Ottawa Savings Bancorp, Inc.
Form 10-K
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For transition period from ______ to ______

Commission File Number 0-51367

OTTAWA SAVINGS BANCORP, INC.

(Exact Name of Registrant as Specified in Charter)

United States	**20-3074627**
(State or other Jurisdiction of Incorporation)	**(I.R.S. Employer Identification No.)**

925 LaSalle Street, Ottawa, Illinois	**61350**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code: (815) 433-2525

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No .

Indicate by check mark whether the issuer (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 (Section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer
Accelerated Filer
Non-Accelerated filer (do not check if a smaller reporting company)
Smaller 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 .

As of June 30, 2015, the aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately $9,049,963 (based on the last sale price of the common stock on the OTC Bulletin Board of $11.84 per share on June 30, 2015).

The number of shares of Common Stock of the registrant issued and outstanding as of March 30, 2016 was 2,894,123.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference into Part III.

OTTAWA SAVINGS BANCORP, INC.

Form 10-K for Fiscal Year Ended

December 31, 2015

TABLE OF CONTENTS

			Page
PART I			
	Item 1.	Business	1
	Item 1A.	Risk Factors	26
	Item 1B.	Unresolved Staff Comments	33
	Item 2.	Properties	33
	Item 3.	Legal Proceedings	33
	Item 4.	Mine Safety Disclosure	33
PART II			
	Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
	Item 6.	Selected Financial Data	34
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	35
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	44
	Item 8.	Financial Statements and Supplementary Data	44
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	44
	Item 9A.	Controls and Procedures	44
	Item 9B.	Other Information	44
PART III			
	Item 10.	Directors, Executive Officers and Corporate Governance	44
	Item 11.	Executive Compensation	45
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	45

	Item 13.	Certain Relationships and Related Transactions, and Director Independence	45
	Item 14.	Principal Accountant Fees and Services	45
PART IV			
	Item 15.	Exhibits and Financial Statement Schedules	45
INDEX TO FINANCIAL STATEMENTS			F-1
SIGNATURES			S-1

PART I

Forward-Looking Statements

This report includes forward-looking statements, including statements regarding our strategy, effectiveness of investment programs, evaluations of future interest rate trends and liquidity, expectations as to growth in assets, deposits and results of operations, future operations, market position, financial position, and prospects, plans and objectives of management. These forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ materially from those predicted in such forward-looking statements. A number of factors, some of which are beyond our ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to: recent and future bail out actions by the government; a further slowdown in the national and Illinois economies; a further deterioration in asset values locally and nationwide; volatility of rate sensitive deposits; changes in the regulatory environment; increasing competitive pressure in the banking industry; our ability to realize estimated cost savings from acquired or merged entities; our ability to successfully integrate acquired or merged entities with us; operational risks; *asset/liability matching risks and liquidity risks; continued access to liquidity sources; changes in the securities markets; changes in our borrowers' performance on loans; changes in critical accounting policies and judgments; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies; changes in the equity and debt securities markets; effect of additional provision for loan losses; fluctuations of our stock price; success and timing of our business strategies; impact of reputation risk created by these developments on such matters as business generation and retention, funding and liquidity; and political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions. The consequences of these factors, any of which could hurt our business, could include, among others: increased loan delinquencies; an escalation in problem assets and foreclosures; a decline in demand for our products and services; a reduction in the value of the collateral for loans made by us, especially real estate, which, in turn would likely reduce our customers' borrowing power and the value of assets and collateral associated with our existing loans; a reduction in the value of certain assets held by our company; an inability to meet our liquidity needs and an inability to engage in certain lines of business. These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. Except to the extent required by applicable law or regulation the Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made. See also "Item 1A. Risk Factors" and other risk factors discussed elsewhere in this Annual Report.*

ITEM 1. BUSINESS

General

Ottawa Savings Bancorp, Inc. (the "Company") is a savings and loan holding company incorporated under the laws of the United States on July 11, 2005, for the purpose of serving as the holding company of Ottawa Savings Bank (the

"Bank"), as part of the Bank's conversion from a mutual to a stock form of organization. The Company is a publicly traded banking company with assets of $213.6 million at year-end 2015 and is headquartered in Ottawa, Illinois. The Bank's business is to attract deposits from the general public and use those funds to originate and purchase one-to-four family, multi-family and non-residential real estate, construction, commercial and consumer loans, which the Bank primarily holds for investment. The Bank has continually diversified its products to meet the needs of the communities it serves.

In 2005, the Board of Directors of the Bank unanimously adopted a plan of conversion providing for the conversion of the Bank from an Illinois chartered mutual savings bank to a federally chartered stock savings bank and the purchase of all of the common stock of the Bank by the Company.

The conversion was completed in 2005 when the Company issued 1,223,701 shares of common stock to Ottawa Savings Bancorp MHC (a mutual holding company) and 1,001,210 shares of common stock to the public.

On December 31, 2014, the Company acquired Twin Oaks Savings Bank ("Twin Oaks") and merged Twin Oaks with and into the Bank, with the Bank being the surviving entity in the merger (the "Merger"). Since the Merger occurred at the close of business on December 31, 2014, there were no operating results of the former Twin Oaks included in the consolidated financial statements for 2014. As a result of the Merger, the Company increased its market share in the La Salle County market and expanded into Grundy County. The Merger helped expand our customer base.

In connection with the Merger, the Company issued 776,144 shares of common stock to Ottawa Savings Bancorp, MHC. As of December 31, 2015, Ottawa Savings Bancorp MHC holds 1,999,845 shares of common stock, representing 69.1% of the Company's common shares outstanding.

