

AMERICAN RIVER BANKSHARES

Form 10-Q

May 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014
or

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

For the transition period from to

Commission File Number: 0-31525

AMERICAN RIVER BANKSHARES

(Exact name of registrant as specified in its charter)

California 68-0352144
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3100 Zinfandel Drive, Suite 450, Rancho Cordova, California 95670
(Address of principal executive offices) (Zip Code)

(916) 851-0123

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)
reporting company)

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

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

No par value Common Stock – 8,133,037 shares outstanding at May 6, 2014

AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED MARCH 31, 2014**

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PART I-FINANCIAL INFORMATION**Item 1. Financial Statements.**

AMERICAN RIVER BANKSHARES

CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	March 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$ 24,131	\$ 17,948
Interest-bearing deposits in banks	1,000	1,000
Investment securities:		
Available-for-sale, at fair value	275,211	272,791
Held-to-maturity, at amortized cost	1,092	1,185
Loans and leases, less allowance for loan and lease losses of \$5,373 at March 31, 2014 and \$5,346 at December 31, 2013	255,465	251,747
Premises and equipment, net	1,523	1,500
Federal Home Loan Bank stock	3,248	3,248
Goodwill and other intangible assets	16,321	16,321
Other real estate owned	6,621	6,621
Bank owned life insurance	12,751	12,686
Accrued interest receivable and other assets	6,331	7,706
	\$ 603,694	\$ 592,753
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 155,860	\$ 145,516
Interest-bearing	345,032	338,174
Total deposits	500,892	483,690
Short-term borrowings	3,000	8,000
Long-term borrowings	8,000	8,000
Accrued interest payable and other liabilities	5,884	6,043
Total liabilities	517,776	505,733
Commitments and contingencies		

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Shareholders' equity:

Preferred stock, no par value; 20,000,000 shares authorized; none Outstanding		
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding – 8,158,409 shares at March 31, 2014 and 8,489,247 shares at December 31, 2013	57,898	61,108
Retained earnings	25,795	24,789
Accumulated other comprehensive income, net of taxes	2,225	1,123
Total shareholders' equity	85,918	87,020
	\$603,694	\$ 592,753

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(dollars in thousands, except per share data)

For the three months ended March 31,

	2014	2013
Interest income:		
Interest and fees on loans	\$3,455	\$3,642
Interest on deposits in banks	1	1
Interest and dividends on investment securities:		
Taxable	1,339	788
Exempt from Federal income taxes	201	220
Dividends	—	—
Total interest income	4,996	4,651
Interest expense:		
Interest on deposits	262	331
Interest on borrowings	42	76
Total interest expense	304	407
Net interest income	4,692	4,244
Provision for loan and lease losses	—	100
Net interest income after provision for loan and lease losses	4,692	4,144
Noninterest income:		
Service charges on deposit accounts	156	151
Gain on sale of securities	—	—
Gain on life insurance death benefit	—	118
Rental income from OREO properties	107	92
Other noninterest income	239	264
Total noninterest income	502	625
Noninterest expense:		
Salaries and employee benefits	2,120	2,217
Occupancy	307	301
Furniture and equipment	178	194
Federal Deposit Insurance Corporation assessments	103	126
Expenses related to other real estate owned	(1)	305
Other expense	946	859
Total noninterest expense	3,653	4,002
Income before provision for income taxes	1,541	767
Provision for income taxes	535	145

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Net income	\$1,006	\$622
Basic earnings per share	\$0.12	\$0.07
Diluted earnings per share	\$0.12	\$0.07
Cash dividends per share	\$0.00	\$0.00

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands)

For the three months
ended March 31,

	2014	2013
Net income	\$ 1,006	\$ 622
Other comprehensive income:		
Increase (decrease) in net unrealized gains on investment securities	1,837	(432)
Deferred tax (expense) benefit	(735)	173
Increase (decrease) in net unrealized gains on investment securities, net of tax	1,102	(259)
Reclassification adjustment for realized gains included in net income	—	—
Tax effect	—	—
Realized gains, net of tax	—	—
Total other comprehensive income (loss)	1,102	(259)
Comprehensive income	\$ 2,108	\$ 363

