Magyar Bancorp, Inc.
Form 10-Q
May 13, 2015

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 March 31, 2015

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	o	Smaller reporting company	þ
(Do not check if a smaller reporting company)			

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 May 1, 2015
Common Stock, $0.01 Par Value	5,815,444

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	March 31, 2015 (Unaudited)	September 30, 2014
Assets		
Cash	$ 1,183	$ 1,205
Interest earning deposits with banks	20,845	9,053
Total cash and cash equivalents	22,028	10,258
Investment securities - available for sale, at fair value	6,310	12,070
Investment securities - held to maturity, at amortized cost (fair value of $51,317 and $48,822 at March 31, 2015 and September 30, 2014, respectively)	50,545	48,963
Federal Home Loan Bank of New York stock, at cost	1,793	1,761
Loans receivable, net of allowance for loan losses of $2,814 and $2,835 at March 31, 2015 and September 30, 2014, respectively	408,696	404,195
Bank owned life insurance	10,811	10,658
Accrued interest receivable	1,698	1,672
Premises and equipment, net	18,199	18,580
Other real estate owned ("OREO")	15,531	17,342
Other assets	4,767	4,931
Total assets	$ 540,378	$ 530,430
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 462,908	$ 448,451
Escrowed funds	1,263	1,157
Federal Home Loan Bank of New York advances	26,201	25,500
Securities sold under agreements to repurchase	—	5,000
Accrued interest payable	83	119
Accounts payable and other liabilities	3,514	4,271
Total liabilities	493,969	484,498
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; 5,815,444 shares outstanding		
at March 31, 2015 and September 30, 2014	59	59
Additional paid-in capital	26,295	26,295
Treasury stock: 108,298 shares at March 31, 2015		
and September 30, 2014, at cost	(1,211)	(1,211)
Unearned Employee Stock Ownership Plan shares	(815)	(877)
Retained earnings	22,711	22,382
Accumulated other comprehensive loss	(630)	(716)
Total stockholders' equity	46,409	45,932
Total liabilities and stockholders' equity	$ 540,378	$ 530,430

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

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$4,432	$4,438	$ 8,883	$ 8,977
Investment securities				
Taxable	331	343	661	756
Federal Home Loan Bank of New York stock	20	28	44	49
Total interest and dividend income	4,783	4,809	9,588	9,782
Interest expense				
Deposits	596	615	1,198	1,260
Borrowings	170	248	381	529
Total interest expense	766	863	1,579	1,789
Net interest and dividend income	4,017	3,946	8,009	7,993
Provision for loan losses	170	381	590	740
Net interest and dividend income after provision for loan losses	3,847	3,565	7,419	7,253
Other income				
Service charges	240	182	440	387
Income on bank owned life insurance	76	83	153	165
Other operating income	32	32	55	47
Gains on sales of loans	93	73	326	102
Gains on sales of investment securities	12	—	42	36
Total other income	453	370	1,016	737
Other expenses				
Compensation and employee benefits	2,057	1,940	4,060	3,874
Occupancy expenses	733	732	1,436	1,451
Professional fees	260	233	553	500
Data processing expenses	148	144	293	287

OREO expenses	130	174	241	360
FDIC deposit insurance premiums	178	181	358	362
Loan servicing expenses	79	118	157	253
Insurance expense	56	56	114	114
Other expenses	460	304	770	567
Total other expenses	4,101	3,882	7,982	7,768
Income before income tax expense (benefit)	199	53	453	222
Income tax expense (benefit)	52	(10)	124	29
Net income	$147	$63	$ 329	$ 193
Net income per share-basic and diluted	$0.03	$0.01	$ 0.06	$ 0.03

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

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(In Thousands)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
	(Unaudited)			
Net income	$147	$63	$329	$193
Other comprehensive income				
Net unrealized gain on securities available for sale	87	103	178	59
Realized gains on sales of securities available for sale	(12)	—	(42)	(36)
Other comprehensive income, before tax	75	103	136	23
Deferred income tax effect	(28)	(38)	(50)	(9)
Total other comprehensive income	47	65	86	14
Total comprehensive income	$194	$128	$415	$207

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

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Six Months Ended March 31, 2015 and 2014

(In Thousands, Except for Share Amounts)

