Magyar Bancorp, Inc.
Form 10-Q
August 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

Commission File Number **000-51726**

Magyar Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-4154978
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
400 Somerset Street, New Brunswick, New Jersey	08901
(Address of Principal Executive Office)	(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 þ No o

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 þ No o

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	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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, 2012
Common Stock, $0.01 Par Value	5,807,244

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

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, 2012 (Unaudited)	September 30, 2011
Assets		
Cash	$962	$ 1,066
Interest earning deposits with banks	25,854	13,968
Total cash and cash equivalents	26,816	15,034
Investment securities - available for sale, at fair value	17,503	25,312
Investment securities - held to maturity, at amortized cost (fair value of $47,690 and $45,713 at June 30, 2012 and September 30, 2011, respectively)	46,785	45,000
Federal Home Loan Bank of New York stock, at cost	2,348	2,299
Loans receivable, net of allowance for loan losses of $3,801 and $3,812 at June 30, 2012 and September 30, 2011 , respectively	377,622	381,254
Bank owned life insurance	9,923	9,660
Accrued interest receivable	1,817	1,921
Premises and equipment, net	21,671	20,574
Other real estate owned ("OREO")	16,370	16,595
Other assets	6,965	6,388
Total assets	$527,820	$ 524,037
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$426,681	$ 424,943
Escrowed funds	917	1,043
Federal Home Loan Bank of New York advances	35,688	34,916
Securities sold under agreements to repurchase	15,000	15,000
Accrued interest payable	306	300
Accounts payable and other liabilities	4,445	3,326
Total liabilities	483,037	479,528
Stockholders' equity		
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;		

5,808,004 and 5,801,631 shares outstanding at June 30, 2012 and September 30, 2011, respectively, at cost	59	59
Additional paid-in capital	26,376	26,496
Treasury stock: 115,738 and 122,111 shares at June 30, 2012 and September 30, 2011, respectively, at cost	(1,298)	(1,480)
Unearned Employee Stock Ownership Plan shares	(1,143)	(1,228)
Retained earnings	21,305	21,069
Accumulated other comprehensive loss	(516)	(407)
Total stockholders' equity	44,783	44,509
Total liabilities and stockholders' equity	$527,820	$ 524,037

The accompanying notes are an integral part of these statements.

1

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,	
	2012	2011	2012	2011
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$4,670	$5,076	$ 14,058	$ 15,228
Investment securities				
Taxable	483	509	1,545	1,544
Tax-exempt	1	1	2	4
Federal Home Loan Bank of New York stock	26	31	79	118
Total interest and dividend income	5,180	5,617	15,684	16,894
Interest expense				
Deposits	969	1,233	3,086	3,927
Borrowings	475	579	1,467	1,786
Total interest expense	1,444	1,812	4,553	5,713
Net interest and dividend income	3,736	3,805	11,131	11,181
Provision for loan losses	340	402	1,033	1,238
Net interest and dividend income after provision for loan losses	3,396	3,403	10,098	9,943
Other income				
Service charges	259	261	761	837
Other operating income	100	113	317	329
Gains on sales of loans	—	35	260	494
Gains on sales of investment securities	138	39	286	74
Losses on OREO	(34)	(131)	(153)	(423)
Total other income	463	317	1,471	1,311
Other expenses				
Compensation and employee benefits	1,784	1,863	5,511	5,720
Occupancy expenses	691	671	2,147	2,047
Advertising	38	43	120	145
Professional fees	204	201	768	751
Service fees	150	138	407	427

OREO expenses	147	87	546	323
FDIC deposit insurance premiums	178	248	535	954
Other expenses	425	394	1,287	1,250
Total other expenses	3,617	3,645	11,321	11,617
Income (loss) before income tax expense (benefit)	242	75	248	(363)
Income tax expense (benefit)	69	56	34	(152)
Net income (loss)	$173	$19	$ 214	$ (211)
Net income (loss) per share-basic and diluted	$0.03	$0.003	$ 0.04	$ (0.04)

The accompanying notes are an integral part of these statements.

