1ST CONSTITUTION BANCORP
Form 10-Q
August 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file Number: 000-32891
1ST CONSTITUTION BANCORP
(Exact Name of Registrant as Specified in Its Charter)

New Jersey	22-3665653
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2650 Route 130, P.O. Box 634, Cranbury, NJ	08512
(Address of Principal Executive Offices)	(Zip Code)

(609) 655-4500
(Issuer's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)
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 ý No o
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 ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
As of July 31, 2016, there were 7,952,794 shares of the registrant's common stock, no par value, outstanding.

1ST CONSTITUTION BANCORP
FORM 10-Q
INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

1ST Constitution Bancorp
Consolidated Balance Sheets
(Dollars in thousands)
(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and Due From Banks	$13,650	$11,368
Federal Funds Sold/Short-Term Investments	—	—
Total cash and cash equivalents	13,650	11,368
Investment Securities:		
Available for sale, at fair value	111,327	91,422
Held to maturity (fair value of $127,899 and $127,157 at June 30, 2016 and December 31, 2015, respectively)	122,635	123,261
Total investment securities	233,962	214,683
Loans Held for Sale	3,228	5,997
Loans	761,572	682,121
Less- Allowance for loan losses	(7,482)	(7,560)
Net loans	754,090	674,561
Premises and Equipment, Net	10,845	11,109
Accrued Interest Receivable	3,051	2,853
Bank-Owned Life Insurance	21,936	21,583
Other Real Estate Owned	166	966
Goodwill and Intangible Assets	13,082	13,284
Other Assets	14,726	11,587
Total assets	$1,068,736	$967,991
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits		
Non-interest bearing	$170,793	$159,918
Interest bearing	620,693	626,839
Total deposits	791,486	786,757
Borrowings	149,865	58,896
Redeemable Subordinated Debt	18,557	18,557
Accrued Interest Payable	846	846
Accrued Expenses and Other Liabilities	6,354	6,975
Total liabilities	967,108	872,031
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 5,000,000 shares authorized, none issued	—	—
Common Stock, no par value; 30,000,000 shares authorized; 7,985,937 and 7,575,492 shares issued and 7,952,639 and 7,545,684 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	71,224	70,845

Retained earnings	30,125	25,589
Treasury Stock, 33,298 shares and 29,808 shares at June 30, 2016 and December 31, 2015, respectively	(368)	(344)
Accumulated other comprehensive income (loss)	647	(130)
Total shareholders' equity	101,628	95,960
Total liabilities and shareholders' equity	$1,068,736	$967,991

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

1

1ST Constitution Bancorp
Consolidated Statements of Income
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
INTEREST INCOME:				
Loans, including fees	$8,518	$ 9,238	$16,825	$ 17,527
Securities:				
Taxable	815	790	1,632	1,607
Tax-exempt	520	530	1,040	1,086
Federal funds sold and short-term investments	18	6	67	31
Total interest income	9,871	10,564	19,564	20,251
INTEREST EXPENSE:				
Deposits	988	912	1,938	1,844
Borrowings	165	153	301	279
Redeemable subordinated debentures	104	88	203	174
Total interest expense	1,257	1,153	2,442	2,297
Net interest income	8,614	9,411	17,122	17,954
(CREDIT) PROVISION FOR LOAN LOSSES	(100)	—	(300)	500
Net interest income after (credit) provision for loan losses	8,714	9,411	17,422	17,454
NON-INTEREST INCOME:				
Service charges on deposit accounts	176	190	373	429
Gain on sales of loans, net	747	1,203	1,650	2,495
Income on Bank-owned life insurance	157	142	301	276
Other income	456	453	808	917
Total non-interest income	1,536	1,988	3,132	4,117
NON-INTEREST EXPENSES:				
Salaries and employee benefits	4,291	4,478	8,607	8,665
Occupancy expense	952	1,048	1,941	2,158
Data processing expenses	314	306	627	625
FDIC insurance expense	105	180	223	370
Other real estate owned expenses	35	416	65	513
Other operating expenses	1,126	1,544	2,394	2,498
Total non-interest expenses	6,823	7,972	13,857	14,829
Income before income taxes	3,427	3,427	6,697	6,742
INCOME TAXES	1,113	1,112	2,161	2,167
Net income	$2,314	$ 2,315	$4,536	$ 4,575
NET INCOME PER COMMON SHARE:				
Basic	$0.29	$ 0.29	$0.57	$ 0.58
Diluted	$0.28	$ 0.29	$0.56	$ 0.57

WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	7,947,146	7,881,626	7,944,069	7,880,270
Diluted	8,151,796	8,069,229	8,144,458	8,058,602

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

1ST Constitution Bancorp
Consolidated Statements of Comprehensive Income
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income	$2,314	$2,315	$4,536	$4,575
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available for sale	738	(765)	1,257	(619)
Tax effect	(268)	278	(457)	182
Net of tax amount	470	(487)	800	(437)
Pension liability	34	93	34	93
Tax effect	(14)	(38)	(14)	(38)
Net of tax amount	20	55	20	55
Reclassification adjustment for actuarial (gains) for unfunded pension liability				
Income (1)	(46)	(110)	(72)	(155)
Tax effect (2)	18	44	29	62
Net of tax amount	(28)	(66)	(43)	(93)
Total other comprehensive income (loss)	462	(498)	777	(475)
Comprehensive income	$2,776	$1,817	$5,313	$4,100

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

(1)Included in salaries and employee benefits expense on the consolidated statements of income
(2)Included in income taxes on the consolidated statements of income

3

1ST Constitution Bancorp
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2016 and 2015
(Dollars in thousands)
(Unaudited)

(Dollars in thousands)	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2015	$ 61,448	$ 25,730	$ (316)	$ 248	$ 87,110
Exercise of stock options (3,313 shares)	24	—	—	—	24
Share-based compensation	326	—	—	—	326
Treasury stock purchased (2,947 shares)	—	—	(33)	—	(33)
5% Stock dividend declared March 2015 (358,851 shares)	3,994	(3,994)	—	—	—
Net income for the six months ended June 30, 2015	—	4,575	—	—	4,575
Other comprehensive loss	—	—	—	(475)	(475)
Balance, June 30, 2015	$ 65,792	$ 26,311	$ (349)	$ (227)	$ 91,527
Balance, January 1, 2016	$ 70,845	$ 25,589	$ (344)	$ (130)	$ 95,960
Exercise of stock options (3,564 shares)	17	—	—	—	17
Share-based compensation	362	—	—	—	362
Treasury stock purchased (2,000 shares)	—	—	(24)	—	(24)
Net income for the six months ended June 30, 2106	—	4,536	—	—	4,536
Other comprehensive income	—	—	—	777	777
Balance, June 30, 2016	$ 71,224	$ 30,125	$ (368)	$ 647	$ 101,628

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

1ST Constitution Bancorp
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30, 2016	2015
OPERATING ACTIVITIES:		
Net income	$4,536	$4,575
Adjustments to reconcile net income to net cash provided by operating activities-		
(Credit) provision for loan losses	(300)	500
Provision for loss on other real estate owned	—	382
Depreciation and amortization	646	777
Net amortization of premiums and discounts on securities	547	460
Gains on sales of other real estate owned	(31)	—
Gains on sales of loans held for sale	(1,650)	(2,495)
Originations of loans held for sale	(35,727)	(78,539)
Proceeds from sales of loans held for sale	38,497	77,680
Income on Bank–owned life insurance	(301)	(276)
Share-based compensation expense	362	326
(Increase) decrease in accrued interest receivable	(198)	120
Decrease in other assets	175	1,336
Decrease in accrued interest payable	—	(52)
Decrease in accrued expenses and other liabilities	(621)	(163)
Net cash provided by operating activities	5,935	4,631
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(26,138)	(7,071)
Held to maturity	(13,997)	(7,578)
Proceeds from maturities and prepayments of securities -		
Available for sale	7,591	11,093
Held to maturity	14,581	24,411
Proceeds from Bank-owned life insurance benefits paid	248	—
Net redemption (purchase) of restricted stock	(2,670)	(4,741)
Net increase in loans	(79,451)	(104,209)
Capital expenditures	(181)	(656)
Cost of improvement to OREO	(60)	—
Proceeds from sales of other real estate owned	1,033	—
Purchase of Bank-owned life insurance	(300)	—
Net cash used in investing activities	(99,344)	(88,751)
FINANCING ACTIVITIES:		
Exercise of stock options	17	24
Purchase of treasury stock	(24)	(33)
Net increase (decrease) in deposits	4,729	(19,672)
Net increase in borrowings	90,969	105,620
Net cash provided by financing activities	95,691	85,939
Increase in cash and cash equivalents	2,282	1,819
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,368	14,545
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$13,650	$16,364

