FS Bancorp, Inc.
Form 10-Q
November 13, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

(Mark One)

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

For the quarterly period ended September 30, 2017 OR

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

For the transition period from to

Commission File Number: 001 35589

FS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Washington	45 4585178
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6920 220th Street SW, Mountlake Terrace, Washington 98043

(Address of principal executive offices; Zip Code)

(425) 771 5299

(Registrant's telephone number, including area code)

None

(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 [X] 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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth 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)	Smaller reporting company [X]
Emerging growth company [X]	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [X]

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: As of November 3, 2017, there were 3,674,902 outstanding shares of the registrant’s common stock.

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As used in this report, the terms “we,” “our,” “us,” “Company” and “FS Bancorp” refer to FS Bancorp, Inc. and its consolidate subsidiary, 1st Security Bank of Washington, unless the context indicates otherwise. When we refer to “Bank” in this report, we are referring to 1st Security Bank of Washington, the wholly owned subsidiary of FS Bancorp, Inc.

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Item 1. Financial Statements

FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts) (Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 3,299	$ 3,590
Interest-bearing deposits at other financial institutions	27,996	32,866
Total cash and cash equivalents	31,295	36,456
Certificates of deposit at other financial institutions	18,108	15,248
Securities available-for-sale, at fair value	78,103	81,875
Loans held for sale, at fair value	65,055	52,553
Loans receivable, net	753,854	593,317
Accrued interest receivable	3,217	2,524
Premises and equipment, net	15,463	16,012
Federal Home Loan Bank (“FHLB”) stock, at cost	3,047	2,719
Bank owned life insurance (“BOLI”), net	10,262	10,054
Servicing rights, held at the lower of cost or fair value	5,811	8,459
Goodwill	2,312	2,312
Core deposit intangible, net	1,417	1,717
Other assets	5,947	4,680
TOTAL ASSETS	$ 993,891	$ 827,926
LIABILITIES		
Deposits:		
Noninterest-bearing accounts	$ 166,964	$ 152,913
Interest-bearing accounts	673,614	559,680
Total deposits	840,578	712,593
Borrowings	10,270	12,670
Subordinated note:		
Principal amount	10,000	10,000
Unamortized debt issuance costs	(160)	(175)
Total subordinated note less unamortized debt issuance costs	9,840	9,825
Other liabilities	14,964	11,805
Total liabilities	875,652	746,893
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
STOCKHOLDERS’ EQUITY		
Preferred stock, $.01 par value; 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value; 45,000,000 shares authorized; 3,674,902 and 3,059,503 shares issued and outstanding at September 30, 2017, and December 31, 2016, respectively	37	31

Additional paid-in capital	54,463	27,334
Retained earnings	65,049	55,584
Accumulated other comprehensive loss, net of tax	(128)	(536)
Unearned shares – Employee Stock Ownership Plan (“ESOP”)	(1,182)	(1,380)
Total stockholders’ equity	118,239	81,033
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 993,891	$ 827,926

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share amounts) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Loans receivable, including fees	$ 11,715	$ 9,241	$ 31,488	$ 26,014
Interest and dividends on investment securities, cash and cash equivalents, and certificates of deposit at other financial institutions	637	538	2,034	1,751
Total interest and dividend income	12,352	9,779	33,522	27,765
INTEREST EXPENSE				
Deposits	1,045	808	2,793	2,411
Borrowings	114	50	259	177
Subordinated note	171	171	508	512
Total interest expense	1,330	1,029	3,560	3,100
NET INTEREST INCOME	11,022	8,750	29,962	24,665
PROVISION FOR LOAN LOSSES	450	600	450	1,800
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,572	8,150	29,512	22,865
NONINTEREST INCOME				
Service charges and fee income	879	899	2,743	2,489
Gain on sale of loans	5,025	5,922	13,840	14,722
Gain on sale of investment securities	143	146	380	146
Gain on sale of mortgage servicing rights (“MSR”)	38	—	996	—
Earnings on cash surrender value of BOLI	68	71	208	211
Other noninterest income	274	210	637	557
Total noninterest income	6,427	7,248	18,804	18,125
NONINTEREST EXPENSE				
Salaries and benefits	7,140	6,287	20,174	16,510
Operations	1,577	1,450	4,506	4,221
Occupancy	650	597	1,939	1,775
Data processing	651	537	1,811	1,576
Gain on sale of other real estate owned (“OREO”)	—	—	—	(150)
Loan costs	726	715	1,977	1,789
Professional and board fees	378	502	1,261	1,490
Federal Deposit Insurance Corporation (“FDIC”) insurance	175	98	428	306
Marketing and advertising	192	202	512	553
Acquisition costs	—	—	—	389
Amortization of core deposit intangible	100	140	300	382
(Recovery) impairment on servicing rights	—	(216)	1	(2)
Total noninterest expense	11,589	10,312	32,909	28,839
INCOME BEFORE PROVISION FOR INCOME TAXES	5,410	5,086	15,407	12,151
PROVISION FOR INCOME TAXES	1,956	1,629	5,001	4,198

