TIMBERLAND BANCORP INC
Form 10-Q
February 08, 2013

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2012

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	91-1863696
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington	98550
(Address of principal executive offices)	(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 JANUARY 31, 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
December 31, 2012 and September 30, 2012
(Dollars in thousands, except per share amounts)

(Unaudited)

	December 31, 2012	September 30, 2012
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	$12,082	$11,008
Interest-bearing deposits in banks	73,766	85,660
Total cash and cash equivalents	85,848	96,668
Certificates of deposit (“CDs”) held for investment (at cost which approximates fair value)	26,752	23,490
Mortgage-backed securities (“MBS”) and other investments - held to maturity, at amortized cost (estimated fair value $3,501 and $3,632)	3,197	3,339
MBS and other investments - available for sale	4,682	4,945
Federal Home Loan Bank of Seattle (“FHLB”) stock	5,604	5,655
Loans receivable	554,659	548,878
Loans held for sale	2,036	1,427
Less: Allowance for loan losses	(11,769)	(11,825)
Net loans receivable	544,926	538,480
Premises and equipment, net	18,027	17,886
Other real estate owned (“OREO”) and other repossessed assets, net	13,230	13,302
Accrued interest receivable	2,080	2,183
Bank owned life insurance (“BOLI”)	16,668	16,524
Goodwill	5,650	5,650
Core deposit intangible (“CDI”)	217	249
Mortgage servicing rights (“MSRs”), net	2,213	2,011
Prepaid Federal Deposit Insurance Corporation (“FDIC”) insurance assessment	957	1,186
Other assets	4,570	5,386
Total assets	$734,621	$736,954
Liabilities and shareholders’ equity		
Liabilities:		
Deposits: Non-interest-bearing demand	$78,425	$75,296
Deposits: Interest-bearing	515,974	522,630
Total deposits	594,399	597,926

FHLB advances	45,000	45,000
Repurchase agreements	625	855
Other liabilities and accrued expenses	2,694	2,854
Total liabilities	642,718	646,635
Shareholders' equity		
Preferred stock, $.01 par value; 1,000,000 shares authorized; 16,641 shares, Series A, issued and outstanding; redeemable at $1,000 per share	16,292	16,229
Common stock, $.01 par value; 50,000,000 shares authorized; 7,045,036 shares issued and outstanding	10,500	10,484
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(1,653)	(1,719)
Retained earnings	67,232	65,788
Accumulated other comprehensive loss	(468)	(463)
Total shareholders' equity	91,903	90,319
Total liabilities and shareholders' equity	$734,621	$736,954

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three months ended December 31, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31,	
	2012	2011
Interest and dividend income		
Loans receivable	$7,414	$7,805
MBS and other investments	77	125
Dividends from mutual funds	12	13
Interest-bearing deposits in banks	86	89
Total interest and dividend income	7,589	8,032
Interest expense		
Deposits	728	1,169
FHLB advances	472	562
Total interest expense	1,200	1,731
Net interest income	6,389	6,301
Provision for loan losses	200	650
Net interest income after provision for loan losses	6,189	5,651
Non-interest income		
Other than temporary impairment (“OTTI”) on MBS and other investments	(7)	(90)
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes	(3)	30
Net OTTI on MBS and other investments	(10)	(60)
Service charges on deposits	947	970
ATM and debit card interchange transaction fees	515	517
BOLI net earnings	143	157
Gain on sales of loans, net	642	560
Escrow fees	35	27
Valuation recovery on MSRs	254	84
Fee income from non-deposit investment sales	25	12
Other	164	177
Total non-interest income, net	2,715	2,444

