

Village Bank & Trust Financial Corp.
Form 10-Q
August 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Village Bank and Trust Financial Corp.

Form 10-Q

TABLE OF CONTENTS

Part I – Financial Information

Item 1. Financial Statements

<u>Consolidated Balance Sheets June 30, 2016 (unaudited) and December 31, 2015</u>	3
<u>Consolidated Statements of Operations For the Three and Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income and Loss For the Three and Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	5
<u>Consolidated Statements of Shareholders' Equity For the Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows For the Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 42

Item 3. Quantitative and Qualitative Disclosures About Market Risk 65

Item 4. Controls and Procedures 65

Part II – Other Information

Item 1. Legal Proceedings 66

Item 1A. Risk Factors 66

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 66

Item 3. Defaults Upon Senior Securities 66

Item 4. Mine Safety Disclosures 66

Item 5. Other Information 66

Item 6. Exhibits

67

Signatures

68

2

Part I – Financial Information

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
June 30, 2016 (Unaudited) and December 31, 2015
(in thousands, except share data)

	June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	\$ 12,638	\$ 17,076
Federal funds sold	16,323	186
Total cash and cash equivalents	28,961	17,262
Investment securities available for sale	21,159	37,919
Loans held for sale	16,164	14,373
Loans		
Outstandings	323,219	306,771
Allowance for loan losses	(3,523)	(3,562)
Deferred fees and costs, net	602	670
Total loans, net	320,298	303,879
Other real estate owned, net of valuation allowance	3,941	6,249
Assets held for sale	841	12,631
Premises and equipment, net	12,590	13,671
Bank owned life insurance	7,223	7,130
Accrued interest receivable	1,962	2,060
Other assets	6,402	4,767
	\$ 419,541	\$ 419,941
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$ 78,122	\$ 78,282
Interest bearing	289,502	286,566
Total deposits	367,624	364,848
Federal Home Loan Bank advances	3,200	6,000
Long-term debt - trust preferred securities	8,764	8,764
Other borrowings	316	508
Accrued interest payable	80	1,346
Other liabilities	7,843	8,116

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Total liabilities	387,827	389,582
Shareholders' equity		
Preferred stock, \$4 par value, \$1,000 liquidation preference, 1,000,000 shares authorized; 5,715 shares issued and outstanding at June 30, 2016 and December 31, 2015	23	23
Common stock, \$4 par value - 10,000,000 shares authorized; 1,425,288 shares issued and outstanding at June 30, 2016 1,417,775 shares issued and outstanding and December 31, 2015	5,603	5,562
Additional paid-in capital	58,623	58,497
Accumulated deficit	(33,248)	(33,948)
Common stock warrant	732	732
Stock in directors rabbi trust	(1,034)	(1,034)
Directors deferred fees obligation	1,034	1,034
Accumulated other comprehensive loss	(19)	(507)
Total shareholders' equity	31,714	30,359
	\$419,541	\$ 419,941

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Operations
Three and Six Months Ended June 30, 2016 and 2015
(Unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income				
Loans	\$ 3,804	\$ 3,692	\$7,569	\$7,316
Investment securities	69	154	189	309
Federal funds sold	14	18	28	36
Total interest income	3,887	3,864	7,786	7,661
Interest expense				
Deposits	595	620	1,194	1,256
Borrowed funds	63	103	104	225
Total interest expense	658	723	1,298	1,481
Net interest income	3,229	3,141	6,488	6,180
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	3,229	3,141	6,488	6,180
Noninterest income				
Service charges and fees	649	683	1,185	1,275
Gain on sale of loans	1,441	1,728	2,587	2,957
Gain on sale of asset held for sale	504	-	504	-
Gain on sale of investment securities	38	-	147	7
Rental income	262	250	582	490
Other	92	75	177	177
Total noninterest income	2,986	2,736	5,182	4,906
Noninterest expense				
Salaries and benefits	2,759	2,711	5,418	5,379
Commissions	381	443	630	735
Occupancy	415	409	864	887
Equipment	193	212	376	398
Write down of assets held for sale	220	687	220	687
Supplies	72	65	151	134
Professional and outside services	758	649	1,476	1,296
Advertising and marketing	78	101	163	173
Foreclosed assets, net	70	(218)	171	(86)
FDIC insurance premium	135	234	197	468
Other operating expense	475	500	943	936
Total noninterest expense	5,556	5,793	10,609	11,007

