Sound Financial Bancorp, Inc.
Form 10-Q
November 13, 2017

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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 NUMBER 001-35633

Sound Financial Bancorp, Inc.
(Exact Name of Registrant as Specified in its Charter)

Maryland	45-5188530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2400 3rd Avenue, Suite 150, Seattle, Washington	98121
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (206) 448-0884

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by checkmark 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. YES NO

Indicate by checkmark 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 (§ 232.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

As of November 8, 2017, there were 2,510,045 shares of the registrant's common stock outstanding.

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SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets (unaudited)
(In thousands, except share and per share amounts)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 60,651	$ 54,582
Available-for-sale securities, at fair value	5,688	6,604
Loans held for sale	296	871
Loans	528,208	500,001
Allowance for loan losses	(4,991)	(4,822)
Total loans, net	523,217	495,179
Accrued interest receivable	1,943	1,816
Bank-owned life insurance ("BOLI"), net	12,602	12,082
Other real estate owned ("OREO") and repossessed assets, net	1,032	1,172
Mortgage servicing rights, at fair value	3,370	3,561
Federal Home Loan Bank ("FHLB") stock, at cost	1,825	2,840
Premises and equipment, net	7,338	5,549
Other assets	4,574	4,127
Total assets	$ 622,536	$ 588,383
LIABILITIES		
Deposits		
Interest-bearing	$ 448,291	$ 403,990
Noninterest-bearing demand	76,526	63,741
Total deposits	524,817	467,731
Borrowings	28,000	54,792
Accrued interest payable	68	73
Other liabilities	5,241	4,874
Advance payments from borrowers for taxes and insurance	1,066	638
Total liabilities	559,192	528,108
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $0.01 par value, 40,000,000 shares authorized, 2,510,045 and 2,498,804 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	25	25
Additional paid-in capital	24,297	23,979
Unearned shares - Employee Stock Ownership Plan ("ESOP")	(683)	(683)
Retained earnings	39,558	36,873
Accumulated other comprehensive income, net of tax	147	81
Total stockholders' equity	63,344	60,275
Total liabilities and stockholders' equity	$ 622,536	$ 588,383

See notes to condensed consolidated financial statements

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Income (unaudited)
(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Loans, including fees	$6,832	$6,050	$19,630	$18,053
Interest and dividends on investments, cash and cash equivalents	234	98	544	279
Total interest income	7,066	6,148	20,174	18,332
INTEREST EXPENSE				
Deposits	808	678	2,199	2,020
Borrowings	72	52	238	136
Total interest expense	880	730	2,437	2,156
Net interest income	6,186	5,418	17,737	16,176
PROVISION FOR LOAN LOSSES	250	-	250	250
Net interest income after provision for loan losses	5,936	5,418	17,487	15,926
NONINTEREST INCOME				
Service charges and fee income	439	743	1,442	1,988
Earnings on cash surrender value of bank-owned life insurance	82	84	245	252
Mortgage servicing income	18	239	399	462
Net gain on sale of loans	287	477	720	1,028
Total noninterest income	826	1,543	2,806	3,730
NONINTEREST EXPENSE				
Salaries and benefits	2,777	2,632	8,130	7,813
Operations	1,002	1,181	3,052	3,237
Regulatory assessments	80	124	340	404
Occupancy	520	376	1,415	1,141
Data processing	448	434	1,293	1,264
Net loss on OREO and repossessed assets	109	3	123	9
Total noninterest expense	4,936	4,750	14,353	13,868
Income before provision for income taxes	1,826	2,211	5,940	5,788
Provision for income taxes	604	757	2,001	1,974
Net income	$1,222	$1,454	$3,939	$3,814
Earnings per common share:				
Basic	$0.49	$0.58	$1.57	$1.54
Diluted	$0.48	$0.57	$1.54	$1.48
Weighted-average number of common shares outstanding:				
Basic	2,506,863	2,490,089	2,502,399	2,483,004
Diluted	2,562,373	2,568,457	2,562,606	2,556,949

See notes to condensed consolidated financial statements

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Comprehensive Income (unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$1,222	$1,454	$3,939	$3,814
Available for sale securities:				
Unrealized gains/(losses) arising during the period, net of tax provision/(benefit) of $4, $(19), $34 and $13, respectively	8	(35)	66	23
Other comprehensive income, net of tax	8	(35)	66	23
Comprehensive income	$1,230	$1,419	$4,005	$3,837

