TIMBERLAND BANCORP INC
Form 10-Q
May 10, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to _____.

Commission file number 0-23333

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

Washington (State or other jurisdiction of incorporation or organization)	91-1863696 (IRS Employer Identification No.)
624 Simpson Avenue, Hoquiam, Washington (Address of principal executive offices)	98550 (Zip Code)

(360) 533-4747
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 ___

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X_ No __

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

Large accelerated filer ___ Accelerated Filer Non-accelerated filer __ Smaller reporting company _X_

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

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

CLASS	SHARES OUTSTANDING AT APRIL 30, 2013
Common stock, $.01 par value	7,045,036

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2013 and September 30, 2012
(Dollars in thousands, except per share amounts)
(Unaudited)

	March 31, 2013	September 30, 2012
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	$11,250	$11,008
Interest-bearing deposits in banks	74,550	85,660
Total cash and cash equivalents	85,800	96,668
Certificates of deposit (“CDs”) held for investment (at cost which approximates fair value)	26,057	23,490
Mortgage-backed securities (“MBS”) and other investments - held to maturity, at amortized cost (estimated fair value $3,440 and $3,632)	3,060	3,339
MBS and other investments - available for sale	4,463	4,945
Federal Home Loan Bank of Seattle (“FHLB”) stock	5,553	5,655
Loans receivable	554,313	548,878
Loans held for sale	3,787	1,427
Less: Allowance for loan losses	(11,313)	(11,825)
Net loans receivable	546,787	538,480
Premises and equipment, net	18,126	17,886
Other real estate owned (“OREO”) and other repossessed assets, net	15,031	13,302
Accrued interest receivable	2,081	2,183
Bank owned life insurance (“BOLI”)	16,812	16,524
Goodwill	5,650	5,650
Core deposit intangible (“CDI”)	184	249
Mortgage servicing rights (“MSRs”), net	2,412	2,011
Prepaid Federal Deposit Insurance Corporation (“FDIC”) insurance assessment	758	1,186
Other assets	5,347	5,386
Total assets	$738,121	$736,954
Liabilities and shareholders’ equity		
Liabilities:		
Deposits:		
Non-interest-bearing demand	$80,938	$75,296
Interest-bearing	520,647	522,630
Total deposits	601,585	597,926
FHLB advances	45,000	45,000
Repurchase agreements	549	855
Other liabilities and accrued expenses	2,456	2,854
Total liabilities	649,590	646,635

See notes to unaudited condensed consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
March 31, 2013 and September 30, 2012
(Dollars in thousands, except per share amounts)
(Unaudited)

Shareholders' equity		
Preferred stock, $.01 par value; 1,000,000 shares authorized; 12,065 shares, Series A, issued and outstanding - March 31, 2013 16,641 shares, Series A, issued and outstanding; - September 30, 2012 redeemable at $1,000 per share	$11,842	$16,229
Common stock, $.01 par value; 50,000,000 shares authorized; 7,045,036 shares issued and outstanding	10,524	10,484
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(1,587)	(1,719)
Retained earnings	68,198	65,788
Accumulated other comprehensive loss	(446)	(463)
Total shareholders' equity	88,531	90,319
Total liabilities and shareholders' equity	$738,121	$736,954

See notes to unaudited condensed consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three and six months ended March 31, 2013 and 2012
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Interest and dividend income				
Loans receivable	$7,395	$7,607	$14,809	$15,412
MBS and other investments	70	109	147	234
Dividends from mutual funds	5	7	17	20
Interest-bearing deposits in banks	82	81	168	170
Total interest and dividend income	7,552	7,804	15,141	15,836
Interest expense				
Deposits	650	1,035	1,378	2,204
FHLB advances	461	496	933	1,058
Total interest expense	1,111	1,531	2,311	3,262
Net interest income	6,441	6,273	12,830	12,574
Provision for loan losses	1,175	1,050	1,375	1,700
Net interest income after provision for loan losses	5,266	5,223	11,455	10,874
Non-interest income				
Other than temporary impairment ("OTTI") on MBS and other investments	4	(94)	(3)	(183)
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes	(29)	—	(32)	30
Net OTTI on MBS and other investments	(25)	(94)	(35)	(153)
Gain on sales of MBS and other investments	—	20	—	20
Service charges on deposits	827	890	1,774	1,860
ATM and debit card interchange transaction fees	521	540	1,036	1,057
BOLI net earnings	144	154	287	311
Gain on sales of loans, net	833	596	1,475	1,155
Escrow fees	44	22	79	49
Valuation recovery on MSRs	221	142	475	226
Fee income from non-deposit investment sales	31	26	56	38
Other	182	197	346	374
Total non-interest income, net	2,778	2,493	5,493	4,937

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three and six months ended March 31, 2013 and 2012
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Non-interest expense				
Salaries and employee benefits	$3,086	$3,055	$6,200	$5,983
Premises and equipment	725	682	1,415	1,332
Advertising	172	172	349	380
OREO and other repossessed assets, net	506	434	794	936
ATM	196	197	417	392
Postage and courier	122	139	235	257
Amortization of CDI	32	37	65	74
State and local taxes	157	152	296	301
Professional fees	192	232	434	411
FDIC insurance	128	241	369	466
Other insurance	43	53	95	109
Loan administration and foreclosure	49	372	187	533
Data processing and telecommunications	305	315	592	615
Deposit operations	129	193	293	416
Other	342	298	820	589
Total non-interest expense	6,184	6,572	12,561	12,794
Income before federal and state income taxes	1,860	1,144	4,387	3,017
Provision for federal and state income taxes	582	336	1,401	927
Net income	1,278	808	2,986	2,090
Preferred stock dividends	(207)	(208)	(408)	(416)
Preferred stock discount accretion	(126)	(59)	(189)	(118)
Repurchase of preferred stock at a discount	255	—	255	—
Net income to common shareholders	$1,200	$541	$2,644	$1,556
Net income per common share				
Basic	$0.18	$0.08	$0.39	$0.23
Diluted	$0.17	$0.08	$0.39	$0.23
Weighted average common shares outstanding				
Basic	6,815,782	6,780,516	6,815,782	6,780,516
Diluted	6,889,504	6,780,516	6,854,879	6,780,516
Dividends paid per common share	$0.03	$—	$0.03	$—