2

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Loss)

(In Thousands)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)			
Net income (loss)	$173	$19	$ 214	$ (211)
Other comprehensive income (loss):				
Net unrealized gain on securities available for sale	69	700	184	379
Realized gains on sales of securities available for sale	(138)	(39)	(286)	(74)
Unrealized loss on derivatives	(22)	(27)	(67)	(128)
	(91)	634	(169)	177
Deferred income tax effect	34	(229)	60	(68)
Total other comprehensive (loss) income	(57)	405	(109)	109
Total comprehensive income (loss)	$116	$424	$ 105	$ (102)

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, 2012

(In Thousands, Except for Share Amounts)

(Unaudited)

	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2011	5,801,631	$59	$26,496	$(1,480)	$(1,228)	$21,069	$(407)	$44,509
Comprehensive income:								
Net income	—	—	—	—	—	214	—	214
Other comprehensive loss	—	—	—	—	—	—	(109)	(109)
Purchase of treasury stock	(13,370)	—	—	(43)	—	—	—	(43)
Treasury stock used for restricted stock plan	19,743	—	(247)	225	—	22	—	—
ESOP shares allocated	—	—	(49)	—	85	—	—	36
Stock-based compensation expense	—	—	176	—	—	—	—	176
Balance, June 30, 2012	5,808,004	$59	$26,376	$(1,298)	$(1,143)	$21,305	$(516)	$44,783

The accompanying notes are an integral part of this statement.

4

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Nine Months Ended June 30,	
	2012	2011
	(Unaudited)	
Operating activities		
Net income (loss)	$ 214	$ (211)
Adjustment to reconcile net income (loss) to net cash provided by operating activities		
Depreciation expense	709	725
Premium amortization on investment securities, net	177	236
Provision for loan losses	1,033	1,238
Provision for loss on other real estate owned	77	347
Proceeds from the sales of loans	4,930	8,015
Gains on sale of loans	(260)	(494)
Gains on sales of investment securities	(286)	(74)
Losses on the sales of other real estate owned	76	76
ESOP compensation expense	36	41
Stock-based compensation expense	176	302
Decrease (increase) in accrued interest receivable	104	(84)
Increase in surrender value bank owned life insurance	(263)	(264)
(Increase) decrease in other assets	(584)	522
Increase (decrease) in accrued interest payable	6	(44)
Increase in accounts payable and other liabilities	1,119	387
Net cash provided by operating activities	7,264	10,718
Investing activities		
Net increase in loans receivable	(6,694)	(3,199)
Purchases of investment securities held to maturity	(17,210)	(7,747)
Purchases of investment securities available for sale	(10,156)	(20,083)
Sales of investment securities available for sale	14,164	4,047
Principal repayments on investment securities held to maturity	15,338	12,496
Principal repayments on investment securities available for sale	3,895	2,353
Purchases of premises and equipment	(218)	(595)
Investment in other real estate owned	(905)	(1,198)
Proceeds from the sale of other real estate owned	4,012	1,795
(Purchase) redemption of Federal Home Loan Bank stock	(49)	86
Net cash provided (used) by investing activities	2,177	(12,045)
Financing activities		
Net increase (decrease) in deposits	1,738	(9,569)
Stock compensation tax benefit	—	—

Net decrease in escrowed funds	(126)	(306)
Proceeds from long-term advances	3,000	—
Repayments of long-term advances	(2,228)	(5,853)
Net change in short-term advances	—	3,675
Purchase of treasury stock	(43)	—
Net cash provided (used) by financing activities	2,341	(12,053)
Net increase (decrease) in cash and cash equivalents	11,782	(13,380)
Cash and cash equivalents, beginning of period	15,034	21,086
Cash and cash equivalents, end of period	$ 26,816	$ 7,706
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 4,548	$ 5,756
Income taxes	$ 6	$ 8
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 4,623	$ 3,581
OREO transferred to premises and equipment	1,588	—

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 (the "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, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012. The September 30, 2011 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, 2012 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.

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 financial statements.

Table of Contents

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; 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 was effective for interim and annual periods beginning after December 15, 2011 and did not have a material impact on the Company's 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 820 and does not expect their implementation to have a material impact on its consolidated financial statements.

The FASB issued ASU 2011-12, *Comprehensive Income (Topic 220):Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The amendments to the Codification in ASU No. 2011-12 are effective at the same time as the amendments in ASU No. 2011-05, so that entities will not be required to comply with the presentation requirements in ASU No. 2011-05 that ASU No. 2011-12 is deferring. The amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 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 (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for the three and nine months ended June 30, 2012 and 2011 were calculated by dividing net income (loss) 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, 2012 and the three and nine months ended June 30, 2011. The following table shows the Company’s earnings (loss) per share for the periods presented:

Table of Contents

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands except for per share data)			
Income (loss) applicable to common shares	$ 173	$ 19	$ 214	$ (211)
Weighted average number of common shares outstanding - basic	5,809	5,805	5,811	5,800
Stock options and restricted stock	—	—	—	—
Weighted average number of common shares and common share equivalents - diluted	5,809	5,805	5,811	5,800
Basic earnings (loss) per share	$ 0.03	$ 0.003	$ 0.04	$ (0.04)
Diluted earnings (loss) per share	$ 0.03	$ 0.003	$ 0.04	$ (0.04)

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 and 12,390 shares of restricted shares at a weighted average price of $4.43 were outstanding and not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2012 because the grant (or option strike) price was 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 20,964 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 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.