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash paid during the period for -		
Interest	$2,442	$2,349
Income taxes	2,161	2,275
Non-cash items: Transfer of loans to other real estate owned	142	—

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

1ST Constitution Bancorp
Notes To Consolidated Financial Statements
June 30, 2016
(Unaudited)

(1) Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements include 1ST Constitution Bancorp (the "Company"), its wholly-owned subsidiary, 1ST Constitution Bank (the "Bank"), and the Bank's wholly-owned subsidiaries, 1ST Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., 204 South Newman Street Corp., and 249 New York Avenue, LLC. 1st Constitution Capital Trust II, a subsidiary of the Company, is not included in the Company's consolidated financial statements, as it is a variable interest entity and the Company is not the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current year presentation. The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), including the instructions to Form 10-Q and Article 8 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 2015, filed with the SEC on March 22, 2016.

In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the operating results for the interim periods have been included. The results of operations for periods of less than a year are not necessarily indicative of results for the full year.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2016 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

On December 18, 2015, the Board of Directors of the Company declared a five percent common stock dividend to common shareholders of record as of the close of business on January 14, 2016, which was paid on February 1, 2016. As appropriate, common shares and per common share data presented in the consolidated financial statements and the accompanying notes below have been adjusted to reflect the common stock dividend.

(2) Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during each period.

Diluted net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of dilutive common stock warrants and common stock options using the treasury stock method.

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per common share (EPS) calculations. Dilutive securities in the tables below exclude common stock options and warrants with exercise prices that exceed the average market price of the Company's common stock during the periods presented. Inclusion of these common stock options and warrants would be anti-dilutive to the diluted earnings per common share calculation.

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2016		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share: Net income	$2,314	7,947,146	$ 0.29
Effect of dilutive securities:			
Stock options and warrants		204,650	

Diluted EPS:			
Net income plus assumed conversion	$2,314	8,151,796	$ 0.28

6

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2015		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$2,315	7,881,626	$ 0.29
Effect of dilutive securities:			
Stock options and warrants		187,603	
Diluted EPS:			
Net income plus assumed conversion	$2,315	8,069,229	$ 0.29

For the three months ended June 30, 2016 and 2015, 20,060 and 32,049 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share.

(Dollars in thousands, except per share data)	Six Months Ended June 30, 2016		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share: Net income	$4,536	7,944,069	$ 0.57
Effect of dilutive securities:			
Stock options and warrants		200,389	
Diluted EPS:			
Net income plus assumed conversion	$4,536	8,144,458	$ 0.56

(Dollars in thousands, except per share data)	Six Months Ended June 30, 2015		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$4,575	7,880,270	$ 0.58
Effect of dilutive securities:			
Stock options and warrants		178,332	
Diluted EPS:			
Net income plus assumed conversion	$4,575	8,058,602	$ 0.57

For the six months ended June 30, 2016 and 2015, 20,060 and 44,192 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share.

(3) Investment Securities

Amortized cost, carrying value, gross unrealized gains and losses, and the fair value by security type are as follows:
(Dollars in thousands)

June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$ 5,519	$ 39	$ —	$ 5,558
Residential collateralized mortgage obligations- GSE	17,685	181	(34)	17,832
Residential mortgage backed securities – GSE	34,912	888	(21)	35,779
Obligations of state and political subdivisions	20,966	706	—	21,672
Trust preferred debt securities – single issuer	2,476	—	(388)	2,088
Corporate debt securities	27,334	288	(179)	27,443
Other debt securities	975	—	(20)	955
	$ 109,867	$ 2,102	$ (642)	$ 111,327