NET INCOME	$ 3,454	$ 3,457	$ 10,406	$ 7,953
Basic earnings per share	$ 1.13	$ 1.21	$ 3.53	$ 2.74
Diluted earnings per share	$ 1.07	$ 1.18	$ 3.31	$ 2.66

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	$ 3,454	$ 3,457	$ 10,406	$ 7,953
Other comprehensive income, before tax:				
Securities available-for-sale:				
Unrealized holding gain during period	80	29	1,012	1,224
Income tax provision related to unrealized holding gain	(28)	(8)	(357)	(433)
Reclassification adjustment for realized gain included in net income	(143)	(146)	(380)	(146)
Income tax provision related to reclassification for realized gain	50	50	133	50
Other comprehensive (loss) income, net of tax	(41)	(75)	408	695
COMPREHENSIVE INCOME	$ 3,413	$ 3,382	$ 10,814	$ 8,648

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except share amounts) (Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Unearned ESOP Shares	Total Stockholders' Equity
BALANCE, January 1, 2016	3,242,120	$ 32	$ 30,692	$ 46,175	$ 78	$ (1,637)	$ 75,340
Net income	—	$ —	—	7,953	—	—	$ 7,953
Dividends paid ($0.26 per share)	—	$ —	—	(802)	—	—	$ (802)
Share-based compensation	—	$ —	588	—	—	—	$ 588
Restricted stock awards	4,500	$ —	—	—	—	—	$ —
Common stock repurchased	(198,167)	$ (1)	(4,902)	—	—	—	$ (4,903)
Stock options exercised	9,300	$ —	157	—	—	—	$ 157
Other comprehensive income, net of tax	—	$ —	—	—	695	—	$ 695
ESOP shares allocated	—	$ —	331	—	—	198	$ 529
BALANCE, September 30, 2016	3,057,753	$ 31	$ 26,866	$ 53,326	$ 773	$ (1,439)	$ 79,557
BALANCE, January 1, 2017	3,059,503	$ 31	$ 27,334	$ 55,584	$ (536)	$ (1,380)	$ 81,033
Net income	—	$ —	—	10,406	—	—	$ 10,406
Dividends paid ($0.31 per share)	—	$ —	—	(941)	—	—	$ (941)
Proceeds from public offering, net of expenses	587,234	$ 6	25,612	—	—	—	$ 25,618
Share-based compensation	—	$ —	496	—	—	—	$ 496
Common stock repurchased	(6,198)	$ —	(275)	—	—	—	$ (275)
Stock options exercised	34,363	$ —	580	—	—	—	$ 580
Other comprehensive income, net of tax	—	$ —	—	—	408	—	$ 408
ESOP shares allocated	—	$ —	716	—	—	198	$ 914

BALANCE, September 30, 2017	3,674,902	$ 37	$ 54,463	$ 65,049	$ (128)	$ (1,182)	$ 118,239

See accompanying notes to these consolidated financial statements.

FS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Nine Months Ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,406	$ 7,953
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	450	1,800
Depreciation, amortization and accretion	2,577	3,779
Compensation expense related to stock options and restricted stock awards	496	588
ESOP compensation expense for allocated shares	914	529
Increase in cash surrender value of BOLI	(208)	(211)
Gain on sale of loans held for sale	(13,840)	(14,722)
Gain on sale of investment securities	(380)	(146)
Gain on sale of OREO	—	(150)
Gain on sale of MSR	(996)	—
Origination of loans held for sale	(520,358)	(584,073)
Proceeds from sale of loans held for sale	520,091	564,218
Impairment (recovery) of servicing rights	1	(2)
Changes in operating assets and liabilities		
Accrued interest receivable	(693)	(450)
Other assets	(79)	(7,481)
Other liabilities	2,668	5,063
Net cash from (used by) operating activities	1,049	(23,305)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities available-for-sale:		
Proceeds from sale of investment securities	39,103	13,577
Maturities, prepayments, sales, and calls	6,531	9,039
Purchases	(41,320)	(47,432)
Maturities of certificates of deposit at other financial institutions	1,240	292
Purchase of certificates of deposit at other financial institutions	(4,102)	(1,882)
Loan originations and principal collections, net	(129,763)	(93,871)
Purchase of portfolio loans	(32,342)	—
Proceeds from sale of other real estate owned, net	—	682
Purchase of premises and equipment, net	(623)	(2,287)
FHLB stock, net	(328)	2,547
Proceeds from sale of MSR	4,827	—
Net cash received from acquisition	—	180,356
Net cash (used by) from investing activities	(156,777)	61,021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	127,985	37,630