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six months ended March 31, 2013 and 2012
(In thousands)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Comprehensive income:				
Net income	$1,278	$808	$2,986	$2,090
Unrealized holding loss on securities available for sale, net of tax	(8)	(42)	(27)	(56)
Change in OTTI on securities held to maturity, net of tax:				
Additions to OTTI	—	(13)	—	(27)
Additional amount recognized (recovered) related to credit loss for which OTTI was previously recognized	18	8	18	(4)
Amount reclassified to credit loss for previously recorded market loss	1	5	3	11
Accretion of OTTI securities held to maturity, net of tax	11	15	23	26
Total comprehensive income	$1,300	$781	$3,003	$2,040

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the six months ended March 31, 2013 and the year ended September 30, 2012
(Dollars in thousands, except per share amounts)
(Unaudited)

	Number of Shares		Amount					
	Preferred Stock	Common Stock	Preferred Stock	Common Stock	Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Compre-hensive Loss	Total
Balance, September 30, 2011	16,641	7,045,036	$15,989	$10,457	$(1,983)	$62,270	$ (528)	$86,205
Net income	—	—	—	—	—	4,590	—	4,590
Accretion of preferred stock discount	—	—	240	—	—	(240)	—	—
5% preferred stock dividend	—	—	—	—	—	(832)	—	(832)
Earned ESOP shares	—	—	—	(65)	264	—	—	199
MRDP (1) compensation expense	—	—	—	77	—	—	—	77
Stock option compensation expense	—	—	—	15	—	—	—	15
Unrealized holding gain on securities available for sale, net of tax	—	—	—	—	—	—	14	14
Change in OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	5	5
Accretion of OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	46	46
Balance, September 30, 2012	16,641	7,045,036	16,229	10,484	(1,719)	65,788	(463)	90,319
Net income	—	—	—	—	—	2,986	—	2,986
Accretion of preferred stock discount	—	—	189	—	—	(189)	—	—
Redemption of preferred stock	(4,576)	—	(4,576)	—	—	255	—	(4,321)
5% preferred stock dividend	—	—	—	—	—	(431)	—	(431)
Common stock dividend ($0.03 per	—	—	—	—	—	(211)	—	(211)

common share)								
Earned ESOP shares	—	—	—	(6)	132	—	—	126
MRDP compensation expense	—	—	—	22	—	—	—	22
Stock option compensation expense	—	—	—	24	—	—	—	24
Unrealized holding loss on securities available for sale, net of tax	—	—	—	—	—	—	(27)	(27)
Change in OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	21	21
Accretion of OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	23	23
Balance, March 31, 2013	12,065	7,045,036	$11,842	$10,524	$(1,587)	$68,198	$ (446)	$88,531

(1) 1998 Management Recognition and Development Plan (“MRDP”).

See notes to unaudited condensed consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended March 31, 2013 and 2012
(Dollars in thousands)
(Unaudited)

	Six Months Ended March 31, 2013	2012
Cash flows from operating activities		
Net income	$2,986	$2,090
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,375	1,700
Depreciation	528	460
Deferred federal income taxes	55	353
Amortization of CDI	65	74
Earned ESOP shares	132	132
MRDP compensation expense	22	55
Stock option compensation expense	24	7
(Gain) loss on sales of OREO and other repossessed assets, net	(219)	294
Provision for OREO losses	619	372
Gain on sale of premises and equipment	(8)	—
BOLI net earnings	(287)	(311)
Gain on sales of loans, net	(1,475)	(1,155)
Decrease in deferred loan origination fees	(243)	(86)
Net OTTI on MBS and other investments	35	153
Gain on sale of MBS and other investments	—	(20)
Valuation recovery on MSRs	(475)	(226)
Loans originated for sale	(53,957)	(43,684)
Proceeds from sales of loans	53,072	47,588
Decrease (increase) in other assets, net	566	(774)
(Decrease) increase in other liabilities and accrued expenses, net	(398)	153
Net cash provided by operating activities	2,417	7,175
Cash flows from investing activities		
Net increase in CDs held for investment	(2,567)	(1,521)
Proceeds from maturities and prepayments of MBS and other investments available for sale	447	617
Proceeds from maturities and prepayments of MBS and other investments held to maturity	317	364
Proceeds from the sale of MBS and other investments	—	743
Redemption of FHLB stock	102	—
Increase in loans receivable, net	(10,861)	(9,908)
Additions to premises and equipment	(768)	(710)
Proceeds from sale of premises and equipment	8	—
Proceeds from sale of OREO and other repossessed assets	1,653	698
Net cash used in investing activities	(11,669)	(9,717)

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the six months ended March 31, 2013 and 2012
(Dollars in thousands)
(Unaudited)

	Six Months Ended March 31, 2013	2012
Cash flows from financing activities		
Increase in deposits, net	3,659	11,918
Repayment of FHLB Advances	—	(10,000)
Increase (decrease) in repurchase agreements, net	(306)	219
ESOP tax effect	(6)	(39)
Repurchase of preferred stock	(4,321)	—
Dividends paid	(642)	—
Net cash provided by (used in) financing activities	(1,616)	2,098
Net decrease in cash and cash equivalents	(10,868)	(444)
Cash and cash equivalents		
Beginning of period	96,668	112,065
End of period	$85,800	$111,621
Supplemental disclosure of cash flow information		
Income taxes paid	$1,793	$918
Interest paid	2,356	3,390
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	$4,452	$1,937
Loans originated to facilitate the sale of OREO	670	3,360

See notes to unaudited condensed consolidated financial statements

Timberland Bancorp, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Basis of Presentation: The accompanying unaudited condensed consolidated financial statements for Timberland Bancorp, Inc. ("Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim condensed consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2012 ("2012 Form 10-K"). The unaudited condensed consolidated results of operations for the six months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2013.

(b) Principles of Consolidation: The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank ("Bank"), and the Bank's wholly-owned subsidiary, Timberland Service Corp. All significant inter-company transactions and balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, "Timberland Bank."

(d) The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the March 31, 2013 presentation with no change to net income or total shareholders' equity previously reported.

(2) REGULATORY MATTERS
In December 2009, the FDIC and the Washington State Department of Financial Institutions, Division of Banks ("DFI") determined that the Bank required supervisory attention and agreed to terms on a Memorandum of Understanding (the "Bank MOU") with the Bank. The terms of the Bank MOU restricted the Bank from certain activities, and required that the Bank obtain prior written approval, or non-objection from the FDIC and/or the DFI to engage in certain activities. On December 12, 2012, the FDIC and the DFI notified the Bank that the Bank MOU had been rescinded.

In addition, in February 2010, the Federal Reserve Bank of San Francisco ("FRB") determined that the Company required additional supervisory attention and entered into a Memorandum of Understanding with the Company (the "Company MOU"). Under the Company MOU, the Company was required, among other things, to obtain prior written approval or non-objection from the FRB to declare or pay any dividends, or make any other capital distributions; issue any trust preferred securities; or purchase or redeem any of its stock. On January 15, 2013, the FRB notified the Company that the Company MOU had been rescinded.

