

FIRST NORTHERN COMMUNITY BANCORP
Form 10-Q
May 09, 2018

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, 2018

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 000-30707

FIRST NORTHERN COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

California 68-0450397
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

195 N. First Street, Dixon, California 95620
(Address of principal executive offices) (Zip Code)

707-678-3041
(Registrant's telephone number including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or Section 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 website, 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

Edgar Filing: FIRST NORTHERN COMMUNITY BANCORP - Form 10-Q

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

Emerging growth company

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.

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

Yes No

The number of shares of Common Stock outstanding as of May 1, 2018 was 11,661,857.

1

FIRST NORTHERN COMMUNITY BANCORP

INDEX

	Page
PART I – Financial Information	
ITEM I. – Financial Statements (Unaudited)	3
Condensed Consolidated Balance Sheets (Unaudited)	3
Condensed Consolidated Statements of Income (Unaudited)	4
Condensed Consolidated Statements of Comprehensive Income (Unaudited)	5
Condensed Consolidated Statement of Stockholders' Equity (Unaudited)	6
Condensed Consolidated Statements of Cash Flows (Unaudited)	7
Notes to Condensed Consolidated Financial Statements	8
ITEM 2. – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	30
ITEM 3. – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	45
ITEM 4. – CONTROLS AND PROCEDURES	45
PART II – OTHER INFORMATION	45
ITEM 1. – LEGAL PROCEEDINGS	45
ITEM 1A. – RISK FACTORS	45
ITEM 2. – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	47
ITEM 3. – DEFAULTS UPON SENIOR SECURITIES	47
ITEM 4. – MINE SAFETY DISCLOSURES	47
ITEM 5. – OTHER INFORMATION	47
ITEM 6. – EXHIBITS	47
SIGNATURES	48

PART I – FINANCIAL INFORMATION

FIRST NORTHERN COMMUNITY BANCORP

ITEM I. – FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except shares amounts)	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 148,511	\$ 152,892
Certificates of deposit	1,984	1,984
Investment securities – available-for-sale	291,166	280,741
Loans, net of allowance for loan losses of \$11,715 at March 31, 2018 and \$11,133 at December 31, 2017	720,559	739,112
Loans held-for-sale	430	1,040
Stock in Federal Home Loan Bank and other equity securities, at cost	5,567	5,567
Premises and equipment, net	6,077	6,248
Interest receivable and other assets	29,975	30,074
Total Assets	\$ 1,204,269	\$ 1,217,658
Liabilities and Stockholders' Equity		
Liabilities:		
Demand deposits	\$ 382,166	\$ 382,157
Interest-bearing transaction deposits	307,155	312,569
Savings and MMDA's	333,669	336,592
Time, \$250,000 or less	51,287	54,531
Time, over \$250,000	18,517	18,891
Total deposits	1,092,794	1,104,740
Interest payable and other liabilities	10,411	12,874
Total Liabilities	1,103,205	1,117,614
Stockholders' Equity:		
Common stock, no par value; 16,000,000 shares authorized; 11,661,857 shares issued and outstanding at March 31, 2018 and 11,630,129 shares issued and outstanding at December 31, 2017	85,931	85,583
Additional paid-in capital	977	977
Retained earnings	20,364	17,881
Accumulated other comprehensive loss, net	(6,208)	(4,397)
Total Stockholders' Equity	101,064	100,044
Total Liabilities and Stockholders' Equity	\$ 1,204,269	\$ 1,217,658

See notes to unaudited condensed consolidated financial statements.

3

FIRST NORTHERN COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three months ended March 31, 2018	Three months ended March 31, 2017
(in thousands, except per share amounts)		
Interest and dividend income:		
Loans	\$8,806	\$7,961
Due from banks interest bearing accounts	517	332
Investment securities		
Taxable	1,308	1,102
Non-taxable	39	75
Other earning assets	105	108
Total interest and dividend income	10,775	9,578
Interest expense:		
Deposits	263	265
Total interest expense	263	265
Net interest income	10,512	9,313
Provision for loan losses	525	600
Net interest income after provision for loan losses	9,987	8,713
Non-interest income:		
Service charges on deposit accounts	488	418
Gains on sales of loans held-for-sale	69	147
Investment and brokerage services income	161	143
Mortgage brokerage income	6	13
Loan servicing income	106	150
Fiduciary activities income	156	125
Debit card income	502	467
Losses on sales/calls of available-for-sale securities	—	(16)
Gain on sale-leaseback of real estate	—	1,187
Other income	316	211
Total non-interest income	1,804	2,845
Non-interest expenses:		
Salaries and employee benefits	5,317	4,751
Occupancy and equipment	715	696
Data processing	530	402
Stationery and supplies	99	70
Advertising	88	66
Directors' fees	65	59
Other real estate owned recovery	—	(1)
Other expense	1,180	1,460
Total non-interest expenses	7,994	7,503
Income before provision for income taxes	3,797	4,055
Provision for income taxes	1,064	1,542
Net income	\$2,733	\$2,513

Edgar Filing: FIRST NORTHERN COMMUNITY BANCORP - Form 10-Q

Basic earnings per common share	\$0.24	\$0.22
Diluted earnings per common share	\$0.23	\$0.22

See notes to unaudited condensed consolidated financial statements.

