Simplicity Bancorp, Inc.
Form 10-Q
November 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 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: 001-34979

SIMPLICITY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**26-1500698**
(State or other jurisdiction	**(I.R.S. Employer**
of incorporation)	**Identification No.)**
1359 N. Grand Avenue, Covina, CA	**91724**
(Address of principal executive offices)	**(Zip Code)**

(800) 524-2274

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 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 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. (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller Reporting Company ¨

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

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

Common Stock, $.01 par value 7,880,059 shares outstanding as of November 5, 2013.

Table of Contents

Form 10-Q

SIMPLICITY BANCORP, INC.

Table of Contents

Table of Contents

Part I FINANCIAL INFORMATION

Item 1. Financial Statements

SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

(Unaudited)

(Dollars in thousands, except per share data)

	September 30, 2013	June 30, 2013
ASSETS		
Cash and due from banks	$ 8,457	$ 8,864
Federal funds sold	26,525	76,810
Total cash and cash equivalents	34,982	85,674
Securities available-for-sale, at fair value	48,128	52,180
Securities held-to-maturity, fair value of $489 and $541 at September 30, 2013 and June 30, 2013, respectively	475	525
Federal Home Loan Bank stock, at cost	5,902	5,902
Loans held for sale	2,205	4,496
Loans receivable, net of allowance for loan losses of $5,487 and $5,643 at September 30, 2013 and June 30, 2013, respectively	713,830	689,708
Accrued interest receivable	2,331	2,439
Premises and equipment, net	3,940	3,799
Goodwill	3,950	3,950
Bank-owned life insurance	13,893	13,784
Real estate owned (REO)	325	
Other assets	4,644	4,920
Total assets	$ 834,605	$ 867,377
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 57,119	$ 65,694
Interest bearing	569,754	588,952
Total deposits	626,873	654,646
Federal Home Loan Bank advances	60,000	60,000
Accrued expenses and other liabilities	3,712	7,293

Total liabilities	690,585	721,939
Commitments and contingent liabilities		
Stockholders equity		
Nonredeemable serial preferred stock, $.01 par value; 25,000,000 shares authorized; issued and outstanding none		
Common stock, $0.01 par value; 100,000,000 authorized;		
September 30, 2013 7,998,265 shares issued and outstanding		
June 30, 2013 8,121,415 shares issued and outstanding	80	81
Additional paid-in capital	77,694	79,800
Retained earnings	70,857	70,326
Accumulated other comprehensive loss, net of tax	(436)	(491)
Unearned employee stock ownership plan (ESOP) shares	(4,175)	(4,278)
Total stockholders equity	144,020	145,438
Total liabilities and stockholders equity	$ 834,605	$ 867,377

The accompanying notes are an integral part of these unaudited consolidated financial statements

1

Table of Contents

SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2013	2012
Interest income		
Interest and fees on loans	$ 8,018	$ 9,718
Interest on securities, taxable	167	81
Federal Home Loan Bank dividends	80	10
Other interest	29	32
Total interest income	8,294	9,841
Interest expense		
Interest on deposits	1,391	1,748
Interest on borrowings	249	469
Total interest expense	1,640	2,217
Net interest income	6,654	7,624
Provision for loan losses		850
Net interest income after provision for loan losses	6,654	6,774
Noninterest income		
Service charges and fees	467	409
ATM fees and charges	517	526
Referral commissions	84	88
Bank-owned life insurance	109	116
Net gain on sales of loans	185	424
Other noninterest income	97	4
Total noninterest income	1,459	1,567
Noninterest expense		
Salaries and benefits	3,016	3,222
Occupancy and equipment	786	713
ATM expense	578	521

Advertising and promotional	281	132
Professional services	555	495
Federal deposit insurance premiums	132	153
Postage	52	63
Telephone	195	228
Loss on equity investment	62	52
REO foreclosure expenses and sales gains/losses, net	28	(15)
Electronic services	125	100
Other operating expense	478	478
Total noninterest expense	6,288	6,142
Income before income tax expense	1,825	2,199
Income tax expense	676	806
Net income	$ 1,149	$ 1,393
Earnings per common share:		
Basic	$ 0.15	$ 0.16
Diluted	$ 0.15	$ 0.16

The accompanying notes are an integral part of these unaudited consolidated financial statements

