UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended: September 30, 2020

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________

Commission File Number: 001-38888

Red River Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Louisiana	**72-1412058**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1412 Centre Court Drive, Suite 501, Alexandria, Louisiana	**71301**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (318) 561-5028

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	**RRBI**	**The Nasdaq Stock Market, LLC**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	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 ☒

As of October 31, 2020, the registrant had 7,325,333 shares of common stock, no par value, issued and outstanding.

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GLOSSARY OF TERMS

Unless the context indicates otherwise, references in this filing to "we," "our," "us," "the Company," and "our company" refer to Red River Bancshares, Inc., a Louisiana corporation and bank holding company, and its consolidated subsidiaries. All references in this filing to "Red River Bank," the "bank," and the "Bank" refer to Red River Bank, our wholly owned bank subsidiary.

Other abbreviations or acronyms used in this filing are defined below.

ABBREVIATION OR ACRONYM	DEFINITION
AFS	Available-for-sale
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Basel III	Basel Committee's 2010 Regulatory Capital Framework (Third Accord)
BOLI	Bank-owned life insurance
bp(s)	Basis point(s)
CARES Act	Coronavirus Aid, Relief, and Economic Security Act, as amended
CBLR	Community Bank Leverage Ratio
CECL	Current Expected Credit Losses, related to *ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
COVID-19	Coronavirus Disease 2019
Economic Growth Act	Economic Growth, Regulatory Relief, and Consumer Protection Act
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank of Dallas
FTE	Fully taxable equivalent basis
GAAP	Generally Accepted Accounting Principles in the United States of America
HFI	Held for investment
HFS	Held for sale
HTM	Held-to-maturity
IPO	Initial public offering
MSA	Metropolitan statistical area
NOW	Negotiable order of withdrawal
NPA(s)	Nonperforming asset(s)
OTTI	Other-than-temporary impairment
PPP	Paycheck Protection Program
SBA	Small Business Administration
SBIC	Small Business Investment Company
Securities Act	Securities Act of 1933, as amended
SEC	Securities and Exchange Commission
TDR(s)	Troubled debt restructuring(s)

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, which reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would,” and “outlook,” or the negative version of those words, or such other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management’s beliefs, and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- business and economic conditions generally and in the financial services industry, nationally and within our local market areas;
- the impact of COVID-19 on our business, the communities where we have our banking centers, the state of Louisiana, and the United States, related to the economy and overall financial stability;
- government and regulatory responses to the COVID-19 pandemic;
- government intervention in the U.S. financial system, including the effects of recent and future legislative, tax, accounting, and regulatory actions and reforms, including the CARES Act and other changes in banking, securities, accounting, and tax laws and regulations, and their application by our regulators;
- changes in management personnel;
- increased competition in the financial services industry, particularly from regional and national institutions;
- volatility and direction of market interest rates;
- our ability to maintain important deposit customer relationships, our reputation, and to otherwise avoid liquidity risks;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our commercial borrowers, and the success of construction projects that we finance, including any loans acquired in acquisition transactions;
- changes in the value of collateral securing our loans;
- risks associated with system failures or failures to protect against cybersecurity threats, such as breaches of our network security;
- deterioration of our asset quality;
- the adequacy of our reserves, including our allowance for loan losses;
- operational risks associated with our business;
- natural disasters and adverse weather, acts of terrorism, pandemics, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control;
- our ability to prudently manage our growth and execute our strategy;
- compliance with the extensive regulatory framework that applies to us;
- uncertainty regarding the future of LIBOR and the impact of any replacement alternatives on our business;
- changes in the laws, rules, regulations, interpretations, or policies relating to financial institution, accounting, tax, trade, monetary, and fiscal matters; and
- other risks and uncertainties listed from time to time in our reports and documents filed with the SEC.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Quarterly Report on Form 10-Q. Additional information on these and other risk factors can be found in "Part II - Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q and in "Part I - Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RED RIVER BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	(Unaudited) September 30, 2020	(Audited) December 31, 2019
ASSETS		
Cash and due from banks	$ 31,422	$ 25,937
Interest-bearing deposits in other banks	239,466	107,355
Total Cash and Cash Equivalents	270,888	133,292
Securities available-for-sale	467,744	335,573
Equity securities	4,032	3,936
Nonmarketable equity securities	3,445	1,350
Loans held for sale	23,358	5,089
Loans held for investment	1,649,272	1,438,924
Allowance for loan losses	(16,192)	(13,937)
Premises and equipment, net	44,501	41,744
Accrued interest receivable	6,617	5,251
Bank-owned life insurance	22,270	21,845
Intangible assets	1,546	1,546
Right-of-use assets	4,255	4,553
Other assets	9,192	9,059
Total Assets	$ 2,490,928	$ 1,988,225
LIABILITIES		
Noninterest-bearing deposits	$ 923,286	$ 584,915
Interest-bearing deposits	1,270,654	1,136,205
Total Deposits	2,193,940	1,721,120
Accrued interest payable	1,805	2,222
Lease liabilities	4,327	4,603
Accrued expenses and other liabilities	12,778	8,382
Total Liabilities	2,212,850	1,736,327
COMMITMENTS AND CONTINGENCIES	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, no par value: Authorized - 1,000,000 shares; None Issued and Outstanding	—	—
Common stock, no par value: Authorized - 30,000,000 shares; Issued and Outstanding - 7,325,333 and 7,306,221 shares	68,055	68,082
Additional paid-in capital	1,487	1,269
Retained earnings	202,136	182,571
Accumulated other comprehensive income (loss)	6,400	(24)
Total Stockholders' Equity	278,078	251,898
Total Liabilities and Stockholders' Equity	$ 2,490,928	$ 1,988,225

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

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)	For the Three Months Ended September 30, 2020	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2020	For the Nine Months Ended September 30, 2019
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	$ 17,080	$ 16,578	$ 50,623	$ 48,026
Interest on securities	2,099	1,800	5,766	5,347
Interest on federal funds sold	30	178	179	603
Interest on deposits in other banks	27	213	265	935
Dividends on stock	13	12	19	30
Total Interest and Dividend Income	19,249	18,781	56,852	54,941
INTEREST EXPENSE				
Interest on deposits	1,954	2,514	6,497	7,260
Interest on other borrowed funds	—	—	16	—
Interest on junior subordinated debentures	—	73	—	385
Total Interest Expense	1,954	2,587	6,513	7,645
Net Interest Income	17,295	16,194	50,339	47,296
Provision for loan losses	1,590	378	3,618	1,432
Net Interest Income After Provision for Loan Losses	15,705	15,816	46,721	45,864
NONINTEREST INCOME				
Service charges on deposit accounts	1,055	1,195	3,001	3,304
Debit card income, net	978	833	2,629	2,314
Mortgage loan income	2,884	1,014	5,720	2,186
Brokerage income	586	561	1,725	1,552
Loan and deposit income	413	404	1,340	1,131
Bank-owned life insurance income	139	137	425	407
Gain (Loss) on equity securities	—	30	96	133
Gain (Loss) on sale of securities	125	5	1,348	5
SBIC income	200	139	568	634
Other income (loss)	40	68	122	115
Total Noninterest Income	6,420	4,386	16,974	11,781
OPERATING EXPENSES				
Personnel expenses	8,077	7,007	23,072	20,652
Occupancy and equipment expenses	1,319	1,199	3,739	3,708
Technology expenses	661	595	1,863	1,697
Advertising	240	216	717	821
Other business development expenses	233	266	782	827
Data processing expense	491	479	1,412	1,420
Other taxes	433	425	1,308	1,234
Loan and deposit expenses	289	285	808	901
Legal and professional expenses	487	436	1,587	1,138
Regulatory assessment expenses	172	37	337	312
Other operating expenses	849	940	2,445	2,737
Total Operating Expenses	13,251	11,885	38,070	35,447
Income Before Income Tax Expense	8,874	8,317	25,625	22,198
Income tax expense	1,589	1,470	4,741	4,117
Net Income	$ 7,285	$ 6,847	$ 20,884	$ 18,081
EARNINGS PER SHARE				
Basic	$ 0.99	$ 0.94	$ 2.85	$ 2.59
Diluted	$ 0.99	$ 0.93	$ 2.84	$ 2.57

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

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	$ 7,285	$ 6,847	$ 20,884	$ 18,081
Other comprehensive income (loss):				
Unrealized net gain (loss) on securities arising during period	353	721	9,479	9,852
Tax effect	(74)	(150)	(1,990)	(2,068)
(Gain) loss on sale of securities included in net income	(125)	(5)	(1,348)	(5)
Tax effect	26	1	283	1
Total change in other comprehensive income (loss)	180	567	6,424	7,780
Comprehensive Income	$ 7,465	$ 7,414	$ 27,308	$ 25,861

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

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share amounts)	Common Shares Issued	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of December 31, 2018	6,627,358	$ 41,094	$ 1,042	$ 159,073	$ (7,506)	$ 193,703
Net income	—	—	—	5,696	—	5,696
Stock incentive plan	—	—	49	—	—	49
Issuance of shares of common stock through exercise of stock options	7,200	80	—	—	—	80
Issuance of shares of common stock as board compensation	2,368	97	—	—	—	97
Cash dividend - $0.20 per share	—	—	—	(1,326)	—	(1,326)
Other comprehensive income (loss)	—	—	—	—	3,885	3,885
Balance as of March 31, 2019	6,636,926	$ 41,271	$ 1,091	$ 163,443	$ (3,621)	$ 202,184
Net income	—	—	—	5,538	—	5,538
Stock incentive plan	—	—	50	—	—	50
Issuance of shares of common stock through IPO	663,320	26,812	—	—	—	26,812
Board compensation adjustment	—	(1)	—	—	—	(1)
Other comprehensive income (loss)	—	—	—	—	3,328	3,328
Balance as of June 30, 2019	7,300,246	$ 68,082	$ 1,141	$ 168,981	$ (293)	$ 237,911
Net income	—	—	—	6,847	—	6,847
Stock incentive plan	—	—	64	—	—	64
Issuance of restricted shares of common stock through stock incentive plan, net	5,975	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	567	567
Balance as of September 30, 2019	7,306,221	$ 68,082	$ 1,205	$ 175,828	$ 274	$ 245,389

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

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED) (UNAUDITED)

(in thousands, except share amounts)	Common Shares Issued	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of December 31, 2019	7,306,221	$ 68,082	$ 1,269	$ 182,571	$ (24)	$ 251,898
Net income	—	—	—	6,745	—	6,745
Stock incentive plan	—	—	64	—	—	64
Issuance of shares of common stock through exercise of stock options	14,720	8	—	—	—	8
Issuance of shares of common stock as board compensation	1,591	87	—	—	—	87
Cash dividend - $0.06 per share	—	—	—	(439)	—	(439)
Other comprehensive income (loss)	—	—	—	—	5,812	5,812
Balance as of March 31, 2020	7,322,532	$ 68,177	$ 1,333	$ 188,877	$ 5,788	$ 264,175
Net income	—	—	—	6,854	—	6,854
Stock incentive plan	—	—	96	—	—	96
Cash dividend - $0.06 per share	—	—	—	(440)	—	(440)
Other comprehensive income (loss)	—	—	—	—	432	432
Balance as of June 30, 2020	7,322,532	$ 68,177	$ 1,429	$ 195,291	$ 6,220	$ 271,117
Net income	—	—	—	7,285	—	7,285
Stock incentive plan	—	—	58	—	—	58
Cash dividend - $0.06 per share	—	—	—	(440)	—	(440)
Issuance of restricted shares of common stock through stock incentive plan, net	5,625	—	—	—	—	—
Purchase of common stock under stock repurchase program	(2,824)	(122)	—	—	—	(122)
Other comprehensive income (loss)	—	—	—	—	180	180
Balance as of September 30, 2020	7,325,333	$ 68,055	$ 1,487	$ 202,136	$ 6,400	$ 278,078

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

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	For the Nine Months Ended September 30, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 20,884	$ 18,081
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,362	1,279
Amortization	404	468
Share-based compensation earned	218	163
Share-based board compensation earned	47	66
(Gain) Loss on other assets owned	5	(16)
Net (accretion) amortization on securities AFS	2,130	963
Gain on sale of securities AFS	(1,348)	(5)
Provision for loan losses	3,618	1,432
Deferred income tax (benefit) expense	(127)	(308)
Net (increase) decrease in loans HFS	(18,269)	(1,209)
Net (increase) decrease in accrued interest receivable	(1,366)	85
Net (increase) decrease in BOLI	(425)	(406)
Net increase (decrease) in accrued interest payable	(417)	168
Net increase (decrease) in accrued income taxes payable	462	(252)
Other operating activities, net	1,465	477
Net cash provided by (used in) operating activities	8,643	20,986
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities AFS:		
Sales	93,376	34,957
Maturities, prepayments, and calls	75,305	49,267
Purchases	(293,503)	(109,356)
Purchase of nonmarketable equity securities	(2,095)	(48)
Net (increase) decrease in loans HFI	(211,734)	(86,383)
Proceeds from sales of foreclosed assets	330	902
Purchases of premises and equipment	(4,113)	(1,402)
Net cash provided by (used in) investing activities	(342,434)	(112,063)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	472,820	31,268
Proceeds from other borrowed funds	50,000	—
Repayments of other borrowed funds	(50,000)	—
Redemption of junior subordinated debentures	—	(11,341)
Repurchase of common stock	(122)	—
Proceeds from exercise of stock options	8	80
Proceeds from initial public offering, net	—	26,812
Cash dividends	(1,319)	(1,326)
Net cash provided by (used in) financing activities	471,387	45,493
Net change in cash and cash equivalents	137,596	(45,584)
Cash and cash equivalents - beginning of period	133,292	151,906
Cash and cash equivalents - end of period	$ 270,888	$ 106,322

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

RED RIVER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) (UNAUDITED)

(in thousands)	For the Nine Months Ended September 30,	
	2020	**2019**
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	$ 6,930	$ 7,477
Income taxes	$ 4,387	$ 4,649
Initial measurement and recognition of operating lease assets in exchange for lease liabilities	$ —	$ 4,954
SUPPLEMENTAL INFORMATION FOR NON-CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired in settlement of loans	$ 23	$ 1,609

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

RED RIVER BANCSHARES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company were prepared in accordance with GAAP for interim financial information, general practices within the financial services industry, and with instructions for Form 10-Q and Regulation S-X. Accordingly, these interim financial statements do not include all of the information or footnotes required by GAAP for annual financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results which may be expected for the entire fiscal year. These statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2019, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Certain prior period amounts have been reclassified to conform to the current period presentation. These changes in presentation did not have a material impact on the Company's financial condition or results of operations.

Critical Accounting Policies and Estimates

There were no material changes or developments during the reporting period with respect to methodologies the Company uses when applying critical accounting policies and developing critical accounting estimates as disclosed in Note 1 of the notes to the audited consolidated financial statements for the year ended December 31, 2019, that were included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the Company's financial condition, results of operations, comprehensive income, changes in stockholders' equity, and cash flows for the interim period presented. These adjustments are of a normal recurring nature and include appropriate estimated provisions.

Accounting Standards Adopted in 2020

ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds, and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. This standard was effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. *ASU 2018-13* was adopted as of January 1, 2020, and did not have a material impact on the Company's financial statements.

ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment based on that difference. The impairment will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates the requirement to calculate a goodwill impairment using Step 2, which requires an entity to calculate any impairment by comparing the implied fair value of goodwill with its carrying amount. This standard was effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. *ASU 2017-04* was adopted as of January 1, 2020, and did not have a material impact on the Company's financial statements.

Recent Accounting Pronouncements

ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The guidance issued in this update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in *ASC 740* related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition for deferred tax liabilities for outside basis differences. *ASU 2019-12* also simplifies aspects of the accounting for franchise taxes and enacted tax changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. *ASU 2019-12* is effective for annual periods beginning after December 15, 2020, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 sets forth the CECL model requiring the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. *ASU 2016-13* requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses. In addition, the update amends the accounting for credit losses on AFS securities. As an SEC registrant with smaller reporting company filing status as determined on June 30, 2019, CECL is effective for the Company beginning January 1, 2023. The Company continues to evaluate the impact of this ASU on the consolidated financial statements and disclosures. In that regard, the Company has formed a cross-functional working group and is currently working through an implementation plan. The implementation plan includes an assessment of data, model development and documentation, documentation of processes, and implementation of a third-party vendor solution to assist in the adoption of *ASU 2016-13*.

2. Securities

Securities held for indefinite periods of time are classified as AFS and carried at estimated fair value. The Company did not have any HTM securities as of September 30, 2020. Investment activity for the nine months ended September 30, 2020, included $293.5 million of securities purchased, partially offset by $93.4 million in sales and $75.3 million in maturities, prepayments, and calls. The net unrealized gain of the securities AFS portfolio increased $8.1 million for the nine months ended September 30, 2020. The amortized cost and estimated fair values of securities AFS are summarized in the following tables:

	September 30, 2020			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities AFS:				
Mortgage-backed securities	$ 278,786	$ 3,995	$ (268)	$ 282,513
Municipal bonds	169,954	4,252	(82)	174,124
U.S. agency securities	10,903	210	(6)	11,107
Total Securities AFS	$ 459,643	$ 8,457	$ (356)	$ 467,744

	December 31, 2019			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities AFS:				
Mortgage-backed securities	$ 236,572	$ 299	$ (1,200)	$ 235,671
Municipal bonds	91,929	1,108	(279)	92,758
U.S. agency securities	7,102	46	(4)	7,144
Total Securities AFS	$ 335,603	$ 1,453	$ (1,483)	$ 335,573

The amortized costs and estimated fair value of debt securities as of September 30, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers have the right to call or repay obligations with or without call or prepayment penalties.

