NORTHEAST COMMUNITY BANCORP INC
Form 10-K
March 31, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGEACT OF 1934

For the fiscal year ended December 31, 2010

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: 0-51852

NORTHEAST COMMUNITY BANCORP, INC.
(Exact name of registrant as specified in its charter)

UNITED STATES (State or other jurisdiction of incorporation or organization)	06-1786701 (I.R.S. Employer Identification No.)
325 Hamilton Avenue, White Plains, New York (Address of principal executive offices)	10601 (Zip Code)

Registrant’s telephone number, including area code: (914) 684-2500
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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. Yes x No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2010 was approximately $33.6 million.

The number of shares outstanding of the registrant's common stock as of March 15, 2011 was 13,106,900.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2011 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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This report contains certain "forward-looking statements" within the meaning of the federal securities laws. These statements are not historical facts; rather, they are statements based on Northeast Community Bancorp, Inc.'s current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are preceded by terms such as "expects," "believes," "anticipates," "intends" and similar expressions.

Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the market area in which Northeast Community Bancorp, Inc. operates, as well as nationwide, Northeast Community Bancorp, Inc.'s ability to control costs and expenses, competitive products and pricing, loan delinquency rates, demand for loans and deposits, changes in quality or composition of our loan portfolio and changes in federal and state legislation and regulation. For further discussion of factors that may affect our results, see "Item 1A. Risk Factors" in this Annual Report on Form 10-K ("Form 10-K"). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Northeast Community Bancorp, Inc. assumes no obligation to update any forward-looking statements.

PART I

Item 1. BUSINESS

General

Northeast Community Bancorp, Inc. ("Northeast Community Bancorp" or the "Company") is a federally chartered stock holding company established on July 5, 2006 to be the holding company for Northeast Community Bank (the "Bank"). Northeast Community Bancorp's business activity is the ownership of the outstanding capital stock of the Bank. Northeast Community Bancorp does not own or lease any property but instead uses the premises, equipment and other property of the Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement.

Northeast Community Bancorp, MHC (the "MHC") is the Company's federally chartered mutual holding company parent. As a mutual holding company, the MHC is a non-stock company that has as its members the depositors of Northeast Community Bank. The MHC does not engage in any business activity other than owning a majority of the common stock of Northeast Community Bancorp. So long as we remain in the mutual holding company form of organization, the MHC will own a majority of the outstanding shares of Northeast Community Bancorp.

Northeast Community Bank was originally chartered in 1934. In 2006, Northeast Community Bank changed its name from "Fourth Federal Savings Bank" to "Northeast Community Bank."

We operate as a community-oriented financial institution offering traditional financial services to consumers and businesses in our market area and our lending territory. We attract deposits from the general public and use those funds to originate multi-family residential and mixed-use real estate and consumer loans, which we hold for investment. We have been originating multi-family and mixed-use real estate loans for over half a century. In 2007, we established a new commercial loan department and have increased this portfolio from no commercial loans at March 31, 2007 to $28.9 million of commercial loans committed with $12.1 million drawn at December 31, 2010. We do not currently offer one-to four-family residential loans. Due to market conditions, we discontinued offering new non-residential real estate loans effective the first quarter of 2009.

In November 2007, we completed the acquisition of the operating assets of Hayden Financial Group, LLC, an investment advisory firm located in Westport, Connecticut. This acquisition gives us the ability to offer investment advisory and financial planning services under the name Hayden Wealth Management Group, a division of the Bank, through a networking arrangement with a registered broker-dealer and investment advisor.

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Available Information

Our website address is www.necommunitybank.com. Information on our website should not be considered a part of this Form 10-K.

Market Area

We are headquartered in White Plains, New York, which is located in Westchester County and we operate through our main office in White Plains, our four other full-service branch offices in the New York City boroughs of Manhattan (New York County) and Bronx (Bronx County) and our two full-service branch offices in Danvers and Plymouth, Massachusetts. Our two Massachusetts branches were opened in the second quarter of 2009. We generate deposits through our main office and six branch offices. We conduct lending activities throughout the Northeastern United States, including New York, Massachusetts, New Jersey, Connecticut and Pennsylvania.

Our primary market area includes a population base with a broad cross section of wealth, employment and ethnicity. We operate in markets that generally have experienced relatively slow demographic growth, a characteristic typical of mature urban markets located throughout the Northeast region. New York County is a relatively affluent market, reflecting the influence of Wall Street along with the presence of a broad spectrum of Fortune 500 companies. Comparatively, Bronx County is home to a broad socioeconomic spectrum, with a significant portion of the respective populations employed in relatively low and moderate wage blue collar jobs. Westchester County is also an affluent market, serving as a desired suburban location for commuting into New York City as well as reflecting growth of higher paying jobs in the county, particularly in White Plains. The counties in which the Danvers and Plymouth retail branches currently operate include a mixture of rural, suburban and urban markets. The economies of these areas were historically based on manufacturing, but, similar to many areas of the country, the underpinnings of these economies are now more service oriented, with employment spread across many economic sectors including service, finance, health-care, technology, real estate and government.

While each of the states in our lending area has different economic characteristics, our customer base in these states tends to be similar to our customer base in New York and is comprised mostly of owners of low to moderate income apartment buildings or non-residential real estate in low to moderate income areas. Outside the State of New York, our largest concentration of real estate loans is in Massachusetts.

Competition

We face significant competition for the attraction of deposits. The New York and Boston metropolitan areas have a significant concentration of financial institutions, including large money center and regional banks, community banks and credit unions. Over the past 10 years, consolidation of the banking industry in the New York and Boston metropolitan areas has continued, resulting in larger and increasingly efficient competitors. We also face competition for depositors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2010, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation, we held less than 1.00% of the deposits in each of the counties in New York and Massachusetts in which our offices are located.

We also face significant competition for the origination of loans. Our competition for loans comes primarily from financial institutions in our lending territory, and, to a lesser extent, from other financial service providers such as insurance companies, hedge funds and mortgage companies. As our lending territory is based around densely populated areas surrounding urban centers, we face significant competition from regional banks, savings banks and commercial banks in the New York and Boston metropolitan areas as well as in the other states that we designate as our lending territory. The competition for loans that we encounter, as well as the types of institutions with which we compete, varies from time to time depending upon certain factors, including the general availability of lendable funds and credit, general and local economic conditions, current interest rate levels, volatility in the mortgage markets and other factors which are not readily predictable.

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We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered the barriers to market entry, allowed banks and other lenders to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our future growth.

Lending Activities

General. We originate loans primarily for investment purposes. The largest segment of our loan portfolio is multi-family residential real estate loans. We also originate mixed-use real estate loans and in 2007 we began originating commercial loans. To a limited degree, we make consumer loans and purchase participation interests in construction loans. Due to market conditions, we discontinued purchasing participation interests in construction loans effective the first quarter of 2009. We currently do not originate one- to four-family residential loans. We consider our lending territory to be the Northeastern United States, including New York, Massachusetts, New Jersey, Connecticut, and Pennsylvania. We do not originate or purchase subprime loans.

In 2009 and 2010, we proactively reduced mortgage origination levels for multi-family, mixed-use and non-residential real estate loans, based on our unwillingness to offer rates and terms on loan products that, in our opinion, do not accurately reflect the risk associated with particular loan types in the current economic and real estate environment. In 2009 we ceased originating all construction loans due to prevailing conditions in the real estate market.

Multi-family and Mixed-use Real Estate Loans. We offer adjustable rate mortgage loans secured by multi-family and mixed-use real estate. These loans are comprised primarily of loans on low to moderate income apartment buildings located in our lending territory and include, to a limited degree, loans on cooperative apartment buildings (in the New York area), loans for Section 8 multi-family housing and loans for single room occupancy ("SRO") multi-family housing properties. In New York, most of the apartment buildings that we lend on are rent-stabilized. Mixed-use real estate loans are secured by properties that are intended for both residential and business use. Until 2004, our policy had been to originate multi-family and mixed-use real estate loans primarily in the New York metropolitan area. In January 2004, we opened our first location outside of New York and now originate multi-family and mixed-use real estate loans in several northeastern states.

Due to market conditions, we did not originate any multi-family and mixed-use real estate loans in states other than New York and Massachusetts for the year ended December 31, 2010. For the year ended December 31, 2009, originations of multi-family real estate loans in states other than New York and Massachusetts represented 37.3% of our total multi-family mortgage loan originations, and originations of mixed-use real estate loans in states other than New York and Massachusetts represented 4.7% of our total mixed-use mortgage loan originations. We intend to increase our originations of multi-family and mixed-use real estate loans throughout New York, Massachusetts, Connecticut, Pennsylvania, and New Jersey as market conditions permit.

We originate a variety of adjustable-rate and balloon multi-family and mixed-use real estate loans. The adjustable-rate loans have fixed rates for a period of up to five years and then adjust every three to five years thereafter, based on the terms of the loan. Maturities on these loans can be up to 15 years, and typically they amortize over a 20 to 30-year period. Interest rates on our adjustable-rate loans are adjusted to a rate that equals the applicable three-year or five-year constant maturity U.S. Treasury index plus a margin. The balloon loans have a maximum maturity of five years. The lifetime interest rate cap is five percentage points over the initial interest rate of the loan (four percentage points for loans with three-year terms). Due to the nature of our borrowers and our lending niche, the typical multi-family or mixed-use real estate loan refinances within the first five-year period and, in doing so, generates prepayment penalties ranging from five points to one point of the outstanding loan balance. Under our loan-refinancing program, borrowers who are current under the terms and conditions of their contractual obligations can apply to refinance their existing loans to the rates and terms then offered on new loans after the payment of their contractual prepayment penalties. These refinances are not considered troubled debt restructures.

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In making multi-family and mixed-use real estate loans, we primarily consider the net operating income generated by the real estate to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and our lending experience with the borrower. We do not typically require a personal guarantee of the borrower, but may do so depending on the location, building condition or credit profile. We rate the property underlying the loan as Class A, B or C. Our current policy is to require a minimum debt service coverage ratio (the ratio of earnings after subtracting all operating expenses to debt service payments) of 1.30x depending on the rating of the underlying property. On multi-family and mixed-use real estate loans, our current policy is to finance up to 75% of the lesser of the appraised value or purchase price of the property securing the loan on purchases and refinances of Class A and B properties and up to 65% of the lesser of the appraised value or purchase price for properties that are rated Class C. Properties securing multi-family and mixed-use real estate loans are appraised by independent appraisers, inspected by us and generally require Phase 1 environmental surveys.

We have been originating multi-family and mixed-use real estate loans in the New York market area for more than 75 years. In the New York market area, our ability to continue to grow our portfolio is dependent on the continuation of our relationships with mortgage brokers, as the multi-family and mixed-use real estate loan market is primarily broker driven. We have longstanding relationships with mortgage brokers in the New York market area, who are familiar with our lending practices and our underwriting standards. During the past five years we have developed similar relationships with mortgage brokers in the other states within our lending territory, in particular Massachusetts, and will continue to do so in order to grow our loan portfolio. We also deal directly with building owners throughout our lending territory.

The majority of the multi-family real estate loans in our portfolio are secured by twenty unit to one hundred unit apartment buildings. At December 31, 2010, the majority of our mixed-use real estate loans are secured by properties that are at least 75% residential, but contain some non-residential space.

On December 31, 2010, the largest outstanding multi-family real estate loan had a balance of $8.6 million and was performing according to its terms at December 31, 2010. This loan is secured by a 216 unit apartment complex located in Philadelphia, Pennsylvania. The largest mixed-use real estate loan had a balance of $4.0 million and was performing according to its terms at December 31, 2010. This loan is secured by a mixed-use building with 10 apartment units and 5 commercial units located in Jamaica, New York. As of December 31, 2010, the average loan balance in our multi-family and mixed-use portfolio was approximately $683,000.

Non-residential Real Estate Loans. Due to market conditions, we discontinued offering new non-residential real estate loans effective the first quarter of 2009. We will continue to monitor market conditions to determine whether we will resume offering such loans at a future date. Our non-residential real estate loans are generally secured by office buildings, medical facilities and retail shopping centers that are primarily located in moderate income areas within our lending territory.

Our non-residential real estate loans are structured in a manner similar to our multi-family and mixed-use real estate loans, typically at a fixed rate of interest for three to five years and then a rate that adjusts every three to five years over the term of the loan, which is typically 15 years. Interest rates and payments on these loans generally are based on the three-year or five-year constant maturity U. S. Treasury index plus a margin. The lifetime interest rate cap is five percentage points over the initial interest rate of the loan (four percentage points for loans with three-year terms). Loans are secured by first mortgages that generally do not exceed 75% of the property’s appraised value. Properties securing non-residential real estate loans are appraised by independent appraisers and inspected by us.

We also charge prepayment penalties, with five points of the outstanding loan balance generally being charged on loans that refinance in the first year of the mortgage, scaling down to one point on loans that refinance in year five. These loans are typically repaid or the term extended before maturity, in which case a new rate is negotiated to meet market conditions and an extension of the loan is executed for a new term with a new amortization schedule. Our non-residential real estate loans tend to refinance within the first five-year period.

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Our assessment of credit risk and our underwriting standards and procedures for non-residential real estate loans are similar to those applicable to our multi-family and mixed-use real estate loans. In reaching a decision on whether to make a non-residential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. In addition, with respect to rental properties, we will also consider the term of the lease and the credit quality of the tenants. We have generally required that the properties securing non-residential real estate loans have debt service coverage ratios (the ratio of earnings after subtracting all operating expenses to debt service payments) of at least 1.30x. Phase 1 environmental surveys and property inspections are required for all loans.

At December 31, 2010, we had $100.9 million in non-residential real estate loans outstanding, or 27.2% of total loans. Due to market conditions, we did not originate any non-residential real estate loans during 2010. For the year ended December 31, 2009, originations of non-residential real estate loans in states other than New York and Massachusetts represented 17.3% of our total non-residential real estate loan originations.

At December 31, 2010, the largest outstanding non-residential real estate loan had an outstanding balance of $5.2 million. This loan is secured by a multi-tenant, two-story commercial building located in New York, New York, and was performing according to its terms at December 31, 2010. At December 31, 2010, the largest outstanding non-residential real estate loan relationship with one borrower was comprised of six loans totaling $12.5 million secured by six office buildings located in the Syracuse, New York area. These six loans were performing according to their terms at December 31, 2010. As of December 31, 2010, the average balance of loans in our non-residential loan portfolio was $1.2 million.

In addition, at December 31, 2010, we had one note, which is treated as a loan in our non-residential loan portfolio with a net present value of $10.9 million that we received in connection with the sale of our First Avenue branch office building. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Sale of New York City Branch Office."

Equity Lines of Credit on Real Estate Loans. Northeast Community Bank offers equity lines of credit on multi-family, mixed-use and non-residential real estate properties on which it holds the first mortgage.

For existing borrowers only, we offer an equity line of credit program secured by a second mortgage on the borrower's multi-family and mixed-use property. All lines of credit are underwritten separately from the first mortgage and support debt service ratios and loan-to-value ratios that when combined with the first mortgage meet or exceed our current underwriting standards for multi-family and mixed-use real estate loans. Borrowers typically hold these lines in reserve and use them for ongoing property improvements or to purchase additional properties when the opportunity arises.