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2014	5,815,444	$ 59	$ 26,295	$ (1,211)	$ (877)	$ 22,382	$ (716)	$ 45,932
Net income	—	—	—	—	—	329	—	329
Other comprehensive loss	—	—	—	—	—	—	86	86
ESOP shares allocated	—	—	(9)	—	62	—	—	53
Stock-based compensation expense	—	—	9	—	—	—	—	9
Balance, March 31, 2015	5,815,444	$ 59	$ 26,295	$ (1,211)	$ (815)	$ 22,711	$ (630)	$ 46,409

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2013	5,811,394	$ 59	$ 26,322	$ (1,256)	$ (1,002)	$ 21,835	$ (638)	$ 45,320
Net income	—	—	—	—	—	193	—	193
Other comprehensive income	—	—	—	—	—	—	14	14
ESOP shares allocated	—	—	(15)	—	63	—	—	48
Stock-based compensation expense	—	—	9	—	—	—	—	9
Balance, March 31, 2014	5,811,394	59	26,316	(1,256)	(939)	22,028	(624)	45,584

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

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Six Months Ended March 31, 2015 (Unaudited)	2014
Operating activities		
Net income	$ 329	$ 193
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	446	464
Premium amortization on investment securities, net	146	153
Provision for loan losses	590	740
Provision for loss on other real estate owned	25	167
Proceeds from the sales of loans	4,441	2,509
Gains on sale of loans	(326)	(102)
Gains on sales of investment securities	(42)	(36)
(Gains) losses on the sales of other real estate owned	(43)	11
ESOP compensation expense	53	48
Stock-based compensation expense	9	9
Deferred income tax expense (benefit)	195	(34)
(Increase) decrease in accrued interest receivable	(26)	15
Increase in surrender value bank owned life insurance	(153)	(165)
Increase in other assets	(80)	(334)
Decrease in accrued interest payable	(36)	(9)
Decrease in accounts payable and other liabilities	(757)	(2,210)
Net cash provided by operating activities	4,771	1,419
Investing activities		
Net increase in loans receivable	(11,198)	(7,365)
Purchases of loans receivable	(674)	(5,514)
Purchases of investment securities held to maturity	(4,132)	(4,419)
Sales of investment securities held to maturity	—	3,036
Sales of investment securities available for sale	5,421	—
Principal repayments on investment securities held to maturity	2,467	2,864
Principal repayments on investment securities available for sale	453	4,625
Purchases of premises and equipment	(65)	(25)
Investment in other real estate owned	(283)	(4)
Proceeds from the sale of other real estate owned	4,778	312
Purchase of Federal Home Loan Bank stock	(32)	(85)
Net cash used by investing activities	(3,265)	(6,575)
Financing activities		

Net increase (decrease) in deposits	14,457	(1,181)
Net increase in escrowed funds	106	114
Proceeds from long-term advances	5,701	7,100
Repayments of long-term advances	(5,000)	(5,200)
Repayments of securities sold under agreements to repurchase	(5,000)	—
Net cash provided by financing activities	10,264	833
Net increase (decrease) in cash and cash equivalents	11,770	(4,323)
Cash and cash equivalents, beginning of period	10,258	17,792
Cash and cash equivalents, end of period	$ 22,028	$ 13,469
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 1,615	$ 1,798
Income taxes	$ 14	$ 9
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 2,666	$ 1,325

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

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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 six months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015. The September 30, 2014 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 March 31, 2015 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 January 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update (ASU 2014-04) related to; *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The update applies to all creditors who obtain physical possession of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The amendments in this update clarify when an in-substance repossession or foreclosure occurs and requires disclosure of both (1) the amount of foreclosed residential real estate property held by a creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The Company foreclosed \$6.7 million of residential real estate loans, and \$3.8 million of consumer mortgage loans collateralized by residential real estate property are in the process of foreclosure at March 31, 2015.

In May 2014, FASB issued ASU 2014-09 *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

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Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public business entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The FASB has proposed a one year delay in the effective date of this amendment. The Company is currently analyzing the impact of the guidance on its financial statements.

An entity should apply the amendments in this ASU using one of the following two methods:

Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

- For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

- The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
- An explanation of the reasons for significant changes.