4

FIRST NORTHERN COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended March 31, 2018	Three months ended March 31, 2017
(in thousands)		
Net income	\$2,733	\$2,513
Other comprehensive loss, net of tax:		
Unrealized holding (losses) gains on securities:		
Unrealized holding (losses) gains arising during the period, net of tax effect of \$(731) and \$6 for the three-month periods ended March 31, 2018 and March 31, 2017, respectively	(1,811)	10
Less: reclassification adjustment due to losses realized on sales of securities, net of tax effect of \$0 and \$6 for the three-month periods ended March 31, 2018 and March 31, 2017, respectively	—	10
Directors' and officer's retirement plan equity adjustments, net of tax effect of \$0 and \$(31) for the three-month periods ended March 31, 2018 and March 31, 2017, respectively	—	(46)
Other comprehensive loss	\$(1,811)	\$(26)
Comprehensive income	\$922	\$2,487

See notes to unaudited condensed consolidated financial statements.

FIRST NORTHERN COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss		Total
	Shares	Amounts					
Balance at December 31, 2016	11,148,446	\$ 79,114	\$ 977	\$ 14,557	\$ (2,350))	\$ 92,298
Net income				8,748			8,748
Other comprehensive loss, net of tax					(1,448))	(1,448)
Stock dividend adjustment	289	207		(207)			—
Tax rate change reclassification				599	(599))	—
4% stock dividend declared in 2018	447,312	5,806		(5,806)			—
Cash in lieu of fractional shares	(129))		(10)			(10)
Stock-based compensation		378					378
Common shares issued related to restricted stock grants, net of restricted stock reversals	34,211	78					78
Balance at December 31, 2017	11,630,129	\$ 85,583	\$ 977	\$ 17,881	\$ (4,397))	\$ 100,044
Net income				2,733			2,733
Other comprehensive loss, net of tax					(1,811))	(1,811)
Stock dividend adjustment	628	240		(240)			—
Cash in lieu of fractional shares	(159))		(10)			(10)
Stock-based compensation		108					108
Common shares issued related to restricted stock grants	25,281	—					—
Stock options exercised, net	5,978	—					—
Balance at March 31, 2018	11,661,857	\$ 85,931	\$ 977	\$ 20,364	\$ (6,208))	\$ 101,064

See notes to unaudited condensed consolidated financial statements.

FIRST NORTHERN COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	(in thousands)	
	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash Flows From Operating Activities		
Net income	\$2,733	\$2,513
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	144	152
Accretion and amortization of investment securities premiums and discounts, net	722	918
Valuation adjustment on mortgage servicing rights	—	(21)
Increase (decrease) in deferred loan origination fees and costs, net	10	77
Provision for loan losses	525	600
Stock-based compensation	108	77
Loss (gain) on calls of available-for-sale securities	—	16
Gain on sale-leaseback of real estate	—	(1,187)
Gain on sales of loans held-for-sale	(69)	(147)
Proceeds from sales of loans held-for-sale	5,148	10,045
Originations of loans held-for-sale	(4,469)	(7,815)
Changes in assets and liabilities:		
Decrease (increase) in interest receivable and other assets	830	(122)
Net (decrease) increase in interest payable and other liabilities	(2,463)	281
Net cash provided by operating activities	3,219	5,387
Cash Flows From Investing Activities		
Proceeds from calls or maturities of available-for-sale securities	11,115	2,275
Proceeds from sales of available-for-sale securities	—	462
Principal repayments on available-for-sale securities	12,193	11,153
Purchase of available-for-sale securities	(36,997)	(31,156)
Net decrease in certificates of deposit	—	496
Net decrease in loans	18,018	15,640
Sales/disposals of premises and equipment, net	27	2,319
Net cash used in investing activities	4,356	1,189
Cash Flows From Financing Activities		
Net decrease in deposits	(11,946)	(2,962)
Cash dividends paid in lieu of fractional shares	(10)	(10)
Net cash provided by financing activities	(11,956)	(2,972)
Net (decrease) increase in Cash and Cash Equivalents	(4,381)	3,604
Cash and Cash Equivalents, beginning of period	152,892	159,643
Cash and Cash Equivalents, end of period	\$148,511	\$163,247
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$261	\$263

Edgar Filing: FIRST NORTHERN COMMUNITY BANCORP - Form 10-Q

Supplemental disclosures of non-cash investing and financing activities:

Stock dividend distributed	\$6,046	\$5,295
Decrease in directors' & officer's retirement plan equity adjustment, net of tax	\$—	\$(46)
Unrealized holding (losses) gains on available for sale securities, net of taxes	\$(1,811)	\$20

See notes to unaudited condensed consolidated financial statements.

7

FIRST NORTHERN COMMUNITY BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018 and 2017 and December 31, 2017

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of First Northern Community Bancorp (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Articles 9 and 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of results expected for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. All material intercompany balances and transactions have been eliminated in consolidation.

