

OLD SECOND BANCORP INC

Form 10-Q

November 12, 2014

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I

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 September 30, 2014

OR

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

For transition period from        to

Commission File Number 0 -10537

OLD SECOND BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

36-3143493

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

37 South River Street, Aurora, Illinois 60507

(Address of principal executive offices) (Zip Code)

(630) 892-0202

(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 for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act). (check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

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 November 7, 2014, the Registrant had outstanding 29,442,508 shares of common stock, \$1.00 par value per share.



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OLD SECOND BANCORP, INC.

Form 10-Q Quarterly Report

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	(Unaudited) September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 33,260	\$ 33,210
Interest bearing deposits with financial institutions	10,797	14,450
Cash and cash equivalents	44,057	47,660
Securities available-for-sale, at fair value	362,243	372,191
Securities held-to-maturity, at amortized cost	263,040	256,571
Federal Home Loan Bank and Federal Reserve Bank stock	9,058	10,292
Loans held-for-sale	3,422	3,822
Loans	1,140,882	1,101,256
Less: allowance for loan losses	23,330	27,281
Net loans	1,117,552	1,073,975
Premises and equipment, net	42,557	46,005
Other real estate owned	40,877	41,537
Mortgage servicing rights, net	5,640	5,807
Core deposit, net	-	1,177
Bank-owned life insurance (BOLI)	56,438	55,410
Deferred tax assets, net	71,375	75,303
Other assets	16,840	14,284
Total assets	\$ 2,033,099	\$ 2,004,034
Liabilities		
Deposits:		
Noninterest bearing demand	\$ 380,687	\$ 373,389
Interest bearing:		
Savings, NOW, and money market	848,372	836,300
Time	427,696	472,439
Total deposits	1,656,755	1,682,128
Securities sold under repurchase agreements	29,438	22,560
Other short-term borrowings	40,000	5,000
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500

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Other liabilities	10,337	42,776
Total liabilities	1,840,408	1,856,342
Stockholders' Equity		
Preferred stock	47,331	72,942
Common stock	34,365	18,830
Additional paid-in capital	115,290	66,212
Retained earnings	98,786	92,549
Accumulated other comprehensive loss	(7,232)	(7,038)
Treasury stock	(95,849)	(95,803)
Total stockholders' equity	192,691	147,692
Total liabilities and stockholders' equity	\$ 2,033,099	\$ 2,004,034

	September 30, 2014		December 31, 2013	
	Preferred Stock	Common Stock	Preferred Stock	Common Stock
Par value	\$ 1	\$ 1	\$ 1	\$ 1
Liquidation value	1,000	n/a	1,000	n/a
Shares authorized	300,000	60,000,000	300,000	60,000,000
Shares issued	47,331	34,364,734	73,000	18,829,734
Shares outstanding	47,331	29,442,508	73,000	13,917,108
Treasury shares	-	4,922,226	-	4,912,626

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except share data)

	(unaudited) Three Months Ended September 30,		(unaudited) Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest and dividend income				
Loans, including fees	\$ 13,362	\$ 14,327	\$ 39,346	\$ 43,153
Loans held-for-sale	38	38	92	124
Securities:				
Taxable	3,586	3,113	10,440	8,109
Tax exempt	110	148	376	441
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	78	76	232	228
Interest bearing deposits with financial institutions	25	22	60	91
Total interest and dividend income	17,199	17,724	50,546	52,146
Interest expense				
Savings, NOW, and money market deposits	175	206	562	655
Time deposits	1,073	1,674	3,604	5,327
Other short-term borrowings	5	6	10	26
Junior subordinated debentures	1,072	1,336	3,847	3,937
Subordinated debt	199	209	593	610
Notes payable and other borrowings	4	4	12	12
Total interest expense	2,528	3,435	8,628	10,567
Net interest and dividend income	14,671	14,289	41,918	41,579
Loan loss reserve release	-	(1,750)	(2,000)	(6,050)
Net interest and dividend income after provision for loan losses	14,671	16,039	43,918	47,629
Noninterest income				
Trust income	1,483	1,494	4,619	4,666
Service charges on deposits	1,838	1,904	5,354	5,379
Secondary mortgage fees	174	183	441	680
Mortgage servicing gain, net of changes in fair value	252	235	269	1,222
Net gain on sales of mortgage loans	914	814	2,614	4,601
Securities gains (loss), net	1,231	(7)	1,457	2,191
Increase in cash surrender value of bank-owned life insurance	304	419	1,028	1,198
Death benefit realized on bank-owned life insurance	-	6	-	381
Debit card interchange income	1,011	873	2,771	2,565
Other income	1,116	1,549	3,572	4,434
Total noninterest income	8,323	7,470	22,125	27,317
Noninterest expense				