Business Strategy

The Company's business strategy is to operate as a well-capitalized and profitable community savings bank dedicated to providing high quality customer service and innovative new products. The Bank operates three branches in Ottawa, Marseilles and Morris, Illinois. Each facility has an ATM and drive-up lanes to provide quality customer service to customers in the community.

Highlights of our business strategy are as follows:

- Continue to emphasize the origination of one-to four-family mortgage loans;
- Aggressively market core deposits;
- Offer a broad range of financial products and services to both retail and commercial customers in the Bank's market area;
- Pursue opportunities to increase non-residential real estate and multi-family lending in the Bank's market area;
- Continue to utilize conservative underwriting guidelines to limit credit risk in the Bank's loan portfolio to achieve a high level of asset quality; and
- Consider judicious expansion into new market areas to grow the Bank's business through the addition of new branch locations and/or through possible acquisitions.

Market Area and Competition

The Company is headquartered in Ottawa, Illinois, which is located in north-central Illinois approximately 80 miles southwest of Chicago. Its market area, which benefits from its proximity to Chicago, includes all of LaSalle County and parts of Grundy County.

The Bank faces significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits and loans has historically come from the several financial institutions operating in our market area, including a number of independent banks, and, to a lesser extent, from other financial service companies, such as brokerage firms, credit unions, mortgage companies and mortgage brokers. In addition, the Bank faces competition for investors' funds from money market funds and other corporate and government securities. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage and consumer

credit market, such as securities companies and specialty finance companies. The Bank believes that its long-standing presence in Ottawa, Illinois, its recent expansion into Grundy County as a result of the Twin Oaks acquisition, and its personal service philosophy enhance its ability to compete favorably in attracting and retaining individual and business customers. The Company actively solicits deposit-related customers and competes for deposits by offering customers personal attention, professional service and competitive interest rates.

Lending Activities

General. Our loan portfolio consists primarily of one-to-four family residential mortgage loans. To a lesser extent, our loan portfolio includes multi-family and non-residential real estate, commercial, construction and consumer loans. Substantially all of our loans are made within our local market, excluding our purchased loan portfolio.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan as of the dates indicated, including a reconciliation of gross loans receivable after consideration of the undisbursed portion of construction loan funds, the allowance for loan losses and net deferred costs (fees).

	At December 31,									
	2015		2014		2013		2012		2011	
	(Dollars in Thousands)									
	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total
One-to-four family	$90,037	63.17 %	$87,800	60.28 %	$71,314	61.83 %	$75,609	60.24 %	$80,334	60.41
Multi-family	3,760	2.64 %	2,869	1.97 %	2,507	2.17 %	4,629	3.69 %	5,580	4.20
Lines of credit	18,511	12.99 %	16,753	11.50 %	10,941	9.49 %	13,209	10.52 %	14,219	10.69
Non-residential real estate	19,162	13.44 %	20,016	13.74 %	15,842	13.73 %	18,897	15.06 %	20,058	15.08
Commercial	3,440	2.41 %	6,261	4.30 %	4,075	3.53 %	4,717	3.76 %	5,965	4.49
Construction	757	0.53 %	1,560	1.07 %	2,111	1.83 %	105	0.08 %	982	0.74
Consumer	6,863	4.82 %	10,389	7.13 %	8,554	7.42 %	8,353	6.65 %	5,832	4.39
Total loans, gross	142,530	100.00 %	145,648	100.00 %	115,344	100.00 %	125,519	100.00 %	132,970	100.00
Undisbursed portion of loan funds	(94)		(756)		(1,696)		(56)		(171)	
Allowance for loan losses	(2,224)		(2,315)		(2,910)		(3,381)		(4,747)	
Deferred loan costs (fees), net	(102)		(76)		(65)		(87)		(80)	
Total loans, net	$140,110		$142,501		$110,673		$121,995		$127,972	

Listed below are the outstanding balances of purchased loans, which have been included in the table above.

Purchased Loans

	At December 31,				
	2015	2014	2013	2012	2011
	(In Thousands)				
One-to-four family	$1,978	$212	$648	$697	$754
Multi-family	-	623	645	2,332	2,405

Non-residential real estate	711	665	680	2,020	3,353
Commercial	2,922	-	-	-	-
Purchased auto loans (included in consumer loans above)	5,212	8,665	8,162	7,810	5,179
Total	$10,823	$10,165	$10,135	$12,859	$11,691

3

Maturity of Loan Portfolio. The following tables show the remaining contractual maturity of our loans at December 31, 2015. The tables do not include the effect of possible prepayments or due on sale clause payments.

	At December 31, 2015							
	One-to-four family	Multi-family	Lines of credit	Non-residential real estate	Commercial	Construction	Consumer	Total
	(In Thousands)							
Amounts due one year or less	$2,247	$ -	$6,726	$ 2,747	$ 135	$ 757	$ 215	$12,827
After one year								
More than one year to three years	1,250	-	1,139	395	653	-	1,948	5,385
More than three years to five years	2,928	-	2,043	238	1,240	-	3,568	10,017
More than five years to ten years	8,187	1,546	2,894	3,708	1,033	-	867	18,235
More than ten years to twenty years	33,668	1,904	5,709	8,294	379	-	265	50,219
More than twenty years	41,757	310	-	3,780	-	-	-	45,847
Total due after December 31, 2016	87,790	3,760	11,785	16,415	3,305	-	6,648	129,703
Gross loans receivable	$90,037	$ 3,760	$18,511	$ 19,162	$ 3,440	$ 757	$ 6,863	$142,530
Less:								
Undisbursed portion of loan funds								(94)
Allowance for loan losses								(2,224)
Deferred loan costs (fees), net								(102)
Total loans, net								$140,110