Our equity lines of credit are typically interest only for the first five years and then the remaining term of the line of credit is tied to the remaining term on the first mortgage on the multi-family or mixed-use property. After the first five years, a payment of both principal and interest is required. Interest rates and payments on our equity lines of credit are indexed to the prime rate as published in The Wall Street Journal and adjusted as the prime rate changes. Interest rate adjustments on equity lines of credit are limited to a specified maximum percentage over the initial interest rate.

Commercial Loans. Continuing our plan to diversify our portfolio, both geographically and by product type, in March 2007 we hired two individuals with significant commercial bank lending experience, a senior lending officer and a commercial underwriter, for our new commercial lending department. Interest rates and payments on our commercial loans are typically indexed to the prime rate as published in the Wall Street Journal and adjusted as the prime rate changes. Our commercial loan portfolio increased from $23.9 million of commercial loans committed with $10.4

million drawn at December 31, 2009 to $28.9 million of commercial loans committed with $12.1 million drawn at December 31, 2010.

At December 31, 2010, the largest commercial loan and the largest outstanding commercial loan was a line of credit totaling $4.0 million, with a $3.6 million outstanding balance and a remaining available line of credit of $389,000. This loan is secured by the assets of a construction business located in Pleasantville, New York.

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At December 31, 2010, the largest outstanding commercial loan relationship with one borrower was comprised of two lines of credit totaling $5.0 million, with outstanding balances totaling $1.8 million and remaining available lines of credit totaling $3.2 million. The lines of credit serve as a warehousing line of credit for a Small Business Administration guaranteed loan originator located in New York City and are secured by these Small Business Administration loans.

All the aforementioned commercial loans were performing according to their terms at December 31, 2010.

Construction Loans. Historically, we have purchased participation interests in loans to finance the construction of multi-family, mixed-use and non-residential buildings. We perform our own underwriting analysis on each of our participation interests before purchasing such loans. Construction loans are typically for twelve to twenty-four month terms and pay interest only during that period. All construction loans are underwritten as if they will be rental properties and must meet our normal debt service and loan to value ratio requirements on an as completed basis. The outstanding balance of construction loan participation interests purchased totaled $12.9 million at December 31, 2010. Due to current market conditions, we discontinued purchasing participation interests in construction loans effective the first quarter of 2009.

At December 31, 2010, the largest outstanding construction loan participation consisted of four loans with an aggregate outstanding balance of $7.5 million (net of loans in process of $85,000) for a total potential exposure of $7.6 million. This balance represents our 25% participation ownership of the loans. These loans are secured by a hotel. As of December 31, 2010, the loans were delinquent and in process of foreclosure. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion on our nonaccrual loans.

Consumer Loans. We offer loans secured by savings accounts or certificates of deposit (share loans) and overdraft protection for checking accounts which is linked to statement savings accounts and has the ability to transfer funds from the statement savings account to the checking account when needed to cover overdrafts. At December 31, 2010, our portfolio of consumer loans was $63,000, or 0.02% of total loans.

Loan Underwriting Risks

Adjustable-Rate Loans. While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate loans, the increased payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the lifetime interest rate adjustment limits.

Multi-family, Mixed-use and Non-residential Real Estate Loans. Loans secured by multi-family, mixed-use and non-residential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family, mixed-use and non-residential real estate lending is the current and potential cash flow of the property and the borrower's demonstrated ability to operate that type of property. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income producing properties, we require borrowers to provide annual financial statements for all multi-family, mixed-use and non-residential real estate loans. In reaching a decision on whether to make a multi-family, mixed-use or non-residential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. In addition, with respect to non-residential real estate properties, we also consider the term of the lease and the quality of the tenants. An appraisal of the real estate used as collateral for the real estate loan is also obtained as part of the underwriting process. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings after subtracting all operating expenses to debt service payments) of at least 1.30x. In underwriting these loans, we take into account projected increases in interest rates in determining whether a loan meets our debt service coverage ratios at the higher interest rate under the adjustable rate mortgage. Environmental surveys and property inspections are utilized for all loans.

Commercial Loans. Unlike residential mortgage loans, which are generally made on the basis of a borrower's ability to make repayment from the operation and cash flow from the real property whose value tends to be more ascertainable, commercial loans are of higher risk and tend to be made on the basis of a borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Construction Loans. In past years, we had purchased participation interests in loans to finance the construction of multi-family, mixed-use and non-residential buildings. Due to market conditions, we discontinued purchasing participation interests in construction loans effective the first quarter of 2009. Construction financing affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than does residential mortgage loans. However, construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate due to (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. We have sought to minimize this risk by limiting the amount of construction loan participation interests outstanding at any time and by spreading the participations among multi-family, mixed-use and non-residential projects. We perform our own underwriting analysis on each of our construction loan participation interests before purchasing such loans and therefore believe there is no greater risk of default on these obligations than on a construction loan originated by the Bank. See "Mortgage and Construction Loan Originations and Participations" below.

Consumer Loans. Because the only consumer loans we offer are secured by passbook savings accounts, certificates of deposit accounts or statement savings accounts, we do not believe these loans represent a risk of loss to the Bank.

Mortgage and Construction Loan Originations and Participations. Our mortgage loan originations come from a number of sources. The primary source of mortgage loan originations are referrals from brokers, existing customers, advertising and personal contacts by our loan officers. Over the years, we have developed working relationships with many mortgage brokers in our lending territory. Under the terms of the agreements with such brokers, the brokers refer potential loans to us. The loans are underwritten and approved by us utilizing our underwriting policies and standards. The mortgage brokers typically receive a fee from the borrower upon the funding of the loans by us. Historically, mortgage brokers have been the source of the majority of the multi-family, mixed-use and non-residential real estate loans originated by us. We generally retain for our portfolio all of the loans that we originate.

During 2010, we continued our policy of not purchasing participation interests in loans to finance the construction of multi-family, mixed-use and non-residential properties. Consequently, the outstanding balance of the construction loan participation interests purchased decreased to $12.9 million at December 31, 2010. We perform our own underwriting analysis on each of our participation interests before purchasing such loans and therefore believe there is no greater risk of default on these obligations. However, in a purchased participation loan, we do not service the loan and thus are subject to the policies and practices of the lead lender with regard to monitoring delinquencies, pursuing collections and instituting foreclosure proceedings, all of which are reviewed and approved in advance of any participation transaction. We review all of the documentation relating to any loan in which we participate, including annual financial statements provided by a borrower. Additionally, we receive monthly statements on the loan from the lead lender.

Commercial Loan Originations. We originate commercial loans from contacts made by our commercial loan officer. Our commercial lending department does not utilize the services of loan brokers.

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The Bank will consider granting credit to commercial and industrial businesses located within our lending area, which is defined as the Northeastern United States. The Bank will consider the credit needs of businesses located in our lending area if we can effectively service the credit and if the customer has a strong financial position.

We will consider loans to small businesses with revenues normally not to exceed $65.0 million. The small business may be one that manufactures wholesale or retail products and/or services. Generally, we will consider loans to small businesses such as: retail sales and services, such as grocery, restaurants, clothing, furniture, appliances, hardware, automotive parts, automobiles and trucks; wholesale businesses, such as automotive parts and industrial parts and equipment; manufacturing businesses, such as tool and die shops and commercial manufacturers and contractors with strong financials and well-known principals.

Mortgage and Construction Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our board of directors and management. The board has granted the “Loan Committee” (which is comprised of the chief executive officer, chief financial officer and chief mortgage officer) with loan approval authority for mortgage loans up to $2.0 million. Mortgage loans in amounts greater than $2.0 million must be approved by the Loan Committee and a majority of the non-employee directors. At each monthly meeting of the board of directors, the board ratifies all commitments issued, regardless of size.

Commercial Loan Approval Procedures and Authority. Our commercial lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our board of directors and management. The board has granted the “Commercial Loan Committee” (which is comprised of the chief executive officer, chief financial officer, chief mortgage officer, and commercial loan underwriter) with loan approval authority for commercial loans up to $2.0 million. Loans in amounts greater than $2.0 million, in addition to being approved by the Commercial Loan Committee, must be approved by a majority of the non-employee directors. At each monthly meeting of the board of directors, the board ratifies all commitments issued, regardless of size.

Loan Commitments. We issue commitments for adjustable-rate loans conditioned upon the occurrence of certain events. Commitments to originate adjustable-rate loans are legally binding agreements to lend to our customers. Generally, our adjustable-rate loan commitments expire after 60 days.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and municipal governments, deposits at the Federal Home Loan Bank of New York and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in mutual funds. While we have the authority under applicable law to invest in derivative securities, we had no investments in derivative securities at December 31, 2010.

At December 31, 2010, our securities and short-term investments totaled $66.9 million and consisted primarily of $42.0 million in interest earning deposits with the Federal Home Loan Bank of New York, $15.4 million in mortgage-backed securities issued primarily by Fannie Mae, Freddie Mac and Ginnie Mae, $4.6 million in collateralized mortgage obligations issued primarily by Fannie Mae, Freddie Mac and Ginnie Mae, $3.0 million in short-term certificates of deposits at other financial institutions, and $1.9 million in Federal Home Loan Bank of New York stock. At December 31, 2010, we had no investments in callable securities.

Our investment management policy is designed to provide adequate liquidity to meet any reasonable decline in deposits and any anticipated increase in the loan portfolio through conversion of secondary reserves to cash and to provide safety of principal and interest through investment in securities under limitations and restrictions prescribed in banking regulations. Consistent with liquidity and safety requirements, our policy is designed to generate a significant amount of stable income and to provide collateral for advances and repurchase agreements. The policy is also designed to serve as a counter-cyclical balance to earnings in that the investment portfolio will absorb funds when loan demand is low and will infuse funds when loan demand is high.

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Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

Deposit Accounts. Except for certificates of deposit previously obtained through two nationwide listing services, as described below, substantially all of our depositors are residents of the States of New York and Massachusetts. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits principally consist of interest-bearing demand accounts (such as NOW and money market accounts), regular savings accounts, noninterest-bearing demand accounts (such as checking accounts) and certificates of deposit. At December 31, 2010, we did not utilize brokered deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, maturity matching deposit and loan products, and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates and to be in the lower to middle of the market for rates on all types of deposit products.

Our deposits are typically obtained from customers residing in or working in the communities in which our branch offices are located, and we rely on our long-standing relationships with our customers and competitive interest rates to retain these deposits. In the future, as we open new branches in other states, we expect our deposits will also be obtained from those states. We may also, in the future, utilize our website to attract deposits.

During 2009, we discontinued our policy of offering non-brokered certificates of deposit through two nationwide certificate of deposit listing services. Prior to that time, certificates of deposit under these listing services were accepted from banks, credit unions, non-profit organizations and certain corporations in amounts greater than $75,000 and less than $100,000.

Borrowings. We may utilize advances from the Federal Home Loan Bank of New York to supplement our supply of investable funds. The Federal Home Loan Bank functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank and are authorized to apply for advances on the security of such stock and certain of our whole first mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness.

Investment Advisory and Financial Planning Activities

In November 2007, Northeast Community Bank purchased for $2.0 million the operating assets of Hayden Financial Group, LLC. The Bank formed a Division within the Bank known as Hayden Wealth Management Group, and the Division offers investment advisory and financial planning services through a networking arrangement with a registered broker-dealer and investment advisor.

Hayden Wealth Management Group performs a wide range of financial planning and investment advisory services based on the needs of a diversified client base including, but not limited to: wealth management based on a clients' time dimension, risk aversion/tolerance, value system and specific purposes of a portfolio; transition planning from one career to another, especially the transition to retirement; conducting risk assessment and management on issues related to various kinds of insurance covered contingencies; and providing assistance relating to the ultimate disposition of assets. In this capacity, Hayden Wealth Management Group coordinates with estate planning attorneys as needed.

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Personnel

As of December 31, 2010, we had 84 full-time employees and 5 part-time employees, none of whom is represented by a collective bargaining unit. We believe our relationship with our employees is good.

Legal Proceedings

From time to time, we may be party to various legal proceedings incident to our business. At December 31, 2010, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Subsidiaries

Northeast Community Bancorp's only subsidiary is Northeast Community Bank. The Bank has one wholly owned subsidiary, New England Commercial Properties LLC, a New York limited liability company. New England Commercial Properties was formed in October 2007 to facilitate the purchase or lease of real property by the Bank and to hold real estate owned acquired by the Bank through foreclosure or deed-in-lieu of foreclosure. As of December 31, 2010, New England Commercial Properties, LLC had no assets other than title to a foreclosed multi-family property located in Newark, New Jersey and a foreclosed multi-family property located in Herkimer, New York.

REGULATION AND SUPERVISION

General

Northeast Community Bank, as an insured federal savings association, is subject to extensive regulation, examination and supervision by the Office of Thrift Supervision, as its primary federal regulator, and the Federal Deposit Insurance Corporation, as its deposits insurer. Northeast Community Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund managed by the Federal Deposit Insurance Corporation. Northeast Community Bank must file reports with the Office of Thrift Supervision and the Federal Deposit Insurance Corporation concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the Office of Thrift Supervision and, under certain circumstances, the Federal Deposit Insurance Corporation to evaluate Northeast Community Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation or Congress, could have a material adverse impact on Northeast Community Bancorp, Northeast Community Bancorp, MHC and Northeast Community Bank and their operations.

Northeast Community Bancorp and Northeast Community Bancorp, MHC, as savings and loan holding companies, are required to file certain reports with, are subject to examination by, and otherwise must comply with the rules and regulations of the Office of Thrift Supervision. Northeast Community Bancorp also is subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The Dodd-Frank Act, signed by the President on July 21, 2010, provides for the regulation and supervision of federal savings associations like Northeast Community Bank to be transferred to the Office of the Comptroller of the Currency, the agency that regulates national banks. The Office of the Comptroller of the Currency will assume primary responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings associations. The transfer will occur over a transition period of up to one year from the July 21, 2010 effective date of the Dodd-Frank Act, subject to a possible six month extension. At the same time, the responsibility for supervising savings and loan holding companies like Northeast Community Bancorp, MHC and Northeast Community Bancorp will be transferred to the Federal Reserve Board. The Dodd-Frank Act also provides for the creation of a new agency, the Consumer Financial Protection Bureau, as an independent bureau of the Federal Reserve Board, to take over the implementation of federal consumer financial protection and fair lending laws from the depository institution regulators. However, institutions of $10 billion or fewer in assets will continue to be examined for compliance with such laws and regulations by, and subject to the enforcement authority of, the prudential regulator rather than the Consumer Financial Protection Bureau. Many of the provisions of the Dodd-Frank Act require the issuance of regulations before their impact on operations can be fully assessed by management. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden and compliance costs for Northeast Community Bank, Northeast Community Bancorp and Northeast Community Bancorp, MHC.

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Certain of the regulatory requirements that are applicable to Northeast Community Bank, Northeast Community Bancorp and Northeast Community Bancorp, MHC are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Northeast Community Bank, Northeast Community Bancorp and Northeast Community Bancorp, MHC and is qualified in its entirety by reference to the actual statutes and regulations.

Regulation of Federal Savings Associations

Business Activities. Federal law and regulations govern the activities of federal savings banks, such as Northeast Community Bank. These laws and regulations delineate the nature and extent of the business activities in which federal savings banks may engage. In particular, certain lending authority for federal savings banks, e.g., commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

The Dodd-Frank Act authorizes depository institutions to pay interest on demand deposits effective July 31, 2011. Depending upon competitive responses, that change could have an adverse impact on Northeast Community Bank's interest expense.

