

Magyar Bancorp, Inc.  
Form 10-Q  
August 15, 2011

---

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2011

Commission File Number 000-51726

Magyar Bancorp, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or  
Organization)

20-4154978  
(I.R.S. Employer Identification Number)

400 Somerset Street, New Brunswick, New Jersey  
(Address of Principal Executive Office)

08901  
(Zip Code)

(732) 342-7600  
(Issuer's Telephone  
Number including  
area code)

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 1, 2011
Common Stock, \$0.01 Par Value	5,798,831

---

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

PART I. FINANCIAL INFORMATION

	Page Number
Item 1.	<u>Financial Statements</u> 1
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 23
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 34
Item 4.	<u>Controls and Procedures</u> 34

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u> 35
Item 1a.	<u>Risk Factors</u> 35
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 35
Item 3.	<u>Defaults Upon Senior Securities</u> 35
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u> 35
Item 5.	<u>Other Information</u> 35
Item 6.	<u>Exhibits</u> 35
	<u>Signature Pages</u> 36

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY  
Consolidated Balance Sheets  
(In Thousands, Except Share and Per Share Data)

	June 30, 2011	September 30, 2010 (Unaudited)
Assets		
Cash	\$1,201	\$ 1,126
Interest earning deposits with banks	6,505	19,960
Total cash and cash equivalents	7,706	21,086
Investment securities - available for sale, at fair value	28,130	14,187
Investment securities - held to maturity, at amortized cost (fair value of \$40,006 and \$45,398 at June 30, 2011 and September 30, 2010, respectively)	39,613	44,479
Federal Home Loan Bank of New York stock, at cost	2,689	2,775
Loans receivable, net of allowance for loan losses of \$3,807 and \$4,766 at June 30, 2011 and September 30, 2010, respectively	394,745	403,886
Bank owned life insurance	9,570	9,306
Accrued interest receivable	2,034	1,950
Premises and equipment, net	20,012	20,142
Other real estate owned ("OREO")	15,216	12,655
Other assets	6,765	7,483
<b>Total assets</b>	<b>\$526,480</b>	<b>\$ 537,949</b>
Liabilities and Stockholders' Equity		
<b>Liabilities</b>		
Deposits	\$418,363	\$ 427,932
Escrowed funds	1,249	1,555
Federal Home Loan Bank of New York advances	43,591	45,769
Securities sold under agreements to repurchase	15,000	15,000
Accrued interest payable	374	418
Accounts payable and other liabilities	3,485	3,098
<b>Total liabilities</b>	<b>482,062</b>	<b>493,772</b>
<b>Stockholders' equity</b>		
Preferred stock: \$.01 Par Value, 1,000,000 shares authorized; none issued	-	-
Common stock: \$.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued; 5,798,831 and 5,783,131 outstanding at June 30, 2011 and September 30, 2010, respectively, at cost	59	59
Additional paid-in capital	26,412	26,396
Treasury stock: 124,911 and 140,611 shares at June 30, 2011 and September 30, 2010, respectively, at cost	(1,480 )	(1,704 )

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

Unearned Employee Stock Ownership Plan shares	(1,257 )	(1,342 )
Retained earnings	21,107	21,300
Accumulated other comprehensive loss	(423 )	(532 )
Total stockholders' equity	44,418	44,177
Total liabilities and stockholders' equity	\$526,480	\$ 537,949

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY  
Consolidated Statements of Operations  
(In Thousands, Except Per Share Data)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2011	2010	2011	2010
	(Unaudited)			
Interest and dividend income				
Loans, including fees	\$5,076	\$5,543	\$15,228	\$17,131
Investment securities				
Taxable	509	584	1,544	1,909
Tax-exempt	1	1	4	5
Federal Home Loan Bank of New York stock	31	33	118	124
<b>Total interest and dividend income</b>	<b>5,617</b>	<b>6,161</b>	<b>16,894</b>	<b>19,169</b>
Interest expense				
Deposits	1,233	1,596	3,927	5,080
Borrowings	579	675	1,786	2,090
<b>Total interest expense</b>	<b>1,812</b>	<b>2,271</b>	<b>5,713</b>	<b>7,170</b>
<b>Net interest and dividend income</b>	<b>3,805</b>	<b>3,890</b>	<b>11,181</b>	<b>11,999</b>
<b>Provision for loan losses</b>	<b>402</b>	<b>494</b>	<b>1,238</b>	<b>1,644</b>
<b>Net interest and dividend income after provision for loan losses</b>	<b>3,403</b>	<b>3,396</b>	<b>9,943</b>	<b>10,355</b>
Other income				
Service charges	261	240	837	740
Other operating income	113	126	329	374
Gains on sales of loans	35	40	494	155
Gains on sales of investment securities	39	105	74	455
Gains (losses) on OREO	(131 )	60	(423 )	158
<b>Total other income</b>	<b>317</b>	<b>571</b>	<b>1,311</b>	<b>1,882</b>
Other expenses				
Compensation and employee benefits	1,863	1,846	5,720	6,462
Occupancy expenses	671	699	2,047	1,951
Advertising	43	36	145	125
Professional fees	201	285	751	854
Service fees	138	144	427	434
OREO expenses	87	75	323	201
FDIC deposit insurance premiums	248	366	954	917
Other expenses	394	427	1,250	1,225

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

Total other expenses	3,645	3,878	11,617	12,169
Income (loss) before income tax expense (benefit)	75	89	(363 )	68
Income tax expense (benefit)	56	(3,446 )	(152 )	(3,768 )
Net income (loss)	\$19	\$3,535	\$(211 )	\$3,836
Net income (loss) per share-basic and diluted	\$0.003	\$0.61	\$(0.04 )	\$0.66

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY  
Consolidated Statement of Changes in Stockholders' Equity  
For the Nine Months Ended June 30, 2011  
(In Thousands, Except for Share Amounts)  
(Unaudited)

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2010	5,783,131	\$59	\$ 26,396	\$(1,704 )	\$(1,342 )	\$21,300	\$ (532 )	\$44,177
Comprehensive loss:								
Net loss	-	-	-	-	-	(211 )	-	(211 )
Unrealized loss on securities available-for-sale, net of tax expense of \$149	-	-	-	-	-	-	230	230
Reclassification adjustment for gains included in net loss, net of tax benefit of \$30	-	-	-	-	-	-	(44 )	(44 )
Unrealized loss on derivatives, net of tax benefit of \$51	-	-	-	-	-	-	(77 )	(77 )
Total comprehensive loss								(102 )
Treasury stock used for restricted stock plan	15,700	-	(242 )	224	-	18	-	-
ESOP shares allocated	-	-	(44 )	-	85	-	-	41
Stock-based compensation expense	-	-	302	-	-	-	-	302
Balance, June 30, 2011	5,798,831	\$59	\$ 26,412	\$(1,480 )	\$(1,257 )	\$21,107	\$ (423 )	\$44,418

The accompanying notes are an integral part of this statement.



Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
(In Thousands)

	For the Nine Months Ended June 30,	
	2011	2010
	(Unaudited)	
<b>Operating activities</b>		
Net income (loss)	\$(211 )	\$3,836
Adjustment to reconcile net income (loss) to net cash provided by operating activities		
Depreciation expense	725	838
Premium amortization on investment securities, net	236	111
Provision for loan losses	1,238	1,644
Provision for loss on other real estate owned	347	-
Proceeds from the sales of loans	8,015	4,268
Gains on sale of loans	(494 )	(155 )
Gains on sales of investment securities	(74 )	(455 )
Losses (gains) on the sales of other real estate owned	76	(158 )
ESOP compensation expense	41	40
Stock-based compensation expense	302	252
Deferred income tax benefit	-	(3,493 )
(Increase) decrease in accrued interest receivable	(84 )	199
Increase in surrender value bank owned life insurance	(264 )	(330 )
Decrease (increase) in other assets	522	(2,847 )
Decrease in accrued interest payable	(44 )	(210 )
Increase in accounts payable and other liabilities	387	690
Net cash provided by operating activities	10,718	4,230
<b>Investing activities</b>		
Net (increase) decrease in loans receivable	(3,199 )	12,834
Purchases of investment securities held to maturity	(7,747 )	(11,649 )
Purchases of investment securities available for sale	(20,083 )	(8,101 )
Sales of investment securities held to maturity	-	4,000
Sales of investment securities available for sale	4,047	12,782
Principal repayments on investment securities held to maturity	12,496	14,425
Principal repayments on investment securities available for sale	2,353	1,913
Redemptions of bank owned life insurance	-	2,111
Purchases of premises and equipment	(595 )	(518 )
Investment in other real estate owned	(1,198 )	(575 )
Proceeds from the sale of other real estate owned	1,795	1,747
Redemption of Federal Home Loan Bank stock	86	241
Net cash (used) provided by investing activities	(12,045 )	29,210
<b>Financing activities</b>		
Net decrease in deposits	(9,569 )	(20,430 )
Net decrease (increase) in escrowed funds	(306 )	20
Repayments of long-term advances	(5,853 )	(5,758 )

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

Net change in short-term advances	3,675	-
Net cash used by financing activities	(12,053 )	(26,168 )
Net (decrease) increase in cash and cash equivalents	(13,380 )	7,272
Cash and cash equivalents, beginning of period	21,086	7,921
Cash and cash equivalents, end of period	\$7,706	\$15,193
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	\$5,756	\$7,381
Income taxes	\$8	\$4
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	\$3,581	\$9,108

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
(Unaudited)

NOTE A – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Magyar Bancorp, Inc. (the “Company”), its wholly owned subsidiary Magyar Bank, and the Bank’s wholly owned subsidiaries Magyar Service Corporation, Hungaria Urban Renewal, LLC, and MagBank Investment Company. All material intercompany transactions and balances have been eliminated. The Company prepares its financial statements on the accrual basis and in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). The unaudited information furnished herein reflects all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

Operating results for the three and nine months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011. The September 30, 2010 information has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

The preparation of financial statements in conformity with US GAAP 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 income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, and the assessment of realizability of deferred income tax assets.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In connection with the preparation of quarterly and annual reports in accordance with the Securities and Exchange Commission’s (SEC) Securities Exchange Act of 1934, SEC Staff Accounting Bulletin Topic 11.M requires the disclosure of the impact that recently issued accounting standards will have on financial statements when they are adopted in the future.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-16, Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets. This Update amends the Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140. The amendments in this Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This Update is effective at the start of a reporting entity’s first fiscal year beginning after November 15, 2009. The ASU did not have a material impact on the Company’s consolidated financial statements.