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands)	Common Stock		Retained Earnings	Accumulated	Total Shareholders' Equity
	Shares	Amount		Other Comprehensive Income	
Balance, January 1, 2013	9,327,203	67,977	21,732	4,285	93,994
Net income			3,057		3,057
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				(3,162)	(3,162)
Net restricted stock awarded and related compensation expense	11,448	111			111
Stock option compensation expense		20			20
Retirement of common stock	(849,404)	(7,000)			(7,000)
Balance, December 31, 2013	8,489,247	61,108	24,789	1,123	87,020
Net income			1,006		1,006
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				1,102	1,102
Net restricted stock award activity and related compensation expense	—	30			30
Stock option compensation expense	—	3			3
Retirement of common stock	(330,838)	(3,243)			(3,243)
Balance, March 31, 2014	8,158,409	\$57,898	\$25,795	\$ 2,225	\$ 85,918

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands)

For the three months ended March 31,

	2014	2013
Cash flows from operating activities:		
Net income	\$ 1,006	\$ 622
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	—	100
Increase in deferred loan origination fees, net	7	3
Depreciation and amortization	114	134
Gain on sale and call of investment securities	—	—
Amortization of investment security premiums and discounts, net	1,238	1,422
Gain on life insurance death benefit	—	(118)
(Increase) decrease in cash surrender values of life insurance policies	(65)	46
Stock based compensation expense	33	33
(Gain) loss on sale/write-down of other real estate owned	(106)	93
Decrease in accrued interest receivable and other assets	639	1,157
Decrease in accrued interest payable and other liabilities	(159)	(467)
Net cash provided by operating activities	2,707	3,025
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	—	—
Proceeds from matured available-for-sale investment securities	270	—
Proceeds from called available-for-sale investment securities	105	—
Purchases of available-for-sale investment securities	(11,474)	(27,425)
Proceeds from principal repayments for available-for-sale investment securities	9,277	15,528
Proceeds from principal repayments for held-to-maturity investment securities	94	218
Net (increase) decrease in loans	(3,724)	6,091
Proceeds from sale of other real estate	106	3,743
Capitalized additions to other real estate	—	(112)
Death benefit from life insurance policy	—	419
Purchases of equipment	(137)	(44)
Net cash used in investing activities	(5,483)	(1,582)

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(dollars in thousands)

For the three months ended March 31,

	2014	2013
Cash flows from financing activities:		
Net increase (decrease) in demand, interest-bearing and savings deposits	\$18,173	\$(7,477)
Net (decrease) increase in time deposits	(971)	77
Net decrease in other borrowings	(5,000)	—
Cash paid to repurchase common stock	(3,243)	(1,657)
Net cash provided by (used in) financing activities	\$8,959	\$(9,057)
Increase (decrease) in cash and cash equivalents	6,183	(7,164)
Cash and cash equivalents at beginning of year	17,948	55,461
Cash and cash equivalents at end of period	\$24,131	\$47,847

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the "Company") at March 31, 2014 and December 31, 2013, the results of its operations and statement of comprehensive income for the three month periods ended March 31, 2014 and 2013, its cash flows for the three-month periods ended March 31, 2014 and 2013 and its statement of changes in shareholders' equity for the year ended December 31, 2013 and the three months ended March 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

Certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2013. The results of operations for the three-month period ended March 31, 2014 may not necessarily be indicative of the operating results for the full year.

In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan and lease losses, stock-based compensation, the valuation of goodwill, and the provision for income taxes.

Management has determined that since all of the banking products and services offered by the Company are available in each branch office of American River Bank, all branch offices are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate all of the branch offices and report them as a single operating segment. No client accounts for more than ten percent (10%) of revenues for the Company or American River Bank.