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Income before income tax expense	659	84	1,061	79
Income tax expense	-	-	-	-
Net income	659	84	1,061	79
Preferred stock dividends and amortization of discount	(183)	(167)	(361)	(330)
Preferred stock principal forgiveness	-	-	-	4,404
Preferred stock dividend forgiveness	-	-	-	2,215
Net income (loss) available to common shareholders	\$ 476	\$ (83)	\$ 700	\$ 6,368
Earnings (loss) per share, basic	\$ 0.34	\$ (0.06)	\$ 0.50	\$ 7.00
Earnings (loss) per share, diluted	\$ 0.34	\$ (0.06)	\$ 0.50	\$ 6.92

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
Three and Six Months Ended June 30, 2016 and 2015
(Unaudited)
(in thousands)

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Net income	\$ 659	\$ 84	\$ 1,061	\$ 79
Other comprehensive income (loss)				
Unrealized holding gains (losses) arising during the period	86	(551)	880	106
Tax effect	29	(187)	299	37
Net change in unrealized holding gains (losses) on securities available for sale, net of tax	57	(364)	581	69
Reclassification adjustment				
Reclassification adjustment for gains realized in income	(38)	-	(147)	(7)
Tax effect	(13)	-	(50)	(2)
Reclassification for gains included in net income, net of tax	(25)	-	(97)	(5)
Minimum pension adjustment	3	3	6	6
Tax effect	1	1	2	2
Minimum pension adjustment, net of tax	2	2	4	4
Total other comprehensive income (loss)	34	(362)	488	69
Total comprehensive income (loss)	\$ 693	\$ (278)	\$ 1,549	\$ 148

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Shareholders' Equity
Six Months Ended June 30, 2016 and 2015
(Unaudited)
(in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Warrant	Stock in Directors Rabbi Trust	Directors Deferred Fees Obligation	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	\$ 23	\$ 5,562	\$ 58,497	\$(33,948)	\$ 732	\$(1,034)	\$ 1,034	\$ (507)	\$ 30,359
Preferred stock dividend	-	-	-	(361)	-	-	-	-	(361)
Issuance of common stock	-	41	(41)	-	-	-	-	-	-
Stock based compensation	-	-	167	-	-	-	-	-	167
Minimum pension adjustment (net of income taxes of \$2)	-	-	-	-	-	-	-	4	4
Net income	-	-	-	1,061	-	-	-	-	1,061
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	-	484	484
Balance, June 30, 2016	\$ 23	\$ 5,603	\$ 58,623	\$(33,248)	\$ 732	\$(1,034)	\$ 1,034	\$ (19)	\$ 31,714
Balance, December 31, 2014	\$ 59	\$ 1,339	\$ 58,188	\$(40,539)	\$ 732	\$(878)	\$ 878	\$ (721)	\$ 19,058
Preferred stock dividend	-	-	-	(330)	-	-	-	-	(330)
Restricted stock issuance	-	7	(85)	-	-	(156)	156	-	(78)
Issuance of common stock, net of offering expense of \$1,200	-	2,875	5,842	-	-	-	-	-	8,717
Preferred stock exchanged for common stock	(18)	1,332	(1,314)	-	-	-	-	-	-
Preferred stock principal forgiveness	(18)	-	(4,386)	4,404	-	-	-	-	-
	-	-	-	2,215	-	-	-	-	2,215

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Preferred stock dividend forgiveness									
Stock based compensation	-	-	172	-	-	-	-	-	172
Minimum pension adjustment (net of income taxes of \$2)	-	-	-	-	-	-	-	4	4
Net income	-	-	-	79	-	-	-	-	79
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	-	65	65
Balance, June 30, 2015	\$ 23	\$ 5,553	\$ 58,417	\$ (34,171)	\$ 732	\$ (1,034)	\$ 1,034	\$ (652)	\$ 29,902

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2016 and 2015
(Unaudited)
(in thousands)