In October 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Update amends the Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic

Table of Contents

performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. This Update is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. The ASU did not have a material impact on the Company's consolidated financial statements.

The FASB has issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require: (1) a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: (1) for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The ASU did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, in an effort to help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. The amendments in this Update apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments. The amendments require disclosures as of the end of a reporting period effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The portions of the ASU that were not delayed by ASU 2011-01 (see below) did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring to clarify the accounting principles applied to loan modifications, as defined by FASB ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors. The ASU clarifies guidance on a creditor's evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than a focus on specific criteria, such as the effective interest rate test, to determine a concession. The ASU goes on to provide guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor's evaluation of whether or not a debtor is experiencing financial difficulties. For the Company, the amendments in the ASU are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The entity should also disclose information required by ASU 2010-20, Disclosures

about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which had previously been deferred by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in ASU No. 2010-20, for interim and annual periods beginning on or after June 15, 2011. The ASU did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, to amend FASB ASC Topic 820, Fair Value Measurements, to bring U.S. GAAP for fair value measurements in line with International Accounting Standards. The ASU clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity;

Table of Contents

and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets. The ASU also creates an exception to Topic 820 for entities which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The ASU also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy. Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes. This ASU is effective for interim and annual periods beginning after December 15, 2011. The Company is evaluating the updates to Topic 820 and does not expect their implementation to have a material impact on its consolidated financial statements.

The FASB issued ASU 2011-05, Presentation of Comprehensive Income to amend FASB ASC Topic 220, Comprehensive Income, to facilitate the continued alignment of U.S. GAAP with International Accounting Standards. The ASU prohibits the presentation of the components of comprehensive income in the statement of stockholder's equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate, but consecutive, statements of net income and other comprehensive income. Under previous GAAP, all 3 presentations were acceptable. Regardless of the presentation selected, the Reporting Entity is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements. The provisions of this ASU are effective for fiscal years and interim periods beginning after December 31, 2011. The Company is evaluating the updates to Topic 220 and does not expect their implementation to have a material impact on its consolidated financial statements.

## NOTE C - CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company's consolidated financial position or results of operations.

## NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three and nine months ended June 30, 2011 and 2010 were calculated by dividing net income by the weighted-average number of shares outstanding for the period. All stock options and restricted stock awards were anti-dilutive for the three and nine months ended June 30, 2011 and the three and nine months ended June 30, 2010. The following table shows the Company's earnings per share for the periods presented:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands except for per share data)			
Income (loss) applicable to common shares	\$ 19	\$ 3,535	\$ (211 )	\$ 3,836
Weighted average number of common shares outstanding - basic	5,805	5,786	5,800	5,782
Stock options and restricted stock	-	-	-	-
	5,805	5,786	5,800	5,782

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

Weighted average number of common  
shares  
and common share equivalents - diluted

Basic earnings (loss) per share	\$ 0.003	\$ 0.61	\$ (0.04 )	\$ 0.66
Diluted earnings (loss) per share	\$ 0.003	\$ 0.61	\$ (0.04 )	\$ 0.66

Options to purchase 188,276 shares of common stock at a weighted average price of \$14.61 and 20,964 shares of restricted shares at a weighted average price of \$9.15 were outstanding and not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2011 because the grant (or option strike) price was



Table of Contents

greater than the average market price of the common shares during the periods. Options to purchase 188,276 shares of common stock at an average price of \$14.61 and 46,390 restricted shares at a weighted average price of \$11.30 were outstanding and not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2010 because the grant (or option strike) price was greater than the average market price of the common shares during the periods.

**NOTE E – STOCK-BASED COMPENSATION AND STOCK REPURCHASE PROGRAM**

The Company follows FASB Accounting Standards Codification (“ASC”) Section 718, Compensation-Stock Compensation, which covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

ASC 718 also requires the Company to realize as a financing cash flow rather than an operating cash flow, as previously required, the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense. In accordance with SEC Staff Accounting Bulletin (“SAB”) No. 107, the Company classified share-based compensation for employees and outside directors within “compensation and employee benefits” in the consolidated statement of operations to correspond with the same line item as the cash compensation paid.

Stock options generally vest over a five-year service period and expire ten years from issuance. Management recognizes compensation expense for all option grants over the awards’ respective requisite service periods. The fair values of all option grants were estimated using the Black-Scholes option-pricing model. Since there was limited historical information on the volatility of the Company’s stock, management also considered the average volatilities of similar entities for an appropriate period in determining the assumed volatility rate used in the estimation of fair value. Management estimated the expected life of the options using the simplified method allowed under SAB No. 107. The 7-year Treasury yield in effect at the time of the grant provided the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. Once vested, these awards are irrevocable. Shares will be obtained from either the open market or treasury stock upon share option exercise.

Restricted shares generally vest over a five-year service period on the anniversary of the grant date. Once vested, these awards are irrevocable. The product of the number of shares granted and the grant date market price of the Company’s common stock determine the fair value of restricted shares under the Company’s restricted stock plans. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period.

The following is a summary of the status of the Company’s stock option activity and related information for its option plan for the nine months ended June 30, 2011:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2010	188,276	\$ 14.61		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Balance at June 30, 2011	188,276	\$ 14.61	5.7 years	\$ -

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

Exercisable at June 30, 2011	154,561	\$	14.61	5.7 years	\$	-
------------------------------	---------	----	-------	-----------	----	---

The following is a summary of the Company's non-vested stock awards as of June 30, 2011 and changes during the nine months ended June 30, 2011:

8

---

Table of Contents

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2010	45,390	\$ 11.45
Granted	-	-
Vested	(18,497)	13.03
Forfeited	-	-
Balance at June 30, 2011	26,893	\$ 10.36

Stock option and stock award expenses included with compensation expense were \$122,000 and \$180,000, respectively, for the nine months ended June 30, 2011.

The Company announced in November 2007 its second stock repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. Through June 30, 2011, the Company had repurchased a total of 66,970 shares of its common stock at an average cost of \$9.39 per share under this program. No shares have been repurchased during the nine months ended June 30, 2011. Under the stock repurchase program, 62,954 shares of the 129,924 shares authorized remained available for repurchase as of June 30, 2011. The Company's intended use of the repurchased shares is for general corporate purposes, including the funding of awards granted under the 2006 Equity Incentive Plan.

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees of the Company and the Bank who meet the eligibility requirements as defined in the plan. The ESOP trust purchased 217,863 shares of common stock in the open market using proceeds of a loan from the Company. The total cost of shares purchased by the ESOP trust was \$2.3 million, reflecting an average cost per share of \$10.58. The Bank will make cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears a variable interest rate that adjusts annually every January 1st to the then published Prime Rate (3.25% at January 1, 2011) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company's stock.

As the debt is repaid, shares are released as collateral and allocated to qualified employees. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the then current market price of the shares, and the shares become outstanding for earnings per share computations.

At June 30, 2011, shares allocated to participants totaled 91,100. Unallocated ESOP shares held in suspense totaled 126,763 at June 30, 2011 and had a fair market value of \$524,799. The Company's contribution expense for the ESOP was \$41,000 and \$40,000 for the nine months ended June 30, 2011 and 2010, respectively.

## NOTE F - COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) and the related income tax effects are as follows:

Table of Contents

	Three Months Ended June 30,					
	2011			2010		
	Before Tax	Tax Benefit	Net of Tax	Before Tax	Tax Benefit	Net of Tax
	Amount	(Expense)	Amount	Amount	(Expense)	Amount
	(Dollars in thousands)					
Unrealized holding gains (losses) arising during period on:						
Available-for-sale investments	\$700	\$(256)	) \$444	\$254	\$(98)	) \$156
Less reclassification adjustment for						
gains realized in net income	(39)	) 16	(23)	(105)	) 42	(63)
Interest rate derivatives	(27)	) 11	(16)	(76)	) 30	(46)
Other comprehensive income, net	\$634	\$(229)	) \$405	\$73	\$(26)	) \$47

	Nine Months Ended June 30,					
	2011			2010		
	Before Tax	Tax Benefit	Net of Tax	Before Tax	Tax Benefit	Net of Tax
	Amount	(Expense)	Amount	Amount	(Expense)	Amount
	(Dollars in thousands)					
Unrealized holding gains (losses) arising during period on:						
Available-for-sale investments	\$379	\$(149)	) \$230	\$360	\$(144)	) \$216
Less reclassification adjustment for						
gains realized in net income	(74)	) 30	(44)	(455)	) 182	(273)
Interest rate derivatives	(128)	) 51	(77)	(226)	) 90	(136)
Other comprehensive income (loss), net	\$177	\$(68)	) \$109	\$(321)	) \$128	\$(193)

## NOTE G – FAIR VALUE DISCLOSURES

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights, loans receivable and other real estate owned, or OREO. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

In accordance with ASC 820, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

Table of Contents

We base our fair values on 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. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

**Securities available-for-sale**

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. Our securities available-for-sale portfolio consists of U.S government and government-sponsored enterprise obligations, municipal bonds, and mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

**Derivative financial instruments**

The Company uses interest rate floors to manage its interest rate risk. The interest rate floors have been designated as cash flow hedging instruments. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis.