	Due After December 31, 2016		
	Fixed	Adjustable	Total
	(In Thousands)		
One-to-four family	$44,830	$ 42,960	$87,790
Multi-family	961	2,799	3,760
Lines of credit	1,883	9,902	11,785
Non-residential real estate	3,972	12,443	16,415
Commercial	2,941	364	3,305
Consumer	6,648	-	6,648
Total	$61,235	$ 68,468	$129,703

4

Asset Quality. Within our investment portfolio we have no subprime or Alt-A backed instruments among our securities. Historically, our lending activity has promoted home ownership in the communities we serve. Our consumer and residential mortgage loans are originated consistent with the underwriting approach described herein. This includes an assessment of each borrower's personal financial condition, including a review of credit reports and related FICO scores as well as verification of income and assets. The Company does not conduct lending programs that target the subprime market. During the ordinary course of business to achieve our goal of being a community bank, we originate and manage loans in our portfolio to some borrowers with a risk of default higher than customers considered prime. Thus, an extended economic downturn may affect us indirectly, albeit to a lesser extent than it would likely impact those banks and thrifts that produce and retain significant portfolios that target such loans and securities. While we believe that the nature of our one-to-four family lending niche and our underwriting standards would limit the impact of the downward turn in the credit cycle on the quality of our assets—particularly in comparison with those institutions that directly target subprime and Alt-A lending—another downturn in the credit cycle could result in our experiencing higher levels of charge-offs and/or provisions for loan losses, which might impact our results of operations.

One- to-Four Family Residential Loans. Our primary lending activity is the origination of mortgage loans to enable borrowers to purchase or refinance existing homes or to construct new residential dwellings in our market area. We offer fixed-rate and adjustable-rate mortgage loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated or purchased at any time is largely determined by the demand for each in a competitive environment and the effect each has on our interest rate risk. The loan fees charged, interest rates, and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions.

We offer fixed rate loans with terms of either 15, 20 or up to 30 years. We traditionally sell 30-year fixed rate loans into the secondary market, resulting in a fixed rate loan portfolio primarily composed of loans with less than 15 to 20 year terms. Our adjustable-rate mortgage loans are based on either a 15, 20 or up to 30 year amortization schedule and interest rates and payments on our adjustable-rate mortgage loans adjust every one, three or five years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate that is based on the respective one, three, and five year monthly Constant Maturity Treasury indices (CMT). The maximum amount by which the interest rate may be increased or decreased is generally 1% to 2% per adjustment period, depending on the type of loan, and the lifetime interest rate ceiling is generally 5% over the initial interest rate of the loan. The initial and floor rates for owner occupied properties are 1.875%, 2.875% and 3.125% for the one, three and five-year adjustable rate loans, respectively, and range of 4.5% to 6.5% for non-owner occupied one-to-four family properties, respectively, at this time.

Due to historically low interest rate levels, borrowers generally have preferred fixed-rate loans in recent years. While we anticipate that our adjustable-rate loans will better offset the adverse effects on our net interest income of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loans in a rising interest rate environment could cause an increase in delinquencies and defaults. The

marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our asset base more responsive to changes in interest rates, the extent of this interest rate sensitivity is limited by the annual and lifetime interest rate adjustment limits.

While one-to-four family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

On occasion we originate loans to individuals and purchase loans that finance the construction of residential dwellings for personal use. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually ten months. At the end of the construction phase, most of our loans automatically convert to permanent mortgage loans. Construction loans generally can be made with a maximum loan to value ratio of 80% of the appraised value with maximum terms of 30 years. The largest outstanding residential construction loan at December 31, 2015 was $316,000, of which $296,000 was disbursed. We also require periodic inspections of the property during the term of the construction.

We generally do not make conventional loans with loan-to-value ratios exceeding 80%. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance, government guarantee or additional collateral. We require all properties securing mortgage loans to be appraised by an independent appraiser approved by our Board of Directors and licensed by the State of Illinois. We require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance, or flood insurance for loans on property located in a flood zone, before closing the loan.

We participate with the USDA Rural Development Company to offer loans to qualifying customers. Loans are granted up to 100% of appraised value and the USDA guarantees up to 90% of the loan. These loans require no down payment but are subject to maximum income limitations.

Lines of Credit. We offer lines of credit, principally home equity lines of credit, which have adjustable rates of interest that are indexed to the prime rate as published in *The Wall Street Journal* for terms of up to 20 years. These loans are originated with maximum loan-to-value ratios of 80% of the appraised value of the property, and we require that we have a second lien position on the property. We also offer secured and unsecured lines of credit for well-qualified individuals and small businesses. Management includes these loans based on the collateral supporting the line of credit in either the non-residential, multi-family, commercial or one-to-four family categories for the purposes of monitoring and evaluating the portfolio.

Multi-Family and Non-Residential Real Estate Loans. We offer fixed rate and adjustable-rate mortgage loans secured by multi-family and non-residential real estate. Our multi-family and non-residential real estate loans are generally secured by condominiums, apartment buildings, single-family subdivisions and owner-occupied properties used for businesses.