(3) PREFERRED STOCK RECEIVED IN TROUBLED ASSET RELIEF PROGRAM ("TARP") CAPITAL PURCHASE PROGRAM ("CPP")

On December 23, 2008, the Company received $16.64 million from the U.S. Treasury Department (“Treasury”) as a part of the Treasury’s CPP, which was established as part of the TARP. The Company sold 16,641 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (“Series A Preferred Stock”), with a liquidation value of $1,000 per share and a related warrant to purchase 370,899 shares of the Company’s common stock at an exercise price of $6.73 per share (subject to anti-dilution adjustments) at any time through December 23, 2018. The Series A Preferred Stock pays a 5.0% dividend for the first five years, after which the rate increases to 9.0% if the preferred shares are not redeemed by the Company.

The Series A Preferred Stock was initially recorded at the amount of proceeds received. The discount from the liquidation value is accreted to the expected call date and charged to retained earnings. This accretion is recorded using the level-yield method. Preferred dividends accrued and any accretion is deducted from net income for computing net income to common shareholders and net income per share computations.

On November 13, 2012, the Company's outstanding 16,641 shares of Series A Preferred Stock were sold by the Treasury as part of its efforts to manage and recover its investments under the TARP. While the sale of these Series A Preferred shares to new owners did not result in any proceeds to the Company and did not change the Company's capital position or accounting for these securities, it did eliminate restrictions put in place by the Treasury on TARP recipients. The Treasury retained its related warrant to purchase up to 370,899 shares of the Company's common stock.

During the quarter ended March 31, 2013, the Company purchased and retired 4,576 shares of its Series A Preferred Stock for $4.32 million; a discount from par value of $255,000. The discount from par value on the repurchased shares was recorded as an increase to net income to common shareholders. This increase to net income to common shareholders was partially offset by $62,000 of accelerated discount accretion on the shares purchased. Even though the Company MOU has been rescinded, approval from the FRB is still required before Series A Preferred Stock can be purchased and retired. Therefore, future repurchases of the the Series A Preferred Stock are contingent upon receiving approval from the FRB.

(4) MBS AND OTHER INVESTMENTS

MBS and other investments have been classified according to management's intent and are as follows as of March 31, 2013 and September 30, 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2013				
Held to Maturity				
MBS:				
U.S. government agencies	$1,345	$41	$(2)	$1,384
Private label residential	1,701	376	(37)	2,040
U.S. agency securities	14	2	—	16
Total	$3,060	$419	$(39)	$3,440
Available for Sale				
MBS:				
U.S. government agencies	$2,480	$125	$—	$2,605
Private label residential	907	66	(110)	863
Mutual funds	1,000	—	(5)	995
Total	$4,387	$191	$(115)	$4,463
September 30, 2012				
Held to Maturity				
MBS:				
U.S. government agencies	$1,493	$44	$(3)	$1,534
Private label residential	1,819	309	(60)	2,068
U.S. agency securities	27	3	—	30
Total	$3,339	$356	$(63)	$3,632
Available for Sale				
MBS:				
U.S. government agencies	$2,828	$147	$—	$2,975
Private label residential	1,001	65	(109)	957
Mutual funds	1,000	13	—	1,013
Total	$4,829	$225	$(109)	$4,945

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The following table summarizes the estimated fair value and gross unrealized losses for all securities and the length of time these unrealized losses existed as of March 31, 2013 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses
Held to Maturity MBS:								
U.S. government agencies	$1	$—	3	$95	$(2)	4	$96	$(2)
Private label residential	—	—	—	263	(37)	20	263	(37)
Total	$1	$—	3	$358	$(39)	24	$359	$(39)
Available for Sale MBS:								
Private label residential	$—	$—	—	$586	$(110)	4	$586	$(110)
Mutual Funds	995	(5)	1	—	—	—	995	(5)
Total	$995	$(5)	1	$586	$(110)	4	$1,581	$(115)

The following table summarizes the estimated fair value and gross unrealized losses for all securities and the length of time the unrealized losses existed as of September 30, 2012 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses
Held to Maturity MBS:								
U.S. government agencies	$7	$—	1	$100	$(3)	4	$107	$(3)
Private label residential	17	(1)	1	423	(59)	28	440	(60)
Total	$24	$(1)	2	$523	$(62)	32	$547	$(63)
Available for Sale MBS:								
Private label residential	$—	$—	—	$651	$(109)	4	$651	$(109)
Total	$—	$—	—	$651	$(109)	4	$651	$(109)

During the three months ended March 31, 2013 and 2012, the Company recorded net OTTI charges through earnings on residential MBS of $25,000 and $94,000, respectively. During the six months ended March 31, 2013 and 2012, the Company recorded net OTTI charges through earnings on residential MBS of $35,000 and $153,000, respectively. The Company provides for the bifurcation of OTTI into (i) amounts related to credit losses which are recognized through earnings, and (ii)amounts related to all other factors which are recognized as a component of other comprehensive income (loss).

To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of each OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates and prepayment speeds

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included in third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans. The following table presents a summary of the significant inputs utilized to measure management's estimate of the credit loss component on OTTI securities as of March 31, 2013 and September 30, 2012:

	Range Minimum	Maximum	Weighted Average
At March 31, 2013			
Constant prepayment rate	6.00 %	15.00 %	10.52 %
Collateral default rate	0.15 %	25.91 %	7.75 %
Loss severity rate	6.99 %	78.36 %	45.51 %
At September 30, 2012			
Constant prepayment rate	6.00 %	15.00 %	8.77 %
Collateral default rate	0.06 %	28.40 %	8.74 %
Loss severity rate	0.52 %	76.03 %	48.28 %

The following tables present the OTTI for the three and six months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	$4	$—	$(88)	$(6)
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes (1)	(29)	—	—	—
Net OTTI recognized in earnings (2)	$(25)	$—	$(88)	$(6)

	Six Months Ended March 31, 2013		Six Months Ended March 31, 2012	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	$(2)	$(1)	$(140)	$(43)
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes (1)	(32)	—	30	—
Net OTTI recognized in earnings (2)	$(34)	$(1)	$(110)	$(43)

(1) Represents OTTI related to all other factors.
(2) Represents OTTI related to credit losses.