Capital Requirements. The Office of Thrift Supervision's capital regulations require federal savings institutions to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The Office of Thrift Supervision regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier 1 (core) and total capital (which is defined as core capital and supplementary capital, less certain specified deductions from total capital such as reciprocal holdings of depository institution capital, instruments and equity investments) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks believed inherent in the type of asset. Core (Tier 1) capital is generally defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary (Tier 2) capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

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The Office of Thrift Supervision also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At December 31, 2010, Northeast Community Bank exceeded each of these capital requirements.

Prompt Corrective Regulatory Action. The Office of Thrift Supervision is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings institution that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the Office of Thrift Supervision is required to appoint a receiver or conservator within specified time frames for an institution that is "critically undercapitalized." An institution must file a capital restoration plan with the Office of Thrift Supervision within 45 days of the date it receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The Office of Thrift Supervision could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2010, Northeast Community Bank met the criteria for being considered "well-capitalized."

Community Reinvestment Act and Fair Lending Laws. All savings associations have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low and moderate-income neighborhoods. In connection with its examination of a federal savings association, the Office of Thrift Supervision is required to assess the association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An association's failure to comply with the provisions of the Community Reinvestment Act could result in denial of certain corporate applications, such as branches or mergers, or restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other Federal regulatory agencies and the Department of Justice. The Bank received an "Outstanding" Community Reinvestment Act rating in its most recent Federal examination.

Loans to One Borrower. Federal law provides that savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. Generally, subject to certain exceptions, savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness in various areas such as internal controls and information systems, internal audit, loan documentation and credit underwriting, interest rate exposure, asset growth and quality, earnings and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the Office of Thrift Supervision determines that a savings institution fails to meet any standard prescribed by the guidelines, the Office of Thrift Supervision may require the institution to submit an acceptable plan to achieve compliance with the standard.

Limitation on Capital Distributions. Office of Thrift Supervision regulations impose limitations upon all capital distributions by a savings institution, including cash dividends, payments to repurchase its shares and payments to stockholders of another institution in a cash-out merger. Under the regulations, an application to and the prior approval of the Office of Thrift Supervision is required before any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under Office of Thrift Supervision regulations (i.e., generally, examination and Community Reinvestment Act ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the Office of Thrift Supervision. If an application is not required, the institution must still provide prior notice to the Office of Thrift Supervision of the capital distribution if, like Northeast Community Bank, it is a subsidiary of a holding company. If Northeast Community Bank's capital were ever to fall below its regulatory requirements or the Office of Thrift Supervision notified it that it was in need of increased supervision, its ability to make capital distributions could be restricted. In addition, the Office of Thrift Supervision could prohibit a proposed capital distribution that would otherwise be permitted by the regulation, if the agency determines that such distribution would constitute an unsafe or unsound practice.

Qualified Thrift Lender Test. Federal law requires savings institutions to meet a qualified thrift lender test. Under the test, a savings association is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily multi-family residential mortgages and related investments, including certain mortgage-backed securities but also including education, credit card and small business loans) in at least 9 months out of each 12 month period.

A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions. The Dodd-Frank Act also made noncompliance with the qualified thrift lender test subject to agency enforcement action as a violation of law. As of December 31, 2010, Northeast Community Bank maintained 90.7% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Transactions with Related Parties. Federal law permits Northeast Community Bank to lend to, and engage in certain other transactions with (collectively, "covered transactions"), "affiliates" (i.e., generally, any company that controls or is under common control with an institution), including Northeast Community Bancorp and Northeast Community Bancorp, MHC and their other subsidiaries. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Loans and other specified transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act generally prohibits loans by Northeast Community Bancorp to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption from such prohibition for loans by Northeast Community Bank to its executive officers and directors in compliance with federal banking regulations. Federal regulations require that all loans or extensions of credit to executive officers and directors of insured institutions must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and must not involve more than the normal risk of repayment or present other unfavorable features. Northeast Community Bank is therefore prohibited from making any new loans or extensions of credit to executive officers and directors at different rates or terms than those offered to the general public. Notwithstanding this rule, federal regulations permit Northeast Community Bank to make loans to executive officers and directors at reduced interest rates if the loan is made under a benefit program generally available to all other employees and does not give preference to any executive officer or director over any other employee. Loans to executive officers are subject to additional limitations based on the type of loan involved.

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In addition, loans made to a director or executive officer in an amount that, when aggregated with the amount of all other loans to the person and his or her related interests, are in excess of the greater of $25,000 or 5% of Northeast Community Bank's capital and surplus, up to a maximum of $500,000, must be approved in advance by a majority of the disinterested members of the board of directors.

Enforcement. The Office of Thrift Supervision has primary enforcement responsibility over federal savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The Federal Deposit Insurance Corporation has authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

The Office of the Comptroller of the Currency will assume primary enforcement authority over federal savings associations pursuant to the Dodd-Frank Act regulatory restructuring.

Office of Thrift Supervision Assessments. Federal savings banks are required to pay assessments to the Office of Thrift Supervision to fund its operations. The general assessments, paid on a semi-annual basis, are based upon the savings institution's total assets, including consolidated subsidiaries, financial condition and complexity of its portfolio. The Office of Thrift Supervision assessments paid by Northeast Community Bank for the year ended December 31, 2010 totaled $125,000. The Office of the Comptroller of the Currency, which will succeed the Office of Thrift Supervision, is similarly funded through assessments on regulated institutions.

Insurance of Deposit Accounts. Northeast Community Bank's deposits are insured up to applicable limits, which have been increased to $250,000 per depositor, by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation.

Under the Federal Deposit Insurance Corporation's existing risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned. Effective April 1, 2009, assessment rates range from seven to 77.5 basis points. The Dodd-Frank Act requires the Federal Deposit Insurance Corporation to amend its assessment procedures to base assessments on total assets less tangible equity rather than deposits. The Federal Deposit Insurance Corporation has recently issued a proposed rule that, if finalized, would implement the change during the second quarter of 2011. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The Federal Deposit Insurance Corporation imposed on all insured institutions a special emergency assessment of five basis points of total assets minus Tier 1 capital, as of June 30, 2009 (capped at ten basis points of an institution's deposit assessment base), in order to cover losses to the Deposit Insurance Fund. That special assessment was collected on September 30, 2009. The Federal Deposit Insurance Corporation provided for similar assessments during the final two quarters of 2009, if deemed necessary. However, in lieu of further special assessments, the Federal Deposit Insurance Corporation required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The estimated assessments, which include an assumed annual assessment base increase of 5%, were recorded as a prepaid expense asset as of December 31, 2009. As of June 30, 2010, and each quarter thereafter, a charge to earnings is recorded for each regular assessment with an offsetting credit to the prepaid asset.

Due to difficult economic conditions, deposit insurance per account owner was recently raised to $250,000. That change was made permanent by the Dodd-Frank Act. In addition, the Federal Deposit Insurance Corporation adopted an optional Temporary Liquidity Guarantee Program by which, for a fee, non-interest bearing transaction accounts (defined to include IOLTA and certain NOW accounts) would receive unlimited insurance coverage until December 31, 2010 and certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and June 30, 2010 would be guaranteed by the Federal Deposit Insurance Corporation through June 30, 2012, or in some cases, December 31, 2012. Northeast Community Bank participates in the unlimited non-interest bearing transaction account coverage and Northeast Community Bank, Northeast Community Bancorp and Northeast Community Bancorp, MHC opted not to participate in the unsecured debt guarantee program. The Dodd-Frank Act extends the unlimited coverage for certain non-interest bearing transaction accounts through December 31, 2012.

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In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. That payment is established quarterly and during the four quarters ended December 31, 2010 averaged 1.04 basis points of assessable deposits.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The Federal Deposit Insurance Corporation must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the Federal Deposit Insurance Corporation.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Northeast Community Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation or the Office of Thrift Supervision. The management of Northeast Community Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Federal Home Loan Bank System. Northeast Community Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Northeast Community Bank, as a member of the Federal Home Loan Bank of New York, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. Northeast Community Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 2010 of $1.9 million. Federal Home Loan Bank advances must be secured by specified types of collateral.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts in the late 1980s and to contribute funds for affordable housing programs. These requirements, as well as general financial results, could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, our net interest income would likely also be reduced.

Federal Reserve System. The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). For 2010, the regulations generally provided that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $55.2 million; a 10% reserve ratio is applied above $55.2 million. The first $10.7 million of otherwise reservable balances are exempted from the reserve requirements. The amounts are adjusted annually and, for 2011, require a 3% ratio for up to $58.8 million and an exception of $10.7 million. Northeast Community Bank complies with the foregoing requirements.

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Holding Company Regulation

General. Northeast Community Bancorp and Northeast Community Bancorp, MHC are savings and loan holding companies within the meaning of federal law. As such, they are registered with the Office of Thrift Supervision and are subject to Office of Thrift Supervision regulations, examinations, supervision, reporting requirements and regulations concerning corporate governance and activities. In addition, the Office of Thrift Supervision has enforcement authority over Northeast Community Bancorp and Northeast Community Bancorp, MHC and their non-savings institution subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a serious risk to Northeast Community Bank.

As part of the Dodd-Frank Act regulatory restructuring, the responsibilities of the Office of Thrift Supervision as to savings and loan holding companies are being transferred to the Federal Reserve Board. The Federal Reserve Board is the agency that regulates bank holding companies. The transfer will occur one year from the July 21, 2010 effective date of the Dodd-Frank Act subject to a possible six month extension.

Restrictions Applicable to Mutual Holding Companies. According to federal law and Office of Thrift Supervision regulations, a mutual holding company, such as Northeast Community Bancorp, MHC, may generally engage in the following activities: (1) investing in the stock of a bank; (2) acquiring a mutual association through the merger of such association into a bank subsidiary of such holding company or an interim bank subsidiary of such holding company; (3) merging with or acquiring another holding company, one of whose subsidiaries is a bank; and (4) any activity approved by the Federal Reserve Board for a bank holding company or financial holding company or previously approved by Office of Thrift Supervision for multiple savings and loan holding companies. In addition, mutual holding companies may engage in activities permitted for financial holding companies. Financial holding companies may engage in a broad array of financial service activities including insurance and securities.

Federal law prohibits a savings and loan holding company, including a federal mutual holding company, from directly or indirectly, or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings association, or its holding company, without prior written approval of the Office of Thrift Supervision. Federal law also prohibits a savings and loan holding company from acquiring more than 5% of a company engaged in activities other than those authorized for savings and loan holding companies by federal law, or acquiring or retaining control of a depository institution that is not insured by the Federal Deposit Insurance Corporation. In evaluating applications by holding companies to acquire savings associations, the Office of Thrift Supervision must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The Office of Thrift Supervision is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings associations in more than one state, except: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies, and (2) the acquisition of a savings association in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Stock Holding Company Subsidiary Regulation. The Office of Thrift Supervision has adopted regulations governing the two-tier mutual holding company form of organization and subsidiary stock holding companies that are controlled by mutual holding companies. Northeast Community Bancorp is the stock holding company subsidiary of Northeast Community Bancorp, MHC. Northeast Community Bancorp is permitted to engage in activities that are permitted for Northeast Community Bancorp, MHC subject to the same restrictions and conditions.

Capital Requirements. Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. There is a five year transition period from the July 21, 2010 date of enactment of the Dodd-Frank Act before the capital requirements will apply to savings and loan holding companies. The Dodd-Frank Act also requires the Federal Reserve Board to promulgate regulations implementing the "source of strength" policy that holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

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Waivers of Dividends by Northeast Community Bancorp, MHC. Office of Thrift Supervision regulations require Northeast Community Bancorp, MHC to notify the Office of Thrift Supervision if it proposes to waive receipt of dividends from Northeast Community Bancorp. The Office of Thrift Supervision reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if: (i) the waiver would not be detrimental to the safe and sound operation of the savings association; and (ii) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members. Northeast Community Bancorp, MHC has waived receipt of all dividends from Northeast Community Bancorp in prior years and in 2010.

The Dodd-Frank Act addressed the issue of dividend waivers in the context of the transfer of the supervision of savings and loan holding companies to the Federal Reserve Board. The Dodd-Frank Act specified that dividends may be waived if certain conditions are met, including that the Federal Reserve Board does not object after being given written notice of the dividend and proposed waiver. The Dodd-Frank Act indicates that the Federal Reserve Board may not object to such a waiver (i) if the mutual holding company involved has, prior to December 1, 2009, reorganized into a mutual holding company structure, engaged in a minority stock offering and waived dividends; (ii) the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members; and (iii) the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company. The Federal Reserve has not previously permitted dividend waivers by mutual bank holding companies and may object to dividend waivers involving mutual savings and loan holding companies, notwithstanding the referenced language in the Dodd-Frank Act.

Conversion of Northeast Community Bancorp, MHC to Stock Form. Office of Thrift Supervision regulations permit Northeast Community Bancorp, MHC to convert from the mutual form of organization to the capital stock form of organization. There can be no assurance when, if ever, a conversion transaction will occur, and the board of directors has no current intention or plan to undertake a conversion transaction. In a conversion transaction, a new holding company would be formed as the successor to Northeast Community Bancorp, Northeast Community Bancorp, MHC's corporate existence would end, and certain depositors of Northeast Community Bank would receive the right to subscribe for additional shares of the new holding company. In a conversion transaction, each share of common stock held by stockholders other than Northeast Community Bancorp, MHC would be automatically converted into a number of shares of common stock of the new holding company based on an exchange ratio designed to ensure that stockholders other than Northeast Community Bancorp, MHC own the same percentage of common stock in the new holding company as they owned in Northeast Community Bancorp immediately before conversion. The total number of shares held by stockholders other than Northeast Community Bancorp, MHC after a conversion transaction would be increased by any purchases by such stockholders in the stock offering conducted as part of the conversion transaction.

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the Office of Thrift Supervision if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company or savings association. An acquisition of "control" can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution or as otherwise defined by the Office of Thrift Supervision. Under the Change in Bank Control Act, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Future Legislation. Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and the operating environment of the Company and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or results of operations of the Company or any of its subsidiaries. With the recent enactments of the Dodd-Frank Act, the nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

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Federal Securities Laws

Northeast Community Bancorp's common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Northeast Community Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Board of Directors annually elects the executive officers of Northeast Community Bancorp, MHC, Northeast Community Bancorp and Northeast Community Bank, who serve at the Board's discretion. Our executive officers are:

Name	Position
Kenneth A. Martinek	President and Chief Executive Officer of the MHC, the Company and the Bank
Salvatore Randazzo	Executive Vice President, Chief Operating Officer and Chief Financial Officer of the MHC, the Company and the Bank

ITEM 1A. RISK FACTORS

Changes in interest rates may have a negative impact on earnings and asset values.

Our net interest income is the interest we earn on loans and investment less the interest we pay on our deposits and borrowings. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates—up or down—could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up. Changes in the slope of the "yield curve"—or the spread between short-term and long-term interest rates—could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk Management."

Our recent emphasis on multi-family residential, mixed-use and non-residential real estate lending and our recent expansion into commercial lending and participation in construction loans could expose us to increased lending risks.

Our primary business strategy centers on continuing our emphasis on multi-family and mixed-use real estate loans. We have grown our loan portfolio in recent years with respect to these types of loans and intend to continue to emphasize these types of lending. At December 31, 2010, $346.2 million, or 93.2%, of our loan portfolio consisted of multi-family residential, mixed-use and non-residential real estate loans. As a result, our credit risk profile will be higher than traditional thrift institutions that have higher concentrations of one- to four-family residential loans.

