ESSA Bancorp, Inc.
Form 10-Q
February 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended December 31, 2010

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ______ to ______

Commission File No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**20-8023072**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
200 Palmer Street, Stroudsburg, Pennsylvania	**18360**
(Address of Principal Executive Offices)	**(Zip Code)**

(570) 421-0531

(Registrant s telephone number)

N/A

(Former name or former address, 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 requirements for the past 90 days. YES x NO ¨.

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	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 ¨ NO x

As of February 7, 2011 there were 13,181,590 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	December 31, 2010	September 30, 2010
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$ 5,365	$ 7,454
Interest-bearing deposits with other institutions	1,981	3,436
Total cash and cash equivalents	7,346	10,890
Investment securities available for sale	249,457	252,341
Investment securities held to maturity (estimated fair value of $11,653 and $13,254)	11,429	12,795
Loans receivable (net of allowance for loan losses of $7,738 and $7,448)	747,822	730,842
Federal Home Loan Bank stock	19,690	20,727
Premises and equipment	12,059	12,189
Bank-owned life insurance	15,755	15,618
Foreclosed real estate	2,393	2,034
Other assets	15,090	14,561
TOTAL ASSETS	$ 1,081,041	$ 1,071,997
LIABILITIES		
Deposits	$ 581,270	$ 540,410
Short-term borrowings	11,856	14,719
Other borrowings	310,657	335,357
Advances by borrowers for taxes and insurance	3,291	1,465
Other liabilities	7,807	8,423
TOTAL LIABILITIES	914,881	900,374
Commitment and contingencies		
STOCKHOLDERS EQUITY		
Preferred Stock ($.01 par value; 1,000,000 shares authorized, none issued)		
Common stock ($.01 par value; 40,000,000 shares authorized, 16,980,900 issued; 13,181,590 and 13,482,612 outstanding at December 31, 2010 and September 30, 2010)	170	170
Additional paid in capital	165,087	164,494
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(11,777)	(11,891)
Retained earnings	64,685	64,272
Treasury stock, at cost; 3,799,310 and 3,498,288 shares at December 31, 2010 and September 30, 2010, respectively	(48,714)	(44,870)
Accumulated other comprehensive loss	(3,291)	(552)
TOTAL STOCKHOLDERS EQUITY	166,160	171,623

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,081,041	$ 1,071,997

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For the Three Months Ended December 31, (dollars in thousands, except per share data)	
	2010	**2009**
INTEREST INCOME		
Loans receivable	$ 9,844	$ 10,341
Investment securities:		
Taxable	1,922	2,237
Exempt from federal income tax	78	83
Other investment income		1
Total interest income	11,844	12,662
INTEREST EXPENSE		
Deposits	1,696	1,406
Short-term borrowings	22	49
Other borrowings	2,996	3,924
Total interest expense	4,714	5,379
NET INTEREST INCOME	7,130	7,283
Provision for loan losses	480	500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,650	6,783
NONINTEREST INCOME		
Service fees on deposit accounts	762	827
Services charges and fees on loans	210	101
Trust and investment fees	211	220
Gain on sale of loans, net	3	155
Earnings on Bank-owned life insurance	137	140
Other	12	13
Total noninterest income	1,335	1,456
NONINTEREST EXPENSE		
Compensation and employee benefits	3,880	3,736
Occupancy and equipment	777	559
Professional fees	429	377
Data processing	449	450
Advertising	186	98
Federal Deposit Insurance Corporation (FDIC) premiums	184	358
Loss on foreclosed real estate	106	1,200

Other		627		453
Total noninterest expense		6,638		7,231
Income before income taxes		1,347		1,008
Income taxes		335		214
NET INCOME	$	1,012	$	794
Earnings per share				
Basic	$	0.09	$	0.06
Diluted	$	0.09	$	0.06
Dividends per share	$	0.05	$	0.05

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Common Stock							
	Number of Shares	**Amount**	**Additional Paid In Capital**	**Unallocated Common Stock Held by the ESOP**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (loss)**	**Total Stockholders Equity**
Balance, September 30, 2010	13,482,612	$ 170	$ 164,494	$ (11,891)	$ 64,272	$ (44,870)	$ (552)	$ 171,623
Net income					1,012			1,012
Other comprehensive (loss):								
Unrealized loss on securities available for sale, net of income tax benefit of $1,446							(2,807)	(2,807)
Change in unrecognized pension cost, net of income taxes of $35							68	68
Cash dividends declared ($.05 per share)					(599)			(599)
Stock based compensation			560					560
Allocation of ESOP stock			33	114				147
Treasury shares purchased	(301,022)					(3,844)		(3,844)
Balance, December 31, 2010	13,181,590	$ 170	$ 165,087	$ (11,777)	$ 64,685	$ (48,714)	$ (3,291)	$ 166,160