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 six months ended March 31, 2015 and 2014 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 six months ended March 31, 2015 and the three and six months ended March 31, 2014. The following table shows the Company's earnings per share for the periods presented:

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	For the Three Months		For the Six Months	
	Ended March 31,		Ended March 31,	
	2015	2014	2015	2014
	(In thousands except for per share data)			
Income applicable to common shares	$ 147	$ 63	$ 329	$ 193
Weighted average number of common shares outstanding - basic	5,819	5,814	5,818	5,814
Weighted average number of common shares and common share equivalents - diluted	5,819	5,814	5,818	5,814
Basic earnings per share	$ 0.03	$ 0.01	$ 0.06	$ 0.03
Diluted earnings per share	$ 0.03	$ 0.01	$ 0.06	$ 0.03

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2015 because the grant (or option strike) price was greater than the average market price of the common shares during the period. Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2014 because the grant (or option strike) price was greater than the average market price of the common shares during the period.

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 six months ended March 31, 2015:

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	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2014	188,276	$ 14.61		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at March 31, 2015	188,276	$ 14.61	1.9 years	$ —
Exercisable at March 31, 2015	188,276	$ 14.61	1.9 years	$ —

The following is a summary of the Company’s non-vested stock awards as of March 31, 2015 and changes during the six months ended March 31, 2015:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2014	5,302	$ 4.41
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at March 31, 2015	5,302	$ 4.41

Stock option and stock award expenses included with compensation expense were $0 and $9,000, respectively, for the six months ended March 31, 2015 and $0 and $9,000, respectively, for the six months ended March 31, 2014.

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 March 31, 2015, the Company had repurchased a total of 81,000 shares of its common stock at an average cost of $8.33 per share under this program. No shares were repurchased during the six months ended March 31, 2015. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of March 31, 2015. 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, 2015) 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 March 31, 2015, shares allocated to participants totaled 128,436. Unallocated ESOP shares held in suspense totaled 89,426 at March 31, 2015 and had a fair market value of $752,967. The Company's contribution expense for the ESOP was $53,000 and $48,000 for the six months ended March 31, 2015 and 2014, respectively.

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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 March 31,					
	2015			2014		
	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 gain arising during period on:						
Available-for-sale investments	$87	$ (33)	$ 54	$103	$ (38)	$ 65
Less reclassification adjustment for net realized on available-for-sale investments (a) (b)	(12)	5	(7)	—	—	—
Other comprehensive income, net	$75	$ (28)	$ 47	$103	$ (38)	$ 65

	Six Months Ended March 31,					
	2015			2014		
	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 gain arising during period on:						
Available-for-sale investments	$178	$ (67)	$ 111	$59	$ (23)	$ 36
Less reclassification adjustment for net realized on available-for-sale investments (a) (b)	(42)	17	(25)	(36)	14	(22)
Other comprehensive income, net	$136	$ (50)	$ 86	$23	$ (9)	$ 14

(a) Realized gains on securities transactions included in gains on sales of investment securities in the accompanying Consolidated Statements of Operations
(b) Tax effect included in income tax expense in the accompanying Consolidated Statements of Operations

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.

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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.

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 March 31, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	6,088	—	6,088	—
Private label mortgage-backed securities-residential	222	—	222	—
Total securities available for sale	$ 6,310	$ —	$ 6,310	$ —

	Fair Value at September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$ 1,295	$ —	$ 1,295	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	10,369	—	10,369	—
Private label mortgage-backed securities-residential	406	—	406	—
Total securities available for sale	$ 12,070	$ —	$ 12,070	$ —

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, less anticipated selling and disposition costs, if the asset is collateral dependent. The regulatory agencies require the lost 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.

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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 March 31, 2015 and September 30, 2014

	Fair Value at March 31, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 2,475	$ —	$ —	$ 2,475
Other real estate owned	2,998	—	—	2,998
	$ 5,473	$ —	$ —	$ 5,473

	Fair Value at September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 3,101	$ —	$ —	$ 3,101
Other real estate owned	5,850	—	—	5,850
	$ 8,951	$ —	$ —	$ 8,951

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Company has utilized Level 3 inputs to determine fair value:

Quantitative Information about Level 3 Fair Value Measurements
(Dollars in thousands)

March 31, 2015	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$2,475	Appraisal of collateral (1)	Liquidation expenses (2)	-16.0% to -18.0% (-16.6%)
Other real estate owned	$2,998	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	-8.0% to -29.5% (-19.1%)

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(1) Fair value is generally determined through independent appraisals for the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

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.

