BCB BANCORP INC
Form 10-Q
November 18, 2011

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011.

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 0-50275

BCB Bancorp, Inc.
(Exact name of registrant as specified in its charter)

New Jersey (State or other jurisdiction of incorporation or organization)	26-0065262 (IRS Employer I.D. No.)
104-110 Avenue C Bayonne, New Jersey (Address of principal executive offices)	07002 (Zip Code)

(201) 823-0700
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year if changed since last report)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and larger accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	o	Accelerated Filer	o
Non-Accelerated Filer	o	Smaller Reporting Company	x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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). x Yes o No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 16, 2011, BCB Bancorp, Inc., had 9,831,384 shares of common stock, no par value, outstanding.

BCB BANCORP INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

BCB BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
(In Thousands, Except Share and Per Share Data, Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and amounts due from depository institutions	$ 27,988	$ 22,065
Interest-earning deposits	57,902	99,062
Total Cash and Cash equivalents	85,890	121,127
Securities available for sale	1,114	1,098
Securities held to maturity, fair value $207,530 and $166,785; respectively	199,795	165,572
Loans held for sale	3,275	5,572
Loans receivable, net of allowance for loan losses of $9,040 and $8,417; respectively	749,329	773,101
Premises and equipment	12,677	11,359
Property held for sale	1,017	1,017
Federal Home Loan Bank of New York stock	6,678	6,723
Interest receivable	4,956	5,203
Other real estate owned	4,857	3,602
Deferred income taxes	5,595	5,785
Other assets	4,559	6,729
Total Assets	$ 1,079,742	$ 1,106,888
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest bearing deposits	$ 68,061	$ 69,471
Interest bearing deposits	791,519	816,817
Total deposits	859,580	886,288
Long-term debt	114,124	114,124
Other Liabilities	7,142	7,502
Total Liabilities	980,846	1,007,914
STOCKHOLDERS' EQUITY		

Preferred stock: 10,000,000 shares authorized; none issued and outstanding		-		-
Common stock; $0.064; stated value; 20,000,000 shares authorized, 10,172,967 and 10,144,830 shares respectively, issued; 9,224,784 shares and 9,383,695 shares, respectively, outstanding		650		649
Additional paid-in capital		85,557		85,327
Treasury stock, at cost, 948,183 and 761,135 shares, respectively		(12,774)		(10,760)
Retained Earnings		25,449		23,753
Accumulated other comprehensive income, net of taxes		14		5
Total Stockholders' equity		98,896		98,974
Total Liabilities and Stockholders' equity	$	1,079,742	$	1,106,888

See accompanying notes to consolidated financial statements.

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BCB BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Income
(In Thousands, except for per share amounts, Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest income:				
Loans	$10,664	$10,549	$ 33,015	$23,355
Investments, taxable	2,039	1,400	5,922	4,232
Investment, non-taxable	12	10	37	10
Other interest-earning assets	13	34	59	74
Total interest income	12,728	11,993	39,033	27,671
Interest expense:				
Deposits:				
Demand	215	311	662	699
Savings and club	260	514	804	1,024
Certificates of deposit	1,613	1,558	4,918	4,451
	2,088	2,383	6,384	6,174
Borrowed money	1,246	1,505	3,701	3,959
Total interest expense	3,334	3,888	10,085	10,133
Net interest income	9,394	8,105	28,948	17,538
Provision for loan losses	800	800	1,600	1,550
Net interest income after provision for loan losses	8,594	7,305	27,348	15,988
Non-interest income:				
Fees and service charges	76	310	538	710
Gain on sales of loans originated for sale	190	67	594	195
Loss on sale of real estate owned	(121)	-	(257)	(14)
Gain on sale of securities	-	-	18	-
Gain on bargain purchase	-	12,582	-	12,582
Other	37	17	195	34
Total non-interest income	182	12,976	1,088	13,507
Non-interest expense:				