Borrowings, net	(2,400)	(77,740)
Dividends paid	(941)	(802)
Proceeds from stock options exercised	580	157
Common stock repurchased	(275)	(4,903)
Proceeds from issuance of common stock	25,618	—
Net cash from (used by) financing activities	150,567	(45,658)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,161)	(7,942)
CASH AND CASH EQUIVALENTS, beginning of period	36,456	24,455
CASH AND CASH EQUIVALENTS, end of period	$ 31,295	$ 16,513
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 3,528	$ 2,931
Income taxes	$ 5,800	$ 4,420
Assets acquired in acquisition of branches (Note 2)	$ —	$ 181,575
Liabilities assumed in acquisition of branches (Note 2)	$ —	$ 186,393
SUPPLEMENTARY DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Change in unrealized gain on investment securities	$ 631	$ 1,079
Transfer portfolio loans to loans held for sale	$ 1,886	$ —
Property received in settlement of loans	$ —	$ 525
Retention of gross mortgage servicing rights from loan sales	$ 3,569	$ 2,927

See accompanying notes to these consolidated financial statements

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FS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - FS Bancorp, Inc. (the “Company”) was incorporated in September 2011 as the proposed holding company for 1st Security Bank of Washington (the “Bank” or “1st Security Bank”) in connection with the Bank’s conversion from the mutual to stock form of ownership which was completed on July 9, 2012. The Bank is a community-based savings bank with 11 branches and seven loan production offices in suburban communities in the greater Puget Sound area which includes Snohomish, King, Pierce, Jefferson, Kitsap, and Clallam counties, and one loan production office in the market area of the Tri-Cities, Washington. The Bank provides loan and deposit services to customers who are predominantly small and middle-market businesses and individuals. The Bank acquired four retail bank branches from Bank of America, National Association (“Bank of America”) (two in Clallam and two in Jefferson counties) on January 22, 2016, and these branches opened as 1st Security Bank branches on January 25, 2016. The Company and its subsidiary are subject to regulation by certain federal and state agencies and undergo periodic examination by these regulatory agencies.

Pursuant to the Plan of Conversion (the “Plan”), the Company’s Board of Directors adopted an employee stock ownership plan (“ESOP”) which purchased 8% of the common stock in the open market or 259,210 shares. As provided for in the Plan, the Bank also established a liquidation account in the amount of retained earnings at December 31, 2011. The liquidation account is maintained for the benefit of eligible savings account holders at June 30, 2007, and supplemental eligible account holders as of March 31, 2012, who maintain deposit accounts at the Bank after the conversion. The conversion was accounted for as a change in corporate form with the historic basis of the Company’s assets, liabilities, and equity unchanged as a result.

Financial Statement Presentation - The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10 Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (“SEC”). It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the Company’s Annual Report on Form 10 K with all of the audited information and footnotes required by U.S. GAAP for complete financial statements for the year ended December 31, 2016, as filed with the SEC on March 16, 2017. In the opinion of management, all normal adjustments and recurring accruals considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included.

The results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017, or any other future period. The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, fair value of financial instruments, and the valuation of servicing rights.

Amounts presented in the consolidated financial statements and footnote tables are rounded and presented in thousands of dollars except per share amounts. In the narrative footnote discussion, amounts are rounded and presented in millions of dollars to one decimal point if the amounts are above $1.0 million. Amounts below $1.0 million are rounded and presented in dollars to the nearest thousands. Certain prior year amounts have been reclassified to conform to the 2017 presentation with no change to consolidated net income or stockholders’ equity previously reported.

Principles of Consolidation - The consolidated financial statements include the accounts of FS Bancorp, Inc. and its wholly owned subsidiary, 1st Security Bank of Washington. All material intercompany accounts have been eliminated in consolidation.

Segment Reporting - The Company operates in two business segments through the Bank: commercial and consumer banking and home lending. The Company’s business segments are determined based on the products and services provided, as well as the nature of the related business activities, and they reflect the manner in which financial information is regularly reviewed for the purpose of allocating resources and evaluating performance of the Company’s businesses. The results for these business segments are based on management’s accounting process, which assigns income statement

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

items and assets to each responsible operating segment. This process is dynamic and is based on management's view of the Company's operations. See Note 15 - Business Segments.

Subsequent Events - The Company has evaluated events and transactions subsequent to September 30, 2017, for potential recognition or disclosure.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014 09, Revenue from Contracts with Customers (Topic 606), which creates Topic 606 and supersedes Topic 605, Revenue Recognition. In August 2015, FASB issued ASU No. 2015 14, Revenue from Contracts with Customers (Topic 606), which postponed the effective date of 2014 09. In March 2016, the FASB issued ASU 2016 08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amended the principal versus agent implementation guidance set for in ASU 2014 09. Among other things, ASU 2016 08 clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. In April 2016, the FASB issued ASU No. 2016 10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The ASU amends certain aspects of the guidance set forth in the FASB's new revenue standard related to identifying performance obligations and licensing implementation. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In May 2016, the FASB issued ASU No. 2016 12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic 606. The ASU is effective for public entities for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. For financial reporting purposes, the ASU allows for either full retrospective adoption, meaning the ASU is applied to all of the periods presented, or modified retrospective adoption, meaning the ASU is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. As a bank holding company, key revenue sources, such as interest income have been identified as out of the scope of this new guidance. The Company's preliminary analysis suggests that the adoption of this accounting standard is not expected to have a material impact on the Company's consolidated financial statements as substantially all of the Company's other revenues are also excluded from the scope of the new guidance. New accounting guidance related to the adoption of this standard continues to be released by the FASB, which could impact the Company's preliminary analysis of materiality and may change the preliminary conclusions reached as to the application of this new guidance.