(in thousands)	**Amortized Cost**	**Fair Value**
Within one year	$ 6,254	$ 6,281
After one year but within five years	41,179	42,008
After five years but within ten years	51,448	53,043
After ten years	360,762	366,412
Total	$ 459,643	$ 467,744

Information pertaining to securities with gross unrealized losses as of September 30, 2020 and December 31, 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is described as follows:

	Less than twelve months		Twelve months or more	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2020				
Securities AFS:				
Mortgage-backed securities	$ (268)	$ 64,059	$ —	$ —
Municipal bonds	(82)	12,644	—	—
U.S. agency securities	(6)	994	—	—
Total Securities AFS	$ (356)	$ 77,697	$ —	$ —
December 31, 2019				
Securities AFS:				
Mortgage-backed securities	$ (474)	$ 109,416	$ (726)	$ 70,425
Municipal bonds	(172)	18,735	(107)	9,323
U.S. agency securities	(4)	1,020	—	—
Total Securities AFS	$ (650)	$ 129,171	$ (833)	$ 79,748

As of September 30, 2020, the number of investment securities in an unrealized loss position totaled 34. The aggregate unrealized loss of these securities as of September 30, 2020, was 0.08% of the amortized cost basis of the total securities AFS portfolio. Management and the Asset-Liability Committee continually monitor the securities portfolio and are able to effectively measure and monitor the unrealized loss positions on these securities. Management does not intend to sell these securities prior to recovery, and it is more likely than not that the Company will have the ability to hold them, primarily due to adequate liquidity, until each security has recovered its cost basis. The unrealized losses on these securities have been determined by management to be a function of the movement of interest rates since the time of purchase. Based on the review of available information, including recent changes in interest rates and credit rating information, management believes the declines in fair value of these securities are temporary. The Company does not consider these securities to have OTTI.

Management evaluates securities for OTTI on at least a quarterly basis, and more frequently if economic or market concerns merit such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) whether the Company intends to, and it is more likely than not that it will be able to, retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Additionally, the Company annually performs a detailed credit review of the municipal securities owned to identify any potential credit concerns. There were no OTTI losses on debt securities related to credit losses recognized during the nine months ended September 30, 2020, or the year ended December 31, 2019.

The proceeds from sales of securities AFS and their gross gain (loss) for the three and nine months ended September 30, 2020 and 2019, are shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2020	2019	2020	2019
Proceeds [1]	$ 6,451	$ 34,957	$ 93,376	$ 34,957
Gross gain	$ 125	$ 185	$ 1,441	$ 185
Gross loss	$ —	$ (180)	$ (93)	$ (180)

[1] The proceeds include the gross gain and loss.

Pledged Securities

Securities with carrying values of approximately $92.3 million and $89.8 million were pledged to secure public entity deposits as of September 30, 2020 and December 31, 2019, respectively.

3. Loans and Asset Quality

Loans

Loans HFI by category and loans HFS are summarized below:

(in thousands)	September 30, 2020	December 31, 2019
Real estate:		
Commercial real estate	$ 567,037	$ 531,990
One-to-four family residential	426,758	420,020
Construction and development	129,879	132,461
Commercial and industrial	249,313	267,940
SBA PPP, net of deferred income	193,532	—
Tax-exempt	59,418	56,494
Consumer	23,335	30,019
Total loans HFI	$ 1,649,272	$ 1,438,924
Total loans HFS	$ 23,358	$ 5,089

Allowance for Loan Losses

The following table summarizes the activity in the allowance for loan losses by category for the nine months ended September 30, 2020:

(in thousands)	Beginning Balance December 31, 2019	Provision for Loan Losses	Loans Charged-off	Recoveries	Ending Balance September 30, 2020
Real estate:					
Commercial real estate	$ 3,454	$ 1,135	$ —	$ —	$ 4,589
One-to-four family residential	3,323	705	—	8	4,036
Construction and development	1,211	188	(14)	1	1,386
Commercial and industrial	5,175	896	(1,316)	83	4,838
SBA PPP, net of deferred income	—	480	—	—	480
Tax-exempt	334	114	—	—	448
Consumer	440	100	(254)	129	415
Total allowance for loan losses	$ 13,937	$ 3,618	$ (1,584)	$ 221	$ 16,192

The following table summarizes the activity in the allowance for loan losses by category for the twelve months ended December 31, 2019:

(in thousands)	Beginning Balance December 31, 2018	Provision for Loan Losses	Loans Charged-off	Recoveries	Ending Balance December 31, 2019
Real estate:					
Commercial real estate	$ 3,081	$ 373	$ —	$ —	$ 3,454
One-to-four family residential	3,146	216	(44)	5	3,323
Construction and development	951	172	—	88	1,211
Commercial and industrial	4,604	850	(864)	585	5,175
SBA PPP, net of deferred income	—	—	—	—	—
Tax-exempt	372	(38)	—	—	334
Consumer	370	237	(311)	144	440
Total allowance for loan losses	$ 12,524	$ 1,810	$ (1,219)	$ 822	$ 13,937

The balance in the allowance for loan losses and the related recorded investment in loans by category as of September 30, 2020, are as follows:

(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Allowance for loan losses:				
Real estate:				
Commercial real estate	$ 279	$ 4,310	$ —	$ 4,589
One-to-four family residential	41	3,995	—	4,036
Construction and development	—	1,386	—	1,386
Commercial and industrial	2,432	2,406	—	4,838
SBA PPP, net of deferred income	—	480	—	480
Tax-exempt	—	448	—	448
Consumer	112	303	—	415
Total allowance for loan losses	$ 2,864	$ 13,328	$ —	$ 16,192
Loans:				
Real estate:				
Commercial real estate	$ 3,639	$ 563,398	$ —	$ 567,037
One-to-four family residential	1,333	425,425	—	426,758
Construction and development	—	129,879	—	129,879
Commercial and industrial	10,034	239,279	—	249,313
SBA PPP, net of deferred income	—	193,532	—	193,532
Tax-exempt	—	59,418	—	59,418
Consumer	114	23,221	—	23,335
Total loans HFI	$ 15,120	$ 1,634,152	$ —	$ 1,649,272

The balance in the allowance for loan losses and the related recorded investment in loans by category as of December 31, 2019, are as follows:

(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Allowance for loan losses:				
Real estate:				
Commercial real estate	$ 260	$ 3,194	$ —	$ 3,454
One-to-four family residential	31	3,292	—	3,323
Construction and development	10	1,201	—	1,211
Commercial and industrial	2,916	2,259	—	5,175
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	334	—	334
Consumer	71	369	—	440
Total allowance for loan losses	$ 3,288	$ 10,649	$ —	$ 13,937
Loans:				
Real estate:				
Commercial real estate	$ 2,639	$ 529,351	$ —	$ 531,990
One-to-four family residential	1,193	418,827	—	420,020
Construction and development	38	132,423	—	132,461
Commercial and industrial	8,797	259,143	—	267,940
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	56,494	—	56,494
Consumer	75	29,944	—	30,019
Total loans HFI	$ 12,742	$ 1,426,182	$ —	$ 1,438,924

Past Due and Nonaccrual Loans

A summary of current, past due, and nonaccrual loans as of September 30, 2020, is as follows:

	Accruing				
(in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Real estate:					
Commercial real estate	$ 564,989	$ 191	$ —	$ 1,857	$ 567,037
One-to-four family residential	425,959	70	—	729	426,758
Construction and development	129,879	—	—	—	129,879
Commercial and industrial	247,463	56	80	1,714	249,313
SBA PPP, net of deferred income	193,532	—	—	—	193,532
Tax-exempt	59,418	—	—	—	59,418
Consumer	23,324	4	2	5	23,335
Total loans HFI	$ 1,644,564	$ 321	$ 82	$ 4,305	$ 1,649,272

A summary of current, past due, and nonaccrual loans as of December 31, 2019, is as follows:

	Accruing				
(in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Real estate:					
Commercial real estate	$ 530,712	$ —	$ —	$ 1,278	$ 531,990
One-to-four family residential	419,229	184	—	607	420,020
Construction and development	132,423	—	—	38	132,461
Commercial and industrial	264,427	143	—	3,370	267,940
SBA PPP, net of deferred income	—	—	—	—	—
Tax-exempt	56,494	—	—	—	56,494
Consumer	29,973	20	—	26	30,019
Total loans HFI	$ 1,433,258	$ 347	$ —	$ 5,319	$ 1,438,924

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Impaired Loans

Impaired loans include TDRs and performing and nonperforming loans. Information pertaining to impaired loans as of September 30, 2020, is as follows:

(in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate:				
Commercial real estate	$ 1,469	$ 1,438	$ —	$ 1,414
One-to-four family residential	1,120	1,060	—	1,027
Construction and development	—	—	—	—
Commercial and industrial	1,831	1,463	—	1,444
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	—	—	—
Consumer	2	2	—	2
Total with no related allowance	4,422	3,963	—	3,887
With allowance recorded:				
Real estate:				
Commercial real estate	2,399	2,201	279	1,368
One-to-four family residential	280	273	41	218
Construction and development	—	—	—	10
Commercial and industrial	8,594	8,571	2,432	7,179
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	—	—	—
Consumer	114	112	112	102
Total with related allowance	11,387	11,157	2,864	8,877
Total impaired loans	$ 15,809	$ 15,120	$ 2,864	$ 12,764

Information pertaining to impaired loans as of December 31, 2019, is as follows:

(in thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate:				
Commercial real estate	$ 1,560	$ 1,537	$ —	$ 2,647
One-to-four family residential	1,040	984	—	1,194
Construction and development	—	—	—	76
Commercial and industrial	1,805	1,474	—	3,685
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	—	—	—
Consumer	2	2	—	9
Total with no related allowance	4,407	3,997	—	7,611
With allowance recorded:				
Real estate:				
Commercial real estate	1,263	1,102	260	1,076
One-to-four family residential	216	209	31	339
Construction and development	51	38	10	89
Commercial and industrial	8,544	7,323	2,916	7,746
SBA PPP, net of deferred income	—	—	—	—
Tax-exempt	—	—	—	—
Consumer	76	73	71	76
Total with related allowance	10,150	8,745	3,288	9,326
Total impaired loans	$ 14,557	$ 12,742	$ 3,288	$ 16,937

The interest income recognized on impaired loans for the three months ended September 30, 2020 and September 30, 2019, was $199,000 and $111,000, respectively. The interest income recognized on impaired loans for the nine months ended September 30, 2020 and September 30, 2019, was $361,000 and $336,000, respectively.

Troubled Debt Restructurings

The restructuring of a loan is considered a TDR if the borrower is experiencing financial difficulties and the bank has granted a concession. Concessions grant terms to the borrower that would not be offered for new debt with similar risk characteristics. Concessions typically include interest rate reductions or below market interest rates, revising amortization schedules to defer principal and interest payments, and other changes necessary to provide payment relief to the borrower and minimize the risk of loss. There were no unfunded commitments to extend credit related to these loans as of September 30, 2020 or December 31, 2019.

A summary of current, past due, and nonaccrual TDR loans as of September 30, 2020, is as follows:

(dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total TDRs
Real estate:					
Commercial real estate	$ 1,162	$ —	$ —	$ 1,230	$ 2,392
One-to-four family residential	215	—	—	—	215
Construction and development	—	—	—	—	—
Commercial and industrial	—	—	—	9	9
SBA PPP, net of deferred income	—	—	—	—	—
Tax-exempt	—	—	—	—	—
Consumer	—	—	—	—	—
Total	$ 1,377	$ —	$ —	$ 1,239	$ 2,616
Number of TDR loans	7	—	—	4	11

A summary of current, past due, and nonaccrual TDR loans as of December 31, 2019, is as follows:

(dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total TDRs
Real estate:					
Commercial real estate	$ 1,361	$ —	$ —	$ 1,278	$ 2,639
One-to-four family residential	252	—	—	—	252
Construction and development	—	—	—	38	38
Commercial and industrial	36	—	—	1,869	1,905
SBA PPP, net of deferred income	—	—	—	—	—
Tax-exempt	—	—	—	—	—
Consumer	46	—	—	—	46
Total	$ 1,695	$ —	$ —	$ 3,185	$ 4,880
Number of TDR loans	12	—	—	6	18

A summary of loans modified as TDRs that occurred during the nine months ended September 30, 2020 and September 30, 2019, is as follows:

	September 30, 2020			September 30, 2019		
		Recorded Investment			Recorded Investment	
(dollars in thousands)	Loan Count	Pre Modification	Post Modification	Loan Count	Pre Modification	Post Modification
Real estate:						
Commercial real estate	—	$ —	$ —	1	$ 166	$ 166
One-to-four family residential	—	—	—	—	—	—
Construction and development	—	—	—	—	—	—
Commercial and industrial	—	—	—	1	4	4
SBA PPP, net of deferred income	—	—	—	—	—	—
Tax-exempt	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	—	$ —	$ —	2	$ 170	$ 170

The TDRs described above increased the allowance for loan losses by $4,000 as of September 30, 2019. Additionally, there were no defaults on loans during the nine months ended September 30, 2020 or September 30, 2019, that had been modified as a TDR during the prior twelve months.

Short-term loan modifications on loans HFI were made to provide temporary relief to borrowers that have been adversely affected by the outbreak of COVID-19. In accordance with interagency regulatory guidance issued in March 2020, these short-term deferrals are not deemed to be TDRs to the extent they meet the terms of such guidance.

Credit Quality Indicators

Loans are categorized based on the degree of risk inherent in the credit and the ability of the borrower to service the debt. A description of the general characteristics of the Bank's risk rating grades follows:

Pass - These loans are of satisfactory quality and do not require a more severe classification.

Special Mention - This category includes loans with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan.

Substandard - Loans in this category have well defined weaknesses which jeopardize normal repayment of principal and interest.

Doubtful - Loans in this category have well defined weaknesses that make full collection improbable.

Loss - Loans classified in this category are considered uncollectible and charged-off to the allowance for loan losses.

The following table summarizes loans by risk rating as of September 30, 2020:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
Commercial real estate	$ 562,169	$ 582	$ 4,286	$ —	$ —	$ 567,037
One-to-four family residential	424,921	492	1,345	—	—	426,758
Construction and development	129,100	—	779	—	—	129,879
Commercial and industrial	238,616	212	10,485	—	—	249,313
SBA PPP, net of deferred income	193,532	—	—	—	—	193,532
Tax-exempt	59,418	—	—	—	—	59,418
Consumer	23,221	—	114	—	—	23,335
Total loans HFI	$ 1,630,977	$ 1,286	$ 17,009	$ —	$ —	$ 1,649,272

The following table summarizes loans by risk rating as of December 31, 2019:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
Commercial real estate	$ 515,926	$ 14,118	$ 1,946	$ —	$ —	$ 531,990
One-to-four family residential	416,884	2,021	1,115	—	—	420,020
Construction and development	131,185	565	711	—	—	132,461
Commercial and industrial	247,382	11,473	9,085	—	—	267,940
SBA PPP, net of deferred income	—	—	—	—	—	—
Tax-exempt	56,494	—	—	—	—	56,494
Consumer	29,876	5	138	—	—	30,019
Total loans HFI	$ 1,397,747	$ 28,182	$ 12,995	$ —	$ —	$ 1,438,924

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer if all conditions of the commitment have been met. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's evaluation of the customer's ability to repay. As of September 30, 2020, unfunded loan commitments totaled approximately $293.1 million. As of December 31, 2019, unfunded loan commitments totaled approximately $257.0 million.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. As of September 30, 2020, commitments under standby letters of credit totaled approximately $9.9 million. As of December 31, 2019, commitments under standby letters of credit totaled approximately $11.1 million. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

4. Deposits

Deposits were $2.19 billion and $1.72 billion for September 30, 2020 and December 31, 2019, respectively. This increase was a result of customers receiving funds from various government stimulus programs, customers depositing the proceeds from their PPP loans, strong deposit account opening activity, a large, temporary deposit in late September 2020, and commercial customers maintaining larger deposit balances. Deposits are summarized below:

(in thousands)	September 30, 2020	December 31, 2019
Noninterest-bearing demand deposits	$ 923,286	$ 584,915
Interest-bearing deposits:		
NOW accounts	304,616	331,374
Money market accounts	498,293	367,689
Savings accounts	135,396	103,984
Time deposits < $100,000	108,021	110,636
Time deposits $100,000 to $250,000	135,935	131,957
Time deposits > $250,000	88,393	90,565
Total interest-bearing deposits	1,270,654	1,136,205
Total deposits	$ 2,193,940	$ 1,721,120

5. Other Borrowed Funds

The Company has established various lines of credit with the FHLB and other correspondent banks to provide additional sources of operating funds. On April 15, 2020, in order to fund PPP loans, the Company borrowed $50.0 million from the FHLB for 90 days at a rate of 0.35% under its existing line of credit. The Company's FHLB line of credit is collateralized by eligible Red River Bank loans. Due to having adequate liquidity, the $50.0 million was paid off on May 19, 2020.

6. Leases

The Company determines if an arrangement is a lease at inception of the contract and assesses the appropriate classification as operating or financing. Operating leases with terms greater than one year are included in right-of-use assets and lease liabilities on the Company's consolidated balance sheets. Agreements with both lease and non-lease components are accounted for separately, with only the lease component capitalized. Operating right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the term using the interest rate implicit in the contract, when available, or the Company's incremental collateralized borrowing rate with similar terms.

The Company maintains six operating leases on land and buildings for banking center facilities under long-term leases. These operating leases contain renewal options for periods ranging from three to five years that expire at various dates through October 31, 2031, with no residual value guarantees. Future obligations relating to the exercise of renewal options is included in the measurement if, based on the judgment of management, the renewal option is reasonably certain to be exercised. Factors in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of leasehold improvements, the value of the renewal rate compared to market rates, and the presence of factors that would cause a significant economic penalty to the Company if the option is not exercised. Management reasonably plans to exercise all options, and as such, all renewal options are included in the measurement of the right-of-use assets and operating lease liabilities.

The Company elects to recognize the lease payments on leases with terms of one year or less in its consolidated statements of income on a straight-line basis over the lease term.

Operating lease expenses totaled $137,000 for each of the three months ended September 30, 2020 and 2019. For each of the nine months ended September 30, 2020 and 2019, operating lease expenses were $412,000. Operating lease expenses are included as a component of occupancy and equipment expenses within the accompanying consolidated statements of income.

Cash paid for amounts included in the measurement of lease liabilities for operating leases totaled $390,000 and $375,000 for the nine months ended September 30, 2020 and 2019, respectively.

The table below summarizes other information related to the Company's operating leases as of and for the nine months ended September 30, 2020:

(dollars in thousands)	As of and for the Nine Months Ended September 30, 2020
Weighted average remaining operating lease term	9.6 years
Weighted average operating lease discount rate	3.4 %

Future obligations over the primary and renewal option terms of the Company's long-term operating leases as of September 30, 2020, were as follows:

(in thousands)	Amount
3 months remaining in 2020	$ 130
2021	529
2022	537
2023	539
2024	539
Thereafter	2,815
Total lease payments	5,089
Less: Imputed interest	(762)
Present value of lease liabilities	$ 4,327

The Company's obligations under financing leases are not material and have not been included in assets and liabilities in the financial statements.

7. Contingencies

The Company and the Bank are involved, from time to time, in various legal matters arising in the ordinary course of business. While the outcome of these claims or litigation cannot be determined at this time, in the opinion of management, neither the Company nor the Bank, are involved in such legal proceedings that the resolution is expected to have a material adverse effect on the consolidated results of operations, financial condition, or cash flows.

8. Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Disclosure

Securities AFS, loans HFS, and equity securities are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, foreclosed assets, and other certain assets. The nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

ASC 820, Fair Value Measurements and Disclosures indicates that assets and liabilities are recorded at fair value according to a fair value hierarchy comprised of three levels:

Level 1 pricing represents quotes on the exact financial instrument that is traded in active markets. Quoted prices on actively traded equities, for example, are in this category.

Level 2 pricing is derived from observable data including market spreads, current and projected rates, prepayment data, and credit quality. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 pricing is derived without the use of observable data. In such cases, mark-to-model strategies are typically employed. Often, these types of instruments have no active market, possess unique characteristics, and are thinly traded.

The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities and other Stocks: The fair values for marketable securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Loans HFS: Residential mortgage loans originated and held for sale are carried at the lower of cost or estimated fair value on an individual basis. The fair values of mortgage loans HFS are based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustments for mortgage loans HFS are recurring Level 2.

Loans HFI: The Company does not record loans HFI at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using estimated fair value methodologies. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Foreclosed Assets: Foreclosed assets, consisting of properties obtained through foreclosure or in satisfaction of loans, are reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). However, foreclosed assets are considered Level 3 in the fair value hierarchy because management has qualitatively applied a discount due to the size, supply of inventory, and the incremental discounts applied to the appraisals. Management also considers other factors, including changes in absorption rates, length of time the property has been on the market, and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in certain appraisals.

Fair Value of Assets Measured on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis:

(in thousands)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
September 30, 2020				
Loans HFS	$ 23,358	$ —	$ 23,358	$ —
Securities AFS:				
Mortgage-backed securities	282,513	—	282,513	—
Municipal bonds	174,124	—	174,124	—
U.S. agency securities	11,107	—	11,107	—
Equity securities	4,032	4,032	—	—
December 31, 2019				
Loans HFS	$ 5,089	$ —	$ 5,089	$ —
Securities AFS:				
Mortgage-backed securities	235,671	—	235,671	—
Municipal bonds	92,758	—	92,758	—
U.S. agency securities	7,144	—	7,144	—
Equity securities	3,936	3,936	—	—

There were no transfers between Level 1, 2, or 3 during the nine months ended September 30, 2020 and the year ended December 31, 2019.

Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis

Financial Assets and Financial Liabilities: Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances. Financial assets measured at fair value on a nonrecurring basis during the reported periods include certain collateral dependent loans reported at fair value of the underlying collateral if repayment is expected solely from the collateral. Prior to foreclosure of these loans, fair value of the collateral is estimated using Level 3 inputs based on customized discounting criteria.

The table below presents certain impaired loans that were remeasured and reported at fair value through the allowance for loan losses based upon the fair value of the underlying collateral during the reported periods:

	For the Nine Months Ended	
(in thousands)	**September 30, 2020**	**September 30, 2019**
Carrying value of impaired loans before allowance for loan losses	$ 5,021	$ 1,337
Specific allowance for loan losses	(780)	(140)
Fair value of impaired loans	$ 4,241	$ 1,197

There were no financial liabilities measured at fair value on a nonrecurring basis.

Nonfinancial Assets and Liabilities: Certain nonfinancial assets and nonfinancial liabilities are measured at fair value on a nonrecurring basis. These include certain foreclosed assets, which are remeasured and reported at fair value through a charge-off to allowance for loan losses upon initial recognition. Subsequent to their initial recognition, certain foreclosed assets are remeasured at fair value through a write-down included in other noninterest income. The fair value of foreclosed assets is estimated using Level 3 inputs based on customized discounting criteria less estimated selling costs.

The following table presents foreclosed assets that were remeasured and reported at fair value during the reported periods:

	For the Nine Months Ended	
(in thousands)	**September 30, 2020**	**September 30, 2019**
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ —	$ 1,119
Charge-offs	—	—
Fair value of foreclosed assets	$ —	$ 1,119

There were no foreclosed assets that were remeasured subsequent to initial recognition for the nine months ended September 30, 2020 or September 30, 2019.

There were no nonfinancial liabilities measured at fair value on a nonrecurring basis.

The unobservable inputs used for the Level 3 fair value measurements on a nonrecurring basis are as follows:

(dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Discount Ranges**	**Weighted Average Discount**
September 30, 2020					
Impaired loans	$ 12,256	Discounted appraisals	Collateral discounts and costs to sell	0% - 100%	18.24%
Foreclosed assets	$ 828	Discounted appraisals	Collateral discounts and costs to sell	N/A	N/A
December 31, 2019					
Impaired loans	$ 9,454	Discounted appraisals	Collateral discounts and costs to sell	0% - 100%	25.80%
Foreclosed assets	$ 1,128	Discounted appraisals	Collateral discounts and costs to sell	0% - 36%	2.60%

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments as of September 30, 2020 and December 31, 2019, were as follows:

(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2020					
Financial assets:					
Cash and due from banks	$ 31,422	$ 31,422	$ 31,422	$ —	$ —
Interest-bearing deposits in other banks	239,466	239,466	239,466	—	—
Securities AFS	467,744	467,744	—	467,744	—
Equity securities	4,032	4,032	4,032	—	—
Nonmarketable equity securities	3,445	3,445	—	3,445	—
Loans HFS	23,358	23,358	—	23,358	—
Loans HFI, net of allowance	1,633,080	1,641,936	—	—	1,641,936
Accrued interest receivable	6,617	6,617	—	—	6,617
Financial liabilities:					
Deposits	2,193,940	2,198,985	—	2,198,985	—
Accrued interest payable	1,805	1,805	—	1,805	—
December 31, 2019					
Financial assets:					
Cash and due from banks	$ 25,937	$ 25,937	$ 25,937	$ —	$ —
Interest-bearing deposits in other banks	107,355	107,355	107,355	—	—
Securities AFS	335,573	335,573	—	335,573	—
Equity securities	3,936	3,936	3,936	—	—
Nonmarketable equity securities	1,350	1,350	—	1,350	—
Loans HFS	5,089	5,089	—	5,089	—
Loans HFI, net of allowance	1,424,987	1,426,163	—	—	1,426,163
Accrued interest receivable	5,251	5,251	—	—	5,251
Financial liabilities:					
Deposits	1,721,120	1,721,286	—	1,721,286	—
Accrued interest payable	2,222	2,222	—	2,222	—

9. Regulatory Capital Requirements

Red River Bank

The Bank is subject to various regulatory capital requirements administered by the FDIC. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's and the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank is subject to Basel III capital guidelines. Basel III requires the Bank to maintain certain minimum ratios to meet capital adequacy requirements. In addition, a capital conservation buffer ("CCB") was established above the minimum regulatory capital requirements. Effective January 1, 2019, the final CCB was fully phased in at 2.500%. It is management’s belief that, as of September 30, 2020, the Bank met all capital adequacy requirements under Basel III. Management expects that the capital ratios for the Bank under Basel III will continue to exceed capital adequacy requirements. The most recent notification from the FDIC (as of December 31, 2019) categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action.

Capital amounts and ratios for Red River Bank as of September 30, 2020 and December 31, 2019, are presented in the following table:

	Actual		Regulatory Requirements			
			Minimum		Minimum Plus CCB	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2020						
Total Risk-Based Capital	$ 261,840	16.62 %	$ 126,031	8.00 %	$ 165,415	10.50 %
Tier I Risk-Based Capital	$ 245,648	15.59 %	$ 94,523	6.00 %	$ 133,908	8.50 %
Common Equity Tier I Capital	$ 245,648	15.59 %	$ 70,892	4.50 %	$ 110,277	7.00 %
Tier I Leverage Capital	$ 245,648	10.24 %	$ 95,933	4.00 %	$ 95,933	4.00 %
December 31, 2019						
Total Risk-Based Capital	$ 238,021	16.23 %	$ 117,325	8.00 %	$ 153,989	10.50 %
Tier I Risk-Based Capital	$ 224,084	15.28 %	$ 87,994	6.00 %	$ 124,658	8.50 %
Common Equity Tier I Capital	$ 224,084	15.28 %	$ 65,995	4.50 %	$ 102,660	7.00 %
Tier I Leverage Capital	$ 224,084	11.47 %	$ 78,114	4.00 %	$ 78,114	4.00 %

Red River Bancshares, Inc.

As a general matter, bank holding companies are subject to capital adequacy requirements under applicable Federal Reserve regulations. However, bank holding companies which qualify as "small bank holding companies" under the Federal Reserve's Small Bank Holding Company Policy Statement are exempt from the Federal Reserve's capital adequacy guidelines at the holding company level. In May 2018, the Economic Growth Act was enacted, and it increased the asset threshold for "small bank holding companies" from $1.0 billion to $3.0 billion. Because the Company has less than $3.0 billion in assets, it is no longer subject to capital adequacy guidelines on a consolidated basis. Although the minimum regulatory capital requirements are no longer applicable to the Company, the Company calculates these ratios for its own planning and monitoring purposes.

Capital amounts and ratios for Red River Bancshares, Inc. as of September 30, 2020 and December 31, 2019, are presented in the following table:

	Actual	
(dollars in thousands)	Amount	Ratio
September 30, 2020		
Total Risk-Based Capital	$ 286,324	18.17 %
Tier I Risk-Based Capital	$ 270,132	17.15 %
Common Equity Tier I Capital	$ 270,132	17.15 %
Tier I Leverage Capital	$ 270,132	11.26 %
December 31, 2019		
Total Risk-Based Capital	$ 264,313	18.02 %
Tier I Risk-Based Capital	$ 250,376	17.07 %
Common Equity Tier I Capital	$ 250,376	17.07 %
Tier I Leverage Capital	$ 250,376	12.82 %

Community Bank Leverage Ratio Framework

As part of the directive under the Economic Growth Act, on September 17, 2019, the FDIC and other federal bank regulatory agencies approved the CBLR framework. This optional framework became effective January 1, 2020, and is available as an alternative to the Basel III risk-based capital framework. The CBLR framework provides for a simple measure of capital adequacy for certain community banking organizations. Specifically, depository institutions and depository institution holding companies that have less than $10.0 billion in total consolidated assets and meet other qualifying criteria, including a Tier 1 leverage ratio of greater than 9.00% (subsequently temporarily reduced to 8.00% as a COVID-19 relief measure), are considered qualifying community banking organizations and are eligible to opt into the CBLR framework and replace the applicable Basel III risk-based capital requirements.

As of September 30, 2020, the Company and the Bank qualify for the CBLR framework. Management does not intend to utilize the CBLR framework that became effective January 1, 2020.

10. Earnings Per Common Share

Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock splits. Diluted EPS includes accrued but unissued shares relating to the Director's Compensation Program, stock options, and restricted stock determined using the treasury stock method. The dilutive EPS calculation assumes all outstanding stock options to purchase common stock have been exercised at the beginning of the year and the pro forma proceeds from the exercised options and restricted stock are used to purchase common stock at the average fair market valuation price.

The computations of basic and diluted earnings per common share for the Company were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands, except per share amounts)	**2020**	**2019**	**2020**	**2019**
Numerator:				
Net income - basic	$ 7,285	$ 6,847	$ 20,884	$ 18,081
Net income - diluted	$ 7,285	$ 6,847	$ 20,884	$ 18,081
Denominator:				
Weighted average shares outstanding - basic	7,327,395	7,304,273	7,321,092	6,993,990
Plus: Effect of Director Stock Compensation Program	272	330	1,088	1,529
Plus: Effect of stock options and restricted stock	15,011	35,895	19,567	36,540
Weighted average shares outstanding - diluted	7,342,678	7,340,498	7,341,747	7,032,059
Earnings per common share:				
Basic	$ 0.99	$ 0.94	$ 2.85	$ 2.59
Diluted	$ 0.99	$ 0.93	$ 2.84	$ 2.57

11. Stock Repurchase Program

On August 27, 2020, the Company's board of directors approved a stock repurchase program. The repurchase program authorizes the Company to purchase up to $3.0 million of its outstanding shares of common stock through August 27, 2021. Repurchases may be made from time to time in the open market at prevailing prices and based on market conditions, or in privately negotiated transactions. For the quarter ended September 30, 2020, the Company repurchased 2,824 shares, at an aggregate cost of $122,000.

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

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Red River Bancshares, Inc. and our wholly owned subsidiary, Red River Bank, from December 31, 2019 through September 30, 2020, and on our results of operations for the three and nine months ended September 30, 2020 and September 30, 2019. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2019, included in our Annual Report on Form 10-K for the year ended December 31, 2019, and information presented elsewhere in this Quarterly Report on Form 10-Q, particularly the unaudited consolidated financial statements and related notes appearing in Item 1.

The following discussion contains forward-looking statements that reflect our current views with respect to, among other things, future events and our financial performance. We caution that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. See “Cautionary Note Regarding Forward-Looking Statements” and "Part II - Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q. Also, see risk factors and other cautionary statements described in "Part I - Item 1A. Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2019. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

CORPORATE SUMMARY

Red River Bancshares, Inc. is the bank holding company for Red River Bank, a Louisiana state-chartered bank established in 1999 that provides a fully integrated suite of banking products and services tailored to the needs of our commercial and retail customers. Red River Bank operates from a network of 25 banking centers throughout Louisiana and one combined loan and deposit production office in Lafayette, Louisiana. Banking centers are located in the following Louisiana markets: Central, which includes the Alexandria MSA; Northwest, which includes the Shreveport-Bossier City MSA; Capital, which includes the Baton Rouge MSA; Southwest, which includes the Lake Charles MSA; and the Northshore, which includes Covington.

Our priority is to drive shareholder value through the establishment of a market-leading commercial banking franchise in Louisiana. We provide our services through relationship-oriented bankers who are committed to their customers and the communities in which we offer our products and services. Our strategy is to expand geographically through the establishment of *de novo* banking centers in new markets and, to a lesser extent, through the acquisition of financial institutions with customer-oriented, compatible philosophies and in desirable geographic areas.

THIRD QUARTER 2020 OVERVIEW

The third quarter of 2020 included a new Company high level of mortgage lending activity, approval of a stock repurchase program, entrance into a new market, the impact of Hurricane Laura, and managing through the COVID-19 pandemic and associated changing government orders.

COVID-19 Update

Due to the COVID-19 pandemic and executive orders by the governor of Louisiana, the residents, businesses, and non-profit organizations of Louisiana have been subject to the following limitations:

- A Stay at Home Order was in effect from March 22, 2020, until May 15, 2020, and Phase One was in effect from May 15, 2020, to June 4, 2020.
- Phase Two, in effect from June 4, 2020, until September 11, 2020, allowed non-essential businesses and places of worship to operate at 50% occupancy, with a few classes of businesses operating at 25% occupancy, and others remaining closed.
- Phase Three began on September 11, 2020, and is scheduled to last until at least December 4, 2020, during which time non-essential businesses and places of worship are allowed to operate at 75% occupancy, with a few classes of businesses operating at 50% occupancy, and other businesses, including amusement parks and music halls, remaining closed.

As an essential business and to support our customers during this crisis, Red River Bank has provided full banking services throughout the pandemic, while allowing lobby access through appointments during the Stay at Home Order and Phase One.

Third Quarter 2020 Financial and Operational Highlights

- Net income for the third quarter of 2020 was $7.3 million, or $0.99 diluted EPS, an increase of $438,000, or 6.4%, compared to $6.8 million, or $0.93 diluted EPS, for the third quarter of 2019. Net income for the nine months ended September 30, 2020, was $20.9 million, or $2.84 diluted EPS, an increase of $2.8 million, or 15.5%, compared to $18.1 million, or $2.57 diluted EPS, for the nine months ended September 30, 2019.
- For the third quarter of 2020, the quarterly return on assets was 1.20%, and the quarterly return on equity was 10.50%.
- Assets were $2.49 billion as of September 30, 2020, a $129.1 million, or 5.5%, increase from June 30, 2020, and a $502.7 million, or 25.3%, increase from December 31, 2019. The third quarter of 2020 asset growth was driven by a $124.6 million increase in deposits. Deposits increased during the third quarter of 2020 due to strong deposit account opening activity and a large, temporary deposit, along with commercial customers maintaining larger deposit balances.
- Mortgage loan production and income for the third quarter of 2020 and for the nine months ended September 30, 2020, were at record-high levels for the Company. Mortgage loan income for the third quarter of 2020 was $2.9 million, a 48.1% increase from the prior quarter and a 184.4% increase from the third quarter of 2019. For the nine months ended September 30, 2020, mortgage loan income was $5.7 million, which was $3.5 million, or 161.7%, higher than the same period in 2019.
- As of September 30, 2020, active loans with pandemic-related payment deferrals were $23.3 million, or 1.6% of non-PPP loans HFI (non-GAAP), down from $152.8 million, or 10.7% of non-PPP loans HFI (non-GAAP) as of June 30, 2020.

- Nonperforming assets increased $921,000 in the third quarter and were $5.2 million, or 0.21% of assets as of September 30, 2020. The provision for loan losses for the third quarter of 2020 was $1.6 million, compared to $1.5 million for the prior quarter and $378,000 for the third quarter of 2019. As of September 30, 2020, the allowance for loan losses was $16.2 million, or 0.98% of loans HFI and 1.11% of non-PPP loan HFI (non-GAAP).

- The net interest margin for the second and third quarters of 2020 were negatively impacted by the low interest rate environment. The net interest margin FTE for the third quarter of 2020 was 3.02%, compared to 3.12% for the prior quarter, and 3.55% for the third quarter of 2019.

- Red River Bank participated in the SBA PPP and as of September 30, 2020, had $193.5 million of PPP loans, net of deferred income, at an interest rate of 1.0%. These loans resulted in $1.4 million of income in the third quarter of 2020 and $1.2 million of income in the second quarter of 2020. Red River Bank began accepting PPP loan forgiveness applications on September 14, 2020.

- On August 27, 2020, our board approved a stock repurchase program that authorizes us to purchase up to $3.0 million of our outstanding shares through August 27, 2021. In the third quarter of 2020, we repurchased 2,824 shares.

- We declared and paid a quarterly cash dividend of $0.06 per common share.

- We began operations in our newest market, Acadiana, which includes the Lafayette, Louisiana MSA. We hired an Acadiana market president and opened a combined loan and deposit production office in Lafayette.