	2016	2015
Cash Flows from Operating Activities		
Net income	\$1,061	\$79
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	412	445
Deferred income taxes	340	52
Valuation allowance (recovery) deferred income taxes	(340)	(52)
Write-down of other real estate owned	383	158
Valuation allowance other real estate owned	(294)	(293)
Write-down of assets held for sale	220	687
Gain on securities sold	(147)	(7)
Gain on loans sold	(2,587)	(2,957)
Gain on sale of assets held for sale	(504)	-
Loss on sale and disposal of premises and equipment	2	12
Gain on sale of other real estate owned	(55)	(451)
Stock compensation expense	167	172
Proceeds from sale of mortgage loans	87,942	101,559
Origination of mortgage loans for sale	(87,146)	(109,350)
Amortization of premiums and accretion of discounts on securities, net	88	142
Decrease (increase) in interest receivable	98	(669)
Increase in bank owned life insurance	(93)	(91)
Decrease (increase) in other assets	(997)	(822)
Increase (decrease) in interest payable	(1,266)	87
Increase (decrease) in other liabilities	(634)	134
Net cash (used in) provided by operating activities	(3,350)	(11,165)
Cash Flows from Investing Activities		
Purchases of available for sale securities	-	(6,748)
Proceeds from the sale or calls of available for sale securities	17,551	6,834
Proceeds from the sale of assets held for sale	7,338	-
Net increase in loans	(12,052)	(15,970)
Proceeds from sale of other real estate owned	2,819	4,606
Purchases of premises and equipment	(391)	(561)
Net cash (used in) provided by investing activities	15,265	(11,839)
Cash Flows from Financing Activities		
Net proceeds from sale of common stock, net of expenses of \$990	-	8,965
Net increase (decrease) in deposits	2,776	(8,449)

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Net decrease in Federal Home Loan Bank Advances	(2,800)	(7,000)
Net increase (decrease) in other borrowings	(192)	355
Net cash used in financing activities	(216)	(6,129)
Net increase (decrease) in cash and cash equivalents	11,699	(29,133)
Cash and cash equivalents, beginning of period	17,262	49,103
Cash and cash equivalents, end of period	\$28,961	\$19,970
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$2,552	\$1,395
Supplemental Schedule of Non Cash Activities		
Real estate owned assets acquired in settlement of loans	\$268	\$279
Assets moved to held for sale	\$-	\$831
Bank financed sale of asset held for sale	\$4,912	\$-
Dividends on preferred stock accrued	\$361	\$330
Non-Cash conversion of preferred shares	\$-	\$4,619
Forgiveness of principal and accrued dividends	\$-	\$6,619

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements

Three and Six Months Ended June 30, 2016 and 2015

(Unaudited)

Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the “Company”) is the holding company of Village Bank (the “Bank”). The consolidated financial statements include the accounts of the Company, the Bank and the Bank’s subsidiary. All material intercompany balances and transactions have been eliminated in consolidation.

On August 6, 2014, the Company filed Articles of Amendment to its Articles of Incorporation with the Virginia State Corporation Commission to effect a reverse stock split of its outstanding common stock which became effective on August 8, 2014. As a result of the reverse split, every sixteen shares of the Company’s issued and outstanding common stock were consolidated into one issued and outstanding share of common stock. The computations of basic and diluted earnings (loss) per share have been adjusted retroactively to reflect the reverse stock split.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the six month period ended June 30, 2016 is not necessarily indicative of the results to be expected for the full year ending December 31, 2016. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (“SEC”).

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of June 30, 2016 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

Note 2 - Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of operations for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses and its related provision, the valuation allowance on the deferred tax asset, and the estimate of the fair value of assets held for sale.

Note 3 - Earnings per common share

The following table presents the basic and diluted earnings (loss) per common share computation (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator				
Net income - basic and diluted	\$ 659	\$ 84	\$ 1,061	\$ 79
Preferred stock dividend and accretion	(183)	(167)	(361)	(330)
Preferred stock principal forgiveness	-	-	-	4,404
Preferred stock dividend forgiveness	-	-	-	2,215
Net income available to common shareholders	\$ 476	\$ (83)	\$ 700	\$ 6,368
Denominator				
Weighted average shares outstanding - basic	1,422	1,388	1,420	909
Dilutive effect of common stock options and restricted stock awards	-	-	-	11
Weighted average shares outstanding - diluted	1,422	1,388	1,420	920
Earnings(loss) per share - basic	\$ 0.34	\$ (0.06)	\$ 0.50	\$ 7.00
Earnings(loss) per share - diluted	\$ 0.34	\$ (0.06)	\$ 0.50	\$ 6.92

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings (loss) per share for the periods presented. Stock options for 2,616 were not included in computing diluted earnings per share for the three and six months ended June 30, 2016 and stock options for 4,505 and 6,519 shares were not included in computing diluted earnings per share for the three and six months ended and 2015, respectively, because their effects were anti-dilutive.