2. ACCOUNTING POLICIES

The most significant accounting policies followed by the Company are presented in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, Management has identified the allowance for loan losses accounting to be the accounting area requiring the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available. A discussion of the factors affecting accounting for the allowance for loan losses is included in the "Asset Quality" and "Allowance for Loan Loss" discussions below. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Application of these principles requires the Company to make certain estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain accounting policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment writedown or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

Recently Issued Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The Company adopted ASU 2014-09 on January 1, 2018. The Company adopted the new guidance using the modified retrospective transition approach, in which the guidance would only be applied to existing contracts in effect at January 1, 2018 and new contracts entered into after this date. ASU 2014-09 requires entities to recognize revenues when they transfer 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. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Most of the Company's revenue is comprised of net interest income on loans and investment securities, which are explicitly out of scope of the new revenue recognition guidance. Management conducted an assessment of the revenue streams that were potentially affected by the new guidance and reviewed contracts in scope to ensure compliance with the new guidance. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in ASU 2016-02, among other things, require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and

A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

The amendments in this ASU are effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company currently leases ten properties. The effect to the Company's financial statements will result in the recording of a lease liability and a related right-of-use asset. Management has not yet quantified the lease liability and right-of-use asset and is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

In June 2016, FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in ASU 2016-13, among other things, require 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. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments are effective for public companies for annual periods beginning after December 15, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Management is currently gathering data required to measure expected credit losses in accordance with this ASU and will then evaluate the impact of this ASU on the Company's consolidated financial statements. While the Company has not quantified the impact of this ASU, it does expect changing from the current loss model to an expected loss model to result in an earlier recognition of losses.

In February 2018, FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220). The amendments in this update allow a reclassification from retained earnings to accumulated other comprehensive income for certain income tax effects resulting from the Tax Cuts and Jobs Act. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company elected the early adoption of ASU 2018-02 as of and for the period ended December 31, 2017. As a result, the Company reclassified \$599 from retained earnings to accumulated other comprehensive income as a result of certain income tax effects resulting from the Tax Cuts and Jobs Act. The reclassification amount of \$599 is comprised of a \$473 unrealized loss on investment securities and \$126 unrealized loss on retirement plans.

In March 2018, FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. These amendments add SEC guidance, among other things, to the FASB Accounting Standards Codification regarding the Tax Cuts and Jobs Act. The amendments are effective upon addition to the FASB Codification. The Company does not expect the adoption of this update to have a significant impact on its consolidated financial statements.

3. INVESTMENT SECURITIES

The amortized cost, unrealized gains and losses and estimated fair values of investments in debt and other securities at March 31, 2018 are summarized as follows:

(in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
Investment securities available-for-sale:				
U.S. Treasury Securities	\$ 25,444	\$ —	\$ (219)	\$ 25,225
Securities of U.S. government agencies and corporations	35,326	—	(342)	34,984
Obligations of states and political subdivisions	21,942	137	(181)	21,898
Collateralized mortgage obligations	67,219	—	(2,338)	64,881
Mortgage-backed securities	147,983	50	(3,855)	144,178
Total debt securities	\$ 297,914	\$ 187	\$ (6,935)	\$ 291,166

The amortized cost, unrealized gains and losses and estimated fair values of investments in debt and other securities at December 31, 2017 are summarized as follows:

(in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
Investment securities available-for-sale:				
U.S. Treasury Securities	\$ 18,589	\$ —	\$ (125)	\$ 18,464
Securities of U.S. government agencies and corporations	21,353	—	(244)	21,109
Obligations of states and political subdivisions	23,138	216	(146)	23,208
Collateralized mortgage obligations	67,724	—	(1,641)	66,083
Mortgage-backed securities	154,143	95	(2,361)	151,877
Total debt securities	\$ 284,947	\$ 311	\$ (4,517)	\$ 280,741

The Company had \$11,115,000 and \$2,737,000 proceeds from sales, calls and maturities of available-for-sale securities for the three months ended March 31, 2018 and March 31, 2017, respectively. There were no gross realized gains from sales/calls of available-for-sale securities for the three months ended March 31, 2018 and March 31, 2017, respectively. There were \$0 and \$(16,000) gross realized losses from sales/calls of available-for-sale securities for the three months ended March 31, 2018 and March 31, 2017, respectively.

The amortized cost and estimated market value of debt and other securities at March 31, 2018, by contractual and expected maturity, are shown in the following table:

(in thousands)	Amortized cost	Estimated fair value
Maturity in years:		
Due in one year or less	\$ 27,624	\$ 27,548
Due after one year through five years	51,047	50,402
Due after five years through ten years	4,041	4,157
Due after ten years	—	—
Subtotal	82,712	82,107
MBS & CMO	215,202	209,059
Total	\$ 297,914	\$ 291,166

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. In addition, factors such as prepayments and interest rates may affect the yield on the carrying value of mortgage-related securities.

Edgar Filing: FIRST NORTHERN COMMUNITY BANCORP - Form 10-Q

An analysis of gross unrealized losses of the available-for-sale investment securities portfolio as of March 31, 2018, follows:

(in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Treasury securities	\$16,811	\$ (59)	\$8,414	\$ (160)	\$25,225	&#