- On August 27, 2020, Hurricane Laura made landfall in southwest Louisiana near Lake Charles and impacted southwest and central Louisiana. This hurricane caused significant damage in southwest Louisiana. Red River Bank did not sustain any significant damage to its locations, and all employees remained safe. Red River Bank banking centers located in the path of the hurricane opened quickly after the storm had passed with full banking services being provided. In our Southwest Louisiana market, we had $73.7 million of loans and $16.7 million of deposits as of September 30, 2020.

- On October 9, 2020, Hurricane Delta also made landfall in southwest Louisiana near Lake Charles and continued to move inland through central Louisiana. Banking locations in the impacted markets closed as necessary prior to the hurricane's landfall, and normal banking services were provided the following day. There was no significant damage to any of Red River Bank's locations as a result of Hurricane Delta.

The following tables contain selected financial information regarding our financial position and performance as of and for the periods indicated.

	As of		Change from December 31, 2019 to September 30, 2020	
(dollars in thousands)	**September 30, 2020**	**December 31, 2019**	**$ Change**	**% Change**
Selected Period End Balance Sheet Data:				
Total assets	$ 2,490,928	$ 1,988,225	$ 502,703	25.3 %
Securities available-for-sale	467,744	335,573	132,171	39.4 %
Loans held for investment	1,649,272	1,438,924	210,348	14.6 %
Total deposits	2,193,940	1,721,120	472,820	27.5 %
Total stockholders’ equity	278,078	251,898	26,180	10.4 %

(Dollars in thousands, except per share data)	As of and for the Three Months Ended September 30, 2020	June 30, 2020	September 30, 2019	As of and for the Nine Months Ended September 30, 2020	September 30, 2019
Net Income	$ 7,285	$ 6,854	$ 6,847	$ 20,884	$ 18,081
Per Common Share Data:					
Earnings per share, basic	$ 0.99	$ 0.94	$ 0.94	$ 2.85	$ 2.59
Earnings per share, diluted	$ 0.99	$ 0.93	$ 0.93	$ 2.84	$ 2.57
Book value per share	$ 37.96	$ 37.03	$ 33.59	$ 37.96	$ 33.59
Tangible book value per share[1,2]	$ 37.75	$ 36.81	$ 33.37	$ 37.75	$ 33.37
Cash dividends per share	$ 0.06	$ 0.06	$ —	$ 0.18	$ 0.20
Shares outstanding	7,325,333	7,322,532	7,306,221	7,325,333	7,306,221
Weighted average shares outstanding, basic	7,327,395	7,322,532	7,304,273	7,321,092	6,993,990
Weighted average shares outstanding, diluted	7,342,678	7,348,772	7,340,498	7,341,747	7,032,059
Summary Performance Ratios:					
Return on average assets	1.20 %	1.20 %	1.42 %	1.25 %	1.28 %
Return on average equity	10.50 %	10.30 %	11.20 %	10.44 %	10.91 %
Net interest margin	2.96 %	3.07 %	3.50 %	3.11 %	3.48 %
Net interest margin FTE[3]	3.02 %	3.12 %	3.55 %	3.17 %	3.53 %
Efficiency ratio[4]	55.88 %	56.50 %	57.75 %	56.56 %	60.00 %
Loans HFI to deposits ratio	75.17 %	78.06 %	84.27 %	75.17 %	84.27 %
Noninterest-bearing deposits to deposits ratio	42.08 %	41.48 %	36.68 %	42.08 %	36.68 %
Noninterest income to average assets	1.06 %	1.02 %	0.91 %	1.01 %	0.84 %
Operating expense to average assets	2.19 %	2.26 %	2.47 %	2.28 %	2.51 %
Summary Credit Quality Ratios:					
Nonperforming assets to total assets	0.21 %	0.18 %	0.41 %	0.21 %	0.41 %
Nonperforming loans to loans HFI	0.27 %	0.21 %	0.47 %	0.27 %	0.47 %
Allowance for loan losses to loans HFI	0.98 %	0.92 %	0.98 %	0.98 %	0.98 %
Net charge-offs to average loans	0.02 %	0.06 %	0.00 %	0.09 %	0.00 %
Capital Ratios:					
Total stockholders’ equity to total assets	11.16 %	11.48 %	12.66 %	11.16 %	12.66 %
Tangible common equity to tangible assets[1,5]	11.11 %	11.42 %	12.59 %	11.11 %	12.59 %
Total risk-based capital to risk-weighted assets	18.17 %	18.22 %	17.76 %	18.17 %	17.76 %
Tier 1 risk-based capital to risk-weighted assets	17.15 %	17.25 %	16.80 %	17.15 %	16.80 %
Common equity Tier 1 capital to risk-weighted assets	17.15 %	17.25 %	16.80 %	17.15 %	16.80 %
Tier 1 risk-based capital to average assets	11.26 %	11.52 %	12.77 %	11.26 %	12.77 %

(1) Non-GAAP financial measure. Calculations of this measure and reconciliations to GAAP are included in " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q. This measure has not been audited.
(2) We calculate tangible book value per common share as total stockholders’ equity, less intangible assets, divided by the outstanding number of shares of our common stock at the end of the relevant period.
(3) Net interest margin FTE includes an FTE adjustment using a 21% federal income tax rate on tax-exempt securities and tax-exempt loans.
(4) Efficiency ratio represents operating expenses divided by the sum of net interest income and noninterest income.
(5) We calculate tangible common equity as total stockholders’ equity, less intangible assets, net of accumulated amortization, and we calculate tangible assets as total assets, less intangible assets, net of accumulated amortization.

RESULTS OF OPERATIONS

Net income for the third quarter of 2020 was $7.3 million, or $0.99 diluted EPS, an increase of $438,000, or 6.4%, compared to $6.8 million, or $0.93 diluted EPS, in the third quarter of 2019. The increase in net income was due to a $2.0 million increase in noninterest income and a $1.1 million increase in net interest income, partially offset by a $1.4 million increase in operating expenses, a $1.2 million increase in the provision for loan losses, and a $119,000 increase in income tax expense. The return on assets for the third quarter of 2020 was 1.20%, compared to 1.42% for the third quarter of 2019. The return on equity was 10.50% for the third quarter of 2020 and 11.20% for the third quarter of 2019. Our efficiency ratio for the third quarter of 2020 was 55.88%, compared to 57.75% for the third quarter of 2019.

Net income for the nine months ended September 30, 2020, was $20.9 million, or $2.84 diluted EPS, an increase of $2.8 million, or 15.5%, compared to $18.1 million, or $2.57 diluted EPS, for the nine months ended September 30, 2019. The increase in net income was due to a $5.2 million increase in noninterest income and a $3.0 million increase in net interest income, partially offset by a $2.6 million increase in operating expenses, a $2.2 million increase in the provision for loan losses and a $624,000 increase in income tax expense. The return on assets for the nine months ended September 30, 2020, was 1.25%, compared to 1.28% for the same period in the prior year. The return on equity was 10.44% for the nine months ended September 30, 2020, and 10.91% for the nine months ended September 30, 2019. Our efficiency ratio for the nine months ended September 30, 2020, was 56.56%, compared to 60.00% for the nine months ended September 30, 2019.

Net Interest Income and Net Interest Margin

Our operating results depend primarily on our net interest income. Fluctuations in market interest rates impact the yield on interest-earning assets and the rate paid on interest-bearing liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact our net interest income. To evaluate net interest income, we measure and monitor: (1) yields on loans and other interest-earning assets; (2) the cost of deposits and other funding sources; (3) net interest spread; and (4) net interest margin. Since noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing funding sources.

The interest rate environment changed significantly between the third quarter of 2019 and the third quarter of 2020. The average effective federal funds rate for the third quarter of 2019 was 2.19%. During 2019, the target federal funds rate remained consistent between January and July, decreased 75 bps in the second half of the year, and was 1.75% as of December 31, 2019. In March 2020, the target federal funds rate decreased 150 bps and was 0.25% as of September 30, 2020. The average effective federal funds rate for the third quarter of 2020 was 0.09%. The lower interest rate environment impacted yields on new, renewing, and floating rate loans, short-term liquid assets, and taxable securities. For the third quarter of 2020, net interest income and net interest margin FTE were impacted by the lower interest rate environment. For the fourth quarter of 2020, we expect the net interest margin FTE to decrease slightly due to the continued pressure from the low interest rate environment.

Third Quarter of 2020

Net interest income for the third quarter of 2020 totaled $17.3 million, a $1.1 million, or 6.8%, increase from $16.2 million for the third quarter of 2019. Net interest income increased due to a $468,000 increase in interest and dividend income, combined with a $633,000 decrease in interest expense. Interest and dividend income increased due to $1.4 million of PPP loan income recorded during the third quarter of 2020 and a $299,000 increase in interest income for total securities, partially offset by an $884,000 decrease in non-PPP loan income and a $334,000 decrease in interest income on short-term liquid assets as a result of the continued low interest rate environment. Because deposit growth exceeded loan growth during the third quarter of 2020, excess liquidity was deployed into securities and interest-bearing deposits in other banks. The increase in interest income for total securities was due to a $131.2 million, or 39.4%, growth in average total securities compared to the third quarter of 2019, partially offset by a decrease in the yield. For the third quarter of 2020, average short-term liquid assets increased $100.2 million compared to the third quarter of 2019, while the interest income on these liquid assets decreased $334,000 for the same period due to the lower interest rate environment. For the third quarter of 2020, average noninterest-bearing deposits increased $305.2 million, or 52.0%, and average interest-bearing transaction deposits increased $167.6 million, or 23.1%, compared to the third quarter of 2019. Interest expense decreased as deposits continued to price downward as we reduced interest rates on deposits in each quarter of 2020.

Net interest margin FTE decreased 53 bps to 3.02% for the third quarter of 2020, from 3.55% for the third quarter of 2019, mainly due to the Federal Reserve lowering interest rates 225 bps since August 2019. The yield on loans decreased 57 bps to 4.04% for the third quarter of 2020, compared to the same period prior year due to the continued impact of the lower interest rate environment on new, renewed, and floating rate loans, and the impact of the lower rate PPP loans added during the second quarter of 2020. As of September 30, 2020, floating rate loans were 13.8% of loans HFI. For the third quarter of 2020, the yield on taxable securities decreased 55 bps to 1.56%, compared to 2.11% for the third quarter of 2019. The yield on taxable securities decreased as securities purchased throughout this year were at lower yields than the existing yield for the taxable securities portfolio, combined with an increase in amortization expense on mortgage-backed securities. For the third quarter of 2020, compared to the third quarter of 2019, the yield on federal funds sold decreased 199 bps and the yield on interest-bearing balances due from banks decreased 205 bps, due to the lower interest rate environment. The resulting yield on interest-earning assets was 3.30% for the third quarter of 2020, a decrease of 76 bps, compared to 4.06% for the third quarter of 2019. The cost of deposits was 0.37% for the third quarter of 2020, a decrease of 23 bps, compared to 0.60% for the third quarter of 2019. The cost of deposits was lower for the third quarter of 2020 due to the average noninterest-bearing deposits increasing $305.2 million, or 52.0%, combined with a 30 bp decrease in the rate on interest-bearing deposits for the same period as a result of our adjustments to deposit rates.

The following table presents average balance sheet information, interest income, interest expense, and the corresponding average yields earned and rates paid for the three months ended September 30, 2020 and 2019:

	For the Three Months Ended September 30,					
	2020			2019		
(dollars in thousands)	Average Balance Outstanding	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance Outstanding	Interest Earned/ Interest Paid	Average Yield/ Rate
Assets						
Interest-earning assets:						
Loans[1,2]	$ 1,656,586	$ 17,080	4.04 %	$ 1,408,146	$ 16,578	4.61 %
Securities - taxable	317,612	1,240	1.56 %	255,846	1,352	2.11 %
Securities - tax-exempt	146,477	859	2.35 %	77,047	448	2.33 %
Federal funds sold	73,644	30	0.16 %	32,461	178	2.15 %
Interest-bearing balances due from banks	97,687	27	0.11 %	38,676	213	2.16 %
Nonmarketable equity securities	3,441	13	1.51 %	1,342	10	2.99 %
Investment in trusts	—	—	— %	64	2	10.91 %
Total interest-earning assets	2,295,447	$ 19,249	3.30 %	1,813,582	$ 18,781	4.06 %
Allowance for loan losses	(15,525)			(13,755)		
Noninterest earning assets	128,910			110,062		
Total assets	$ 2,408,832			$ 1,909,889		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing transaction deposits	$ 891,840	$ 617	0.28 %	$ 724,219	$ 972	0.53 %
Time deposits	330,576	1,337	1.61 %	338,330	1,542	1.81 %
Total interest-bearing deposits	1,222,416	1,954	0.64 %	1,062,549	2,514	0.94 %
Junior subordinated debentures	—	—	— %	2,129	73	13.64 %
Other borrowings	—	—	— %	22	—	2.80 %
Total interest-bearing liabilities	1,222,416	$ 1,954	0.64 %	1,064,700	$ 2,587	0.96 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	891,850			586,664		
Accrued interest and other liabilities	18,541			16,084		
Total noninterest-bearing liabilities	910,391			602,748		
Stockholders' equity	276,025			242,441		
Total liabilities and stockholders' equity	$ 2,408,832			$ 1,909,889		
Net interest income		$ 17,295			$ 16,194	
Net interest spread			2.66 %			3.10 %
Net interest margin			2.96 %			3.50 %
Net interest margin FTE[3]			3.02 %			3.55 %
Cost of deposits			0.37 %			0.60 %
Cost of funds			0.34 %			0.57 %

(1) Includes average outstanding balances of loans HFS of $24.4 million and $6.0 million for the three months ended September 30, 2020 and 2019, respectively.
(2) Nonaccrual loans are included as loans carrying a zero yield.
(3) Net interest margin FTE includes an FTE adjustment using a 21% federal income tax rate on tax-exempt securities and tax-exempt loans.

In the third quarter of 2020, Red River Bank had $193.0 million of average PPP loans, net of deferred income, outstanding at an interest rate of 1.0%. Under the terms of the PPP, we received loan origination fees from the SBA ranging from 1.0%

to 5.0% of the initial principal amount of the loans. PPP origination fees were $7.0 million, or 3.52%, of originated PPP loans and are being recorded to interest income over the 24-month loan term or until the loans are forgiven by the SBA. For the third quarter of 2020, PPP loan interest and fees totaled $1.4 million resulting in a 2.84% yield.

Excluding PPP loan income, net interest income (non-GAAP) for the third quarter of 2020 was $15.9 million, which was $285,000 or 1.8%, lower than the third quarter of 2019. Also, with PPP loans excluded for the third quarter of 2020, the yield on non-PPP loans (non-GAAP) was 4.20%, and the net interest margin FTE (non-GAAP) was 3.03%. For the third quarter of 2020, PPP loans had a 16 bp dilutive impact to the yield on loans and a one bp dilutive impact to the net interest margin FTE. For further information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

The following table presents interest income for total loans, PPP loans, total non-PPP loans (non-GAAP), and net interest ratios excluding PPP loans (non-GAAP) for the three months ended September 30, 2020 and 2019.

	For the Three Months Ended September 30,					
	2020			2019		
(dollars in thousands)	Average Balance Outstanding	Interest/Fee Earned	Average Yield	Average Balance Outstanding	Interest/Fee Earned	Average Yield
Loans[1,2]	$ 1,656,586	$ 17,080	4.04 %	$ 1,408,146	$ 16,578	4.61 %
Less: PPP loans, net						
Average	193,038			—		
Interest		509			—	
Fees		877			—	
Total PPP loans, net	193,038	1,386	2.84 %	—	—	— %
Non-PPP loans (non-GAAP)[4]	$ 1,463,548	$ 15,694	4.20 %	$ 1,408,146	$ 16,578	4.61 %
Ratios excluding PPP loans, net (non-GAAP)[4]						
Net interest spread			2.70 %			3.10 %
Net interest margin			2.97 %			3.50 %
Net interest margin FTE[3]			3.03 %			3.55 %

(1) Includes average outstanding balances of loans HFS of $24.4 million and $6.0 million for the three months ended September 30, 2020 and 2019, respectively.
(2) Nonaccrual loans are included as loans carrying a zero yield.
(3) Net interest margin FTE includes an FTE adjustment using a 21% federal income tax rate on tax-exempt securities and tax-exempt loans.
(4) Non-GAAP financial measure. See also " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

Nine Months Ended September 30, 2020

Net interest income increased by $3.0 million, or 6.4%, to $50.3 million for the nine months ended September 30, 2020, from $47.3 million for the nine months ended September 30, 2019. Net interest income increased due to a $1.9 million increase in interest and dividend income, combined with a $1.1 million decrease in interest expense. Interest and dividend income increased due to a $2.6 million increase in loan interest income, which included $2.5 million of PPP loan income, and a $419,000 increase in interest income for total securities, partially offset by a $1.1 million decrease in interest income on short-term liquid assets as a result of the continued low interest rate environment. Because deposit growth exceeded loan growth for the nine months ended September 30, 2020, excess liquidity was deployed into securities and interest-bearing deposits in other banks. The increase in interest income for total securities was due to a $68.3 million increase in average total securities, compared to the nine months ended September 30, 2019, partially offset by a decrease in the yield. For the nine months ended September 30, 2020, average short-term liquid assets increased $67.1 million, compared to the nine months ended September 30, 2019, while the interest income for these liquid assets decreased $1.1 million for the same period due to the continued low interest rate environment. For the nine months ended September 30, 2020, average noninterest-bearing deposits increased $199.3 million, or 35.1%, and average interest-bearing transaction deposits increased $105.2 million, or 14.3%, compared to the nine months ended September 30, 2019. Interest expense decreased as a result of our decision to reduce interest rates on deposits during the nine months ended September 30, 2020, combined with paying off the junior subordinated debentures mid-2019 and eliminating the related interest expense.

Net interest margin FTE decreased 36 bps to 3.17% for the nine months ended September 30, 2020, from 3.53% for the nine months ended September 30, 2019, mainly due to the Federal Reserve lowering interest rates 225 bps since August 2019. The yield on loans decreased 37 bps to 4.24% for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, due to the continued impact of the low interest rate environment on new, renewed, and floating rate loans and the impact of the lower rate PPP loans added during the second quarter of 2020. As of September 30, 2020, floating rate loans were 13.8% of loans HFI. For the nine months ended September 30, 2020, the yield on taxable securities decreased 36 bps to 1.76%, compared to 2.12% for the nine months ended September 30, 2019. The yield decreased as the securities purchased throughout this year were at lower yields than the existing yield for the taxable securities portfolio, combined with an increase in amortization expense on mortgage-backed securities. For the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, the yield on federal funds sold decreased 197 bps, and the yield on interest-bearing balances due from banks decreased 192 bps, due to the lower interest rate environment. The resulting yield on interest-earning assets was 3.52% for the nine months ended September 30, 2020, a 53 bp decrease, compared to 4.05% for the nine months ended September 30, 2019. The cost of deposits was 0.45% for the nine months ended September 30, 2020, a 14 bp decrease, compared to 0.59% for the nine months ended September 30, 2019. The cost of deposits was lower during the nine months ended September 30, 2020, due to the average noninterest-bearing deposits increasing $199.3 million, or 35.1%, combined with a 17 bp decrease in the rate on interest-bearing deposits for the same period as a result of our adjustments to deposit rates.