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three months ended December 31, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Non-interest expense		
Salaries and employee benefits	$3,114	$ 2,929
Premises and equipment	690	650
Advertising	177	208
OREO and other repossessed assets, net	288	502
ATM	221	194
Postage and courier	113	118
Amortization of CDI	33	37
State and local taxes	139	149
Professional fees	242	178
FDIC insurance	241	225
Other insurance	52	56
Loan administration and foreclosure	138	161
Data processing and telecommunications	287	300
Deposit operations	164	223
Other	478	291
Total non-interest expense	6,377	6,221
Income before federal and state income taxes	2,527	1,874
Provision for federal and state income taxes	819	591
Net income	1,708	1,283
Preferred stock dividends	(201)	(208)
Preferred stock discount accretion	(63)	(59)
Net income to common shareholders	$1,444	$ 1,016
Net income per common share		
Basic	$0.21	$ 0.15
Diluted	$0.21	$ 0.15
Weighted average common shares outstanding		
Basic	6,815,782	6,780,516
Diluted	6,821,006	6,780,516

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three months ended December 31, 2012 and 2011
(In thousands)
(Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Comprehensive income:		
Net income	$ 1,708	$ 1,283
Unrealized holding loss on securities available for sale, net of tax	(19)	(14)
Change in OTTI on securities held to maturity, net of tax:		
Additions	--	(14)
Additional amount recognized related to credit loss for which OTTI was previously recognized	--	(13)
Amount reclassified to credit loss for previously recorded market loss	2	7
Accretion of OTTI securities held to maturity, net of tax	12	11
Total comprehensive income	$ 1,703	$ 1,260

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the three months ended December 31, 2012 and the year ended September 30, 2012
(Dollars in thousands)
(Unaudited)

	Number of Shares Preferred Stock	Number of Shares Common Stock	Amount Preferred Stock	Amount Common Stock	Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Comprehensive 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	--	--	--	--	--	1,708	--	1,708
Accretion of preferred stock discount	--	--	63	--	--	(63)	--	--
5% preferred stock dividend	--	--	--	--	--	(201)	--	(201)
Earned ESOP shares	--	--	--	(8)	66	--	--	58
MRDP compensation expense	--	--	--	13	--	--	--	13

Stock option compensation expense	--	--	--	11	--	--	--	11
Unrealized holding loss on securities available for sale, net of tax	--	--	--	--	--	--	(19)	(19)
Change in OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	2	2
Accretion of OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	12	12
Balance, December 31, 2012	16,641	7,045,036	$16,292	$10,500	$(1,653)	$67,232	$ (468)	$91,903

(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 three months ended December 31, 2012 and 2011
(Dollars in thousands)
(Unaudited)

	Three Months Ended December 31, 2012	2011
Cash flows from operating activities		
Net income	$1,708	$1,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	200	650
Depreciation	252	234
Deferred federal income taxes	- -	(12)
Amortization of CDI	33	37
Earned ESOP shares	66	66
MRDP compensation expense	13	25
Stock option compensation expense	11	2
(Gain) loss on sales of OREO and other repossessed assets, net	(211)	271
Provision for OREO losses	244	57
Gain on sale of premises and equipment	(8)	--
BOLI net earnings	(143)	(157)
Gain on sales of loans, net	(642)	(560)
Decrease in deferred loan origination fees	(175)	(58)
Net OTTI on MBS and other investments	10	60
Valuation recovery on MSRs	(254)	(84)
Loans originated for sale	(24,063)	(22,203)
Proceeds from sales of loans	24,096	23,697
Decrease in other assets, net	1,195	463
Decrease in other liabilities and accrued expenses, net	(160)	(14)
Net cash provided by operating activities	2,172	3,757
Cash flows from investing activities		
Net increase in CDs held for investment	(3,262)	(1,151)
Proceeds from maturities and prepayments of MBS and other investments available for sale	234	378
Proceeds from maturities and prepayments of MBS and other investments held to maturity	159	184
Sale of FHLB stock	51	--
Increase in loans receivable, net	(6,629)	(9)
Additions to premises and equipment	(393)	(197)
Proceeds from sale of premises and equipment	8	--
Proceeds from sales of OREO and other repossessed assets	806	234
Net cash used in investing activities	(9,026)	(561)
Cash flows from financing activities		
Decrease in deposits, net	(3,527)	(3,503)
Decrease in repurchase agreements, net	(230)	(191)
ESOP tax effect	(8)	(20)