Salaries and employee benefits	3,229	4,760	9,136	7,530
Occupancy expense of premises	743	755	2,245	1,315
Equipment	1,061	1,113	3,152	2,203
Professional Fees	594	252	1,056	445
Directors Fees	180	131	479	345
Regulatory Assessments	122	383	915	745
Advertising	115	100	293	238
Merger related expenses	81	288	337	632
Other	623	856	2,346	1,619
Total non-interest expense	6,748	8,638	19,959	15,072
Income before income tax provision	2,028	11,643	8,477	14,423
Income tax provision (benefit)	840	(299)	3,416	841
Net Income	$1,188	$11,942	$5,061	$13,582
Net Income per common share:				
Basic	$0.13	$1.28	$0.54	$2.19
Diluted	$0.13	$1.28	$0.54	$2.18
Weighted average number of common shares outstanding:				
Basic	9,245	9,300	9,333	6,208
Diluted	9,259	9,315	9,350	6,223

See accompanying notes to consolidated financial statements.

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BCB BANCORP INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity
(In Thousands, except share and per share data, Unaudited)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Beginning Balance at December 31, 2010	$ 649	$ 85,327	$(10,760)	$23,753	$ 5	$$98,974
Exercise of Stock Options (28,137 shares)	1	230	—	—	—	231
Treasury Stock Purchases (187,048 shares)	—	—	(2,014)	—	—	(2,014)
Cash dividends ($0.36 per share) declared	—	—	—	(3,365)	—	(3,365)
Net income for the nine months ended September 30, 2011	—	—	—	5,061	—	5,061
Unrealized gain on securities, available for sale, net of deferred income tax of $(7)	—	—	—	—	9	9
Total Comprehensive income	—	—	—	—	—	5,070
Ending Balance at September 30, 2011	$ 650	$ 85,557	$(12,774)	$25,449	$ 14	$98,896

See accompanying notes to consolidated financial statements.

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BCB BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In Thousands, Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash flows from operating activities:		
Net Income	$ 5,061	$ 13,582
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation of premises and equipment	758	448
Amortization and accretion, net	963	1,278
Provision for loan losses	1,600	1,550
Deferred income tax benefit	183	(300)
Loans originated for sale	(14,375)	(18,019)
Proceeds from sale of loans originated for sale	15,597	14,416
Gain on sales of loans originated for sale	(594)	(195)
Loss on sale of real estate owned	257	14
Gain on bargain purchase	-	(12,582)
Gain on sales of securities held to maturity	(18)	-
Decrease (increase) in interest receivable	247	(525)
Decrease in other assets	2,170	860
(Decrease) in accrued interest payable	(38)	(241)
(Decrease) in other liabilities	(322)	(2,651)
Net cash provided by (used in) operating activities	11,489	(2,365)
Cash flows from investing activities:		
Redemption of Federal Home Loan Bank of New York stock	45	1,857
Proceeds from calls of securities held to maturity	29,822	106,615
Purchases of securities held to maturity	(92,964)	(62,412)
Proceeds from repayments on securities held to maturity	25,360	14,136
Proceeds from sales of securities held to maturity	2,438	-
Proceeds from sales of participation interest in loans	3,876	-
Proceeds from sales of real estate owned	1,450	480
Purchases of loans	(2,279)	-
Net decrease in loans receivable	19,563	15,385
Cash acquired in acquisition	-	22,979
Improvements to other real estate owned	(105)	(20)
Additions to premises and equipment	(2,076)	(360)
Net cash (used in) provided by investing activities	(14,870)	98,660
Cash flows from financing activities:		
Net (Decrease) increase in deposits	(26,708)	7,824
Net change in short-term borrowings	-	(43,815)

Purchases of treasury stock		(2,014)		(123)
Cash dividend paid		(3,365)		(2,268)
Exercise of stock options		231		73
Net cash (used in) financing activities		(31,856)		(38,309)
Net (Decrease) increase in cash and cash equivalents		(35,237)		57,986
Cash and cash equivalents-beginning		121,127		67,347
Cash and cash equivalents-ending	$	85,890	$	125,333
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Income taxes	$	3,454	$	2,220
Interest	$	10,123	$	10,374
Non-cash items:				
Assets acquired; net of cash and cash equivalents	$	-	$	514,523
Liabilities assumed	$	-	$	486,275
Transfer of loans to other real estate owned	$	3,799	$	2,678
Loans to facilitate sale of other real estate owned	$	942	$	-
Reclassification of loans originated for sale to held to maturity	$	1,669	$	4,741

See accompanying notes to consolidated financial statements.