See notes to condensed consolidated financial statements

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Stockholders' Equity
For the Nine Months Ended September 30, 2017 and 2016 (unaudited)
(In thousands, except share and per share amounts)

	Shares	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income, net of tax	Total Stockholders' Equity
Balances at December 31, 2015	2,469,206	$ 25	$ 23,002	$ (911)	$ 32,240	$ 164	$ 54,520
Net income					3,814		3,814
Other comprehensive income, net of tax						23	23
Share-based compensation			354				354
Cash dividends paid on common stock ($0.23 per share)					(558)		(558)
Common Stock repurchase in conjunction with stock option exercise	(2,805)						-
Restricted stock awards issued	11,606						-
Restricted stock forfeited and retired	(1,059)						-
Exercise of options	21,656		164				164
Balances at September 30, 2016	2,498,604	$ 25	$ 23,520	$ (911)	$ 35,496	$ 187	$ 58,317

	Shares	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income, net of tax	Total Stockholders' Equity
Balances at December 31, 2016	2,498,804	$ 25	$ 23,979	$ (683)	$ 36,873	$ 81	$ 60,275
Net income					3,939		3,939
Other comprehensive income, net of tax						66	66
Share-based compensation			285				285
Cash dividends paid on common stock ($0.50 per share)					(1,254)		(1,254)
Common stock surrendered	(3,353)						-
Restricted stock awards issued	576						-
Exercise of options	14,018		33				33
Balances at September 30, 2017	2,510,045	$ 25	$ 24,297	$ (683)	$ 39,558	$ 147	$ 63,344

See notes to condensed consolidated financial statements

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Cash Flows (unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$3,939	$3,814
Adjustments to reconcile net income to net cash from operating activities:		
Accretion of net discounts on investments	(16)	32
Provision for loan losses	250	250
Depreciation and amortization	706	593
Compensation expense related to stock options and restricted stock	285	354
Net change in mortgage servicing rights	191	210
Increase in cash surrender value of BOLI	(245)	(252)
Net gain on sale of loans	(720)	(1,028)
Proceeds from sale of loans	35,818	58,464
Originations of loans held-for-sale	(34,522)	(57,769)
Net loss on sale and write-downs of OREO and repossessed assets	109	3
Change in operating assets and liabilities:		
Accrued interest receivable	(127)	(22)
Other assets	(482)	(330)
Accrued interest payable	(5)	(10)
Other liabilities	367	719
Net cash provided by operating activities	5,548	5,028
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from principal payments, maturities and sales of available-for-sale securities	1,032	1,008
Purchases of available-for-sale securities	-	(1,363)
FHLB stock redeemed	1,015	66
Net increase in loans	(28,505)	(17,873)
Purchase of BOLI	(275)	-
Proceeds from sale of OREO and other repossessed assets	248	131
Purchases of premises and equipment, net	(2,495)	(532)
Net cash received from branch acquisition	13,671	-
Net cash used by investing activities	(15,309)	(18,563)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	43,415	23,459
Proceeds from borrowings	137,000	106,000
Repayment of borrowings	(163,792)	(108,982)
Dividends paid on common stock	(1,254)	(558)
Net change in advances from borrowers for taxes and insurance	428	463
Proceeds from stock option exercises	33	164
Net cash used by financing activities	15,830	20,546
Net change in cash and cash equivalents	6,069	7,011
Cash and cash equivalents, beginning of period	54,582	48,264
Cash and cash equivalents, end of period	$60,651	$55,275
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income taxes	$1,910	$2,290

Interest paid on deposits and borrowings	2,442	2,166
Noncash net transfer from loans to OREO and repossessed assets	-	249
Assets acquired in acquisition of branch	14,474	-

See notes to condensed consolidated financial statements

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 – Basis of Presentation

The accompanying financial information is unaudited and has been prepared from the consolidated financial statements of Sound Financial Bancorp, Inc., and its wholly owned subsidiary, Sound Community Bank. References in this document to Sound Financial Bancorp refer to Sound Financial Bancorp, Inc. and references to the "Bank" refer to Sound Community Bank. References to "we," "us," and "our" or the "Company" refers to Sound Financial Bancorp and its wholly-owned subsidiary, Sound Community Bank, unless the context otherwise requires.

These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. These unaudited financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on March 27, 2017 ("2016 Form 10-K"). The results for the interim periods are not necessarily indicative of results for a full year. For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 2016, included in the 2016 Form 10-K. Certain amounts in the prior quarters' consolidated financial statements have been reclassified to conform to the current presentation. These classifications do not have an impact on previously reported consolidated net income, retained earnings, stockholders' equity or earnings per share.