2

Table of Contents

SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Net income	$ 1,149	$ 1,393
Other comprehensive income (loss):		
Unrealized gain on securities available for sale	93	219
Postretirement medical benefit costs		
Net loss arising during the period	(17)	(24)
Reclassification adjustment for net periodic benefit cost and benefits paid	17	24
Income tax effect	(38)	(90)
Other comprehensive income, net of tax	55	129
Comprehensive income	$ 1,204	$ 1,522

The accompanying notes are an integral part of these unaudited consolidated financial statements

3

Table of Contents

SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders Equity

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Unearned ESOP Shares	Total
Balance, July 1, 2012	8,960,366	$ 90	$ 92,197	$ 66,723	$ (169)	$ (4,693)	$ 154,148
Net income				1,393			1,393
Other comprehensive income					129		129
Dividends declared ($0.08 per share)				(685)			(685)
Repurchase of common stock	(193,533)	(2)	(2,911)				(2,913)
Stock options earned			11				11
Allocation of stock awards			69				69
Issuance of stock awards	25,259						
Forfeiture of stock awards	(800)						
Allocation of ESOP common stock			52			104	156
Balance, September 30, 2012	8,791,292	$ 88	$ 89,418	$ 67,431	$ (40)	$ (4,589)	$ 152,308
Balance, July 1, 2013	8,121,415	$ 81	$ 79,800	$ 70,326	$ (491)	$ (4,278)	$ 145,438
Net income				1,149			1,149
Other comprehensive income					55		55
Dividends declared ($0.08 per share)				(618)			(618)
Repurchase of common stock	(148,575)	(1)	(2,242)				(2,243)
Stock options earned			9				9
Allocation of stock awards			75				75
Issuance of stock awards	25,425						
Allocation of ESOP common stock			52			103	155
Balance, September 30, 2013	7,998,265	$ 80	$ 77,694	$ 70,857	$ (436)	$ (4,175)	$ 144,020

The accompanying notes are an integral part of these unaudited consolidated financial statements

4

Table of Contents

SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2013	2012
OPERATING ACTIVITIES		
Net income	$ 1,149	$ 1,393
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premiums on securities	112	225
Amortization of net premiums on loan purchases	121	98
Amortization of net loan origination costs	17	34
Provision for loan losses		850
Net gain on sale of REO		(16)
Net gain on sales of loans held for sale	(185)	(424)
Loans originated for sale	(6,957)	(16,656)
Proceeds from sales of loans held for sale	9,519	11,322
Decrease in valuation allowance for loans held for sale	(86)	
Depreciation and amortization	321	243
Amortization of core deposit intangible		6
Loss on equity investment	62	52
Increase in cash surrender value of bank-owned life insurance	(109)	(116)
Allocation of ESOP common stock	155	156
Allocation of stock awards	75	69
Stock options earned	9	11
Net change in accrued interest receivable	108	(78)
Net change in other assets	176	(164)
Net change in accrued expenses and other liabilities	(3,581)	(1,080)
Net cash provided by (used in) operating activities	906	(4,075)
INVESTING ACTIVITIES		
Proceeds from maturities and principal repayments of available-for-sale securities	4,033	4,829
Proceeds from maturities and principal repayments of held-to-maturity securities	50	211
Net change in loans	(24,585)	20,297
Proceeds from sale of real estate owned		686
Redemption of FHLB stock		440
Purchases of premises and equipment	(462)	(240)

Net cash (used in) provided by investing activities	(20,964)	26,223
FINANCING ACTIVITIES		
Dividends paid on common stock	(618)	(685)
Repurchase of common stock	(2,243)	(2,913)
Net change in deposits	(27,773)	(4,997)
Net cash used in financing activities	(30,634)	(8,595)
Net change in cash and cash equivalents	(50,692)	13,553
Cash and cash equivalents at beginning of period	85,674	66,018
Cash and cash equivalents at end of period	$ 34,982	$ 79,571
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on deposits and borrowings	$ 1,634	$ 2,211
Income taxes paid	1,600	1,000
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfer from loans to real estate owned	$ 325	$

The accompanying notes are an integral part of these unaudited consolidated financial statements

SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Nature of Business and Significant Accounting Policies