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Salaries and employee benefits	8,856	9,299	27,140	27,508
Occupancy expense, net	1,143	1,266	3,809	3,787
Furniture and equipment expense	989	1,026	2,956	3,274
FDIC insurance	649	987	1,555	3,046
General bank insurance	371	489	1,203	1,829
Amortization of core deposit	154	524	1,177	1,574
Advertising expense	291	347	1,053	841
Debit card interchange expense	418	366	1,208	1,072
Legal fees	332	615	998	1,424
Other real estate expense, net	2,007	2,544	4,665	8,943
Other expense	3,134	3,119	9,148	9,773
Total noninterest expense	18,344	20,582	54,912	63,071
Income before income taxes	4,650	2,927	11,131	11,875
Provision (benefit) for income taxes	1,726	(69,997)	3,984	(69,997)
Net income	\$ 2,924	\$ 72,924	\$ 7,147	\$ 81,872
Preferred stock dividends and accretion of discount	1,065	1,323	3,985	3,917
Dividends waived upon preferred stock redemption	-	-	(5,433)	-
Gain on preferred stock redemption	-	-	(1,348)	-
Net income available to common stockholders	\$ 1,859	\$ 71,601	\$ 9,943	\$ 77,955
Basic earnings per share	\$ 0.06	\$ 5.08	\$ 0.41	\$ 5.52
Diluted earnings per share	0.06	5.08	0.41	5.52

See accompanying notes to consolidated financial statements.



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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Income	\$ 2,924	\$ 72,924	\$ 7,147	\$ 81,872
Unrealized holding (losses) gains on available-for-sale securities arising during the period	(2,224)	(3,411)	397	(16,780)
Related tax benefit (expense)	918	1,405	(161)	6,913
Holding (losses) gains after tax on available-for-sale securities	(1,306)	(2,006)	236	(9,867)
Less: Reclassification adjustment for the net gains realized during the period				
Net realized gains (losses)	1,231	(7)	1,457	2,191
Income tax (expense) benefit on net realized gains (losses)	(504)	3	(597)	(899)
Net realized gains (losses) after tax	727	(4)	860	1,292
Other comprehensive loss on available-for-sale securities	(2,033)	(2,002)	(624)	(11,159)
Accretion of net unrealized holding losses on held-to-maturity transferred from available-for-sale securities	237	87	731	87
Related tax expense	(97)	(36)	(301)	(36)
Other comprehensive income on held-to-maturity securities	140	51	430	51
Total other comprehensive loss	(1,893)	(1,951)	(194)	(11,108)
Total comprehensive income	\$ 1,031	\$ 70,973	\$ 6,953	\$ 70,764