Note 2 – Accounting Pronouncements Recently Issued or Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which creates Topic 606 and supersedes Topic 605, Revenue Recognition. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which postponed the effective date of 2014-09. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net, which amended the principal versus agent implementation guidance set for in ASU 2014-09. Among other things, ASU 2016-08 clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The ASU amends certain aspects of the guidance set forth in the FASB's new revenue standard related to identifying performance obligations and licensing implementation. The core principle of Topic 606 is that an entity recognizes 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. In general, the new ASU requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic 606. This ASU is effective for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. For financial reporting purposes, the ASU allows for either full retrospective adoption, meaning this ASU is applied to all of the periods presented, or modified retrospective adoption, meaning the ASU is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the ASU recognized at the date of initial application. As a financial institution, the Company's largest component of revenue, interest income, is excluded from the scope of this ASU. Accordingly, the adoption of ASU No. 2014-09 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. In addition, the ASU requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. This ASU also eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The ASU also requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for certain provisions. The adoption of ASU No. 2016-01is not expected to have a material impact on the Company's consolidated financial statements. Management is in the planning stages of developing processes and procedures to comply with the disclosure requirements of this ASU, which could impact the disclosures the Company makes related to the fair value of its financial instruments.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 requires lessees to recognize, on the balance sheet, the assets and liabilities arising from operating leases. A lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. A lessee should include payments to be made in an optional period only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For a finance lease, interest payments should be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income. For operating leases, the lease cost should be allocated over the lease term on a generally straight-line basis. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in the ASU is permitted. Although an estimate of the impact of the new leasing standard has not yet been determined, once adopted, we expect to report higher assets and liabilities as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements, however, based on current leases the adoption is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU replaces the existing incurred loss impairment methodology that recognizes credit losses when a probable loss has been incurred with new methodology where loss estimates are based upon lifetime expected credit losses. The amendments in this ASU require a financial asset that is measured at amortized cost to be presented at the net amount expected to be collected. The income statement would then reflect the measurement of credit losses for newly recognized financial assets as well as changes to the expected credit losses that have taken place during the reporting period. The measurement of expected credit losses will be based on historical information, current conditions, and reasonable and supportable forecasts that impact the collectability of the reported amount. Available-for-sale securities will bifurcate the fair value mark and establish an allowance for credit losses through the income statement for the credit portion of that mark. The interest portion will continue to be recognized through accumulated other comprehensive income or loss. The change in allowance recognized as a result of adoption will occur through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the ASU is adopted. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 with early adoption permitted after December 15, 2018. The Company has begun the process to implement this new standard by working with a vendor that specializes in this area. While the Company has not quantified the impact of this ASU, it does expect changing from the current incurred loss model to an expected loss model will result in an earlier recognition of losses. The Company also expects that once adopted the allowance for loan losses will increase, however, until its evaluation is complete the magnitude of the increase will be unknown.

In August 2016, FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the appropriate classification of eight specific cash flow issues on the cash flow statement. Debt prepayment costs should be classified as an outflow for financing activities. Settlement of zero-coupon debt instruments divides the interest portion as an outflow for operating activities and the principal portion as an outflow for financing activities. Contingent consideration payments made after a business combination should be classified as outflows for financing and operating activities. Proceeds from the settlement of bank-owned life insurance policies should be classified as inflows from investing activities. Other specific areas are identified in the ASU as to the appropriate classification of the cash inflows or outflows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted and must be applied using a retrospective transition method to each period presented. The Company does not expect this ASU to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20). ASU 2017-08 is intended to amend the amortization period for certain purchased callable debt securities held at a premium. Under ASU 2017-08, the FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. ASU 2017-08 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company is reviewing its securities portfolio to assess the impact the adoption of this ASU will have on the Company's consolidated financial statements but does not expect this ASU to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation--Stock Compensation (Topic 718): Scope of Modification Accounting. The ASU was issued to provide clarity as to when to apply modification accounting when there is a change in the terms or conditions of a share-based payment award. According to this ASU, an entity should account for the effects of a modification unless the fair value, vesting conditions, and balance sheet classification of the award is the same after the modification as compared to the original award prior to the modification. The standard is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of ASU No. 2017-09 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends the hedge accounting recognition and presentation requirements in ASC 815 to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. The amendments in this ASU permit hedge accounting for hedging relationships involving nonfinancial risk and interest rate risk by removing certain limitations in cash flow and fair value hedging relationships. In addition, the ASU requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and early adoption is permitted. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's consolidated financial statements.