The following table presents average balance sheet information, interest income, interest expense, and the corresponding average yields earned and rates paid for the nine months ended September 30, 2020 and 2019:

	For the Nine Months Ended September 30,					
	2020			2019		
(dollars in thousands)	Average Balance Outstanding	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance Outstanding	Interest Earned/ Interest Paid	Average Yield/ Rate
Assets						
Interest-earning assets:						
Loans[1,2]	$ 1,571,318	$ 50,623	4.24 %	$ 1,375,129	$ 48,026	4.61 %
Securities - taxable	282,186	3,725	1.76 %	256,618	4,074	2.12 %
Securities - tax-exempt	114,581	2,041	2.38 %	71,892	1,273	2.36 %
Federal funds sold	63,015	179	0.37 %	34,019	603	2.34 %
Interest-bearing balances due from banks	91,866	265	0.38 %	53,759	935	2.30 %
Nonmarketable equity securities	2,639	19	0.96 %	1,325	19	1.86 %
Investment in trusts	—	—	— %	242	11	6.23 %
Total interest-earning assets	2,125,605	$ 56,852	3.52 %	1,792,984	$ 54,941	4.05 %
Allowance for loan losses	(14,702)			(13,267)		
Noninterest earning assets	122,948			105,793		
Total assets	$ 2,233,851			$ 1,885,510		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing transaction deposits	$ 842,193	$ 2,214	0.35 %	$ 736,947	$ 2,930	0.53 %
Time deposits	333,154	4,283	1.72 %	335,201	4,330	1.73 %
Total interest-bearing deposits	1,175,347	6,497	0.74 %	1,072,148	7,260	0.91 %
Junior subordinated debentures	—	—	— %	8,044	385	6.39 %
Other borrowings	6,231	16	0.35 %	7	—	2.80 %
Total interest-bearing liabilities	1,181,578	$ 6,513	0.74 %	1,080,199	$ 7,645	0.95 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	767,372			568,053		
Accrued interest and other liabilities	17,762			15,756		
Total noninterest-bearing liabilities	785,134			583,809		
Stockholders' equity	267,139			221,502		
Total liabilities and stockholders' equity	$ 2,233,851			$ 1,885,510		
Net interest income		$ 50,339			$ 47,296	
Net interest spread			2.78 %			3.10 %
Net interest margin			3.11 %			3.48 %
Net interest margin FTE[3]			3.17 %			3.53 %
Cost of deposits			0.45 %			0.59 %
Cost of funds			0.41 %			0.57 %

(1) Includes average outstanding balances of loans HFS of $13.3 million and $4.1 million for the nine months ended September 30, 2020 and 2019, respectively.
(2) Nonaccrual loans are included as loans carrying a zero yield.
(3) Net interest margin FTE includes an FTE adjustment using a 21% federal income tax rate on tax-exempt securities and tax-exempt loans.

Excluding PPP loan income, net interest income (non-GAAP) for the nine months ended September 30, 2020, was $47.8 million, which was $504,000, or 1.1%, higher than the nine months ended September 30, 2019. Also, with PPP loans excluded for the nine months ended September 30, 2020, the yield on non-PPP loans (non-GAAP) was 4.35%, and the net interest margin FTE (non-GAAP) was 3.19%. For the nine months ended September 30, 2020, PPP loans had an 11 bp dilutive impact to the yield on loans and a two bp dilutive impact to the net interest margin FTE. For further information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

The following table presents interest income for total loans, PPP loans, total non-PPP loans (non-GAAP), and net interest ratios excluding PPP loans (non-GAAP) for the nine months ended September 30, 2020 and 2019.

	For the Nine Months Ended September 30,					
	2020			2019		
(dollars in thousands)	**Average Balance Outstanding**	**Interest/Fee Earned**	**Average Yield**	**Average Balance Outstanding**	**Interest/Fee Earned**	**Average Yield**
Loans[1,2]	$ 1,571,318	$ 50,623	4.24 %	$ 1,375,129	$ 48,026	4.61 %
Less: PPP loans, net						
Average	116,095			—		
Interest		932			—	
Fees		1,607			—	
Total PPP loans, net	116,095	2,539	2.90 %	—	—	— %
Non-PPP loans (non-GAAP)[4]	$ 1,455,223	$ 48,084	4.35 %	$ 1,375,129	$ 48,026	4.61 %
Ratios excluding PPP loans, net (non-GAAP)[4]						
Net interest spread			2.82 %			3.10 %
Net interest margin			3.13 %			3.48 %
Net interest margin FTE[3]			3.19 %			3.53 %

(1) Includes average outstanding balances of loans HFS of $13.3 million and $4.1 million for the nine months ended September 30, 2020 and 2019, respectively.
(2) Nonaccrual loans are included as loans carrying a zero yield.
(3) Net interest margin FTE includes an FTE adjustment using a 21% federal income tax rate on tax-exempt securities and tax-exempt loans.
(4) Non-GAAP financial measure. See also " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

Rate/Volume Analysis

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to changes in interest rates. The change in interest attributable to rate has been determined by applying the change in rate between periods to average balances outstanding in the earlier period. The change in interest due to volume has been determined by applying the rate from the earlier period to the change in average balances outstanding between periods. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Three Months Ended September 30, 2020 vs 2019			For the Nine Months Ended September 30, 2020 vs 2019		
	Increase (Decrease) Due to Change in		Total Increase	Increase (Decrease) Due to Change in		Total Increase
(in thousands)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
Interest-earning assets:						
Loans	$ 1,411	$ (909)	$ 502	$ 4,145	$ (1,548)	$ 2,597
Securities - taxable	326	(438)	(112)	406	(755)	(349)
Securities - tax-exempt	404	7	411	756	12	768
Federal funds sold	226	(374)	(148)	514	(938)	(424)
Interest-bearing balances due from banks	325	(511)	(186)	663	(1,333)	(670)
Nonmarketable equity securities	16	(13)	3	18	(18)	—
Investment in trusts	(2)	—	(2)	(11)	—	(11)
Total interest-earning assets	$ 2,706	$ (2,238)	$ 468	$ 6,491	$ (4,580)	$ 1,911
Interest-bearing liabilities:						
Interest-bearing transaction deposits	$ 243	$ (598)	$ (355)	$ 438	$ (1,154)	$ (716)
Time deposits	(32)	(173)	(205)	(8)	(39)	(47)
Total interest-bearing deposits	211	(771)	(560)	430	(1,193)	(763)
Junior subordinated debentures	(73)	—	(73)	(385)	—	(385)
Other borrowings	—	—	—	16	—	16
Total interest-bearing liabilities	$ 138	$ (771)	$ (633)	$ 61	$ (1,193)	$ (1,132)
Increase (decrease) in net interest income	$ 2,568	$ (1,467)	$ 1,101	$ 6,430	$ (3,387)	$ 3,043

Provision for Loan Losses

The provision for loan losses is a charge to income necessary to maintain the allowance for loan losses at a level considered appropriate by management. Factors impacting the provision include loan portfolio growth, changes in the quality and composition of the loan portfolio, the level of nonperforming loans, delinquency and charge-off trends, and current economic conditions.

The provision expense for the third quarter of 2020 was $1.6 million, an increase of $1.2 million, or 320.6%, from $378,000 for the third quarter of 2019. The provision for loan losses for the nine months ended September 30, 2020, was $3.6 million, an increase of $2.2 million, or 152.7%, from $1.4 million for the nine months ended September 30, 2019. The increase in provision expense for both the three and nine month periods was due to expected economic pressures relating to the COVID-19 pandemic.

Due to economic uncertainties related to the pandemic shutdowns and future risks associated with the continuing COVID-19 pandemic, we are closely monitoring asset quality and will adjust the provision for loan losses as needed in the fourth quarter of 2020.

Noninterest Income

Our primary sources of noninterest income are service charges on deposit accounts, debit card fees, fees related to the sale of mortgage loans, brokerage income from advisory services, and other loan and deposit fees. Noninterest income increased $2.0 million to $6.4 million for the third quarter of 2020 compared to $4.4 million for the third quarter of 2019. The increase in noninterest income was mainly due to higher mortgage loan income, higher net debit card income, and a larger gain on sale of securities, partially offset by a decrease in service charges on deposit accounts.

Noninterest income increased $5.2 million to $17.0 million for the nine months ended September 30, 2020, compared to $11.8 million for the nine months ended September 30, 2019. The increase in noninterest income was due to higher mortgage loan income; a larger gain on sale of securities; and higher net debit card income, loan and deposit income, and brokerage income. These increases were partially offset by lower service charges on deposit accounts.

The table below presents, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
(dollars in thousands)	**2020**	**2019**	**Increase (Decrease)**		**2020**	**2019**	**Increase (Decrease)**	
Noninterest income:								
Service charges on deposit accounts	$ 1,055	$ 1,195	$ (140)	(11.7)%	$ 3,001	$ 3,304	$ (303)	(9.2)%
Debit card income, net	978	833	145	17.4 %	2,629	2,314	315	13.6 %
Mortgage loan income	2,884	1,014	1,870	184.4 %	5,720	2,186	3,534	161.7 %
Brokerage income	586	561	25	4.5 %	1,725	1,552	173	11.1 %
Loan and deposit income	413	404	9	2.2 %	1,340	1,131	209	18.5 %
Bank-owned life insurance income	139	137	2	1.5 %	425	407	18	4.4 %
Gain (Loss) on equity securities	—	30	(30)	(100.0)%	96	133	(37)	(27.8)%
Gain (Loss) on sale of securities	125	5	120	*	1,348	5	1,343	*
SBIC income	200	139	61	43.9 %	568	634	(66)	(10.4)%
Other income (loss)	40	68	(28)	(41.2)%	122	115	7	6.1 %
Total noninterest income	$ 6,420	$ 4,386	$ 2,034	46.4 %	$ 16,974	$ 11,781	$ 5,193	44.1 %

*Not meaningful

Mortgage loan income increased $1.9 million and $3.5 million for the three and nine months ended September 30, 2020, respectively, when compared to the same periods in 2019. Due to the lower mortgage interest rate environment in 2020, mortgage loan production activity increased 170.0% and 135.2% for the three months and nine months ended September 30, 2020, respectively, when compared to the same periods in 2019.

The gain on the sale of securities was $125,000 for the third quarter of 2020 and $1.3 million for the nine months ended September 30, 2020. In the third quarter of 2020, selected mortgage-backed securities were sold for a gain. For the nine months ended September 30, 2020, the gain was primarily a result of proactive portfolio restructuring transactions that occurred in the first and second quarters of 2020 in response to the lower interest rate environment. We obtained favorable pricing on the securities sold, which resulted in the gain.

Debit card income, net, increased $145,000 to $978,000 for the third quarter of 2020 compared to the third quarter of 2019 and increased $315,000 to $2.6 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019. These increases were due to increases in the number of deposit accounts, debit cards issued, and debit card transactions.

Service charges on deposit accounts decreased $140,000 to $1.1 million for the third quarter of 2020 compared to the third quarter of 2019 and decreased $303,000 to $3.0 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019. These decreases were partially due to fewer customer deposit non-sufficient fund transactions. In addition, the nine months ended September 30, 2020 was impacted by approximately $168,000 in reduced deposit fees due to temporary fee reductions in the second quarter of 2020 in response to the COVID-19 pandemic.

Loan and deposit income increased $209,000 to $1.3 million for the nine months ended September 30, 2020, compared to the same period in 2019. The increase was primarily due to $230,000 of nonrecurring commercial real estate loan fees in the second quarter of 2020.

Brokerage income increased $173,000 to $1.7 million for the nine months ended September 30,2020, compared to the same period in 2019. This increase was primarily due to the addition of new brokerage clients and accounts in the past year, partially offset by a reduction in revenue in the second quarter of 2020 resulting from an investment group broker-dealer partner conversion. In the third quarter of 2020, brokerage revenue and activity returned to normal levels. Assets under management were $603.6 million as of September 30, 2020.

Operating Expenses

Operating expenses are composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships, and providing services. Operating expenses increased $1.4 million to $13.3 million for the third quarter of 2020 compared to $11.9 million for the third quarter of 2019. The increase in operating expenses was mainly due to higher personnel expenses, regulatory assessment expenses, and occupancy and equipment expenses.

Operating expenses increased $2.6 million to $38.1 million for the nine months ended September 30, 2020, compared to $35.4 million for the nine months ended September 30, 2019. The increase in operating expenses was primarily a result of higher personnel expenses, legal and professional expenses, and technology expenses, partially offset by lower other operating expenses and lower advertising expenses.

The following table presents, for the periods indicated, the major categories of operating expenses:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
(dollars in thousands)	2020	2019	Increase (Decrease)		2020	2019	Increase (Decrease)	
Operating expenses:								
Personnel expenses	$ 8,077	$ 7,007	$ 1,070	15.3 %	$ 23,072	$ 20,652	$ 2,420	11.7 %
Non-staff expenses:								
Occupancy and equipment expenses	1,319	1,199	120	10.0 %	3,739	3,708	31	0.8 %
Technology expenses	661	595	66	11.1 %	1,863	1,697	166	9.8 %
Advertising	240	216	24	11.1 %	717	821	(104)	(12.7)%
Other business development expenses	233	266	(33)	(12.4)%	782	827	(45)	(5.4)%
Data processing expense	491	479	12	2.5 %	1,412	1,420	(8)	(0.6)%
Other taxes	433	425	8	1.9 %	1,308	1,234	74	6.0 %
Loan and deposit expenses	289	285	4	1.4 %	808	901	(93)	(10.3)%
Legal and professional expenses	487	436	51	11.7 %	1,587	1,138	449	39.5 %
Regulatory assessment expenses	172	37	135	364.9 %	337	312	25	8.0 %
Other operating expenses	849	940	(91)	(9.7)%	2,445	2,737	(292)	(10.7)%
Total operating expenses	$ 13,251	$ 11,885	$ 1,366	11.5 %	$ 38,070	$ 35,447	$ 2,623	7.4 %

Personnel expenses are the largest component of operating expenses and include payroll expenses, incentive compensation, benefit plans, health insurance, and payroll taxes. Personnel expenses increased $1.1 million to $8.1 million for the third quarter of 2020 compared to the same quarter prior year and increased $2.4 million to $23.1 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019. As of September 30, 2020 and 2019, we had 342 and 323 full-time equivalent employees, respectively. The increase in personnel for both periods was related to additional staff resulting from our expansion in the Northshore, Southwest, and Acadiana markets, as well as an increase in staff to support operational growth. Also, commission compensation increased for the three and nine months ended September 30, 2020, compared to the same periods in 2019, primarily due to significantly higher mortgage loan activity.

Legal and professional expenses increased $449,000 to $1.6 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019. This increase was a result of increased legal expenses and new expenses related to operating as a public company.

Technology expenses were $1.9 million and $1.7 million for the nine months ended September 30, 2020 and 2019, respectively. The $166,000 increase in 2020 was a result of higher software expense due to increased mortgage loan activity, additional software to enhance operational efficiency, cybersecurity and information security infrastructure enhancements, and COVID-19 pandemic preparation and response efforts.

Regulatory assessment expenses increased $135,000 to $172,000 for the third quarter of 2020 compared to the same quarter prior year. The Bank was notified by the FDIC that it did not have an FDIC insurance assessment for the third quarter of 2019. Therefore, no FDIC insurance assessment expense was incurred for the third quarter of 2019 compared to $133,000 for the third quarter of 2020.

Occupancy and equipment expenses for the third quarter of 2020 totaled $1.3 million, an increase of $120,000, compared to the same quarter prior year. This increase was mainly due to the recent expansion in our Northshore, Southwest, and Acadiana markets as well as increased supplies and services needed in all banking centers as a result of the COVID-19 pandemic.

Other operating expenses decreased by $292,000 to $2.4 million for the nine months ended September 30, 2020, compared to the same period prior year. This decrease was primarily a result of a $311,000 nonrecurring expense reduction related to the dissolution of an acquired subsidiary in the first quarter of 2020.

Advertising expense decreased by $104,000 to $717,000 for the nine months ended September 30, 2020, compared to the same period prior year. This decrease was a result of a reduction of media campaigns and fewer marketing events in 2020 due to the COVID-19 pandemic.

Income Tax Expense

The amount of income tax expense is influenced by the amounts of our pre-tax income, tax-exempt income, and other nondeductible expenses. Deferred tax assets and liabilities are reflected at currently enacted income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Our effective income tax rates have differed from the U.S. statutory rate due to the effect of tax-exempt income from loans, securities, and life insurance policies, and the income tax effects associated with stock-based compensation. The CARES Act and Families First Coronavirus Response Act passed in March of 2020 did not have a material impact on our income tax expense or our effective tax rate for the second and third quarters of 2020.

For the quarters ended September 30, 2020 and 2019, income tax expense totaled $1.6 million and $1.5 million, respectively. The increase in income tax expense was primarily due to the increase in pre-tax income. Our effective income tax rates for the quarters ended September 30, 2020 and 2019, were 17.9% and 17.7%, respectively.

For the nine months ended September 30, 2020 and 2019, income tax expense totaled $4.7 million and $4.1 million, respectively. Our effective income tax rate for the nine months ended September 30, 2020 and 2019, was 18.5%.

FINANCIAL CONDITION

General

As of September 30, 2020, total assets were $2.49 billion which was $502.7 million, or 25.3%, higher than total assets of $1.99 billion as of December 31, 2019. Within total assets, compared to December 31, 2019, loans HFI increased by $210.3 million, securities AFS increased by $132.2 million, and interest-bearing deposits in other banks increased by $132.1 million. For liabilities, compared to December 31, 2019, deposits increased by $472.8 million, or 27.5%. We had no borrowings as of September 30, 2020 or December 31, 2019. As of September 30, 2020, the loans HFI to deposits ratio was 75.17%, compared to 83.60% as of December 31, 2019, and the noninterest-bearing deposits to total deposits ratio was 42.08%, compared to 33.98% as of December 31, 2019. Stockholders' equity increased $26.2 million during the first nine months of 2020 to $278.1 million as of September 30, 2020.

Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. As of September 30, 2020, our securities portfolio was 18.9% of total assets. It is designed primarily to provide and maintain liquidity, generate a favorable return on investments without incurring unnecessary interest rate and credit risk, and complement our lending activities. We may invest in various types of liquid assets that are permissible under governing regulations and approved by our investment policy, which include U.S. Treasury obligations, U.S. government agency obligations, certificates of deposit of insured domestic banks, mortgage-backed and mortgage-related securities, corporate notes having an investment rating of "A" or better, municipal bonds, and certain equity securities.

Securities AFS were $467.7 million as of September 30, 2020, an increase of $132.2 million, or 39.4%, from $335.6 million as of December 31, 2019. Investment activity for the nine months ended September 30, 2020, included $293.5 million of securities purchased, partially offset by $93.4 million in sales and $75.3 million in maturities, prepayments, and calls. The net unrealized gain of the securities AFS portfolio increased $8.1 million for the nine months ended September 30, 2020.

Equity securities were $4.0 million and $3.9 million as of September 30, 2020 and December 31, 2019, respectively. There were no purchases or sales of equity securities for the nine months ended September 30, 2020.

During the nine months ended September 30, 2020, we sold $93.4 million of securities AFS, consisting of a mix across various sectors that had short average lives and lower yields, along with a strategic group of higher yielding municipal securities which also had short average lives. A large portion of the securities sold were mortgage-backed securities which had faster prepayment speeds or were owned at higher book prices, and due to accelerated prepayment speeds, the yields had declined. We were able to obtain a gain of $1.3 million on these transactions due to timing and favorable pricing within the market. We reinvested the proceeds into securities with improved structure for the current rate environment. These transactions reduced the amount of securities repricing in the short-term, rebalanced cash flows for the portfolio, mitigated higher amortization expense for the mortgage-backed sector, and including the gain, are expected to partially offset our exposure to tighter margins and the low rate environment.

During the nine months ended September 30, 2020, due to the low interest rate environment, we reallocated $187.2 million from federal funds sold yielding 0.37% for the nine months ended September 30, 2020, to securities yielding 1.47%. Although this reallocation has negatively impacted the overall securities portfolio yield, we expect it to improve future interest income by moving these funds from federal funds sold to a higher yielding investment.

The securities portfolio tax-equivalent yield was 2.12% for the nine months ended September 30, 2020, compared to 2.31% for the nine months ended September 30, 2019. The decrease in yield for the nine months ended September 30, 2020, compared to the same period for 2019, was due to accelerated prepayment speeds and increasing amortization expense on our mortgage-backed securities, combined with the $187.2 million in funds reallocated from federal funds sold to securities with yields lower than the existing portfolio yield.

The carrying values of our securities classified as AFS are adjusted for unrealized gain or loss, and any unrealized gain or loss is reported on an after-tax basis as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of September 30, 2020, the net unrealized gain of the securities AFS portfolio was $8.1 million, as compared to a net unrealized loss of $30,000 as of December 31, 2019.

Equity securities, consisting of a mutual fund, are carried at fair value on the consolidated balance sheets with periodic changes in value recorded through the consolidated statements of income. The fair value of our equity securities was $4.0 million as of September 30, 2020, with a recognized gain of $96,000 for the nine months ended September 30, 2020, compared to a fair value of $3.9 million as of December 31, 2019, with a recognized gain of $115,000 for the year ended December 31, 2019.

The following tables summarize the amortized cost and estimated fair value of our securities by type as of the dates indicated. As of September 30, 2020, other than securities issued by U.S. government agencies or government sponsored enterprises, our securities portfolio did not contain securities of any one issuer with an aggregate book value in excess of 10.0% of our stockholders' equity.

	September 30, 2020			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities AFS:				
Mortgage-backed securities	$ 278,786	$ 3,995	$ (268)	$ 282,513
Municipal bonds	169,954	4,252	(82)	174,124
U.S. agency securities	10,903	210	(6)	11,107
Total Securities AFS	$ 459,643	$ 8,457	$ (356)	$ 467,744

	December 31, 2019			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities AFS:				
Mortgage-backed securities	$ 236,572	$ 299	$ (1,200)	$ 235,671
Municipal bonds	91,929	1,108	(279)	92,758
U.S. agency securities	7,102	46	(4)	7,144
Total Securities AFS	$ 335,603	$ 1,453	$ (1,483)	$ 335,573

The following table shows the fair value of securities AFS which mature during each of the periods indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures.

	Contractual Maturity as of September 30, 2020									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
(dollars in thousands)	Amount	Yield[(1)]	Amount	Yield[(1)]	Amount	Yield[(1)]	Amount	Yield[(1)]	Amount	Yield[(1)]
Securities AFS:										
Mortgage-backed securities	$ 1,748	1.79 %	$ 4,232	1.81 %	$ 23,101	1.78 %	$ 253,432	1.51 %	$ 282,513	1.53 %
Municipal bonds	4,533	2.19 %	31,434	1.73 %	26,172	2.71 %	111,985	2.93 %	174,124	2.66 %
U.S. agency securities	—	— %	6,342	0.88 %	3,770	2.55 %	995	0.73 %	11,107	1.42 %
Total Securities AFS	$ 6,281	2.08 %	$ 42,008	1.61 %	$ 53,043	2.29 %	$ 366,412	1.94 %	$ 467,744	1.95 %

(1) Tax equivalent projected book yield as of September 30, 2020.

Loan Portfolio

Our loan portfolio is our largest category of earning assets, and interest income earned on our loan portfolio is our primary source of income. We maintain a diversified loan portfolio with a focus on commercial real estate, one-to-four family residential, and commercial and industrial loans. Loans HFI as of September 30, 2020, were $1.65 billion, an increase of $210.3 million, or 14.6%, compared to $1.44 billion as of December 31, 2019. The increase in loans HFI was primarily due to the issuance of PPP loans in the second quarter of 2020.

In the second quarter of 2020, Red River Bank originated 1,384 PPP loans totaling $199.0 million, with an average PPP loan size of $144,000. As of September 30, 2020, unamortized PPP loan origination fees were $5.4 million, resulting in $193.5 million of PPP loans, net of deferred income, or 11.7% of loans HFI. On September 14, 2020, we began accepting PPP loan forgiveness applications, and as of September 30, 2020, 20.6% of our PPP loan customers have submitted forgiveness applications.

On October 8, 2020, the SBA and U.S. Treasury authorized a streamlined PPP loan forgiveness application process for PPP loans of $50,000 or less. Approximately 54% of our PPP loan accounts may be eligible for the streamlined process. As of October 31, 2020, we have received forgiveness applications from 37.0% of our PPP loan customers.

As of September 30, 2020, loans HFI excluding $193.5 million of PPP loans (non-GAAP), net of deferred income, were $1.46 billion, an increase of $16.8 million, or 1.2%, from December 31, 2019. The increase in non-PPP loans was attributable to new loan activity in our newer markets, mainly in the third quarter of 2020. For calculations and reconciliations to GAAP of non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

Loans HFI by category, non-PPP loans HFI (non-GAAP), and loans HFS are summarized below as of the dates indicated:

	September 30, 2020		December 31, 2019	
(dollars in thousands)	Amount	Percent	Amount	Percent
Real estate:				
Commercial real estate	$ 567,037	34.4 %	$ 531,990	37.0 %
One-to-four family residential	426,758	25.9 %	420,020	29.2 %
Construction and development	129,879	7.9 %	132,461	9.2 %
Commercial and industrial	249,313	15.1 %	267,940	18.6 %
SBA PPP, net of deferred income	193,532	11.7 %	—	— %
Tax-exempt	59,418	3.6 %	56,494	3.9 %
Consumer	23,335	1.4 %	30,019	2.1 %
Total loans HFI	$ 1,649,272	100.0 %	$ 1,438,924	100.0 %
Total non-PPP loans HFI (non-GAAP)	$ 1,455,740		$ 1,438,924	
Total loans HFS	$ 23,358		$ 5,089	

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Loan Payment Deferments

During the first quarter and continuing into the second quarter of 2020, we granted 90-day loan payment deferments for requesting borrowers impacted by pandemic-related economic shutdowns. Through June 30, 2020, loans with payment deferments totaled $272.2 million, or 19.1% of non-PPP loans HFI (non-GAAP).

As of September 30, 2020, $23.3 million, or 1.6% of non-PPP loans HFI (non-GAAP), remained on active deferral and were deferrals of principal payments only. Active deferrals included approved second 90-day deferrals of $22.4 million.

As of October 31, 2020, $12.4 million or 0.9%, of non-PPP loans HFI (non-GAAP), remained on active deferral and included approved second 90-day deferrals of $12.2 million.

In accordance with interagency regulatory guidance issued in March 2020, these short-term deferrals are not deemed to be TDRs to the extent they meet the terms of such guidance. For calculations and reconciliations to GAAP of non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

Industry and Other Portfolio Sectors

We have identified certain sectors within our loan portfolio that we believe have a heightened overall level of risk due to pandemic-related macro-economic conditions. The following table shows non-PPP loans HFI (non-GAAP) in these sectors as of the date indicated:

	September 30, 2020				December 31, 2019	
	Loans		Loans with Active COVID-19 Payment Deferment		Loans	
(dollars in thousands)	Amount	Percent of Non-PPP Loans HFI (non-GAAP)	Amount	Percent of Non-PPP Loans HFI (non-GAAP)	Amount	Percent of Non-PPP Loans HFI (non-GAAP)
Hospitality services:						
Hotels and other overnight lodging	$ 25,287	1.7 %	$ 15,539	1.1 %	$ 24,297	1.7 %
Restaurants - full service	10,594	0.7 %	1,340	0.1 %	11,444	0.8 %
Restaurants - limited service	12,508	0.9 %	—	— %	8,123	0.6 %
Other	5,560	0.4 %	—	— %	3,340	0.2 %
Total hospitality services	$ 53,949	3.7 %	$ 16,879	1.2 %	$ 47,204	3.3 %
Hospitality services average loan size	$ 383				$ 319	
Retail trade:						
Automobile dealers	$ 36,096	2.5 %	$ —	— %	$ 39,069	2.7 %
Other retail	21,345	1.5 %	—	— %	24,772	1.7 %
Total retail trade	$ 57,441	4.0 %	$ —	— %	$ 63,841	4.4 %
Retail trade average loan size	$ 326				$ 340	
Energy	$ 26,767	1.8 %	$ —	— %	$ 31,777	2.2 %
Energy average loan size	$ 704				$ 836	
Total sectors	$ 138,157	9.5 %	$ 16,879	1.2 %	$ 142,822	9.9 %

In the hotels and other overnight lodging sector, we have one property financed in tourism-driven downtown New Orleans, Louisiana. The remaining hotel properties in our portfolio are located throughout Louisiana and are not located in areas that are primarily tourism-driven. The majority of our restaurant credits are in fast and quick service concepts and are not located in tourism-driven areas.

The following table shows non-PPP loans HFI (non-GAAP) in other non-industry specific areas that we believe may be affected by the pandemic:

	September 30, 2020	
(dollars in thousands)	Amount	Percent of Non-PPP Loans HFI (non-GAAP)
Loans collateralized by non-owner occupied properties leased to retail establishments	$ 43,914	3.0 %
Credit card loans:		
Commercial	$ 1,461	0.1 %
Consumer	875	0.1 %
Total credit card loans	$ 2,336	0.2 %

Our health care loans are made up of a diversified portfolio of health care providers. As of September 30, 2020, health care credits were $146.0 million, or 10.0% of non-PPP loans HFI (non-GAAP), compared to $133.4 million, or 9.3% of non-PPP loans HFI as of December 31, 2019. The average health care loan size was $322,000 as of September 30, 2020, and $274,000 as of December 31, 2019.

Within the health care sector, nursing and residential care loans were 4.1% of non-PPP loans HFI (non-GAAP) as of September 30, 2020, and 5.3% as of December 31, 2019. Loans to physician and dental practices were 5.7% of non-PPP loans HFI (non-GAAP) as of September 30, 2020, and 3.9% as of December 31, 2019. As of September 30, 2020, the health care sector had no active deferrals.

None of the markets in which we directly operate are characterized by a high degree of tourism-driven hospitality services. Likewise, our geographic footprint is not closely aligned with the bulk of Louisiana’s energy-concentrated local economies. We believe this provides our portfolio with some degree of insulation against the current stress in both of those segments.
The following table summarizes non-PPP loans HFI (non-GAAP) by market of origin:

	September 30, 2020	
(dollars in thousands)	Amount	Percent of Non-PPP Loans HFI (non-GAAP)
Central	$ 608,460	41.8 %
Northwest	340,638	23.4 %
Capital	395,573	27.1 %
Southwest	69,449	4.8 %
Northshore	41,620	2.9 %
Total non-PPP loans HFI	$ 1,455,740	100.0 %

For further information on non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

Nonperforming Assets

NPAs consist of nonperforming loans and property acquired through foreclosures or repossession. Nonperforming loans include loans that are contractually past due 90 days or more and loans that are on nonaccrual status. Loans are considered past due when principal and interest payments have not been received as of the date such payments are due.

Asset quality is managed through disciplined underwriting policies, continual monitoring of loan performance, and focused management of NPAs. There can be no assurance, however, that the loan portfolio will not become subject to losses due to declines in economic conditions, deterioration in the financial condition of our borrowers, or a decline in the value of collateral.

NPAs totaled $5.2 million as of September 30, 2020, down $1.3 million, or 19.3%, from $6.5 million as of December 31, 2019, primarily due to the partial paydown and ultimate charge-off of a nonaccrual energy credit and the sale of foreclosed assets, partially offset by additional loans placed on nonaccrual status in the third quarter. The ratio of NPAs to total assets improved to 0.21% as of September 30, 2020, from 0.33% as of December 31, 2019.

Nonperforming loan and asset information is summarized below:

(dollars in thousands)	September 30, 2020	December 31, 2019
Nonperforming loans:		
Nonaccrual loans	$ 4,305	$ 5,319
Accruing loans 90 or more days past due	82	—
Total nonperforming loans	4,387	5,319
Foreclosed assets:		
Real estate	828	1,128
Other	—	18
Total foreclosed assets	828	1,146
Total NPAs	$ 5,215	$ 6,465
Troubled debt restructurings:[1,2]		
Nonaccrual loans	$ 1,239	$ 3,185
Accruing loans 90 or more days past due	—	—
Performing loans	1,377	1,695
Total TDRs	$ 2,616	$ 4,880
Nonperforming loans to loans HFI[1]	0.27 %	0.37 %
Nonperforming loans to non-PPP loans HFI (non-GAAP)[1,3]	0.30 %	0.37 %
NPAs to total assets	0.21 %	0.33 %

[1] Troubled debt restructurings – nonaccrual and accruing loans 90 or more days past due are included in the respective components of nonperforming loans.
[2] In accordance with interagency regulatory guidance issued in March 2020, COVID-19 pandemic-related short-term deferrals are not deemed to be TDRs to the extent they meet the terms of such guidance.
[3] Non-GAAP financial measure. For calculations and reconciliations to GAAP of non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

Nonaccrual loans are summarized below by category:

(in thousands)	September 30, 2020	December 31, 2019
Real estate:		
Commercial real estate	$ 1,857	$ 1,278
One-to-four family residential	729	607
Construction and development	—	38
Commercial and industrial	1,714	3,370
SBA PPP, net of deferred income	—	—
Tax-exempt	—	—
Consumer	5	26
Total nonaccrual loans	$ 4,305	$ 5,319

Potential Problem Loans

From a credit risk standpoint, we classify loans in one of five categories: pass, special mention, substandard, doubtful, or loss. Loan classifications reflect a judgment about the risk of default and loss associated with the loans. Classifications are reviewed periodically and adjusted to reflect the degree of risk and loss believed to be inherent in each loan. The methodology is structured so that specific reserve allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Loans classified as pass are of satisfactory quality and do not require a more severe classification.

Loans classified as special mention have potential weaknesses that deserve management's close attention. If these weaknesses are not corrected, repayment possibilities for the loan may deteriorate. However, the loss potential does not warrant substandard classification.

Loans classified as substandard have well defined weaknesses which jeopardize normal repayment of principal and interest. Prompt corrective action is required to reduce exposure and to assure adequate remedial actions are taken by the borrower. If these weaknesses do not improve, loss is possible. Loans classified as doubtful have well defined weaknesses that make full collection improbable. Loans classified as loss are considered uncollectible and charged-off to the allowance for loan losses.

As of September 30, 2020, loans classified as pass were 98.9% of loans HFI, and loans classified as special mention and substandard were 0.1% and 1.0%, respectively, of loans HFI. There were no loans as of September 30, 2020, classified as doubtful or loss. As of December 31, 2019, loans classified as pass were 97.1% of loans HFI, and loans classified as special mention and substandard were 2.0% and 0.9%, respectively, of loans HFI. There were no loans as of December 31, 2019, classified as doubtful or loss.

Allowance for Loan Losses

The allowance for loan losses provides for known and inherent losses in the loan portfolio based upon management's best assessment of the loan portfolio at each balance sheet date. It is maintained at a level estimated to be adequate to absorb potential losses through periodic changes to loan losses.

In connection with the review of the loan portfolio, risk elements attributable to particular loan types or categories are considered in assessing the quality of individual loans. Some of the risk elements considered include:

- for commercial real estate loans, the debt service coverage ratio (income from the business in excess of operating expenses compared to loan repayment requirements); operating results of the owner in the case of owner occupied properties; the loan to value ratio; the age and condition of the collateral; and the volatility of income, property value, and future operating results typical of properties of that type;

- for one-to-four family residential mortgage loans, the borrower’s ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability; the loan-to-value ratio; and the age, condition, and marketability of the collateral;

- for construction and development loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease; the quality and nature of contracts for presale or prelease, if any; experience and ability of the developer; and the loan to value ratio; and

- for commercial and industrial loans, the debt service coverage ratio; the operating results of the commercial, industrial, or professional enterprise; the borrower’s business, professional, and financial ability and expertise; the specific risks and volatility of income and operating results typical for businesses in that category; the value, nature, and marketability of collateral; and the financial resources of the guarantor(s), if any.

When effective, the CECL allowance model, prescribed by *ASU No. 2016-13*, will require measurement of expected credit losses based on historical experience, current conditions, and reasonable supportable forecasts. This model will replace the existing incurred loss model. As an SEC registrant with smaller reporting company filing status as determined on June 30, 2019, CECL is effective for us on January 1, 2023. Refer to "Item 1. Financial Statements - Note 1 - Summary of Significant Accounting Policies - Recent Accounting Pronouncements" in this report for more information on *ASU No. 2016-13*.