June 30, 2016	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	4,082	—	4,082	31	—	4,113
Residential collateralized mortgage obligations – GSE	14,254	—	14,254	509	—	14,763
Residential mortgage backed securities – GSE	45,118	—	45,118	1,750	—	46,868
Obligations of state and political subdivisions	58,485	—	58,485	2,707	(1)	61,191
Trust preferred debt securities-pooled	656	(501)	155	272	—	427
Other debt securities	541	—	541	—	(4)	537
	$ 123,136	$ (501)	$ 122,635	$ 5,269	$ (5)	$ 127,899

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 5,523	$ —	$ (42)	$ 5,481
Residential collateralized mortgage obligations- GSE	8,255	68	(36)	8,287
Residential mortgage backed securities - GSE	32,279	541	(185)	32,635
Obligations of state and political subdivisions	21,125	365	(54)	21,436
Trust preferred debt securities-single issuer	2,474	—	(338)	2,136
Corporate debt securities	20,510	65	(153)	20,422
Other debt securities	1,053	—	(28)	1,025
	$ 91,219	$ 1,039	$ (836)	$ 91,422

December 31, 2015	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
Residential collateralized mortgage obligations-GSE	13,630	—	13,630	404	—	14,034
Residential mortgage backed securities - GSE	47,718	—	47,718	928	(46)	48,600
Obligations of state and political subdivisions	61,135	—	61,135	2,294	(14)	63,415
Trust preferred debt securities - pooled	657	(501)	156	341	—	497
Other debt securities	622	—	622	—	(11)	611
	$ 123,762	$ (501)	$ 123,261	$ 3,967	$ (71)	$ 127,157

Restricted stock is included in other assets at June 30, 2016 and December 31, 2015 and totaled $6.0 million and $3.3 million, respectively, and consisted of $5.9 million of Federal Home Loan Bank of New York stock and $65,000 of Atlantic Community Bankers Bank stock at June 30, 2016 and $3.2 million of Federal Home Loan Bank of New York stock and $65,000 of Atlantic Community Bankers Bank stock at December 31, 2015.

Gross unrealized losses on available for sale and held to maturity securities and the fair value of the related securities aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015 were as follows:

June 30, 2016		Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored corporations (GSE) and agencies	—	$—	$ —	$—	$ —	$—	$ —
Residential collateralized mortgage obligations –GSE	2	5,407	(34)	—	—	5,407	(34)
Residential mortgage backed securities-GSE	3	—	—	3,593	(21)	3,593	(21)
Obligations of state and political subdivisions	4	1,396	(1)	—	—	1,396	(1)
Trust preferred debt securities- single issuer	4	—	—	2,088	(388)	2,088	(388)
Corporate debt securities	5	5,178	(87)	6,967	(92)	12,145	(179)
Other debt securities	3	—	—	1,468	(24)	1,468	(24)
Total temporarily impaired securities	21	$11,981	$ (122)	$14,116	$ (525)	$26,097	$ (647)

December 31, 2015		Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored corporations (GSE) and agencies	3	$5,481	$ (42)	$—	$ —	$5,481	$ (42)
Residential collateralized mortgage obligations –GSE	2	5,894	(36)	—	—	5,894	(36)
Residential mortgage backed securities - GSE	19	20,911	(175)	3,980	(56)	24,891	(231)
Obligations of state and political subdivisions	32	2,760	(19)	6,465	(49)	9,225	(68)
Trust preferred debt securities- single issuer	4	—	—	2,136	(338)	2,136	(338)
Corporate debt securities	4	9,214	(153)	—	—	9,214	(153)
Other debt securities	3	586	(11)	1,025	(28)	1,611	(39)
Total temporarily impaired securities	67	$44,846	$ (436)	$13,606	$ (471)	$58,452	$ (907)