	Total	Fair Value at June 30, 2011 (Dollars in thousands)		
		Level 1	Level 2	Level 3
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	\$3,464	\$-	\$3,464	\$-
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	13,664	-	13,664	-
Mortgage backed securities-commercial	4,434	-	4,434	-
Debt securities	4,929	-	4,929	-
Private label mortgage-backed securities-residential	1,639	-	1,639	-
Total securities available for sale	\$28,130	\$-	\$28,130	\$-

Table of Contents

	Fair Value at September 30, 2010			
	Total	Level 1	Level 2	Level 3
		(Dollars in thousands)		
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	\$3,878	\$-	\$3,878	\$-
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	2,940	-	2,940	-
Mortgage backed securities-commercial	4,270	-	4,270	-
Debt securities	1,002	-	1,002	-
Private label mortgage-backed securities-residential	2,097	-	2,097	-
Total securities available for sale	\$14,187	\$-	\$14,187	\$-
Derivatives	51	-	51	-
	\$14,238	\$-	\$14,238	\$-

The following is a description of valuation methodologies used for assets measured at fair value on a non-recurring basis.

**Mortgage Servicing Rights, net**

Mortgage Servicing Rights (MSRs) are carried at the lower of cost or estimated fair value. The estimated fair value of MSR is determined through a calculation of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market's perception of future interest rate movements and, as such, are classified as Level 3.

**Impaired Loans**

Loans which meet certain criteria are evaluated individually for impairment. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Three impairment measurement methods are used, depending upon the collateral securing the asset: 1) the present value of expected future cash flows discounted at the loan's effective interest rate (the rate of return implicit in the loan); 2) the asset's observable market price; or 3) the fair value of the collateral if the asset is collateral dependent. The regulatory agencies require this method for loans from which repayment is expected to be provided solely by the underlying collateral. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3.

Appraisals of collateral securing impaired loans are conducted by approved, qualified, and independent third-party appraisers. Such appraisals are ordered via the Bank's credit administration department, independent from the lender who originated the loan, once the loan is deemed impaired, as described in the previous paragraph. Impaired loans are generally re-evaluated with an updated appraisal within one year of the last appraisal. However, the Company also obtains updated appraisals on performing construction loans that are approaching their maturity date to determine whether or not the fair value of the collateral securing the loan remains sufficient to cover the loan amount prior to considering an extension. The Company discounts the appraised "as is" value of the collateral for estimated selling and disposition costs and compares the resulting fair value of collateral to the outstanding loan amount. If the outstanding loan amount is greater than the discounted fair value, the Company requires a reduction in the outstanding loan balance or additional collateral before considering an extension to the loan. If the borrower is unwilling or unable to reduce the loan balance or increase the collateral securing the loan, it is deemed impaired and the difference between

the loan amount and the fair value of collateral, net of estimated selling and disposition costs, is charged off through a reduction of the allowance for loan loss.

**Other Real Estate Owned**

The fair value of other real estate owned is determined through current appraisals, and adjusted as necessary, by management, to reflect current market conditions. As such, other real estate owned is generally classified as Level 3.



Table of Contents

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at June 30, 2011.

	Total	Fair Value at June 30, 2011		
		Level 1	Level 2	Level 3
(Dollars in thousands)				
Impaired loans	\$ 9,397	\$ -	\$ -	\$ 9,397
Other real estate owned	3,108	-	-	3,108
	\$ 12,505	\$ -	\$ -	\$ 12,505

	Total	Fair Value at September 30, 2010		
		Level 1	Level 2	Level 3
(Dollars in thousands)				
Impaired loans	\$ 16,193	\$ -	\$ -	\$ 16,193

The following methods and assumptions were used to estimate the fair value of each class of financial instruments not already disclosed above for which it is practicable to estimate fair value:

Cash and interest earning deposits with banks: The carrying amounts are a reasonable estimate of fair value.

Held to maturity securities: The fair values of our held to maturity securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio.

Loans: Fair value for the loan portfolio, excluding impaired loans with specific loss allowances, is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank of New York ("FHLB") stock: The carrying amount of FHLB stock approximates fair value and considers the limited marketability of the investment.

Bank-owned life insurance: The carrying amounts are based on the cash surrender values of the individual policies, which is a reasonable estimate of fair value.

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated costs to terminate the letters of credit. Fair values of unrecognized financial instruments including commitments to extend credit and the fair value of letter of credit are considered immaterial.

Deposits: The fair value of deposits with no stated maturity, such as money market deposit accounts, interest-bearing checking accounts and savings accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is equivalent to current market rates for deposits of similar size, type and maturity.

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

Accrued interest receivable and payable: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Federal Home Loan Bank of New York advances and securities sold under reverse repurchase agreements: The fair value of borrowings is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate currently offered by the Federal Home Loan Bank of New York for borrowings of similar maturity and terms.

The carrying amounts and estimated fair values of the Company's financial instruments at June 30, 2011 and September 30, 2010 were as follows:

Table of Contents

	June 30, 2011		September 30, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(Dollars in thousands)				
<b>Financial assets</b>				
Investment securities	\$67,743	\$68,136	\$58,666	\$59,585
Loans, net of allowance for loan losses	394,745	401,220	403,886	408,790
Bank owned insurance policies	9,570	9,570	9,306	9,306
<b>Financial liabilities</b>				
<b>Deposits</b>				
Demand, NOW and money market savings	\$240,089	\$240,089	\$239,917	\$239,917
Certificates of deposit	178,274	181,981	188,015	191,636
<b>Total deposits</b>	<b>\$418,363</b>	<b>\$422,070</b>	<b>\$427,932</b>	<b>\$431,553</b>
Borrowings	\$58,591	\$61,776	\$60,769	\$64,068
Interest rate derivatives	\$-	\$-	\$51	\$51

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments including commitments to extend credit and the fair value of letters of credit are considered immaterial.

Cash and cash equivalents, accrued interest receivable and accrued interest payable are not presented in the above table as the carrying amounts shown in the consolidated balance sheet equal fair value.

**NOTE H - INVESTMENT SECURITIES**

The following table is an analysis of the amortized cost and fair values of securities available for sale at June 30, 2011 and September 30, 2010:

	At June 30, 2011				At September 30, 2010.			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)								
<b>Securities available for sale:</b>								
<b>Obligations of U.S. government agencies:</b>								
Mortgage backed securities - residential	\$3,422	\$ 42	\$ -	\$3,464	\$3,904	\$ -	\$ (26 )	\$3,878
<b>Obligations of U.S. government-sponsored enterprises:</b>								
Mortgage-backed securities-residential	13,737	77	(150 )	13,664	2,833	107	-	2,940
	4,157	277	-	4,434	4,274	-	(4 )	4,270

Mortgage backed securities-commercial								
Debt securities	5,001	1	(73 )	4,929	1,001	1	-	1,002
Private label mortgage-backed securities-residential	1,696	-	(57 )	1,639	2,362	-	(265 )	2,097
Total securities available for sale	\$28,013	\$ 397	\$ (280 )	\$28,130	\$14,374	\$ 108	\$ (295 )	\$14,187

The maturities of the debt securities and mortgage-backed securities available-for-sale at June 30, 2011 are summarized in the following table:

Table of Contents

	At June 30, 2011	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	\$ -	\$ -
Due after 1 but within 5 years	1,001	1,001
Due after 5 but within 10 years	4,000	3,928
Due after 10 years	-	-
Total debt securities	5,001	4,929
Mortgage-backed securities:		
Residential	18,855	18,767
Commercial	4,157	4,434
Total	\$ 28,013	\$ 28,130

The following table is an analysis of the amortized cost and fair values of securities held to maturity at June 30, 2011 and September 30, 2010:

	At June 30, 2011				At September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)							
Securities held to maturity:								
Obligations of U.S. government agencies:								
Mortgage-backed securities-residential	\$15,622	\$ 353	\$ (138 )	\$15,837	\$18,407	\$ 401	\$ -	\$18,808
Mortgage-backed securities-commercial	1,666	19	-	1,685	1,725	22	-	1,747
Obligations of U.S. government-sponsored enterprises:								
Mortgage backed securities-residential	15,119	288	(53 )	15,354	17,880	425	-	18,305
Debt securities	5,499	8	(24 )	5,483	4,499	35	-	4,534
Private label mortgage-backed securities-residential	1,635	50	(113 )	1,572	1,871	101	(70 )	1,902
Obligations of state and political subdivisions	72	3	-	75	97	5	-	102
Total securities held to maturity	\$39,613	\$ 721	\$ (328 )	\$40,006	\$44,479	\$ 989	\$ (70 )	\$45,398

The maturities of the debt securities and the mortgage backed securities held to maturity at June 30, 2011 are summarized in the following table:

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

	At June 30, 2011	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	\$ -	\$ -
Due after 1 but within 5 years	2,072	2,079
Due after 5 but within 10 years	1,500	1,476
Due after 10 years	1,999	2,003
Total debt securities	5,571	5,558
<b>Mortgage-backed securities:</b>		
Residential	32,376	32,763
Commercial	1,666	1,685
Total	\$ 39,613	\$ 40,006

Table of Contents

## NOTE I – IMPAIRMENT OF INVESTMENT SECURITIES

The Company recognizes credit-related other-than-temporary impairment on debt securities in earnings while noncredit-related other-than-temporary impairment on debt securities not expected to be sold are recognized in other comprehensive income (“OCI”).

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by prolonged recession in the U.S. economy, changes in real estate values and interest deferrals.

Investment securities with fair values less than their amortized cost contain unrealized losses. The Company evaluated these securities and determined that the decline in value was primarily related to fluctuations in the interest rate environment and were not related to any company or industry specific event. The Company does not intend to sell these securities and has determined that it is not more likely than not that the Company would be required to sell these securities prior to maturity or market price recovery. Management has considered factors regarding other than temporarily impaired securities and determined that there are no securities with impairment that is other than temporary as of June 30, 2011.

