(4) Loans and Allowance for Loan Losses

Loans consist of the following:

(Dollars in thousands)	As of December 31, 2012	2011
One-to-four family residential real estate	$ 88,454	$ 79,108
Construction and land	23,435	21,672
Commercial real estate	88,790	93,786
Commercial loans	64,570	57,006
Agriculture loans	31,935	39,052
Municipal loans	9,857	10,366
Consumer loans	13,417	13,584
Total gross loans	320,458	314,574
Net deferred loan costs and loans in process	37	214
Allowance for loan losses	(4,581)	(4,707)
Loans, net	$ 315,914	$ 310,081

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet customers' financing needs. These financial instruments consist principally of commitments to extend credit. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual amount of those instruments. In the normal course of business, there are various commitments and contingent liabilities, such as commitments to extend credit, letters of credit, and lines of credit, the balance of which are not recorded in the accompanying consolidated financial statements. The Company generally requires collateral or other security on unfunded loan commitments and irrevocable letters of credit. Unfunded commitments to extend credit, excluding standby letters of credit, aggregated to $53.5 million and $57.8 million at December 31, 2012 and 2011, respectively, and are generally at variable interest rates. Standby letters of credit totaled $1.8 million and $1.7 million at December 31, 2012 and 2011, respectively.

The Company is exposed to varying risks associated with concentrations of credit relating primarily to lending activities in specific geographic areas. The Company's principal lending area consists of the cities of Manhattan, Auburn, Dodge City, Garden City, Great Bend, Hoisington, Junction City, LaCrosse, Lawrence, Osage City, Topeka, Wamego, Paola, Osawatomie, Louisburg, Fort Scott, and Wellsville, Kansas and the surrounding communities, and substantially all of the Company's loans are to residents of or secured by properties located in its principal lending area. Accordingly, the ultimate collectability of the Company's loan portfolio is dependent in part upon market conditions in those areas. These geographic concentrations are considered in management's establishment of the allowance for loan losses.