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The following table presents a roll-forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in other comprehensive income for the six months ended March 31, 2013 and 2012 (in thousands):

	Six Months Ended March 31,	
	2013	2012
Beginning balance of credit loss	$2,703	$3,361
Additions:		
Credit losses for which OTTI was not previously recognized	5	66
Additional increases to the amount related to credit loss for which OTTI was previously recognized	30	87
Subtractions:		
Realized losses previously recorded as credit losses	(384)	(419)
Ending balance of credit loss	$2,354	$3,095

There was no realized gain on sale of securities for either the three or six months ended March 31, 2013. There was a gross realized gain on sale of securities for both the three and six months ended March 31, 2012 of $20,000. During the three months ended March 31, 2013, the Company recorded a $152,000 realized loss (as a result of the securities being deemed worthless) on 15 held to maturity residential MBS and six available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2013, the Company recorded a $384,000 realized loss (as a result of the securities being deemed worthless) on 17 held to maturity residential MBS and six available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the three months ended March 31, 2012, the Company recorded a $223,000 realized loss (as a result of the securities being deemed worthless) on 18 held to maturity residential MBS and one available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2012, the Company recorded a $419,000 realized loss (as a result of the securities being deemed worthless) on 20 held to maturity residential MBS and one available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss.

The amortized cost of residential mortgage-backed and agency securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral, retail repurchase agreements and other non-profit organization deposits totaled $5.08 million and $5.70 million at March 31, 2013 and September 30, 2012, respectively.

The contractual maturities of debt securities at March 31, 2013 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities as a result of the prepayment of principal or call provisions.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$—	$—	$—	$—
Due after one year to five years	25	27	32	32
Due after five to ten years	15	15	18	18
Due after ten years	3,020	3,398	3,337	3,418
Total	$3,060	$3,440	$3,387	$3,468

(5) GOODWILL

The Company performed its fiscal year 2012 goodwill impairment test during the quarter ended June 30, 2012 with the assistance of a third-party firm specializing in goodwill impairment valuations for financial institutions. The third-party analysis was conducted as of May 31, 2012 and concluded that the fair value of goodwill was $30.0 million, which exceeded the carrying value of $5.7 million by 426%.

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The goodwill impairment test involved a two-step process. Step one of the goodwill impairment test estimated the fair value of the reporting unit utilizing the allocation of corporate value approach, the income approach and the market approach in order to derive an enterprise value for the Company.

The allocation of corporate value approach applies the aggregate market value of the Company and divides it among the reporting units. The Company has a single reporting unit. The aggregate market value was based on the Company's common stock market price on May 31, 2012, adjusted for a control premium and the value of preferred stock (at its liquidation value). A key assumption in this approach is the control premium applied to the aggregate market value. A control premium is utilized as the value of a company from the perspective of a controlling interest and is generally higher than the widely quoted market price per share. The Company used an expected control premium of 30%, which was based on comparable transaction history.

The income approach uses a reporting unit's projection of estimated operating results and cash flows that are discounted using a rate that reflects current market conditions. The projection uses management's estimates of economic and market conditions over the projected period including growth rates in loans and deposits, estimates of future expected changes in net interest margins and cash expenditures. Key assumptions used by the Company in its discounted cash flow model (income approach) included an annual revenue growth rate that approximated 3.8%, a net interest margin that approximated 3.9% and a return on assets that ranged from 0.47% to 0.74% (average of 0.64%). In addition to the above projections of estimated operating results, key assumptions used to determine the fair value estimate under the income approach were the discount rate of 12.6% utilized for the Company's cash flow estimate and a terminal value of 1.1 times the ending book value of the reporting unit. The Company used a build-up approach in developing the discount rate that included an assessment of the risk free interest rate, the rate of return expected from publicly traded stocks based on an analysis of historical data, the industry the Company operates in and the size of the Company.

The market approach estimates the fair value by applying cash flow multiples to the reporting unit's operating performance. The multiples were derived from comparable publicly traded companies with operating and investment characteristics similar to those of the reporting unit. In applying the market approach method, the Company selected eight publicly traded institutions based on a variety of financial metrics (tangible equity, return on assets, return on equity, net interest margin, nonperforming assets, net charge-offs, and reserves for loan losses) and other relevant qualitative factors (geographical location, lines of business, risk profile, availability of financial information, etc.).

The Company calculated a fair value of its reporting unit of $62 million using the corporate value approach, $77 million using the income approach and $77 million using the market approach. The concluded value based on the average of the three methods under the step one test was $72 million. The results of the Company's step one test indicated that the reporting unit's fair value was less than its recorded value and therefore the Company performed a step two analysis.

The Company then calculated the implied fair value of its reporting unit under step two of the goodwill impairment test. Under this approach, the Company calculated the fair value for the assets and liabilities of the reporting unit. The calculated implied fair value of the Company's goodwill exceeded the recorded value by $24.3 million.

Under the step two process significant adjustments were made to the fair value of the Company's loans receivable compared to its recorded value. The Company utilized a comparable transaction approach using comparable loan sales. In the comparable transaction approach a weighted average discount rate was used that approximated the discount for similar loan sales by the FDIC. A key assumption used by the Company was determining the appropriate discount rate to apply to each loan category. The Company segmented its loan portfolio into three categories: performing loans with credit quality grades of pass; performing loans with credit quality grades of watch, special mention or substandard; and nonperforming loans. Performing loans with credit quality grades of pass were discounted by 5%, performing loans with credit quality grades of watch, special mention or substandard were discounted by 20% and nonperforming loans were discounted by 75%. These weighted average discount rates approximated the discount for similar loan sales by the FDIC. Increases in the pricing for future reported loan sale transactions could have a significant impact on the implied fair value of goodwill under the step two process.

A significant amount of judgment is involved in determining if an indicator of goodwill impairment has occurred. Such indicators may include, among others; a significant decline in the expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse assessment or action by a regulator; and unanticipated competition. Key assumptions used in the annual goodwill impairment test are highly judgmental and include: selection of comparable companies, amount of control premium, projected cash flows, discount rate applied to projected cash flows and method of estimating fair value of loans. Any change in these indicators or key assumptions could have a significant negative impact on the Company's financial condition, impact the goodwill impairment analysis or cause the Company to perform a goodwill impairment analysis more frequently than once per year.

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As of March 31, 2013, management believes that there have been no events or changes in the circumstances that would indicate a potential impairment. No assurances can be given, however, that the Company will not record an impairment loss on goodwill in the future.