Note 4 – Investment securities available for sale

At June 30, 2016 and December 31, 2015, all of our securities were classified as available for sale. The following table presents the composition of our investment portfolio at the dates indicated (dollars in thousands):

	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Yield	
June 30, 2016							
US Government Agencies							
One to five years	\$13,000	\$13,243	\$ 62	\$ (2)	\$13,303	0.99	%
Five to ten years	2,000	2,075	20	-	2,095	1.63	%
More than ten years	3,130	3,136	-	(19)	3,117	1.10	%
	18,130	18,454	82	(21)	18,515	1.20	%
Mortgage-backed securities							
One to five years	1,596	1,635	7	(3)	1,639	1.25	%
More than ten years	959	1,003	2	-	1,005	1.27	%
	2,555	2,638	9	(3)	2,644	1.28	%
Total investment securities	\$20,685	\$21,092	\$ 91	\$ (24)	\$21,159	1.21	%
December 31, 2015							
US Government Agencies							
One to five years	\$11,000	\$11,270	\$ -	\$ (157)	\$11,113	0.91	%
Five to ten years	18,500	19,697	-	(403)	19,294	2.32	%
More than ten years	3,312	3,319	-	(13)	3,306	0.85	%
	32,812	34,286	-	(573)	33,713	1.51	%
Mortgage-backed securities							
One to five years	1,794	1,841	-	(28)	1,813	1.30	%
More than ten years	1,149	1,202	1	(15)	1,188	1.34	%
	2,943	3,043	1	(43)	3,001	1.35	%
Municipals							
More than ten years	1,130	1,255	-	(50)	1,205	3.72	%
	1,130	1,255	-	(50)	1,205	3.72	%
Total investment securities	\$36,885	\$38,584	\$ 1	\$ (666)	\$37,919	1.57	%

Investment securities with book values of approximately \$5,167,000 and \$5,968,000 at June 30, 2016 and December 31, 2015, respectively, were pledged to secure deposit repurchase agreements and FHLB advances.

Gross realized gains and losses pertaining to available for sale securities are detailed as follows for the periods indicated (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Gross realized gains	\$ 38	\$ -	\$ 147	\$ 13
Gross realized losses	-	-	-	(6)
	\$ 38	\$ -	\$ 147	\$ 7

The Company sold approximately \$6 million and \$17 million of investment securities for the three and six months ended June 30, 2016 resulting in a net gain of \$38,000 and \$147,000, respectively. The Company sold approximately \$7 million of investment securities available for sale at a net gain of \$7,000 for the six months ended June 30, 2015, no investment securities were sold during the three months ended June 30, 2015. The sale of these securities, which had fixed interest rates, allowed the Company to decrease its exposure to the anticipated upward movement in interest rates that would result in unrealized losses being recognized in shareholders' equity.

Investment securities available for sale that have an unrealized loss position at June 30, 2016 and December 31, 2015 are detailed below (dollars in thousands):

	Securities in a loss position for less than 12 Months		Securities in a loss position for more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2016						
US Government Agencies	\$ 1,889	\$ (8)	\$ 3,229	\$ (13)	\$ 5,118	\$ (21)
Mortgage-backed securities	-	-	812	(3)	812	(3)
	\$ 1,889	\$ (8)	\$ 4,041	\$ (16)	\$ 5,930	\$ (24)
December 31, 2015						
US Government Agencies	\$ 18,598	\$ (329)	\$ 15,115	\$ (244)	\$ 33,713	\$ (573)
Municipals	707	(14)	497	(36)	1,204	(50)
Mortgage-backed securities	2,899	(43)	-	-	2,899	(43)
	\$ 22,204	\$ (386)	\$ 15,612	\$ (280)	\$ 37,816	\$ (666)

All of the unrealized losses are attributable to increases in interest rates and not to credit deterioration. Currently, the Company believes that it is probable that the Company will be able to collect all amounts due according to the contractual terms of the investments. Because the decline in market value is attributable to changes in interest rates and not to credit quality, and because it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at June 30, 2016.

Note 5 – Loans and allowance for loan losses

The following table presents the composition of our loan portfolio (excluding mortgage loans held for sale) at the dates indicated (dollars in thousands):

	June 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Construction and land development				
Residential	\$5,109	1.58 %	\$5,202	1.70 %
Commercial	24,873	7.70 %	25,948	8.45 %
	29,982	9.28 %	31,150	10.15 %
Commercial real estate				
Owner occupied	78,753	24.36 %	69,256	22.58 %
Non-owner occupied	46,013	14.24 %	38,037	12.40 %
Multifamily	8,993	2.78 %	8,537	2.78 %
Farmland	250	0.08 %	388	0.13 %
	134,009	41.46 %	116,218	37.89 %
Consumer real estate				
Home equity lines	20,694	6.40 %	20,333	6.63 %
Secured by 1-4 family residential, First deed of trust	55,289	17.11 %	56,776	18.51 %
Second deed of trust	5,914	1.83 %	6,485	2.11 %
	81,897	25.34 %	83,594	27.25 %
Commercial and industrial loans (except those secured by real estate)	28,859	8.93 %	20,086	6.55 %
Guaranteed student loans	46,781	14.47 %	53,989	17.60 %
Consumer and other	1,691	0.52 %	1,734	0.57 %
Total loans	323,219	100.0 %	306,771	100.0 %
Deferred loan cost, net	602		670	
Less: allowance for loan losses	(3,523)		(3,562)	
	\$320,298		\$303,879	