Loans secured by multi-family, mixed-use and non-residential real estate generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the underlying property. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one-to-four family residential mortgage loan. We seek to minimize these risks through our underwriting policies, which require such loans to be qualified on the basis of the property's net income and debt service ratio; however, there is no assurance that our underwriting policies will protect us from credit-related losses.

As with loans secured by multi-family, mixed-use and non-residential real estate, commercial loans tend to be of higher risk than one- to four-family residential mortgage loans. We seek to minimize the risks involved in commercial lending by underwriting such loans on the basis of the cash flows produced by the business; by requiring that such loans be collateralized by various business assets, including inventory, equipment, and accounts receivable, among others; and by requiring personal guarantees, whenever possible. However, the capacity of a borrower to repay a commercial loan is substantially dependent on the degree to which his or her business is successful. In addition, the collateral underlying such loans may depreciate over time, may not be conducive to appraisal, or may fluctuate in value, based upon the business' results. At December 31, 2010, $12.1 million, or 3.3%, of our loan portfolio consisted of commercial loans.

Our participation interests in construction loans present a greater level of risk than loans secured by improved, occupied real estate due to: (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. We have sought to minimize this risk by limiting the amount of construction loan participation interests outstanding at any time and spreading the participations between multi-family, mixed-use and non-residential projects. At December 31, 2010, the outstanding balance of our construction loan participation interests totaled $12.9 million, or 3.5% of our total loan portfolio. We currently do not participate in construction loans.

Our strategy of controlling commercial loan growth may have a negative effect on our earnings.

At December 31, 2010, our construction loan portfolio, commercial loan portfolio, mixed-use loan portfolio and multi-family loan portfolio amounted to 72.9% of Northeast Community Bank's total risked-based capital at that date. We intend to maintain our multi-family loan, and commercial business loan portfolios, as a percentage of total risked-based capital, at approximately the same percentage level as at December 31, 2010, but reduce the percentage of construction and non-residential real estate loans. Non-residential loans generally have higher yields than other types of loans. Our controlled growth strategy, or any change in strategy that makes it more stringent, may have a negative effect on our earnings.

A continuation or worsening of economic conditions could continue to increase our level of nonperforming loans and/or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings.

Our business activities and earnings are affected by general business conditions in the United States and in our local market area. These conditions include short-term and long-term interest rates, inflation, unemployment levels, monetary supply, consumer confidence and spending, fluctuations in both debt and equity capital markets, and the strength of the economy in the United States generally and in our market area in particular. The national economy has recently experienced a recession, with rising unemployment and foreclosure levels, declines in real estate values and an erosion in consumer confidence. A continuation of these or other events that adversely affect household and/or corporate incomes could impair the ability of our borrowers to repay their loans in accordance with their terms. A prolonged or more severe downturn in the economies in which we operate could result in significant increases in nonperforming loans, which would negatively impact our interest income and result in higher provisions for loan losses, which would hurt our earnings. The economic downturn could also result in reduced demand for credit or fee-based products and services, which would negatively impact our revenues.

Our non-performing assets have increased significantly and expose us to increased risk of loss, which may negatively affect our earnings.

Our non-performing assets have increased in the past few years as a result of the economic recession. At December 31, 2010, we had total non-performing assets of $22.7 million, or 4.9% of total assets, a $2.0 million increase from December 31, 2009 and a $18.7 million increase from December 31, 2008. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans or investments or on real estate owned. We must reserve for probable losses, which are established through a current period charge to income in the provision for loan losses, and from time to time, write down the value of properties in our other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our other real estate owned. Further, the resolution of non-performing assets requires the active involvement of management, which can distract us from the overall supervision of operations and other income-producing activities of Northeast Community Bank. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance accordingly. At December 31, 2010, our allowance for loan losses amounted to 2.1% of total loans outstanding and 35.1% of nonperforming loans.

Our expanded lending territory could expose us to increased lending risks.

Our lending territory includes New York, Massachusetts, New Jersey, Connecticut and Pennsylvania. Our Wellesley, Massachusetts loan production office was relocated to Danvers, Massachusetts in March 2009. We opened a full service branch at this location and another full service branch in Plymouth, Massachusetts during the second quarter of 2009. In 2010, approximately 9.1% of our total loan originations were outside the state of New York. While we have over seventy-five years of experience in multi-family and mixed-use real estate lending in the New York metropolitan area and have significant expertise in non-residential real estate lending, our experience in our expanded lending territory is more limited. We have experienced loan officers throughout our lending area and we apply the same underwriting standards to all of our loans, regardless of their location. However, there is no assurance that our loss experience in the New York metropolitan area will be the same in our expanded lending territory. Because we only recently increased the number of out-of-state real estate loans in our portfolio, the lack of delinquencies and defaults in our loan portfolio over the past five years might not be representative of the level of delinquencies and defaults that could occur as we continue to expand our real estate loan originations outside of the New York metropolitan area.

Our allowance for loan losses may be inadequate, which could hurt our earnings.

When borrowers default and do not repay the loans that we make to them, we may lose money. The allowance for loan losses is the amount estimated by management as necessary to cover probable losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. If our estimates and judgments regarding such matters prove to be incorrect, our allowance for loan losses might not be sufficient, and additional loan loss provisions might need to be made. Depending on the amount of such loan loss provisions, the adverse impact on our earnings could be material. Our allowance for loan losses amounted to 2.1% of total loans outstanding and 35.1% of nonperforming loans at December 31, 2010. Our allowance for loan losses at December 31, 2010 may not be sufficient to cover future loan losses. A large loss or series of losses could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

In addition, bank regulators may require us to make a provision for loan losses or otherwise recognize further loan charge-offs following their periodic review of our loan portfolio, our underwriting procedures, and our loan loss allowance. Any increase in our allowance for loan losses or loan charge-offs as required by such regulatory authorities could have a material adverse effect on our financial condition and results of operations.

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Please see “Allowance for Loan Losses” under “Critical Accounting Policies” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for a discussion of the procedures we follow in establishing our loan loss allowance.

Strong competition within our primary market area and our lending territory could hurt our profits and slow growth.

We face intense competition both in making loans in our lending territory and attracting deposits in our primary market area. This competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. As of June 30, 2010, the most recent date for which information is available from the Federal Deposit Insurance Corporation, we held approximately 0.03% of the deposits in Kings and New York counties, New York, approximately 0.64% and 0.08% of the deposits in Bronx and Westchester Counties, New York, respectively, and 0.27% and 0.96% of the deposits in Essex and Plymouth Counties, Massachusetts, respectively. Competition also makes it more difficult to hire and retain experienced employees. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area and our lending territory.

The market price of our common stock may be materially adversely affected by market volatility.

Many publicly traded financial services companies have recently experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance or prospects of such companies. We may experience market fluctuations that are not directly related to our operating performance but are influenced by the market’s perception of the state of the financial services industry in general and, in particular, the market’s assessment of general credit quality conditions, including default and foreclosure rates in the industry.

Increased and/or special FDIC assessments will hurt our earnings.

The recent economic recession has caused a high level of bank failures, which has dramatically increased FDIC resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the quarter ended June 30, 2009, was $205,000. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012, which for us totaled $1.5 million. Additional increases in the base assessment rate or additional special assessments would negatively impact our earnings.

Turmoil in the financial markets could have an adverse effect on our financial position or results of operations.

Beginning in 2008, United States and global financial markets experienced severe disruption and volatility, and general economic conditions have declined significantly. Adverse developments in credit quality, asset values and revenue opportunities throughout the financial services industry, as well as general uncertainty regarding the economic, industry and regulatory environment, have had a negative impact on the industry. The United States and the governments of other countries have taken steps to try to stabilize the financial system, including investing in financial institutions, and have implemented programs intended to improve general economic conditions. The U.S. Department of the Treasury created the Capital Purchase Program under the Troubled Asset Relief Program, pursuant to which the Treasury Department provided additional capital to participating financial institutions through the purchase of preferred stock or other securities. Other measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. Notwithstanding the actions of the United States and other governments, there can be no assurances that these efforts will be successful in restoring industry, economic or market conditions to their previous levels and that they will not result in adverse unintended consequences. Factors that could continue to pressure financial services companies, including Northeast Community Bancorp, Inc., are numerous and include (1) worsening credit quality, leading among other things to increases in loan losses and reserves, (2) continued or worsening disruption and volatility in financial markets, leading among other things to continuing reductions in asset values, (3) capital and liquidity concerns regarding financial institutions generally, (4) limitations resulting from or imposed in connection with governmental actions intended to stabilize or provide additional regulation of the financial system, or (5) recessionary conditions that are deeper or last longer than currently anticipated.

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We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Office of Thrift Supervision, our primary federal regulator, and by the Federal Deposit Insurance Corporation, as insurer of our deposits. Northeast Community Bancorp, MHC, Northeast Community Bancorp and Northeast Community Bank are all subject to regulation and supervision by the Office of Thrift Supervision. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and the depositors and borrowers of Northeast Community Bank rather than for holders of Northeast Community Bancorp common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

Recently enacted financial regulatory reform may have a material impact on our operations.

On July 21, 2010, the President signed into law the Dodd-Frank Act. The Dodd-Frank Act restructures the regulation of depository institutions. Under the Dodd-Frank Act, the Office of Thrift Supervision, which currently regulates Northeast Community Bank, will be merged into the Office of the Comptroller of the Currency, which regulates national banks, effective July 21, 2011. Savings and loan holding companies, including Northeast Community Bancorp, will be regulated by the Board of Governors of the Federal Reserve System. Also included is the creation of a new federal agency to administer consumer protection and fair lending laws, a function that is now performed by the depository institution regulators. The federal preemption of state laws currently accorded federally chartered depository institutions will be reduced as well and State Attorneys General will have greater authority to bring a suit against a federally chartered institution, such as Northeast Community Bank, for violations of certain state and federal consumer protection laws. The Dodd-Frank Act also will impose consolidated capital requirements on savings and loan holding companies effective in five years, which will limit our ability to borrow at the holding company and invest the proceeds from such borrowings as capital in Northeast Community Bank that could be leveraged to support additional growth. The Dodd-Frank Act contains various other provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as occurred in 2008-2009. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased regulatory burden and compliance costs.

In addition to the enactment of the Dodd-Frank Act, the federal regulatory agencies recently have begun to take stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the current economic crisis. These actions include the entering into of written agreements and cease and desist orders that place certain limitations on their operations. Federal bank regulators recently have also been using with more frequency their ability to impose individual minimal capital requirements on banks, which requirements may be higher than those imposed under the Dodd-Frank Act or which would otherwise qualify the bank as being "well capitalized" under the Federal Deposit Insurance Corporation's prompt corrective action regulations. If Northeast Community Bancorp or Northeast Community Bank were to become subject to a supervisory agreement or higher individual capital requirements, such action may have a negative impact on their ability to execute their business plans, as well as their ability to grow, pay dividends or engage in mergers and acquisitions and may result in restrictions in their operations. See "Regulation and Supervision – Federal Banking Regulation – Capital Requirements" for a discussion of regulatory capital requirements.

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Northeast Community Bancorp, MHC’s majority control of our common stock will enable it to exercise voting control over most matters put to a vote of stockholders and will prevent stockholders from forcing a sale or a second-step conversion transaction you may like.

Northeast Community Bancorp, MHC, owns a majority of Northeast Community Bancorp’s common stock and, through its board of directors, will be able to exercise voting control over most matters put to a vote of stockholders. The same directors and officers who manage Northeast Community Bancorp and Northeast Community Bank also manage Northeast Community Bancorp, MHC. As a federally chartered mutual holding company, the board of directors of Northeast Community Bancorp, MHC must ensure that the interests of depositors of Northeast Community Bank are represented and considered in matters put to a vote of stockholders of Northeast Community Bancorp. Therefore, the votes cast by Northeast Community Bancorp, MHC may not be in your personal best interests as a stockholder. For example, Northeast Community Bancorp, MHC may exercise its voting control to defeat a stockholder nominee for election to the board of directors of Northeast Community Bancorp. In addition, stockholders will not be able to force a merger or second-step conversion transaction without the consent of Northeast Community Bancorp, MHC. Some stockholders may desire a sale or merger transaction, since stockholders typically receive a premium for their shares, or a second-step conversion transaction, since fully converted institutions tend to trade at higher multiples than mutual holding companies.

The Office of Thrift Supervision policy on remutualization transactions could prohibit acquisition of Northeast Community Bancorp, which may adversely affect our stock price.

Current Office of Thrift Supervision regulations permit a mutual holding company to be acquired by a mutual institution in a remutualization transaction. However, the Office of Thrift Supervision has issued a policy statement indicating that it views remutualization transactions as raising significant issues concerning disparate treatment of minority stockholders and mutual members of the target entity and raising issues concerning the effect on the mutual members of the acquiring entity. Under certain circumstances, the Office of Thrift Supervision intends to give these issues special scrutiny and reject applications providing for the remutualization of a mutual holding company unless the applicant can clearly demonstrate that the Office of Thrift Supervision’s concerns are not warranted in the particular case. Should the Office of Thrift Supervision prohibit or otherwise restrict these transactions in the future, our per share stock price may be adversely affected.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We conduct our business through our main office, six other full-service branch offices, and our investment advisory and financial planning services office located in Westport, Connecticut. The following table sets forth certain information relating to these facilities as of December 31, 2010.

Location	Year Opened	Date of Lease Expiration	Owned/ Leased	Net Book Value
		(Dollars in thousands)		
Corporate Headquarters and Main Office:				
325 Hamilton Avenue White Plains, New York 10601	1994	N/A	Owned	$ 1,084
Branch Offices:				
1470 First Avenue New York, NY 10021(1)	2006	04/30/2011	Leased	30
590 East 187th Street Bronx, New York 10458	1972	N/A	Owned	545
242 West 23rd Street (2) New York, NY 10011	1996	N/A	Owned/Leased	867
1751 Second Avenue New York, NY 10128	1978	09/30/2015	Leased	21
87 Elm Street Danvers, MA 01923	2009	N/A	Owned	1,392
8 No. Park Avenue Plymouth, MA 02360	2009	N/A	Owned	1,834
Other Properties:				
1353-55 First Avenue New York, NY 10021(3)	1946	2109	Leased	-
830 Post Road East Westport, Connecticut 06880	2007	07/31/2015	Leased	-

(1) The Bank has temporarily relocated its branch office at 1353-55 First Avenue to this property due to the sale and renovation of the building located at 1353-55 First Avenue. See footnote 3 below.

(2) This property is owned by us, but is subject to a 99 year land lease, the term of which expires in 2084.

(3) In June 2007, the Bank sold this building and temporarily relocated its branch office located at 1353-55 First Avenue to 1470 First Avenue, New York, New York, while 1353-55 First Avenue is being renovated. On June 30, 2007, the Bank entered into a 99 year lease agreement for office space on the first floor of the building at 1353-55 First Avenue so that the Bank may continue to operate a branch office at this location after the building has been renovated. The lease will commence upon completion of construction at 1353-55 First Avenue.