2. STOCK-BASED COMPENSATION

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the “2010 Plan”). The 2010 Plan was approved by the Company’s shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company’s shareholders approved a stock option plan (the “2000 Plan”), under which 260,594 stock options remain outstanding at March 31, 2014. At March 31, 2014, there were 17,329 stock options and 23,990 restricted shares outstanding and the total number of authorized shares that remain available for issuance under the 2010 Plan was 1,432,312. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards granted under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonstatutory agreements and other awards agreements. The 2010 Plan and the 2000 Plan (collectively the “Plans”) require that the option price may not be less than the fair market value of the stock at the date the option is granted. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company’s Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

The grant date fair value of awards is determined by the market price of the Company's common stock on the date of grant and is recognized ratably as compensation expense or director expense over the vesting periods. The shares of common stock granted pursuant to such agreements vest in increments over one to five years from the date of grant. The shares awarded to employees and directors under the restricted stock agreements vest on the applicable vesting dates only to the extent the recipient of the shares is then an employee or a director of the Company or one of its subsidiaries, and each recipient will forfeit all of the shares that have not vested on the date his or her employment or service is terminated.

Equity Compensation

For the three-month periods ended March 31, 2014 and 2013, the compensation cost recognized for equity compensation was \$33,000 for each period. The recognized tax benefit for equity compensation expense was \$12,000 and \$11,000, for the three-month periods ended March 31, 2014 and 2013, respectively.

At March 31, 2014, the total compensation cost related to nonvested stock option awards not yet recorded is \$25,000. This amount will be recognized over the next 3.25 years and the weighted average period of recognizing these costs is expected to be 1.6 years. At March 31, 2014, the total compensation cost related to restricted stock awards not yet recorded is \$77,000. This amount will be recognized over the next 3.25 years and the weighted average period of recognizing these costs is expected to be .75 years.

Equity Plans Activity

Stock Options

There were no stock options awarded during the three-month periods ended March 31, 2014 and 2013. A summary of option activity under the Plans as of March 31, 2014 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2014	277,923	\$ 17.21	3.1 years	\$ 82
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	—	—	—	—
Outstanding at March 31, 2014	277,923	\$ 17.21	2.9 years	\$ 69
Vested at March 31, 2014	264,044	\$ 17.75	2.6 years	\$ 39
Non-vested at March 31, 2014	13,879	\$ 7.08	8.1 years	\$ 30
Expected to vest at March 31, 2014	10,411	\$ 7.08	8.1 years	\$ —

Restricted Stock

There were no shares of restricted stock awarded during the three-month periods ended March 31, 2014 and 2013, respectively. There were no restricted stock awards that were fully vested during the three-month periods ended

March 31, 2014 and 2013, respectively. The intrinsic value of nonvested restricted stock at March 31, 2014 was \$221,000.

Restricted Stock	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2014	23,990	\$ 7.22
Awarded	—	—
Less: Vested	—	—
Less: Cancelled	—	—
Nonvested at March 31, 2014	23,990	\$ 7.22

Other Equity Awards

There were no stock appreciation rights; restricted performance stock; unrestricted Company stock; or performance units awarded during the three-month periods ended March 31, 2014 or 2013 or outstanding at March 31, 2014 or December 31, 2013.

The intrinsic value used for stock options and restricted stock was derived from the market price of the Company's common stock of \$9.23 as of March 31, 2014.

3. COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments to extend credit which are not reflected in the financial statements, including loan commitments of approximately \$30,072,000 and standby letters of credit of approximately \$6,092,000 at March 31, 2014 and loan commitments of approximately \$31,681,000 and standby letters of credit of approximately \$6,363,000 at December 31, 2013. Such commitments relate primarily to real estate construction loans, revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company during 2014 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory, insurance programs, performance obligations to government agencies, or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at March 31, 2014 or December 31, 2013.