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended December 31, 2010	2009
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 1,012	$ 794
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	480	500
Provision for depreciation and amortization.	292	288
Accretion of discounts and premiums, net	379	113
Gain on sale of loans, net	(3)	(155)
Origination of mortgage loans sold	(97)	(5,706)
Proceeds from sale of mortgage loans originated for sale	100	5,861
Compensation expense on ESOP	147	141
Stock based compensation	560	538
Decrease in accrued interest receivable	328	175
Increase in accrued interest payable	135	2
Earnings on bank-owned life insurance	(137)	(140)
Deferred federal income taxes	(126)	61
Prepaid FDIC premiums	166	(1,712)
Loss on foreclosed real estate	73	1,200
Other, net	21	(634)
Net cash provided by operating activities	3,330	1,326
INVESTING ACTIVITIES		
Proceeds from repayments of certificates of deposit		1,685
Investment securities available for sale:		
Proceeds from principal repayments and maturities	34,940	13,769
Purchases	(36,687)	(12,129)
Investment securities held to maturity:		
Proceeds from principal repayments and maturities	1,353	1,027
(Increase) decrease in loans receivable, net	(17,860)	2,920
Redemption of FHLB stock	1,037	
Capital improvements to foreclosed real estate	(20)	(22)
Purchase of premises, equipment, and software	(142)	(900)
Net cash provided by (used for) investing activities	(17,379)	6,350
FINANCING ACTIVITIES		
Increase (decrease) in deposits, net	40,860	(8,687)
Net (decrease) increase in short-term borrowings	(2,863)	12,922
Proceeds from other borrowings	8,300	13,200
Repayment of other borrowings	(33,000)	(23,000)
Increase in advances by borrowers for taxes and insurance	1,826	1,627
Purchase of treasury stock.	(4,019)	(3,592)
Dividends on common stock	(599)	(667)

Net cash provided by (used for) financing activities	10,505	(8,197)
Decrease in cash and cash equivalents	(3,544)	(521)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,890	18,593
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,346	$ 18,072
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	$ 4,579	$ 5,377
Income taxes	375	23
Noncash items:		
Transfers from loans to foreclosed real estate	412	344
Treasury stock payable	(175)	

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

The unaudited, consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the Company), and its wholly owned subsidiary, ESSA Bank & Trust (the Bank), and the Bank s wholly owned subsidiaries, ESSACOR Inc. and Pocono Investment Company. The primary purpose of the Company is to act as a holding company for the Bank. The Company is subject to regulation and supervision by the Office of Thrift Supervision (the OTS). The Bank is a Pennsylvania chartered savings association located in Stroudsburg, Pennsylvania. The Bank s primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton and Lehigh counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and the OTS. The investment in subsidiary on the parent company s financial statements is carried at the parent company s equity in the underlying net assets.

ESSACOR, Inc. is a Pennsylvania corporation that is currently inactive. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. All intercompany transactions have been eliminated in consolidation.

The unaudited consolidated financial statements reflect all adjustments, which in the opinion of management are necessary for a fair presentation of the results of the interim periods and are of a normal and recurring nature. Operating results for the three month period ended December 31, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011.

2. Earnings per Share

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three months ended December 31, 2010 and 2009.

	Three months ended	
	December 31, 2010	**December 31, 2009**
Weighted-average common shares outstanding	16,980,900	16,980,900
Average treasury stock shares	(3,658,950)	(2,274,573)
Average unearned ESOP shares	(1,171,255)	(1,216,531)
Average unearned non-vested shares	(293,358)	(412,902)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	11,857,337	13,076,894
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share		
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	2,873	
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	11,860,210	13,076,894

At December 31, 2010 and 2009 there were options to purchase 317,910 and 1,458,379 shares, respectively, of common stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive. At December 31, 2010 and 2009 there were 283,264 and 402,758 shares, respectively, of nonvested stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

3. Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiaries and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

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4. Comprehensive Income

The components of other comprehensive income (loss) are as follows (in thousands):

	December 31, 2010	December 31, 2009
Net income	$ 1,012	$ 794
Unrealized loss on securities available for sale	(4,253)	(819)
Change in unrecognized pension cost	103	77
Other comprehensive loss before tax benefit	(4,150)	(742)
Income tax benefit related to comprehensive loss	(1,411)	(253)
Other comprehensive loss	(2,739)	(489)
Comprehensive income (loss)	$ (1,727)	$ 305

5. Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-05, *Compensation Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation*. ASU 2010-05 updates existing guidance to address the SEC staff s views on overcoming the presumption that for certain shareholders escrowed share arrangements represent compensation. ASU 2010-05 is effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company s financial statements.

In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company has presented the necessary disclosures in Note 8, herein.

In September, 2010, the FASB issued ASU 2010-25, Plan Accounting *Defined Contribution Pension Plans*. The amendments in this ASU require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. The amendments in this update are effective for fiscal years ending after December 15, 2010 and are not expected to have a significant impact on the Company s financial statements.

In October, 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This ASU addresses the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral, The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2011 and are not expected to have a significant impact on the Company s financial statements.