The following table sets forth certain information regarding the amortized cost, carrying value, fair value, weighted average yields and contractual maturities of the Company's investment portfolio as of June 30, 2016. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	June 30, 2016		
	Amortized Cost	Fair Value	Yield
Available for sale			
Due in one year or less	$8,817	$8,855	2.57%
Due after one year through five years	16,106	16,239	1.75%
Due after five years through ten years	43,248	44,307	2.61%
Due after ten years	41,696	41,926	2.64%
Total	$109,867	$111,327	2.48%
	Carrying Value	Fair Value	Yield
Held to maturity			
Due in one year or less	$15,974	$15,991	1.16%
Due after one year through five years	16,076	16,806	4.15%
Due after five years through ten years	27,633	29,203	3.58%
Due after ten years	62,952	65,899	3.29%
Total	$122,635	$127,899	3.21%

U.S. Treasury securities and obligations of U.S. Government sponsored corporations and agencies: The unrealized losses on investments in these securities were caused by increases in market interest rates. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Residential collateralized mortgage obligations and residential mortgage backed securities: The unrealized losses on investments in residential collateralized mortgage obligations and mortgage backed securities were caused by increases in market interest rates. The contractual cash flows of these securities are guaranteed by the issuers, which are primarily government or government sponsored agencies. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. The decline in fair value is attributable to changes in interest rates and not credit quality. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Obligations of state and political subdivisions: The unrealized losses on investments in these securities were caused by increases in market interest rates. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. None of the issuers have defaulted on interest payments. These investments are not considered to be other than temporarily impaired because the decline in fair value is attributable to changes in interest rates and not credit quality. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Corporate debt securities: The unrealized losses on investments in corporate debt securities were caused by increases in market interest rates. None of the corporate issuers have defaulted on interest payments. The decline in fair value is attributable to changes in interest rates and not a decline in credit quality. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Trust preferred debt securities – single issuer: The investments in these securities with unrealized losses are comprised of four corporate trust preferred securities issued by two large financial institutions that mature in 2027. The contractual terms of the trust preferred securities do not allow the issuer to settle the securities at a price less than the face value of the trust preferred securities, which is greater than the amortized cost of the trust preferred securities. One of the issuers continues to maintain an investment grade credit rating and neither has defaulted on interest payments. The decline in fair value is attributable to the widening of interest rate spreads and the lack of an active trading market for these securities and market concerns about the issuers' credit quality. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Trust preferred debt securities – pooled: This trust preferred debt security was issued by a two issuer pool (Preferred Term Securities XXV, Ltd. co-issued by Keefe, Bruyette and Woods, Inc. and First Tennessee ("PRETSL XXV")) consisting primarily of trust preferred debt securities issued by financial institution holding companies. During 2009, the Company recognized an other-than-temporary impairment of $865,000, of which $364,000 was determined to be a credit loss and charged to operations and $501,000 was recognized in the other comprehensive income (loss) component of shareholders' equity.

The primary factor used to determine the credit portion of the impairment loss recognized in the income statement for this security was the discounted present value of projected cash flow where that present value of cash flow was less than the amortized cost basis of the security. The present value of cash flow was developed using an EITF 99-20 model that considered performing collateral ratios, the level of subordination to senior tranches of the security, and credit ratings of and projected credit defaults in the underlying collateral.

On a quarterly basis, management evaluates the security to determine if any additional other-than-temporary impairment is required. As of June 30, 2016, management concluded that no additional other-than-temporary impairment had occurred.

(4) Allowance for Loan Losses and Credit Quality Disclosure

The Company's primary lending emphasis is the origination of commercial and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

The following table provides an aging of the loan portfolio by loan class at June 30, 2016:

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$—	$ —	$ 186	$ 186	$ 93,035	$ 93,221	$ —	$ 186
Commercial Business	148	68	104	320	104,783	105,103	—	213
Commercial Real Estate	1,829	—	2,707	4,536	218,588	223,124	—	3,199
Mortgage Warehouse Lines	—	—	—	—	264,344	264,344	—	—
Residential Real Estate	—	—	1,298	1,298	47,789	49,087	—	1,298
Consumer								
Loans to Individuals	—	—	263	263	24,467	24,730	—	263
Other	—	—	—	—	197	197	—	—
Total loans	1,977	68	4,558	6,603	753,203	759,806	—	5,159
Deferred loan costs, net	—	—	—	—	1,766	1,766	—	—
Total loans, net	$ 1,977	$ 68	$ 4,558	$ 6,603	$ 754,969	$ 761,572	$ —	$ 5,159