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ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings

From time to time, we may be party to various legal proceedings incident to our business. At December 31, 2010, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. [RESERVED AND REMOVED]

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is listed on the Nasdaq Global Market ("NASDAQ") under the trading symbol "NECB." The following table sets forth the high and low sales prices of the common stock, as reported by NASDAQ, and the dividends declared by the Company during each quarter of the two most recent fiscal years. See Item 1, "Business—Regulation and Supervision—Regulation of Federal Savings Institutions—Limitation on Capital Distributions and Note 2 in the Notes to the Consolidated Financial Statements for more information relating to restrictions on dividends.

	Dividends	High	Low
2010:			
First Quarter	$ 0.03	$ 7.25	$ 5.52
Second Quarter	0.03	7.50	4.68
Third Quarter	0.03	6.40	4.40
Fourth Quarter	0.03	6.25	5.55
2009:			
First Quarter	$ 0.03	$ 8.14	$ 6.85
Second Quarter	0.03	9.49	7.05
Third Quarter	0.03	9.00	6.60
Fourth Quarter	0.03	7.52	6.10

Northeast Community Bancorp, MHC, the Company's majority stockholder, has waived receipt of all dividends declared by the Company. During 2010, the aggregate amount of dividends waived was $873,000. On a cumulative basis, $3,055,000 of such dividends have been waived through December 31, 2010.

As of February 28, 2011, there were approximately 292 holders of record of the Company's common stock.

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Purchases of Equity Securities

The following table presents information regarding the Company's stock repurchases during the three months ended December 31, 2010.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31	7,300	$ 5.99	7,300	204,863
November 1 to November 30	5,100	6.04	5,100	199,763
December 1 to December 31	12,400	5.93	12,400	187,363
Total	24,800	$ 5.97	24,800	187,363

On July 22, 2010, the Company announced that its Board of Directors approved the repurchase for up to 297,563 shares of the Company's common stock held by persons other than the MHC.

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ITEM 6. SELECTED FINANCIAL DATA

	At or For the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands, except per share data)				
Financial Condition Data:					
Total assets	$466,008	$527,276	$424,228	$343,895	$288,417
Cash and cash equivalents	44,453	88,718	36,534	39,146	36,749
Securities held to maturity	19,858	11,845	2,078	2,875	27,455
Securities available for sale	162	176	182	320	355
Loans receivable, net	364,798	386,266	363,616	283,133	201,306
Bank owned life insurance	16,145	10,522	8,902	8,515	8,154
Deposits	326,830	379,518	261,430	225,978	188,592
Federal Home Loan Bank advances	25,000	35,000	40,000	–	–
Total stockholders' equity	108,139	107,448	110,502	108,829	96,751
Operating Data:					
Interest income	$24,642	$24,373	$21,947	$17,602	$15,348
Interest expense	8,435	10,092	8,550	5,918	4,493
Net interest income	16,207	14,281	13,397	11,684	10,855
Provision for loan losses	3,487	7,314	411	338	–
Net interest income after provision for loan losses	12,720	6,967	12,986	11,346	10,855
Gain (loss) on sale of premises and equipment	1,924	–	–	18,962	(5)
Noninterest income	1,718	1,498	1,794	805	624
Noninterest expenses	13,590	13,893	11,500	9,826	8,870
Income (loss) before provision for income taxes	2,772	(5,428)	3,280	21,287	2,604
Provision for income taxes (benefit)	904	(2,812)	1,178	9,150	1,046
Net income (loss)	$1,868	$(2,616)	$2,102	$12,137	$1,558
Net income (loss) per share – basic and diluted (1)	$0.15	$(0.20)	$0.16	$0.95	$0.06
Dividends declared per share	$0.12	$0.12	$0.12	$0.06	$–

(1) The Company completed its initial public stock offering on July 5, 2006.

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	At or For the Year Ended December 31,				
	2010	2009	2008	2007	2006
Performance Ratios:					
Return on average assets (1)	0.37 %	(0.54)%	0.54 %	3.94 %	0.57 %
Return on average equity (1)	1.72	(2.37)	1.91	11.70	2.24
Interest rate spread (2)	2.96	2.49	2.73	3.13	3.65
Net interest margin (3)	3.39	3.08	3.63	4.09	4.24
Noninterest expense to average assets	2.67	2.86	2.96	3.19	3.26
Efficiency ratio (1) (4)	68.47	88.05	75.70	31.24	77.31
Average interest-earning assets to average interest-bearing liabilities	124.48	127.33	138.82	146.61	133.99
Average equity to average assets	21.30	22.77	28.35	33.67	25.57
Capital Ratios - Bank:					
Tangible capital	18.41	16.01	19.45	24.18	25.46
Core capital	18.41	16.01	19.45	24.18	25.46
Total risk-based capital	29.84	27.70	30.65	37.50	44.58
Asset Quality Ratios:					
Allowance for loan losses as a percent of total loans	2.06	1.72	0.51	0.53	0.60
Allowance for loan losses as a percent of nonperforming loans	35.07	33.41	57.92	65.48	N/M
Net charge-offs to average outstanding loans during the period	0.67	0.62	0.01	0.02	0.00
Non-performing loans as a percent of total loans	5.87	5.14	0.88	0.80	0.00
Other Data:					
Number of:					
Real estate loans outstanding	468	497	491	485	400
Deposit accounts	13,042	15,781	14,449	15,025	15,898
Offices (5)	9	10	9	9	8

(1) 2007 operations included a non-recurring gain of $18,962,000 from the gain on sale of the building in which our First Avenue branch was located. If such gain, net of income taxes at the 2007 marginal income tax rate, were removed, return on average assets, return on average equity and the efficiency ratio would be 0.43%, 1.28%, and 78.68%, respectively.

(2) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Represents net interest income as a percent of average interest-earning assets.

(4) Represents noninterest expense divided by the sum of net interest income and noninterest income.

(5) At December 31, 2010, includes our main office, our six other full-service branch offices, our investment advisory service office in Westport, Connecticut, and a leased property for future branch office use.

N/M – not meaningful as non-performing loans were negligible as of these dates.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Income. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are prepayment penalties on multi-family, mixed-use and non-residential real estate loans and service charges – mostly from service charges on deposit accounts – and fees for various services.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Expenses. The noninterest expenses we incur in operating our business consist of salary and employee benefits expenses, occupancy and equipment expenses, advertising expenses, federal insurance premiums and other miscellaneous expenses.

Salary and employee benefits consist primarily of the salaries and wages paid to our employees, payroll taxes and expenses for health insurance, retirement plans and other employee benefits.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, ATM and data processing expenses, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 40 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or term of the lease.

Advertising expenses include expenses for print, promotions, third-party marketing services and premium items.

Federal insurance premiums are payments we make to the Federal Deposit Insurance Corporation for insurance of our deposit accounts.

Other expenses include expenses for professional services, office supplies, postage, telephone, insurance, charitable contributions, regulatory assessments and other miscellaneous operating expenses.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies: allowance for loan losses and deferred income taxes.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio.

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Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision could require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see note 1 of the notes to the consolidated financial statements included elsewhere in this filing.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

Sale of New York City Branch Office

On June 29, 2007, the Bank completed the sale of its branch office building located at 1353-55 First Avenue, New York, New York (the “Property”). The sale price for the Property was $28.0 million. At closing, the Bank received $10.0 million in cash and an $18.0 million zero coupon promissory note recorded at its then present value of $16.3 million (the “Original Note”). The Original Note was payable in two $9.0 million installments due on the first and second anniversaries of the Original Note. On July 31, 2008, as payment of the first installment due under the Original Note, the Bank received $2.0 million in cash and a new $7.0 million note bearing interest at 7% per annum and payable over a five-month period ending on December 31, 2008 (the “New Note”). On December 31, 2008, the Original Note and the remaining $1.9 million balance on the New Note were rolled into a new $10.9 million note payable on July 31, 2009 (the “Combined Note”). On July 29, 2009, prior to the due date, the $10.9 million Combined Note was extended to January 31, 2010. The amount due on such date includes interest and expenses. The Bank and the borrower agreed in December 2010 to extend the term of the Combined Note to June 30, 2011 after the borrower paid $1.9 million in cash to the Bank in the fourth quarter of 2010. The payment represents $1.5 million in interest income for 2009 and 2010 and $377,000 in pre-paid interest for the six months ending June 30, 2011. The Combined Note is secured by 100% of the interests in the companies owning the Property. In addition, the Combined Note is secured by a first mortgage on the Property. Based on a current appraisal, the loan to value is approximately 35%. The Bank recognized $1.5 million in interest income in 2010 since we believe the collection of the principal balance is assured. This note is not treated as a loan or extension of credit for purposes of the regulatory limits on loans to one borrower.

In connection with the sale of the branch office building, the Bank entered into a 99-year lease agreement to enable the Bank to retain a branch office at 1353-55 First Avenue. This lease will be effective upon the completion of the renovation of the property. We have temporarily relocated our First Avenue branch office to 1470 First Avenue while 1353-55 First Avenue is being renovated.

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Sale of Brooklyn Branch

On December 6, 2010 the Bank completed the sale of its branch office located at 2047 86th Street, Brooklyn, New York to Poncé De Leon Federal Bank. The Bank transferred approximately $27.7 million in deposits to Ponce De Leon Federal Bank in connection with the closing of the transaction. Ponce De Leon Federal Bank did not acquire any loans as part of the transaction. A $1.9 million gain was recognized from the sale of the Brooklyn branch office.

Acquisition of the Business Assets of Hayden Financial Group LLC

On November 16, 2007, the Bank acquired the operating assets of Hayden Financial Group LLC (“Hayden”), an investment advisory firm located in Connecticut, at a cost of $2.0 million. The Bank paid $1.3 million at closing, and $700,000 will be paid in four annual installments of $175,000. The acquisition of these business assets has enabled the Bank to expand the services it provides to include investment advisory and financial planning services to the then-existing Hayden customer base as well as future customers through a networking arrangement with a registered broker-dealer and investment adviser. In connection with this transaction, we acquired intangible assets related to customer relationships of $710,000 and goodwill of $1,310,000 and booked a note payable with a present value of $625,000. The intangible asset has been determined to have an 11.7-year life and, absent impairment issues, is being amortized to operations over that period using the straight-line method. Both the intangible assets and goodwill will be subject to impairment review on no less than an annual basis. The note is payable in four annual installments, one on each succeeding note anniversary date, of $175,000. The note was initially recorded at $625,000, assuming a 4.60% discount rate. The note payable balance at December 31, 2010 was $168,000 and note discount accreted during 2010 totaled $15,000. The acquired business is being operated as a division of the Bank and, during 2010, generated total revenues of approximately $769,000.

Balance Sheet Analysis

Overview. Total assets at December 31, 2010, decreased by $61.3 million, or 11.6%, to $466.0 million from total assets of $527.3 million at December 31, 2009. The decrease was primarily due to decreases of $44.3 million in cash and cash equivalents, $21.5 million in loans receivable, net, $5.7 million in certificates of deposits at other financial institutions, $1.6 million in other assets, and $1.4 million in premises and equipment, offset by increases of $8.0 million in investment securities held-to-maturity and $5.6 million in bank owned life insurance.

These decreases primarily resulted from decreases of $52.7 million in deposits, $27.7 million of which was due to the sale of our Brooklyn branch and $10.0 million in Federal Home Loan Bank advances, partially offset by increases of $658,000 in accounts payable and accrued expenses and $231,000 in advance payments by borrowers for taxes and insurance. As of December 31, 2010, the Company, on a consolidated basis, had stockholders equity of $108.1 million, or 23.2% of assets.

In 2009 and 2010, we proactively reduced mortgage origination levels for multi-family, mixed-use and non-residential real estate loans, based on our unwillingness to offer rates and terms on loan products that, in our opinion, do not accurately reflect the risk associated with particular loan types in the current economic and real estate environment. In 2009, we ceased originating all construction loans due to prevailing conditions in the real estate market.

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate real estate loans secured by multi-family residential real estate, mixed-use real estate and non-residential real estate. To a much lesser extent, we originate commercial and consumer loans and purchase participation interests in construction loans. At December 31, 2010, loans receivable, net, totaled $364.8 million, a decrease of $21.5 million, or 5.6%, from total loans receivable, net, of $386.3 million at December 31, 2009. The promissory notes that the Bank received in connection with the sale of the Bank’s branch office building located at 1353-55 First Avenue, which had a $10.9

million balance at December 31, 2010 and 2009, respectively, are included in the non-residential segment of our real estate loan portfolio for both 2010 and 2009. Based upon the $1.9 million payment made in December 2010 this loan was returned to accrual status.

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The largest segment of our real estate loans is multi-family residential loans. As of December 31, 2010, these loans totaled $190.0 million, or 51.2% of our total loan portfolio, compared to $201.1 million, or 51.3% of our total loan portfolio at December 31, 2009. As of December 31, 2010, mixed-use loans totaled $55.2 million, or 14.9% of our total loan portfolio, compared to $59.8 million, or 15.3% of our total loan portfolio at December 31, 2009. Non-residential real estate loans totaled $100.9 million, or 27.2% of our total loan portfolio at December 31, 2010, compared to $105.2 million, or 26.8% of our total loan portfolio at December 31, 2009. At December 31, 2010 and 2009, one- to four-family residential real estate loans totaled $211,000 and $244,000, or 0.1% and 0.1% of our total loan portfolio, respectively.

At December 31, 2010, our commercial loan portfolio totaled $28.9 million in committed loans, with $12.1 million drawn against such commitments, compared to $23.9 million in committed loans, with $10.4 million drawn against such commitments at December 31, 2009. Although we discontinued in 2010 the purchase of participation interests in construction loans secured by multi-family, mixed-use and non-residential properties, we purchased participation interests in these types of properties in 2009. We perform our own underwriting analysis on each of our participation interests before purchasing such loans. The outstanding balance of construction loan participation interests purchased totaled $12.9 million, or 3.5% of our total loan portfolio at December 31, 2010 compared to $15.1 million or 3.9% of our total loan portfolio at December 31, 2009.

In addition, we also originate several types of consumer loans secured by savings accounts or certificates of deposit (share loans) and overdraft protection for checking accounts which is linked to statement savings accounts and has the ability to transfer funds from the statement savings account to the checking account when needed to cover overdrafts. Consumer loans totaled $63,000 and represented 0.01% of total loans at December 31, 2010 compared to $150,000, or 0.04%, of total loans at December 31, 2009.

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The following table sets forth the composition of our loan portfolio at the dates indicated.

	At December 31,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate:										
Residential Real Estate:										
One- to four-family	$211	0.06 %	$244	0.06 %	$275	0.08 %	$304	0.11 %	$405	0.20
Multi-family (1)	190,042	51.15	201,059	51.30	186,199	51.11	138,767	48.95	110,389	54.76
Mixed-use (1)	55,244	14.87	59,779	15.25	58,317	16.00	52,559	18.54	42,576	21.12
Total residential real estate loans	245,497	66.08	261,082	66.61	244,791	67.19	191,630	67.60	153,370	76.08
Non-residential real estate (1)	100,925	27.16	105,194	26.84	102,785	28.21	79,305	27.98	47,802	23.71
Total real estate	346,422	93.24	366,276	93.45	347,576	95.40	270,935	95.58	201,172	99.79
Construction loans	12,913	3.48	15,121	3.86	9,025	2.48	9,456	3.34	–	–
Commercial loans	12,140	3.27	10,400	2.65	7,620	2.09	2,977	1.05	–	–
Consumer:										
Overdraft lines of credit	48	0.01	60	0.02	57	0.02	69	0.02	71	0.04
Passbook loans	15	0.00	90	0.02	57	0.01	19	0.01	348	0.17
Total consumer loans	63	0.01	150	0.04	114	0.03	88	0.03	419	0.21
Total loans	371,538	100.00 %	391,947	100.00 %	364,335	100.00 %	283,456	100.00 %	201,591	100.00
Net deferred loan costs	907		1,052		1,146		1,166		915	
Allowance for losses	(7,647)		(6,733)		(1,865)		(1,489)		(1,200)	
Loans, net	$364,798		$386,266		$363,616		$283,133		$201,306	

(1) Includes equity lines of credit that we originate on properties on which we hold the first mortgage.