(6) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable and loans held for sale consisted of the following at March 31, 2013 and September 30, 2012 (dollars in thousands):

	March 31, 2013		September 30, 2012	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family (1)	$108,304	18.9 %	$106,979	18.8 %
Multi-family	47,330	8.3	47,521	8.4
Commercial	283,307	49.5	256,254	45.1
Construction and land development	39,658	6.9	56,406	9.9
Land	35,323	6.2	39,655	7.0
Total mortgage loans	513,922	89.8	506,815	89.2
Consumer loans:				
Home equity and second mortgage	32,080	5.6	32,814	5.8
Other	5,570	1.0	6,183	1.1
Total consumer loans	37,650	6.6	38,997	6.9
Commercial business loans	20,388	3.6	22,588	3.9
Total loans receivable	571,960	100.0 %	568,400	100.0 %
Less:				
Undisbursed portion of construction loans in process	(12,161)		(16,325)	
Deferred loan origination fees	(1,699)		(1,770)	
Allowance for loan losses	(11,313)		(11,825)	
Total loans receivable, net	$546,787		$538,480	

(1) Includes loans held for sale.

Construction and Land Development Loan Portfolio Composition

The following table sets forth the composition of the Company’s construction and land development loan portfolio at March 31, 2013 and September 30, 2012 (dollars in thousands):

	March 31, 2013		September 30, 2012	
	Amount	Percent	Amount	Percent
Custom and owner/builder	$32,515	82.0 %	$33,345	59.1 %
Speculative one- to four-family	1,718	4.3	1,880	3.4
Commercial real estate	4,521	11.4	20,247	35.9
Multi-family (including condominiums)	345	0.9	345	0.6
Land development	559	1.4	589	1.0
Total construction and land development loans	$39,658	100.0 %	$56,406	100.0 %

Allowance for Loan Losses

The following tables set forth information for the three and six months ended March 31, 2013 and March 31, 2012 regarding activity in the allowance for loan losses (dollars in thousands):

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	Three Months Ended March 31, 2013				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$1,829	$258	$261	$20	$1,846
Multi-family	945	(14)	116	—	815
Commercial	4,463	640	656	50	4,497
Construction – custom and owner/builder	294	(10)	—	—	284
Construction – speculative one- to four-family	132	9	—	—	141
Construction – commercial	371	(286)	—	—	85
Construction – multi-family	—	—	—	—	—
Construction – land development	20	(8)	—	—	12
Land	2,285	409	498	1	2,197
Consumer loans:					
Home equity and second mortgage	722	225	166	—	781
Other	249	(4)	6	—	239
Commercial business loans	459	(44)	—	1	416
Total	$11,769	$1,175	$1,703	$72	$11,313

	Six Months Ended March 31, 2013				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$1,558	$791	$524	$21	$1,846
Multi-family	1,156	(226)	116	1	815
Commercial	4,247	856	656	50	4,497
Construction – custom and owner/builder	386	(102)	—	—	284
Construction – speculative one- to four-family	128	13	—	—	141
Construction – commercial	429	(344)	—	—	85
Construction – multi-family	—	—	—	—	—
Construction – land development	—	(128)	6	146	12
Land	2,392	510	707	2	2,197
Consumer loans:					
Home equity and second mortgage	759	206	184	—	781
Other	254	(9)	6	—	239
Commercial business loans	516	(192)	—	92	416
Total	$11,825	$1,375	$2,199	$312	$11,313

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	Three Months Ended March 31, 2012				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$ 785	$ 197	$ 52	$ 1	$ 931
Multi-family	1,309	(21)	—	—	1,288
Commercial	3,509	228	—	—	3,737
Construction – custom and owner/builder	260	7	—	—	267
Construction – speculative one- to four-family	164	7	—	—	171
Construction – commercial	807	54	—	—	861
Construction – multi-family	390	114	—	—	504
Construction – land development	96	(1)	—	—	95
Land	2,657	320	247	7	2,737
Consumer loans:					
Home equity and second mortgage	409	75	53	—	431
Other	390	(18)	19	—	353
Commercial business loans	1,196	88	395	—	889
Total	$ 11,972	$ 1,050	$ 766	$ 8	$ 12,264

	Six Months Ended March 31, 2012				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$ 760	$ 289	$ 120	$ 2	$ 931
Multi-family	1,076	212	—	—	1,288
Commercial	4,035	210	508	—	3,737
Construction – custom and owner/builder	222	45	—	—	267
Construction – speculative one- to four-family	169	1	—	1	171
Construction – commercial	794	67	—	—	861
Construction – multi-family	354	(300)	—	450	504
Construction – land development	79	246	230	—	95
Land	2,795	396	532	78	2,737
Consumer loans:					
Home equity and second mortgage	460	74	103	—	431
Other	415	(42)	20	—	353
Commercial business loans	787	502	401	1	889
Total	$ 11,946	$ 1,700	$ 1,914	$ 532	$ 12,264

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The following table presents information on the loans evaluated individually for impairment and collectively evaluated for impairment in the allowance for loan losses at March 31, 2013 and September 30, 2012 (dollars in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment		Collectively Evaluated for Impairment	Total
March 31, 2013							
Mortgage loans:							
One- to four-family	$824	$1,022	$1,846	$6,867	789	$101,437	$108,304
Multi-family	408	407	815	6,232	7,239	41,098	47,330
Commercial	802	3,695	4,497	17,918		265,389	283,307
Construction – custom and owner/builder	13	271	284	100		21,608	21,708
Construction – speculative one-to four-family	95	46	141	697		793	1,490
Construction – commercial	—	85	85	—		3,395	3,395
Construction – multi-family	—	—	—	345		—	345
Construction – land development	—	12	12	525		34	559
Land	574	1,623	2,197	6,000		29,323	35,323
Consumer loans:							
Home equity and second mortgage	72	709	781	753		31,327	32,080
Other	—	239	239	15		5,555	5,570
Commercial business loans	—	416	416	—		20,388	20,388
Total	$2,788	$8,525	$11,313	$39,452		$520,347	$559,799
September 30, 2012							
Mortgage loans:							
One- to four-family	$678	$880	$1,558	$5,282		$101,697	$106,979
Multi-family	711	445	1,156	6,879		40,642	47,521
Commercial	667	3,580	4,247	17,192		239,062	256,254
Construction – custom and owner/Builder	15	371	386	309		20,159	20,468
Construction – speculative one-to four-family	109	19	128	1,027		495	1,522
Construction – commercial	—	429	429	—		17,157	17,157
Construction – multi-family	—	—	—	345		—	345
Construction – land development	—	—	—	589		—	589
Land	686	1,706	2,392	8,613		31,042	39,655
Consumer loans:							
	36	723	759	562		32,252	32,814

Home equity and second mortgage						
Other	—	254	254	7	6,176	6,183
Commercial business loans	—	516	516	—	22,588	22,588
Total	$2,902	$8,923	$11,825	$40,805	$511,270	$552,075

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Credit Quality Indicators
The Company uses credit risk grades which reflect the Company's assessment of a loan's risk or loss potential. The Company categorizes loans into risk grade categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors such as the estimated fair value of the collateral. The Company uses the following definitions for credit risk ratings as part of the ongoing monitoring of the credit quality of its loan portfolio:

Pass: Pass loans are defined as those loans that meet acceptable quality underwriting standards.