Table of Contents

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, 2012:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2011	188,276	$ 14.61		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at June 30, 2012	188,276	$ 14.61	4.7 years	$ —
Exercisable at June 30, 2012	188,276	$ 14.61	4.7 years	$ —

The following is a summary of the Company's non-vested stock awards as of June 30, 2012 and changes during the nine months ended June 30, 2012:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2011	33,145	$ 9.22
Granted	—	—
Vested	(19,743)	12.48
Forfeited	—	—
Balance at June 30, 2012	13,402	$ 4.43

Stock option and stock award expenses included with compensation expense were $67,000 and $109,000, respectively, for the nine months ended June 30, 2012, and $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, 2012, the Company had repurchased a total of 80,340 shares of its common stock at an average cost of $8.37 per share under this program. 13,370 shares were repurchased during the nine months ended June 30, 2012 at an average price of $3.23. Under the stock repurchase program, 49,584 shares of the 129,924 shares authorized remained available for repurchase as of June 30, 2012. 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 meets 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, 2012) 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, 2012, shares allocated to participants totaled 103,545. Unallocated ESOP shares held in suspense totaled 114,318 at June 30, 2012 and had a fair market value of $451,556. The Company's contribution expense for the ESOP was $36,000 and $41,000 for the nine months ended June 30, 2012 and 2011, respectively.

Table of Contents

NOTE F – OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended June 30,					
	2012			2011		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gains (losses) arising during period on:						
Available-for-sale investments	$69	$ (30)	$ 39	$700	$ (256)	$ 444
Less reclassification adjustment for gains realized in net income	(138)	55	(83)	(39)	16	(23)
Interest rate derivatives	(22)	9	(13)	(27)	11	(16)
Other comprehensive income (loss), net	$(91)	$ 34	$ (57)	$634	$ (229)	$ 405

	Nine Months Ended June 30,					
	2012			2011		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gains (losses) arising during period on:						
Available-for-sale investments	$184	$ (81)	$ 103	$379	$ (149)	$ 230
Less reclassification adjustment for gains realized in net income	(286)	114	(172)	(74)	30	(44)
Interest rate derivatives	(67)	27	(40)	(128)	51	(77)
Other comprehensive income (loss), net	$(169)	$ 60	$ (109)	$177	$ (68)	$ 109

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.

Table of Contents

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.

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.

	Fair Value at June 30, 2012			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			

Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$ 1,918	$ —	$ 1,918	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	9,140	—	9,140	—
Mortgage backed securities-commercial	4,265	—	4,265	—
Debt securities	1,059	—	1,059	—
Private label mortgage-backed securities-residential	1,121	—	1,121	—
Total securities available for sale	$ 17,503	$ —	$ 17,503	$ —

11

Table of Contents

	Fair Value at September 30, 2011			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$ 3,394	$ —	$ 3,394	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	14,088	—	14,088	—
Mortgage backed securities-commercial	4,402	—	4,402	—
Debt securities	2,029	—	2,029	—
Private label mortgage-backed securities-residential	1,399	—	1,399	—
Total securities available for sale	$ 25,312	$ —	$ 25,312	$ —

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.

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, 2012 and September 30, 2011.

Table of Contents

	Fair Value at June 30, 2012			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 6,416	$ —	$ —	$ 6,416
Other real estate owned	253	—	—	253
	$ 6,669	$ —	$ —	$ 6,669

	Fair Value at September 30, 2011			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 16,745	$ —	$ —	$ 16,745
Other real estate owned	2,625	—	—	2,625
	$ 19,370	$ —	$ —	$ 19,370

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.