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The following table sets forth certain information at December 31, 2010 regarding the dollar amount of loans repricing or maturing during the periods indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated maturity are reported as due in one year or less.

	At December 31, 2010					
	Residential Real Estate Loans	Non-Residential Real Estate Loans	Commercial Loans	Construction Loans	Consumer and other Loans	Total Loans
	(In thousands)					
One year or less	$30,270	$ 26,004	$ 11,705	$ 12,913	$63	$80,955
More than one year to five years	190,800	64,997	435	-	-	256,232
More than five years	24,427	9,924	-	-	-	34,351
Total	$245,497	$ 100,925	$ 12,140	$ 12,913	$63	$371,538

The following table sets forth the dollar amount of all loans at December 31, 2010 that are due after December 31, 2011 and have either fixed or adjustable interest rates.

	Fixed Rates	Adjustable Rates	Total
	(In thousands)		
Residential real estate:			
One- to four-family	$45	$55	$100
Multi-family	1,948	164,052	166,000
Mixed-use	3,156	45,970	49,126
Non-residential real estate	434	74,487	74,921
Construction loans	-	-	-
Commercial loans	436	-	436
Consumer and other loans	-	-	-
Total	$6,019	$284,564	$290,583

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The following table shows loan origination, purchase and sale activity during the periods indicated.

	2010	2009	2008	2007	2006
			(In thousands)		
Total loans at beginning of period	$ 391,947	$ 364,335	$ 283,456	$ 201,591	$ 191,436
Loans originated:					
Residential real estate:					
Multi-family	5,210	22,423	70,450	43,376	19,409
Mixed-use	–	7,922	6,616	16,098	7,304
Non-residential real estate	420	6,920	42,954	24,451	9,010
Commercial loans	2,558	3,026	4,794	3,012	–
Consumer and other loans	–	35	87	17	80
Total loans originated	8,188	40,326	124,901	86,954	35,803
Construction loan participation purchased	–	5,198	5,406	11,695	–
Permanent loan participation purchased	–	–	2,971	–	–
Loan from sale of building	–	–	–	16,341	–
Deduct:					
Loan principal repayments	25,979	17,583	44,034	32,060	25,648
Charge offs	2,618	2,446	35	49	–
Loan sales	–	–	7,045	1,505	–
Total deductions	28,597	20,029	51,114	33,614	25,648
Other increases (decreases), net.	–	2,117	(1,285)	489	–
Total loans at end of period	$ 371,538	$ 391,947	$ 364,335	$ 283,456	$ 201,591

Securities. Our securities portfolio consists primarily of residential mortgage-backed securities. Securities increased by $8.0 million, or 66.5%, from $12.0 million at December 31, 2009, to $20.0 million at December 31, 2010. The increase was primarily due to purchases of $22.6 million, offset by maturities and repayments of $14.5 million.

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated.

	At December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(In thousands)			
Securities available for sale:						
Fannie Mae common stock	$ -	$ -	$ -	$ -	$ 4	$ 1
	157	162	174	176	183	181

Mortgage-backed securities-residential						
Total	$157	$162	$174	$176	$187	$182
Securities held to maturity:						
Mortgage-backed securities - residential	19,858	20,342	11,845	11,875	2,078	2,050
Total	$19,858	$20,342	$11,845	$11,875	$2,078	$2,050

During 2009, the Company determined that its investment in Fannie Mae common stock was other than-temporarily impaired and wrote off its entire $4,000 investment.

At December 31, 2010, we had no investments in a single company or entity that had an aggregate book value in excess of 10% of our consolidated equity.

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The following table sets forth the stated final maturities and weighted average yields of debt securities at December 31, 2010. Certain mortgage-backed securities have adjustable interest rates and will re-price annually within the various maturity ranges. These re-pricing schedules are not reflected in the table below. At December 31, 2010, mortgage-backed securities with adjustable rates totaled $15.4 million.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in thousands)									
Securities available for sale:										
Mortgage-backed securities	$-	-	$-	-	$-	-	$162	2.52 %	$162	2.52 %
Total securities available for sale	$-	-	$-	-	$-	-	$162	2.52 %	$162	2.52 %
Securities held to maturity:										
Mortgage-backed securities	$-	-	$-	-	$306	3.01 %	$19,552	3.59 %	$19,858	3.58 %
Total securities held to maturity	$-	-	$-	-	$306	3.01 %	$19,552	3.59 %	$19,858	3.58 %

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Deposits. Our primary source of funds is retail deposit accounts which are comprised of savings accounts, demand deposits and certificates of deposit held primarily by individuals and businesses within our primary market area and, prior to 2010, non-broker certificates of deposit gathered through two nationwide certificate of deposit listing services. The non-broker certificates of deposits were accepted from banks, credit unions, non-profit organizations and certain corporations in amounts greater then $75,000 and less then $250,000. In 2010, we curtailed the use of the certificate of deposit listing services.

Deposits decreased by $52.7 million, or 13.9%, in the year ended December 31, 2010. The decrease in deposits was primarily attributable to the December 2010 sale of the Brooklyn branch office with $27.7 million in deposits and decreases of $44.9 million in certificates of deposits and $324,000 in savings accounts, offset by an increase of $20.3 million in NOW and money market deposit accounts.

The following table sets forth the balances of our deposit products at the dates indicated.

	At December 31,								
	2010			2009			2008		
	Amount	Percent		Amount	Percent		Amount	Percent	
	(Dollars in thousands)								
Now and money market deposit accounts	$83,839	25.7	%	$72,755	19.2	%	$24,595	9.4	%
Savings accounts	55,898	17.1		60,033	15.8		56,987	21.8	
Noninterest bearing demand deposits	9,839	3.0		11,594	3.0		6,209	2.4	
Certificates of deposit	177,254	54.2		235,136	62.0		173,639	66.4	
Total	$326,830	100.0	%	$379,518	100.0	%	$261,430	100.0	%

The following table indicates the amount of certificates of deposit with balances over $100,000 by time remaining until maturity as of December 31, 2010. We do not solicit jumbo certificates of deposit nor do we offer special rates for jumbo certificates. The minimum deposit to open a certificate of deposit ranges from $500 to $2,500.

Maturity Period	Certificates of Deposit (In thousands)
Three months or less	$ 9,867
Over three through six months	13,022
Over six through twelve months	50,018
Over twelve months	13,895
Total	$ 86,802

Borrowings. We may utilize borrowings from a variety of sources to supplement our supply of funds for loans and investments and to meet deposit withdrawal requirements. Advances from the Federal Home Loan Bank of New York ("FHLB") decreased to $25.0 million as of December 31, 2010 from $35.0 million FHLB advances outstanding as of December 31, 2009.

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The contractual maturities of FHLB advances at December 31, 2010 are as follows:

	Amount	Weighted Average Interest Rate
Advances maturing in:		
One year or less	$ 10,000	2.80 %
After one to two years	—	—
After two to three years	10,000	3.70 %
After three to four years	5,000	3.64 %
	$ 25,000	3.33 %

In conjunction with the Hayden acquisition on November 16, 2007, the Company incurred a four-year zero-coupon note payable of $700,000. The note is payable in four annual installments, one on each succeeding note anniversary date, of $175,000. The note was initially recorded at $625,000, assuming a 4.60% discount rate. The note payable balance at December 31, 2010 was $168,000 and note discount accreted during 2010 totaled $15,000.

Stockholders' Equity. Stockholders' equity increased by $691,000, or 0.6%, to $108.1 million at December 31, 2010, from $107.4 million at December 31, 2009. The increase was primarily due to net income of $1.9 million. In addition, stockholders' equity increased by $154,000 due to earned ESOP shares, and decreased by $654,000 due to cash dividends declared to minority stockholders and the repurchase of $664,000 of Company common stock. Northeast Community Bancorp, MHC, the Company's majority stockholder, received approval of the Office of Thrift Supervision to waive its right to receive its share of cash dividends declared by the Company in 2010, which totaled approximately $873,000, and for similar quarterly cash dividends, if any, to be paid for the first and second quarters of 2011. On a cumulative basis, $3.1 million of such dividends have been waived through December 31, 2010. We anticipate that the MHC will continue to waive receipt of all dividends declared by the Company, subject to applicable regulatory approvals. See "Risk Factors— Recently enacted financial regulatory reform may have a material impact on our operations."

Results of Operations for the Years Ended December 31, 2010 and 2009

Overview.

	2010	2009	% Change 2010/2009
	(Dollars in thousands)		
Net income (loss)	$ 1,868	$ (2,616)	171.4 %
Return on average assets	0.37 %	(0.54)%	168.5
Return on average equity	1.72	(2.37)	172.6
Average equity to average assets	21.30	22.77	(6.5)

Net income for the year ended December 31, 2010 increased by $4.5 million, or 171.4%, to $1.9 million from a net loss of $2.6 million in 2009. The increase was primarily the result of increases in net interest income and non-interest income and decreases in the provision for loan losses and non-interest expenses, offset by an increase in provision for income taxes.

Net Interest Income. Net interest income increased by $1.9 million, or 13.5%, to $16.2 million for the year ended December 31, 2010, from $14.3 million for the year ended December 31, 2009. The increase in net interest income resulted primarily from an increase in interest income due to an increase in securities held-to-maturity and a decrease in interest expense resulting from a decrease in deposits and borrowings. The increase in net interest income was also due to a decrease in the cost of interest-bearing liabilities that exceeded the decrease in the yield on our interest-earning assets.

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The net interest spread increased by 47 basis points to 2.96% for the year ended December 31, 2010, from 2.49% for the year ended December 31, 2009. The net interest margin increased by 31 basis points to 3.39% for the year ended December 31, 2010, from 3.08% for the year ended December 31, 2009.

The increase in the interest rate spread and the net interest margin in 2010 compared to 2009 was due to the cost of our interest-bearing liabilities decreasing more than the corresponding decrease in the yield on our interest-earning assets. The cost of our interest-bearing liabilities decreased by 58 basis points to 2.19% for the year ended December 31, 2010, from 2.77% for the year ended December 31, 2009. The yield on our interest-earning assets decreased by 11 basis points to 5.15% for the year ended December 31, 2010, from 5.26% for the year ended December 31, 2009. The decrease in both the yield on our interest-earning assets and the cost of our interest-bearing liabilities was due to the low interest rate environment in 2010.

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Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. For purposes of this table, average balances have been calculated using average daily balances. Average loan balances include nonaccrual loans. Loan fees are included in interest income on loans. Interest income on loans and investment securities has not been calculated on a tax equivalent basis because the impact would be insignificant.

	Year Ended December 31,								
	2010			2009			2008		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in Thousands)								
Assets:									
Interest-earning assets:									
Loans	$385,882	$23,577	6.11 %	$389,547	$23,925	6.14 %	$326,472	$21,008	6.43 %
Securities	26,962	956	3.55	5,042	218	4.32	4,074	201	4.93
Other interest-earning assets	65,633	109	0.17	68,564	230	0.34	38,749	738	1.90
Total interest-earning assets	478,477	24,642	5.15	463,153	24,373	5.26	369,295	21,947	5.94
Allowance for loan losses	(6,234)			(2,546)			(1,558)		
Noninterest-earning assets	37,148			25,026			20,967		
Total assets	$509,391			$485,633			$388,704		
Liabilities and equity:									
Interest-bearing liabilities:									
Interest-bearing demand	$83,560	$1,174	1.40 %	$37,253	$423	1.14 %	$21,817	$144	0.66 %
Savings and club accounts	60,100	407	0.68	63,737	461	0.72	59,392	450	0.76
Certificates of deposit	209,889	5,810	2.77	219,125	7,796	3.56	164,196	7,224	4.50
Total interest-bearing deposits	353,549	7,391	2.09	320,115	8,680	2.71	245,405	7,818	3.19
Borrowings	30,841	1,044	3.39	43,622	1,412	3.24	20,620	732	3.55
Total interest-bearing	384,390	8,435	2.19	363,737	10,092	2.77	266,025	8,550	3.21

liabilities									
Noninterest-bearing demand	10,158			2,920			2,646		
Other liabilities	6,367			8,410			9,850		
Total liabilities	400,915			375,067			278,521		
Stockholders' equity	108,476			110,566			110,183		
Total liabilities and Stockholders' equity	$509,391			$485,633			$388,704		
Net interest income		$16,207			$14,281			$13,397	
Interest rate spread			2.96			2.49			2.73
Net interest margin			3.39			3.08			3.63
Net interest-earning assets	$94,087			$99,416			$103,270		
Interest-earning assets to interest-bearing liabilities	124.48 %			127.33 %			138.82 %		

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Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	2010 Compared to 2009 Increase (Decrease) Due to			2009 Compared to 2008 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest and dividend income:						
Loans receivable	$(224)	$(124)	$(348)	$3,909	$(992)	$2,917
Investment securities	784	(46)	738	44	(27)	17
Other interest-earning assets	(9)	(112)	(121)	342	(850)	(508)
Total interest-earning assets	551	(282)	269	4,295	(1,869)	2,426
Interest expense:						
Interest-bearing demand deposits	631	120	751	138	141	279
Savings accounts	(26)	(28)	(54)	32	(21)	11
Certificates of deposit	(317)	(1,669)	(1,986)	2,123	(1,551)	572
Borrowings	(430)	62	(368)	750	(70)	680
Total interest-bearing liabilities	(142)	(1,515)	(1,657)	3,043	(1,501)	1,542
Net change in interest income	$693	$1,233	$1,926	$1,252	$(368)	$884

Provision for Loan Losses. We recorded provisions for loan losses of $3.5 million and $7.3 million for 2010 and 2009, respectively. During 2010, we charged-off $2.6 million against fifteen non-performing multi-family mortgage loans and six non-performing non-residential mortgage loans to reduce the aggregate carrying value to $10.3 million as of December 31, 2010. During 2009, we charged-off $2.4 million against five non-performing non-residential mortgage loans and three non-performing multi-family mortgage loans to reduce the aggregate carrying value to $4.1 million as of December 31, 2009. The primary reason for the increased provision during 2010 was the continued deterioration in the financial condition of several commercial real estate borrowers and the continuing decline in the market value of their related collateral properties, as reflected in the increase in our non-performing loans and non-performing assets. The increase in provisions for loan losses occurred primarily during the fourth quarter of 2010 when we recorded provisions for loan losses of $2.6 million due primarily to the non performance of three construction projects with seven loans totalling $11.6 million. An analysis of the changes in the allowance for loan losses is presented under “Risk Management – Analysis and Determination of the Allowance for Loan Losses.”

We recorded recoveries of $45,000 during the year ended December 31, 2010. There were no recoveries during the year ended December 31, 2009.

Noninterest Income. The following table shows the components of noninterest income for the years ended December 31, 2010 and 2009.