The Bank purchased portfolios of rehabilitated student loans guaranteed by the Department of Education (“DOE”). The guarantee covers approximately 98% of principal and accrued interest. The loans are serviced by a third-party servicer that specializes in handling the special needs of the DOE student loan programs.

Loans pledged as collateral with the Federal Home Loan Bank of Atlanta (“FHLB”) as part of their lending arrangement with the Company totaled \$7,713,000 and \$7,891,000 at June 30, 2016 and December 31, 2015, respectively.

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. These assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;

- Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;
- Risk rated 6 loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any;
- Risk rated 7 loans have all the weaknesses inherent in substandard loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable; and

Loans rated 6 or 7 are considered “Classified” loans for regulatory classification purposes.

The following tables provide information on the risk rating of loans at the dates indicated (dollars in thousands):

	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
June 30, 2016					
Construction and land development					
Residential	\$ 5,109	\$ -	\$ -	\$ -	\$ 5,109
Commercial	22,634	856	1,383	-	24,873
	27,743	856	1,383	-	29,982
Commercial real estate					
Owner occupied	73,872	2,402	2,479	-	78,753
Non-owner occupied	44,801	1,121	91	-	46,013
Multifamily	8,798	195	-	-	8,993
Farmland	250	-	-	-	250
	127,721	3,718	2,570	-	134,009
Consumer real estate					
Home equity lines	19,185	236	1,273	-	20,694
Secured by 1-4 family residential					
First deed of trust	49,574	2,947	2,768	-	55,289
Second deed of trust	5,506	126	282	-	5,914
	74,265	3,309	4,323	-	81,897
Commercial and industrial loans (except those secured by real estate)					
	27,910	436	513	-	28,859
Guaranteed student loans	46,781	-	-	-	46,781
Consumer and other	1,626	58	7	-	1,691
Total loans	\$ 306,046	\$ 8,377	\$ 8,796	\$ -	\$ 323,219
December 31, 2015					
Construction and land development					
Residential	\$ 5,202	\$ -	\$ -	\$ -	\$ 5,202
Commercial	24,053	572	1,323	-	25,948
	29,255	572	1,323	-	31,150
Commercial real estate					
Owner occupied	64,261	2,850	2,145	-	69,256
Non-owner occupied	35,887	2,055	95	-	38,037
Multifamily	8,337	200	-	-	8,537
Farmland	388	-	-	-	388
	108,873	5,105	2,240	-	116,218
Consumer real estate					
Home equity lines	18,539	435	1,359	-	20,333

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Secured by 1-4 family residential					
First deed of trust	51,200	2,710	2,866	-	56,776
Second deed of trust	5,751	128	606	-	6,485
	75,490	3,273	4,831	-	83,594
Commercial and industrial loans (except those secured by real estate)	18,873	373	840	-	20,086
Guaranteed student loans	53,989	-	-	-	53,989
Consumer and other	1,649	62	23	-	1,734
Total loans	\$ 288,129	\$ 9,385	\$ 9,257	\$ -	\$ 306,771

The following table presents the aging of the recorded investment in past due loans and leases as of the dates indicated (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Investment > 90 Days and Accruing
June 30, 2016							
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$5,109	\$5,109	\$ -
Commercial	192	-	-	192	24,681	24,873	-
	192	-	-	192	29,790	29,982	-
Commercial real estate							
Owner occupied	-	-	-	-	78,753	78,753	-
Non-owner occupied	107	-	-	107	45,906	46,013	-
Multifamily	-	-	-	-	8,993	8,993	-
Farmland	-	-	-	-	250	250	-
	107	-	-	107	133,902	134,009	-
Consumer real estate							
Home equity lines	24	-	-	24	20,670	20,694	-
Secured by 1-4 family residential							
First deed of trust	96	-	-	96	55,193	55,289	-
Second deed of trust	-	-	-	-	5,914	5,914	-
	120	-	-	120	81,777	81,897	-
Commercial and industrial loans (except those secured by real estate)	-	-	-	-	28,859	28,859	-
Guaranteed student loans	2,185	1,661	8,412	12,258	34,523	46,781	8,412
Consumer and other	8	-	-	8	1,683	1,691	-
Total loans	\$ 2,612	\$ 1,661	\$ 8,412	\$ 12,685	\$310,534	\$323,219	\$ 8,412