As of September 30, 2020, the allowance for loan losses was $16.2 million, or 0.98% of loans HFI, and 1.11% of non-PPP loans HFI (non-GAAP). As of December 31, 2019, the allowance for loan losses totaled $13.9 million, or 0.97% of loans HFI. The $2.3 million increase in the allowance for loan losses for the nine months ended September 30, 2020, was due to $3.6 million from the provision for loan loss expense, partially offset by $1.3 million of net charge-offs on loans. The provision for loan losses for the nine months ended September 30, 2020, was $3.6 million, an increase of $2.2 million, or 152.7%, from $1.4 million for the nine months ended September 30, 2019. The increase in the provision for loan losses was due to expected economic pressures relating to the COVID-19 pandemic. Net charge-offs for the nine months ended September 30, 2020, were $1.3 million, primarily due to the charge-off of a nonaccrual energy credit in the second quarter of 2020. For calculations and reconciliations to GAAP of non-GAAP financial measures, see " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

Due to economic uncertainties related to the pandemic shutdowns and natural disasters affecting Louisiana, and future risks associated with COVID-19 pandemic levels, we are closely monitoring asset quality and will adjust the provision for loan losses as needed in the fourth quarter of 2020.

The following table displays activity in the allowance for loan losses for the periods shown:

	Nine Months Ended September 30,	
(dollars in thousands)	2020	2019
Loans HFI	$ 1,649,272	$ 1,413,162
Non-PPP Loans HFI (non-GAAP)[(1)]	$ 1,455,740	$ 1,413,162
Average loans	$ 1,571,318	$ 1,375,129
Allowance for loan losses at beginning of period	$ 13,937	$ 12,524
Provision for loan losses	3,618	1,432
Charge-offs:		
Real estate:		
One-to-four family residential	—	(15)
Construction and development	(14)	—
Commercial and industrial	(1,316)	(574)
Consumer	(254)	(240)
Total charge-offs	(1,584)	(829)
Recoveries:		
Real estate:		
One-to-four family residential	8	3
Construction and development	1	88
Commercial and industrial	83	582
Consumer	129	106
Total recoveries	221	779
Net (charge-offs)/recoveries	(1,363)	(50)
Allowance for loan losses at end of period	$ 16,192	$ 13,906
Allowance for loan losses to loans HFI	0.98 %	0.98 %
Allowance for loan losses to non-PPP loans HFI (non-GAAP)[(1)]	1.11 %	0.98 %
Net charge-offs to average loans	0.09 %	0.00 %

[(1)] Non-GAAP financial measure. Calculations of this measure and reconciliations to GAAP are included in " - Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

We believe the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above. Future provisions for loan losses are subject to ongoing evaluations of the factors and loan portfolio risks described above, including economic pressures related to COVID-19 and natural disasters affecting the state of Louisiana. A decline in market area economic conditions, deterioration of asset quality, or growth in portfolio size could cause the allowance to become inadequate and material additional provisions for loan losses could be required.

Deposits

Deposits are the primary funding source for loans and investments. We offer a variety of deposit products designed to attract and retain consumer, commercial, and public entity customers. These products consist of noninterest and interest-bearing checking accounts, savings accounts, money market accounts, and time deposit accounts. Deposits are gathered from individuals, partnerships, corporations, and public entities located primarily in our market areas. We do not have any internet-sourced or brokered deposits.

Total deposits increased $472.8 million, or 27.5%, to $2.19 billion as of September 30, 2020, from $1.72 billion as of December 31, 2019. Noninterest-bearing deposits increased by $338.4 million, or 57.8%, to $923.3 million. The increase in noninterest-bearing deposits was primarily due to customers receiving funds from various government stimulus programs, customers depositing the proceeds from their PPP loans, and strong deposit account opening activity. Noninterest-bearing deposits as a percentage of total deposits were 42.08% as of September 30, 2020, compared to 33.98% as of December 31, 2019. Interest-bearing deposits increased by $134.4 million, or 11.8%, to $1.27 billion with the largest increase in money market accounts. The increase in money market accounts was primarily a result of strong deposit account opening activity, a large, temporary deposit in late September 2020, and commercial customers maintaining larger deposit balances.

The following table presents our deposits by account type as of the dates indicated:

(dollars in thousands)	September 30, 2020		December 31, 2019		Change from December 31, 2019 to September 30, 2020	
	Balance	% of Total	Balance	% of Total	$ Change	% Change
Noninterest-bearing demand deposits	$ 923,286	42.1 %	$ 584,915	34.0 %	$ 338,371	57.8 %
Interest-bearing deposits:						
NOW accounts	304,616	13.9 %	331,374	19.2 %	(26,758)	(8.1)%
Money market accounts	498,293	22.7 %	367,689	21.4 %	130,604	35.5 %
Savings accounts	135,396	6.2 %	103,984	6.0 %	31,412	30.2 %
Time deposits < $100,000	108,021	4.9 %	110,636	6.4 %	(2,615)	(2.4)%
Time deposits $100,000 to $250,000	135,935	6.2 %	131,957	7.7 %	3,978	3.0 %
Time deposits > $250,000	88,393	4.0 %	90,565	5.3 %	(2,172)	(2.4)%
Total interest-bearing deposits	$ 1,270,654	57.9 %	$ 1,136,205	66.0 %	$ 134,449	11.8 %
Total deposits	$ 2,193,940	100.0 %	$ 1,721,120	100.0 %	$ 472,820	27.5 %

Our depositors are a mix of commercial entities, consumers, and public agencies. Commercial deposits increased $408.9 million to $1.07 billion as of September 30, 2020, due to commercial customers depositing the proceeds from their PPP loans, strong deposit account opening activity, a large, temporary deposit in late September 2020, and commercial customers maintaining larger deposit balances. The following table presents deposits by customer type as of the dates indicated:

(dollars in thousands)	September 30, 2020		December 31, 2019		Change from December 31, 2019 to September 30, 2020	
	Balance	% of Total	Balance	% of Total	$ Change	% Change
Consumer	$ 1,002,954	45.7 %	$ 895,342	52.0 %	$ 107,612	12.0 %
Commercial	1,065,704	48.6 %	656,814	38.2 %	408,890	62.3 %
Public	125,282	5.7 %	168,964	9.8 %	(43,682)	(25.9)%
Total deposits	$ 2,193,940	100.0 %	$ 1,721,120	100.0 %	$ 472,820	27.5 %

The maturity distribution of our time deposits of $100,000 or more are summarized below:

(in thousands)	September 30, 2020
Three months or less	$ 44,744
Over three months through six months	35,157
Over six months through 12 months	78,264
Over 12 months through three years	44,827
Over three years	21,336
Total	$ 224,328

Borrowings

The Company has established various lines of credit with the FHLB and other correspondent banks to provide additional sources of operating funds. On April 15, 2020, in order to fund PPP loans, the Company borrowed $50.0 million from the FHLB for 90 days at a rate of 0.35% under its existing line of credit. The Company's FHLB line of credit is collateralized by eligible Red River Bank loans. Due to having adequate liquidity, the $50.0 million was paid off on May 19, 2020.

Equity and Regulatory Capital Requirements

Total stockholders' equity as of September 30, 2020, was $278.1 million, compared to $251.9 million as of December 31, 2019, an increase of $26.2 million, or 10.4%. This increase was attributable to $20.9 million of net income for the nine months ended September 30, 2020, a $6.4 million, net of tax, market adjustment to accumulated other comprehensive income related to securities AFS, and $313,000 of stock compensation, partially offset by $1.3 million in cash dividends and $122,000 for the repurchase of shares.

On August 27, 2020, our board of directors approved a stock repurchase program. The repurchase program authorizes us to purchase up to $3.0 million of our outstanding shares of common stock through August 27, 2021. Repurchases may be made from time to time in the open market at prevailing prices and based on market conditions, or in privately negotiated transactions. For the quarter ended September 30, 2020, we repurchased 2,824 shares, for $122,000.

As part of the directive under the Economic Growth Act, on September 17, 2019, the FDIC and other federal bank regulatory agencies approved the CBLR framework. This optional framework became effective January 1, 2020, and is available as an alternative to the Basel III risk-based capital framework. The CBLR framework provides for a simple measure of capital adequacy for certain community banking organizations. Specifically, depository institutions and depository institution holding companies that have less than $10.0 billion in total consolidated assets and meet other qualifying criteria, including a Tier 1 leverage ratio of greater than 9.00% (subsequently temporarily reduced to 8.00% as a COVID-19 relief measure), are considered qualifying community banking organizations and are eligible to opt into the CBLR framework and replace the applicable Basel III risk-based capital requirements.

As of September 30, 2020, the Company and the Bank qualify for the CBLR framework. Management does not intend to utilize the CBLR framework that became effective January 1, 2020.

LIQUIDITY AND ASSET-LIABILITY MANAGEMENT

Liquidity

Liquidity involves our ability to raise funds to support asset growth and potential acquisitions or to reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements, and otherwise to operate on an ongoing basis and manage unexpected events. For the nine months ended September 30, 2020, and the year ended December 31, 2019, liquidity needs were primarily met by core deposits, security and loan maturities, and cash flows from amortizing security and loan portfolios.

Our most liquid assets are cash and short-term investments that include both interest-earning demand deposits and securities AFS. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period. Access to purchased funds from correspondent banks and overnight advances from the FHLB and the Federal Reserve Bank of Atlanta are also available. Purchased funds from correspondent banks and overnight advances have been utilized on occasion to meet funding obligations, although we do not generally rely on these external funding sources.

Our primary source of funds is deposits, and our primary use of funds is the funding of loans. We invest excess deposits in interest-earning deposits at other banks or at the Federal Reserve, federal funds sold, securities, or other short-term liquid investments until the deposits are needed to fund loan growth or other obligations. Our average total loans increased $182.6 million, or 13.2%, for the nine months ended September 30, 2020, as compared to average total loans for the twelve months ended December 31, 2019. The increase in average total loans is primarily due to PPP loans originated during the second quarter of 2020. Our average deposits increased $290.4 million, or 17.6%, for the nine months ended September 30, 2020, as compared to the average deposits for the twelve months ended December 31, 2019. The increase in average total deposits was primarily due to customers receiving funds from various government stimulus programs, customers depositing the proceeds from their PPP loans, strong deposit account opening activity, a large, temporary deposit in late September 2020, and commercial customers maintaining larger deposit balances.

Our securities portfolio is another alternative source for meeting liquidity needs. Securities generate cash flow through principal payments and maturities, and they generally have readily available markets that allow for their conversion to cash. As of September 30, 2020, securities AFS totaled $467.7 million compared to $335.6 million as of December 31, 2019. However, certain investments within our securities portfolio are also used to secure specific deposit types, such as for public entities, which impacts their liquidity. As of September 30, 2020, securities with a carrying value of $92.3 million, or 19.7% of the securities AFS portfolio, were pledged to secure public entity deposits as compared to securities with a carrying value of $89.8 million, or 26.8% of the securities AFS portfolio, similarly pledged as of December 31, 2019.

Other sources available for meeting liquidity needs include federal funds lines, FHLB advances, repurchase agreements, and other lines of credit. We maintain four federal funds lines of credit with commercial banks that provided for the availability to borrow up to an aggregate of $95.0 million in federal funds as of September 30, 2020 and December 31, 2019. FHLB advances may also be used to meet short-term liquidity needs, particularly if the prevailing interest rate on an FHLB advance compares favorably to the rates that would be required to attract the necessary deposits. As of September 30, 2020 and December 31, 2019, our net borrowing capacity from the FHLB was $608.1 million and $538.1 million, respectively. We also maintain an additional $6.0 million revolving line of credit at one of our correspondent banks. As of September 30, 2020 and December 31, 2019, we had total borrowing capacity of $709.1 and $639.1 million, respectively, through these combined funding sources. We had no outstanding balances from any of these funding sources as of September 30, 2020 or December 31, 2019.

As of September 30, 2020, we had cash and cash equivalents of $270.9 million compared to $133.3 million as of December 31, 2019. The increase of $137.6 million, or 103.2%, was a result of deposit growth outpacing loan growth, and a portion of excess liquidity was deployed into interest-bearing deposits in other banks.

Commitments to Extend Credit

In the normal course of business, we enter into certain financial instruments, such as commitments to extend credit and letters of credit, to meet the financing needs of our customers. These commitments involve elements of credit risk, interest rate risk, and liquidity risk. Some instruments may not be reflected in the accompanying consolidated financial statements until they are funded, although they expose us to varying degrees of credit risk and interest rate risk in much the same way as funded loans.

Commitments to extend credit are agreements to lend to customers if all conditions of the commitment are met. These commitments include revolving and nonrevolving credit lines and are primarily issued for commercial purposes. Commitments to extend credit generally have fixed expiration dates or other termination clauses. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions.

As of September 30, 2020, we had $293.1 million in unfunded loan commitments and $9.9 million in commitments associated with outstanding standby letters of credit. We have monitored the requests for extensions of credit under these lines and have not identified any requests outside of the normal course of business that appear to be attributable to COVID-19 hardships. As of December 31, 2019, we had $257.0 million in unfunded loan commitments and $11.1 million in commitments associated with outstanding standby letters of credit. As commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding commitments may not necessarily reflect the actual future cash funding requirements.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset-liability management policies provide management with guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our rate sensitivity position within our established policy guidelines.

Our exposure to interest rate risk is managed by Red River Bank's Asset-Liability Management Committee. The committee formulates strategies based on appropriate levels of interest rate risk and monitors the results of those strategies. In determining the appropriate level of interest rate risk, the committee considers the impact on both earnings and capital given the current outlook on interest rates, regional economies, liquidity, business strategies, and other related factors.

Consistent with our interest rate risk management process, on a quarterly basis, we run various simulation models including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic growth models, rates are shocked instantaneously and ramped rates change over a 12-month and 24-month horizon based upon parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Our nonparallel rate shock model involves analysis of interest income and expense under various changes in the shape of the yield curve.

Bank policy regarding interest rate risk simulations performed by our risk model currently specifies that for instantaneous parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 10.0% for a 100 bp shift and 15.0% for a 200 bp shift. Bank policy regarding economic value at risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated fair value of equity for the subsequent one-year period should not decline by more than 20.0% for a 100 bp shift and 25.0% for a 200 bp shift.

The following table shows the impact of an instantaneous and parallel change in rates, at the levels indicated, and summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated.

	As of September 30, 2020		As of December 31, 2019	
	% Change in Net Interest Income	% Change in Fair Value of Equity	% Change in Net Interest Income	% Change in Fair Value of Equity
Change in Interest Rates (Bps)				
+300	35.0 %	29.2 %	20.2 %	8.3 %
+200	24.4 %	23.6 %	13.9 %	7.0 %
+100	13.5 %	15.2 %	7.4 %	4.7 %
Base	0.0 %	0.0 %	0.0 %	0.0 %
-100	0.1 %	(17.4)%	(8.0)%	(9.9)%
-200	0.6 %	(14.7)%	(13.0)%	(22.3)%

The results above, as of September 30, 2020 and December 31, 2019, demonstrate that our balance sheet is asset sensitive, which means our assets have the opportunity to reprice at a faster pace than our liabilities, over the 12-month horizon. We have also observed that, historically, our deposit interest rates have adjusted more slowly than the change in the federal funds rate. This assumption is incorporated into our risk model and is generally not reflected in a gap analysis, which is the process by which we measure the repricing gap between interest rate-sensitive assets versus interest rate-sensitive liabilities. As of September 30, 2020, we had positive changes in net interest income in the down 100 and down 200 rate scenarios, whereas the results as of December 31, 2019, were negative percent changes in the down 100 and down 200 rate scenarios. This was primarily because as of September 30, 2020, most loan yields were at their effective floors within the model's base case scenario. Therefore, as interest expense decreases in the down rate scenarios, interest income holds relatively steady. This results in positive changes in net interest income from the base case as of September 30, 2020.

The impact of our floating rate loans and floating rate transaction deposits are also reflected in the results shown in the above table. As of September 30, 2020, floating rate loans were 13.8% of the loans HFI, and floating rate transaction deposits were 5.2% of interest-bearing transaction deposits.

The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various management strategies and the slope of the yield curve.

NON-GAAP FINANCIAL MEASURES

Our accounting and reporting policies conform to GAAP and the prevailing practices in the banking industry. Certain financial measures used by management to evaluate our operating performance are discussed in this report as supplemental non-GAAP performance measures. In accordance with the SEC's rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the U.S.

Management and the board of directors review tangible book value per share, tangible common equity to tangible assets, and PPP-adjusted metrics as part of managing operating performance. However, these non-GAAP financial measures that we discuss in this report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that are discussed in this report may differ from that of other companies reporting measures with similar names. It is important to understand how such other banking organizations calculate and name their financial measures similar to the non-GAAP financial measures discussed in this report when comparing such non-GAAP financial measures.

Tangible Assets, Tangible Equity, and Tangible Book Value

Tangible Book Value Per Common Share. Tangible book value per common share is a non-GAAP measure commonly used by investors, financial analysts, and investment bankers to evaluate financial institutions. We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. We calculate tangible book value per common share as total stockholders' equity, less intangible assets, divided by the outstanding number of shares of our common stock at the end of the relevant period. Intangible assets have the effect of increasing total book value while not increasing tangible book value. The most directly comparable GAAP financial measure for tangible book value per common share is book value per common share.

Tangible Common Equity to Tangible Assets. Tangible common equity to tangible assets is a non-GAAP measure generally used by investors, financial analysts, and investment bankers to evaluate financial institutions. We believe that this measure is important to many investors in the marketplace who are interested in the relative changes from period to period of tangible common equity to tangible assets, each exclusive of changes in intangible assets. Intangible assets have the effect of increasing both total stockholders' equity and assets while not increasing our tangible common equity or tangible assets. We calculate tangible common equity as total stockholders' equity less intangible assets, and we calculate tangible assets as total assets less intangible assets. The most directly comparable GAAP financial measure for tangible common equity to tangible assets is total common stockholders' equity to total assets.

As a result of previous acquisitions, we have a small amount of intangible assets. As of September 30, 2020, total intangible assets were $1.5 million, which is less than 1.0% of total assets.

The following table reconciles, as of the dates set forth below, stockholders' equity to tangible common equity, and assets to tangible assets, and presents related resulting ratios.