	2010	2009	% Change 2010/2009
	(Dollars in thousands)		

Service charges	$	313	$	371	(15.6)%
Impairment loss on securities		-		(4)	(100.0)
Net gain (loss) from premises and equipment		1,924		(18)	10,788.9
Earnings on bank owned life insurance		623		420	48.3
Investment advisory fees		769		713	7.9
Other		13		16	(18.8)
Total	$	3,642	$	1,498	143.1

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The increase in noninterest income was primarily due to a $1.9 million gain from the sale of the Brooklyn branch office, a $203,000 increase in earnings on bank owned life insurance and a $56,000 increase in fee income generated by Hayden Wealth Management Group, the Bank's investment advisory and financial planning services division, offset by a $58,000 decrease in other loan fees and service charges and a $4,000 decrease in other noninterest income.

Noninterest Expense. The following table shows the components of noninterest expense and the percentage changes for the years ended December 31, 2010 and 2009.

	Year Ended December 31,		
	2010	2009	% Change 2010/2009
	(Dollars in thousands)		
Salaries and employee benefits	$7,028	$6,816	3.1 %
Net occupancy expense of premises	1,226	1,375	(10.8)
Equipment	541	730	(25.9)
Outside data processing	850	776	9.5
Advertising	64	348	(81.6)
REO expenses	307	177	73.4
FDIC insurance premiums	514	541	5.0
Service contracts	283	268	5.4
Insurance	212	200	6.1
Audit and accounting	333	310	7.4
Directors compensation	305	297	2.8
Telephone	212	270	(21.4)
Office supplies and stationary	128	221	(42.2)
Director, officer, and employee expenses	247	292	(15.5)
Legal fees	603	381	58.1
Other	737	891	(17.3)
Total noninterest expenses	$13,590	$13,893	(2.2)

Non-interest expense decreased by $303,000, or 2.2%, to $13.6 million for the year ended December 31, 2010 from $13.9 million for the year ended December 31, 2009. The decrease resulted primarily from decreases of $284,000 in advertising expense, $189,000 in equipment expense, $149,000 in net occupancy expense, $154,000 in other noninterest expense, $93,000 in office supplies and stationary and $27,000 in FDIC insurance expense, offset by increases of $212,000 in salaries and employee benefits, $222,000 in legal fees, $130,000 in real estate owned expenses, and $74,000 in outside data processing expense.

Advertising expense decreased by $284,000, or 81.6%, to $64,000 in 2010 from $348,000 in 2009 and equipment expense decreased by $189,000, or 25.9%, to $541,000 in 2010 from $730,000 in 2009 due to efforts to improve earnings through containment of expense.

Occupancy expense decreased by $149,000, or 10.8%, to $1.2 million in 2010 from $1.4 million in 2009 due to the elimination of the occupancy expenses associated with the closing of the former 300 Hamilton Avenue, White Plains, New York and 40 Grove Street, Wellesley, Massachusetts office facilities.

Other noninterest expense decreased by $70,000, or 2.2%, to $3.06 million in 2010 from $3.13 million in 2009 due to decreases in telephone, office supplies and stationary, director, officer and employee, and other categories of noninterest expenses, offset by increases in service contracts, insurance, audit and accounting, directors compensation, and legal expenses.

FDIC insurance expense decreased by $27,000, or 5.0%, to $514,000 in 2010 from $541,000 in 2009 due to a decrease in insured deposits from 2009 to 2010.

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Salaries and employee benefits, which represented 51.7% of the Company's non-interest expense for the year ended December 31, 2010, increased by $212,000, or 3.1%, to $7.0 million in 2010 from $6.8 million in 2009 due to an increase in a retirement plan expense, offset by a decrease in the number of full time equivalent employees from 100 at December 31, 2009 to 87 at December 31, 2010 as a result of the sale of the Brooklyn branch office and reduction in staff in various departments.

Real estate owned expenses increased to $307,000 in 2010 due primarily to the Bank's recognition of loss of $103,000 on the disposition of a multi-family property located in Holyoke, Massachusetts and two gasoline stations located in Carmel and Hawthorne, New York and net operating expenses of $204,000 in connection with the maintenance and operation of foreclosed properties (consisting of a multi-family property and two gasoline stations which foreclosed and sold, a multi-family property located in Herkimer, New York, and a multi-family property located in Newark, New Jersey). This compared to real estate owned expense of $177,000 in 2009 due to the Bank's recognition of a $98,000 loss on the disposition of two foreclosed multi-family properties located in Hampton, New Hampshire and Mamaroneck, New York and net operating expenses of $79,000 in connection with the maintenance and operation of a foreclosed property located in Newark, New Jersey.

Outside data processing expense increased by $74,000, or 9.5%, to $850,000 for the year ended December 31, 2010 from $776,000 for the year ended December 31, 2009 due primarily to additional services provided in 2010 by the Company's core data processing vendor.

Income Taxes. Income tax expense increased by $3.7 million, or 132.1%, to an expense of $904,000 for the year ended December 31, 2010 from a benefit of $2.8 million for the year ended December 31, 2009. The increase resulted primarily from a $8.2 million increase in pre-tax income in 2010 compared to 2009. The effective tax rate was an expense of 32.6% for the year ended December 31, 2010 compared to a benefit of 51.8% for the year ended December 31, 2009.

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and operational risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Other risks that we face are market risk, liquidity risk and reputation risk. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities, that are accounted for on a mark-to-market basis. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. We underwrite each mortgage loan application on its merits, applying risk factors to insure that each transaction is considered on an equitable basis.

When a borrower fails to make a required loan payment, we take a number of steps to attempt to have the borrower cure the delinquency and restore the loan to current status. When the ten day grace period expires and the payment has not been received, a late payment notice is mailed and telephone contact is initiated. Throughout the rest of the month that payment is due, the borrower is called several times. If the payment has not been received by the end of the month, the borrower is informed that the loan will be placed in foreclosure within two weeks. On the 45th day after payment is due, the loan is forwarded to the problem loan officer who will review the file and may authorize an acceleration letter. Once a foreclosure action has been instituted, a written agreement between the Bank and the debtor will be required to discontinue the foreclosure action. We may consider loan workout arrangements with certain borrowers under certain circumstances. If no satisfactory resolution to the delinquency is forthcoming, the note and mortgage may be sold prior to a foreclosure sale or the real property securing the loan would be sold at foreclosure.

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In addition, nonperforming loans and potential nonperforming loans are reviewed on a regular basis by management's Special Assets Group ("SAG"). The Board authorized the SAG to address the increase in non-performing loans as a result of the economic and real estate collapse that began in 2008. The Board and Senior Management believe that individual attention for each troubled loan gives that loan the best opportunity of recovery or disposal at the least cost to the Bank.

The SAG is comprised of the chief executive officer, a director of special assets who is a loan workout specialist, one special asset coordinator and one facilities officer specializing in building management. The SAG's mandate is to identify problem and potential problem loans in conjunction with the internal loan review process, to evaluate the loan and determine the cause of the problem and whether there is a realistic probability that the loan can be returned to a performing status over a reasonable time frame, and to ascertain whether the borrower is willing and able to work with the Bank in an effort to save the loan and their investment.

Once it is determined that the borrower is willing and able to cooperate in the effort, SAG assumes responsibility for the loan and devises a plan to correct the deficiencies. The plan may take the form of a short term forbearance agreement, a moderate or longer term restructure agreement or an A/B note and mortgage split. With the cooperation of the borrower, SAG will implement the plan and monitor its progress to assure as timely a resolution as possible.

It is our belief that it is in the Bank's and the borrower's best interest to work to keep a property viable and performing during these difficult economic times, thereby helping to limit loan losses when there is a reasonable expectation that the property will be able to support the original debt once the current crisis has passed. A successful plan will ultimately return the loan to a performing status and the Plan will terminate when the loan is reclassified as performing.

Should a workable plan not be possible, the SAG is charged with disposing of the loan as quickly and cost effectively as possible. This may be accomplished through foreclosure, a sale of the note and mortgage or a short sale.

In connection with the above, the Bank entered into short-term restructuring agreements with 26 borrowers whose loans in the aggregate totaled $30.9 million. Each of these loans was performing prior to the restructuring and have continued to perform under the terms of the restructuring agreements. Restructuring terms were generally consistent with market terms. We do not consider these loans to be impaired.

Management reports to the board of directors monthly regarding the amount of loans past-due more than 30 days.

Analysis of Nonperforming and Classified Assets. We generally consider repossessed assets and loans that are 90 days or more past due to be nonperforming assets. It is generally our policy to continue to accrue interest on past-due loans and loans in foreclosure as long as management determines that these loans are well secured and in the process of collection. When a loan is placed on nonaccrual status, the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a nonaccrual loan are applied to interest, only if collection of principal is reasonably assured.

Real estate that we acquire as a result of a foreclosure action or by deed-in-lieu of foreclosure is classified as foreclosed real estate until it is sold. When property is acquired, it is initially recorded at fair market value at the date of foreclosure. Holding costs and declines in fair value after acquisition of the property result in charges against income.

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The following table provides information with respect to our nonperforming assets at the dates indicated.

	At December 31, 2010	2009	2008	2007	2006
	(Dollars in thousands)				
Nonaccrual loans:					
Residential real estate:					
One- to four-family	$–	$–	$–	$–	$–
Multi-family	2,219	5,806	261	666	–
Mixed-use	–	–	–	–	–
Non-residential real estate	5,457	14,344	1,614	1,200	–
Construction	11,575	–	–	–	–
Consumer and other loans	–	–	–	1	–
Total	19,251	20,150	1,875	1,867	–
Accruing loans past due 90 days or more:					
Residential real estate:					
One- to four-family	–	–	–	–	–
Multi-family	2,555	–	–	407	–
Mixed-use	–	–	–	–	–
Non-residential real estate	–	–	–	–	–
Consumer and other loans	–	–	–	–	–
Total	2,555	–	–	407	–
Total of nonaccrual and 90 days or more past due loans	21,806	20,150	1,875	2,274	–
Foreclosed real estate	933	636	832	–	–
Other nonperforming loans	–	–	1,345	–	–
Total nonperforming assets	22,739	20,786	4,052	2,274	–
Accruing troubled debt restructurings	30,893	13,175	–	–	–
Nonaccruing troubled debt restructurings	–	–	–	–	–
Total troubled debt restructurings	30,893	13,175	–	–	–
Less nonaccrual troubled debt restructuring in total nonaccrual loans	–	–	–	–	–
Troubled debt restructurings and total nonperforming assets	$53,632	$33,961	$4,052	$2,274	$–
Total nonperforming loans to total loans	5.87 %	5.14 %	0.88 %	0.80 %	– %
Total nonperforming assets to total assets	4.88 %	3.94 %	0.96 %	0.66 %	– %
Total nonperforming assets and troubled debt restructurings to total assets	11.51 %	6.44 %	0.96 %	0.66 %	– %

Other than disclosed in the above table and in the classified assets table below, management believes that there are no other loans at December 31, 2010 and December 31, 2009 that we have serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

Troubled debt restructurings occur when we grant borrowers concessions that we would not otherwise grant but for economic or legal reasons pertaining to the borrower's financial difficulties. These concessions may include, but are not limited to, modifications of the terms of the debt, the transfer of assets or the issuance of any equity interest by the borrower to satisfy all or part of the debt, or the substitution or addition of borrower(s). Generally, we will not upgrade the internal classification of a troubled debt restructuring until the borrower has demonstrated the ability to make principal and interest payments under the restructure terms for at least six consecutive months.

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Non-accrual loans at December 31, 2010 consisted of thirteen loans in the aggregate – three multi-family mortgage loans, three non-residential mortgage loans, and seven construction mortgage loans.

The three non-accrual multi-family mortgage loans, net of charge-off of $445,000, totaled $2.2 million at December 31, 2010, consisting of the following mortgage loans:

(1) An outstanding balance of $1.1 million secured by an apartment building and a restaurant/pub. The borrower recently sold the restaurant operation to a well known Boston chain and simultaneously signed a roof top lease with a national operator of roof top cell towers. Upon the simultaneous closing of the two transactions, the loan was brought current subsequent to December 31, 2010, and is now performing according to the terms of the modified note.

(2) An outstanding balance of $743,000, net of a charge-off of $445,000, secured by an apartment building. The Bank has initiated a foreclosure action and a lawsuit on the general guarantee is progressing. Based on a signed contract of sale, the Bank established a specific allowance of $216,000 against the loan.

(3) An outstanding balance of $346,000 secured by a mixed-use apartment building. Our foreclosure action is in the final stages of completion. We are currently negotiating with the borrower and his attorney for a loan modification, however if the modification discussions with the borrower are not successful in the short term, we will complete our foreclosure action. Based on a current appraisal and projected cash flow analysis, at this time, we do not anticipate any additional losses on this loan.

The three non-accrual non-residential mortgage loans, net of charge-offs of $400,000, totaled $5.5 million at December 31, 2010, consisting of the following mortgage loans:

(1) An outstanding balance of $4.5 million secured by an office building. The managing member of the borrowing entity is the same individual as the managing member of the borrowing entity of the hotel construction loan referenced below. We have recently negotiated an agreement with the borrower to begin making partial payments during the foreclosure action and the suit on the personal guaranty. In return, the Bank has agreed to forbear from collecting any judgment obtained in the pending lawsuits until December 31, 2011 (the maturity date) in the absence of a settlement agreement. Also under this agreement, the obligor will be required to make additional monthly payments equal to 100% of the net income from the property during the term of this agreement. While the foreclosure action is progressing, we will monitor the cash flow and require several capital improvements be made to the building to allow it to better compete in the Mercer County office market. Based on a current appraisal and projected cash flow analysis, at this time, we do not anticipate any additional losses on this loan.

(2) An outstanding balance of $496,000 secured by a restaurant with 23 boat slips and a general guarantee of the borrower. We have received a Judgment of Foreclosure and Sale. A foreclosure sale will be scheduled and based on a current appraisal, management anticipates full recovery of all outstanding amounts due.

(3) An outstanding balance of $437,000, net of a charge-off of $400,000, secured by a strip shopping center and warehouse. The property was severely damaged by fire and the Bank and borrower are currently suing the insurance company and the borrower's insurance agent as part of the Bank's collection efforts. The borrower is making monthly escrow payments. We do not anticipate any additional losses on this loan and expect to recover all legal and court fees upon resolution of the suit.

The seven non-accrual construction mortgage loans, net of loans in process of $121,000, totaled $11.6 million at December 31, 2010, consisting of the following mortgage loans:

(1) Four construction mortgage loans with an aggregate outstanding balance of $7.5 million (net of loans in process of $85,000), representing a 25% interest in a participation loan, secured by a newly completed boutique hotel. Additional security consists of a general guarantee of the two principals and an assignment of LLC interests in two other properties. The managing member of the borrowing entity is the same individual as the managing member of the borrowing entity of the office building loan referenced above.

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The loan was restructured in 2010 and was current under the terms of a restructure agreement until October 2010. Although the hotel is now complete and in full operation, the winter season and poor economy has adversely affected the cash flow and the borrower has been unable to continue to meet its obligations based on the restructure agreement. At this time we are evaluating all of the available information, and in concert with the other participants, have been negotiating with several potential purchasers who have expressed an interest in purchasing the notes and mortgages. During the fourth quarter of 2010, a specific allowance in the amount of $1.3 million was recorded to cover the anticipated loss on the sale of the notes and mortgages. We will continue to negotiate with the interested parties and monitor the operations of the hotel.