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
December 31, 2015							
Construction and land development							

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Residential	\$ -	\$ -	\$ -	\$ -	\$5,202	\$5,202	\$ -
Commercial	-	-	-	-	25,948	25,948	-
	-	-	-	-	31,150	31,150	-
Commercial real estate							
Owner occupied	327	-	-	327	68,929	69,256	-
Non-owner occupied	-	110	-	110	37,927	38,037	-
Multifamily	-	-	-	-	8,537	8,537	-
Farmland	-	-	-	-	388	388	-
	327	110	-	437	115,781	116,218	-
Consumer real estate							
Home equity lines	-	-	-	-	20,333	20,333	-
Secured by 1-4 family residential							
First deed of trust	163	292	-	455	56,321	56,776	-
Second deed of trust	94	-	-	94	6,391	6,485	-
	257	292	-	549	83,045	83,594	-
Commercial and industrial loans (except those secured by real estate)	-	-	-	-	20,086	20,086	-
Guaranteed student loans	7,816	1,252	8,590	17,658	36,331	53,989	8,590
Consumer and other	10	-	-	10	1,724	1,734	-
Total loans	\$ 8,410	\$ 1,654	\$ 8,590	\$ 18,654	\$ 288,117	\$ 306,771	\$ 8,590

Loans greater than 90 days past due are student loans that are guaranteed by the DOE which covers approximately 98% of the principal and interest. Accordingly, these loans will not be placed on nonaccrual status and are included in the 90 Days and Accruing column.

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Impaired loans are set forth in the following table as of the dates indicated (dollars in thousands):

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

	June 30, 2016		
	Recorded	Unpaid Principal	Related
	Investment	Balance	Allowance
With no related allowance recorded			
Construction and land development			
Commercial	\$ 126	\$ 193	\$ -
Commercial real estate			
Owner occupied	1,422	1,431	-
Non-owner occupied	2,596	2,596	-
	4,018	4,027	-
Consumer real estate			
Home equity lines	1,178	1,202	-
Secured by 1-4 family residential			
First deed of trust	4,403	4,434	-
Second deed of trust	633	903	-
	6,214	6,539	-
Commercial and industrial loans (except those secured by real estate)	365	595	-
	10,723	11,354	-
With an allowance recorded			
Construction and land development			
Commercial	1,746	1,746	25
Commercial real estate			
Owner occupied	4,447	4,462	142
Non-Owner occupied	91	91	1
	4,538	4,553	143
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	1,697	1,697	190
Second deed of trust	245	245	95
	1,942	1,942	285
Commercial and industrial loans (except those secured by real estate)	143	245	12
	8,369	8,486	465
Total			
Construction and land development			
Commercial	1,872	1,939	25
	1,872	1,939	25
Commercial real estate			
Owner occupied	5,869	5,893	142
Non-owner occupied	2,687	2,687	1
	8,556	8,580	143
Consumer real estate			
Home equity lines	1,178	1,202	-
Secured by 1-4 family residential,			
First deed of trust	6,100	6,131	190

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Second deed of trust	878	1,148	95
	8,156	8,481	285
Commercial and industrial loans (except those secured by real estate)	508	840	12
	\$19,092	\$19,840	\$ 465

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

	December 31, 2015		
	Recorded	Unpaid Principal	Related
	Investment	Balance	Allowance
With no related allowance recorded			
Construction and land development			
Commercial	\$ 123	\$ 190	\$ -
Commercial real estate			
Owner occupied	1,066	1,066	-
Non-owner occupied	2,418	2,418	-
	3,484	3,484	-
Consumer real estate			
Home equity lines	1,238	1,247	-
Secured by 1-4 family residential			
First deed of trust	3,984	3,988	-
Second deed of trust	962	1,232	-
	6,184	6,467	-
Commercial and industrial loans (except those secured by real estate)	690	920	-
	10,481	11,061	-
With an allowance recorded			
Construction and land development			
Commercial	1,699	1,699	2
Commercial real estate			
Owner occupied	5,719	5,734	383
Non-Owner occupied	449	449	26
	6,168	6,183	409
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	1,775	1,775	324
Second deed of trust	250	250	98
	2,025	2,025	422
Commercial and industrial loans (except those secured by real estate)	136	238	18
	10,028	10,145	851
Total			
Construction and land development			
Commercial	1,822	1,889	2
	1,822	1,889	2
Commercial real estate			
Owner occupied	6,785	6,800	383
Non-owner occupied	2,867	2,867	26
	9,652	9,667	409
Consumer real estate			
Home equity lines	1,238	1,247	-
Secured by 1-4 family residential,			
First deed of trust	5,759	5,763	324