4. EARNINGS PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (8,321,448 shares and 9,209,719 shares for the three-month periods ended March 31, 2014 and 2013, respectively). Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or restricted stock, result in the issuance of common stock. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of stock based awards (20,395 shares for the three-month period ended March 31, 2014 and 10,898 shares for the three-month period ended March 31, 2013). For the three-month periods ended March 31, 2014 and 2013, there were 217,247 and 278,850 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at March 31, 2014 and December 31, 2013 consisted of the following (dollars in thousands):

Available-for-Sale

	March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$244,081	\$ 4,044	\$ (1,565)	\$246,560
Obligations of states and political subdivisions	25,862	1,108	(73)	26,897
Corporate bonds	1,505	112	—	1,617
Equity securities:				
Corporate stock	54	83	—	137
	\$271,502	\$ 5,347	\$ (1,638)	\$275,211

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$243,058	\$ 3,429	\$ (2,327)	\$244,160
Obligations of states and political subdivisions	26,302	775	(174)	26,903
Corporate bonds	1,505	104	—	1,609
Equity securities:				
Corporate stock	54	65	—	119
	\$270,919	\$ 4,373	\$ (2,501)	\$272,791

Net unrealized gains on available-for-sale investment securities totaling \$3,709,000 were recorded, net of \$1,484,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at March 31, 2014. There were not any proceeds nor gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended March 31, 2014. There were no transfers of available-for-sale investment securities for the three-month period ended March 31, 2014.

Net unrealized gains on available-for-sale investment securities totaling \$1,872,000 were recorded, net of \$749,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2013. There were not any proceeds nor gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended March 31, 2013. There were no transfers of available-for-sale investment securities for the three-month period ended March 31, 2013.

Held-to-Maturity

March 31, 2014

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$ 1,092	\$ 73	\$ —	\$ 1,165

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013				
Debt securities:				
Mortgage-backed securities	\$ 1,185	\$ 78	\$ —	\$ 1,263

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There were no sales or transfers of held-to-maturity investment securities for the periods ended March 31, 2014 and March 31, 2013. Investment securities with unrealized losses at March 31, 2014 and December 31, 2013 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

March 31, 2014	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
Mortgage-backed securities	\$81,540	\$ (1,278)	16,853	(287)	\$98,393	\$ (1,565)
Obligations of states and political subdivisions	2,017	(73)	—	—	2,017	(73)
	\$83,557	\$ (1,351)	\$16,853	\$ (287)	\$100,410	\$ (1,638)
December 31, 2013	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
Mortgage-backed securities	\$10,047	\$ (147)	\$98,723	\$ (2,180)	\$108,770	\$ (2,327)
Obligations of states and political subdivisions	4,223	(174)	—	—	4,223	(174)
	\$14,270	\$ (321)	\$98,723	\$ (2,180)	\$112,993	\$ (2,501)

There were no held-to-maturity investment securities with unrealized losses as of March 31, 2014 or December 31, 2013.

At March 31, 2014, the Company held 218 securities of which 39 were in a loss position for less than twelve months and eight were in a loss position for twelve months or more. Of the 39 securities in a loss position of less than twelve months, 36 were mortgage-backed securities and three were obligations of states and political subdivisions. All securities in a loss position, at March 31, 2014, for greater than twelve months were mortgage-backed securities. At December 31, 2013, the Company held 216 securities of which 49 were in a loss position for less than twelve months and five were in a loss position for twelve months or more. Of these securities in a loss position, 44 are mortgage-backed securities and five are obligations of political subdivisions. All securities in a loss position, at December 31, 2013, for greater than twelve months were mortgage-backed securities.

The unrealized loss on the Company's investment securities is primarily driven by interest rates. Because the decline in market value is attributable to a change in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be until maturity, management does not consider these investments to be other-than-temporarily impaired.

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The amortized cost and estimated fair values of investment securities at March 31, 2014 by contractual maturity are shown below (dollars in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$1,745	\$1,857		
After one year through five years	2,026	2,083		
After five years through ten years	12,162	12,746		
After ten years	11,434	11,828		
	27,367	28,514		
Investment securities not due at a single maturity date:				
Mortgage-backed securities	244,081	246,560	\$1,092	\$1,165
Corporate stock	54	137	—	—
	\$271,502	\$275,211	\$1,092	\$1,165