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BCB Bancorp Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of BCB Bancorp, Inc. (the "Company") and the Company's wholly owned subsidiaries, BCB Community Bank (the "Bank"), BCB Holding Company Investment Company, and Pamrapo Service Corporation. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X and, therefore, do not necessarily include all information that would be included in audited financial statements. The information furnished reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of consolidated financial condition and results of operations. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2011 or any other future interim period. Included in income before taxes is an adjustment relating to prior periods of approximately $800,000 pertaining to the reversal of interest capitalized on impaired loans of $420,000, late fee income of $171,000, and loan expenses of approximately $209,000, net of income taxes. The impact of these adjustments reduced net income by approximately $479,000. These adjustments were deemed by management to be immaterial to the consolidated financial statements for the current and prior periods and therefore required no prior period adjustment. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("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 consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2010, which are included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

In preparing these consolidated financial statements, BCB Bancorp, Inc., evaluated the events and transactions that occurred between September 30, 2011, and the date these consolidated financial statements were issued.

On July 6, 2010, the Company acquired all of the outstanding common shares of Pamrapo Bancorp, Inc. in a business combination. ASC 805 "Business Combinations", permits the use of provisional amounts for the assets acquired and liabilities assumed when the information at the acquisition date is incomplete. During the measurement period, amounts provisionally assigned to the acquisition accounting may be adjusted based on new information obtained during the measurement period.

The adjustments relate to the carrying amount of property and equipment as of September 30, 2010, which increased by $1,563,000. This adjustment is measured as the fair value adjustment at the acquisition date less the additional depreciation that would have been recognized had the property and equipment's fair value at the acquisition date been known at that date.

The carrying value of loans as of September 30, 2010 was increased by $1,042,000 for an adjustment to the fair value of loans acquired. This adjustment represents the fair value adjustment to the loans acquired.

Depreciation expense as of September 30, 2010 is increased by $60,000.

Income tax expense is decreased by $24,000.

The following table presents changes to the Consolidated Income Statement for the 2010 comparative information resulting from the fair value adjustments:

	For the Nine Months Ended	
	September 30, 2010 (As previously reported)	September 30, 2010 (Adjusted)
	(In thousands)	
Gain on bargain purchase	$ 10,210	$ 12,582
Total non-interest income	11,135	13,507
Occupancy and equipment	1,255	1,315
Total non-interest expense	15,012	15,072
Income tax expense	865	841
Net Income	11,246	13,582
Net income per common share		
Basic	$ 1.81	$ 2.19
Diluted	$ 1.81	$ 2.18

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The following table presents changes to the Consolidated Statement of Cash Flows for the 2010 comparative information resulting from the fair value adjustments:

	For the Nine Months Ended September 30, 2010 (As previously reported) (In thousands)	September 30, 2010 (Adjusted)
Net income	$ 11,246	$ 13,582
Depreciation of premises and equipment	388	448
Gain on bargain purchase	10,210	12,582
(Decrease) in other liabilities	2,627	2,651
Assets acquired; net of cash and cash equivalents	512,420	514,523
Liabilities assumed	486,544	486,275

Note 2 – Acquisition of Allegiance Bancorp, Inc.

As of the close of business on October 14, 2011, the Company acquired all of the outstanding common shares of Allegiance Bancorp, Inc. (“Allegiance”), the parent company of Allegiance Savings Bank, and thereby acquired all of Allegiance Savings Bank’s 2 branch locations. Under the terms of the merger agreement, Allegiance stockholders received 0.35 of a share of BCB Bancorp, Inc. common stock at a price of $9.57 per share in exchange for each share of Allegiance common stock, resulting in BCB Bancorp, Inc. issuing 644,434 common shares of BCB Bancorp, Inc. common stock with an acquisition date fair value of $6.2 million.