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Second deed of trust	1,212	1,482	98
	8,209	8,492	422
Commercial and industrial loans (except those secured by real estate)	826	1,158	18
	\$20,509	\$21,206	\$ 851

The following is a summary of average recorded investment in impaired loans with and without a valuation allowance and interest income recognized on those loans for the periods indicated (dollars in thousands):

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Residential	\$ -	\$ -	\$ -	\$ -
Commercial	443	29	271	40
	443	29	271	40
Commercial real estate				
Owner occupied	1,049	15	932	29
Non-owner occupied	2,434	30	2,533	64
Multifamily	-	-	-	-
Farmland	-	-	-	-
	3,483	45	3,465	93
Consumer real estate				
Home equity lines	1,287	1	1,287	1
Secured by 1-4 family residential				
First deed of trust	4,339	45	4,215	92
Second deed of trust	954	11	1,005	23
	6,580	57	6,508	116
Commercial and industrial loans (except those secured by real estate)	453	7	625	14
Consumer and other		-	7	-
	10,959	138	10,876	263
With an allowance recorded				
Construction and land development				
Commercial	1,428	6	1,586	12
Commercial real estate				
Owner occupied	5,308	53	5,454	110
Non-Owner occupied	272	4	183	9
	5,580	57	5,637	119
Consumer real estate				
Home equity line	-	-	-	-
Secured by 1-4 family residential				
First deed of trust	1,681	3	1,861	9
Second deed of trust	235	2	192	4
	1,916	5	2,053	13
Commercial and industrial loans (except those secured by real estate)	130	-	134	-

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

	9,054	68	9,410	144
Total				
Construction and land development				
Residential	-	-	-	-
Commercial	1,871	35	1,856	52
	1,871	35	1,856	52
Commercial real estate				
Owner occupied	6,357	68	6,386	139
Non-owner occupied	2,706	34	2,716	73
Multifamily	-	-	-	-
Farmland	-	-	-	-
	9,063	102	9,102	212
Consumer real estate				
Home equity lines	1,287	1	1,287	1
Secured by 1-4 family residential,				
First deed of trust	6,020	48	6,077	101
Second deed of trust	1,189	13	1,197	27
	8,496	62	8,561	129
Commercial and industrial loans (except those secured by real estate)	583	7	759	14
Consumer and other	-	-	7	-
	\$ 20,013	\$ 206	\$ 20,285	\$ 407

Included in impaired loans are loans classified as troubled debt restructurings (“TDRs”). A modification of a loan’s terms constitutes a TDR if the creditor grants a concession to the borrower for economic or legal reasons related to the borrower’s financial difficulties that it would not otherwise consider. For loans classified as impaired TDRs, the Company further evaluates the loans as performing or nonaccrual. To restore a nonaccrual loan that has been formally restructured in a TDR to accrual status, we perform a current, well documented credit analysis supporting a return to accrual status based on the borrower’s financial condition and prospects for repayment under the revised terms. Otherwise, the TDR must remain in nonaccrual status. The analysis considers the borrower’s sustained historical repayment performance for a reasonable period to the return-to-accrual date, but may take into account payments made for a reasonable period prior to the restructuring if the payments are consistent with the modified terms. A sustained period of repayment performance generally would be a minimum of six months and would involve payments in the form of cash or cash equivalents.

The following is a summary of performing and nonaccrual TDRs and the related specific valuation allowance by portfolio segment for the periods indicated (dollars in thousands).

	Total	Performing	Nonaccrual	Specific Valuation Allowance
June 30, 2016				
Construction and land development				
Commercial	\$1,677	\$ 1,677	\$ -	\$ 15
	1,677	1,677	-	15
Commercial real estate				
Owner occupied	5,644	5,394	250	142
Non-owner occupied	2,687	2,687	-	1
	8,331	8,081	250	143
Consumer real estate				
Secured by 1-4 family residential				
First deeds of trust	4,290	3,346	944	159
Second deeds of trust	680	680	-	-
	4,970	4,026	944	159
Commercial and industrial loans (except those secured by real estate)	118	-	118	6
	\$15,096	\$ 13,784	\$ 1,312	\$ 323