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, 2012 and September 30, 2011 were as follows:

Table of Contents

	June 30, 2012		September 30, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Dollars in thousands)			
Financial assets				
Investment securities	$64,288	$65,193	$70,312	$71,025
Loans, net of allowance for loan losses	377,622	387,100	381,254	390,025
Bank owned life insurance	9,923	9,923	9,660	9,660
Financial liabilities				
Deposits				
Demand, NOW and money market savings	262,849	262,849	249,383	249,383
Certificates of deposit	163,832	166,619	175,560	178,818
Total deposits	$426,681	$429,468	$424,943	$428,201
Borrowings	$50,688	$53,360	$49,916	$53,175

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.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments carried at cost or amortized cost as of June 30, 2012 and September 30, 2011. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as interest-bearing demand, NOW, and money market savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

	Carrying	Fair	Fair Value Measurement Placement		
	Value	Value	(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
June 30, 2012					
Financial instruments - assets					
Investment securities held-to-maturity	$46,785	$47,690	$ 2,984	$ 44,706	$ —
Loans	377,622	387,100	—	—	387,100

Financial instruments - liabilities					
Certificate of deposit	163,832	166,619	—	166,619	—
Borrowings	50,688	53,360	—	53,360	—
September 30, 2011					
Financial instruments - assets					
Investment securities held-to-maturity	$45,000	$45,713	$ 2,914	$ 42,799	$ —
Loans	381,254	390,025	—	—	390,025
Financial instruments - liabilities					
Certificate of deposit	175,560	178,818	—	178,818	—
Borrowings	49,916	53,175	—	53,175	—

Table of Contents

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at June 30, 2012 and September 30, 2011:

	At June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$1,915	$ 3	$ —	$1,918
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	8,994	146	—	9,140
Mortgage backed securities-commercial	4,074	191	—	4,265
Debt securities	1,000	59	—	1,059
Private label mortgage-backed securities-residential	1,128	—	(7)	1,121
Total securities available for sale	$17,111	$ 399	$ (7)	$17,503

	At September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$3,310	$ 84	$ —	$3,394
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	13,915	215	(42)	14,088
Mortgage backed securities-commercial	4,137	265	—	4,402
Debt securities	2,000	29	—	2,029
Private label mortgage-backed securities-residential	1,456	—	(57)	1,399
Total securities available for sale	$24,818	$ 593	$ (99)	$25,312

The maturities of the debt securities and mortgage-backed securities available-for-sale at June 30, 2012 are summarized in the following table:

	At June 30, 2012	
	Amortized Cost	Fair Value
	(Dollars in thousands)	

Due within 1 year	$ —	$ —
Due after 1 but within 5 years	—	—
Due after 5 but within 10 years	1,000	1,059
Due after 10 years	—	—
Total debt securities	1,000	1,059
Mortgage-backed securities:		
Residential	12,037	12,179
Commercial	4,074	4,265
Total	$ 17,111	$ 17,503

15

Table of Contents

The following tables summarize the amortized cost and fair values of securities held to maturity at June 30, 2012 and September 30, 2011:

	At June 30, 2012			
	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	$12,222	$ 425	$ (47)	$12,600
Mortgage-backed securities-commercial	1,540	15	—	1,555
Obligations of U.S. government-sponsored enterprises:				
Mortgage backed securities-residential	19,779	599	(8)	20,370
Debt securities	8,775	5	(21)	8,759
Private label mortgage-backed securities-residential	1,428	28	(77)	1,379
Obligations of state and political subdivisions	41	2	—	43
Corporate securities	3,000	—	(16)	2,984
Total securities held to maturity	$46,785	$ 1,074	$ (169)	$47,690

	At September 30, 2011			
	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	$14,875	$ 483	$ (11)	$15,347
Mortgage-backed securities-commercial	1,646	18	—	1,664
Obligations of U.S. government-sponsored enterprises:				
Mortgage backed securities-residential	17,315	441	—	17,756
Debt securities	6,500	12	—	6,512
Private label mortgage-backed securities-residential	1,592	14	(160)	1,446
Obligations of state and political subdivisions	72	2	—	74
Corporate securities	3,000	—	(86)	2,914
Total securities held to maturity	$45,000	$ 970	$ (257)	$45,713

The maturities of the debt securities and the mortgage backed securities held to maturity at June 30, 2012 are summarized in the following table:

Table of Contents

	At June 30, 2012	
	Amortized Cost	Fair Value
	(Dollars in	thousands)
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	3,041	3,027
Due after 5 but within 10 years	1,760	1,757
Due after 10 years	7,015	7,002
Total debt securities	11,816	11,786
Mortgage-backed securities:		
Residential	33,429	34,349
Commercial	1,540	1,555
Total	$ 46,785	$ 47,690

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 following tables present the gross unrealized losses and fair value at June 30, 2012 and September 30, 2011 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