In connection with the merger, the consideration paid and the net assets acquired were recorded at the estimated fair value on the date of acquisition, as summarized in the following table, (in thousands).

Consideration paid	
BCB Community Bancorp, Inc. common stock issued	$6,168
Estimated amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	$5,883
Investment securities	35,476
Loans receivable	88,397
Federal Home Loan Bank of New York stock	819
Premises and equipment	1,686
Interest Receivable	483
Deferred income taxes	453
Other assets	536
Deposits	(111,365)
Borrowings	(15,458)

Other liabilities	(306)
Total identifiable net assets	6,604
Gain on bargain purchase to be recognized in non-interest income	$436

The amounts above are all preliminary estimates only. We are currently in the process of finalizing the fair market values for the above categories which may have a direct impact on the gain on bargain purchase.

Direct costs related to the acquisition were expensed as incurred. During the nine months ended September 30, 2011, we incurred $337,000 in merger related expenses related to the transaction, including $332,000 in professional services and $5,000 in other non-interest expenses.

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Note 3 – Pension and Other Postretirement Plans

The Company acquired, through the merger with Pamrapo Bancorp, Inc., a non-contributory defined benefit pension plan covering all eligible employees of Pamrapo Savings Bank. Effective January 1, 2010, the defined benefit pension plan (“Pension Plan”), was frozen by Pamrapo Savings Bank. All benefits for eligible participants accrued in the “Pension Plan” to the freeze date have been retained. Accordingly, no employees are permitted to commence participation in the Pension Plan and future salary increases and future years of credited service are not considered when computing an employee’s benefits under the Pension Plan. The Pension Plan is funded in conformity with the funding requirements of applicable government regulations. The Company also acquired through the merger with Pamrapo Bancorp, Inc. a supplemental executive retirement plan (“SERP”) in which certain former employees of Pamrapo Savings Bank are covered. A SERP is an unfunded non-qualified deferred retirement plan. Participants who retire at the age of 65 (the “Normal Retirement Age”), are entitled to an annual retirement benefit equal to 75% of compensation reduced by their retirement plan annual benefits. Participants retiring before the Normal Retirement Age receive the same benefits reduced by a percentage based on years of service to the Company and the number of years prior to the Normal Retirement Age that participants retire.

Periodic pension and SERP cost, which is recorded as part of salaries and employee benefits expense in our Consolidated Statements of Income, is comprised of the following, (In Thousands):

	Three months ended September 30		Nine Months ended September 30	
	2011	2010	2011	2010
Pension plan:				
Interest cost	$117	$123	$ 351	$ 123
Expected return on plan assets	(94)	(91)	(282)	(91)
Net periodic pension cost	$23	$32	$ 69	$ 32
SERP plan:				
Interest cost	$7	$10	$ 22	$ 10
Net periodic postretirement cost	$7	$10	$ 22	$ 10

Stock-Based Compensation Plan

The Company, under the plan approved by its shareholders on April 28, 2011 (“2011 Stock Plan”), authorized the issuance of up to 900,000 shares of common stock of BCB Bancorp, Inc. pursuant to grants of stock options. Employees and directors of BCB Bancorp, Inc. and BCB Community Bank are eligible to participate in the 2011 Stock Plan. All stock options will be granted in the form of either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options. On September 29, 2011, a grant of 60,000 options was declared for certain members of the Board of Directors. The exercise price was recorded as of the close of business on September 29, 2011 and a Form 4 was filed for each director as of that date with the Securities and Exchange Commission consistent with their filing requirements. No other declarations of stock options have been made for the three and nine months ended September 30, 2011.