The following tables present the gross unrealized losses and fair value at June 30, 2011 and September 30, 2010 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

	Number of Securities	June 30, 2011		12 Months Or Greater		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)							
Obligations of U.S. government agencies:							
Mortgage-backed securities-residential	2	\$ 4,658	\$ (138 )	\$ -	\$ -	\$ 4,658	\$ (138 )
Mortgage-backed securities-commercial	1	-	-	22	-	22	-
Obligations of U.S. government-sponsored enterprises:							
Mortgage-backed securities - residential	7	12,287	(203 )	-	-	12,287	(203 )
Debt securities	4	5,403	(97 )	-	-	5,403	(97 )
Private label mortgage-backed securities:							
Residential	3	-	-	2,431	(170 )	2,431	(170 )

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

Total	17	\$ 22,348	\$ (438 )	\$ 2,453	\$ (170 )	\$ 24,801	\$ (608 )
-------	----	-----------	-----------	----------	-----------	-----------	-----------

The investment securities listed above currently have fair values less than amortized cost and therefore contain unrealized losses. The Company evaluated these securities and determined that the decline in value was primarily related to fluctuations in the interest rate environment and were not related to any company or industry specific event. At June 30, 2011, there were seventeen investment securities with unrealized losses. The Company anticipates full recovery of amortized costs with respect to these securities. The Company does not intend to sell these securities and has determined that it is not more likely than not that the Company would be required to sell these securities prior to maturity or market price recovery. Management has considered factors regarding other than temporarily impaired securities and determined that there are no securities with impairment that is other than temporary as of June 30, 2011.



Table of Contents

	Number of Securities	September 30, 2010		12 Months Or Greater		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)							
Obligations of U.S. government agencies:							
Mortgage-backed securities-residential	2	\$3,878	\$(26 )	\$-	\$-	\$3,878	\$(26 )
Obligations of U.S. government-sponsored enterprises:							
Mortgage backed securities - commercial	1	4,270	(4 )	-	-	4,270	(4 )
Private label mortgage-backed securities:							
Residential	3	-	-	2,964	(335 )	2,964	(335 )
<b>Total</b>	<b>6</b>	<b>\$8,148</b>	<b>\$(30 )</b>	<b>\$2,964</b>	<b>\$(335 )</b>	<b>\$11,112</b>	<b>\$(365 )</b>

## NOTE J – LOANS RECEIVABLE, NET AND RELATED ALLOWANCE FOR LOAN LOSSES

Loans receivable, net were comprised of the following:

	June 30, 2011	September 30, 2010
(Dollars in thousands)		
One-to four-family residential	\$ 162,634	\$ 165,462
Commercial real estate	130,088	116,222
Construction	36,217	57,086
Home equity lines of credit	22,337	22,823
Commercial business	34,896	33,676
Other	12,235	13,277
<b>Total loans receivable</b>	<b>398,407</b>	<b>408,546</b>
<b>Net deferred loan costs</b>	<b>145</b>	<b>106</b>
<b>Allowance for loan losses</b>	<b>(3,807 )</b>	<b>(4,766 )</b>
<b>Total loans receivable, net</b>	<b>\$ 394,745</b>	<b>\$ 403,886</b>

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The residential mortgage loan segment is further disaggregated into two classes: amortizing term loans, which are primarily first liens, and home equity lines of credit, which are generally second liens. The commercial loan segment is further disaggregated into three classes. Commercial real estate loans include loans secured by multifamily structures, owner-occupied commercial structures, and non-owner occupied nonresidential properties. The construction loan segment consists primarily of developers or investors for the purpose of acquiring,

developing and constructing residential or commercial structures and to a lesser extent one-to-four family residential construction loans made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. Construction loans to developers and investors have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the loan. The commercial business loan segment consists of loans made for the purpose of financing the activities of commercial customers and consists primarily of revolving lines of credit. The consumer loan segment consists primarily of stock-secured installment loans, but also includes unsecured personal loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates individual loans in all segments for possible impairment if the loan either is in nonaccrual status, or is risk rated Substandard and is greater than 90 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding

Table of Contents

the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Once the determination has been made that a loan is impaired, the recorded investment in the loan is compared to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral securing the loan, less anticipated selling and disposition costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. If there is a shortfall between the fair value of the loan and the recorded investment in the loan, the Company charges the difference to the allowance for loan loss as a charge-off and carries the impaired loan on its books at fair value. It is the Company's policy to evaluate impaired loans on an annual basis to ensure the recorded investment in a loan does not exceed its fair value.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and charged-off and those for which a specific allowance was not necessary for the period presented:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
(Dollars in thousands)					
June 30, 2011					
One-to four-family residential	\$ -	\$ -	\$ 2,276	\$ 2,276	\$ 2,331
Commercial real estate	1,679	164	6,160	7,839	8,972
Construction	-	-	13,716	13,716	19,672
Home equity lines of credit	-	-	1,278	1,278	1,372
Commercial business	-	-	877	877	1,105
Total impaired loans	\$ 1,679	\$ 164	\$ 24,307	\$ 25,986	\$ 33,452

At September 30, 2010, impaired loans, none of which had specific allowances, totaled \$27,412,000.

The following table presents the average recorded investment in impaired loans for the periods indicated. There was no interest income recognized on impaired loans during the periods presented.

	For the Three Months	
	Ended June 30, 2011	For the Nine Months Ended June 30, 2011
(Dollars in thousands)		
One-to four-family residential	\$ 2,279	\$ 2,332
Commercial real estate	7,739	7,983
Construction	13,435	13,447
Home equity lines of credit	1,291	1,297
Commercial business	796	977

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

Other	9	5
Average investment in impaired loans	\$ 25,548	\$ 26,040

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that

Table of Contents

jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than three months past due are considered Substandard. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as severe delinquency, bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Asset Review Committee performs monthly reviews of all commercial relationships internally rated 6 ("Watch") or worse. Confirmation of the appropriate risk grade is performed by an external Loan Review Company that semi-annually reviews and assesses loans within the portfolio. Generally, the external consultant reviews commercial relationships greater than \$500,000 and/or criticized relationships greater than \$250,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a monthly basis.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the Bank's internal risk rating system for the period presented:

	Pass	Special Mention	Substandard	Doubtful	Total
(Dollars in thousands)					
June 30, 2011					
One-to four-family residential	\$ 154,103	\$ 5,001	\$ 3,530	\$ -	\$ 162,634
Commercial real estate	114,598	5,104	10,386	-	130,088
Construction	13,821	7,268	15,128	-	36,217
Home equity lines of credit	19,227	1,192	1,918	-	22,337
Commercial business	27,981	5,053	1,862	-	34,896
Other	12,235	-	-	-	12,235
<b>Total</b>	<b>\$ 341,965</b>	<b>\$ 23,618</b>	<b>\$ 32,824</b>	<b>\$ -</b>	<b>\$ 398,407</b>

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans for the period presented:

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due	Non- Accrual	Total Loans
(Dollars in thousands)							
June 30, 2011							
One-to four-family residential	\$ 159,781	\$ -	\$ 348	\$ 2,505	\$ 2,853	\$ 2,505	\$ 162,634
	119,209	1,665	1,111	8,103	10,879	8,103	130,088

Commercial real estate							
Construction	19,330	-	3,171	13,716	16,887	13,716	36,217
Home equity lines of credit	20,860	-	199	1,278	1,477	1,278	22,337
Commercial business	34,003	3	13	877	893	877	34,896
Other	12,185	-	-	50	50	50	12,235
<b>Total</b>	<b>\$ 365,368</b>	<b>\$ 1,668</b>	<b>\$ 4,842</b>	<b>\$ 26,529</b>	<b>\$ 33,039</b>	<b>\$ 26,529</b>	<b>\$ 398,407</b>

At September 30, 2010, nonaccrual loans totaled \$27,417,000 and loans ninety days or more delinquent and accruing interest totaled \$583,000.

An allowance for loan losses (“ALL”) is maintained to absorb losses from the loan portfolio. The ALL is based on management’s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

Table of Contents

The Bank's methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative and economic factors.

The loans are segmented into classes based on their inherent varying degrees of risk, as described above. Management tracks the historical net charge-off activity by segment and utilizes this figure, as a percentage of the segment, as the general reserve percentage for pooled, homogenous loans that have not been deemed impaired. Typically, an average of losses incurred over a defined number of consecutive historical years is used. A 5 year history is currently utilized for all loan segments except for construction loans, where the highest single year loss percentage of the most recent five years is used in place of a 5 year average.

Non-impaired credits are segregated for the application of qualitative factors. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL. Since loans individually evaluated for impairment are promptly written down to their fair value, typically there is no portion of the ALL for loans individually evaluated for impairment.

The following table summarizes the activity in the ALL, segregated by the primary segments of the loan portfolio for the three months ended June 30, 2011:

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
ALL balance at March 31, 2011	\$ 464	\$ 1,150	\$ 1,338	\$ 61	\$ 642	\$ 14	\$ 100	\$ 3,769
Charge-offs	-	-	(293 )	-	(67 )	(4 )	-	(364 )
Recoveries	-	-	-	-	-	-	-	-
Provision	(3 )	124	180	(1 )	41	1	60	402
ALL balance at								

Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

June 30, 2011 \$ 461 \$ 1,274 \$ 1,225 \$ 60 \$ 616 \$ 11 \$ 160 \$ 3,807

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2011:

20

---



Table of Contents

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit (Dollars in thousands)	Commercial Business	Other	Unallocated	Total
ALL Balance:								
Individually evaluated for impairment	\$-	\$ 164	\$ -	\$-	\$ -	\$-	\$ -	\$164
Collectively evaluated for impairment	461	1,110	1,225	60	616	11	160	3,643
Total	\$461	\$ 1,274	\$ 1,225	\$60	\$ 616	\$11	\$ 160	\$3,807
Loans receivable:								
Individually evaluated for impairment	\$2,276	\$ 7,839	\$ 13,716	\$1,278	\$ 877	\$-		\$25,986
Collectively evaluated for impairment	160,358	122,249	22,501	21,059	34,019	12,235		372,421
Total	\$162,634	\$ 130,088	\$ 36,217	\$22,337	\$ 34,896	\$12,235		\$398,407

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the segmentation of the loan portfolio into homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

## NOTE K - DEPOSITS

A summary of deposits by type of account are summarized as follows:

	June 30, 2011 (Dollars in thousands)	September 30, 2010
Demand accounts	\$ 43,731	\$ 37,298
Savings accounts	59,772	61,867
NOW accounts	31,422	51,473
Money market accounts	105,164	89,279
Certificates of deposit	147,511	156,528
Retirement certificates	30,763	31,487
	\$ 418,363	\$ 427,932

## NOTE L – INCOME TAXES

The Company records income taxes using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying

amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled.