In January 2016, the FASB issued ASU No. 2016 01, Financial Instruments - Overall (Subtopic 825 10), Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. In addition, the amendments in this ASU require the exit price notion be used when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. This ASU also eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The ASU also requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU No. 2016 01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within

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those fiscal years. Early adoption is permitted for certain provisions. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016 02, Leases (Topic 842). ASU No. 2016 02 requires lessees to recognize on the balance sheet the assets and liabilities arising from operating leases. A lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. A lessee should include payments to be made in an optional period only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For a finance lease, interest payments should be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income. For operating leases, the lease cost should be allocated over the lease term on a generally straight-line basis. The amendments in ASU 2016 02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in the ASU is permitted. Once adopted, we expect to report higher assets and liabilities as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements, however, based on current leases, the adoption of ASU 2016 02 is expected to increase the new lease asset and related lease liability on our Consolidated Balance Sheets by less than 5% and not to have a material impact on our regulatory capital ratios.

In June 2016, the FASB issued ASU No. 2016 13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU on the Company’s consolidated financial statements. Once adopted, we expect our allowance for loan losses to increase through a one time adjustment to retained earnings, however, until our evaluation is complete the magnitude of the increase will be unknown.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU is intended to address the appropriate classification of eight specific cash flow issues on the cash flow statement. Debt prepayment costs should be classified as an outflow for financing activities. Settlement of zero-coupon debt instruments divides the interest portion as an outflow for operating activities and the principal portion as an outflow for financing activities. Contingent consideration payments made after a business combination should be classified as outflows for financing and operating activities. Proceeds from the settlement of bank-owned life insurance policies should be classified as inflows from investing activities. Other specific areas are identified in the ASU as to the appropriate classification of the cash inflows or outflows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted and must be applied using a retrospective transition method to each period presented. Adoption of ASU 2016-15 is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017 04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU was issued to simplify the subsequent measurement of goodwill and the amendment eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by

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comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU is effective for annual reporting periods beginning after December 31, 2019. Early adoption of the ASU is permitted. The Company expects this ASU to provide a simplified method of measuring goodwill impairment and does not expect this ASU to have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017 08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310 20): Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. The standard will take effect for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2017 08 is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017 09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. The ASU was issued to provide clarity as to when to apply modification accounting when there is a change in the terms or conditions of a share-based payment award. According to this ASU, an entity should account for the effects of a modification unless the fair value, vesting conditions, and balance sheet classification of the award is the same after the modification as compared to the original award prior to the modification. The standard is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of ASU No. 2017 09 is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends the hedge accounting recognition and presentation requirements in ASC 815 to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities by better aligning the entity’s financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. The amendments in this ASU permit hedge accounting for hedging relationships involving nonfinancial risk and interest rate risk by removing certain limitations in cash flow and fair value hedging relationships. In addition, the ASU requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and early adoption is permitted. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 2 - BUSINESS COMBINATION

On January 22, 2016, the Company’s wholly-owned subsidiary, 1st Security Bank, completed the purchase of four branches (“Branch Purchase”) from Bank of America. The Branch Purchase included four retail bank branches located in the communities of Port Angeles, Sequim, Port Townsend, and Hadlock, Washington. In accordance with the Purchase and Assumption Agreement, dated as of September 1, 2015, between Bank of America and 1st Security Bank, the Bank acquired $186.4 million of deposits, a small portfolio of performing loans, two owned bank branches, three leases associated with the bank branches and parking facilities and certain other assets of the branches. In consideration of the purchased assets and transferred liabilities, 1st Security Bank paid (a) the unpaid principal balance and accrued interest of $419,000 for the loans acquired, (b) the net book value, or approximately $778,000, for the bank facilities and certain other assets associated with the acquired branches, and (c) a deposit premium of 2.50% on substantially all of the deposits assumed, which equated to approximately $4.8 million. The transaction was settled with Bank of America paying cash of $180.4 million to 1st Security Bank for the difference between these amounts and the total deposits assumed.

