

SIMMONS FIRST NATIONAL CORP
Form 10-Q
May 10, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 2012

Commission File Number 000-06253

SIMMONS FIRST NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Arkansas
(State or other jurisdiction of
incorporation or organization)

71-0407808
(I.R.S. Employer
Identification No.)

501 Main Street, Pine Bluff, Arkansas
(Address of principal executive
offices)

71601
(Zip Code)

870-541-1000
(Registrant's telephone number,
including area code)

Not Applicable
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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the Registrant's Common Stock as of April 20, 2012, was 17,114,426.

Simmons First National Corporation

Quarterly Report on Form 10-Q
March 31, 2012

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Part I: Financial Information
Item 1. Financial Statements

Simmons First National Corporation
Consolidated Balance Sheets
March 31, 2012 and December 31, 2011

(In thousands, except share data)	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and non-interest bearing balances due from banks	\$ 34,314	\$ 35,087
Interest bearing balances due from banks	642,929	535,119
Federal funds sold	750	-
Cash and cash equivalents	677,993	570,206
Investment securities	657,780	697,656
Mortgage loans held for sale	24,351	22,976
Assets held in trading accounts	7,708	7,541
Loans not covered by loss share agreements	1,543,653	1,579,769
Loans covered by FDIC loss share agreements	129,735	158,075
Allowance for loan losses	(28,325)	(30,108)
Net loans	1,645,063	1,707,736
FDIC indemnification asset	39,978	47,683
Premises and equipment	85,784	86,486
Foreclosed assets not covered by loss share agreements	24,542	22,887
Foreclosed assets covered by FDIC loss share agreements	11,705	11,685
Interest receivable	13,319	15,126
Bank owned life insurance	50,934	50,579
Goodwill	60,605	60,605
Core deposit premiums	1,505	1,579
Other assets	18,786	17,384
Total assets	\$ 3,320,053	\$ 3,320,129
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	\$ 521,202	\$ 532,259
Interest bearing transaction accounts and savings deposits	1,282,763	1,239,504
Time deposits	850,612	878,634
Total deposits	2,654,577	2,650,397
Federal funds purchased and securities sold under agreements to repurchase	106,224	114,766
Short-term debt	-	272
Long-term debt	121,242	120,828
Accrued interest and other liabilities	28,698	25,955
Total liabilities	2,910,741	2,912,218
Stockholders' equity:		
Preferred stock, \$0.01 par value; 40,040,000 shares authorized and unissued at March 31, 2012 and December 31, 2011	-	-
Common stock, Class A, \$0.01 par value; 60,000,000 shares authorized; 17,182,526 and 17,212,317 shares issued and outstanding at March 31, 2012 and December 31,	172	172

2011, respectively		
Surplus	110,976	112,436
Undivided profits	297,776	294,864
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes of \$252 at March 31, 2012 and \$283 at December 31, 2011	388	439
Total stockholders' equity	409,312	407,911
Total liabilities and stockholders' equity	\$ 3,320,053	\$ 3,320,129

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Income
Three Months Ended March 31, 2012 and 2011

(In thousands, except per share data)	Three Months Ended March 31, 2012 2011 (Unaudited)	
INTEREST INCOME		
Loans not covered by loss share agreements	\$22,272	\$24,094
Loans covered by FDIC loss share agreements	5,973	4,341
Federal funds sold	-	1
Investment securities	3,275	3,705
Mortgage loans held for sale	153	88
Assets held in trading accounts	12	9
Interest bearing balances due from banks	303	235
TOTAL INTEREST INCOME	31,988	32,473
INTEREST EXPENSE		
Deposits	2,965	4,176
Federal funds purchased and securities sold under agreements to repurchase	99	116
Short-term debt	14	12
Long-term debt	1,192	1,335
TOTAL INTEREST EXPENSE	4,270	5,639
NET INTEREST INCOME	27,718	26,834
Provision for loan losses	771	2,675
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,947	24,159
NON-INTEREST INCOME		
Trust income	1,309	1,346
Service charges on deposit accounts	3,865	3,857
Other service charges and fees	792	806
Income on sale of mortgage loans, net of commissions	1,294	626
Income on investment banking, net of commissions	699	600
Credit card fees	4,079	3,943
Bank owned life insurance income	355	403
Net gain (loss) on assets covered by FDIC loss share agreements	(2,665)	370
Other income	995	651
TOTAL NON-INTEREST INCOME	10,723	12,602
NON-INTEREST EXPENSE		
Salaries and employee benefits	16,824	17,116
Occupancy expense, net	2,081	2,189
Furniture and equipment expense	1,604	1,589
Other real estate and foreclosure expense	207	94
Deposit insurance	571	1,039
Merger related costs	-	190
Other operating expenses	7,350	7,728
TOTAL NON-INTEREST EXPENSE	28,637	29,945