Nature of Business: Simplicity Bancorp, Inc. (the Company), is a Maryland corporation that owns all of the outstanding common stock of Simplicity Bank (the Bank). In November, 2012, the Company changed its name to Simplicity Bancorp, Inc. from Kaiser Federal Financial Group, Inc. and its trading symbol to SMPL. Concurrently, the Bank was renamed Simplicity Bank from Kaiser Federal Bank as part of a broader business strategy to operate as a community bank serving the financial needs of all customers within its communities. The Company s primary activity is holding all of the outstanding shares of common stock of Simplicity Bank. The Bank is a federally chartered savings bank headquartered in Covina, California. The Bank s principal business activity consists of attracting retail deposits from the general public and originating or purchasing primarily loans secured by first mortgages on owner-occupied, one-to-four family residences and multi-family residences located in its market area, and to a lesser extent, commercial real estate, automobile and other consumer loans. The Bank also engages in mortgage banking activities and, as such, originates, sells and services one-to-four family residential mortgage loans. While the Bank originates many types of residential loans, the Bank also purchases, from time to time, using its own underwriting standards, first mortgages on owner-occupied, one-to-four family residences secured by properties located throughout California.

The Company s business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis.

Principles of Consolidation and Basis of Presentation: The financial statements of Simplicity Bancorp, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and predominant practices followed by the financial services industry. The consolidated financial statements presented in this report include the accounts of Simplicity Bancorp, Inc. and its wholly-owned subsidiary, Simplicity Bank. All material intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company s management, all adjustments consisting of normal recurring accruals necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made.

The results of operations for the three months ended September 30, 2013 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the fiscal year ending June 30, 2014. Certain information and note disclosures normally included in the Company s annual financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in the 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Use of Estimates in the Preparation of Consolidated Financial Statements: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate owned, mortgage servicing assets (MSAs), mortgage banking derivatives, deferred tax assets and fair values of financial instruments.

Table of Contents

Recent Accounting Pronouncements:

Adoption of New Accounting Standards:

In February 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this guidance did not have a material effect on the Company s result of operations or financial position.

Note 2 Earnings Per Share

The following table sets forth earnings per share calculations for the three months ended September 30, 2013 and 2012:

	Three months ended September 30, 2013	2012
	(Dollars in thousands, except per share data)	
Basic		
Net income	$ 1,149	$ 1,393
Less: Net income allocated to restricted stock awards	9	10
Net income allocated to common shareholders	$ 1,140	$ 1,383
Weighted average common shares outstanding	7,625,978	8,433,462
Basic earnings per common share	$ 0.15	$ 0.16
Diluted		
Net income	$ 1,149	$ 1,393
Less: Net income allocated to restricted stock awards	9	10
Net income allocated to common shareholders	$ 1,140	$ 1,383

Weighted average common shares outstanding		7,625,978		8,433,462
Add: Dilutive effect of stock options		19,453		17,404
Average shares and dilutive potential common shares		7,645,431		8,450,866
Diluted earnings per common share	$	0.15	$	0.16

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings per share is determined for each class of common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. Restricted stock contains rights to non-forfeitable dividends and qualifies as a participating security. Employee Stock Ownership Plan (ESOP) shares are considered outstanding for this calculation unless unearned. For the three months ended September 30, 2013, 10,355 ESOP shares were allocated and 372,787 ESOP shares remained unearned.

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. For the three months ended September 30, 2013 and 2012, outstanding stock options to purchase 87,691 shares and 199,935 shares, respectively, were anti-dilutive and not considered in computing diluted earnings per common share. Stock options are not considered participating securities as they do not contain rights to non-forfeitable dividends.

Table of Contents

Note 3 Fair Value Measurements

FASB ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There were no financial or nonfinancial instruments transferred in or out of Level 1, 2, or 3 input categories during the three month ended September 30, 2013 and 2012.

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive allocations of the allowance for loan losses that are individually evaluated. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower s financial statements, or aging reports, adjusted or discounted based on management s historical knowledge, changes in market conditions from the time of the valuation, and management s expertise and knowledge of the client and client s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a monthly basis for additional impairment and adjusted accordingly.

Mortgage Servicing Assets: MSAs are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair value is determined at a tranche level, based on a valuation model that calculates the present value of estimated future net servicing income. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data such as prepayment speeds, ancillary income, servicing costs, delinquency rates. The significant assumptions also include discount rate incorporated into the valuation model that reflect management s best estimate resulting in a level 3 classification.

