

COMMUNITY BANCORP /VT
Form 10-Q
August 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 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 000-16435

Vermont 03-0284070
(State of Incorporation) (IRS Employer Identification Number)

4811 US Route 5, Derby, Vermont 05829
(Address of Principal Executive Offices) (zip code)

Registrant's Telephone Number: (802) 334-7915

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 for 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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer () Accelerated filer (X)
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(X)

At August 03, 2018, there were 5,141,766 shares outstanding of the Corporation's common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

The following are the unaudited consolidated financial statements for Community Bancorp. and Subsidiary, "the Company".

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Community Bancorp. and Subsidiary	June 30,	December 31,	June 30,
Consolidated Balance Sheets	2018	2017	2017
	(Unaudited)		(Unaudited)
Assets			
Cash and due from banks	\$19,669,010	\$10,690,396	\$21,659,982
Federal funds sold and overnight deposits	9,140,793	31,963,105	15,365,739
Total cash and cash equivalents	28,809,803	42,653,501	37,025,721
Securities held-to-maturity (fair value \$32,292,000 at 06/30/18, \$48,796,000 at 12/31/17 and \$37,065,000 at 06/30/17)	32,205,722	48,824,965	36,418,414
Securities available-for-sale	38,760,368	38,450,653	35,634,716
Restricted equity securities, at cost	2,434,050	1,703,650	1,942,550
Loans held-for-sale	0	1,037,287	571,200
Loans	521,091,943	502,864,651	502,772,845
Allowance for loan losses	(5,413,023)	(5,438,099)	(5,374,378)
Deferred net loan costs	345,177	318,651	323,371
Net loans	516,024,097	497,745,203	497,721,838
Bank premises and equipment, net	9,717,004	10,344,177	10,555,451
Accrued interest receivable	1,952,304	2,051,918	1,746,403
Bank owned life insurance	4,767,646	4,721,782	4,673,739
Core deposit intangible	0	0	136,341
Goodwill	11,574,269	11,574,269	11,574,269
Other real estate owned	364,235	284,235	343,928
Other assets	8,386,276	7,653,955	9,829,772
Total assets	\$654,995,774	\$667,045,595	\$648,174,342
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Demand, non-interest bearing	\$112,159,218	\$117,245,565	\$110,398,464
Interest-bearing transaction accounts	126,164,648	132,633,533	116,869,761
Money market funds	75,983,544	93,392,005	73,279,696
Savings	101,030,190	97,516,284	97,929,768
Time deposits, \$250,000 and over	13,728,867	18,909,898	23,808,349
Other time deposits	97,852,444	100,937,695	111,021,241
Total deposits	526,918,911	560,634,980	533,307,279
Borrowed funds	22,550,000	3,550,000	13,550,000
Repurchase agreements	30,294,972	28,647,848	28,862,766
Capital lease obligations	325,441	381,807	435,243
Junior subordinated debentures	12,887,000	12,887,000	12,887,000
Accrued interest and other liabilities	2,562,817	3,008,106	3,014,740
Total liabilities	595,539,141	609,109,741	592,057,028
Shareholders' Equity			

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Preferred stock, 1,000,000 shares authorized, 20 and 25 shares issued and outstanding in 2018 and 2017, respectively (\$100,000 liquidation value)	2,000,000	2,500,000	2,500,000
Common stock - \$2.50 par value; 15,000,000 shares authorized, 5,350,131 shares issued at 06/30/18, 5,322,320 shares issued at 12/31/17 and 5,297,753 shares issued at 06/30/17	13,375,328	13,305,800	13,244,383
Additional paid-in capital	32,048,600	31,639,189	31,227,266
Retained earnings	15,477,941	13,387,739	11,809,846
Accumulated other comprehensive loss	(822,459)	(274,097)	(41,404)
Less: treasury stock, at cost; 210,101 shares at 06/30/18, 12/31/17 and 06/30/17	(2,622,777)	(2,622,777)	(2,622,777)
Total shareholders' equity	59,456,633	57,935,854	56,117,314
Total liabilities and shareholders' equity	\$654,995,774	\$667,045,595	\$648,174,342
Book value per common share outstanding	\$11.18	\$10.84	\$10.54