Watch: Watch loans are defined as those loans that still exhibit acceptable quality, but have some concerns that justify greater attention. If these concerns are not corrected, a potential for further adverse categorization exists. These concerns could relate to a specific condition peculiar to the borrower, its industry segment or the general economic environment.

Special Mention: Special mention loans are defined as those loans deemed by management to have some potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the payment prospects of the loan. Assets in this category do not expose the Company to sufficient risk to warrant a substandard classification.

Substandard: Substandard loans are defined as those loans that are inadequately protected by the current net worth and paying capacity of the obligor, or of the collateral pledged. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. If the weakness or weaknesses are not corrected, there is the distinct possibility that some loss will be sustained.

Loss: Loans in this classification are considered uncollectible and of such little value that continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be realized in the future.

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The following table lists the loan credit risk grades utilized by the Company that serve as credit quality indicators at March 31, 2013 and September 30, 2012 (dollars in thousands):

March 31, 2013	Loan Grades				
	Pass	Watch	Special Mention	Substandard	Total
Mortgage loans:					
One- to four-family	$95,629	$3,379	$2,910	$6,386	$108,304
Multi-family	37,783	137	8,621	789	47,330
Commercial	254,167	3,547	16,695	8,898	283,307
Construction – custom and owner/builder	21,608	—	—	100	21,708
Construction – speculative one- to four-family	633	696	—	161	1,490
Construction – commercial	3,395	—	—	—	3,395
Construction – multi-family	—	—	—	345	345
Construction – land development	—	—	—	559	559
Land	21,391	5,944	2,557	5,431	35,323
Consumer loans:					
Home equity and second mortgage	29,916	1,015	246	903	32,080
Other	5,515	40	—	15	5,570
Commercial business loans	19,375	893	120	—	20,388
Total	$489,412	$15,651	$31,149	$23,587	$559,799
September 30, 2012					
Mortgage loans:					
One- to four-family	$93,668	$4,000	$4,343	$4,968	$106,979
Multi-family	35,703	107	10,220	1,491	47,521
Commercial	228,036	1,722	11,515	14,981	256,254
Construction – custom and owner/builder	17,621	—	2,538	309	20,468
Construction – speculative one- to four-family	304	191	700	327	1,522
Construction – commercial	17,157	—	—	—	17,157
Construction – multi-family	—	—	—	345	345
Construction – land development	—	—	—	589	589
Land	22,700	5,788	2,554	8,613	39,655
Consumer loans:					
Home equity and second mortgage	29,777	1,488	788	761	32,814
Other	6,136	40	—	7	6,183
Commercial business loans	20,777	834	286	691	22,588
Total	$471,879	$14,170	$32,944	$33,082	$552,075

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The following tables present an age analysis of past due status of loans by category at March 31, 2013 and September 30, 2012 (dollars in thousands):

	30–59 Days Past Due	60-89 Days Past Due	Non-Accrual	Past Due 90 Days or More and Still Accruing	Total Past Due	Current	Total Loans
March 31, 2013							
Mortgage loans:							
One- to four-family	$1,027	$512	$4,984	$—	$6,523	$101,781	$108,304
Multi-family	—	—	789	—	789	46,541	47,330
Commercial	1,057	—	7,239	6	8,302	275,005	283,307
Construction – custom and owner/builder	—	—	100	—	100	21,608	21,708
Construction – speculative one- to four- family	—	—	—	—	—	1,490	1,490
Construction – commercial	—	—	—	—	—	3,395	3,395
Construction – multi-family	—	—	345	—	345	—	345
Construction – land development	—	—	525	—	525	34	559
Land	107	426	6,000	—	6,533	28,790	35,323
Consumer loans:							
Home equity and second mortgage	229	51	453	152	885	31,195	32,080
Other	—	125	15	—	140	5,430	5,570
Commercial business loans	—	17	—	—	17	20,371	20,388
Total	$2,420	$1,131	$20,450	$158	$24,159	$535,640	$559,799
September 30, 2012							
Mortgage loans:							
One- to four-family	$1,987	$—	$3,382	$142	$5,511	$101,468	$106,979
Multi-family	3,402	—	1,449	—	4,851	42,670	47,521
Commercial	1,071	—	6,049	6	7,126	249,128	256,254
Construction – custom and owner/ builder	—	—	309	—	309	20,159	20,468
Construction – speculative one- to four- family	—	—	327	700	1,027	495	1,522
Construction – commercial	—	—	—	—	—	17,157	17,157
Construction – multi-family	—	—	345	—	345	—	345
Construction – land development	—	—	589	—	589	—	589
Land	943	—	8,613	200	9,756	29,899	39,655
Consumer loans:							
Home equity and second mortgage	277	14	261	150	702	32,112	32,814
Other	4	—	7	—	11	6,172	6,183
Commercial business loans	—	15	—	—	15	22,573	22,588

Total	$7,684	$29	$21,331	$1,198	$30,242	$521,833	$552,075

Impaired Loans

A loan is considered impaired when it is probable that the Company will be unable to collect all contractual principal and interest payments due in accordance with the original or modified terms of the loan agreement. Impaired loans are measured based on the estimated fair value of the collateral less estimated cost to sell if the loan is considered collateral dependent. Impaired loans that are not considered to be collateral dependent are measured based on the present value of expected future cash flows.

The categories of non-accrual loans and impaired loans overlap, although they are not coextensive. The Company considers all circumstances regarding the loan and borrower on an individual basis when determining whether an impaired loan should be placed on non-accrual status, such as the financial strength of the borrower, the estimated collateral value, reasons for the delay, payment record, the amount past due and the number of days past due.