Table of Contents

Assets and liabilities measured at fair value on a recurring basis are summarized in the following tables (dollars in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013:				
Assets				
Available-for-sale securities				
Mortgage-backed securities (residential)	$ 28,611	$	$ 28,611	$
Collateralized mortgage obligations (residential)	19,517		19,517	
Total available-for-sale securities	$ 48,128	$	$ 48,128	$
June 30, 2013:				
Assets				
Available-for-sale securities				
Mortgage-backed securities (residential)	$ 30,075	$	$ 30,075	$
Collateralized mortgage obligations (residential)	22,105		22,105	
Total available-for-sale securities	$ 52,180	$	$ 52,180	$

Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed. The following assets were measured at fair value on a non-recurring basis (dollars in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at September 30, 2013:				
Impaired Loans				
One-to-four family residential	$ 1,025	$	$	$ 1,025
Multi-family residential	197			197
Total impaired loans	$ 1,222	$	$	$ 1,222
MSAs	$ 200	$	$	$ 200
Assets at June 30, 2013:				

Impaired Loans				
One-to-four family residential	$ 1,495	$	$	$ 1,495
Loans Held for Sale	$ 4,496	$	$ 4,496	$
MSAs	$ 195	$	$	$ 195

At September 30, 2013 and 2012, no nonfinancial assets were measured at fair value on a non-recurring basis.

9

Table of Contents

Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due as scheduled according to the contractual terms of the loan agreement, including contractual interest and principal payments. Impaired loans are measured for impairment using the fair value of the collateral for collateral dependent loans. The fair value of collateral is calculated using an independent third party appraisal. Impaired loans measured at fair value had a recorded investment balance of $1.2 million at September 30, 2013 as compared to $1.5 million at June 30, 2013. The valuation allowance for these loans was $9,000 at September 30, 2013 as compared to $32,000 at June 30, 2013. The reduction of the balance of impaired loans measured at fair value and the associated valuation allowance was primarily attributable to principal reduction due to continuous payments on impaired loans individually evaluated during the three months ended September 30, 2013.

Impairment of MSAs is determined at the tranche level and recognized through a valuation allowance for each individual grouping, to the extent that fair value is less than the carrying amount. The impairment amount was $27,000 as of September 30, 2013 as compared to $31,000 as of June 30, 2013.

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a recurring and non-recurring basis at September 30, 2013 (dollars in thousands):

September 30, 2013	**Fair Value**	**Valuation Techniques**	**Unobservable Inputs**	**Range (Weighted Avg)**
Impaired Loans				
One-to-four family residential	$ 1,025	Sales Comparison Approach	Adjustment for the differences between the comparable sales	-6.4% to 8.5% (2.3%)
Multi-family residential	$ 197	Sales Comparison Approach	Adjustment for the differences between the comparable sales	-31.8%
		Income Approach	Capitalization rate	10.3% to 11.8% (11.1%)
MSAs	$ 200	Discounted Cash Flow	Discount Rate	7.5%

June 30, 2013	**Fair Value**	**Valuation Techniques**	**Unobservable Inputs**	**Range (Weighted Avg)**
Impaired Loans				
One-to-four family residential	$ 1,495	Sales Comparison Approach	Adjustment for the differences between the comparable sales	-8.7% to 8.5% (-1.45%)
MSAs	$ 195	Discounted Cash Flow	Discount Rate	7.5%

Fair Value of Financial Instruments

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair values. Cash on hand and non-interest due from bank accounts are classified as Level 1 and federal funds sold are classified as Level 2.

Investments

Estimated fair values for securities held-to-maturity are obtained from quoted market prices where available and are classified as Level 1. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments and are classified as Level 2.

Securities available-for-sale that are previously reported are excluded from the fair value disclosure below.

FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans Held for Sale

Fair value for loans held for sale is determined using quoted secondary-market prices such as loan sale commitments and is classified as Level 2.

Loans

Fair value for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously and are excluded from the fair value disclosure below. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

MSAs

The Company uses the amortization method for its MSAs and assesses the MSAs for impairment based on fair value. The fair value of MSAs is determined at tranche level using significant assumptions such as discount rate and is classified as Level 3. MSAs tranches with impairment recorded as described previously are excluded from the fair value disclosure below.