Note 3 – Investments

The amortized cost and fair value of our available-for-sale ("AFS") securities and the corresponding amounts of gross unrealized gains and losses at the dates indicated were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2017				
Municipal bonds	$ 3,245	$ 175	$ (3)	$ 3,417
Agency mortgage-backed securities	2,221	50	-	2,271
Total	$ 5,466	$ 225	$ (3)	$ 5,688
December 31, 2016				
Municipal bonds	$ 3,262	$ 127	$ (36)	$ 3,353
Agency mortgage-backed securities	2,858	49	(3)	2,904
Non-agency mortgage-backed securities	362	-	(15)	347
Total	$ 6,482	$ 176	$ (54)	$ 6,604

The amortized cost and fair value of AFS securities at September 30, 2017, by contractual maturity, are shown below (in thousands). Expected maturities of AFS securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments not due at a single maturity date, primarily mortgage-backed investments, are shown separately.

	September 30, 2017	
	Amortized Cost	Fair Value
Due after one year through five years	$1,333	$1,329
Due after five years through ten years	413	443
Due after ten years	1,499	1,645
Mortgage-backed securities	2,221	2,271
Total	$5,466	$5,688

There were no pledged securities at September 30, 2017 and December 31, 2016.

There were no sales of AFS securities during the three or nine months ended September 30, 2017 and 2016.

The following tables summarize the aggregate fair value and gross unrealized loss by length of time of those investments that have been in a continuous unrealized loss position at the dates indicated (in thousands):

	September 30, 2017					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$456	$ (1)	$874	$ (2)	$1,330	$ (3)
Agency mortgage-backed securities	-	-	-	-	-	-
Total	$456	$ (1)	$874	$ (2)	$1,330	$ (3)

	December 31, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$1,313	$ (36)	$-	$ -	$1,313	$ (36)
Agency mortgage-backed securities	-	-	1,125	(3)	1,125	(3)
Non-agency mortgage-backed securities	-	-	347	(15)	347	(15)
Total	$1,313	$ (36)	$1,472	$ (18)	$2,785	$ (54)

There were no credit losses recognized in earnings during the three and nine months ended September 30, 2017 or 2016 relating to the Company's securities.

At September 30, 2017, two municipal securities were in an unrealized loss position for less than 12 months and one municipal security was in an unrealized loss position for over 12 months. At December 31, 2016, three municipal securities were in an unrealized loss position for less than 12 months and one agency security and one non-agency mortgage-backed security were in a loss position for over 12 months. The agency mortgage-backed security in an unrealized loss position at December 31, 2016 was guaranteed by a U.S. governmental agency. The non-agency mortgage-backed security was fully redeemed during the third quarter of 2017. The unrealized losses were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not related to the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because we do not intend to sell the securities in this class and it is not likely that we will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity. The unrealized losses on these investments are not considered an other-than-temporary impairment ("OTTI") during the three and nine months ended September 30, 2017 or the year ended December 31, 2016.

Note 4 – Loans

The composition of the loan portfolio at the dates indicated, excluding loans held-for-sale, was as follows (in thousands):

	September 30, 2017	December 31, 2016
Real estate loans:		
One- to four- family	$ 156,871	$ 152,386
Home equity	29,129	27,771
Commercial and multifamily	201,411	181,004
Construction and land	54,921	70,915
Total real estate loans	$ 442,332	$ 432,076
Consumer loans:		
Manufactured homes	16,864	15,494
Floating homes	26,699	23,996
Other consumer	5,032	3,932
Total consumer loans	48,595	43,422
Commercial business loans	39,158	26,331
Total loans	530,085	501,829
Deferred fees	(1,877)	(1,828)
Total loans, gross	528,208	500,001
Allowance for loan losses	(4,991)	(4,822)
Total loans, net	$ 523,217	$ 495,179

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2017 (in thousands):