INCOME BEFORE INCOME TAXES	9,033	6,816
Provision for income taxes	2,678	1,750
NET INCOME	\$6,355	\$5,066
BASIC EARNINGS PER SHARE	\$0.37	\$0.29
DILUTED EARNINGS PER SHARE	\$0.37	\$0.29

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
 Consolidated Statements of Comprehensive Income
 Three Months Ended March 31, 2012 and 2011

(In thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited)	(Unaudited)
NET INCOME	\$6,355	\$5,304
Other comprehensive income (loss), net of tax:		
Change in net unrealized gains (losses) on available-for-sale securities, net of income taxes of (\$33) and (\$61)	(51)	(61)
Other comprehensive income (loss), net of tax	(51)	(61)
COMPREHENSIVE INCOME	\$6,304	\$4,582

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2012 and 2011

(In thousands)	March 31, 2012	March 31, 2011 (Unaudited)
OPERATING ACTIVITIES		
Net income	\$6,355	\$ 5,066
Items not requiring (providing) cash		
Depreciation and amortization	1,372	1,536
Provision for loan losses	771	2,675
Net (accretion) amortization of investment securities	(5)	22
Stock-based compensation expense	402	273
Net accretion on assets covered by FDIC loss share agreements	(901)	(1,106)
Deferred income taxes	1,149	(274)
Bank owned life insurance income	(355)	(403)
Changes in		
Interest receivable	1,807	1,981
Mortgage loans held for sale	(1,375)	10,619
Assets held in trading accounts	(167)	109
Other assets	(139)	2,606
Accrued interest and other liabilities	(213)	(3,455)
Income taxes payable	1,527	1,199
Net cash provided by operating activities	10,228	20,848
INVESTING ACTIVITIES		
Net collections of covered loans	28,418	18,181
Net collections of loans	30,379	49,678
Purchases of premises and equipment, net	(596)	(7,061)
Proceeds from sale of covered other real estate owned	3,508	1,248
Proceeds from sale of foreclosed assets held for sale	1,528	12,744
Proceeds from sale of available-for-sale securities	3	1,928
Proceeds from maturities of available-for-sale securities	79,367	67,661
Purchases of available-for-sale securities	(83,677)	(41,060)
Proceeds from maturities of held-to-maturity securities	202,643	4,794
Purchases of held-to-maturity securities	(158,506)	(41,370)
Cash received on FDIC loss share	4,017	19,275
Net cash provided by investing activities	107,084	86,018
FINANCING ACTIVITIES		
Net change in deposits	4,180	(7,353)
Net change in short-term debt	(272)	(315)
Dividends paid	(3,443)	(3,292)
Proceeds from issuance of long-term debt	1,814	2,320
Repayment of long-term debt	(1,400)	(39,300)
Net change in federal funds purchased and securities sold under agreements to repurchase	(8,542)	(2,040)
Net shares issued under stock compensation plans	190	224
Repurchase of common stock	(2,052)	-
Net cash used in financing activities	(9,525)	(49,756)

INCREASE IN CASH AND CASH EQUIVALENTS	107,787	57,110
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	570,206	452,060
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$677,993	\$ 509,170