Accrued Interest Receivable

Consistent with the asset or liability they are associated with, the carrying amounts of accrued interest receivable approximate fair value resulting in a either Level 2 or Level 3 classification.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts) resulting in a Level 2 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Table of Contents

FHLB Advances

The fair values of the Company s FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Off-Balance Sheet Financial Instruments

The fair values for the Company s off-balance sheet loan commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the Company s customers. The estimated fair value of these commitments is not significant.

Table of Contents

The carrying amounts and estimated fair values of the Company s financial instruments are summarized as follows (in thousands):

		Fair Value Measurements at September 30, 2013 Using:			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial assets:					
Cash on hand	$ 8,457	$ 8,457	$	$	$ 8,457
Federal funds sold	26,525		26,525		26,525
Securities held-to-maturity	475		489		489
Federal Home Loan Bank Stock	5,902				
Loans held for sale	2,205		2,324		2,324
Loans receivable, net	712,608			729,797	729,797
MSAs	455			564	564
Accrued interest receivable - loans	2,246			2,246	2,246
Accrued interest receivable - investments	85		85		83
Financial liabilities:					
Deposits	626,873		632,027		632,027
FHLB Advances	60,000		61,024		61,024

		Fair Value Measurements at June 30, 2013 Using:			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial assets:					
Cash on hand	$ 8,864	$ 8,864	$	$	$ 8,864
Federal funds sold	76,810		76,810		76,810
Securities held-to-maturity	525		541		541
Federal Home Loan Bank Stock	5,902				
Loans held for sale	4,496		4,496		4,496
Loans receivable, net	688,213			710,219	710,219
MSAs	407			494	494
Accrued interest receivable - loans	2,344			2,344	2,344
Accrued interest receivable - investments	93		93		93
Financial liabilities:					
Deposits	654,646		660,995		660,995
FHLB Advances	60,000		61,451		61,451

Table of Contents

Note 4 Investments

The amortized cost and fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows (in thousands):

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
September 30, 2013				
Mortgage-backed (residential):				
Fannie Mae	$ 7,938	$ 69	$	$ 7,869
Freddie Mac	20,673	13	(607)	21,267
Collateralized mortgage obligations (residential):				
Fannie Mae	11,319	10	(20)	11,329
Freddie Mac	8,198	35		8,163
Total	$ 48,128	$ 127	$ (627)	$ 48,628
June 30, 2013				
Mortgage-backed (residential):				
Fannie Mae	$ 8,510	$ 9	$ (17)	$ 8,518
Freddie Mac	21,565		(662)	22,227
Collateralized mortgage obligations (residential):				
Fannie Mae	13,125	59	(39)	13,105
Freddie Mac	8,980	57		8,923
Total	$ 52,180	$ 125	$ (718)	$ 52,773

The carrying amount, unrecognized gains and losses, and fair value of securities held-to-maturity were as follows (in thousands):

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2013				
Mortgage-backed (residential):				
Fannie Mae	$ 115	$ 4	$	$ 119
Freddie Mac	70	4		74
Ginnie Mae	35	1		36
Collateralized mortgage obligations: (residential)				
Fannie Mae	255	5		260
Freddie Mac				

Total	$	475	$	14	$		$	489
June 30, 2013								
Mortgage-backed (residential):								
Fannie Mae	$	119	$	4	$		$	123
Freddie Mac		74		5				79
Ginnie Mae		36		2				38
Collateralized mortgage obligations: (residential)								
Fannie Mae		296		5				301
Freddie Mac								
Total	$	525	$	16	$		$	541

Table of Contents

There were no sales of securities during the three months ended September 30, 2013 and September 30, 2012.

All mortgage-backed securities and collateralized mortgage obligations have varying contractual maturity dates at September 30, 2013. Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties. There were no mortgage-backed securities called prior to the maturity date during the three months ended September 30, 2013.