Dividends paid	(201)	--
Net cash used in financing activities	(3,966)	(3,714)

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the three months ended December, 2012 and 2011
(Dollars in thousands)
(Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Net decrease in cash and cash equivalents	$(10,820)	$(518)
Cash and cash equivalents		
Beginning of period	96,668	112,065
End of period	$85,848	$111,547
Supplemental disclosure of cash flow information		
Interest paid	$1,220	$1,752
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	$1,341	$669
Loans originated to facilitate the sale of OREO	574	3,204

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 three months ended December 31, 2012 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 December 31, 2012 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 is initially recorded at the amount of proceeds received. Any 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 paid (or accrued) and any accretion is deducted from (or added to) net income (loss) for computing net income (loss) to common shareholders and net income (loss) 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 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.

(4) MBS AND OTHER INVESTMENTS

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012				
Held to Maturity				
MBS:				
U.S. government agencies	$1,413	$44	$(3)	$1,454
Private label residential	1,757	317	(57)	2,017
U.S. agency securities	27	3	--	30
Total	$3,197	$364	$(60)	$3,501
Available for Sale				
MBS:				
U.S. government agencies	$2,645	$139	$--	$2,784
Private label residential	951	60	(115)	896
Mutual funds	1,000	2	--	1,002
Total	$4,596	$201	$(115)	$4,682
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

The estimated fair value of temporarily impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed as of December 31, 2012 are as follows (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	$98	$ (3)	4	$99	$ (3)
Private label residential	18	--	1	444	(57)	26	462	(57)
Total	$19	$ --	4	$542	$ (60)	30	$561	$ (60)
Available for Sale								
MBS:								
Private label residential	$--	$ --	--	$616	$ (115)	1	$616	$ (115)
Total	$--	$ --	--	$616	$ (115)	1	$616	$ (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 December 31, 2012 and 2011, the Company recorded net OTTI charges through earnings on residential MBS of $10,000 and $60,000, 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 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

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management's estimate of the credit loss component on OTTI securities as of December 31, 2012 and September 30, 2012:

	Range		Weighted
	Minimum	Maximum	Average
At December 31, 2012			
Constant prepayment rate	6.00%	15.00%	10.34%
Collateral default rate	0.30%	30.57%	9.38%
Loss severity rate	2.66%	78.30%	52.68%
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 months ended December 31, 2012 and 2011 (dollars in thousands):

	Three Months Ended December 31, 2012		Three Months Ended December 31, 2011	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	$6	$1	$52	$38
Portion of OTTI recognized in other comprehensive (income) loss (before income taxes) (1)	3	- -	(30)	- -
Net OTTI recognized in earnings (2)	$9	$1	$22	$38

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

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 three months ended December 31, 2012 and 2011 (in thousands):

	Three Months Ended December 31,	
	2012	2011
Beginning balance of credit loss	$ 2,703	$ 3,361
Additions:		
Credit losses for which OTTI was not previously recognized	4	1
Additional increases to the amount related to credit loss for which OTTI was previously recognized	6	59
Subtractions:		
Realized losses previously recorded	(232)	(196)

as credit losses		
Ending balance of credit loss	$ 2,481	$ 3,225

There were no gross realized gains on sale of securities for the three months ended December 31, 2012 and December 31, 2011. During the three months ended December 31, 2012, the Company recorded a $232,000 realized loss (as a result of the securities being deemed worthless) on 16 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 December 31, 2011, the Company recorded a $196,000 realized loss (as a result of the securities being deemed worthless) on 21 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 $5.36 million and $5.70 million at December 31, 2012 and September 30, 2012, respectively.