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Following is a summary of information related to impaired loans as of March 31, 2013 and for the three and six months then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	QTD Average Recorded Investment (1)	YTD Average Recorded Investment (2)	QTD Interest Income Recognized (1)	YTD Interest Income Recognized (2)	QTD Cash Basis Interest Income Recognized (1)	YTD Cash Basis Interest Income Recognized (2)
With no related allowance recorded:									
Mortgage loans:									
One- to four-family	$ 1,910	$2,406	$ —	$ 1,892	$ 1,723	$ —	$ 5	$ —	$ 4
Multi-family	788	1,770	—	789	315	—	3	—	3
Commercial	11,188	14,314	—	10,576	11,554	153	160	136	143
Construction – custom and owner/builder	—	—	—	102	166	—	—	—	—
Construction – speculative one- to four-family	—	—	—	—	65	—	—	—	—
Construction – commercial	—	—	—	—	—	—	—	—	—
Construction – multi-family	345	810	—	345	276	—	—	—	—
Construction – land development	525	3,279	—	525	603	—	—	—	—
Land	3,818	5,082	—	4,582	5,429	3	3	3	3
Consumer loans:									
Home equity and second mortgage	195	456	—	229	321	—	—	—	—
Other	15	21	—	11	9	—	—	—	—
Commercial business loans	—	46	—	—	15	—	—	—	—
Subtotal	18,784	28,184	—	19,051	20,476	156	171	139	153
With an allowance recorded:									
Mortgage loans:									
One- to four-family	4,957	5,041	824	4,612	3,629	26	46	19	34
Multi-family	5,444	5,444	408	6,152	6,598	72	157	54	120
Commercial	6,730	7,386	802	6,732	6,730	78	177	60	142
Construction – custom and owner/builder	100	100	13	100	102	—	—	—	—
Construction – speculative one- to four-family	697	697	95	698	699	7	13	4	8
	—	—	—	—	1,078	—	89	—	71

Construction – commercial									
Construction – multi-family	—	—	—	—	74	—	—	—	—
Construction - land development	—	—	—	—	—	—	—	—	—
Land	2,182	2,204	574	2,340	3,020	7	15	7	15
Consumer loans:									
Home equity and second mortgage	558	558	72	430	489	4	8	3	6
Other	—	—	—	—	—	—	—	—	—
Commercial business loans	—	—	—	—	—	—	—	—	—
Subtotal	20,668	21,430	2,788	21,064	22,419	194	505	147	396
Total									
Mortgage loans:									
One- to four-family	6,867	7,447	824	6,504	5,352	26	51	19	38
Multi-family	6,232	7,214	408	6,941	6,913	72	160	54	123
Commercial	17,918	21,700	802	17,308	18,284	231	337	196	285
Construction – custom and owner/builder	100	100	13	202	268	—	—	—	—

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Construction – speculative one- to four-family	$697	$697	$95	$698	$764	$7	$13	$4	$8
Construction – commercial	—	—	—	—	1,078	—	89	—	71
Construction – multi-family	345	810	—	345	350	—	—	—	—
Construction – land development	525	3,279	—	525	603	—	—	—	—
Land	6,000	7,286	574	6,922	8,449	10	18	10	18
Consumer loans:									
Home equity and second mortgage	753	1,014	72	659	810	4	8	3	6
Other	15	21	—	11	9	—	—	—	—
Commercial business loans	—	46	—	—	15	—	—	—	—
Total	$39,452	$49,614	$2,788	$40,115	$42,895	$350	$676	$286	$549

(1) For the three months ended March 31, 2013
(2) For the six months ended March 31, 2013

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Following is a summary of information related to impaired loans as of and for the year ended September 30, 2012 (in thousands):

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	YTD Average Recorded Investment (1)	YTD Interest Income Recognized (1)	YTD Cash Basis Interest Income Recognized (1)
With no related allowance recorded:						
Mortgage loans:						
One- to four-family	$1,510	$1,605	$—	$1,838	$20	$16
Multi-family	—	982	—	—	1	1
Commercial	7,596	8,664	—	14,491	543	348
Construction – custom and owner/builder	208	208	—	209	—	—
Construction – speculative one- to four-family	327	327	—	65	—	—
Construction – commercial	—	2,066		—	14	14
Construction – multi-family	345	810	—	338	—	—
Construction – land development	589	3,497	—	1,089	14	14
Land	5,989	8,247	—	6,279	28	16
Consumer loans:						
Home equity and second mortgage	261	383	—	482	—	—
Other	7	7	—	5	—	—
Commercial business loans	—	166	—	32	2	2
Subtotal	16,832	26,962	—	24,828	622	411
With an allowance recorded:						
Mortgage loans:						
One- to four-family	3,772	3,772	678	2,520	81	62
Multi-family	6,879	6,879	711	6,618	294	189
Commercial	9,596	9,596	667	5,043	60	39
Construction – custom and owner/builder	101	101	15	106	—	—
Construction – speculative one- to four-family	700	700	109	700	29	20
Construction – commercial	—	—	—	3,248	230	146
Construction – multi-family	—	—	—	74	—	—
Land	2,624	2,811	686	3,307	37	36
Consumer loans:						
Home equity and second mortgage	301	301	36	515	31	23
Other	—	—	—	55	—	—
Subtotal	23,973	24,160	2,902	22,186	762	515
Total						
Mortgage loans:						
One- to four-family	5,282	5,377	678	4,358	101	78
Multi-family	6,879	7,861	711	6,618	295	190
Commercial	17,192	18,260	667	19,534	603	387

Construction – custom and owner/builder	309	309	15	315	—	—
Construction – speculative one- to four-family	1,027	1,027	109	765	29	20
Construction – commercial	—	2,066	—	3,248	244	160
Construction – multi-family	345	810	—	412	—	—
Construction – land development	589	3,497	—	1,089	14	14
Land	8,613	11,058	686	9,586	65	52
Consumer loans:						
Home equity and second mortgage	562	684	36	997	31	23
Other	7	7	—	5	—	—
Commercial business loans	—	166	—	87	2	2
Total	$40,805	$51,122	$2,902	$47,014	$1,384	$926

(1) For the year ended September 30, 2012

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The following table sets forth information with respect to the Company's non-performing assets at March 31, 2013 and September 30, 2012 (dollars in thousands):

	March 31, 2013		September 30, 2012	
Loans accounted for on a non-accrual basis:				
Mortgage loans:				
One- to four-family	$4,984		$3,382	
Multi-family	789		1,449	
Commercial	7,239		6,049	
Construction – custom and owner/builder	100		309	
Construction – speculative one- to four-family	—		327	
Construction – multi-family	345		345	
Construction – land development	525		589	
Land	6,000		8,613	
Consumer loans:				
Home equity and second mortgage	453		261	
Other	15		7	
Total loans accounted for on a non-accrual basis	20,450		21,331	
Accruing loans which are contractually past due 90 days or more	158		1,198	
Total of non-accrual and 90 days past due loans (1)	20,608		22,529	
Non-accrual investment securities	2,264		2,442	
OREO and other repossessed assets	15,031		13,302	
Total non-performing assets (2)	$37,903		$38,273	
Troubled debt restructured loans on accrual status	$13,012		$13,410	
Non-accrual and 90 days or more past due loans as a percentage of loans receivable	3.69	%	4.09	%
Non-accrual and 90 days or more past due loans as a percentage of total assets	2.79	%	3.06	%
Non-performing assets as a percentage of total assets	5.14	%	5.19	%
Loans receivable (3)	$558,100		$550,305	
Total assets	$738,121		$736,954	

(1) Includes troubled debt restructured loans totaling $10.8 million and $10.1 million reported as non-accrual loans at March 31, 2013 and September 30, 2012, respectively.
(2) Does not include troubled debt restructured loans on accrual status.