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The valuation allowance is assessed by management on a quarterly basis and adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. In assessing whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, management considers projections of future taxable income, the projected periods in which current temporary differences will be deductible, the availability of carry

Table of Contents

forwards, and existing tax laws and regulations. Due to the uncertainty of the Company's ability to realize the benefit of certain deferred tax assets within statutory time limits, the net deferred tax assets are partially offset by a valuation allowance at June 30, 2011, the amount of which has not materially changed from that in place at September 30, 2010.

A reconciliation of income tax (benefit) between the amounts calculated based upon pre-tax income (loss) at the Company's federal statutory rate and the amounts reflected in the consolidated statements of operations are as follows:

	For the three Months Ended June 30,		For the Nine Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Income tax benefit at 34% statutory federal tax rate	\$ 26	\$ 30	\$ (123 )	\$ 23
Change in valuation allowance related to deferred income tax assets	28	(3,493 )	55	(3,818 )
State tax (benefit) expense	(6 )	(9 )	(18 )	1
Other	8	26	(66 )	26
Income tax (benefit)	\$ 56	\$ (3,446 )	\$ (152 )	\$ (3,768 )

## NOTE M - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company uses derivative financial instruments, such as interest rate floors and collars, as part of its interest rate risk management. Interest rate caps and floors are agreements whereby one party agrees to pay or receive a floating rate of interest on a notional principal amount for a predetermined period of time if certain market interest rate thresholds are met. The Company considers the credit risk inherent in these contracts to be negligible.

As of June 30, 2011, the Company did not hold any interest rate floors or collars. As of September 30, 2010, the Company held one Prime-based interest rate floor with a maturity date of December 27, 2010. The counterparty in the transaction was Wells Fargo (formerly Wachovia Bank, N.A). In accordance with cash flow hedge accounting, the amortization of the costs of the derivatives flowed through the Company's income statement as a reduction to loan interest income. In addition, all changes in fair value of the derivative contracts are recorded through other comprehensive income.

The table below shows the notional amount, strike and maturity date of our interest rate derivative contract as of June 30, 2011 and September 30, 2010.

Notional Amount	Strike	Maturity Date	Fair Value June 30, 2011	September 30,2010
(Dollars in thousands)				
\$ 5,000	7.25 %	12/27/10	\$ -	\$ 51

Interest rate  
floor

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

	June 30, 2011	September 30, 2010
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk		
Letters of credit	\$ 1,548	\$ 2,048
Unused lines of credit	38,231	42,890
Fixed rate loan commitments	5,601	3,746
Variable rate loan commitments	35	100
	\$ 45,415	\$ 48,784

Table of Contents

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

Forward-Looking Statements

When used in this filing and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases, "anticipate," "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "projected," "believes", or similar expressions are intended to identify "forward looking statements." Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those risks previously disclosed in the Company's filings with the SEC, general economic conditions, changes in interest rates, regulatory considerations, competition, technological developments, retention and recruitment of qualified personnel, and market acceptance of the Company's pricing, products and services, and with respect to the loans extended by the Bank and real estate owned, the following: risks related to the economic environment in the market areas in which the Bank operates, particularly with respect to the real estate market in New Jersey; the risk that the value of the real estate securing these loans may decline in value; and the risk that significant expense may be incurred by the Company in connection with the resolution of these loans.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advises readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investing activities, and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. Critical accounting policies may involve complex subjective decisions or assessments. We consider the following to be our critical accounting policies.

**Allowance for Loan Losses.** The allowance for loan losses is the amount estimated by management as necessary to cover credit losses in the loan portfolio both probable and reasonably estimable at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. Due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses, the methodology for determining the allowance for loan losses is considered a critical accounting policy by management.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has a specific and general component. The specific component relates to loans that are delinquent or otherwise identified as impaired through the application of our loan review process and our loan grading system. All

Table of Contents

such loans are evaluated individually, with principal consideration given to the value of the collateral securing the loan and discounted cash flows. Specific impairment allowances are established as required by this analysis. The general component is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general component of the allowance for loan losses.

Actual loan losses may be significantly greater than the allowances we have established, which could have a material negative effect on our financial results.

**Other Real Estate Owned.** Real estate acquired through foreclosure, or a deed-in-lieu of foreclosure, is recorded at fair value less estimated selling costs at the date of acquisition or transfer, and subsequently at the lower of its new cost or fair value less estimated selling costs. Adjustments to the carrying value at the date of acquisition or transfer are charged to the allowance for loan losses. The carrying value of the individual properties is subsequently adjusted to the extent it exceeds estimated fair value less estimated selling costs, at which time a provision for losses on such real estate is charged to operations.

Appraisals are critical in determining the fair value of the other real estate owned amount. Assumptions for appraisals are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable.

**Deferred Income Taxes.** The Company records income taxes using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled.

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

Comparison of Financial Condition at June 30, 2011 and September 30, 2010

Total assets decreased \$11.5 million, or 2.1%, to \$526.5 million at June 30, 2011 from \$537.9 million at September 30, 2010. The decrease resulted from a \$13.4 million decrease in cash and cash equivalents and a \$9.1 million decrease in loans receivable, net of allowance for loan loss, were partially offset by a \$9.1 million increase in investment securities and a \$2.6 million increase in other real estate owned.

Total loans receivable decreased \$10.1 million during the nine months ended June 30, 2011 to \$398.4 million and were comprised of \$162.6 million (40.8%) one-to-four family residential mortgage loans, \$130.1 million (32.6%) commercial real estate loans, \$36.2 million (9.1%) construction loans, \$34.9 million (8.8%) commercial business loans, \$22.4 million (5.6%) home equity lines of credit and \$12.2 million (3.1%) other loans. Contraction of the portfolio during the nine months ended June 30, 2011 occurred primarily in construction loans, which decreased \$20.9 million, followed by a decrease of \$2.8 million in residential mortgage loans and a \$1.0 million decrease in other loans. Commercial real estate loans increased \$13.9 million and commercial business loans increased \$1.2 million. The Company ceased originating new non-owner occupied construction loans in October 2008 and intends to continue decreasing construction loans as a percentage of total loans.

Total non-performing loans, which includes loans delinquent 90 days or more, decreased by \$1.5 million to \$26.5 million at June 30, 2011 from \$28.0 million at September 30, 2010. The ratio of non-performing loans to total loans decreased to 6.7% at June 30, 2011 from 6.9% at September 30, 2010.

Included in the non-performing loan totals were fifteen construction loans totaling \$13.7 million, thirteen commercial loans totaling \$9.0 million, five residential mortgage loans totaling \$2.5 million, three home equity lines of credit totaling \$1.3 million, and two stock-secured loans totaling \$50,000. The Company has not and does not intend to originate or purchase sub-prime loans or option-ARM loans.



Table of Contents

Adverse economic conditions have led to high levels of non-performing loans, particularly in the Company's construction loan portfolio. The repayment of construction loans is typically dependent upon the sale of the collateral securing the loan, which has been negatively impacted by rapid deterioration in the housing market and decreased buyer demand. As a result, construction projects have slowed and reached their maturity dates. In order for the Company to extend the loans beyond the original maturity date, the value of the collateral securing the loan must be assessed, which is typically done by obtaining an updated third-party appraisal. Given the deterioration in the economy and, specifically, the housing market, updated valuations of the collateral reflect depreciation from earlier assessments. To the extent that an updated valuation of the collateral is insufficient to cover a collateral-dependent loan, the Company reduces the balance of the loan via a charge to the allowance for loan loss.

Non-performing construction loans decreased \$837,000, or 5.8%, to \$13.7 million at June 30, 2011 from \$14.6 million at September 30, 2010. The decrease was attributable to the transfer of three loans totaling \$2.8 million to other real estate owned, the restructuring of four loans totaling \$1.1 million, the payoff of one loan totaling \$548,000, and charge-offs totaling \$1.3 million, partially offset by three new non-performing construction loan totaling \$4.7 million. At June 30, 2011, non-performing construction loans consisted of six loans totaling \$3.3 million secured by incomplete single family homes, four loans totaling \$6.4 million secured by incomplete condominium units, and five loans totaling \$4.0 million secured by land and other real estate. These loans were used for land acquisition and construction in various locations in the States of New Jersey and Pennsylvania. Magyar Bank is determining the proper course of action to collect the principal outstanding on these loans. Year-to-date, the Bank has charged off \$1.3 million in construction loan balances through a reduction of its allowance for loan loss.

Construction loans may contain interest reserves on which the interest is capitalized to the loan. At June 30, 2011, there was one performing construction loan with an interest reserve representing an outstanding balance of \$1.2 million, original interest reserves of \$94,000, advanced interest reserves of \$16,000, and a remaining interest reserve balance of \$78,000. At September 30, 2010, there were four performing construction loans with interest reserves representing outstanding balances of \$13.7 million, original interest reserves of \$1.1 million, advanced interest reserves of \$644,000, and remaining interest reserve balances of \$411,000.