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$ 7,147	\$ 81,872
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of leasehold improvement	1,887	2,147
Change in fair value of mortgage servicing rights	761	(81)
Loan loss reserve release	(2,000)	(6,050)
Gain on recapture of restricted stock	-	(612)
Provision for deferred tax expense (benefit)	4,063	(70,161)
Originations of loans held-for-sale	(85,172)	(151,601)
Proceeds from sales of loans held-for-sale	87,569	160,966
Net gain on sales of mortgage loans	(2,614)	(4,601)
Change in current income taxes payable	(79)	(101)
Increase in cash surrender value of bank-owned life insurance	(1,028)	(1,198)
Death claim on bank-owned life insurance	-	396
Change in accrued interest receivable and other assets	(3,633)	(334)
Change in accrued interest payable and other liabilities	(22,108)	4,341
Net discount accretion on securities	(1,408)	(131)
Securities gains, net	(1,457)	(2,191)
Amortization of core deposit	1,177	1,574
Stock based compensation	189	123
Net gain on sale of other real estate owned	(610)	(1,175)
Provision for other real estate owned losses	2,781	6,537
Net gain on disposal of fixed assets	-	(5)
Loss on transfer of premises to other real estate owned	121	-
Net cash (used in) provided by operating activities	(14,414)	19,715
Cash flows from investing activities		
Proceeds from maturities and calls including pay down of securities available-for-sale	15,430	38,175
Proceeds from sales of securities available-for-sale	264,502	484,112
Purchases of securities available-for-sale	(268,639)	(564,372)
Proceeds from maturities and calls including pay down of securities held-to-maturity	5,934	541
Purchases of securities held-to-maturity	(11,212)	(21,382)
Proceeds from sales of Federal Home Loan Bank stock	1,234	910
Net change in loans	(53,037)	49,885
Improvements in other real estate owned	(637)	(60)

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Proceeds from sales of other real estate owned	12,746	32,103
Proceeds from disposition of fixed assets	1	6
Net purchases of premises and equipment	(721)	(1,538)
Net cash (used in) provided by investing activities	(34,399)	18,380
Cash flows from financing activities		
Net change in deposits	(25,373)	(44,096)
Net change in securities sold under repurchase agreements	6,878	2,844
Net change in other short-term borrowings	35,000	(45,000)
Redemption of preferred stock	(24,321)	-
Proceeds from issuance of common stock	64,395	-
Dividends paid	(11,323)	-
Purchase of treasury stock	(46)	(278)
Net cash provided by (used in) financing activities	45,210	(86,530)
Net change in cash and cash equivalents	(3,603)	(48,435)
Cash and cash equivalents at beginning of period	47,660	128,507
Cash and cash equivalents at end of period	\$ 44,057	\$ 80,072

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - Continued

(In thousands)

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2014	2013
Supplemental cash flow information		
Income taxes paid	\$ -	\$ 266
Interest paid for deposits	4,412	6,144
Interest paid for borrowings	21,425	656
Non-cash transfer of loans to other real estate owned	11,460	14,196
Non-cash transfer of premises to other real estate owned	2,160	-
Non-cash transfer of loans to securities available-for-sale	-	5,329
Non-cash transfer of securities available-for-sale to securities held-to-maturity	-	237,154
Change in dividends accrued and declared but not paid	(9,123)	510
Accretion on preferred stock discount	58	798
Fair value difference on recapture of restricted stock	-	43

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in

Stockholders' Equity

(In thousands)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2012	\$ 18,729	\$ 71,869	\$ 66,189	\$ 12,048	\$ (1,327)	\$ (94,956)	\$ 72,552
Net income				81,872			81,872
Other comprehensive loss, net of tax					(11,108)		(11,108)
Change in restricted stock	101		(101)				-
Recapture of restricted stock			(43)			(569)	(612)
Stock based compensation			123				123
Purchase of treasury stock						(278)	(278)
Preferred stock accretion and declared dividends		798		(1,308)			(510)
Balance, September 30, 2013	\$ 18,830	\$ 72,667	\$ 66,168	\$ 92,612	\$ (12,435)	\$ (95,803)	\$ 142,039
Balance, December 31, 2013	\$ 18,830	\$ 72,942	\$ 66,212	\$ 92,549	\$ (7,038)	\$ (95,803)	\$ 147,692
Net income				7,147			7,147
Other comprehensive loss, net of tax					(194)		(194)
Change in restricted stock	10		(10)				-
Tax effect from vesting of restricted stock			29				29

