employees, directors or consultants until the termination or expiration of the 2013 Plan. During the first quarter of 2014, the Corporation's directors received restricted stock grants totaling 7,500 shares of common stock. These grants vest over a one-year period during which time the recipients have rights to vote the shares and to receive dividends. The grant date fair value of these shares was \$138,000 and will be recognized over the one year restriction period at a cost of \$11,500 per month less deferred taxes of \$4,290 per month.

Note 5. Income Taxes

The income tax topic of the Accounting Standards Codification (ASC) defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. This topic also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties, and includes guidance concerning accounting for income tax uncertainties in interim periods. As of September 30, 2014, the Corporation had no unrecognized tax benefits related to federal and state income tax matters. Therefore, the Corporation does not anticipate any material increase or decrease in the effective tax rate during 2014 relative to any tax positions taken. It is the Corporation's policy to recognize interest or penalties related to income tax matters in income tax expense.

The Corporation files a consolidated United States federal income tax return. The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for all tax years after 2010. The Corporation's consolidated state income tax returns are also open to audit under the statute of limitations for the same period.

Table of Contents**Note 6. Securities**

The amortized cost and estimated fair value of securities available-for-sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale				
Obligations of U.S. Government agencies	\$ 93,994,260	\$ 94,600	\$ 4,137,370	\$ 89,951,490
Mortgage-backed securities	13,946,468	888,925		14,835,393
State, County, Municipals	90,230,157	3,132,117	608,876	92,753,398
Other investments	3,008,646		159,171	2,849,475
Total	\$ 201,179,531	\$ 4,115,642	\$ 4,905,417	\$ 200,389,756

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale				
Obligations of U.S. Government agencies	\$ 316,305,125	\$ 98,740	\$ 33,587,465	\$ 282,816,400
Mortgage-backed securities	16,476,430	719,825	29,861	17,166,394
State, County, Municipals	96,258,584	2,309,291	3,140,470	95,427,405
Other investments	3,025,451		259,248	2,766,203
Total	\$ 432,065,590	\$ 3,127,856	\$ 37,017,044	\$ 398,176,402

During the second quarter of 2014, the Corporation transferred securities with an amortized cost of \$222,322,423 from the available for sale to the held to maturity. This transfer was completed after consideration of the Corporation's ability and intent to hold these securities to maturity.

The fair value of the securities transferred as of the date of transfer was \$205,260,985 with a net unrealized loss of \$17,061,438. In accordance with ASC 320-10-35-16, the discount on each security that resulted from this transfer is amortized over the remaining lives of the individual securities. Any unrealized holding losses on the date of the transfer are not recognized in net income but remain in accumulated other comprehensive loss. In accordance with ASC 320-10-15-10d, the unrealized loss amounts in accumulated other comprehensive loss are amortized simultaneously against interest income as the discount is accreted on the transferred securities. There is no effect on net income as the discount accretion offsets the accumulated other comprehensive loss amortization.

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The amortized cost and estimated fair value of securities held-to-maturity and the corresponding amounts of gross unrecognized gains and losses were as follows:

September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held-to-maturity				
Obligations of U.S.				
Government agencies	\$ 206,261,065	\$ 4,621,783	\$ 145,899	\$ 210,736,949
Total	\$ 206,261,065	\$ 4,621,783	\$ 145,899	\$ 210,736,949

As of December 31, 2013, the Corporation had not classified any securities as held-to-maturity.

The amortized cost and estimated fair value of securities by contractual maturity at September 30, 2014 and December 31, 2013 are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay certain obligations.

	September 30, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available-for-sale				
Due in one year or less	\$ 3,168,334	\$ 3,185,063	\$ 2,429,035	\$ 2,448,452
Due after one year through five years	27,936,272	29,258,691	25,040,034	26,060,534
Due after five years through ten years	85,207,661	83,975,391	106,046,230	101,286,491
Due after ten years	84,867,266	83,970,611	298,550,291	268,380,925
Total	\$ 201,179,533	\$ 200,389,756	\$ 432,065,590	\$ 398,176,402
Held-to-maturity				
Due after five years through ten years	\$ 18,270,062	\$ 18,495,559	\$	\$
Due after ten years	187,991,003	192,241,390		
Total	\$ 206,261,065	\$ 210,736,949	\$	\$

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The tables below show the Corporation's gross unrealized losses and fair value of available-for-sale and held-to-maturity investments, aggregated by investment category and length of time that individual investments were in a continuous loss position at September 30, 2014 and December 31, 2013.

A summary of unrealized loss information for securities available-for-sale, categorized by security type follows (in thousands):

September 30, 2014	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Obligations of U. S. Government agencies	\$	\$	\$ 88,857	\$ 4,137	\$ 88,857	\$ 4,137
State, County, Municipal	535	1	19,947	608	20,482	609
Other investments			2,849	159	2,849	159
Total	\$ 535	\$ 1	\$ 111,653	\$ 4,904	\$ 112,188	\$ 4,905

December 31, 2013	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Obligations of U. S. Government agencies	\$ 255,350	\$ 29,954	\$ 26,367	\$ 3,633	\$ 281,717	\$ 33,587
Mortgage backed securities	3,581	30			3,581	30
State, County, Municipal	20,131	1,461	10,014	1,680	30,145	3,141
Other investments			2,766	259	2,766	259
Total	\$ 279,062	\$ 31,445	\$ 39,147	\$ 5,572	\$ 318,209	\$ 37,017

A summary of unrealized loss information for securities held-to-maturity categorized by security type follows (in thousands):

September 30, 2014	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Obligations of U. S. Government agencies	\$ 9,331	\$ 33	\$ 9,271	\$ 113	\$ 18,602	\$ 146
Total	\$ 9,331	\$ 33	\$ 9,271	\$ 113	\$ 18,602	\$ 146

There were no securities designated as held-to-maturity as of December 31, 2013.

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The composition of net loans (in thousands) at September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014	December 31, 2013
Real Estate:		
Land Development and Construction	\$ 36,608	\$ 27,224
Farmland	28,643	29,634
1-4 Family Mortgages	102,601	105,489
Commercial Real Estate	146,507	145,369
Total Real Estate Loans	314,359	307,716
Business Loans:		
Commercial and Industrial Loans	48,102	55,813
Farm Production and Other Farm Loans	1,164	1,308
Total Business Loans	49,266	57,121
Consumer Loans:		
Credit Cards	990	1,087
Other Consumer Loans	24,631	26,744
Total Consumer Loans	25,621	27,831
Total Gross Loans	389,246	392,668
Unearned income	(526)	(485)
Allowance for loan losses	(6,728)	(8,078)
Loans, net	\$ 381,992	\$ 384,105

Loans are considered to be past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status, when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether such loans are considered past due. When interest accruals are discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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Period-end, non-accrual loans (in thousands), segregated by class, were as follows:

	September 30, 2014	December 31, 2013
Real Estate:		
Land Development and Construction	\$ 97	\$ 136
Farmland	1,889	352
1-4 Family Mortgages	1,805	1,866
Commercial Real Estate	10,795	8,894
Total Real Estate Loans	14,586	11,248
Business Loans:		
Commercial and Industrial Loans	79	2,224
Total Business Loans	79	2,224
Consumer Loans:		