The Branch Purchase was accounted for under the acquisition method of accounting and accordingly, the assets and liabilities were recorded at their fair values on January 22, 2016, the date of acquisition. Determining the fair value of

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assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values become available. During the second quarter of 2016, the Company completed a re-evaluation of the core deposit intangible because a portion of the core deposits were excluded from the original valuation. The updated valuation of the core deposit intangible increased the fair value adjustment by $100,000 to $2.2 million from $2.1 million resulting in a decrease of $100,000 to the fair value adjustment of goodwill. The impact to consolidated net income was an increase in the amortization of the core deposit intangible for the six months ended June 30, 2016 of $6,000 and was not considered material to the consolidated financial statements.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition:

January 22, 2016	Acquired Book Value	Fair Value Adjustments		Amount Recorded
Assets				
Cash and cash equivalents	$ 180,356	$ —		$ 180,356
Loans receivable	417	—		417
Premises and equipment, net	697	267	(1)	964
Accrued interest receivable	2	—		2
Core deposit intangible	—	2,239	(2)	2,239
Goodwill	—	2,312	(3)	2,312
Other assets	103	—		103
Total assets acquired	$ 181,575	$ 4,818		$ 186,393
Liabilities				
Deposits:				
Noninterest-bearing accounts	$ 79,966	$ —		$ 79,966
Interest-bearing accounts	106,398	—		106,398
Total deposits	186,364	—		186,364
Accrued interest payable	7	—		7
Other liabilities	22	—		22
Total liabilities assumed	$ 186,393	$ —		$ 186,393

Explanation of Fair Value Adjustments

(1) The fair value adjustment represents the difference between the fair value of the acquired branches and the book value of the assets acquired. The Company utilized third-party valuations but did not receive appraisals to assist in the determination of fair value.
(2) The fair value adjustment represents the value of the core deposit base assumed in the Branch Purchase based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and will be amortized as an expense on an accelerated basis over the average life of the core deposit base, which is estimated to be nine years.
(3) The fair value adjustment represents the value of the goodwill calculated from the purchase based on the purchase price, less the fair value of assets acquired net of liabilities assumed.

Goodwill - The acquired goodwill represents the excess purchase price over the estimated fair value of the net assets acquired and was recorded at $2.3 million on January 22, 2016.

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The following table summarizes the aggregate amount recognized for each major class of assets acquired and liabilities assumed by 1st Security Bank in the Branch Purchase:

	At January 22, 2016
Purchase price (1)	$ 6,015
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash and cash equivalents	186,371
Acquired loans	417
Premises and equipment, net	964
Accrued interest receivable	2
Core deposit intangible	2,239
Other assets	103
Deposits	(186,364)
Accrued interest payable	(7)
Other liabilities	(22)
Total fair value of identifiable net assets	3,703
Goodwill	$ 2,312

(1) Purchase price includes premium paid on the deposits, the aggregate net book value of all assets acquired, and the unpaid principal and accrued interest on loans acquired.

Core deposit intangible

The core deposit intangible represents the fair value of the acquired core deposit base. The core deposit intangible will be amortized on an accelerated basis over approximately nine years. Total amortization expense was $100,000 and $300,000 for the three and nine months ended September 30, 2017, and $140,000 and $382,000 for the same periods in 2016. Amortization expense for core deposit intangible is expected to be as follows at September 30, 2017:

Fourth Quarter 2017	$ 100
2018	307
2019	235
2020	181
2021	166
Thereafter	428
Total	$ 1,417

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NOTE 3 - SECURITIES AVAILABLE-FOR-SALE

The following tables present the amortized costs, unrealized gains, unrealized losses, and estimated fair values of securities available-for-sale at September 30, 2017 and December 31, 2016:

	September 30, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Values
SECURITIES AVAILABLE-FOR-SALE				
U.S. agency securities	$ 6,086	$ 59	$ (23)	$ 6,122
Corporate securities	7,123	29	(77)	7,075
Municipal bonds	11,342	213	(116)	11,439
Mortgage-backed securities	39,733	85	(344)	39,474
U.S. Small Business Administration securities	14,018	43	(68)	13,993
Total securities available-for-sale	$ 78,302	$ 429	$ (628)	$ 78,103

	December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Values
SECURITIES AVAILABLE-FOR-SALE				
U.S. agency securities	$ 8,150	$ 12	$ (94)	$ 8,068
Corporate securities	7,654	14	(168)	7,500
Municipal bonds	15,183	164	(83)	15,264
Mortgage-backed securities	45,856	52	(713)	45,195
U.S. Small Business Administration securities	5,862	27	(41)	5,848
Total securities available-for-sale	$ 82,705	$ 269	$ (1,099)	$ 81,875

At September 30, 2017, the Bank had pledged nine securities held at the FHLB of Des Moines with a carrying value of $10.9 million to secure Washington State public deposits of $5.2 million with a $2.0 million collateral requirement by the Washington Public Deposit Protection Commission.