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

6. IMPAIRED AND NONPERFORMING LOANS AND LEASES AND OTHER REAL ESTATE OWNED

At March 31, 2014 and December 31, 2013, the recorded investment in nonperforming loans and leases was approximately \$1,883,000 and \$1,979,000, respectively. Nonperforming loans and leases include all such loans and leases that are either placed on nonaccrual status or are 90 days past due as to principal or interest but still accrue interest because such loans are well-secured and in the process of collection. The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the original loan agreement. At March 31, 2014, the recorded investment in loans and leases that were considered to be impaired totaled \$26,441,000, which includes \$1,779,000 in nonaccrual loans and leases and \$24,662,000 in accruing loans and leases. Of the total impaired loans of \$26,441,000, loans totaling \$11,740,000 were deemed to require no specific reserve and loans totaling \$14,701,000 were deemed to require a related valuation allowance of \$1,638,000. At December 31, 2013, the recorded investment in loans and leases that were considered to be impaired totaled \$27,034,000 and had a related valuation allowance of \$1,598,000. If interest had been accruing on the nonperforming loans, such income would have approximated \$39,000 and \$59,000 for the three months ended March 31, 2014 and 2013.

At March 31, 2014 and December 31, 2013, the recorded investment in other real estate owned (“OREO”) was \$6,621,000. During the first quarter of 2014, the Company sold two parcels of land in El Dorado County that abutted an existing OREO property for a \$106,000 net gain without any adjustment required to the value of the existing OREO property. The Company continues to own the OREO office building and land upon which the building is located but no longer owns the adjoining land.

The Company periodically obtains property valuations to determine whether the OREO recorded book value is considered fair value. During the first quarter of 2014, this valuation process did not result in the Company adjusting the book value of the OREO properties.

The March 31, 2014 OREO balance of \$6,621,000 consists of nine properties including three commercial real estate properties in the total amount of \$3,745,000, four commercial land properties in the total amount of \$1,729,000 and two residential land properties in the total amount of \$1,147,000.

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Nonperforming loans and leases and other assets and OREO at March 31, 2014 and December 31, 2013 are summarized as follows (in thousands):

	March 31, 2014	December 31, 2013		
Nonaccrual loans and leases that are current to terms (less than 30 days past due)	\$ 363	\$ 379		
Nonaccrual loans and leases that are past due	1,520	1,520		
Loans and leases past due 90 days and accruing interest	—	80		
Other assets	878	878		
Other real estate owned	6,621	6,621		
Total nonperforming assets	\$ 9,382	\$ 9,478		
Nonperforming loans and leases to total loans and leases	0.72	%	0.77	%
Total nonperforming assets to total assets	1.55	%	1.60	%

Impaired loans and leases as of and for the periods ended March 31, 2014 and December 31, 2013 are summarized as follows:

(in thousands)	As of March 31, 2014			As of December 31, 2013		
	Recorded	Unpaid Principal Balance	Related Allowance	Recorded	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	\$535	\$ 535	\$ —	\$577	\$ 577	\$ —
Real estate-commercial	10,873	11,071	—	10,921	11,119	—
Real estate-multi-family	—	—	—	—	—	—
Real estate-construction	245	245	—	248	248	—
Real estate-residential	—	—	—	—	—	—
Leases	—	—	—	—	—	—
Consumer	87	87	—	37	37	—
Subtotal	\$11,740	\$ 11,938	\$ —	\$11,783	\$ 11,981	\$ —
With an allowance recorded:						
Commercial	\$1,134	\$ 1,134	\$ 395	\$1,159	\$ 1,159	\$ 392
Real estate-commercial	8,479	8,479	758	8,998	8,998	792
Real estate-multi-family	1,642	1,735	105	1,650	1,743	108
Real estate-construction	—	—	—	—	—	—
Real estate-residential	3,297	3,297	341	3,316	3,316	276
Agriculture	—	—	—	—	—	—
Consumer	149	149	39	128	128	30
Subtotal	\$14,701	\$ 14,794	\$ 1,638	\$15,251	\$ 15,344	\$ 1,598
Total:						
Commercial	\$1,669	\$ 1,669	\$ 395	\$1,736	\$ 1,736	\$ 392
Real estate-commercial	19,352	19,550	758	19,919	20,117	792
Real estate-multi-family	1,642	1,735	105	1,650	1,743	108

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Real estate-construction	245	245	—	248	248	—
Real estate-residential	3,297	3,297				