The accompanying notes are an integral part of these consolidated financial statements

Community Bancorp. and Subsidiary	Three Months Ended June 30,	
Consolidated Statements of Income	2018	2017
(Unaudited)		
Interest income		
Interest and fees on loans	\$6,387,493	\$5,875,766
Interest on debt securities		
Taxable	221,016	164,644
Tax-exempt	312,488	336,197
Dividends	30,857	40,864
Interest on federal funds sold and overnight deposits	77,005	27,366
Total interest income	7,028,859	6,444,837
Interest expense		
Interest on deposits	719,389	568,110
Interest on borrowed funds	17,642	28,044
Interest on repurchase agreements	37,641	22,235
Interest on junior subordinated debentures	163,827	131,115
Total interest expense	938,499	749,504
Net interest income	6,090,360	5,695,333
Provision for loan losses	180,000	150,000
Net interest income after provision for loan losses	5,910,360	5,545,333
Non-interest income		
Service fees	810,731	772,238
Income from sold loans	190,710	184,072
Other income from loans	198,351	209,288
Net realized (loss) gain on sale of securities AFS	(6,375)	1,270
Other income	496,744	214,863
Total non-interest income	1,690,161	1,381,731
Non-interest expense		
Salaries and wages	1,914,616	1,703,751
Employee benefits	722,302	692,418
Occupancy expenses, net	657,596	661,294
Other expenses	1,809,461	1,835,105
Total non-interest expense	5,103,975	4,892,568
Income before income taxes	2,496,546	2,034,496
Income tax expense	493,892	534,983

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Net income	\$2,002,654	\$1,499,513
Earnings per common share	\$0.39	\$0.29
Weighted average number of common shares used in computing earnings per share	5,130,809	5,077,698
Dividends declared per common share	\$0.19	\$0.17

The accompanying notes are an integral part of these consolidated financial statements.

Community Bancorp. and Subsidiary	Six Months Ended June 30,	
Consolidated Statements of Income	2018	2017
(Unaudited)		
Interest income		
Interest and fees on loans	\$12,528,037	\$11,492,633
Interest on debt securities		
Taxable	423,901	316,370
Tax-exempt	622,644	660,729
Dividends	59,548	76,660
Interest on federal funds sold and overnight deposits	171,567	54,838
Total interest income	13,805,697	12,601,230
Interest expense		
Interest on deposits	1,406,451	1,105,899
Interest on borrowed funds	25,125	80,279
Interest on repurchase agreements	68,847	43,762
Interest on junior subordinated debentures	306,824	253,975
Total interest expense	1,807,247	1,483,915
Net interest income	11,998,450	11,117,315
Provision for loan losses	360,000	300,000
Net interest income after provision for loan losses	11,638,450	10,817,315
Non-interest income		
Service fees	1,580,813	1,520,355
Income from sold loans	374,329	374,367
Other income from loans	410,621	394,905
Net realized (loss) gain on sale of securities AFS	(10,236)	3,400
Other income	730,304	458,922
Total non-interest income	3,085,831	2,751,949
Non-interest expense		
Salaries and wages	3,530,002	3,414,875
Employee benefits	1,396,304	1,333,979
Occupancy expenses, net	1,332,470	1,348,727
Other expenses	3,576,316	3,526,106
Total non-interest expense	9,835,092	9,623,687
Income before income taxes	4,889,189	3,945,577
Income tax expense	903,992	1,031,848
Net income	\$3,985,197	\$2,913,729

Earnings per common share	\$0.77	\$0.57
Weighted average number of common shares used in computing earnings per share	5,123,947	5,070,453
Dividends declared per common share	\$0.36	\$0.34

The accompanying notes are an integral part of these consolidated financial statements