(3) Includes loans held for sale and before the allowance for loan losses.

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Troubled debt restructured loans are loans for which the Company, for economic or legal reasons related to the borrower's financial condition, has granted a significant concession to the borrower that it would otherwise not consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty include but are not limited to: a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals and renewals. Troubled debt restructured loans are considered impaired loans and are individually evaluated for impairment. Troubled debt restructured loans can be classified as either accrual or non-accrual. Troubled debt restructured loans are classified as non-performing loans unless they have been performing in accordance with modified terms for a period of at least six months. The Company had $23.8 million in troubled debt restructured loans included in impaired loans at March 31, 2013 and had $1,000 in commitments to lend additional funds on these loans. The Company had $23.5 million in troubled debt restructured loans included in impaired loans at September 30, 2012 and had $1,000 in commitments to lend additional funds on these loans.

The following table sets forth information with respect to the Company's troubled debt restructured loans by interest accrual status as of March 31, 2013 and September 30, 2012 (dollars in thousands):

	March 31, 2013		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	$1,884	$202	$2,086
Multi-family	5,444	—	5,444
Commercial	4,688	5,548	10,236
Construction – speculative one- to four-family	696	—	696
Construction – land development	—	525	525
Land	—	4,377	4,377
Consumer loans:			
Home equity and second mortgage	300	180	480
Total	$13,012	$10,832	$23,844

	September 30, 2012		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	$1,900	$—	$1,900
Multi-family	5,430	—	5,430
Commercial	5,079	4,862	9,941
Construction – speculative one- to four-family	700	—	700
Construction – land development	—	526	526
Land	—	4,445	4,445
Consumer loans:			
Home equity and second mortgage	301	261	562
Total	$13,410	$10,094	$23,504

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The following table sets forth information with respect to the Company’s troubled debt restructurings by portfolio segment that occurred during the six months ended March 31, 2013 and the year ended September 30, 2012 (dollars in thousands):

Six Months Ended March 31, 2013	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Balance at March 31, 2013
One-to four-family (1)	1	$209	$209	$202
Commercial (2)	1	750	750	747
Total	2	$959	$959	$949

Year Ended September 30, 2012	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Balance at September 30, 2013
One-to four-family (1)	1	$373	$373	$372
Commercial (1)	1	2,718	2,718	2,657
Land (2)	1	249	249	233
Total	3	$3,340	$3,340	$3,262

(1) Modifications were a result of a combination of changes (a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals and renewals).
(2) Modification was a result of a reduction in the stated interest rate.

There were no troubled debt restructured loans that were recorded in the six months ended March 31, 2013 or the year ended September 30, 2012 that have subsequently defaulted.

(7) NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income to common shareholders by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted net income per common share is computed by dividing net income to common shareholders by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company’s common stock during the period. Common stock equivalents arise from the assumed conversion of outstanding stock options and the outstanding warrant to purchase common stock. In accordance with the Financial Accounting Standards Board (“FASB”) guidance for stock compensation, shares owned by the Bank’s ESOP that have not been allocated are not considered to be outstanding for the purpose of computing basic and diluted net income per common share. At March 31, 2013 and 2012, there were 227,154 and 264,520 shares, respectively, that had not been allocated under the Bank’s ESOP.

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
	(In thousands, except for per share data)			
Basic net income per common share computation				
Numerator – net income	$1,278	$808	$2,986	$2,090
Preferred stock dividends	(207)	(208)	(408)	(416)
Preferred stock discount accretion	(126)	(59)	(189)	(118)
Repurchase of preferred stock at a discount	255	—	255	—
Net income to common shareholders	$1,200	$541	$2,644	$1,556
Denominator – weighted average common shares outstanding	6,815,782	6,780,516	6,815,782	6,780,516
Basic net income per common share	$0.18	$0.08	$0.39	$0.23
Diluted net income per common share computation				
Numerator – net income	$1,278	$808	$2,986	$2,090
Preferred stock dividends	$(207)	$(208)	$(408)	$(416)
Preferred stock discount accretion	(126)	(59)	(189)	(118)
Repurchase of preferred stock at a discount	255	—	255	—
Net income to common shareholders	$1,200	$541	$2,644	$1,556
Denominator – weighted average common shares outstanding	6,815,782	6,780,516	6,815,782	6,780,516
Effect of dilutive stock options (1)	15,538	—	10,324	—
Effect of dilutive stock warrant (2)	58,184	—	28,773	—
Weighted average common shares and common stock equivalents	6,889,504	6,780,516	6,854,879	6,780,516
Diluted net income per common share	$0.17	$0.08	$0.39	$0.23

(1) For the three months and six months ended March 31, 2013, options to purchase 166,390 and 168,455 shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per common share because their effect would have been anti-dilutive. For the three months and six months ended March 31, 2012, options to purchase 154,476 and 145,053 shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per common share because their effect would have been anti-dilutive.
(2) For the three and six months ended March 31, 2012, a warrant to purchase 370,899 shares of common stock was outstanding but not included in the computation of diluted net income per common share because the warrant's exercise price was greater than the average market price of the common stock, and, therefore, its effect would have been anti-dilutive.

(8) STOCK PLANS AND STOCK BASED COMPENSATION

Stock Option Plans

Under the Company’s stock option plans (the 1999 Stock Option Plan and the 2003 Stock Option Plan), the Company was able to grant options for up to a combined total of 1,622,500 shares of common stock to employees, officers and directors. Shares issued may be purchased in the open market or may be issued from authorized and unissued shares. The exercise price of each option equals the fair market value of the Company’s common stock on the date of grant. Generally, options vest in 20% annual installments on each of the five anniversaries from the date of the grant. At March 31, 2013, options for 157,338 shares are available for future grant under the 2003 Stock Option Plan, and no shares are available for future grant under the 1999 Stock Option Plan.

Activity under the plans for the six months ended March 31, 2013 and 2012 is as follows:

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	Six Months Ended March 31, 2013		Six Months Ended March 31, 2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	195,626	$7.97	137,726	$