We originate and purchase multi-family and non-residential real estate loans with terms generally up to 25 years. Interest rates and payments on adjustable-rate loans adjust every one, three and five years. Interest rates and payments on our adjustable rate loans generally are adjusted to a rate typically equal to the interest rate used for one- to- four family loan products, plus 50 basis points to 100 basis points based on credit-worthiness and risk. Loan amounts generally do not exceed 80% of the appraised value for well-qualified borrowers.

We originate and purchase land loans to individuals on approved residential building lots for personal use for terms of up to 15 years and to a maximum loan to value ratio of 80% of the appraised value. Our land loans are adjustable loans with adjustments occurring every one, three and five years, based on the original contract. Interest rate adjustments are based on the CMT plus a spread. For adjustable loans in this class, the loans generally have an interest rate floor.

We also make non-residential loans for commercial development projects including condominiums, apartment buildings, single-family subdivisions, single-family speculation loans, as well as owner-occupied properties used for business. These loans provide for payment of interest only during the construction phase and may, in the case of an apartment or commercial building, convert to a permanent mortgage loan. In the case of a single family subdivision or construction or builder loan, as individual lots are sold, the principal balance is reduced by a minimum of 80% of the net lot sales price. In the case of a commercial construction loan, the construction period may be from nine months to two years. Loans are generally made to a maximum of 70% of the appraised value as determined by an appraisal of the property made by an independent licensed appraiser. We also require periodic inspections of the property during the term of the construction loan. The largest non-residential loan at December 31, 2015 was a troubled debt

restructured loan from 2012 with a restructured balance of $2.0 million, of which $1.7 million is outstanding. This loan has been performing per its modified terms and will be returned to a performing status once scheduled principal payments begin. For adjustable loans in this category, there generally is an interest rate floor ranging from 3.75% to 6.00%.

Loans secured by multi-family and non-residential real estate generally have larger balances and involve a greater degree of risk than one-to-four family residential mortgage loans. Of primary concern in multi-family and non-residential real estate lending is the borrower's credit-worthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income producing properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. In reaching a decision on whether to make a multi-family or non-residential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property.

Commercial Loans. These loans consist of operating lines of credit secured by general business assets and equipment. We loan primarily to businesses with less than $5,000,000 in annual revenues. The operating lines of credit are generally short term in nature with interest rates tied to short term rates and adjustments occurring daily, monthly, or quarterly based on the original contract. For adjustable loans, there is also an interest rate floor. The equipment loans are typically made with maturities of less than five years and are priced with a fixed interest rate. The Bank has originated commercial loans from Bankers Healthcare Group in prior years. Bankers Healthcare Group specializes in loans to healthcare professionals of all specialties throughout the United States. These loans are primarily comprised of working capital and equipment loans. We underwrite these loans based on our criteria and service the loans in-house.

Consumer Loans. We offer a variety of consumer loans, which include auto, share loans and personal unsecured loans to our customer base. Unsecured loans generally have a maximum borrowing limit of $25,000 and a maximum term of four years.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loans. Although the applicant's credit-worthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws may limit the amount which can be recovered on such loans.

Purchased Auto Loans. The Bank purchases auto loans from regulated financial institutions. At December 31, 2015 and 2014, we had $5.2 million and $8.7 million of loans outstanding, respectively. These types of loans are primarily low balance individual auto loans. We have the opportunity to review the loans at least three days prior to our purchase and we have a right to refuse any specific loan within thirty days of the purchase of any given loan pool. During 2015, we did not purchase any auto loans.

Loan Origination, Purchases and Sales. Loan originations come from a number of sources. The primary source of loan originations are our in-house loan originators, and to a lesser extent, advertising and referrals from customers. We occasionally purchase loans or participation interests in loans. As of December 31, 2015, we had an aggregate of $10.8 million in purchased loan participations outstanding, including the auto loans purchased as discussed in the previous paragraph. The largest outstanding loan participation as of December 31, 2015 was a commercial loan for $2.9 million. This loan is performing in accordance with its terms.

We sell some of the longer-term fixed-rate one-to-four family mortgage loans that we originate in the secondary market based on prevailing market interest rate conditions, an analysis of the composition and risk of the loan portfolio, liquidity needs and interest rate risk management goals. Generally, loans are sold without recourse and with servicing retained. We sold $7.9 million and $3.1 million of loans in the years ended December 31, 2015 and 2014, respectively. We occasionally sell participation interests in loans and may sell loan participations in the future.

The following table shows our loan originations, purchases, sales and repayment activities for the periods indicated.

	For The Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In Thousands)				
Beginning balance, net	$142,501	$110,673	$121,995	$127,972	$135,351
Loans originated					
One-to-four family	18,371	8,725	9,686	12,924	5,666
Multi-family	2,148	-	19	77	129
Lines of credit	6,513	470	987	381	1,799
Non-residential real estate	1,403	2,775	3,182	3,888	4,015
Commercial	1,173	3,513	458	285	335
Construction	757	412	2,111	105	982
Consumer	842	505	248	265	190
Total loans originated	31,207	16,400	16,691	17,925	13,116
Loans acquired in Twin Oaks merger	-	29,796	-	-	-
Loans purchased					
One-to-four family	2,000	-	-	-	-
Multi-family	-	-	-	-	-
Non-residential real estate	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	4,038	4,048	5,847	3,050
Total loans purchased	2,000	4,038	4,048	5,847	3,050
Loan sales(1)	(7,630)	(3,057)	(5,324)	(8,333)	(598)
Principal payments	(28,695)	(16,873)	(25,590)	(22,890)	(22,927)
Change in allowance for loan losses	91	595	471	1,366	(44)
Change in undisbursed loan funds	662	940	(1,640)	115	7
Change in deferred loan costs (fees), net	(26)	(11)	22	(7)	17
Ending balance, net	$140,110	$142,501	$110,673	$121,995	$127,972

(1) All loan sales were one-to-four family loans.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management.