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In December, 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

6. Investment Securities

The amortized cost and fair value of investment securities available for sale and held to maturity are summarized as follows (in thousands):

	December 31, 2010			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for Sale				
Fannie Mae	$ 108,674	$ 1,274	$ (1,587)	$ 108,361
Freddie Mac	53,116	1,499	(306)	54,309
Governmental National Mortgage Association securities	32,641	782	(65)	33,358
Total mortgage-backed securities	194,431	3,555	(1,958)	196,028
Obligations of states and political subdivisions	16,559	99	(119)	16,539
U.S. government agency securities	34,750	163	(224)	34,689
Corporate obligations	2,142	16		2,158
Total debt securities	247,882	3,833	(2,301)	249,414
Equity securities	12	31		43
Total	$ 247,894	$ 3,864	$ (2,301)	$ 249,457
Held to Maturity				
Fannie Mae	$ 2,180	$ 116	$	$ 2,296
Freddie Mac	9,249	108		9,357
Total	$ 11,429	$ 224	$	$ 11,653

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	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 99,142	$ 2,412	$ (9)	$ 101,545
Freddie Mac	47,693	1,895		49,588
Governmental National Mortgage Association securities	35,211	1,040	(96)	36,155
Total mortgage-backed securities	182,046	5,347	(105)	187,288
Obligations of states and political subdivisions	10,637	279	(12)	10,904
U.S. government agency securities	52,177	279	(22)	52,434
Corporate obligations	1,654	23		1,677
Total debt securities	246,514	5,928	(139)	252,303
Equity securities	12	26		38
Total	$ 246,526	$ 5,954	$ (139)	$ 252,341
Held to Maturity				
Fannie Mae	$ 2,600	$ 140	$	$ 2,740
Freddie Mac	10,195	319		10,514
Total	$ 12,795	$ 459	$	$ 13,254

The amortized cost and fair value of debt securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 3	$ 3	$ 6	$ 6
Due after one year through five years	30,429	30,469	945	1,002
Due after five years through ten years	45,738	46,251	1,140	1,207
Due after ten years	171,712	172,691	9,338	9,438
Total	$ 247,882	$ 249,414	$ 11,429	$ 11,653

The Bank had no sales of investment securities for the three months ended December 31, 2010 or 2009.

7. Unrealized Losses on Securities

The following table shows the Company s gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (in thousands):

	December 31, 2010						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized

			Losses		Losses		Losses
Fannie Mae	20	$ 50,675	$ (1,587)	$	$	$ 50,675	$ (1,587)
Freddie Mac	4	9,765	(306)			9,765	(306)
Governmental National Mortgage Association securities	5	10,842	(65)			10,842	(65)
Obligations of states and political subdivisions	4	3,965	(119)			3,965	(119)
U.S. government agency securities	11	21,297	(224)			21,297	(224)
Total	44	$ 96,544	$ (2,301)	$	$	$ 96,544	$ (2,301)

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	September 30, 2010						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	1	$ 2,060	$ (9)	$	$	$ 2,060	$ (9)
Governmental National Mortgage Association securities	2	5,605	(96)			5,605	(96)
Obligations of states and political subdivisions	1	610	(12)			610	(12)
U.S. government agency securities	4	6,484	(22)			6,484	(22)
Total	8	$ 14,759	$ (139)	$	$	$ 14,759	$ (139)

The Company s investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the U.S. government, and debt obligations of a U.S. State or political subdivision.

The Company reviews its position quarterly and has asserted that at December 31, 2010, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the period.

8. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	December 31, 2010	September 30, 2010
Real Estate Loans:		
Residential	$ 598,852	$ 596,170
Construction	1,755	1,302
Commercial	94,387	78,056
Commercial	15,496	16,569
Home equity loans and lines of credit	42,610	43,538
Other	2,231	2,486
	755,331	738,121
Plus deferred loan costs	229	169
	755,560	738,290
Less allowance for loan losses	7,738	7,448
Net loans	$ 747,822	$ 730,842

	Real Estate Loans						
	Residential	Construction	Commercial	Commercial Loans	Home Equity and Lines of Credit	Other Loans	Total
				(dollars in thousands)			
December 31, 2010							

Total Loans	$ 598,852	$ 1,755	$ 94,387	$ 15,496	$ 42,610	$ 2,231	$ 755,331
Individually evaluated for impairment	5,261		3,464	25	116		8,866
Collectively evaluated for impairment	593,591	1,755	90,923	15,471	42,494	2,231	746,465

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We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring (TDR) loan when the Company grants a concession to the borrower because of the borrower s financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of performance.

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2010					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 3,328	$ 3,321	$	$ 3,081	$ 60
Construction					
Commercial	2,254	2,254		2,398	23
Commercial	22	22		42	
Home equity loans and lines of credit	14	14		14	
Other					
Total	5,618	5,611		5,535	83
With an allowance recorded:					
Real Estate Loans					
Residential	1,940	1,940	239	1,996	
Construction					
Commercial	1,211	1,210	200	657	
Commercial	3	3	3	3	
Home equity loans and lines of credit	102	102	58	74	
Other					