Investment securities that were in an unrealized loss position at September 30, 2017 and December 31, 2016 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. Management believes that these securities are only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

September 30, 2017

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE-FOR-SALE						
U.S. agency securities	$ 3,014	$ (23)	$ —	$ —	$ 3,014	$ (23)
Corporate securities	—	—	1,919	(77)	1,919	(77)
Municipal bonds	4,834	(116)	—	—	4,834	(116)
Mortgage-backed securities	22,266	(247)	4,773	(97)	27,039	(344)
U.S. Small Business Administration securities	9,425	(68)	—	—	9,425	(68)
Total	$ 39,539	$ (454)	$ 6,692	$ (174)	$ 46,231	$ (628)

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	December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE-FOR-SALE						
U.S. agency securities	$ 6,998	$ (94)	$ —	$ —	$ 6,998	$ (94)
Corporate securities	5,048	(106)	1,438	(62)	6,486	(168)
Municipal bonds	6,741	(83)	—	—	6,741	(83)
Mortgage-backed securities	39,373	(713)	—	—	39,373	(713)
U.S. Small Business Administration securities	2,963	(41)	—	—	2,963	(41)
Total	$ 61,123	$ (1,037)	$ 1,438	$ (62)	$ 62,561	$ (1,099)

There were 28 investments with unrealized losses of less than one year, and five investments with unrealized losses of more than one year at September 30, 2017. There were 48 investments with unrealized losses of less than one year, and two investments with unrealized losses of more than one year at December 31, 2016. The unrealized losses associated with these investments are believed to be caused by changes in market interest rates that are considered to be temporary and the Company does not intend to sell the securities, and it is not likely to be required to sell these securities prior to maturity. No other-than-temporary impairment was recorded for the nine months ended September 30, 2017, or for the year ended December 31, 2016.

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The contractual maturities of securities available-for-sale at September 30, 2017 and December 31, 2016 are listed below. Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations; therefore, these securities are classified separately with no specific maturity date.

	September 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. agency securities				
Due after one year through five years	$ —	$ —	$ 4,000	$ 3,956
Due after five years through ten years	4,086	4,141	4,150	4,112
Due after ten years	2,000	1,981	—	—
Subtotal	6,086	6,122	8,150	8,068
Corporate securities				
Due after one year through five years	5,127	5,156	5,659	5,625
Due after five years through ten years	1,996	1,919	1,995	1,875
Subtotal	7,123	7,075	7,654	7,500
Municipal bonds				
Due in one year or less	—	—	509	513
Due after one year through five years	2,013	2,059	5,326	5,386
Due after five years through ten years	3,297	3,420	7,476	7,492
Due after ten years	6,032	5,960	1,872	1,873
Subtotal	11,342	11,439	15,183	15,264
Mortgage-backed securities				
Federal National Mortgage Association (“FNMA”)	22,287	22,187	23,522	23,197
Federal Home Loan Mortgage Corporation (“FHLMC”)	11,123	10,970	14,950	14,662
Government National Mortgage Association (“GNMA”)	6,323	6,317	7,384	7,336
Subtotal	39,733	39,474	45,856	45,195
U.S. Small Business Administration securities				
Due after five years through ten years	12,069	12,051	5,862	5,848
Due after ten years	1,949	1,942	—	—
Subtotal	14,018	13,993	5,862	5,848
Total	$ 78,302	$ 78,103	$ 82,705	$ 81,875

The proceeds and resulting gains and losses, computed using specific identification, from sales of securities available-for-sale for the three and nine months ended September 30, 2017 and 2016 were as follows:

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Proceeds	Gross Gains	Gross (Losses)	Proceeds	Gross Gains	Gross (Losses)
Securities available-for-sale	$ 9,115	$ 143	$ -	$ 39,103	$ 413	$ (33)

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Proceeds	Gross Gains	Gross (Losses)	Proceeds	Gross Gains	Gross (Losses)
Securities available-for-sale	$ 13,577	$ 149	$ (3)	$ 13,577	$ 149	$ (3)

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NOTE 4 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio was as follows at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
REAL ESTATE LOANS		
Commercial	$ 63,180	$ 55,871
Construction and development	129,407	94,462
Home equity	24,026	20,081
One-to-four-family (excludes loans held for sale)	170,187	124,009
Multi-family	43,408	37,527
Total real estate loans	430,208	331,950
CONSUMER LOANS		
Indirect home improvement	124,387	107,759
Solar	40,082	36,503
Marine	35,173	28,549
Other consumer	2,032	1,915
Total consumer loans	201,674	174,726
COMMERCIAL BUSINESS LOANS		
Commercial and industrial	83,221	65,841
Warehouse lending	50,468	32,898
Total commercial business loans	133,689	98,739
Total loans receivable, gross	765,571	605,415
Allowance for loan losses	(10,598)	(10,211)
Deferred costs, fees, premiums, and discounts, net	(1,119)	(1,887)
Total loans receivable, net	$ 753,854	$ 593,317

Most of the Company’s commercial and multi-family real estate, construction, residential, and/or commercial business lending activities are with customers located in the greater Puget Sound area and near our one loan production office located in the Tri-Cities, Washington. The Company originates real estate, consumer and commercial business loans and has concentrations in these areas, however, indirect home improvement loans are originated through a network of home improvement contractors and dealers located throughout Washington, Oregon, Idaho, and California. The Company also originates solar loans through contractors and dealers in the state of California. Loans are generally secured by collateral and rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers’ ability to meet the stated repayment terms.