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 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.

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 March 31, 2015 and September 30, 2014. This table excludes financial instruments for which the carrying amount approximates level 1 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 being payable on demand and having no stated maturity.

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	Carrying Value	Fair Value	Fair Value Measurement Placement (Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
March 31, 2015					
Financial instruments - assets					
Investment securities held-to-maturity	$50,545	$51,317	$ —	$ 51,317	$ —
Loans	408,696	415,113	—	—	415,113
Financial instruments - liabilities					
Certificates of deposit	132,646	134,002	—	134,002	—
Borrowings	26,201	26,901	—	26,901	—
September 30, 2014					
Financial instruments - assets					
Investment securities held to maturity	$48,963	$48,822	—	$ 48,822	$ —
Loans	404,195	407,947	—	—	407,947
Financial instruments - liabilities					
Certificate of deposit	149,875	151,652	—	151,652	—
Borrowings	30,500	31,045	—	31,045	—

There were no transfers between fair value measurement placements for the three and six months ended March 31, 2015.

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at March 31, 2015 and September 30, 2014:

	March 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	6,065	53	(30)	6,088
Private label mortgage-backed securities-residential	222	1	(1)	222
Total securities available for sale	6,287	54	(31)	6,310

	September 30, 2014			
	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	$1,294	$ 1	$ —	$1,295
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	10,485	39	(155)	10,369
Private label mortgage-backed securities-residential	404	3	(1)	406
Total securities available for sale	$12,183	$ 43	$ (156)	$12,070

The maturities of the debt securities and mortgage-backed securities available for sale at March 31, 2015 are summarized in the following table:

	March 31, 2015	
	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	—	—
Due after 10 years	—	—
Total debt securities	—	—
Mortgage-backed securities:		
Residential	6,287	6,310
Commercial	—	—
Total	$ 6,287	$ 6,310

The following tables summarize the amortized cost and fair values of securities held to maturity at March 31, 2015 and September 30, 2014:

	March 31, 2015			
	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	$6,472	$ 220	$ (86)	$6,606
Mortgage-backed securities - commercial	1,135	—	(2)	1,133
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed-securities - residential	37,370	756	(85)	38,041
Debt securities	5,000	—	(36)	4,964
Private label mortgage-backed securities - residential	568	10	(5)	573
Total securities held to maturity	$50,545	$ 986	$ (214)	$51,317

	September 30, 2014			
	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	$7,308	$ 223	$ (139)	$7,392
Mortgage-backed securities - commercial	1,168	—	—	1,168
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities - residential	36,894	413	(507)	36,800
Debt securities	3,000	—	(152)	2,848
Private label mortgage-backed securities - residential	593	25	(4)	614
Total securities held to maturity	$48,963	$ 661	$ (802)	$48,822

The maturities of the debt securities and the mortgage backed securities held to maturity at March 31, 2015 are summarized in the following table:

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	March 31, 2015	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	2,000	1,992
Due after 5 but within 10 years	2,000	1,973
Due after 10 years	1,000	999
Total debt securities	5,000	4,964
Mortgage-backed securities:		
Residential	44,410	45,220
Commercial	1,135	1,133
Total	$ 50,545	$ 51,317

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 March 31, 2015 and September 30, 2014 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

	March 31, 2015					
	Less Than 12 Months		12 Months Or Greater		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

	Number of Securities	Value	Losses	Value	Losses	Value	Losses
		(Dollars in thousands)					
Obligations of U.S. government agencies:							
Mortgage-backed securities - residential	3	$—	$—	$2,629	$(86)	$2,629	$(86)
Mortgage-backed securities - commercial	1	—	—	1,133	(2)	1,133	(2)
Obligations of U.S. government-sponsored enterprises							
Mortgage-backed securities - residential	9	2,077	(30)	12,232	(85)	14,309	(115)
Debt securities	4	1,992	(8)	2,972	(28)	4,964	(36)
Private label mortgage-backed securities residential	2	19	(1)	242	(5)	261	(6)
Total	19	$4,088	$(39)	$19,208	$(206)	$23,296	$(245)