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Community Bancorp. and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited)

Six Months Ended June 30,

2018 2017

Cash Flows from Operating Activities:

Net income	\$3,985,197	\$2,913,729
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, bank premises and equipment	490,702	512,956
Provision for loan losses	360,000	300,000
Deferred income tax	(76,957)	(216,506)
Loss (gain) on sale of securities AFS	10,236	(3,400)
Gain on sale of loans	(161,899)	(159,123)
(Gain) loss on sale of bank premises and equipment	(264,087)	1,580
Loss on sale of OREO	0	617
Income from CFSG Partners	(270,786)	(198,514)
Amortization of bond premium, net	65,691	56,186
Proceeds from sales of loans held for sale	5,078,916	7,600,841
Originations of loans held for sale	(3,879,730)	(8,012,918)
Increase in taxes payable	82,207	539,738
Decrease in interest receivable	99,614	72,107
Decrease in mortgage servicing rights	49,607	59,454
Increase in other assets	(559,365)	(462,492)
Increase in cash surrender value of BOLI	(45,864)	(48,333)
Amortization of core deposit intangible	0	136,350
Amortization of limited partnerships	188,742	308,616
Increase in unamortized loan costs	(26,526)	(13,241)
(Decrease) increase in interest payable	(6,254)	52,847
Decrease in accrued expenses	(200,085)	(108,774)
Increase (decrease) in other liabilities	36,223	(68,688)
Net cash provided by operating activities	4,955,582	3,263,032

Cash Flows from Investing Activities:

Investments - HTM		
Maturities and pay downs	21,333,215	22,418,808

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Purchases	(4,713,972)	(8,950,591)
Investments - AFS		
Maturities, calls, pay downs and sales	5,187,588	2,324,014
Purchases	(6,267,361)	(4,221,653)
Proceeds from redemption of restricted equity securities	0	813,300
Purchases of restricted equity securities	(730,400)	0
Decrease in limited partnership contributions payable	(380,250)	(27,000)
Increase in loans, net	(18,908,933)	(16,101,325)
Capital expenditures net of proceeds from sales of bank premises and equipment	400,558	(239,431)
Proceeds from sales of OREO	169,900	383,117
Recoveries of loans charged off	46,665	39,977
Net cash used in investing activities	(3,862,990)	(3,560,784)

	2018	2017
Cash Flows from Financing Activities:		
Net (decrease) increase in demand and interest-bearing transaction accounts	(11,555,232)	4,742,597
Net (decrease) increase in money market and savings accounts	(13,894,555)	5,389,989
Net (decrease) increase in time deposits	(8,266,282)	18,439,661
Net increase (decrease) in repurchase agreements	1,647,124	(1,560,429)
Net increase (decrease) in short-term borrowings	21,000,000	(20,000,000)
Proceeds from long-term borrowings	0	2,000,000
Repayments on long-term borrowings	(2,000,000)	0
Decrease in capital lease obligations	(56,366)	(47,918)
Redemption of preferred stock	(500,000)	0
Dividends paid on preferred stock	(51,875)	(48,438)
Dividends paid on common stock	(1,259,104)	(1,206,275)
Net cash (used in) provided by financing activities	(14,936,290)	7,709,187
Net (decrease) increase in cash and cash equivalents	(13,843,698)	7,411,435
Cash and cash equivalents:		
Beginning	42,653,501	29,614,286
Ending	\$28,809,803	\$37,025,721
Supplemental Schedule of Cash Paid During the Period:		
Interest	\$1,813,501	\$1,431,068
Income taxes, net of refunds	\$710,000	\$400,000
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized (loss) gain on securities AFS	\$(694,131)	\$74,812
Loans transferred to OREO	\$249,900	\$333,662
Common Shares Dividends Paid:		
Dividends declared	\$1,843,120	\$1,722,227
Increase in dividends payable attributable to dividends declared	(105,077)	(42,594)
Dividends reinvested	(478,939)	(473,358)
	\$1,259,104	\$1,206,275

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Basis of Presentation and Consolidation

The interim consolidated financial statements of Community Bancorp. and Subsidiary are unaudited. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments necessary for the fair presentation of the consolidated financial condition and results of operations of the Company and its subsidiary, Community National Bank (the Bank), contained herein have been made. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017 contained in the Company's Annual Report on Form 10-K. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full annual period ending December 31, 2018, or for any other interim period.