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2012 and 2011

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income	Undivided Profits	Total
Balance, December 31, 2010	\$173	\$114,040	\$ 512	\$ 282,646	\$397,371
Comprehensive income					
Net income	-	-	-	5,066	5,066
Change in unrealized appreciation on available-for-sale securities, net of income taxes of (\$61)	-	-	(95)	-	(95)
Comprehensive income					4,971
Stock issued as bonus shares – 44,170 shares	-	-	-	-	-
Vesting bonus shares	-	230	-	-	230
Stock issued for employee stock purchase plan – 4,805 shares	-	127	-	-	127
Exercise of stock options – 7,032 shares	-	97	-	-	97
Stock granted under stock-based compensation plans	-	43	-	-	43
Cash dividends – \$0.19 per share	-	-	-	(3,292)	(3,292)
Balance, March 31, 2011 (Unaudited)	173	114,537	417	284,420	399,547
Comprehensive income					
Net income	-	-	-	20,308	20,308
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$14	-	-	22	-	22
Comprehensive income					20,330
Stock issued as bonus shares – 3,825 shares	-	98	-	-	98
Vesting bonus shares	-	836	-	-	836
Exercise of stock options – 23,287 shares	-	288	-	-	288
Stock granted under stock-based compensation plans	-	95	-	-	95
Securities exchanged under stock option plan – (5,252 shares)	-	(136)	-	-	(136)
Repurchase of common stock – (137,144 shares)	(1)	(3,282)	-	-	(3,283)
Cash dividends – \$0.57 per share	-	-	-	(9,864)	(9,864)
Balance, December 31, 2011	172	112,436	439	294,864	407,911
Comprehensive income					
Net income	-	-	-	6,355	6,355
Change in unrealized appreciation on available-for-sale securities, net of income taxes of (\$33)	-	-	(51)	-	(51)
Comprehensive income					6,304
Stock issued as bonus shares – 43,945 shares	-	58	-	-	58
Vesting bonus shares	-	372	-	-	372
	-	132	-	-	132

Stock issued for employee stock purchase plan – 5,103 shares					
Stock granted under stock-based compensation plans	-	30	-	-	30
Repurchase of common stock – (78,839 shares)	-	(2,052)	-	-	(2,052)
Cash dividends – \$0.20 per share	-	-	-	(3,443)	(3,443)
Balance, March 31, 2012 (Unaudited)	\$ 172	\$ 110,976	\$ 388	\$ 297,776	\$ 409,312

See Condensed Notes to Consolidated Financial Statements.

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SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Simmons First National Corporation (the “Company”) and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2011, has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K Annual Report for 2011 filed with the U.S. Securities and Exchange Commission (the “SEC”).

Recently Issued Accounting Pronouncements

In April 2011, the FASB issued ASU 2011-03, Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements. ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 was effective for the Company on January 1, 2012, and did not have a significant impact on the Company’s financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, to converge the fair value of measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 was effective for the Company on January 1, 2012. The adoption of this guidance did not have a significant impact on the Company’s financial position or results of operations.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) – Presentation of Comprehensive Income, to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for the Company beginning January 1, 2012, and resulted in the addition of a statement of comprehensive income. The adoption of ASU 2011-05 did not have a significant impact on the Company's financial position or results of operations.

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment. ASU 2011-08 amends Topic 350 to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

In December, 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 amends Topic 210 to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

In December, 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12. ASU 2011-12 became effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial position or results of operations.

There have been no other significant changes to the Company's accounting policies from the 2011 Form 10-K. The Company is not aware of any other changes from the FASB that will have a significant impact on the Company's present or future financial position or results of operations.

Acquisition Accounting, Covered Loans and Related Indemnification Asset

The Company accounts for its acquisitions under ASC Topic 805, Business Combinations, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared loss agreements with the FDIC. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding, claim receivable is recorded until cash is received from the FDIC. For further discussion of the Company's acquisition and loan accounting, see Note 2 and Note 5 to the consolidated financial statements.

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of per share earnings for the three months ended March 31, 2012 and 2011:

(In thousands, except per share data)	2012	2011
Net Income	\$6,355	\$5,066
Average common shares outstanding	17,215	17,297
Average potential dilutive common shares	8	33
Average diluted common shares	17,223	17,330
Basic earnings per share	\$0.37	\$0.29
Diluted earnings per share	\$0.37	\$0.29

Stock options to purchase 95,770 and 95,270 shares for the three months ended March 31, 2012 and 2011, respectively, were not included in the earnings per share calculation because the exercise price exceeded the average market price.

NOTE 2: ACQUISITIONS

On May 14, 2010, the Company, through its wholly-owned subsidiary, Simmons First National Bank (“SFNB” or “lead bank”), entered into a purchase and assumption agreement with loss share arrangements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Southwest Community Bank (“SWCB”) in Springfield, Missouri. As a result of this acquisition, the Company expanded its footprint outside the Arkansas borders for the first time. The Company recognized a pre-tax gain of \$3.0 million on this transaction and incurred pre-tax merger related costs of \$0.4 million.

On October 15, 2010, the Company, through the lead bank, entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase substantially all of the assets and to assume substantially all of the deposits and certain other liabilities of Security Savings Bank, FSB (“SSB”) with nine offices in Kansas, including three in Salina, two each in Olathe and Wichita and one each in Overland Park and Leawood. This acquisition marked the Company’s second expansion outside the State of Arkansas. The Company recognized a pre-tax gain of \$18.3 million on this transaction and incurred pre-tax merger related costs of \$2.0 million.