Underwriting for construction loans with and without interest reserves has followed a uniform process. Construction loan progress is monitored on a monthly basis by management of the Bank as well as by the Board of Directors. Each time an advance is requested, an inspection is made of the project by an outside engineer or appraiser, depending on the size and complexity of the project, to determine the amount of work completed and if the costs to date are supported adequately. The Bank's construction loan operations personnel compare the advance request with the original budget and remaining loan funds available to ensure the project is in balance and that at all times the amount remaining on the loan is sufficient to complete the project.

A number of the Bank's construction loans have been extended due to slower sales as a result of economic conditions. In cases where updated appraisals reflect collateral values insufficient to cover the loan, additional collateral and/or a principal reduction is required to extend the loan. Some of the Bank's loans that originally had interest reserves are non-performing. The Bank does not have any currently non-performing loans with active interest reserves. Once a loan is deemed impaired, any interest reserve is frozen and the loan is placed on non-accrual so that no future interest income is recorded on these loans. The Bank ceased originating new non-owner occupied construction loans in October 2008.

Non-performing loans secured by one-to four-family residential properties including home equity lines of credit were \$3.8 million at both June 30, 2011 and September 30, 2010. The loans consisted of three commercial-purpose loans totaling \$3.0 million, four consumer loans totaling \$589,000 and one ninety days delinquent and accruing residential mortgage loan totaling \$229,000. The Company has not and does not intend to originate or purchase sub-prime loans or option-ARM loans. Fiscal year-to-date, the Bank has charged off \$55,000 in non-accrual residential mortgage loans

through a reduction of its allowance for loan loss.

Non-performing commercial real estate loans decreased \$125,000, or 1.5%, to \$8.1 million at June 30, 2011 from \$8.2 million at September 30, 2010. The loans were in various stages of foreclosure and collection at June 30, 2011. Fiscal year-to-date, the Bank has charged off \$583,000 in non-accrual commercial real estate loans through a reduction of its allowance for loan loss.

Non-performing commercial business loans decreased \$588,000, or 40.1%, to \$877,000 at June 30, 2011 from \$1.5 million at September 30, 2010. The decrease was primarily attributable to one loan totaling \$581,000 that was transferred to other real estate owned following a sheriff's sale of the collateral. Of the six non-performing commercial

Table of Contents

business loans, one totaling \$529,000 was secured by real estate. The Bank is in the process of collecting the principal outstanding on the non-accrual loans which will include foreclosure proceedings for those loans secured by real estate. Fiscal year-to-date, the Bank has charged off \$255,000 in non-performing commercial business loans through a reduction of its allowance for loan loss.

There were two non-performing stock-secured consumer loans totaling \$50,000 at June 30, 2011. Fiscal year-to-date, the Bank has charged off \$3,000 in non-performing consumer loans through a reduction of its allowance for loan loss.

The allowance for loan losses decreased by \$959,000 during the nine months ended June 30, 2011 to \$3.8 million. The decrease during the nine month period was primarily attributable to net charge-offs totaling \$2.2 million, partially offset by provisions for loan loss of \$1.2 million. The decrease in the allowance for loan losses was primarily attributable to contraction in the loan portfolio, specifically in construction loans, which decreased \$20.9 million, or 36.6%, during the nine month period. Since non-performing construction loans have accounted for the majority of the Bank's loan charge-offs, a large portion of the allowance for loan loss is maintained for performing construction loans. The recent significant decline in construction loan balances has reduced the required reserves for performing construction loans and therefore the total allowance for loan loss.

The allowance for loan loss does not typically include a specific reserve for non-performing loans as all such loans are reported at the lower of amortized cost or fair value, based upon updated independent appraisals of collateral or the discounted value of expected loan repayments. Valuations of such loans are performed at least annually with charge-offs recorded when appraised values, net of estimated selling and disposition costs, are less than the loan balances. Specific reserves may be used on occasions where an updated valuation is unavailable. At June 30, 2011, the Bank held a specific reserve totaling \$164,000 for a \$1.7 million non-performing participation loan, which the Bank was not the lead lender. The allowance for loan losses as a percentage of non-performing loans was 14.4% at June 30, 2011 compared with 17.0% at September 30, 2010. At June 30, 2011 our allowance for loan losses as a percentage of total loans was 0.96% compared with 1.17% at September 30, 2010. It is the Company's policy to immediately charge off specifically identified losses in its loan portfolio. Future increases in the allowance for loan losses may be necessary based on possible future increases in non-performing loans and charge-offs, possible additional deterioration of collateral values, and the possible continuation or deterioration of the current adverse economic environment.

Investment securities increased \$9.1 million to \$67.7 million at June 30, 2011 from \$58.7 million at September 30, 2010. The increase was the result of purchases totaling \$27.8 million of U.S. Government-sponsored enterprise obligations, offset by principal repayments totaling \$14.8 million, the sale of two securities totaling \$4.0 million, a market value adjustment in the available-for-sale portfolio of \$305,000, and security premium amortization of \$236,000 during the nine months ended June 30, 2011.

Other real estate owned increased \$2.6 million to \$15.2 million at June 30, 2011 from \$12.7 million at September 30, 2010. The increase was the result of the Bank's acceptance of deeds-in-lieu of foreclosure on collateral securing three construction loans which consisted of two completed residential homes and one incomplete 10-unit condominium building. Other real estate owned at June 30, 2011 consisted of six residential properties, one commercial real estate property, three substantially completed condominium projects, three partially completed residential properties, and sixteen real estate lots approved for residential homes. The Bank is determining the proper course of action for its other real estate owned, which may include holding the properties until the real estate market improves, selling the properties to a developer and completing partially completed homes for either rental or sale.

During the quarter ended June 30, 2011, the Company sold five properties totaling \$1.5 million from the other real estate owned portfolio, increasing the fiscal year-to-date sales to \$2.0 million. In addition, the Company has entered into or is negotiating contracts to sell \$7.8 million of the properties held in other real estate owned. Valuation

allowances for losses anticipated from these contracts have been recorded at June 30, 2011. No additional losses are expected on these sales.

Total deposits decreased \$9.5 million, or 2.2%, to \$418.4 million during the nine months ended June 30, 2011. The decrease in deposits occurred in interest-bearing checking accounts, which decreased \$20.1 million, or 39.0%, to \$31.4 million and certificates of deposit (including individual retirement accounts), which decreased \$9.7 million, or 5.2%, to \$178.3 million. The outflows in interest-bearing checking accounts were from municipal accounts while the outflows in CDs were primarily due to maturing brokered deposits. Partially offsetting the decrease were increases in money market account balances, which increased \$15.9 million, or 17.8%, to \$105.2 million and in non-interest checking

Table of Contents

accounts, which increased \$6.4 million, or 17.3%, to \$43.7 million. The Company's ability to maintain its net interest margin during the nine months ended June 30, 2011 was largely a result of the replacement of higher-rate certificates of deposit with non-interest checking and money market balances.

Included in total deposits at June 30, 2011 were \$1.8 million in Certificate of Deposit Account Registry Service (CDARS) Reciprocal certificates of deposit and \$10.0 million in brokered certificates of deposit. At September 30, 2010, the Company held \$2.9 million in CDARS Reciprocal certificates of deposit and \$14.7 million in brokered certificates of deposit.

Federal Home Loan Bank of New York advances decreased \$2.2 million during the nine months ended June 30, 2011 to \$43.6 million, or 8.3% of assets. The decrease resulted from maturities of longer-term advances that were repaid using inflows from deposits. Securities sold under agreements to repurchase were unchanged during the nine months ended June 30, 2011.

Stockholders' equity increased \$241,000, or 0.5%, to \$44.4 million at June 30, 2011 from \$44.2 million at September 30, 2010. The increase was due to the Company's results from operations and changes in the Company's accumulated other comprehensive loss during the nine month period. The Company's book value per share increased to \$7.66 at June 30, 2011 from \$7.64 at September 30, 2010. The increase was due to the results of operations for the nine months ended June 30, 2011.

During the nine months ended June 30, 2011, the Company did not repurchase any shares. Through June 30, 2011, the Company had repurchased 66,970 shares at an average price of \$9.39 pursuant to the second stock repurchase plan, which has reduced outstanding shares to 5,798,831.

Average Balance Sheets for the Three and Nine Months Ended June 30, 2011 and 2010

The table on the following page presents certain information regarding the Company's financial condition and net interest income for the three and nine months ended June 30, 2011 and 2010. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY  
Comparative Average Balance Sheets  
(Dollars In Thousands)

	For the Three Months Ended June 30, 2011			2010			
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	
Interest-earning assets:							
Interest-earning deposits	\$6,302	\$3	0.22	% \$5,126	\$2	0.15	%
Loans receivable, net	396,347	5,076	5.14	% 418,566	5,543	5.31	%
Securities							
Taxable	69,926	506	2.90	% 63,709	582	3.66	%
Tax-exempt (1)	72	2	9.09	% 97	1	6.02	%
FHLB of NY stock	2,747	31	4.49	% 3,019	33	4.42	%
Total interest-earning assets	475,394	5,618	4.74	% 490,517	6,161	5.04	%
Noninterest-earning assets	56,276			55,875			
Total assets	\$531,670			\$546,392			
Interest-bearing liabilities:							
Savings accounts (2)	\$60,875	87	0.57	% \$63,582	136	0.86	%
NOW accounts (3)	138,202	224	0.65	% 135,520	345	1.02	%
Time deposits (4)	180,173	922	2.05	% 198,361	1,115	2.25	%
Total interest-bearing deposits	379,250	1,233	1.30	% 397,463	1,596	1.61	%
Borrowings	59,917	579	3.88	% 66,218	675	4.09	%
Total interest-bearing liabilities	439,167	1,812	1.65	% 463,681	2,271	1.96	%
Noninterest-bearing liabilities	48,137			39,129			
Total liabilities	487,304			502,810			
Retained earnings	44,366			43,582			
Total liabilities and retained earnings	\$531,670			\$546,392			
Tax-equivalent basis							
adjustment		(1	)		-		
Net interest income		\$3,805			\$3,890		
Interest rate spread			3.09	%		3.08	%
Net interest-earning assets	\$36,227			\$26,836			
Net interest margin (5)			3.21	%		3.18	%
Average interest-earning assets to average interest-bearing liabilities	108.25	%		105.79	%		

(1) Calculated using 34% tax rate for the three months ended June 30, 2011 and 0% for the three months ended June 30, 2010.