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	September 30, 2014						
		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	3	$—	$—	$2,918	$(139)	$2,918	$(139)
Mortgage-backed securities - commercial	1	—	—	1,168	—	1,168	—
Obligations of U.S. government-sponsored enterprises							
Mortgage-backed securities - residential	20	12,114	(80)	19,960	(582)	32,074	(662)
Debt securities	3	—	—	2,848	(152)	2,848	(152)
Private label mortgage-backed securities residential	2	20	(1)	273	(4)	293	(5)
Total	29	$12,134	$(81)	$27,167	$(877)	$39,301	$(958)

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 March 31, 2015 and September 30, 2014, there were nineteen and twenty nine, respectively, 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 March 31, 2015 and September 30, 2014.

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

Loans receivable, net were comprised of the following:

	March 31, 2015	September 30, 2014
	(Dollars in thousands)	

One-to four-family residential	$ 157,950	$ 160,335
Commercial real estate	172,890	169,449
Construction	13,011	12,232
Home equity lines of credit	20,487	19,366
Commercial business	36,674	35,035
Other	10,325	10,396
Total loans receivable	411,337	406,813
Net deferred loan costs	173	217
Allowance for loan losses	(2,814)	(2,835)
Total loans receivable, net	$ 408,696	$ 404,195

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.

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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:

At March 31, 2015	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	$—	$ —	$ 5,795	$ 5,795	$ 6,310
Commercial real estate	—	—	5,517	5,517	6,549
Construction	—	—	1,701	1,701	2,477
Home equity lines of credit	—	—	838	838	1,125
Commercial business	1,610	120	157	1,767	1,767
Total impaired loans	$ 1,610	$ 120	$ 14,008	$ 15,618	$ 18,228

	Impaired Loans with	Impaired Loans with No Specific

	Specific Allowance		Allowance	Total Impaired Loans	
At September 30, 2014	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$1,733	$ 42	$ 6,990	$ 8,723	$ 10,830
Commercial real estate	—	—	5,046	5,046	6,205
Construction	442	332	1,836	2,278	3,160
Home equity lines of credit	—	—	829	829	987
Commercial business	11	11	331	342	1,133
Total impaired loans	$2,186	$ 385	$ 15,032	$ 17,218	$ 22,315

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.

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	Three Months Ended March 31, 2015	Six Months Ended March 31, 2015
	(Dollars in thousands)	
One-to four-family residential	$ 6,937	$ 7,532
Commercial real estate	5,215	5,159
Construction	1,942	2,054
Home equity lines of credit	484	599
Commercial business	1,899	1,380
Average investment in impaired loans	$ 16,477	$ 16,724

	Three Months Ended March 31, 2014	Six Months Ended March 31, 2014
	(Dollars in thousands)	
One-to four-family residential	$ 13,610	$ 13,963
Commercial real estate	5,206	5,477
Construction	2,736	2,989
Home equity lines of credit	1,135	1,099
Commercial business	607	436
Average investment in impaired loans	$ 23,293	$ 23,964

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. Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. 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:

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	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
March 31, 2015					
One-to four-family residential	$154,617	$ —	$ 3,333	$ —	$157,950
Commercial real estate	167,696	233	3,855	1,106	172,890
Construction	7,203	—	5,808	—	13,011
Home equity lines of credit	18,325	—	2,162	—	20,487
Commercial business	34,940	—	1,734	—	36,674
Other	10,325	—	—	—	10,325
Total	$393,106	$ 233	$ 16,892	$ 1,106	$411,337

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
September 30, 2014					
One-to four-family residential	$153,878	$ —	$ 6,457	$ —	$160,335
Commercial real estate	158,501	6,179	3,663	1,106	169,449
Construction	6,110	—	6,122	—	12,232
Home equity lines of credit	17,209	—	2,157	—	19,366
Commercial business	34,725	—	310	—	35,035
Other	10,396	—	—	—	10,396
Total	$380,819	$ 6,179	$ 18,709	$ 1,106	$406,813