Certain amounts in the 2017 unaudited consolidated income statements have been reclassified to conform to the 2018 presentation. Reclassifications had no effect on prior period net income or shareholders' equity.

In addition to the definitions provided elsewhere in this quarterly report, the definitions, acronyms and abbreviations identified below are used throughout this Form 10-Q, including Part I. "Financial Information" and Part II. "Other Information", and is intended to aid the reader and provide a reference page when reviewing this Form 10Q.

ABS and OAS:	Asset backed or other amortizing security	FRB:	Federal Reserve Board
AFS:	Available-for-sale	FRBB:	Federal Reserve Bank of Boston
Agency MBS:	MBS issued by a US government agency or GSE	GAAP:	Generally Accepted Accounting Principles in the United States
ALCO:	Asset Liability Committee	GSE	Government sponsored enterprise
ALL:	Allowance for loan losses	HTM:	Held-to-maturity
ASC:	Accounting Standards Codification	ICS:	Insured Cash Sweeps of the Promontory Interfinancial Network
ASU:	Accounting Standards Update	IRS:	Internal Revenue Service
BIC:	Borrower-in-Custody	JNE:	Jobs for New England
Board:	Board of Directors	Jr:	Junior
BOLI	Bank owned life insurance	MBS:	Mortgage-backed security
bp or bps:	Basis point(s)	MPF:	Mortgage Partnership Finance
CBLR:	Community Bank Leverage Ratio	MSRs:	Mortgage servicing rights
CDARS:	Certificate of Deposit Accounts Registry Service of the Promontory Interfinancial Network	NII:	Net interest income
CDs:	Certificates of deposit	OCI:	Other comprehensive income (loss)
CDI:	Core deposit intangible	OREO:	Other real estate owned
CECL:	Current Expected Credit Loss	OTTI:	Other-than-temporary impairment
CFSG:	Community Financial Services Group	PMI	Private mortgage insurance
CFSG Partners:	Community Financial Services Partners, LLC	RD:	USDA Rural Development
Company:	Community Bancorp. and Subsidiary	SBA	U.S. Small Business Administration
CRE:	Commercial Real Estate	SEC:	U.S. Securities and Exchange Commission
DRIP:	Dividend Reinvestment Plan	SERP	Supplemental Employee Retirement Plan
	Securities Exchange Act of 1934	TDR:	Troubled-debt restructuring

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Act:			
FASB:	Financial Accounting Standards Board	USDA:	U.S. Department of Agriculture
FDIC:	Federal Deposit Insurance Corporation	VA:	U.S. Veterans Administration
FHLBB:	Federal Home Loan Bank of Boston	2017 Tax Act:	Tax Cut and Jobs Act of 2017
FHLMC	Federal Home Loan Mortgage Corporation	2018 Regulatory Relief Act:	Economic Growth, Regulatory Relief and Consumer Protection Act of 2018

Note 2. Recent Accounting Developments

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, in 2014 to replace the current plethora of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue. Due to the complexity of the new pronouncement and the anticipated effort required by entities in many industries to implement ASU No. 2014-09, FASB delayed the effective date. ASU 2014-09 became effective for the Company on January 1, 2018 and has been applied prospectively.