The contractual maturities of debt securities at December 31, 2012 are 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	$14	$14	$--	$--
Due after one year to five years	26	29	34	35
Due after five to ten years	16	16	2	2
Due after ten years	3,141	3,442	3,560	3,644
Total	$3,197	$3,501	$3,596	$3,681

(5) GOODWILL

During the quarter ended June 30, 2012, the Company engaged a third party firm to perform the annual test for goodwill impairment. The test concluded that recorded goodwill was not impaired. As of December 31, 2012, management believes that there have been no events or changes in the circumstances that would indicate a potential impairment. No assurance 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 December 31, 2012 and September 30, 2012 (dollars in thousands):

	December 31, 2012		September 30, 2012	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family (1)	$ 108,835	19.0 %	$ 106,979	18.8 %
Multi-family	48,464	8.5	47,521	8.4
Commercial	270,537	47.3	256,254	45.1
Construction and land development	46,985	8.2	56,406	9.9
Land	37,920	6.6	39,655	7.0
Total mortgage loans	512,741	89.6	506,815	89.2
Consumer loans:				
Home equity and second mortgage	31,196	5.5	32,814	5.8
Other	6,029	1.0	6,183	1.1
Total consumer loans	37,225	6.5	38,997	6.9
Commercial business loans	22,596	3.9	22,588	3.9
Total loans receivable	572,562	100.0 %	568,400	100.0 %
Less:				
Undisbursed portion of construction loans in process	(14,100)		(16,325)	
Deferred loan origination fees	(1,767)		(1,770)	
Allowance for loan losses	(11,769)		(11,825)	
Total loans receivable, net	$ 544,926		$ 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 December 31, 2012 and September 30, 2012 (dollars in thousands):

	December 31, 2012		September 30, 2012	
	Amount	Percent	Amount	Percent
Custom and owner/builder	$33,530	71.4 %	$33,345	59.1 %
Speculative one- to four-family	1,912	4.1	1,880	3.4
Commercial real estate	10,617	22.6	20,247	35.9
Multi-family (including condominiums)	345	0.7	345	0.6
Land development	581	1.2	589	1.0

Total construction and land development loans	$46,985	100.0 %	$56,406	100.0 %

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Allowance for Loan Losses

The following tables set forth information for the three months ended December 31, 2012 and December 31, 2011 regarding activity in the allowance for loan losses (dollars in thousands):

	For the Three Months Ended December 31, 2012				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$1,558	$533	$263	$1	$1,829
Multi-family	1,156	(212)	--	1	945
Commercial	4,247	216	--	--	4,463
Construction – custom and owner/builder	386	(92)	--	--	294
Construction – speculative one- to four-family	128	4	--	--	132
Construction – commercial	429	(58)	--	--	371
Construction – multi-family	--	--	--	--	--
Construction – land development	--	(120)	6	146	20
Land	2,392	101	209	1	2,285
Consumer loans:					
Home equity and second mortgage	759	(19)	18	--	722
Other	254	(5)	--	--	249
Commercial business loans	516	(148)	--	91	459
Total	$11,825	$200	$496	$240	$11,769

	For the Three Months Ended December 31, 2011				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$760	$92	$68	$1	$785
Multi-family	1,076	233	--	--	1,309
Commercial	4,035	(18)	508	--	3,509
Construction – custom and owner/builder	222	38	--	--	260
Construction – speculative one- to four-family	169	(6)	--	1	164
Construction – commercial	794	13	--	--	807
Construction – multi-family	354	(414)	--	450	390
Construction – land development	79	247	230	--	96
Land	2,795	76	285	71	2,657
Consumer loans:					
Home equity and second mortgage	460	(1)	50	--	409
Other	415	(24)	1	--	390
Commercial business loans	787	414	6	1	1,196
Total	$11,946	$650	$1,148	$524	$11,972