	Total	Performing	Nonaccrual	Specific Valuation Allowance
December 31, 2015				
Construction and land development				
Commercial	\$1,699	\$ 1,699	\$ -	\$ 2
	1,699	1,699	-	2
Commercial real estate				
Owner occupied	5,730	5,458	272	184
Non-owner occupied	2,866	2,866	-	26
	8,596	8,324	272	210
Consumer real estate				
Home equity lines	87	-	87	-
Secured by 1-4 family residential				
First deeds of trust	4,283	3,544	739	236
Second deeds of trust	693	693	-	1
	5,063	4,237	825	237
Commercial and industrial loans (except those secured by real estate)	127	-	127	18
	\$15,485	\$ 14,260	\$ 1,225	\$ 467

There were no TDRs identified during the six months ended June 30, 2016 and June 30, 2015.

The following table summarizes defaults on TDRs identified for the indicated periods (dollars in thousands):

	June 30, 2016		June 30, 2015	
	Number of	Recorded	Number of	Recorded
	Loans	Balance	Loans	Balance
Construction and land development				
Commercial	-	\$ -	3	\$ 91
	-	-	3	91
Commercial real estate				
Owner occupied	1	250	1	158
Non-owner occupied	1	560	-	-
	2	810	1	158
Consumer real estate				
Secured by 1-4 family residential				
First deed of trust	3	500	12	835
Second deed of trust	2	88	2	98

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

	5	588	14	933
Commercial and industrial (except those secured by real estate)	1	118	1	133
	8	\$ 1,516	19	\$ 1,315

Activity in the allowance for loan losses is as follows for the periods indicated (dollars in thousands):

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Three Months Ended June 30, 2016					
Construction and land development					
Residential	\$ 44	\$ (13)	\$ -	\$ -	\$ 31
Commercial	353	(94)	-	-	259
	397	(107)	-	-	290
Commercial real estate					
Owner occupied	985	(265)	(9)	-	711
Non-owner occupied	402	34	-	1	437
Multifamily	51	3	-	-	54
Farmland	4	(2)	-	-	2
	1,442	(230)	(9)	1	1,204
Consumer real estate					
Home equity lines	392	(81)	(53)	1	259
Secured by 1-4 family residential					
First deed of trust	546	(63)	-	7	490
Second deed of trust	97	53	(25)	8	133
	1,035	(91)	(78)	16	882
Commercial and industrial loans (except those secured by real estate)					
Guaranteed student loans	206	25	(40)	-	191
Consumer and other	-	7	-	1	8
Unallocated	436	286	-	-	722
	\$ 3,611	\$ -	\$ (127)	\$ 39	\$ 3,523

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Three Months Ended June 30, 2015					
Construction and land development					
Residential	\$ 35	57	\$ -	\$ -	\$ 92
Commercial	88	331	(71)	21	369
	123	388	(71)	21	461
Commercial real estate					
Owner occupied	1,836	(23)	(127)	-	1,686
Non-owner occupied	607	30	-	2	639
Multifamily	78	32	-	-	110
Farmland	130	(3)	-	-	127
	2,651	36	(127)	2	2,562
Consumer real estate					
Home equity lines	469	11	(40)	1	441
Secured by 1-4 family residential					
First deed of trust	1,703	(456)	(66)	11	1,192
Second deed of trust	284	17	(55)	4	250
	2,456	(428)	(161)	16	1,883
Commercial and industrial loans (except those secured by real estate)					
Guaranteed student loans	356	(20)	-	46	382
Consumer and other	217	37	(1)	-	253
	41	(13)	(3)	1	26
	\$ 5,844	\$ -	\$ (363)	\$ 86	\$ 5,567

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Six Months Ended June 30, 2016					
Construction and land development					
Residential	\$ 30	\$ -	\$ -	\$ 1	\$ 31
Commercial	291	(32)	-	-	259
	321	(32)	-	1	290
Commercial real estate					
Owner occupied	1,167	(447)	(9)	-	711
Non-owner occupied	460	(25)	-	2	437
Multifamily	51	3	-	-	54
Farmland	17	(140)	-	125	2
	1,695	(609)	(9)	127	1,204
Consumer real estate					

Edgar Filing: Village Bank & Trust Financial Corp. - Form 10-Q

Home equity lines	448	(138)	(53)	2	259
Secured by 1-4 family residential					
First deed of trust	602	(99)	(27)	14	490
Second deed of trust	111	34	(25)	13	133
	1,161	(203)	(105)	29	882
Commercial and industrial loans (except those secured by real estate)	94	88	-	44	226
Guaranteed student loans	230				