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Stock based compensation			189				189
Purchase of treasury stock					(46)		(46)
Redemption of preferred stock		(25,669)		1,348			(24,321)
Common stock offering	15,525		48,870				64,395
Preferred stock accretion and declared dividends		58		(2,258)			(2,200)
Balance, September 30, 2014	\$ 34,365	\$ 47,331	\$ 115,290	\$ 98,786	\$ (7,232)	\$ (95,849)	\$ 192,691

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Table amounts in thousands, except per share data, unaudited)

Note 1 – Summary of Significant Accounting Policies

The accounting policies followed in the preparation of the interim consolidated financial statements are consistent with those used in the preparation of the annual financial information. The interim consolidated financial statements reflect all normal and recurring adjustments, which are necessary, in the opinion of management, for a fair statement of results for the interim period presented. Results for the period ended September 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. These interim consolidated financial statements are unaudited and should be read in conjunction with the audited financial statements and notes included in Old Second Bancorp, Inc.'s (the "Company") annual report on Form 10-K for the year ended December 31, 2013. Unless otherwise indicated, amounts in the tables contained in the notes to the consolidated financial statements are in thousands. Certain items in prior periods have been reclassified to conform to the current presentation.

The Company's consolidated financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP") and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the consolidated financial statements.

All significant accounting policies are presented in Note 1 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2013. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11 “Income Taxes (Topic 740) — Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU 2013-11 amended existing guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. These amendments provide that an unrecognized tax benefit, or a portion thereof, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. These amendments are effective for interim and annual reporting periods beginning after December 15, 2013, and are incorporated in the financial statements contained in this report. The effect of adopting this standard does not have a material effect on the Company’s operating results or financial condition.

In January 2014, the FASB issued ASU No. 2014-04 Receivables — Troubled Debt Restructurings by Creditors (Subtopic 310-40) — “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” ASU 2014-04 is intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. ASU 2014-04 requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in the ASU are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The adoption of this standard is not expected to have a material effect to the Company’s operating results or financial condition.

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance 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 and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. Early application is not permitted. The Company is assessing the impact of ASU 2014-09 on its accounting and disclosures.



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In June 2014, FASB issued Accounting Standards Update (ASU) No. 2014-12 "Compensation - Stock Compensation (Topic 718) - Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter. Early adoption is permitted. The adoption of this standard is not expected to have a material effect to the Company's operating results or financial condition.

In August 2014, FASB issued ASU No. 2014-15 "Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for interim and annual periods beginning after December 15, 2016. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this standard is not expected to have a material effect to the Company's operating results or financial condition.

Note 2 – Securities

Investment Portfolio Management

Our investment portfolio serves the liquidity and income needs of the Company. While the portfolio serves as an important component of the overall liquidity management at the Bank, portions of the portfolio will also serve as income producing assets. The size and composition of the portfolio reflects liquidity needs, loan demand and interest income objectives.

Portfolio size and composition will be adjusted from time to time. While a significant portion of the portfolio consists of readily marketable securities to address liquidity, other parts of the portfolio may reflect funds invested pending future loan demand or to maximize interest income without undue interest rate risk.

Investments are comprised of debt securities and non-marketable equity investments. Securities available-for-sale are carried at fair value. Unrealized gains and losses, net of tax, on securities available-for-sale are reported as a separate component of equity. This balance sheet component changes as interest rates and market conditions

change. Unrealized gains and losses are not included in the calculation of regulatory capital.

Securities held-to-maturity are carried at amortized cost and the discount or premium created in the 2013 transfer from available-for-sale securities or at the time of purchase thereafter is accreted or amortized to the maturity or expected payoff date but not an earlier call. In accordance with GAAP, the Company has the positive intent and ability to hold the securities to maturity.

Nonmarketable equity investments include Federal Home Loan Bank of Chicago (“FHLBC”) stock and Federal Reserve Bank of Chicago (“Reserve Bank”) stock. FHLBC stock was recorded at \$4.3 million and \$5.5 million at September 30, 2014, and December 31, 2013, respectively. Reserve Bank stock was recorded at \$4.8 million at September 30, 2014, and December 31, 2013. Our FHLBC stock is necessary to maintain access to FHLBC advances.