FASB formed a Transition Resource Group to assist it in identifying implementation issues that may require further clarification or amendment to ASU No. 2014-09. As a result of that group's deliberations, FASB has issued several amendments, which became effective concurrently with ASU No. 2014-09, including ASU No. 2016-08, Principal versus Agent Considerations, which clarifies whether an entity should record the gross amount of revenue or only its ultimate share when a third party is also involved in providing goods or services to a customer. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. This ASU did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. This guidance also changes certain disclosure requirements and other aspects of current accounting principles. Public businesses must use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The impact of adopting this ASU was not material on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in the ASU is permitted for all entities. The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements, but does not anticipate any material impact at this time.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Under the new guidance, which will replace the existing incurred loss model for recognizing credit losses, banks and other lending institutions will be required to recognize the full amount of expected credit losses. The new guidance, which is referred to as the CECL model, requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applies to debt securities classified as available for sale, which will require that credit losses on those securities be recorded through an allowance for credit losses rather than a write-down. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within such years. The Company is evaluating the impact of the adoption of the ASU on its consolidated financial statements. The ASU may have a material impact on the Company's consolidated financial statements upon adoption as it will require a change in the Company's methodology for calculating its ALL and allowance on unused commitments. The Company will transition from an incurred loss model to an expected loss model, which will likely result in an increase in the ALL upon adoption and may negatively impact the Company's and

the Bank's regulatory capital ratios. Additionally, ASU No. 2016-13 may reduce the carrying value of the Company's HTM investment securities as it will require an allowance for the expected losses over the life of these securities to be recorded upon adoption. The Company has formed a committee to assess the implications of this new pronouncement and transitioned to a software solution for preparing the ALL calculation and related reports that provides the Company with stronger data integrity, ease and efficiency in ALL preparation. The new software solution also provides numerous training opportunities for the appropriate personnel within the Company. The Company has gathered and will analyze the historical data to serve as a basis for estimating the ALL under CECL.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU was issued to reduce the cost and complexity of the goodwill impairment test. To simplify the subsequent measurement of goodwill, step two of the goodwill impairment test was eliminated. Instead, a Company will recognize an impairment of goodwill should the carrying value of a reporting unit exceed its fair value (i.e., step one). The ASU will be effective for the Company on January 1, 2020 and will be applied prospectively.

The Company has goodwill from its acquisition of LyndonBank in 2007 and performs an impairment test annually or more frequently if circumstances warrant (see Note 6). The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements, but does not anticipate any material impact at this time.

In February 2018, FASB issued ASU No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU was issued to allow a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the 2017 Tax Act to improve the usefulness of information reported to financial statement users. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for financial statements which have not yet been issued. The Company adopted the ASU for the December 31, 2017 consolidated financial statements. See Note 12 to the audited consolidated financial statements contained in the Company’s December 31, 2017 Annual Report on Form 10-K for more information.

Note 3. Earnings per Common Share

Earnings per common share amounts are computed based on the weighted average number of shares of common stock issued during the period (retroactively adjusted for stock splits and stock dividends, if any), including Dividend Reinvestment Plan shares issuable upon reinvestment of dividends declared, and reduced for shares held in treasury.

The following tables illustrate the calculation of earnings per common share for the periods presented, as adjusted for the cash dividends declared on the preferred stock:

Three Months Ended June 30,	2018	2017
Net income, as reported	\$2,002,654	\$1,499,513
Less: dividends to preferred shareholders	23,750	25,000
Net income available to common shareholders	\$1,978,904	\$1,474,513
Weighted average number of common shares used in calculating earnings per share	5,130,809	5,077,698
Earnings per common share	\$0.39	\$0.29

Six Months Ended June 30,	2018	2017
Net income, as reported	\$3,985,197	\$2,913,729
Less: dividends to preferred shareholders	51,875	48,438
Net income available to common shareholders	\$3,933,322	\$2,865,291
Weighted average number of common shares used in calculating earnings per share	5,123,947	5,070,453
Earnings per common share	\$0.77	\$0.57

Note 4. Investment Securities

Securities AFS and HTM as of the balance sheet dates consisted of the following:

Securities AFS	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
June 30, 2018				
U.S. GSE debt securities	\$15,017,800	\$0	\$399,321	\$14,618,479
Agency MBS	16,358,655	2,835	490,914	15,870,576
ABS and OAS	1,000,000	0	5,688	994,312
Other investments	7,425,000	0	147,999	7,277,001
	\$39,801,455	\$2,835	\$1,043,922	\$38,760,368
December 31, 2017				
U.S. GSE debt securities	\$17,308,229	\$0	\$149,487	\$17,158,742
Agency MBS	16,782,380	11,144	180,187	16,613,337
Other investments	4,707,000	165	28,591	4,678,574
	\$38,797,609	\$11,309	\$358,265	\$38,450,653

		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
Securities AFS	Cost	Gains	Losses	Value
June 30, 2017				
U.S. GSE debt securities	\$18,356,415	\$14,654	\$57,881	\$18,313,188
Agency MBS	13,128,034	23,950	73,365	13,078,619
Other investments	4,213,000	31,180	1,271	4,242,909
	\$35,697,449	\$69,784	\$132,517	\$35,634,716

		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
Securities HTM	Cost	Gains	Losses	Value*
June 30, 2018				
States and political subdivisions	\$32,205,722	\$338,294	\$252,017	\$32,292,000
December 31, 2017				
States and political subdivisions	\$48,824,965	\$0	\$28,965	\$48,796,000
June 30, 2017				
States and political subdivisions	\$36,418,414	\$646,586	\$0	\$37,065,000

*Method used to determine fair value of HTM securities rounds values to nearest thousand.

The scheduled maturities of debt securities AFS as of the balance sheet dates were as follows:

	Amortized	Fair
	Cost	Value
June 30, 2018		
Due from one to five years	\$13,982,713	\$13,689,583
Due from five to ten years	9,460,087	9,200,209
Agency MBS	16,358,655	15,870,576
	\$39,801,455	\$38,760,368
December 31, 2017		
Due in one year or less	\$3,749,956	\$3,739,512
Due from one to five years	11,275,824	11,168,065
Due from five to ten years	6,989,449	6,929,739
Agency MBS	16,782,380	16,613,337
	\$38,797,609	\$38,450,653
June 30, 2017		
Due in one year or less	\$3,001,770	\$3,001,473
Due from one to five years	17,322,645	17,326,400
Due from five to ten years	2,245,000	2,228,224
Agency MBS	13,128,034	13,078,619
	\$35,697,449	\$35,634,716

Because the actual maturities of Agency MBS usually differ from their contractual maturities due to the right of borrowers to prepay the underlying mortgage loans, usually without penalty, those securities are not presented in the table by contractual maturity date.

The scheduled maturities of debt securities HTM as of the balance sheet dates were as follows:

	Amortized	Fair
	Cost	Value*
June 30, 2018		
Due in one year or less	\$8,223,089	\$8,223,000
Due from one to five years	4,724,770	4,746,000
Due from five to ten years	4,394,497	4,416,000
Due after ten years	14,863,366	14,907,000
	\$32,205,722	\$32,292,000
December 31, 2017		
Due in one year or less	\$24,817,334	\$24,817,000
Due from one to five years	4,494,343	4,487,000
Due from five to ten years	4,338,246	4,331,000
Due after ten years	15,175,042	15,161,000
	\$48,824,965	\$48,796,000
June 30, 2017		
Due in one year or less	\$11,987,857	\$11,988,000
Due from one to five years	3,987,322	4,149,000
Due from five to ten years	3,744,385	3,906,000
Due after ten years	16,698,850	17,022,000
	\$36,418,414	\$37,065,000

*Method used to determine fair value of HTM securities rounds values to nearest thousand.

Debt securities AFS and HTM with unrealized losses as of the balance sheet dates are presented in the table below.