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A summary, at fair value, of the assets acquired and liabilities assumed in the SWCB and SSB transactions, as of acquisition dates, is as follows:

(In thousands)	SWCB	SSB	Total
Assets Acquired			
Cash and due from banks	\$7,414	\$11,063	\$18,477
Cash received from FDIC	10,000	71,200	81,200
Receivable from FDIC	653	1,856	2,509
Investment securities	24,850	75,621	100,471
Loans not covered by loss share agreements	-	991	991
Loans covered by FDIC loss share agreements	40,177	219,158	259,335
Foreclosed assets covered by FDIC loss share agreements	4,646	6,363	11,009
FDIC indemnification asset	13,783	68,330	82,113
Core deposit premium	-	1,480	1,480
Other assets	467	1,577	2,044
Total assets acquired	101,990	457,639	559,629
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	5,063	82,614	87,677
Interest bearing transaction accounts and savings deposits	103	8,624	8,727
Time deposits	92,174	246,999	339,173
Total deposits	97,340	338,237	435,577
Repurchase agreements	-	2,215	2,215
FHLB borrowings	-	95,676	95,676
Accrued interest and other liabilities	1,613	3,234	4,847
Total liabilities assumed	98,953	439,362	538,315
Pre-tax gains on FDIC-assisted transactions	\$3,037	\$18,277	\$21,314

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above.

Cash and due from banks, cash received from FDIC and receivable from FDIC – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$10.0 million cash received from the FDIC for SWCB and \$71.2 million for SSB is the first pro-forma cash settlement received from the FDIC on Monday following the closing weekend. The \$0.7 million receivable from the FDIC for SWCB and \$1.9 million for SSB is the remaining amount due from the settlement.

Investment securities – Investment securities were acquired from the FDIC at fair market value. The fair values provided by the FDIC were reviewed and considered reasonable based on SFNB's understanding of the market conditions.

Loans – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

Foreclosed assets held for sale – These assets are presented at the estimated present values that management expects to receive when the properties are sold, net of related costs of disposal.

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FDIC indemnification asset – This loss sharing asset is measured separately from the related covered assets as it is not contractually embedded in the covered assets and is not transferable with the covered assets should SFNB choose to dispose of them. Fair value was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss-sharing reimbursement from the FDIC.

Core deposit premium – This intangible asset represents the value of the relationships that SWCB and SSB had with their deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base and the net maintenance cost attributable to customer deposits. Based on the valuation methodologies use in the analysis, the estimated fair value of the core deposit premium at SWCB was immaterial.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. Even though deposit rates were above market, because SFNB reset deposit rates to current market rates, there was no fair value adjustment recorded for time deposits.

FHLB borrowings – The fair value of Federal Home Loan Bank (“FHLB”) borrowings is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities. Included in the SSB acquisition were FHLB borrowed funds with a fair value totaling \$95.7 million. The Company did not need these advances to meet its present liquidity needs, and redeemed approximately \$60.8 million of the advances during the fourth quarter of 2010. The FHLB borrowings are secured by mortgage loans. The remaining borrowings will be held to maturity to match loans with similar maturities.

FDIC True-Up Provision – The purchase and assumption agreements for SWCB and SSB allow for the FDIC to recover a portion of the funds previously paid out under the indemnification agreement in the event losses fail to reach the expected loss level under a claw back provision (“true-up provision”). A true-up is scheduled to occur in the calendar month in which the tenth anniversary of the respective closing occurs. If the threshold is not met, the assuming institution is required to pay the FDIC 50 percent of the excess, if any, within 45 days following the true-up.

The value of the true-up provision liability is calculated as the present value of the estimated payment to the FDIC in the tenth year using the formula provided in the agreements. The result of the calculation is based on the net present value of expected future cash payments to be made by SFNB to the FDIC at the conclusion of the loss share agreements. The discount rate used was based on current market rates. The expected cash flows were calculated in accordance with the loss share agreements and are based primarily on the expected losses on the covered assets. The value of the true-up provision was \$3.7 million and \$3.4 million at March 31, 2012 and December 31, 2011, respectively, and was included in accrued interest and other liabilities on the balance sheet.