(2) A construction mortgage loan with an outstanding balance of $2.7 million, representing a 20% interest in a participation loan, secured by two lots for a planned three phase residential condominium project. Phase one was completed and is not part of this loan. However, the construction project stalled and defaulted when the developer could not obtain construction financing from conventional lenders. The participating banks recently received and approved an all cash offer of $2.5 million for the sale of the note. Based on this offer, we have established a specific allowance of $203,000. Closing on the note sale is pending.

(3) Two construction mortgage loans with an aggregate outstanding balance of $1.4 million (net of loans in process of $36,000), representing a 20% interest in a participation loan, secured by a newly completed 30,000 square foot medical office building. Construction is progressing on schedule with no cost over-runs. The borrowers defaulted on the loan after the participating banks declined the borrowers' request for a lower interest rate. Both principals have substantial net worth positions and are capable of carrying the debt service payments. Upon the participating banks' commencement of a suit on the guarantee and subsequent to December 31, 2010, the borrowers entered into a Stipulation and Order of Settlement agreement to bring the loan current within three months and to maintain the current status for the remaining term of the loan. To date, all payments have been made according to the Stipulation Agreement. Based on a projected cash flow analysis, a specific reserve of $247,000 was established in 2010.

We are in the process of foreclosing on all of the multi-family, and non-residential loans, and two of the three construction properties. Based on recent fair value analyses of these properties, the Bank does not expect any losses beyond the amounts already charged off or reserved for. All of the above-mentioned thirteen loans have been classified as substandard.

Interest income that would have been recorded for the year ended December 31, 2010 had non-accruing loans been current to their original terms amounted to approximately $941,000. During the year ended December 31, 2010, the Bank recognized interest income of approximately $464,000 on the nonaccrual loans.

The three delinquent and accruing multi-family mortgage loans totaled $2.6 million at December 31, 2010, consisting of the following:

(1) A delinquent loan with an outstanding balance of $1.2 million secured by an apartment building. The borrower and all his related properties are operating under Chapter 11 bankruptcy protection and are making regularly scheduled payments as approved by the Trustee. Based on the reorganization plan before the Court, we expect repayment of all principal and interest due. There is a hearing scheduled in court on April 26, 2011 where the debtor will present the plan to the judge for discussion. Based on the current appraisal and the reorganization plan before the Court, we expect repayment of all principal and interest due.

(2) A delinquent loan with an outstanding balance of $1.2 million secured by an apartment building. The delinquency is the result of a lawsuit claiming a title defect that affects the property, filed by the previous owner, so that the debtor never owned record title to the mortgage property. The Bank filed a lawsuit seeking a declaration that the

mortgage is a valid encumbrance against the property. A ruling on the Bank's motion for Preliminary Injunction and Motion for Lis Pendens is expected no later than June 30, 2011. No trial date has been set, but we do not expect a trial date until early 2012. No reservation of rights has been raised by the title company and we and our attorneys are unaware of any defenses to coverage having been asserted by the title insurance company.

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(3) A delinquent loan with an outstanding balance of $201,000 secured by an apartment building. Based on the borrower's representation of a vacancy and cash flow problem, confirmed by the SAG, a Forbearance Agreement was signed in May 2010. The loan remained current under the agreement for several months before defaulting. The Bank commenced a foreclosure action in October 2010 and during the fourth quarter the borrower entered into a sales contract in the amount of $400,000, well in excess of the current debt. We do not anticipate a loss on this loan.

At December 31, 2010, one of the foreclosed properties had a net balance of $297,000 and consisted of 27 units in three multi-family buildings. This property is currently listed for sale with local real estate broker. The other foreclosed property had a net balance of $636,000 and consisted of a six unit multi-family building. We renovated this property and have leased all the units. We expect to market the property in the near future.

Federal regulations require us to review and classify our assets on a regular basis. In addition, the Office of Thrift Supervision has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified "loss" is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a "special mention" category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. We recognize a loss as soon as a reasonable determination of that loss can be made. We directly charge, against earnings, that portion of the asset that is determined to be uncollectible. If an accurate determination of the loss is impossible, for any reason, we will establish an allowance in an amount sufficient to absorb the most probable loss expected. In cases where a reasonable determination of a loss cannot be made, we will adjust our allowance to reflect a potential loss until a more accurate determination can be made.

The following table shows the aggregate amounts of our classified assets at the dates indicated.

	At December 31, 2010	2009 (In thousands)	2008
Special mention assets	$ 7,567	$ 33,221	$ –
Substandard assets	22,103	12,160	3,220
Doubtful and loss assets	–	–	–
Total classified assets	$ 29,670	$ 45,381	$ 3,220

The decrease in classified assets was due to management's efforts to reduce non-performing loans. On the basis of management's review of assets, we classified $7.6 million of our assets at December 31, 2010 as special mention or potential problem loans compared to $33.2 million classified as special mention at December 31, 2009. In addition, we classified $22.1 million at December 31, 2010 as substandard compared to $12.2 million at December 31, 2009.

We have charged off $936,000 in losses on these classified assets. In this regard, we have charged off $936,000 in losses for two substandard loans, resulting in a net total balance of $1.2 million. These two substandard loans comprised of one non-residential real estate loan totaling $437,000 (net) and one multi-family real estate loan totaling $743,000 (net). In addition, we have charged off $2,000 in loss for one special mention multi-family real estate loan, resulting in a net balance of $912,000.

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The substandard loans at December 31, 2010 consisted of thirteen loans in the aggregate – three multi-family mortgage loans, three non-residential mortgage loans, and seven construction mortgage loans. See the non-accrual loan discussion above for a description of the five of the six substandard multi-family mortgage loans, the three substandard non-residential mortgage loans, and the seven substandard construction mortgage loans.

The sixth substandard multi-family mortgage loan was one month delinquent and accruing, has an outstanding balance of $1.5 million, and is secured by a 26 unit multi-family townhouse complex.

Delinquencies. The following table provides information about delinquencies in our loan portfolio at the dates indicated.

	At December 31,					
	2010		2009		2008	
	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due
	(In thousands)					
Residential real estate:						
One- to four-family	$ –	$ –	$ –	$ –	$ –	$ –
Multi-family	1,450	–	–	477	–	1,345
Mixed-use	–	–	–	–	–	–
Non-residential real estate	–	–	–	1,285	–	–
Construction	–	–	–	–	–	–
Commercial	–	–	–	–	–	–
Consumer and other loans	2	–	–	–	–	–
Total	$ 1,452	$ –	$ –	$ 1,762	$ –	$ 458

Delinquent loans at December 31, 2010 consisted of two loans in the aggregate – one multi-family mortgage loan and one consumer loan. The Bank has classified the delinquent multi-family loan as substandard at December 31, 2010 and the loan is included in the classified loan schedule listed above. The one delinquent consumer loan consists of an overdraft loan that was paid-off subsequent to December 31, 2010.

Analysis and Determination of the Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable credit losses in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings. The recommendations for increases or decreases to the allowance are presented by management to the board of directors.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allowance on identified impaired and problem loans, if appropriate; and (2) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

Specific Allowance Required for Identified Impaired Loans. We establish an allowance on certain identified impaired loans when the loan balance exceeds the fair value, discounted cash flows or observable market price of the underlying collateral and when collection of the full amount outstanding becomes improbable.

General Valuation Allowance on the Remainder of the Loan Portfolio. We establish a general allowance for pools of loans by loan class, including those that are not impaired and subject to specific allowances to recognize the inherent losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning a historical loss factor to each category. The historical loss factors are adjusted for qualitative factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These qualitative factors may include changes in existing general economic and business conditions affecting our primary lending areas and the national economy, legal and regulatory issues, policies and procedures in underwriting standards, staff lending experience, recent loss experience in particular segments of the portfolio, collateral value, loan volumes and concentration, specific reserve and classified asset trends, delinquency trends and risk rating trends. These loss factors are subject to ongoing evaluation to ensure their relevance in the current economic environment.

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At December 31, 2010, our allowance for loan losses was $7.6 million and represented 2.06% of total gross loans. At December 31, 2009, our allowance for loan losses was $6.7 million and represented 1.72% of total gross loans. At December 31, 2008, our allowance for loan losses was $1.9 million and represented 0.51% of total gross loans. The primary reason for the increase in allowance for loan losses during 2010 and 2009 was the continued deterioration in the financial condition of several commercial real estate borrowers and the continuing decline in the market value of their related collateral properties.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated.

	At December 31,								
	2010			2009			2008		
	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
	(Dollars in thousands)								
Residential real estate:									
One- to four-family	$–	0.0 %	0.1 %	$–	0.0 %	0.1 %	$–	0.0 %	0.1 %
Multi-family	3,450	45.1	51.1	3,350	49.8	51.3	604	32.4	51.1
Mixed-use	474	6.2	14.9	598	8.9	15.3	319	17.1	16.0
Non-residential real estate	1,560	20.4	27.1	2,495	37.0	26.8	841	45.1	28.2
Construction	2,083	27.2	3.5	186	2.8	3.9	21	1.1	2.5
Commercial	80	1.1	3.3	104	1.5	2.6	80	4.3	2.1
Consumer and other loans	–	0.0	0.0	–	0.0	0.0	–	0.0	0.0
Total allowance for loan losses	$7,647	100.0 %	100.0 %	$6,733	100.0 %	100.0 %	$1,865	100.0 %	100.0 %

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	At December 31,					
	2007			2006		
	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
	(Dollars in thousands)					
Residential real estate:						
One- to four-family	$ –	0.0 %	0.1 %	$ –	0.0 %	0.2 %
Multi-family	472	31.7	49.0	395	32.9	54.8
Mixed-use	250	16.8	18.5	251	20.9	21.1
Non-residential real estate	691	46.4	28.0	554	46.2	23.7
Construction	50	3.4	3.3	–	0.0	0.0
Commercial	25	1.7	1.1	–	0.0	0.0
Consumer and other loans	–	0.0	0.0	–	0.0	0.2
Total allowance for loan losses	$ 1,489	100.0 %	100.0 %	$ 1,200	100.0 %	100.0 %

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with U.S. generally accepted accounting principles, there can be no assurance that the Office of Thrift Supervision, in reviewing our loan portfolio, will not request us to increase our allowance for loan losses. The Office of Thrift Supervision may require us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our consolidated financial condition and results of operations.

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Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Allowance at beginning of period	$6,733	$1,865	$1,489	$1,200	$1,200
Provision for loan losses	3,487	7,314	411	338	–
Charge offs:					
Residential real estate:					
One- to four-family	–	–	–	–	–
Multi-family	(1,211)	(857)	–	–	–
Mixed-use	–	–	(35)	(49)	–
Non-residential real estate	(1,407)	(1,589)	–	–	–
Construction	–	–	–	–	–
Consumer and other loans	–	–	–	–	–
Total charge-offs	(2,618)	(2,446)	(35)	(49)	–
Recoveries:					
Residential real estate:					
One- to four-family	–	–	–	–	–
Multi-family	45	–	–	–	–
Mixed-use	–	–	–	–	–
Non-residential real estate	–	–	–	–	–
Construction	–	–	–	–	–
Consumer and other loans	–	–	–	–	–
Total recoveries	45	–	–	–	–
Net charge-offs	(2,573)	(2,446)	(35)	(49)	–
Allowance at end of period	$7,647	$6,733	$1,865	$1,489	$1,200
Allowance to nonperforming loans	35.07%	33.41%	57.92%	65.48%	N/M
Allowance to total loans outstanding at the end of the period	2.06%	1.72%	0.51%	0.53%	0.63%
Net charge-offs to average loans outstanding during the period	0.67%	0.62%	0.01%	0.02%	0.00%

Interest Rate Risk Management. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: originating mortgage real estate loans that re-price to market interest rates in three to five years; purchasing securities that typically re-price within a three year time frame to limit exposure to market fluctuations; and, where appropriate, offering higher rates on long term certificates of deposit to lengthen the re-pricing time frame of our liabilities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of our chief executive officer, chief financial officer, chief mortgage officer, chief retail banking officer, and treasurer, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

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Net Portfolio Value Analysis. We use a net portfolio value analysis prepared by the Office of Thrift Supervision to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

The following table presents the change in the net portfolio value of the Bank at December 31, 2010 that would occur in the event of an immediate change in interest rates based on the Office of Thrift Supervision assumptions, with no effect given to any steps that we might take to counteract that change.

	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
Basis Point ("bp") Change in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
300	$87,020	$(5,819)	(6)%	19.44%	(71) bp
200	89,156	(3,683)	(4)%	19.72%	(43) bp
100	91,082	(1,757)	(2)%	19.95%	(20) bp
50	91,952	(888)	(1)%	20.05%	(10) bp
0	92,839			20.15%	
(50)	93,802	963	1%	20.27%	12 bp
(100)	94,998	2,159	2%	20.44%	29 bp

We and the Office of Thrift Supervision use various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to re-pricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the Federal Home Loan Bank of New York. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

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Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. Cash and cash equivalents totaled $44.5 million at December 31, 2010 and consist primarily of deposits at other financial institutions (Predominantly the Federal Home Loan Bank of New York) and miscellaneous cash items. Securities classified as available-for-sale provide an additional source of liquidity. Total securities classified as available-for-sale were $162,000 at December 31, 2010 and $176,000 at December 31, 2009.

At December 31, 2010, we had $19.5 million in loan commitments outstanding. At December 31, 2010, this consisted of $15.2 million in unused commercial loan lines of credit, $2.2 million in unused real estate equity lines of credit, $1.7 million of real estate loan origination commitments, $271,000 in construction loans in process, and $154,000 in unused consumer lines of credit. Certificates of deposit due within one year of December 31, 2010 totaled $143.7 million. This represented 81.1% of certificates of deposit at December 31, 2010. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2010. We believe, however, based on past experience, that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts. At December 31, 2010, we had the ability to borrow $63.8 million, net of $25.0 million in outstanding advances, from the Federal Home Loan Bank of New York. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan and commercial loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen repricing time frames.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders. The Company's liquidity may depend, in part, upon its receipt of dividends from the Bank because the Company has no source of income other than earnings from the investment of the net proceeds from its initial public offering. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the OTS but with prior notice to the OTS, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At December 31, 2010, the Company had liquid assets of $18.3 million.

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The following table presents our primary investing and financing activities during the periods indicated.

	Year Ended December 31, 2010	2009	2008
	(In thousands)		
Investing activities:			
Loans disbursed or closed	$ (8,188)	$ (40,326)	$ (124,901)
Purchase of loan participations	–	(5,198)	(8,377)
Loan principal repayments	25,979	17,583	44,034
Sale of loans	–	–	7,045
Proceeds from maturities and principal repayments of securities	14,526	392	882
Purchases of securities	(22,568)	(10,151)	–
Purchase of bank owned life insurance	(5,000)	(1,200)	–
Proceeds from sale of premises and equipment	2,797	–	–
Purchases of premises and equipment	(209)	(4,552)	(396)
Financing activities:			
Increase (decrease) in deposits	(52,688)	118,088	35,452
Proceeds from FHLB-NY advances	–	10,000	40,000
Repayment of FHLB-NY advances	(10,000)	(15,000)	–

Capital Management. We are subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2010, we exceeded all of our regulatory capital requirements. We are considered "well capitalized" under regulatory guidelines.

The capital from our initial public offering increased our liquidity and capital resources. In addition, the sale of our First Avenue branch office building in the second quarter of 2007 further increased our capital in 2007. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering and the sale of the branch office building are used for general corporate purposes, including the fun