Securities with unrealized losses at September 30, 2013 and June 30, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2013						
Description of Securities						
Mortgage-backed securities	$ 17,679	$ (607)	$	$	$ 17,679	$ (607)
Collateralized mortgage obligations (residential)	6,145	(5)	2,066	(15)	8,211	(20)
Total temporarily impaired	$ 23,824	$ (612)	$ 2,066	$ (15)	$ 25,890	$ (627)
June 30, 2013						
Description of Securities						
Mortgage-backed securities	$ 25,476	$ (680)	$	$	$ 25,476	$ (680)
Collateralized mortgage obligations (residential)			2,508	(39)	2,508	(39)
Total temporarily impaired	$ 25,476	$ (680)	$ 2,508	$ (39)	$ 27,984	$ (719)

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the Company does not have the intent to sell these securities and it is not more likely than not that it will be required to sell the securities before their anticipated recovery. In analyzing an issuer s financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

At September 30, 2013, nine debt securities had an aggregate unrealized loss of 2.4% of the Company s amortized cost basis. At June 30, 2013, ten debt securities had an unrealized loss of 2.6% of the Company s amortized cost basis. We do not own any non-agency mortgage-backed securities (MBSs) or collateralized mortgage obligations (CMOs). All MBSs and CMOs were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. The unrealized losses relate principally to the general change in interest rates and liquidity, and not credit quality, that has occurred since the securities purchase dates, and such unrecognized losses or gains will continue to vary with general interest rate level fluctuations in the future. As management has the intent and ability to hold debt securities until recovery, which may be maturity, and it is not more likely than not that it will be required to sell the securities before their anticipated recovery, no declines in fair value are deemed to be other-than-temporary as of September 30, 2013 and June 30, 2013.

There were no investments in any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity.

Table of Contents

Note 5 Loans

The composition of loans consists of the following (in thousands):

	September 30, 2013	June 30, 2013
Real Estate:		
One-to-four family residential	$ 308,308	$ 319,631
Multi-family residential	317,566	280,771
Commercial real estate	51,733	55,621
	677,607	656,023
Consumer:		
Automobile	30,591	26,711
Home equity	662	682
Other consumer loans, primarily secured	9,671	10,917
	40,924	38,310
Total loans	718,531	694,333
Deferred net loan origination costs	395	506
Net premium (discounts) on purchased loans	391	512
Allowance for loan losses	(5,487)	(5,643)
Loans receivable, net	$ 713,830	$ 689,708

Loans held for sale totaled $2.2 million as of September 30, 2013 as compared to $4.5 million as of June 30, 2013. Loans held for sale are recorded at the lower of cost or fair value. Fair value, if lower than cost, is determined by outstanding commitments from the investor. Proceeds from sales of loans held for sale were $9.5 million and $11.3 million during the three months ended September 30, 2013 and 2012, resulting in net gain on sales of $185,000 and $424,000, respectively.

Table of Contents

The following is an analysis of the changes in the allowance for loan losses (in thousands):

	Allowance for loan losses for the Three months ended September 30, 2013						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Balance, beginning of period	$ 3,009	$ 839	$ 1,654	$ 83	$ 4	$ 54	$ 5,643
Provision for loan losses	(352)	548	(247)	47		4	
Recoveries	4		1	8		1	14
Loans charged-off	(33)	(100)		(26)		(11)	(170)
Balance, end of period	$ 2,628	$ 1,287	$ 1,408	$ 112	$ 4	$ 48	$ 5,487

	Allowance for loan losses for the Three months ended September 30, 2012						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Balance, beginning of period	$ 4,692	$ 1,519	$ 1,131	$ 62	$ 63	$ 35	$ 7,502
Provision for loan losses	964	(238)	68	40	19	(3)	850
Recoveries	41			7		1	49
Loans charged-off	(1,176)	(224)	(527)	(21)	(56)	(5)	(2,009)
Balance, end of period	$ 4,521	$ 1,057	$ 672	$ 88	$ 26	$ 28	$ 6,392

Table of Contents

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2013 and June 30, 2013 (in thousands):

mber 30, 2013	**One-to-four family**	**Multi-family residential**	**Commercial real estate**	**Automobile**	**Home equity**	**Other**	**Tot**
ance for loan losses:							
g allowance balance attributed to loans:							
dually evaluated for impairment	$ 991	$ 1	$ 61	$ 19	$	$ 3	$
tively evaluated for impairment	1,637	1,286	1,347	93	4	45	
ending allowance balance	$ 2,628	$ 1,287	$ 1,408	$ 112	$ 4	$ 48	$