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A summary of stock option activity, adjusted to retroactively reflect subsequent stock dividends, follows:

	Number of Option Shares		Range of Exercise Prices		Weighted Average Exercise Price
Outstanding at December 31, 2009	279,500	$	5.29-$15.65		10.38
Options forfeited	(4,210)	$	5.29-$11.84		7.72
Options exercised	(13,677)		5.29		5.29
Options added through merger	28,000		18.41-29.25		24.22
Outstanding at December 31, 2010	289,613	$	5.29-$29.25	$	12.00
Options exercised	(28,137)		5.29-9.34		8.24
Options granted	60,000		8.93		8.93
Outstanding at September 30, 2011	321,476	$	5.29-29.25	$	11.85

At September 30, 2011, 267,476 of the stock options outstanding were exercisable.

The key valuation assumptions and fair value of stock options granted during the quarter ended September 30, 2011 were:

Expected life		6.5 years	
Risk-free interest rate		1.24	%
Volatility		20.83	%
Dividend yield		5.38	%
Fair value	$	2.27	

Note 4 – Earnings Per Share

Basic net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method. For the three and nine months ended September 30, 2011 and 2010, the weighted average of outstanding options considered to be anti-dilutive were 180,855 and 258,264, respectively, and were therefore, excluded from the diluted net income per common share calculation.

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Note 5 – Securities Available for Sale

	September 30, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Equity Securities-Financial Institutions	$1,097	$133	$116	$1,114

	December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Equity Securities-Financial Institutions	$1,097	$ 32	$ 31	$ 1,098

There were no sales of securities available for sale for the nine months ended September 30, 2011 and 2010.

The unrealized losses, categorized by the length of time of continuous loss position, and fair value of related securities available for sale were as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
September 30, 2011						
Equity Securities-Financial Institutions	$884	$116	$—	$—	$884	$116
December 31, 2010						
Equity Securities-Financial Institutions	$65	$31	$—	$—	$65	$31

At September 30, 2011, management concluded that the unrealized losses above (which relate to one financial equity issue) are temporary in nature and does not believe that any of the unrealized losses represented an other-than-temporary impairment as they were primarily related to market interest rates and not related to the underlying credit quality of the issuer of the security. Additionally, the Company has the ability, and management has the intent, to hold such securities for the time necessary to recover their cost and does not have the intent to sell the securities, and it is more likely than not that it would not have to sell the securities before recovery of their cost.

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Note 6 – Securities Held to Maturity

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U.S. Government Agencies:				
Due within one year	$ 3,315	$ 76	$—	$ 3,391
Due after ten years	13,000	92	—	13,092
	16,315	168	—	16,483
Residential mortgage-backed securities:				
Due within one year	$ 19	$ —	$ —	$ 19
Due after one year through five years	958	37	1	994
Due after five years through ten years	40,813	515	35	41,293
Due after ten years	133,916	7,006	7	140,915
	175,706	7,558	43	183,221
Subordinated notes:				
Due within one year	$ 6,000	$ —	$ —	$ 6,000
Municipal obligations:				
Due after ten years	1,371	50	—	1,421
Trust originated preferred security:				
Due after ten years	403	2	—	405
	$ 7,774	$ 52	$ —	$ 7,826
	$ 199,795	$ 7,778	$ 43	$ 207,530

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Note 6 – Securities Held to Maturity (Continued)

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U.S. Government Agencies:				
Due after one through five years	$ 3,315	$ 180	$ —	$ 3,495
Due after ten years	27,523	14	62	27,475
	30,838	194	62	30,970
Residential mortgage-backed securities:				
Due within one year	$ 6	$ —	$ —	$ 6
Due after one year through five years	775	24	1	798
Due after five years through ten years	54,629	374	357	54,646
Due after ten years	71,545	1,552	493	72,604
	126,955	1,950	851	128,054
Subordinated notes:				
Due within one year	$ 6,000	$ —	$ —	$ 6,000
Municipal obligations:				
Due after ten years	1,376	—	21	1,355
Trust originated preferred security:				
Due after ten years	403	3	—	406
	$ 165,572	$ 2,147	$ 934	$ 166,785

The amortized cost and carrying values shown above are by contractual final maturity. Actual maturities will differ from contractual final maturities due to scheduled monthly payments related to mortgage–backed securities and due to the borrowers having the right to prepay obligations with or without prepayment penalties. At September 30, 2011 and December 31, 2010, all residential mortgage backed securities held in the portfolio were Government Sponsored Enterprise securities.