For one-to-four family loans and owner occupied residential loans, our President may approve loans up to $500,000. Residential loans and all commercial loans above $500,000 up to $1 million in the aggregate to any borrower(s) must be approved by a majority of our officers’ loan committee. This committee consists of our President, Executive Vice-President and our Commercial Banking Officer. For loans to any borrower(s) in the aggregate of more than $1

million up to $2 million, approval is required by a majority of our level two loan committee, which consists of the officers' loan committee, one designated outside director and our Chairman of the Board. For loan requests above $2 million in the aggregate to any borrower(s), approval is required by a majority of the loan committee of the Board of Directors, which consists of the officers' loan committee and the Bank's Board of Directors as a whole.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited by regulation to generally 15% of our stated capital and reserves. At December 31, 2015, our regulatory maximum was $4.5 million.

Loan Commitments. We issue commitments for fixed-rate and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers and generally expire in 45 days.

Delinquencies. When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. We make initial contact with the borrower when the loan becomes 10 days past due. If payment is not then received by the 30th day of delinquency, additional letters are sent and phone calls generally are made to the customer by the Vice President or President. When the loan becomes 120 days past due, we generally commence foreclosure proceedings against any real property that secures the loan or attempt to repossess any personal property that secures a consumer loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. We may consider loan workout arrangements with certain borrowers under certain circumstances.

Management informs the Board of Directors on a monthly basis of the amount of loans delinquent more than 60 days, all loans in foreclosure and all foreclosed and repossessed property that we own.

Delinquent Loans

The following table presents information with respect to the delinquent loans at the dates indicated.

	December 31, 2015					
	60-89 Days		**90 Days or More**		**Total**	
	(Dollars in Thousands)					
	Number of Loans	**Principal Balance**	**Number of Loans**	**Principal Balance**	**Number of Loans**	**Principal Balance**
One-to-four family	5	$ 753	9	$ 701	14	$ 1,454
Multi-family	-	-	-	-	-	-
Lines of credit	-	-	1	36	1	36
Non-residential real estate	1	113	1	18	2	131
Construction	-	-	-	-	-	-
Consumer	-	-	1	3	1	3
Total	6	$ 866	12	$ 758	18	$ 1,624

	December 31, 2014					
	60-89 Days		**90 Days or More**		**Total**	
	(Dollars in Thousands)					
	Number	**Principal**	**Number**	**Principal**	**Number**	**Principal**

	of Loans	Balance	of Loans	Balance	of Loans	Balance
One-to-four family	4	$ 310	37	$ 1,741	41	$ 2,051
Multi-family	-	-	2	257	2	257
Lines of credit	-	-	-	-	-	-
Non-residential real estate	1	420	3	115	4	535
Construction	-	-	-	-	-	-
Consumer	-	-	1	11	1	11
Total	5	$ 730	43	$ 2,124	48	$ 2,854

	December 31, 2013					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	5	$ 429	10	$ 1,451	15	$ 1,880
Multi-family	-	-	-	-	-	-
Lines of credit	2	64	2	162	4	226
Non-residential real estate	2	428	2	319	4	747
Construction	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	9	$ 921	14	$ 1,932	23	$ 2,853

9

	December 31, 2012					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	5	$ 616	8	$ 613	13	$ 1,229
Multi-family	-	-	-	-	-	-
Lines of credit	-	-	3	1,009	3	1,009
Non-residential real estate	1	335	3	516	4	851
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer	1	19	-	-	1	19
Total	7	$ 970	14	$ 2,138	21	$ 3,108

	December 31, 2011					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	3	$ 849	25	$ 2,459	28	$ 3,308
Multi-family	-	-	1	305	1	305
Lines of credit	-	-	7	1,980	7	1,980
Non-residential real estate	1	57	5	709	6	766
Construction	-	-	-	-	-	-
Commercial	-	-	1	7	1	7
Consumer	2	43	2	5	4	48
Total	6	$ 949	41	$ 5,465	47	$ 6,414

Classified Assets. Federal Deposit Insurance Corporation regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality be classified as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified as “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance

as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as “special mention” if the asset has a potential weakness that warrants management’s an escalated level of attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset. Loans classified as impaired for financial reporting purposes are generally those loans classified as substandard or doubtful for regulatory reporting purposes.

An insured institution is required to establish allowances for loan losses in an amount deemed prudent by management for loans classified as substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as “loss,” it is required to charge off such amounts. An institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Office of the Comptroller of the Currency (“OCC”).

On the basis of management’s review of its assets, at December 31, 2015 and 2014, we classified \$0.7 million and \$2.1 million, respectively, of our assets as special mention and \$5.0 million and \$6.0 million, respectively, of our assets as substandard. We classified none of our assets as doubtful at December 31, 2015 and December 31, 2014. There were no assets classified as loss for the years ended December 31, 2015 or 2014. The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Although the economy continued to stabilize in our market during 2015, foreclosures and liquidations as a manner of reducing non-performing assets continued to prove costly. However, there are circumstances when foreclosure and liquidations are the remedy pursued. From time to time, the Company as part of our loss mitigation strategy may renegotiate the loan terms (i.e. interest rate, structure, repayment term, A/B note format, etc.) based on the economic or legal reasons related to the borrower's financial difficulties. There were no new troubled debt restructurings ("TDRs") during 2014 or 2015. TDRs are considered to be non-performing, except for those that have established a sufficient performance history (generally a minimum of six consecutive months of performance) under the terms of the restructured loan.