	June 30, 2012	
		Total

		Less Than 12 Months		12 Months Or Greater			
	Number of Securities	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	1	$—	$—	$1,839	$(47)	$1,839	$(47)
Obligations of U.S. government-sponsored enterprises:							
Mortgage backed securities - residential	1	1,309	(8)	—	—	1,309	(8)
Debt securities	4	5,754	(21)	—	—	5,754	(21)
Private label mortgage-backed securities- residential	3	—	—	1,902	(84)	1,902	(84)
Corporate securities	1	—	—	2,984	(16)	2,984	(16)
Total	10	$7,063	$(29)	$6,725	$(147)	$13,788	$(176)

17

Table of Contents

		September 30, 2011					
		Less Than 12 Months		12 Months Or Greater		Total	
	Number of Securities	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	1	$2,339	$(11)	$—	$—	$2,339	$(11)
Mortgage-backed securities - commercial	1	—	—	21	—	21	—
Obligations of U.S. government-sponsored enterprises:							
Mortgage backed securities - residential	4	6,925	(42)	—	—	6,925	(42)
Private label mortgage-backed securities residential	3	—	—	2,132	(217)	2,132	(217)
Corporate securities	1	2,914	(86)	—	—	2,914	(86)
Total	10	$12,178	$(139)	$2,153	$(217)	$14,331	$(356)

At June 30, 2012, there were ten investment securities with unrealized losses. The unrealized losses relate to interest rate levels. 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, 2012.

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

Loans receivable, net were comprised of the following:

	June 30, 2012	September 30, 2011
	(Dollars in thousands)	
One-to four-family residential	$163,270	$ 159,228
Commercial real estate	140,042	120,994
Construction	17,050	34,144
Home equity lines of credit	21,787	22,352
Commercial business	27,506	36,195
Other	11,592	11,945

Total loans receivable	381,247	384,858
Net deferred loan costs	176	208
Allowance for loan losses	(3,801)	(3,812)
Total loans receivable, net	$ 377,622	$ 381,254

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 real estate 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 loans to 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.

Table of Contents

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 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 at the dates presented:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
At June 30, 2012	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$—	$ —	$ 6,863	$ 6,863	$ 7,342
Commercial real estate	1,679	650	6,084	7,763	8,767
Construction	—	—	5,475	5,475	7,582
Home equity lines of credit	1,340	125	707	2,047	2,128
Commercial business	—	—	311	311	399
Other	—	—	—	—	—
Total impaired loans	$3,019	$ 775	$ 19,440	$ 22,459	$ 26,218

19

Table of Contents

Year Ended September 30, 2011	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)				
One-to four-family residential	$—	$ —	$ 3,523	$ 3,523	$ 3,532
Commercial real estate	1,679	239	5,477	7,156	8,160
Construction	3,263	77	12,294	15,557	18,831
Home equity lines of credit	—	—	788	788	833
Commercial business	—	—	255	255	342
Other	—	—	—	—	—
Total impaired loans	$4,942	$ 316	$ 22,337	$ 27,279	$ 31,698

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.

	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2012
	(Dollars in thousands)	
One-to four-family residential	$ 6,109	$ 4,897
Commercial real estate	7,667	7,262
Construction	8,418	10,974
Home equity lines of credit	2,047	1,397
Commercial business	268	257
Other	—	—
Average investment in impaired loans	$ 24,508	$ 24,786
Interest income recognized on an accrual basis on impaired loans	$ —	$ —
Interest income recognized on a cash basis on impaired loans	$ —	$ —

	Three Months Ended June 30, 2011	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
Other	9	5
Average investment in impaired loans	$ 25,549	$ 26,041
Interest income recognized on an accrual basis on impaired loans	$ —	$ —
Interest income recognized on a cash basis on impaired loans	$ —	$ —

20

Table of Contents

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 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 at the dates presented:

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
June 30, 2012					
One-to four-family residential	$151,399	$4,807	$ 7,064	$ —	$163,270
Commercial real estate	127,162	3,384	7,817	1,679	140,042
Construction	7,094	4,481	5,475	—	17,050
Home equity lines of credit	18,907	833	707	1,340	21,787
Commercial business	24,738	1,777	991	—	27,506
Other	11,592	—	—	—	11,592
Total	$340,892	$15,282	$ 22,054	$ 3,019	$381,247

	Pass	Special Mention	Substandard	Doubtful	Total

September 30, 2011	(Dollars in thousands)				
One-to four-family residential	$150,306	$4,720	$ 4,202	$ —	$159,228
Commercial real estate	104,993	5,868	10,133	—	120,994
Construction	12,378	6,209			