During the second quarter of 2011, management decided to sell its collateralized mortgage obligations that were issued by the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). While these securities were classified as held to maturity, ASC 320 (formerly FAS 115) allows sales of securities so designated, provided that a substantial portion (at least 85%) of the principal balance has been amortized prior to the sale. During the nine months ended September 30, 2011, proceeds from sales of securities held to maturity totaled approximately $2,438,000 and resulted in gross gains of approximately $25,000 and gross losses of approximately $7,000.

There were no sales of securities held to maturity for the nine months ended September 30, 2010.

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Note 6 – Securities Held to Maturity (Continued)

The unrealized losses, categorized by the length of time of continuous loss position, and fair value of related securities held to maturity were as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
September 30, 2011						
U.S. Government Agencies	$—	$—	$—	$—	$—	$—
Residential mortgage-backed securities	4,750	10	6,538	33	11,288	43
	$4,750	$10	$6,538	$33	$11,288	$43
December 31, 2010						
U.S. Government Agencies	$20,328	$62	$—	$—	$20,328	$62
Residential mortgage-backed securities	74,899	851	—	—	74,899	851
Municipal obligations	1,355	21	—	—	1,355	21
	$96,582	$934	$—	$—	$96,582	$934

Management does not believe that any of the unrealized losses at September 30, 2011, (which are related to thirteen residential mortgage-backed securities) represent an other-than-temporary impairment as they are primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities as all these securities were issued by U.S. Agencies. Additionally, the Company has the ability, and management has the intent, to hold such securities for the time necessary to recover cost and does not have the intent to sell the securities, and it is more likely than not that it will not have to sell the securities before recovery of their cost.

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Note 7 - Loans Receivable and Allowance for Loan Losses

The following table presents the recorded investment in loans receivable at September 30, 2011 and December 31, 2010 by segment and class.

	September 30, 2011	December 31, 2010
	(In Thousands)	
Real estate mortgage:		
Residential	$222,002	$ 234,435
Commercial and multi-family	408,224	410,212
Construction	12,612	17,848
	642,838	662,495
Commercial:		
Business loans	17,454	13,932
Lines of credit	43,148	40,228
	60,602	54,160
Consumer:		
Passbook or certificate	886	1,004
Home equity lines of credit	8,218	10,228
Home equity	46,308	53,375
Automobile	120	178
Personal	407	554
	55,939	65,339
Deposit overdrafts	77	80
Total Loans	759,456	782,074
Deferred loan fees, net	(1,087)	(556)
Allowance for loan losses	(9,040)	(8,417)
	$749,329	$ 773,101

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Allowance for Loan Losses

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a general allocated reserve for impaired loans, a specific reserve for impaired loans and an unallocated portion.

The Company consistently applies the following comprehensive methodology. During the quarterly review of the allowance for loan losses, the Company considers a variety of factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations.

The methodology includes the segregation of the loan portfolio by loans that are performing and loans that are impaired. Loans which are performing are evaluated collectively by loan class or loan type. The allowance for performing loans is evaluated based on historical loan loss experience, including consideration of peer loss analysis, with an adjustment for qualitative factors due to economic conditions in the Bank's market. Impaired loans are loans which are 60 days or more delinquent or troubled debt restructured. These loans are individually evaluated for loan loss either by current appraisal, estimated economic factor, or net present value. Management reviews the overall estimate for reasonableness and bases the loan loss provision accordingly.

The portfolio of performing loans is segmented into the following loan types, where the risk level for each type is analyzed when determining the allowance for these loans:

Residential single family real estate loans involve certain risks such as interest rate risk and risk of non-repayment. Adjustable-rate residential family real estate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Construction lending is generally considered to involve a high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of the general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not necessarily pre-sold and thus pose a greater potential risk to the Bank than construction loans to individuals on their personal residence.