At December 31, 2015, six loans (with aggregate balances of $2.6 million) of our 34 substandard loans (with aggregate balances of $5.0 million) were considered TDRs and were included in non-performing assets. At December 31, 2014, 14 loans (with aggregate balances of $2.6 million) of our 64 substandard loans (with aggregate balances of $6.0 million) were considered TDRs and were included in non-performing assets. During the year ended December 31, 2015, there were no new modifications classified as TDRs and one addition to loans classified as TDR's of approximately $60,000 due to the Merger. Additionally, two previously performing TDRs originally restructured in 2010, totaling approximately $0.6 million at December 31, 2015 were returned to non-performing status during 2015, and principal advances totaling approximately $0.2 million were made on two TDRs to pay real estate taxes. The increases in TDRs included in impaired loans were offset by writing down and moving 11 TDRs totaling approximately $0.9 million to OREO, resulting a decrease in the number of TDRs included in impaired loans from December 2014 to December 2015, while the balance remained approximately $2.6 million.

The following table shows the amounts and relevant ratios of nonperforming assets for the periods indicated:

	December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(In Thousands)				
Non-accrual:					
One-to-four family	$2,982	$3,733	$3,549	$3,067	$6,755
Multi-family	-	257	-	-	305
Non-residential real estate	2,070	2,039	2,332	2,986	1,566
Commercial	-	-	-	-	7
Consumer	3	11	-	-	14
Total non-accrual loans	5,055	6,040	5,881	6,053	8,647
Past due greater than 90 days and still accruing:					
One-to-four family	-	-	-	92	36
Lines of credit	-	-	-	15	-
Non-residential real estate	-	-	-	164	-
Total nonperforming loans	5,055	6,040	5,881	6,324	8,683
Foreclosed real estate	313	233	585	1,297	542
Other repossessed assets	17	63	13	9	40
Total nonperforming assets	$5,385	$6,336	$6,479	$7,630	$9,265

Ratios

	December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Allowance for loan losses as a percent of gross loans receivable	1.56 %	1.59 %	2.52 %	2.69 %	3.57 %
Allowance for loan losses as a percent of total nonperforming loans	44.00%	38.33%	49.48%	53.46%	54.67%
Nonperforming loans as a percent of gross loans receivable	3.55 %	4.15 %	5.10 %	5.04 %	6.53 %
Nonperforming loans as a percent of total assets	2.37 %	2.72 %	3.45 %	3.53 %	4.75 %
Nonperforming assets as a percent of total assets	2.52 %	2.86 %	3.80 %	4.26 %	5.06 %

The total amount of non-accrual loans decreased to $5.1 million from $6.0 million as of December 31, 2015 and 2014, respectively. Total non-performing loans consist of 36 loans to 34 borrowers for the year ended December 31, 2015, as compared to 77 loans to 40 borrowers for the year ended December 31, 2014. For the years ended December 31, 2015 and 2014, gross interest income of $214,000 and $196,000, respectively, would have been recorded had the non-accrual loans at the end of the period been on accrual status throughout the period. We recognized no interest income on these loans.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level necessary to absorb loan losses which are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Should full collection of principal be expected, cash collected on nonaccrual loans can be recognized as interest income.

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical loss experience adjusted for qualitative factors. For all loans other than performing credits acquired from Twin Oaks on December 31, 2014, the historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company using the most recent twelve quarters with heavier weighting given to the most recent quarters. For performing credits acquired from Twin Oaks on December 31, 2014, the historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by Twin Oaks prior to the merger, and by the Company after the merger, using the most recent sixteen quarters with heavier weighting given to the most recent quarters.

This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following:

Levels of and trends in delinquencies and impaired loans

Levels of and trends in charge-offs and recoveries

Trends in volume and terms of loans

Effects of any changes in risk selection and underwriting standards

Other changes in lending policies, procedures and practices

Experience, ability and depth of lending management and other relevant staff

National and local economic trends and conditions

Industry conditions

Effects of changes in credit concentrations

The allowance is increased through provisions charged against current earnings, and offset by recoveries of previously charged-off loans. Loans which are determined to be uncollectible are charged against the allowance. Management uses available information to recognize probable and reasonably estimable loan losses, but future loss provisions may be necessary based on changing economic conditions. The allowance for loan losses as of December 31, 2015 is maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable. In addition, the OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses.

Allowance for Loan Losses. The following table analyzes changes in the allowance for the periods indicated.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Balance at beginning of year	$2,315	$2,910	$3,381	$4,747	$4,703
Charge-offs:					
One-to-four family	296	976	1,136	2,352	1,666
Multi-family	34	183	282	133	250
Non-residential real estate	18	336	84	772	3,224
Commercial	-	-	-	52	-
Consumer	138	116	17	27	43
	486	1,611	1,519	3,336	5,183
Recoveries:					
One-to-four family	95	81	14	49	1
Multi-family	16	24	15	-	-
Non-residential real estate	-	-	136	-	35
Consumer	14	10	8	9	11
	125	115	173	58	47
Net charge-offs	361	1,496	1,346	3,278	5,136
Additions charged to operations	270	901	875	1,912	5,180
Balance at end of year	$2,224	$2,315	$2,910	$3,381	$4,747
Net charge-offs to average gross loans outstanding	0.25 %	1.30 %	1.12 %	2.52 %	3.79 %