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The following table summarizes the amortized cost and fair value of the securities portfolio at September 30, 2014 and December 31, 2013 and the corresponding amounts of gross unrealized gains and losses (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014:				
Securities Available-for-Sale				
U.S. Treasury	\$ 1,533	\$ -	\$ (1)	\$ 1,532
U.S. government agencies	1,718	-	(80)	1,638
States and political subdivisions	13,794	313	(228)	13,879
Corporate bonds	31,272	65	(556)	30,781
Collateralized mortgage obligations	29,951	41	(1,575)	28,417
Asset-backed securities	194,927	98	(2,227)	192,798
Collateralized loan obligations	94,202	-	(1,004)	93,198
Total Securities Available-for-Sale	\$ 367,397	\$ 517	\$ (5,671)	\$ 362,243
Securities Held-to-Maturity				
U.S. government agency mortgage-backed	\$ 37,321	\$ 1,346	\$ (11)	\$ 38,656
Collateralized mortgage obligations	225,719	2,017	(2,049)	225,687
Total Securities Held-to-Maturity	\$ 263,040	\$ 3,363	\$ (2,060)	\$ 264,343
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013:				
Securities Available-for-Sale				
U.S. Treasury	\$ 1,549	\$ -	\$ (5)	\$ 1,544
U.S. government agencies	1,738	-	(66)	1,672
States and political subdivisions	16,382	629	(217)	16,794
Corporate bonds	15,733	17	(648)	15,102
Collateralized mortgage obligations	66,766	256	(3,146)	63,876
Asset-backed securities	274,118	2,168	(3,083)	273,203
Total Securities Available-for-Sale	\$ 376,286	\$ 3,070	\$ (7,165)	\$ 372,191
Securities Held-to-Maturity				
U.S. government agency mortgage-backed	\$ 35,268	\$ 45	\$ (73)	\$ 35,240
Collateralized mortgage obligations	221,303	643	(2,858)	219,088
Total Securities Held-to-Maturity	\$ 256,571	\$ 688	\$ (2,931)	\$ 254,328

The fair value, amortized cost and weighted average yield of debt securities at September 30, 2014, by contractual maturity, were as follows in the table below. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Weighted Average Yield	Fair Value
Securities Available-for-Sale			
Due in one year or less	\$ 410	4.50%	\$ 421
Due after one year through five years	5,811	2.87%	5,992
Due after five years through ten years	36,724	2.44%	36,218
Due after ten years	5,372	3.31%	5,199
	48,317	2.61%	47,830
Collateralized mortgage obligations	29,951	2.46%	28,417
Asset-back securities	194,927	2.10%	192,798
Collateralized loan obligations	94,202	2.78%	93,198
	\$ 367,397	2.37%	\$ 362,243
Securities Held-to-Maturity			
Mortgage-backed and collateralized mortgage obligations	\$ 263,040	3.05%	\$ 264,343

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Securities with unrealized losses at September 30, 2014, and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows (in thousands except for number of securities):

September 30, 2014	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total Number of	Unrealized	Fair
	Number of	Unrealized	Fair	Number of	Unrealized	Fair			
Securities									
Available-for-Sale	Securities	Losses	Value	Securities	Losses	Value	Securities	Losses	Value
Treasury	1	\$ 1	\$ 1,532	-	\$ -	\$ -	1	\$ 1	\$ 1,532
Government									
Res	-	-	-	1	80	1,638	1	80	1,638
and political									
Derivatives	3	215	4,450	2	13	1,862	5	228	6,312
Rate bonds	5	463	20,581	2	93	2,411	7	556	22,992
Realized									
Age									
Derivatives	1	18	4,739	3	1,557	21,704	4	1,575	26,443
Backed									
Securities	10	1,231	117,440	3	996	44,042	13	2,227	161,482
Realized loan									
Derivatives	13	1,004	93,198	-	-	-	13	1,004	93,198
Securities	33	\$ 2,932	\$ 241,940	11	\$ 2,739	\$ 71,657	44	\$ 5,671	\$ 313,597
Securities									
Pro-Maturity									
Government									
Age-backed	1	\$ 11	\$ 1,972	-	\$ -	\$ -	1	\$ 11	\$ 1,972
Realized									
Age									
Derivatives	13	1,164	83,545	2	885	37,828	15	2,049	121,373
Securities	14	\$ 1,175	\$ 85,517	2	\$ 885	\$ 37,828	16	\$ 2,060	\$ 121,373