	One- to four- family	Home equity	Commercial and multifamily	Construction and land	Manufactured homes	Floating homes	Other consumer	Commercial business	Unallocated	Total
Allowance for loan losses:										
Individually evaluated for impairment	$ 377	$ 168	$ -	$ 32	$ 70	$ -	$ 57	$ 276	$ -	$ 980
Collectively evaluated for impairment	874	183	1,185	327	110	154	41	231	906	4,011
Ending balance	$ 1,251	$ 351	$ 1,185	$ 359	$ 180	$ 154	$ 98	$ 507	$ 906	$ 4,991
Loans receivable:										
Individually evaluated for impairment	$ 6,664	$ 1,007	$ 1,717	$ 99	$ 309	$ -	$ 57	$ 357	$ -	$ 10,210

Collectively evaluated for impairment	150,207	28,122	199,694	54,822	16,555	26,699	4,975	38,801	-	519,875
Ending balance	$156,871	$29,129	$201,411	$54,921	$16,864	$26,699	$5,032	$39,158	$ -	$530,085

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2016 (in thousands):

	One- to four-family	Home equity	Commercial and multifamily	Construction and land	Manufactured homes	Floating homes	Other consumer	Commercial business	Unallocated	Total
Allowance for loan losses:										
Individually evaluated for impairment	$536	$121	$24	$35	$59	$-	$65	$23	$-	$863
Collectively evaluated for impairment	1,006	257	1,120	424	109	132	47	152	712	3,959
Ending balance	$1,542	$378	$1,144	$459	$168	$132	$112	$175	$712	$4,822
Loans receivable:										
Individually evaluated for impairment	$4,749	$832	$1,582	$83	$312	$-	$62	$616	$-	$8,236
Collectively evaluated for impairment	147,637	26,939	179,422	70,832	15,182	23,996	3,870	25,715	-	493,593
Ending balance	$152,386	$27,771	$181,004	$70,915	$15,494	$23,996	$3,932	$26,331	$-	$501,829

The following table summarizes the activity in the allowance for loan losses for the three months ended September 30, 2017 (in thousands):

	Beginning Allowance	Charge-offs	Recoveries	Provision	Ending Allowance
One- to four- family	$ 1,302	$ -	$ -	$ (51)	$ 1,251
Home equity	431	(89)	1	8	351
Commercial and multifamily	1,153	-	-	32	1,185
Construction and land	352	-	-	7	359
Manufactured homes	178	(7)	-	9	180
Floating homes	146	-	-	8	154
Other consumer	98	(1)	2	(1)	98
Commercial business	364	-	-	143	507
Unallocated	811	-	-	95	906
Total	$ 4,835	$ (97)	$ 3	$ 250	$ 4,991

The following table summarizes the activity in the allowance for loan losses for the nine months ended September 30, 2017 (in thousands):

	Beginning Allowance	Charge-offs	Recoveries	Provision	Ending Allowance
One- to four- family	$ 1,542	$ -	$ -	$ (291)	$ 1,251
Home equity	378	(89)	30	32	351
Commercial and multifamily	1,144	(24)	1	64	1,185
Construction and land	459	-	-	(100)	359
Manufactured homes	168	(13)	3	22	180
Floating homes	132	-	-	22	154
Other consumer	112	(8)	19	(25)	98
Commercial business	175	-	-	332	507
Unallocated	712	-	-	194	906
Total	$ 4,822	$ (134)	$ 53	$ 250	$ 4,991

The following table summarizes the activity in the allowance for loan losses for the three months ended September 30, 2016 (in thousands):

	Beginning Allowance	Charge-offs	Recoveries	Provision	Ending Allowance
One- to four- family	$ 1,713	$ -	$ -	$ (55)	$ 1,658
Home equity	501	(14)	10	(73)	424
Commercial and multifamily	1,377	-	-	(17)	1,360
Construction and land	388	-	18	(33)	373
Manufactured homes	189	-	2	(14)	177
Floating homes	132	-	-	-	132
Other consumer	89	(10)	15	(28)	66
Commercial business	171	-	-	10	181
Unallocated	278	-	-	210	488
Total	$ 4,838	$ (24)	$ 45	$ -	$ 4,859

The following table summarizes the activity in the allowance for loan losses for the nine months ended September 30, 2016 (in thousands):

	Beginning Allowance	Charge-offs	Recoveries	Provision	Ending Allowance
One- to four- family	$ 1,839	$ (72)	$ -	$ (109)	$ 1,658
Home equity	607	(14)	-	(169)	424
Commercial and multifamily	921	-	-	439	1,360
Construction and land	382	-	18	(27)	373
Manufactured homes	301	-	75	(199)	177
Floating homes	111	-	-	21	132
Other consumer	77	(31)	7	13	66
Commercial business	157	(29)	19	34	181
Unallocated	241	-	-		