Allocation of Allowance for Loan Losses. The following table presents an analysis of the allocation of the allowance for loan losses at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	2015		
	Amount	Percent Of Allowance To Total Allowance	Percent Of Gross Loans In Each Category To Total Gross Loans
	(Dollars in Thousands)		
One-to-four family	$1,728	77.71 %	63.17 %
Multi-family	142	6.38 %	2.64 %
Lines of credit (1)	-	- %	12.99 %

Non-residential real estate	198	8.90	%	13.44	%
Commercial	51	2.29	%	2.41	%
Construction (1)	-	-	%	0.53	%
Consumer	105	4.72	%	4.82	%
Total allowance for loan losses	$2,224	100.00	%	100.00	%

	2014				
	Amount	**Percent Of Allowance To Total Allowance**		**Percent Of Gross Loans In Each Category To Total Gross Loans**	
	(Dollars in Thousands)				
One-to-four family	$1,813	78.31	%	60.29	%
Multi-family	122	5.27	%	1.97	%
Lines of credit (1)	-	-	%	11.50	%
Non-residential real estate	245	10.58	%	13.74	%
Commercial	36	1.56	%	4.30	%
Construction (1)	-	-	%	1.07	%
Consumer	99	4.28	%	7.13	%
Total allowance for loan losses	$2,315	100.00	%	100.00	%

	2013				
	Amount	Percent Of Allowance To Total Allowance		Percent Of Gross Loans In Each Category To Total Gross Loans	
	(Dollars in Thousands)				
One-to-four family	$2,277	78.25	%	61.83	%
Multi-family	141	4.85	%	2.17	%
Lines of credit (1)	-	0	%	9.49	%
Non-residential real estate	388	13.33	%	13.73	%
Commercial	30	1.03	%	3.53	%
Construction (1)	-	0	%	1.83	%
Consumer	74	2.54	%	7.42	%
Total allowance for loan losses	$2,910	100.00	%	100.00	%

	2012				
	(Dollars in Thousands)				
One-to-four family	$2,057	60.84	%	60.24	%
Multi-family	162	4.79	%	3.69	%
Lines of credit (1)	-	-	%	10.52	%
Non-residential real estate	1,012	29.93	%	15.06	%
Commercial	75	2.22	%	3.76	%
Construction (1)	-	-	%	0.08	%
Consumer	75	2.22	%	6.65	%
Total allowance for loan losses	$3,381	100.00	%	100.00	%

	2011				
	(Dollars in Thousands)				
One-to-four family	$3,113	65.58	%	60.41	%
Multi-family	438	9.23	%	4.20	%
Lines of credit (1)	-	-	%	10.69	%
Non-residential real estate	1,146	24.14	%	15.08	%
Commercial	11	0.23	%	4.49	%
Construction (1)	-	-	%	0.74	%
Consumer	39	0.82	%	4.39	%
Total allowance for loan losses	$4,747	100.00	%	100.00	%

(1) Allowances applicable to lines of credit and construction loans are maintained in the related category of the underlying collateral.

Each quarter, management evaluates the total balance of the allowance for loan losses based on several factors that are not loan specific, but are reflective of the inherent losses in the loan portfolio. This process includes, but is not limited to, a periodic review of loan collectability in light of historical experience, the nature and volume of loan activity, conditions that may affect the ability of the borrower to repay, underlying value of collateral, if applicable, and economic conditions in our market areas. First, we group loans by delinquency status. All loans 90 days or more delinquent and all loans classified as substandard or doubtful are evaluated individually, based primarily on the value of the collateral securing the loan. Specific loss allowances are established as required by this analysis. All loans for which a specific loss allowance has not been assigned are segregated by type and delinquency status and a loss allowance is established by using loss experience data and management's judgment concerning other matters it considers significant. The allowance is allocated to each category of loan based on the results of the above analysis.

Total allowance for loan losses decreased $0.1 million to $2.2 million at December 31, 2015 from $2.3 million at December 31, 2014. The decrease in the allowances for loan losses was primarily due to a net decrease of $0.4 million in the general portion of the reserve. The decrease in the general portion was due primarily to the stabilization of the nonperforming asset levels and charge-off levels which had a favorable impact on the historical loss factors. The historical loss factor for one-to-four family, multi-family, and non-residential property declined the most due to the historical loss percentage improving as charge-off levels declined by $1.1 million, as well as movements in the qualitative factors as risks in their segments change. The historical loss factors increased slightly for the other categories with the largest increases in the consumer and purchased auto segments. Additionally, management reduced the qualitative factors for most of the segments related to the economy to reflect the stabilization of local economic conditions, which began in mid-2014. The loan portfolio also includes $25.1 million of loans acquired at their fair values in the Twin Oaks merger on December 31, 2014. Offsetting this decrease was an increase of $344,000 of specific reserves on impaired loans. Impaired loans were $5.0 million with a valuation allowance of $387,000 at December 31, 2015, as compared to $6.0 million with a valuation allowance of $43,000 at December 31, 2014. Of the $5.0 million of impaired loans, $0.5 million were acquired in the merger with Twin Oaks and valued per FASB ASC 310-30 (see Note 2 to the Notes to the Consolidated Financial Statements).

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at a level to absorb probable and estimable losses, additions may be necessary if economic or other conditions in the future differ from the current environment.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, mortgage-backed securities and certificates of deposit of federally insured institutions.