Commercial and multi-family real estate lending entails significant additional risks as compared with residential family property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Commercial business lending is generally considered higher risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on the business. Commercial business loans are primarily secured by inventories and other business assets. In most cases, any repossessed collateral for a defaulted commercial business loans will not provide an adequate source of repayment of the outstanding loan balance.

Home equity lending entails certain risks such as interest rate risk and risk of non-repayment. The marketability of the underlying property may be adversely affected by higher interest rates, decreasing the collateral securing the loan. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Home equity line of credit lending entails securing an equity interest in the borrower’s home. The risk associated with this type of lending is the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower. This type of lending is often priced on an adjustable rate basis with the rate set at or above a predefined index. Adjustable-rate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default

Consumer loans generally have more credit risk because of the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans generally have shorter terms and higher interest rates than other lending. In addition, consumer lending collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be adversely effected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide and adequate source of repayment of the outstanding loan.

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The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates lack some element of precision. Management must make estimates using assumptions and information that is often subjective and changing rapidly. In addition, as an integral part of their examination process, the Federal Deposit Insurance Corporation will periodically review the allowance for loan losses and may require us to adjust the allowance based on their analysis of information available to it at the time of its examination.

Classified Assets. The Company's policies provide for a classification system for problem assets. Under this classification system, problem assets are classified as "substandard," "doubtful," "loss" or "special mention." An asset is considered substandard if it is inadequately protected by its current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that "some loss" will be sustained if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weakness present makes "collection or liquidation in full" on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as loss are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted, and the loan, or a portion thereof, is charged-off. Assets may be designated special mention because of potential weaknesses that do not currently warrant classification in one of the aforementioned categories.

When the Company classifies problem loans, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining our regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital. At September 30, 2011, we had $1 thousand in assets classified as loss, $8.6 million in assets classified as doubtful, $37.9 million in assets classified as substandard, and $51.7 million in assets classified as special mention. The loans classified as substandard represent primarily commercial loans secured either by residential real estate, commercial real estate or heavy equipment. The loans that have been classified substandard were classified as such primarily because either updated financial information has not been provided timely, or the collateral underlying the loan is in the process of being revalued.

The Company's internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list (risk ratings 1-4) are treated as "pass" for grading purposes:

5 – Special Mention- Loans currently performing but with potential weaknesses including adverse trends in borrower's operations, credit quality, financial strength, or possible collateral deficiency.

6 – Substandard- Loans that are inadequately protected by current sound worth, paying capacity, and collateral support. The loan needs special and corrective attention.

7 – Doubtful- Weaknesses in credit quality and collateral support make full collection improbable, but pending reasonable factors remain sufficient to defer the loss status.

8 – Loss- Continuance as a bankable asset is not warranted. However, this does not preclude future attempts at partial recovery.

In prior quarters, the Company used peer group historical data in the provision methodology. The current methodology for this calculation is determined with the Company's specific Historical Loss Percentage ("HLP") for each loan type, using 2 years of prior bank data (or 8 quarters). The relative weights of prior quarters are decayed logarithmically and are further adjusted based on the trend of the historical loss percentage at the time. Also, instead of applying consistent percentages to each of the credit risk grades, the most recent methodology applies a higher factor to classified loans based on a delinquency risk trend and concentration risk trend by using the past due and non-accrual as a percentage of the specific loan category. The change in methodology has resulted in a shift in the required allowances across loan types with no material change in the total allowance for loan losses.

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Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the activity in the Bank's allowance for loan losses for the three months ended September 30, 2011 (In Thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Home equity (2)	Consumer	Unallocated	Total
Allowance for credit losses:								
Beginning balance June 30, 2011	$ 654	$ 5,278	$ 355	$ 1,492	$ 362	$ 7	$ 568	$ 8,716
Charge-offs	$ -	$ 366	$ 110	$ -	$ -	$ -	$ -	$ 476
Recoveries	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provisions	$ 468	$ 354	$ 233	$ 60	$ 177	$ -	$ (492)	$ 800