	Less than 12 months	12 months or more	Total			
	Fair	Unrealized	Fair	Unrealized	Number of	
	Value	Loss	Value	Loss	Securities	
					Value	Loss

June 30, 2018

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U.S. GSE debt securities	\$11,732,997	\$284,803	\$2,885,482	\$114,518	13	\$14,618,479	\$399,321
Agency MBS	10,449,556	323,950	3,997,985	166,964	23	14,447,541	490,914
ABS and OAS	994,312	5,688	0	0	1	994,312	5,688
Other investments	6,060,871	127,129	723,130	20,870	28	6,784,001	147,999
State and political subdivisions	28,006,864	252,017	0	0	107	28,006,864	252,017
	\$57,244,600	\$993,587	\$7,606,597	\$302,352	172	\$64,851,197	\$1,295,939
December 31, 2017							
U.S. GSE debt securities	\$13,223,739	\$84,490	\$3,935,003	\$64,997	15	\$17,158,742	\$149,487
Agency MBS	9,251,323	105,063	4,542,446	75,124	21	13,793,769	180,187
Other investments	3,692,571	25,429	244,838	3,162	16	3,937,409	28,591
State and political subdivisions	22,530,141	28,965	0	0	79	22,530,141	28,965
	\$48,697,774	\$243,947	\$8,722,287	\$143,283	131	\$57,420,061	\$387,230
June 30, 2017							
U.S. GSE debt securities	\$10,724,642	\$57,881	\$0	\$0	9	\$10,724,642	\$57,881
Agency MBS	8,751,252	73,365	0	0	13	8,751,252	73,365
Other investments	990,729	1,271	0	0	4	990,729	1,271
	\$20,466,623	\$132,517	\$0	\$0	26	\$20,466,623	\$132,517

The unrealized losses for all periods presented were principally attributable to changes in prevailing interest rates for similar types of securities and not deterioration in the creditworthiness of the issuer.

Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions, or adverse developments relating to the issuer, warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the carrying value, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies or other adverse developments in the status of the securities have occurred, and the results of reviews of the issuer's financial condition. As of June 30, 2018, there were no declines in the fair value of any of the securities reflected in the table above that were deemed by management to be OTTI.

Investments pledged as collateral for repurchase agreements consisted of U.S. GSE debt securities, Agency MBS securities, ABS and OAS, and CDs. These repurchase agreements mature daily. These investments as of the balance sheet dates were as follows:

	Amortized	Fair
	Cost	Value
June 30, 2018	\$39,801,455	\$38,760,368
December 31, 2017	38,797,609	38,450,653
June 30, 2017	35,697,449	35,634,716

Note 5. Loans, Allowance for Loan Losses and Credit Quality

The composition of net loans as of the balance sheet dates was as follows:

	June 30,	December 31,	June 30,
	2018	2017	2017
Commercial & industrial	\$88,336,757	\$77,110,747	\$79,361,739
Commercial real estate	217,268,526	207,044,227	209,886,793
Residential real estate - 1st lien	165,347,241	168,184,135	164,398,836
Residential real estate - Jr lien	45,127,750	45,256,862	42,166,407
Consumer	5,011,669	5,268,680	6,959,070
Gross Loans	521,091,943	502,864,651	502,772,845
Deduct (add):			

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Allowance for loan losses	5,413,023	5,438,099	5,374,378
Deferred net loan costs	(345,177)	(318,651)	(323,371)
Net Loans	\$516,024,097	\$497,745,203	\$497,721,838

The following is an age analysis of loans (including non-accrual) as of the balance sheet dates, by portfolio segment:

June 30, 2018	90 Days or		Total	Current	Total Loans	90 Days or	
	30-89 Days	or More				Non-Accrual	More and
			Past Due			Loans	Accruing
Commercial & industrial	\$230,784	\$0	\$230,784	\$88,105,973	\$88,336,757	\$197,079	\$0
Commercial real estate	1,195,120	315,881	1,511,001	215,757,525	217,268,526	1,957,183	0
Residential real estate - 1st lien	2,255,600	1,081,853	3,337,453	162,009,788	165,347,241	1,749,608	