The Company has defined its loan portfolio into three segments that reflect the structure of the lending function, the Company’s strategic plan and the manner in which management monitors performance and credit quality. The three loan portfolio segments are: (a) Real Estate Loans, (b) Consumer Loans and (c) Commercial Business Loans. Each of these segments is disaggregated into classes based on the risk characteristics of the borrower and/or the collateral type securing the loan. The following is a summary of each of the Company’s loan portfolio segments and classes:

Real Estate Loans

Commercial Lending. Loans originated by the Company primarily secured by income producing properties, including retail centers, warehouses, and office buildings located in our market areas.

Construction and Development Lending. Loans originated by the Company for the construction of, and secured by, commercial real estate, one-to-four-family, and multi-family residences and tracts of land for development that are

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generally not pre-sold. A portion of the one-to-four-family construction portfolio are custom construction loans to the intended occupant of the residence.

Home Equity Lending. Loans originated by the Company secured by second mortgages on one-to-four-family residences, including home equity lines of credit in our market areas.

One-to-Four-Family Real Estate Lending. One-to-four-family residential loans include owner occupied properties (including second homes), and non-owner occupied properties. These loans originated by the Company are secured by first mortgages on one-to-four-family residences in our market areas that the Company intends to hold (excludes loans held for sale).

Multi-Family Lending. Apartment term lending (five or more units) to current banking customers and community reinvestment loans for low to moderate income individuals in the Company's footprint.

Consumer Loans

Indirect Home Improvement. Fixture secured loans for home improvement are originated by the Company through its network of home improvement contractors and dealers and are secured by the personal property installed in, on, or at the borrower's real property, and may be perfected with a UCC 2 financing statement filed in the county of the borrower's residence. These indirect home improvement loans include replacement windows, siding, roofing, and other home fixture installations.

Solar. Fixture secured loans for solar related home improvement projects are originated by the Company through its network of contractors and dealers, and are secured by the personal property installed in, on, or at the borrower's real property, and which may be perfected with a UCC 2 financing statement filed in the county of the borrower's residence.

Marine. Loans originated by the Company secured by boats to borrowers primarily located in its market areas.

Other Consumer. Loans originated by the Company, including automobiles, recreational vehicles, direct home improvement loans, loans on deposits, and other consumer loans, primarily consisting of personal lines of credit.

Commercial Business Loans

Commercial and Industrial Lending. Loans originated by the Company to local small and mid-sized businesses in our Puget Sound market area are secured primarily by accounts receivable, inventory, or personal property, and plant and equipment. Commercial and industrial loans are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business.

Warehouse Lending. Loans originated by the Company's mortgage and construction warehouse lending program through which the Company funds third-party lenders originating residential mortgage and construction loans for sale into the secondary market and speculative construction loans for residential properties built for sale to single family households. These loans are secured by the notes and assigned deeds of trust associated with the residential mortgage and construction loans on properties primarily located in the Company's market areas.

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The following tables detail activity in the allowance for loan losses by loan categories at or for the three and nine months ended September 30, 2017 and 2016:

	At or For the Three Months Ended September 30, 2017				
	Real Estate	Consumer	Commercial Business	Unallocated	Total
ALLOWANCE FOR LOAN LOSSES					
Beginning balance	$ 4,144	$ 2,669	$ 2,453	$ 877	$ 10,143
Provision for loan losses	481	65	(130)	34	450
Charge-offs	(55)	(152)	(33)	—	(240)
Recoveries	35	208	2	—	245
Net (charge-offs) recoveries	(20)	56	(31)	—	5
Ending balance	$ 4,605	$ 2,790	$ 2,292	$ 911	$ 10,598
Period end amount allocated to:					
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	4,605	2,790	2,292	911	10,598
Ending balance	$ 4,605	$ 2,790	$ 2,292	$ 911	$ 10,598
LOANS RECEIVABLE					
Loans individually evaluated for impairment	$ 210	$ —	$ 551	$ —	$ 761
Loans collectively evaluated for impairment	429,998	201,674	133,138	—	764,810
Ending balance	$ 430,208	$ 201,674	$ 133,689	$ —	$ 765,571

	At or For the Nine Months Ended September 30, 2017				
	Real Estate	Consumer	Commercial Business	Unallocated	Total
ALLOWANCE FOR LOAN LOSSES					
Beginning balance	$ 3,547	$ 2,082	$ 2,675	$ 1,907	$ 10,211
Provision for loan losses	1,077	726	(357)	(996)	450
Charge-offs	(55)	(536)	(33)	—	(624)
Recoveries	36	518	7	—	561
Net charge-offs	(19)	(18)	(26)	—	(63)
Ending balance	$ 4,605	$ 2,790	$ 2,292	$ 911	$ 10,598
Period end amount allocated to:					
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	4,605	2,790	2,292	911	10,598
Ending balance	$ 4,605	$ 2,790	$ 2,292	$ 911	$ 10,598