In connection with the SWBC and SSB acquisitions, SFNB and the FDIC will share in the losses on assets covered under the loss share agreements. The FDIC will reimburse SFNB for 80% of all losses on covered assets. The loss sharing agreements entered into by SFNB and the FDIC in conjunction with the purchase and assumption agreements require that SFNB follow certain servicing procedures as specified in the loss share agreements or risk losing FDIC reimbursement of covered asset losses. Additionally, to the extent that actual losses incurred by SFNB under the loss share agreements are less than expected, SFNB may be required to reimburse the FDIC under the clawback provisions of the loss share agreements. At March 31, 2012 and December 31, 2011, the covered loans and covered other real estate owned and the related FDIC indemnification asset (collectively, the “covered assets”) and the FDIC true-up provision were reported at the net present value of expected future amounts to be paid or received.

Purchased loans acquired in a business combination, including loans purchased in the SWCB and SSB acquisitions, are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. Purchased loans are accounted for in accordance with ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality accounting guidance for certain loans or debt securities acquired in a transfer, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows result in a reversal of the provision for loan and lease losses to the extent of prior charges and an adjustment in accretable yield, recognized on a prospective basis over the loan's or pool's remaining life, which will have a positive impact on interest income.

The Company has finalized its analysis of the acquired loans along with the other acquired assets and assumed liabilities in these transactions. No significant adjustments to the estimated amounts and carrying values were required as of the dates of acquisition. See Note 5 for discussion regarding subsequent evaluation of future cash flows.

During 2010, SFNB acquired the real estate (building and land) for the Springfield, Missouri location (formerly SWCB) for a total of \$1.1 million. During 2011, SFNB acquired the real estate for four of the Kansas locations previously owned by SSB related entities for a total of \$6.2 million. Also, during 2011, SFNB acquired three additional Kansas locations upon final settlement of SSB with the FDIC for a total of \$4.4 million. Two other locations are leased from third parties and SFNB will continue to lease these facilities.

NOTE 3: INVESTMENT SECURITIES

The amortized cost and fair value of investment securities that are classified as held-to-maturity and available-for-sale are as follows:

(In thousands)	March 31, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Treasury	\$ 4,000	\$ 3	\$ -	\$ 4,003	\$ 4,000	\$ 14	\$ -	\$ 4,014
U.S. Government agencies	267,991	378	(589)	267,780	308,779	712	(154)	309,337
Mortgage-backed securities	59	2	-	61	62	1	-	63
State and political subdivisions	208,334	5,797	(162)	213,969	211,673	6,333	(144)	217,862
Other securities	930	-	-	930	930	-	-	930
	\$ 481,314	\$ 6,180	\$ (751)	\$ 486,743	\$ 525,444	\$ 7,060	\$ (298)	\$ 532,206
Available-for-Sale								
U.S. Government agencies	157,730	224	(323)	157,631	153,560	295	(228)	153,627
Mortgage-backed securities	2,244	284	-	2,528	2,280	277	-	2,557
Other securities	15,852	460	(5)	16,307	15,649	384	(5)	16,028
	\$ 175,826	\$ 968	\$ (328)	\$ 176,466	\$ 171,489	\$ 956	\$ (233)	\$ 172,212

Certain investment securities are valued at less than their historical cost. These declines primarily resulted from the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. Management does not have the intent to sell these securities and management believes it is more likely than not the Company will not have to sell these securities before recovery of their amortized cost basis less any current period credit losses. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

As of March 31, 2012, securities with unrealized losses, segregated by length of impairment, were as follows:

(In thousands)	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	\$ 163,906	\$ (589)	\$ -	\$ -	\$ 163,906	\$ (589)
State and political subdivisions	4,399	(30)	719	(132)	5,118	(162)
Total	\$ 168,305	\$ (619)	\$ 719	\$ (132)	\$ 169,024	\$ (751)
Available-for-Sale						
U.S. Government agencies	\$ 90,179	\$ (289)	\$ 1,159	\$ (34)	\$ 91,338	\$ (323)
Other securities	1	(5)	-	-	1	(5)
Total	\$ 90,180	\$ (294)	\$ 1,159	\$ (34)	\$ 91,339	\$ (328)

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of March 31, 2012, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2012, management believes the impairments detailed in the table above are temporary.

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$425,278,000 at March 31, 2012, and \$410,702,000 at December 31, 2011.

The book value of securities sold under agreements to repurchase amounted to \$65,929,000 and \$83,556,000 for March 31, 2012, and December 31, 2011, respectively.