(2) Includes passbook savings, money market passbook and club accounts.

- (3) Includes interest-bearing checking and money market accounts.
- (4) Includes certificates of deposits and individual retirement accounts.
- (5) Calculated as annualized net interest income divided by average total interest-earning assets.

Table of Contents

**MAGYAR BANCORP, INC. AND SUBSIDIARY**  
**Comparative Average Balance Sheets**  
(Dollars In Thousands)

	For the Nine Months Ended June 30, 2011			2010				
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)		
<b>Interest-earning assets:</b>								
Interest-earning deposits	\$11,679	\$19	0.21	% \$3,351	\$3	0.12	%	
Loans receivable, net	396,079	15,228	5.14	% 429,765	17,131	5.33	%	
<b>Securities</b>								
Taxable	68,683	1,525	2.97	% 66,300	1,906	3.84	%	
Tax-exempt (1)	82	5	6.66	% 107	5	5.90	%	
FHLB of NY stock	2,753	118	5.72	% 3,158	124	5.27	%	
Total interest-earning assets	479,276	16,895	4.71	% 502,681	19,169	5.10	%	
Noninterest-earning assets	54,441			50,594				
Total assets	\$533,717			\$553,275				
<b>Interest-bearing liabilities:</b>								
Savings accounts (2)	\$61,812	\$286	0.62	% \$61,636	\$469	1.02	%	
NOW accounts (3)	137,908	820	0.80	% 135,133	1,056	1.04	%	
Time deposits (4)	182,757	2,821	2.06	% 204,619	3,555	2.32	%	
Total interest-bearing deposits	382,477	3,927	1.37	% 401,388	5,080	1.69	%	
Borrowings	60,304	1,786	3.96	% 69,521	2,090	4.02	%	
Total interest-bearing liabilities	442,781	5,713	1.73	% 470,909	7,170	2.04	%	
Noninterest-bearing liabilities	46,948			38,550				
Total liabilities	489,729			509,459				
Retained earnings	43,988			43,816				
Total liabilities and retained earnings	\$533,717			\$553,275				
<b>Tax-equivalent basis adjustment</b>								
		(1)			-			
Net interest income		\$11,181			\$11,999			
Interest rate spread			2.98	%		3.06	%	
Net interest-earning assets	\$36,495			\$31,772				
Net interest margin (5)			3.12	%		3.19	%	
Average interest-earning assets to average interest-bearing liabilities	108.24	%		106.75	%			

(1) Calculated using 34% tax rate for the nine months ended June 30, 2011 and 0% for the nine months ended June 30, 2010.

(2) Includes passbook savings, money market passbook and club accounts.



- (3) Includes interest-bearing checking and money market accounts.
- (4) Includes certificates of deposits and individual retirement accounts.
- (5) Calculated as annualized net interest income divided by average total interest-earning assets.

Table of Contents

Comparison of Operating Results for the Three Months Ended June 30, 2011 and 2010

**Net Income.** Net income decreased \$3.5 million, to \$19,000 for the three months ended June 30, 2011 from \$3.5 million for the three months ended June 30, 2010. The decrease was due to a \$3.4 million tax benefit recorded during the prior year period.

**Net Interest and Dividend Income.** Net interest and dividend income decreased \$85,000, or 2.2%, to \$3.8 million for the three months ended June 30, 2011 from \$3.9 million for the three months ended June 30, 2010. Total interest and dividend income decreased \$544,000 to \$5.6 million for the three month period ended June 30, 2011 while total interest expense decreased \$459,000 to \$1.8 million from the same three month period one year earlier. For the comparison period our interest rate spread increased 1 basis point to 3.09% from 3.08%.

**Interest and Dividend Income.** The decrease in interest and dividend income of \$544,000, or 8.8%, to \$5.6 million for the three months ended June 30, 2011 was primarily due to a decrease in overall yield of interest-earning assets to 4.74% from 5.04%, and a decrease in the average balance of interest-earning assets of \$15.1 million to \$475.4 million for the three months ended June 30, 2011 from \$490.5 million for the three months ended June 30, 2010.

Interest earned on loans decreased \$467,000, or 8.4%, to \$5.1 million for the three months ended June 30, 2011 compared with the prior year period due to a \$22.2 million decrease in the average balance of loans between the periods and a 17 basis point decrease in the average yield on such loans to 5.14% from 5.31%. The decrease in yield between the two periods was due primarily to the lower market interest rate environment.

Interest earned on our investment securities, excluding Federal Home Loan Bank of New York stock, decreased \$75,000, or 12.8%, due to a 75 basis point decrease in the average yield on such securities to 2.91% for the three months ended June 30, 2011 from 3.66% for the three months ended June 30, 2010. The decrease in yield on investment securities was due to lower market interest rates than the prior year period. The average balance of such securities increased \$6.2 million, or 9.7%, to \$70.0 million for the three months ended June 30, 2011 from \$63.8 million for the three months ended June 30, 2010.

**Interest Expense.** Interest expense decreased \$459,000, or 20.2%, to \$1.8 million for the three months ended June 30, 2011 from \$2.3 million for the three months ended June 30, 2010. The decrease in interest expense was primarily due to a 31 basis point decrease in the average cost of such liabilities to 1.65% from 1.96%, and a decrease in the average balance of interest-bearing liabilities of \$24.5 million, or 5.3%, to \$439.2 million from \$463.7 million.

The average balance of interest bearing deposits decreased \$18.2 million to \$379.3 million from \$397.5 million while the average cost of such deposits decreased 31 basis points to 1.30% from 1.61% in the lower market interest rate environment. As a result, interest paid on deposits decreased to \$1.2 million for the three months ended June 30, 2011 from \$1.6 million for the three months ended June 30, 2010.

Interest paid on advances and securities sold under agreements to repurchase decreased to \$579,000 for the three months ended June 30, 2011 from \$675,000 for the prior year period due to a decrease in the average balance of such borrowings to \$59.9 million from \$66.2 million. In addition, the average cost of advances and securities sold under agreements to repurchase decreased 21 basis points to 3.88% for the three months ended June 30, 2011 from 4.09% for the prior year period, reflecting the repayment of higher interest-bearing advances between periods.

**Provision for Loan Losses.** We establish provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's

ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management recorded a provision of \$402,000 for the three months ended June 30, 2011 compared to a provision of \$494,000 for the prior year period.

Net charge-offs were \$364,000 for the three months ended June 30, 2011 compared with \$1.1 million for the three months ended June 30, 2010. The level of loan charge-offs decreased from the prior year as a result of stabilizing values of real estate collateral securing non-performing residential and construction loans. During the three months ended

Table of Contents

June 30, 2011, the Bank reduced the carrying balance on seven loans totaling \$2.6 million to the appraised fair value of collateral, net of estimated disposition costs, securing the loans.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the factors set forth in the preceding paragraph. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous construction, commercial real estate and commercial business loans may result in larger additions to the allowance for loan losses in future periods.

Other Income. Non-interest income decreased \$254,000, or 44.5%, to \$317,000 during the three months ended June 30, 2011 compared to \$571,000 for the three months ended June 30, 2010.

The decrease was attributable to gains and losses on assets. The Company recorded a \$131,000 loss for other real estate owned for the three months ended June 30, 2011, which decreased \$192,000 from a gain of \$60,000 for the three months ended June 30, 2010. The losses were primarily the result of sales of five properties totaling \$1.5 million that resulted in a net loss of \$76,000. In addition, a \$55,000 valuation allowance was placed against one property with an aggregate carrying value of \$538,000. Gains on the sale of available-for-sale investment securities decreased \$65,000 to \$40,000 for the three months ended June 30, 2011 from \$105,000 for the three months ended June 30, 2010.

Other Expenses. Non-interest expenses decreased \$233,000, or 6.0%, to \$3.6 million from \$3.9 million for the three months ended June 30, 2010.

Non-interest expenses decreased \$233,000 to \$3.6 million from \$3.9 million for the three months ended June 30, 2010. The largest expense reduction occurred in Federal Deposit Insurance Corporation ("FDIC") deposit insurance premiums, which decreased \$118,000, or 32.2%, followed by an \$84,000 reduction in professional fees. FDIC insurance premiums declined during the quarter due to a lower rate assessed to the Bank while professional fees declined due to lower legal fees.

Despite additional staffing for the Bank's Bridgewater office, which opened in June 2010, compensation and benefit expenses increased only \$17,000, or 0.9%, between the two periods. Occupancy expenses decreased \$28,000, or 4.0%, due to lower furniture, fixture, and equipment depreciation expense. Partially offsetting these decreases were slightly higher other real estate owned and advertising expenses.

Income Tax (Benefit) Expense. The Company recorded a tax expense of \$56,000 for the three months ended June 30, 2011, compared to a tax benefit of \$3.4 million for the three months ended June 30, 2010. The Company recorded an income tax benefit of \$3.4 million for the three months ended June 30, 2010 due to the partial reduction in the valuation allowance previously recorded against its deferred tax asset.

Comparison of Operating Results for the Nine Months Ended June 30, 2011 and 2010

Net Income (Loss). The Company recorded a net loss of \$211,000 for the nine months ended June 30, 2011 compared with net income of \$3.8 million for the nine months ended June 30, 2010. The decrease was due to a \$3.8 million tax benefit recorded during the prior year period and lower net interest income in the current period.