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 at the dates 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)						
March 31, 2015							
One-to four-family residential	$154,875	$ 774	$ 180	$ 2,121	$ 3,075	$ 2,121	$157,950
Commercial real estate	170,321	639	—	1,930	2,569	1,930	172,890
Construction	11,325	—	—	1,686	1,686	1,686	13,011
Home equity lines of credit	19,779	—	—	708	708	708	20,487
Commercial business	34,974	—	—	1,700	1,700	1,700	36,674
Other	10,325	—	—	—	—	—	10,325
Total	$401,599	$ 1,413	$ 180	$ 8,145	$ 9,738	$ 8,145	$411,337

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	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)						
September 30, 2014							
One-to four-family residential	$155,825	$ 75	$ 256	$ 4,179	$4,510	$4,179	$160,335
Commercial real estate	166,360	—	918	2,171	3,089	2,171	169,449
Construction	9,954	—	—	2,278	2,278	2,278	12,232
Home equity lines of credit	18,483	—	—	883	883	883	19,366
Commercial business	33,105	1,600	56	274	1,930	274	35,035
Other	10,396	—	—	—	—	—	10,396
Total	$394,123	$ 1,675	$ 1,230	$ 9,785	$12,690	$9,785	$406,813

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 NPLs.

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.

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 include: 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 ALL by loan category and the related activity for the six months ended March 31, 2015:

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	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Balance-September 30, 2014	$402	$ 826	$ 784	$ 62	$ 643	$ 9	$ 109	$2,835
Charge-offs	(12)	(193)	—	(147)	—	(1)	—	(353)
Recoveries	—	—	37	—	—	—	—	37
Provision	84	199	(73)	151	90	(2)	(29)	420
Balance-December 31, 2014	$474	$ 832	$ 748	$ 66	$ 733	$ 6	$ 80	$2,939
Charge-offs	(90)	—	(342)	—	(263)	—	—	(695)
Recoveries	400	—	—	—	—	—	—	400
Provision	(415)	10	114	(11)	434	—	38	170
Balance-March 31, 2015	$369	$ 842	$ 520	$ 55	$ 904	$ 6	$ 118	$2,814

The following table summarizes the ALL by loan category and the related activity for the six months ended March 31, 2014:

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Balance-September 30, 2013	$844	$ 852	$ 604	$ 125	$ 452	$ 9	$ 127	$3,013
Charge-offs	(108)	—	(75)	—	—	—	—	(183)
Recoveries	9	—	—	—	2	—	—	11
Provision	254	(7)	29	12	72	(9)	8	359
Balance-December 31, 2013	$999	$ 845	$ 558	$ 137	$ 526	$ —	$ 135	$3,200
Charge-offs	(83)	—	(93)	(5)	—	—	—	(181)
Recoveries	—	—	75	—	—	—	—	75
Provision	(347)	(53)	(38)	(34)	922	13	(82)	$381
Balance- March 31, 2014	$569	$ 792	$ 502	$ 98	$ 1,448	$ 13	$ 53	$3,475

The following table summarizes the ALL by loan category, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2015 and September 30, 2014:

	One-to Four-	Home Equity

	Family Residential	Commercial Real Estate	Construction	Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan Losses:								
Balance - March 31, 2015	$369	$842	$520	$55	$904	$6	$118	$2,814
Individually evaluated for impairment	—	—	—	—	120	—	—	120
Collectively evaluated for impairment	369	842	520	55	784	6	118	2,694
Loans receivable:								
Balance - March 31, 2015	$157,950	$172,890	$13,011	$20,487	$36,674	$10,325		$411,337
Individually evaluated for impairment	5,795	5,517	1,701	838	1,767	—		15,618
Collectively evaluated for impairment	152,155	167,373	11,310	19,649	34,907	10,325		395,719

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	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan Losses:								
Balance - September 30, 2014	$402	$826	$784	$62	$643	$9	$ 109	$2,835
Individually evaluated for impairment	42	—	332	—	11	—	—	385
Collectively evaluated for impairment	360	826	452	62	632	9	109	2,450
Loans receivable:								
Balance - September 30, 2014	$160,335	$169,449	$12,232	$19,366	$35,035	$10,396		$406,813
Individually evaluated for impairment	8,723	5,046	2,278	829	342	—		17,218
Collectively evaluated for impairment								