Income earned on securities for the three months ended March 31, 2012 and 2011, is as follows:

(In thousands)	2012	2011
Taxable		
Held-to-maturity	\$852	\$1,170
Available-for-sale	526	549
Non-taxable		
Held-to-maturity	1,897	1,986
Total	\$3,275	\$3,705

Maturities of investment securities at March 31, 2012, are as follows:

(In thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$37,198	\$37,371	\$300	\$300
After one through five years	246,681	247,280	93,635	93,628
After five through ten years	116,554	118,134	66,035	66,227
After ten years	80,881	83,958	4	4
Other securities	-	-	15,852	16,307
Total	\$481,314	\$486,743	\$175,826	\$176,466

There were no realized gains or losses on investment securities for the three months ended March 31, 2012 or 2011.

The state and political subdivision debt obligations are primarily non-rated bonds and represent small, Arkansas issues, which are evaluated on an ongoing basis.

NOTE 4: LOANS AND ALLOWANCE FOR LOAN LOSSES

At March 31, 2012, the Company's loan portfolio was \$1.67 billion, compared to \$1.74 billion at December 31, 2011. The various categories of loans are summarized as follows:

(In thousands)	March 31, 2012	December 31, 2011
Consumer		
Credit cards	\$ 175,013	\$ 189,970
Student loans	44,059	47,419
Other consumer	110,001	109,211
Total consumer	329,073	346,600
Real Estate		
Construction	109,979	109,825
Single family residential	349,009	355,094
Other commercial	537,807	536,372
Total real estate	996,795	1,001,291
Commercial		
Commercial	144,772	141,422
Agricultural	69,598	85,728
Total commercial	214,370	227,150
Other	3,415	4,728
Loans not covered by loss share agreements	1,543,653	1,579,769
Loans covered by FDIC loss share agreements	129,735	158,075
Total loans before allowance for loan losses	\$ 1,673,388	\$ 1,737,844

Loan Origination/Risk Management – The Company seeks to manage its credit risk by diversifying its loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral; obtaining and monitoring collateral; providing an adequate allowance for loans losses by regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry. The Company seeks to use diversification within the loan portfolio to reduce its credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. Furthermore, factors that influenced the Company's judgment regarding the allowance for loan losses consists of a three-year historical loss average segregated by each primary loan sector. On an annual basis, historical loss rates are calculated for each sector.

Consumer – The consumer loan portfolio consists of credit card loans, student loans and other consumer loans. The Company no longer originates student loans, and the current portfolio is guaranteed by the Department of Education at 97% of principal and interest. Credit card loans are diversified by geographic region to reduce credit risk and minimize any adverse impact on the portfolio. Although they are regularly reviewed to facilitate the identification and monitoring of creditworthiness, credit card loans are unsecured loans, making them more susceptible to be impacted by economic downturns resulting in increasing unemployment. Other consumer loans include direct and indirect installment loans and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

Real estate – The real estate loan portfolio consists of construction loans, single family residential loans and commercial loans. Construction and development loans (“C&D”) and commercial real estate loans (“CRE”) can be particularly sensitive to valuation of real estate. Commercial real estate cycles are inevitable. The long planning and production process for new properties and rapid shifts in business conditions and employment create an inherent tension between supply and demand for commercial properties. While general economic trends often move individual markets in the same direction over time, the timing and magnitude of changes are determined by other forces unique to each market. CRE cycles tend to be local in nature and longer than other credit cycles. Factors influencing the CRE market are traditionally different from those affecting residential real estate markets; thereby making predictions for one market based on the other difficult. Additionally, submarkets within commercial real estate – such as office, industrial, apartment, retail and hotel – also experience different cycles, providing an opportunity to lower the overall risk through diversification across types of CRE loans. Management realizes that local demand and supply conditions will also mean that different geographic areas will experience cycles of different amplitude and length. The Company monitors these loans closely and has no significant concentrations in its real estate loan portfolio.

Commercial – The commercial loan portfolio includes commercial and agricultural loans, representing loans to commercial customers and farmers for use in normal business or farming operations to finance working capital needs, equipment purchase or other expansion projects. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrowers, particularly cash flow from customers’ business or farming operations. The Company continues its efforts to keep loan terms short, reducing the negative impact of upward movement in interest rates. Term loans are generally set up with a one or three year balloon, and the Company has recently instituted a pricing index for commercial loans. It is standard practice to require personal guaranties on all commercial loans, particularly as they relate to closely-held or limited liability entities.

Nonaccrual and Past Due Loans – Loans are considered 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 nonaccrual 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 nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is 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.