(dollars in thousands, except per share data)	September 30, 2020	June 30, 2020	September 30, 2019
Tangible common equity			
Total stockholders' equity	$ 278,078	$ 271,117	$ 245,389
Adjustments:			
Intangible assets	(1,546)	(1,546)	(1,546)
Total tangible common equity (non-GAAP)	$ 276,532	$ 269,571	$ 243,843
Common shares outstanding	7,325,333	7,322,532	7,306,221
Book value per common share	$ 37.96	$ 37.03	$ 33.59
Tangible book value per common share (non-GAAP)	$ 37.75	$ 36.81	$ 33.37
Tangible assets			
Total assets	$ 2,490,928	$ 2,361,866	$ 1,938,854
Adjustments:			
Intangible assets	(1,546)	(1,546)	(1,546)
Total tangible assets (non-GAAP)	$ 2,489,382	$ 2,360,320	$ 1,937,308
Total stockholder's equity to assets	11.16 %	11.48 %	12.66 %
Tangible common equity to tangible assets (non-GAAP)	11.11 %	11.42 %	12.59 %

PPP-Adjusted Metrics

In the second quarter of 2020, Red River Bank originated 1,384 PPP loans totaling $199.0 million. As of September 30, 2020, unamortized PPP origination fees were $5.4 million, resulting in $193.5 million of PPP loans, net of deferred income, or 11.7% of loans HFI. The average PPP loan size was $144,000.

PPP loans were implemented as a response to the COVID-19 pandemic and have characteristics that are different than the rest of our loan portfolio, including being short-term in nature (24 months or less depending on loan forgiveness), having a lower than market interest rate, and only being originated during the second quarter of 2020. Because of these factors, management believes that PPP-adjusted metrics provide a more accurate portrayal of certain aspects of the Company's financial condition and performance. Accordingly, we believe it is important to investors to see certain of our metrics with PPP loans excluded. The most directly comparable GAAP financial measure for PPP-adjusted metrics is total loans HFI.

The following table reconciles, as of the dates set forth below, non-PPP loans to total loans HFI and presents certain ratios using non-PPP loans:

(dollars in thousands)	September 30, 2020	June 30, 2020	December 31, 2019	September 30, 2019
Non-PPP loans HFI				
Loans HFI	$ 1,649,272	$ 1,615,298	$ 1,438,924	$ 1,413,162
Adjustments:				
PPP loans, net	(193,532)	(192,655)	—	—
Non-PPP loans HFI (non-GAAP)	$ 1,455,740	$ 1,422,643	$ 1,438,924	$ 1,413,162
Assets excluding PPP loans, net				
Assets	$ 2,490,928	$ 2,361,866	$ 1,988,225	$ 1,938,854
Adjustments:				
PPP loans, net	(193,532)	(192,655)	—	—
Assets excluding PPP loans, net (non-GAAP)	$ 2,297,396	$ 2,169,211	$ 1,988,225	$ 1,938,854
Deposits	$ 2,193,940	$ 2,069,322	$ 1,721,120	$ 1,676,851
Allowance for loan losses	$ 16,192	$ 14,882	$ 13,937	$ 13,906
Nonperforming loans	$ 4,387	$ 3,442	$ 5,319	$ 6,648
Loans HFI to deposits ratio	75.17 %	78.06 %	83.60 %	84.27 %
Non-PPP loans HFI to deposits ratio (non-GAAP)	66.35 %	68.75 %	83.60 %	84.27 %
Allowance for loan losses to loans HFI	0.98 %	0.92 %	0.97 %	0.98 %
Allowance for loan losses to non-PPP loans HFI (non-GAAP)	1.11 %	1.05 %	0.97 %	0.98 %
Nonperforming loans to loans HFI	0.27 %	0.21 %	0.37 %	0.47 %
Nonperforming loans to non-PPP loans HFI	0.30 %	0.24 %	0.37 %	0.47 %

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There were no material changes or developments during the reporting period with respect to methodologies that we use when applying critical accounting policies and developing critical accounting estimates as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Our consolidated financial statements are prepared in accordance with GAAP and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

See "Item 1. Financial Statements – Note 1. Summary of Significant Accounting Policies – Accounting Standards Adopted in 2020" and " – Recent Accounting Pronouncements."

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are presented in our Annual Report on Form 10-K for the year ended December 31, 2019, under the heading “Management’s Discussion and Analysis of Financial Condition and

Results of Operations - Liquidity and Asset-Liability Management - Interest Rate Sensitivity and Market Risk.” Additional information as of September 30, 2020, is included herein under Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Asset-Liability Management - Interest Rate Sensitivity and Market Risk.”

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, an evaluation was performed by the Company, under the supervision and with the participation of its management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer), of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting

There were no changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is named as a defendant in a purported class action lawsuit, *Aeron Averette v. Red River Bancshares*, filed on August 28, 2020, in the 19th Judicial District Court of the State of Louisiana. The lawsuit alleges the Bank wrongfully imposed multiple non-sufficient funds fees on what the plaintiff describes as a single item presented for payment, thereby resulting in the Bank breaching its customer account agreement, abusing its rights, and being unjustly enriched. The plaintiff purports to represent a class consisting of all account holders in Louisiana who incurred similar charges by the Bank within the applicable prescriptive period. The plaintiff seeks unspecified damages, costs, fees, attorney's fees, and general and equitable relief for herself and the purported class. The Company and Bank deny the allegations and intend to vigorously defend the matter. At this early stage of the lawsuit, we cannot determine the probability of a materially adverse result or reasonably estimate the potential exposure, if any.

From time to time, we, including our subsidiaries, are or may be involved in various legal matters arising in the ordinary course of business. In the opinion of management, neither we, nor any of our subsidiaries, are involved in such legal proceedings that the resolution is expected to have a material adverse effect on our consolidated results of operations, financial condition, or cash flows. However, one or more unfavorable outcomes of these ordinary course claims or litigation against us or our subsidiaries could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or ultimate outcomes, such matters are costly, divert management's attention, and may materially and adversely affect our reputation or that of our subsidiaries, even if resolved favorably.

Item 1A. Risk Factors

For information regarding risk factors that could affect our business, financial condition, and results of operations, see the information in "Part I - Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019. There have been no material changes to the risk factors disclosed in our most recent Annual Report on Form 10-K except for the risk factors listed below.

The COVID-19 pandemic is adversely affecting our business, financial condition, and results of operations, and the ultimate impact will depend on future developments which are uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic is creating extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. While the scope, duration, and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, prompted decreases in interest rates, increased economic and market uncertainty, and disrupted trade and supply chains. If these implications continue for a prolonged period or result in sustained economic stress, many of the risk factors identified in our Annual Report on Form 10-K could be exacerbated and such effects could have a material adverse effect on us in a number of ways related to credit, collateral, interest rate risk, profitability, operations, liquidity, and capital as described in more detail below.

- *Credit and Collateral Risk*. Our business depends on our ability to successfully measure and manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. The creditworthiness of a borrower is affected by many factors, including local market conditions and general economic conditions. These risks are particularly heightened as a result of the COVID-19 pandemic.

  Concern about the spread of COVID-19 has caused, and may continue to cause, business shutdowns, limitations on commercial activity and financial transactions, labor shortages, supply chain interruptions, increased unemployment and commercial property vacancy rates, reduced profitability and ability for property owners to make mortgage payments, and overall economic and financial market instability. All of these factors could cause our customers to be unable to make scheduled loan payments. If the effects of COVID-19 result in widespread and sustained repayment shortfalls on loans in our portfolio, we could incur significant delinquencies, foreclosures, and credit losses, particularly if the available collateral is insufficient to cover our exposure.

  The future effects of COVID-19 on economic activity could also negatively affect collateral values associated with our existing loans and our ability to liquidate such collateral. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making business decisions or may result in a delay in our taking certain remedial actions, such as foreclosure. All of these factors could cause the level of our nonperforming loans, charge-offs, and delinquencies to increase, potentially requiring significant additional provisions for credit losses.

- *Interest Rate and Profitability Risk*. Our net interest income, lending activities, deposits, and profitability could be negatively affected by volatility in interest rates and other factors resulting from uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target federal funds rate to 0.25%, citing concerns about the impact of COVID-19 on markets and stress in the energy sector. This decrease in interest rates could continue to negatively impact our net interest income and net income. Higher income volatility from changes in interest rates and spreads to benchmark indices could also cause a decrease in current fair market values of our assets. Fluctuations in interest rates may impact both the level of income and expense recorded on some of our assets and liabilities and the market value of applicable interest-earning assets and interest-bearing liabilities, which could, in turn, negatively affect our net income.

  In addition to risks resulting from changes in the interest rates, our profitability may be negatively affected by other aspects of the COVID-19 pandemic. We temporarily reduced or eliminated (and could reduce or eliminate again) several of our normal customer service fees, which decreased (and could continue to decrease) our noninterest income, and in turn, our net income. The PPP loans that we originated may not be profitable for us because those loans have low interest rates and our related fees may be offset by increases in our provision for loan losses and our cost for implementing, managing, and finalizing the program. We have also experienced (and could continue to experience) lower than normal demand for our non-PPP loans due to the economic downturn related to the COVID-19 pandemic.

- *Operational Risk*. Our social-distancing measures and current and future restrictions on our workforce's access to our facilities could limit our ability to meet customer servicing expectations and have a material adverse effect on our operations. We rely on business processes and banking center activity that largely depend on people and technology, including access to information technology systems, as well as information, applications, payment systems, and other services provided by third parties. In response to COVID-19, we modified our business practices with social-distancing measures that include, among other precautions, offering lobby access through appointments, spreading out employees, and facilitating certain employees to work remotely from their homes. It could become necessary to resume these precautions in the future while simultaneously experiencing a significant increase in our employees' workloads due to increased customer needs and social-distancing guidelines. Technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices. The continuation of these work-from-home measures and increased electronic interaction with our customers also introduces additional operational risk, including increased cybersecurity risk. These cyber risks include greater phishing, malware, and other cybersecurity attacks, vulnerability to disruptions of our information technology infrastructure and telecommunications systems for remote operations, increased risk of unauthorized dissemination of confidential information, limited ability to restore the systems in the event of a systems failure or interruption, greater risk of a security breach resulting in destruction or misuse of valuable information, and potential impairment of our ability to perform critical functions, including wiring funds, all of which could expose us to risks of data or financial loss, litigation, and liability, and could seriously disrupt our operations and the operations of any affected customers.

  Moreover, we rely on many third parties in our business operations, including appraisers of real property collateral; title companies; vendors that supply essential services such as loan servicers, providers of financial information, systems, analytical tools, and electronic payment and settlement systems; and local and federal government agencies, offices, and courthouses. In light of the measures in responding to the pandemic, many of these entities may limit the availability of and access to their services. For example, mortgage loan origination could be delayed due to the limited availability of title companies or title attorneys and real estate appraisers for the collateral. Loan closings could be delayed related to reductions in available staff in recording offices or the closing of courthouses in certain parishes, which slows the process for title work, mortgage, and Uniform Commercial Code filings in those parishes. If the third-party service providers continue to have limited capacities for a prolonged period or if additional limitations or potential disruptions in these services materialize, it may materially and adversely affect our operations.

- *Liquidity Risk*. Liquidity is essential to our business. Our most important source of funds is deposits, because we use those deposits to fund operations. During the COVID-19 pandemic, we may experience heightened liquidity risk. Customers may withdraw deposits to meet obligations during this time of business interruptions, or they may withdraw funds to keep cash on hand at home. Large depositors may withdraw funds in excess of FDIC deposit insurance limits as a result of economic concerns. During this challenging economic environment, our customers may also be more dependent on our credit commitments, and increased draws under currently unfunded lines of credit could increase our need for liquidity. In addition, we have offered payment deferral accommodations on many of the loans in our portfolio. The resulting delay in our receipt of regularly scheduled payments may reduce available funding. Also, our investment securities provide an alternative source of funds. We invest excess funds in mortgage-backed securities and municipal bonds, among other securities. If mortgage refinancing throughout the mortgage industry declines due to job losses, appraisal issues, or the availability of other third-party providers, cash flows from mortgage-backed securities could decline. The municipal bond sector could also be affected due to changes in tax revenues. Any of these events could reduce our normal levels of liquidity.

- *Capital Risk.* Adequate levels of capital enhance our ability to withstand periods of financial stress such as during the ongoing COVID-19 pandemic. For this reason, we are subject to significant regulatory capital requirements, and we currently satisfy all of those requirements. However, the ultimate impact of the pandemic is unknown. Prolonged pressures could deplete our reserves, requiring us to raise additional capital to provide sufficient resources and liquidity to meet applicable regulatory requirements, as well as to satisfy our commitments and business needs.

  Our ability to raise additional capital depends on a number of factors, including without limitation our financial condition and performance, conditions in the capital markets, economic conditions, investor perceptions regarding the banking industry, and governmental activities. Many of these factors are beyond our control, and uncertainty relating to all of these factors has been significantly enhanced by the COVID-19 pandemic. In 2020, the pandemic has substantially increased economic and demand uncertainty and has led to disruption and volatility in the global capital markets. The market price for securities of publicly traded financial institutions has fluctuated dramatically, as has the public trading price of our common stock. If we need to raise additional capital in the current market environment, there is no assurance we will be successful, or that we will be able to raise capital on terms acceptable to us or without significant dilution to our existing shareholders. If we fail to maintain capital sufficient to meet regulatory requirements, we could be subject to enforcement actions or other regulatory consequences.

Because there have been no recent global pandemics of comparable global impact, we do not yet know the full extent of COVID-19's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our social-distancing accommodation arrangements, third party providers' ability to support our operations, and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis and the pandemic's enhancement of the various risks described above could have a material adverse effect on our business, financial condition, and results of operations.

As a participating lender in the PPP, we are subject to additional risks of litigation from our customers or other parties and regulatory enforcement regarding our processing and forgiveness of PPP loans, as well as risks that the SBA may not fund some or all PPP loan guaranties.

The CARES Act included a significant loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. We are participating as a lender in the PPP. The PPP became available on April 3, 2020; however, because of the short time frame between the passing of the CARES Act and the opening of the PPP, there was and continues to be a significant amount of ambiguity in the laws, rules, and guidance regarding requirements for eligibility, underwriting, origination, funding, and forgiveness of the loans. This ambiguity and the speed which was necessary to implement the program expose us to regulatory and legal risks relating to noncompliance with the PPP.

PPP loans are also subject to regulatory requirements that require forbearance of loan payments for a specified time and limit our ability to pursue all available remedies in the event of a loan default. If a borrower under a PPP loan fails to qualify for loan forgiveness, we are at the heightened risk of holding these loans at unfavorable interest rates.

We also have credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by us, such as an issue with the eligibility of a borrower to receive a PPP loan. Such deficiencies may or may not be related to the ambiguity in the laws, rules, and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery from us of any loss related to the deficiency. In addition, we have credit risk related to how forgiveness of the loans is handled and how the forgiveness amounts are determined.

Regarding forgiveness of the PPP loans, governmental agencies have, and may continue to, change the rules, create new rules, or require additional forms or paperwork that the borrower may not complete appropriately. In addition, Economic Injury Disaster Loan Advances to PPP loan recipients, which were grants issued to businesses by the SBA separate from the PPP loan program, may be deducted from the PPP loan forgiveness repayments from the SBA to us. All of these items could negatively impact us.

Since the opening of the PPP, numerous other banks have been subject to litigation regarding the process and procedures that those banks used in processing applications for the PPP. We may be exposed to similar litigation from customers, non-customers, and agents that approached us regarding PPP loans and regarding our procedures for processing applications, funding PPP loans, and coordinating the forgiveness of the loans. Litigation can be costly, regardless of the outcome. If any such litigation is initiated against us, it may result in significant financial liability, significant litigation costs, or adversely affect our reputation. Any of these legal, regulatory, and credit risks related to our participation in the PPP could have a material adverse effect on our business, financial condition, and results of operations.

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

On May 7, 2019, we sold 663,320 new shares of our common stock at a public offering price of $45.00 per share in our IPO, including 90,000 shares sold pursuant to the exercise of the underwriters' option to purchase additional shares in the offering. The offer and sale of shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-230798), which the SEC declared effective on May 2, 2019. FIG Partners, LLC and Stephens Inc. acted as underwriters. The offering commenced on May 3, 2019, and did not terminate until the sale of all of the shares offered. There has been no material change in the planned use of proceeds from our IPO as described in our Prospectus filed with the SEC on May 3, 2019, pursuant to Rule 424(b)(4) under the Securities Act.

Our purchases of shares of common stock made during the quarter consisted of stock repurchases made under our publically announced stock repurchase program and are summarized in the table below:

(dollars in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program[1]
July 1 - July 31, 2020	—	$ —	—	$ —
August 1 - August 31, 2020	—	$ —	—	$ —
September 1 - September 30, 2020	2,824	$ 43.39	2,824	$ 2,878
Total	2,824	$ 43.39	2,824	$ 2,878

[1] On August 27, 2020, our board of directors approved a stock repurchase program. The repurchase program authorizes us to purchase up to $3.0 million of our outstanding shares of common stock through August 27, 2021. Repurchases may be made from time to time in the open market at prevailing prices and based on market conditions, or in privately negotiated transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

NUMBER	DESCRIPTION
3.1	Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed with the SEC on April 10, 2019)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 filed with the SEC on April 10, 2019)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, is formatted in Inline Extensible Business Reporting Language (XBRL): (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Changes in Stockholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) the Notes to Unaudited Consolidated Financial Statements.
101.INS	Inline XBRL Instance Document* - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definitions Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File* - Formatted as Inline XBRL and contained within the Inline XBRL Instance Document in Exhibit 101.
*	Filed herewith
**	These exhibits are furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RED RIVER BANCSHARES, INC.

Date: November 13, 2020	By:	/s/ R. Blake Chatelain
		R. Blake Chatelain
		President and Chief Executive Officer
		(Principal Executive Officer)
Date: November 13, 2020	By:	/s/ Isabel V. Carriere
		Isabel V. Carriere, CPA, CGMA
		Executive Vice President and Chief Financial Officer
		(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, R. Blake Chatelain, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Red River Bancshares, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 13, 2020

By: /s/ R. Blake Chatelain
R. Blake Chatelain
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Isabel V. Carriere, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Red River Bancshares, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2020

By: /s/ Isabel V. Carriere
Isabel V. Carriere, CPA, CGMA
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Red River Bancshares, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Blake Chatelain, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2020	By:	/s/ R. Blake Chatelain
		R. Blake Chatelain
		President and Chief Executive Officer
		(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Red River Bancshares, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Isabel V. Carriere, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2020

By: /s/ Isabel V. Carriere
Isabel V. Carriere, CPA, CGMA
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)