Net Interest and Dividend Income. Net interest and dividend income decreased \$819,000, or 6.8%, to \$11.2 million for the nine months ended June 30, 2011 from \$12.0 million for the nine months ended June 30, 2010. Total interest and dividend income decreased \$2.3 million to \$16.9 million for the nine month period ended June 30, 2011 while total interest expense decreased \$1.5 million to \$5.7 million from the same nine month period in 2010. For the

comparison period our interest rate spread decreased 8 basis points to 2.98% from 3.06%.

Interest and Dividend Income. Total interest and dividend income decreased \$2.3 million, or 11.9%, to \$16.9 million for the nine months ended June 30, 2011 from \$19.2 million for the same period last year. The decrease in interest income was primarily due to a 39 basis point decrease in the overall yield of interest-bearing assets to 4.71% from 5.10% and a decrease in the average balance of interest-earning assets of \$23.4 million to \$479.3 million from \$502.7 million.

Interest earned on loans decreased \$1.9 million, or 11.1%, to \$15.2 million for the nine months ended June 30, 2011 from \$17.1 million for the prior year period. While the average yield on such loans decreased 19 basis points, to

Table of Contents

5.14% from 5.33%, the average balance of loans decreased \$33.7 million, or 7.8%, to \$396.1 million for the nine months ended June 30, 2011 from \$429.8 million for the nine months ended June 30, 2010.

Interest earned on investment securities, excluding Federal Home Loan Bank of New York stock, decreased \$367,000, or 19.2%, to \$1.5 million for the nine month period ended June 30, 2011 from \$1.9 million a year earlier. The average balance of such securities increased \$2.4 million, or 3.6%, to \$68.8 million from \$66.4 million and the average yield on investment securities fell 87 basis points to 2.97% from 3.84%. The decreased yield on investment securities resulted from the lower interest rate environment during the nine months ended June 30, 2011 compared with the prior year period.

Interest Expense. Interest expense decreased \$1.5 million, or 20.3%, to \$5.7 million for the nine months ended June 30, 2011 from \$7.2 million for the nine months ended June 30, 2010. The decrease in interest expense was primarily due to a 31 basis point decrease in the average cost of such liabilities to 1.73% from 2.04% and a decrease in the average balance of interest-bearing liabilities of \$28.1 million, or 6.0%, to \$442.8 million.

The average balance of interest bearing deposits decreased \$18.9 million to \$382.5 million for the nine months ended June 30, 2011 from \$401.4 million for the same period last year while the average cost of such deposits decreased 32 basis points to 1.37% from 1.69%. This resulted in a \$1.2 million decrease in interest paid on deposits to \$3.9 million for the nine months ended June 30, 2011 from \$5.1 million for the nine months ended June 30, 2010.

Interest on advances and securities sold under agreements to repurchase decreased \$304,000 to \$1.8 million for the nine months ended June 30, 2011 compared to the prior year period. The decrease in interest expense was due to a decrease in average balance to \$60.3 million from \$69.5 million and 6 basis points decrease in the average cost of advances and securities sold under agreements to repurchase to 3.96% for the nine months ended June 30, 2011 from 4.02% for the prior year period. The decrease in cost of advances was due to the repayment of the Company's overnight line of credit, which bore a lower rate than the term advances remaining.

Provision for Loan Losses. The provision for loan losses was \$1.2 million for the nine months ended June 30, 2011 compared to \$1.6 million for the nine months ended June 30, 2010. The decrease in the provision for loan loss was due primarily to the reduction in the construction loan portfolio, which generally requires a larger provision than other loans and to the stabilization of non-performing loan levels.

Non-performing loans decreased \$1.5 million to \$26.5 million at June 30, 2011 from \$28.0 million at September 30, 2010. Net charge-offs were \$2.2 million for the nine months ended June 30, 2011 compared to \$2.3 million for the nine months ended June 30, 2010. In addition to slightly less net charge-offs during the current nine month period, the provision for loan losses was lower in comparison to the prior year period due to the reduction in the construction loan portfolio, which generally requires a larger provision than other loans.

The loan charge-offs during the nine months ended June 30, 2011 resulted primarily from updated appraisals of the real estate securing the loans, reflecting continued depreciation from one year earlier. Ten non-performing construction loans totaling \$9.9 million were written down by \$1.3 million for the nine months based on updated appraisals of the real estate securing the loans, reflecting continued depreciation from one year earlier. Of these loans, two totaling \$3.0 million at September 30, 2010 were transferred to other real estate owned. In addition, the Company wrote down six commercial loans totaling \$3.9 million by \$840,000, two loans secured by residential mortgages totaling \$294,000 by \$55,000, and two consumer loans totaling \$18,000 by \$3,000 during the nine months ended June 30, 2011.

Other Income. Non-interest income decreased \$571,000, or 30.3%, to \$1.3 million for the nine months ended June 30, 2011 compared to \$1.9 million for the nine months ended June 30, 2010. The decrease was attributable to net gains

and losses on assets, which decreased \$623,000.

The Company recorded a \$423,000 loss for other real estate owned for the nine months ended June 30, 2011, which decreased \$581,000 from a gain of \$158,000 for the nine months ended June 30, 2010. The losses were the result of sales of seven properties totaling \$2.0 million that resulted in a net loss of \$76,000. In addition, the Bank recorded valuation allowances totaling \$347,000 against two properties having an aggregate carrying value of \$3.5 million. Gains on the sale of available-for-sale investment securities decreased \$381,000 to \$74,000 for the nine months ended June 30, 2011 from \$455,000 for the nine months ended June 30, 2010. Partially offsetting the losses were gains from the sales of loans, which increased \$339,000 to \$494,000 for the nine months ended June 30, 2011 compared with \$155,000 for the nine months ended June 30, 2010.

## Table of Contents

Other Expenses. Non-interest expenses decreased \$552,000, or 4.5%, to \$11.6 million for the nine months ended June 30, 2011 from \$12.2 million for the nine months ended June 30, 2010.

Compensation and benefit expenses decreased \$742,000 during the nine months ended June 30, 2011 primarily due to a one-time charge of \$852,000 during the prior year period due to the resignation of the Company's former President and CEO. Absent the charge from the prior year period, compensation and benefit expenses increased \$110,000 due primarily to additional staffing for the Bank's Bridgewater branch office and severance payments for staff positions eliminated during the current period. In addition, professional fees decreased \$103,000 due to lower legal and consulting fees in the current year.

Partially offsetting the decrease in compensation and benefit expenses between the nine months periods was an increase in other real estate owned expenses of \$122,000 and an increase in occupancy expenses of \$96,000 due to the opening and operation of the new Bridgewater branch in July 2010.

Income Tax Expense (Benefit). The Company recorded a tax benefit of \$152,000 for the nine months ended June 30, 2011, compared to a benefit of \$3.8 million for the nine months ended June 30, 2010. The prior period benefit resulted primarily from a partial reduction in the valuation allowance previously recorded against the Company's deferred tax asset.

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The valuation allowance is assessed by management on a quarterly basis and adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. In assessing whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, management considers projections of future taxable income, the projected periods in which current temporary differences will be deductible, the availability of carry forwards, and existing tax laws and regulations. The valuation allowance in place on deferred tax assets at June 30, 2011, did not materially change from that in place on September 30, 2010.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

The Company's liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company's short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during the nine month ended June 30, 2011 in the ability of the Company and its subsidiaries to fund their operations.

At June 30, 2011, the Company had commitments outstanding under letters of credit of \$1.5 million, commitments to originate loans of \$5.6 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of \$38.2 million. There has been no material change during the nine months ended June 30, 2011 in any of the Company's other contractual obligations or commitments to make future payments.

### Capital Requirements

On April 22, 2010, Magyar Bank entered into agreements with the Federal Deposit Insurance Corporation ("FDIC"), its principal federal banking regulator, and the New Jersey Department of Banking and Insurance (the "Department"), which require the Bank to take certain measures to improve its safety and soundness. In connection with these agreements, the Bank stipulated to the issuance by the FDIC and the Department of consent orders against the Bank (the "Consent Orders") relating to certain findings from a recent examination of the Bank. The Consent Orders were



Edgar Filing: Magyar Bancorp, Inc. - Form 10-Q

filed with the Securities and Exchange Commission on Form 8-K as Exhibits 10.1 and 10.2 on April 23, 2010.

Among the corrective actions required were for the Bank to develop, within 30 days of the April 22, 2010 effective date of the Consent Orders, a written capital plan that details the manner in which the Bank will achieve a Tier 1 capital as a percentage of the Bank's total assets of at least 8%, and total qualifying capital as a percentage of risk-weighted assets of at least 12%. The Bank developed and filed a capital plan on a timely basis with the FDIC and the Department and the plan remains under review by those regulatory authorities.

Table of Contents

At June 30, 2011, the Bank's Tier 1 capital as a percentage of the Bank's total assets was 7.96%, and total qualifying capital as a percentage of risk-weighted assets was 12.95%.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 4 – Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that Magyar Bancorp, Inc. files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

There has been no change in Magyar Bancorp, Inc.'s internal control over financial reporting during Magyar Bancorp, Inc.'s three months ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, Magyar Bancorp, Inc.'s internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal proceedings

There is no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

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

a.) Not applicable.

b.) Not applicable.

c.) The Company did not repurchase any shares during the nine months ended June 30, 2011.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

a.) Not applicable.

b.) There were no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors during the period covered by the Form 10-Q.

Item 6. Exhibits

Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)

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.

32.2 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.



Table of Contents

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.

MAGYAR BANCORP, INC.  
(Registrant)

Date: August 15, 2011

/s/ John S. Fitzgerald  
John S. Fitzgerald  
President and Chief Executive Officer

Date: August 15, 2011

/s/ Jon R. Ansari  
Jon R. Ansari  
Senior Vice President and Chief Financial  
Officer