Nonaccrual loans, excluding loans covered by FDIC loss share agreements, segregated by class of loans, are as follows:

(In thousands)	March 31, 2012	December 31, 2011
Consumer:		
Credit cards	\$ 262	\$ 305
Student loans	-	-
Other consumer	781	839
Total consumer	1,043	1,144
Real estate:		
Construction	264	121
Single family residential	2,339	3,198
Other commercial	4,551	7,233
Total real estate	7,154	10,552
Commercial:		
Commercial	588	757

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Agricultural	354	454
Total commercial	942	1,211
Other	-	-
Total	\$ 9,139	\$ 12,907

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An age analysis of past due loans, excluding loans covered by FDIC loss share agreements, segregated by class of loans, is as follows:

(In thousands)	Gross 30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due & Accruing
March 31, 2012						
Consumer:						
Credit cards	\$ 648	\$550	\$1,198	\$173,815	\$175,013	\$ 289
Student loans	2,370	3,434	5,804	38,255	44,059	3,433
Other consumer	1,343	440	1,783	108,218	110,001	81
Total consumer	4,361	4,424	8,785	320,288	329,073	3,803
Real estate:						
Construction	84	158	242	109,737	109,979	-
Single family residential	3,360	1,326	4,686	344,323	349,009	218
Other commercial	330	3,310	3,640	534,167	537,807	10
Total real estate	3,774	4,794	8,568	988,227	996,795	228
Commercial:						
Commercial	553	374	927	143,845	144,772	9
Agricultural	52	245	297	69,301	69,598	-
Total commercial	605	619	1,224	213,146	214,370	9
Other	-	-	-	3,415	3,415	-
Total	\$ 8,740	\$9,837	\$18,577	\$1,525,076	\$1,543,653	\$ 4,040
December 31, 2011						
Consumer:						
Credit cards	\$ 820	\$605	\$1,425	\$188,545	\$189,970	\$ 300
Student loans	1,894	2,483	4,377	43,042	47,419	2,483
Other consumer	1,398	664	2,062	107,149	109,211	335
Total consumer	4,112	3,752	7,864	338,736	346,600	3,118
Real estate:						
Construction	548	121	669	109,156	109,825	-
Single family residential	3,581	2,262	5,843	349,251	355,094	121
Other commercial	806	6,240	7,046	529,326	536,372	15
Total real estate	4,935	8,623	13,558	987,733	1,001,291	136
Commercial:						
Commercial	467	467	934	140,488	141,422	9
Agricultural	103	312	415	85,313	85,728	5
Total commercial	570	779	1,349	225,801	227,150	14
Other	-	-	-	4,728	4,728	-
Total	\$ 9,617	\$13,154	\$22,771	\$1,556,998	\$1,579,769	\$ 3,268

Impaired Loans – A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loans, including scheduled principal and interest payments. This includes loans that are delinquent 90 days or more, nonaccrual loans and certain other loans identified by management. Certain other loans identified by management consist of performing loans with specific allocations of the allowance for loan

losses. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of the collateral if the loan is collateral dependent. Specific allocations are applied when quantifiable factors are present requiring a greater allocation than that established by the Company based on its analysis of historical losses for each loan category.

Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. Impaired loans, or portions thereof, are charged-off when deemed uncollectible.

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Impaired loans, net of government guarantees and excluding loans covered by FDIC loss share agreements, segregated by class of loans, are as follows:

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
March 31, 2012							
Consumer:							
Credit cards	\$ 550	\$ 550	\$ -	\$ 550	\$ 83	\$ 578	\$ 4
Student loans	-	-	-	-	-	-	-
Other consumer	1,077	924	126	1,050	220	1,190	15
Total consumer	1,627	1,474	126	1,600	303	1,768	19
Real estate:							
Construction	5,466	3,925	1,497	5,422	432	5,352	68
Single family residential	4,160	3,536	546	4,082	451	4,457	56
Other commercial	24,667	13,017	9,883	22,900	1,361	24,821	313
Total real estate	34,293	20,478	11,926	32,404	2,244	34,630	437
Commercial:							
Commercial	772	568	138	706	166	793	10
Agricultural	441	280	88	368	124	402	5
Total commercial	1,213	848	226	1,074	290	1,195	15
Other	-	-	-	-	-	-	-
Total	\$ 37,133	\$ 22,800	\$ 12,278	\$ 35,078	\$ 2,837	\$ 37,593	\$ 471