At December 31, 2015, our investment portfolio consisted primarily of municipal securities with maturities of five to more than ten years and residential mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae with stated final maturities of 30 years or less.

Our investment objectives are to provide and maintain liquidity, to maintain a balance of high quality, diversified investments to minimize risk, to provide collateral for pledging requirements, to establish an acceptable level of interest rate risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. Our Board of Directors has the overall responsibility for our investment portfolio, including approval of our investment policy and appointment of our Investment Committee. The Investment Committee is responsible for approval of investment strategies and monitoring of investment performance. Our Executive Vice-President and CFO are the designated investment officers and they are responsible for the daily investment activities and are authorized to make investment decisions consistent with our investment policy. The Investment Committee, consisting of seven external Board of Director members, meets regularly with the Executive Vice-President and CFO to review and determine investment strategies and transactions.

The following table sets forth the carrying value of our investment portfolio at the dates indicated.

	December 31, 2015		**2014**		**2013**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
	(In Thousands)					
Available-for-sale						
State and municipal securities	$19,237	$19,237	$20,225	$20,225	$8,444	$8,444

Residential mortgage-backed securities	27,748	27,748	32,547	32,547	26,103	26,103
Total available-for-sale	$46,985	$46,985	$52,772	$52,772	$34,547	$34,547

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2015 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Certain mortgage-backed securities have interest rates that are adjustable and will re-price annually within the various maturity ranges. These re-pricing schedules are not reflected in the table below.

	At December 31, 2015									
	One Year or Less		**More than One Year Through Five Years**		**More than Five Years Through Ten Years**		**More than Ten Years**		**Total Securities**	
	Carrying Value	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**
	(Dollars in Thousands)									
Available-for-sale securities:										
State and municipal securities	$501	6.00 %	$828	3.85 %	$7,951	4.24 %	$9,957	4.42 %	$19,237	4.36 %
Residential mortgage-backed securities	38	4.70 %	26,979	2.17 %	731	3.14 %	-	0.00 %	27,748	2.20 %
Total securities available-for-sale	$539	5.91 %	$27,807	2.22 %	$8,682	4.15 %	$9,957	4.42 %	$46,985	3.08 %

Deposit Activities and Other Sources of Funds

General. Deposits and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

Deposit Accounts. The vast majority of our depositors are residents of LaSalle County. Deposits are raised primarily from within our primary market area through the offering of a broad selection of deposit instruments, including checking accounts, money market accounts, regular savings accounts, club savings accounts, certificate accounts and various retirement accounts. The Bank also is a member of the Certificate of Deposit Registry Service (CDARS), which allows the Bank to retain high deposit relationships with its depository customer base, while still allowing the

customer to enjoy FDIC deposit insurance on amounts in excess of the current limit of $250,000. Other than our relationship with CDARS, we do not utilize brokered funds. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit, and the interest rate among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates, but not be the market leader in every type and maturity.

The following table sets forth the dollar amount of deposits by type as of the dates indicated.

	December 31, 2015		**2014**		**2013**	
	Amount	**Percent Of Total**	**Amount**	**Percent Of Total**	**Amount**	**Percent Of Total**
	(Dollars In Thousands)					
Non-Interest Bearing Checking	$10,326	5.84 %	$8,198	4.50 %	$5,219	3.58 %
Interest Bearing Checking	26,390	14.93 %	22,847	12.54 %	14,382	9.87 %
Money Market accounts	29,580	16.74 %	29,278	16.07 %	21,795	14.95 %
Savings accounts	22,740	12.87 %	22,765	12.49 %	16,941	11.62 %
Certificates of Deposit accounts	87,699	49.62 %	99,145	54.40 %	87,432	59.98 %
Total deposit accounts	$176,735	100.00 %	$182,233	100.00 %	$145,769	100.00 %
Certificate Accounts, by rate						
Less than 1.00%	$41,155	46.93 %	$54,000	54.47 %	$41,752	47.75 %
1.00% to 1.99%	44,643	50.90 %	35,840	36.15 %	28,584	32.69 %
2.00% to 2.99%	1,900	2.17 %	6,223	6.27 %	13,565	15.52 %
3.00% to 3.99%	1	0.00 %	3,072	3.10 %	3,531	4.04 %
4.00% to 4.99%	-	0.00 %	10	0.01 %	-	0.00 %
5.00% to 5.99%	-	0.00 %	-	0.00 %	-	0.00 %
Total Certificate Accounts	$87,699	100.00 %	$99,145	100.00 %	$87,432	100.00 %

The following table sets forth the distribution of average deposit accounts, by account type, at the dates indicated.

	Years Ended December 31,					
	2015		2014		2013	
	Weighted Avg. Rate	Average Amount	Weighted Avg. Rate	Average Amount	Weighted Avg. Rate	Average Amount
	(Dollars In Thousands)					
Non-Interest Bearing Checking	0.00%	$8,822	0.00%	$4,448	0.00%	$4,187
Interest Bearing Checking	0.04%	25,115	0.05%	14,982	0.05%	13,465
Money Market accounts	0.20%	29,086	0.23%	19,627	0.24%	20,837
Passbook accounts	0.06%	22,791	0.06%	18,206	0.06%	16,642
Certificate of Deposit accounts	0.93%	92,777	0.98%	82,056	1.20%	95,916
Total	0.54%	$178,591	0.63%	$139,319	0.80%	$151,047

Deposit Activity. The following table sets forth the deposit activities for the periods indicated.

	Years Ended December 31,		
	2015	2014	2013
	(In Thousands)		
Beginning of period	$182,233	$145,769	