The following table provides an aging of the loan portfolio by loan class at December 31, 2015:

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$—	$—	$—	$—	$ 93,745	$ 93,745	$ —	$ —
Commercial Business	530	5	186	721	98,556	99,277	—	304
Commercial Real Estate	789	—	3,996	4,785	202,465	207,250	—	4,321
Mortgage Warehouse Lines	—	—	—	—	216,572	216,572	—	—
Residential Real Estate	—	166	1,132	1,298	39,446	40,744	—	1,132
Consumer								
Loans to Individuals	400	—	263	663	22,411	23,074	—	263
Other	—	—	—	—	233	233	—	—
Total loans	1,719	171	5,577	7,467	673,428	680,895	—	6,020
Deferred loan costs, net	—	—	—	—	1,226	1,226	—	—
Total loans, net	$ 1,719	$ 171	$ 5,577	$ 7,467	$ 674,654	$ 682,121	$ —	$ 6,020

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As provided by ASC 310-30, the excess of cash flows expected at acquisition over the initial investment in the loan is recognized as interest income over the life of the loan. Accordingly, loans acquired in the merger with Rumson-Fair Haven Bank and Trust Company ("Rumson")with evidence of deteriorated credit quality of $464,000 at June 30, 2016 and $489,000 at December 31, 2015 were not classified as non-performing loans.
The Company’s internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list are treated as “pass” for grading purposes:
1. Excellent - Loans that are based upon cash collateral held at the Bank and adequately margined. Loans that are based upon "blue chip" stocks listed on the major exchanges and adequately margined.
2. Above Average - Loans to companies whose balance sheets show excellent liquidity and long-term debt is on well-spread schedules of repayment easily covered by cash flow. Such companies have been consistently profitable and have diversification in their product lines or sources of revenue. The continuation of profitable operations for the foreseeable future is likely. Management is comprised of a mix of ages, experience, and backgrounds and management succession is in place. Sources of raw materials are abundant, and for service companies, the source of revenue is abundant. Future needs have been planned for. Character and ability of individuals or company principals are excellent. Loans to individuals are supported by high net worths and liquid assets.
3. Good - Loans to companies whose balance sheets show good liquidity and cash flow adequate to meet maturities of long-term debt with a comfortable margin. Such companies have established profitable records over a number of years, and there has been growth in net worth. Operating ratios are in line with those of the industry, and expenses are in proper relationship to the volume of business done and the profits achieved. Management is well-balanced and competent in their responsibilities. Economic environment is favorable; however, competition is strong. The prospects for growth are good. Loans in this category do not meet the collateral requirements of loans in categories 1 and 2 above. Loans to individuals are supported by good net worths but whose supporting assets are illiquid.
3w. Watch - Included in this category are loans evidencing problems identified by Bank management that require closer supervision. Such problem has not developed to the point which requires a Special Mention rating. This category also covers situations where the Bank does not have adequate current information upon which credit quality can be determined. The Bank's account officer has the obligation to correct these deficiencies within 30 days from the time of notification.
4. Special Mention - A "special mention" loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

5. Substandard - A "substandard" loan is inadequately protected by the current sound net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

6. Doubtful - A loan classified "doubtful" has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

7. Loss - A loan classified "loss" is considered uncollectible and of such little value that its continuance on the books is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless loan even though partial recovery may be affected in the future.

The following table provides a breakdown of the loan portfolio by credit quality indicator at June 30, 2016:
(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$ 92,904	$ 96,318	$ 206,197	$ 264,344	$ 48,225
Special Mention	131	8,357	12,249	—	260
Substandard	186	428	4,678	—	602
Doubtful	—	—	—	—	—
Total	$ 93,221	$ 105,103	$ 223,124	$ 264,344	$ 49,087

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 24,467	$ 197
Nonperforming	263	—
Total	$ 24,730	$ 197

The following table provides a breakdown of the loan portfolio by credit quality indicator at December 31, 2015:
(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$ 93,558	$ 90,856	$ 191,754	$ 216,572	$ 39,878
Special Mention	187	7,768	9,311		