December 31, 2011	Three Months Ended March 31, 2011						
Consumer:							
Credit cards	\$ 605	\$ 605	\$ -	\$ 605	\$ 91	\$ 917	\$ 13
Student loans	-	-	-	-	-	-	-
Other consumer	1,359	1,203	128	1,331	266	1,369	15
Total consumer	1,964	1,808	128	1,936	357	2,286	28
Real estate:							
Construction	5,324	3,783	1,498	5,281	415	8,398	92
Single family residential	5,152	4,243	589	4,832	402	5,817	64
Other commercial	28,538	13,642	13,100	26,742	1,942	31,203	344
Total real estate	39,014	21,668	15,187	36,855	2,759	45,418	500
Commercial:							
Commercial	949	569	312	881	214	1,444	16
Agricultural	572	332	104	436	153	543	6
Total commercial	1,521	901	416	1,317	367	1,987	22
Other	-	-	-	-	-	-	-

Total	\$ 42,499	\$ 24,377	\$ 15,731	\$ 40,108	\$ 3,483	\$ 49,691	\$ 550
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At March 31, 2012, and December 31, 2011, impaired loans, net of government guarantees, totaled \$35.1 million and \$40.1 million, respectively. Allocations of the allowance for loan losses relative to impaired loans were \$2.8 million at March 31, 2012, and \$3.5 million at December 31, 2011. Approximately \$471,000 of interest income was recognized on average impaired loans of \$37.6 million for the three months ended March 31, 2012. Interest recognized on impaired loans on a cash basis during the three months ended March 31, 2012 and 2011 was immaterial.

Included in certain impaired loan categories are troubled debt restructurings (“TDRs”). When the Company restructures a loan to a borrower that is experiencing financial difficulty and grants a concession that it would not otherwise consider, a “troubled debt restructuring” results and the Company classifies the loan as a TDR. The Company grants various types of concessions, primarily interest rate reduction and/or payment modifications or extensions, with an occasional forgiveness of principal.

Under ASC Topic 310-10-35 – Subsequent Measurement, a TDR is considered to be impaired, and an impairment analysis must be performed. The Company assesses the exposure for each modification, either by collateral discounting or by calculation of the present value of future cash flows, and determines if a specific allocation to the allowance for loan losses is needed.

Once an obligation has been restructured because of such credit problems, it continues to be considered a TDR until paid in full; or, if an obligation yields a market interest rate and no longer has any concession regarding payment amount or amortization, then it is not considered a TDR at the beginning of the calendar year after the year in which the improvement takes place. The Company returns TDRs to accrual status only if (1) all contractual amounts due can reasonably be expected to be repaid within a prudent period, and (2) repayment has been in accordance with the contract for a sustained period, typically at least six months.

The following table presents a summary of troubled debt restructurings as of March 31, 2012, excluding loans covered by FDIC loss share agreements, segregated by class of loans.

(Dollars in thousands)	Accruing TDR Loans		Nonaccrual TDR Loans		Total TDR Loans	
	Number	Balance	Number	Balance	Number	Balance
Consumer:						
Credit cards	--	\$--	--	\$--	--	\$--
Student loans	--	--	--	--	--	--
Other consumer	3	63	--	--	3	63
Total consumer	3	63	--	--	3	63
Real estate:						
Construction	2	1,328	--	--	2	1,328
Single-family residential	5	858	1	27	6	885
Other commercial	15	8,862	3	2,861	18	11,723
Total real estate	22	11,048	4	2,888	26	13,936
Commercial:						
Commercial	4	420	--	--	4	420
Agricultural	--	--	--	--	--	--
Total commercial	4	420	--	--	4	420
Other	--	--	--	--	--	--
Total	29	\$11,531	4	\$2,888	33	\$14,419

The following table presents loans that were restructured as TDRs during the three months ended March 31, 2012, excluding loans covered by FDIC loss share agreements, segregated by class of loans.

(Dollars in thousands)	Number of Loans	Balance Prior to TDR	Balance at March 31, 2012	Modification Type		
				Change in Maturity Date	Change in Rate	Financial Impact on Date of Restructure
Consumer:						
Credit cards	--	\$--	\$--	\$--	\$--	\$--
Student loans	--	--	--	--	--	--
Other consumer	1	48	48	--	48	--
Total consumer	1	48	48	--	48	--
Real estate:						
Construction	1	175	175	--	175	--
Single family residential	--	--	--	--	--	--

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Other commercial	3	878	878	--	878	--
Total real estate	4	1,053	1,053	--		