LOANS RECEIVABLE					
Loans individually evaluated for impairment	$ 210	$ —	$ 551	$ —	$ 761
Loans collectively evaluated for impairment	429,998	201,674	133,138	—	764,810
Ending balance	$ 430,208	$ 201,674	$ 133,689	$ —	$ 765,571

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	At or For the Three Months Ended September 30, 2016				
	Real Estate	Consumer	Commercial Business	Unallocated	Total
ALLOWANCE FOR LOAN LOSSES					
Beginning balance	$ 3,477	$ 2,039	$ 1,823	$ 1,612	$ 8,951
Provision for loan losses	242	1	252	105	600
Charge-offs	(65)	(232)	—	—	(297)
Recoveries	64	262	6	—	332
Net (charge-offs) recoveries	(1)	30	6	—	35
Ending balance	$ 3,718	$ 2,070	$ 2,081	$ 1,717	$ 9,586
Period end amount allocated to:					
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	3,718	2,070	2,081	1,717	9,586
Ending balance	$ 3,718	$ 2,070	$ 2,081	$ 1,717	$ 9,586
LOANS RECEIVABLE					
Loans individually evaluated for impairment	$ 209	$ —	$ —	$ —	$ 209
Loans collectively evaluated for impairment	316,309	170,576	117,124	—	604,009
Ending balance	$ 316,518	$ 170,576	$ 117,124	$ —	$ 604,218

	At or For the Nine Months Ended September 30, 2016				
	Real Estate	Consumer	Commercial Business	Unallocated	Total
ALLOWANCE FOR LOAN LOSSES					
Beginning balance	$ 2,874	$ 1,681	$ 1,396	$ 1,834	$ 7,785
Provision for loan losses	794	519	604	(117)	1,800
Charge-offs	(65)	(801)	—	—	(866)
Recoveries	115	671	81	—	867
Net recoveries (charge-offs)	50	(130)	81	—	1
Ending balance	$ 3,718	$ 2,070	$ 2,081	$ 1,717	$ 9,586
Period end amount allocated to:					
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	3,718	2,070	2,081	1,717	9,586
Ending balance	$ 3,718	$ 2,070	$ 2,081	$ 1,717	$ 9,586
LOANS RECEIVABLE					
	$ 209	$ —	$ —	$ —	$ 209

Loans individually evaluated for impairment					
Loans collectively evaluated for impairment	316,309	170,576	117,124	—	604,009
Ending balance	$ 316,518	$ 170,576	$ 117,124	$ —	$ 604,218

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 automatically placed on nonaccrual once the loan is 90 days past due or sooner if, in management's opinion, the borrower may be unable to meet payment obligations as they become due, or as required by regulatory authorities.

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The following tables provide information pertaining to the aging analysis of contractually past due loans and nonaccrual loans at September 30, 2017 and December 31, 2016:

	September 30, 2017						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Non-Accrual
REAL ESTATE LOANS							
Commercial	$ —	$ —	$ —	$ —	$ 63,180	$ 63,180	$ —
Construction and development	—	—	—	—	129,407	129,407	—
Home equity	111	16	138	265	23,761	24,026	154
One-to-four-family	—	—	—	—	170,187	170,187	142
Multi-family	—	—	—	—	43,408	43,408	—
Total real estate loans	111	16	138	265	429,943	430,208	296
CONSUMER LOANS							
Indirect home improvement	261	77	174	512	123,875	124,387	316
Solar	83	22	81	186	39,896	40,082	81
Marine	—	—	—	—	35,173	35,173	9
Other consumer	7	—	1	8	2,024	2,032	11
Total consumer loans	351	99	256	706	200,968	201,674	417
COMMERCIAL BUSINESS LOANS							
Commercial and industrial	—	—	—	—	83,221	83,221	551
Warehouse lending	—	—	—	—	50,468	50,468	—
Total commercial business loans	—	—	—	—	133,689	133,689	551
Total loans	$ 462	$ 115	$ 394	$ 971	$ 764,600	$ 765,571	$ 1,264

	December 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Non-Accrual
REAL ESTATE LOANS							
Commercial	$ —	$ —	$ —	$ —	$ 55,871	$ 55,871	$ —
Construction and development	—	—	—	—	94,462	94,462	—
Home equity	34	—	210	244	19,837	20,081	210
One-to-four-family	—	—	—	—	124,009	124,009	—
Multi-family	—	—	—	—	37,527	37,527	—

Total real estate loans	34	—	210	244	331,706	331,950	210
CONSUMER LOANS							
Indirect home improvement	268	278	167	713	107,046	107,759	435
Solar	92	—	69	161	36,342	36,503	69
Marine	8	—	—	8	28,541	28,549	—
Other consumer	3	2	4	9	1,906	1,915	7
Total consumer loans	371	280	240	891	173,835	174,726	511
COMMERCIAL BUSINESS LOANS							