The following table presents information on the loans evaluated individually for impairment and collectively evaluated for impairment in the allowance for loan losses at December 31, 2012 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
December 31, 2012						
Mortgage loans:						
One- to four-family	$817	$1,012	$1,829	$6,142	$102,693	$108,835
Multi-family	524	421	945	7,648	40,816	48,464
Commercial	699	3,764	4,463	16,697	253,840	270,537
Construction – custom and owner/ builder	14	280	294	304	22,333	22,637
Construction – speculative one-to four-family	95	37	132	699	795	1,494
Construction – commercial	--	371	371	--	7,828	7,828
Construction – multi-family	--	--	--	345	--	345
Construction – land development	--	20	20	525	56	581
Land	628	1,657	2,285	7,843	30,077	37,920
Consumer loans:						
Home equity and second mortgage	34	688	722	563	30,633	31,196
Other	--	249	249	7	6,022	6,029
Commercial business loans	--	459	459	--	22,596	22,596
Total	$2,811	$8,958	$11,769	$40,773	$517,689	$558,462

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:						
Home equity and second mortgage	36	723	759	562	32,252	32,814
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

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 on-going 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.

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

December 31, 2012	Loan Grades				
	Pass	Watch	Special Mention	Substandard	Total
Mortgage loans:					
One- to four-family	$96,312	$3,646	$2,901	$ 5,976	$108,835
Multi-family	36,858	120	9,248	2,238	48,464
Commercial	242,931	1,702	11,459	14,445	270,537
Construction – custom and owner/builder	22,333	--	--	304	22,637
Construction – speculative one- to four-family	535	191	699	69	1,494
Construction – commercial	5,289	--	2,539	--	7,828
Construction – multi-family	--	--	--	345	345
Construction – land development	--	--	--	581	581
Land	22,042	5,489	2,546	7,843	37,920
Consumer loans:					
Home equity and second mortgage	28,883	858	678	777	31,196
Other	5,982	40	--	7	6,029
Commercial business loans	21,931	522	143	--	22,596
Total	$483,096	$12,568	$30,213	$ 32,585	$558,462

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

The following tables present an age analysis of past due status of loans by category at December 31, 2012 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
December 31, 2012							
Mortgage loans:							
One- to four-family	$ 42	$ 1,577	$ 4,251	$ --	$ 5,870	$ 102,965	$ 108,835
Multi-family	--	--	2,238	--	2,238	46,226	48,464
Commercial	--	236	5,962	6	6,204	264,333	270,537
Construction – custom and owner/ builder	--	398	304	--	702	21,935	22,637
Construction – speculative one- to four- family	--	--	--	--	--	1,494	1,494
Construction – commercial	--	--	--	--	--	7,828	7,828
Construction – multi-family	--	--	345	--	345	--	345
Construction – land development	--	--	525	--	525	56	581
Land	191	39	7,843	200	8,273	29,647	37,920
Consumer loans:							
Home equity and second mortgage	308	100	262	151	821	30,375	31,196
Other	--	--	7	--	7	6,022	6,029
Commercial business loans	20	18	--	--	38	22,558	22,596
Total	$ 561	$ 2,368	$ 21,737	$ 357	$ 25,023	$ 533,439	$ 558,462
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:							
	277	14	261	150	702	32,112	32,814

Home equity and second mortgage							
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.

Following is a summary of information related to impaired loans as of and for the quarter ended December 31, 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	$1,874	$2,068	$--	$1,794	$5	$4
Multi-family	789	1,771	--	158	3	3
Commercial	9,963	11,031	--	12,857	7	7
Construction – custom and owner/builder	204	204	--	208	--	--
Construction – speculative one- to four-family	--	--	--	65	--	--
Construction – commercial	--	2,066	--	--	--	--
Construction – multi-family	345	810	--	281	--	--
Construction – land development	525	3,279	--	818	--	--
Land	5,345	7,436	--	5,708	--	--
Consumer loans:						
Home equity and second mortgage	262	397	--	400	--	--
Other	7	7	--	6	--	--
Commercial business loans	--	75	--	23	--	--
Subtotal	19,314					