  

December 31, 2013	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total Number of	Unrealized	Fair
	Number of	Unrealized	Fair	Number of	Unrealized	Fair			
Securities									
Available-for-Sale	Securities	Losses	Value	Securities	Losses	Value	Securities	Losses	Value
Treasury	1	\$ 5	\$ 1,544	-	\$ -	\$ -	1	\$ 5	\$ 1,544
Government									
Res	-	-	-	1	66	1,672	1	66	1,672

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government securities									
and political divisions	6	217	4,625	-	-	-	6	217	4,625
corporate bonds	4	429	10,493	2	219	2,796	6	648	13,289
sterilized									
collateralized mortgage obligations	5	3,146	54,021	-	-	-	5	3,146	54,021
equity-backed securities	11	2,836	99,466	2	247	6,368	13	3,083	105,834
	27	\$ 6,633	\$ 170,149	5	\$ 532	\$ 10,836	32	\$ 7,165	\$ 180,665
securities									
short-to-Maturity									
government securities									
equity-backed	6	\$ 73	\$ 19,134	-	\$ -	\$ -	6	\$ 73	\$ 19,134
sterilized									
collateralized mortgage obligations	19	2,858	156,632	-	-	-	19	2,858	156,632
	25	\$ 2,931	\$ 175,766	-	\$ -	\$ -	25	\$ 2,931	\$ 175,766

Recognition of other-than-temporary impairment was not necessary in the nine months ended September 30, 2014, or the year ended December 31, 2013. The changes in fair value related primarily to interest rate fluctuations. Our review of other-than-temporary impairment confirmed no credit quality deterioration.

Note 3 – Loans

Major classifications of loans were as follows:

	September 30, 2014	December 31, 2013
Commercial	\$ 106,592	\$ 94,736
Real estate - commercial	600,649	560,233
Real estate - construction	41,936	29,351
Real estate - residential	365,602	390,201
Consumer	3,142	2,760
Overdraft	1,198	628
Lease financing receivables	8,398	10,069
Other	12,757	12,793
	1,140,274	1,100,771
Net deferred loan fees	608	485
	\$ 1,140,882	\$ 1,101,256

It is the policy of the Company to review each prospective credit in order to determine if an adequate level of security or collateral was obtained prior to making a loan. The type of collateral, when required, will vary from liquid assets to real estate. The Company's access to collateral, in the event of borrower default, is assured through adherence to lending laws, the Company's lending standards and credit monitoring procedures. The Bank generally makes loans solely within its market area. There are no significant concentrations of loans where the customers' ability to honor loan terms is dependent upon a single economic sector although the real estate related categories listed above represent 88.4% and 89.0% of the portfolio at September 30, 2014, and December 31, 2013, respectively.

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Aged analysis of past due loans by class of loans were as follows:

September 30, 2014	90 Days or Greater Past Due				Current	Nonaccrual	Total Loans	Recorded Investment 90 days or Greater Past Due and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Past Due	Total Past Due				
Commercial	\$ 99	\$ -	\$ -	\$ 99	\$ 113,246	\$ 1,645	\$ 114,990	\$ -
Real estate - commercial								
Owner occupied general purpose	32	-	-	32	132,123	5,973	138,128	-
Owner occupied special purpose	-	-	-	-	166,561	3,802	170,363	-
Non-owner occupied general purpose	-	-	-	-	150,073	6,421	156,494	-
Non-owner occupied special purpose	-	-	-	-	84,410	1,472	85,882	-
Retail properties	-	-	-	-	34,692	-	34,692	-
Farm	-	-	-	-	15,090	-	15,090	-
Real estate - construction								
Homebuilder	-	-	-	-				