

WILLIAM PENN BANCORP INC  
Form 10-K  
October 10, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2008

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 No. 0-53172

**WILLIAM PENN BANCORP, INC.**

(Exact Name of Registrant as Specified in its Charter)

**United States**

(State or Other Jurisdiction of

Incorporation or Organization)

**37-1562563**

(I.R.S. Employer

Identification No.)

**8150 Route 13, Levittown, Pennsylvania**

(Address of Principal Executive Offices)

**19057**

(Zip Code)

Registrant's Telephone Number, including area code (215) 945-1200

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

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**Common Stock, \$.10 par value**  
(Title of Class)

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

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

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. x YES o NO

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

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

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o

Smaller reporting company x

(Do not check if a 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 o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$0 as of December 31, 2007 as no shares were then outstanding.

As of September 26, 2008, there were issued and outstanding 3,641,018 shares of the registrant's common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

1. Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended June 30, 2008 (Parts I & II)
  2. Portions of the Registrant's definitive Proxy Statement for the 2008 Annual Meeting of Shareholders. (Part III)
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**WILLIAM PENN BANCORP, INC.**

**ANNUAL REPORT ON FORM 10-K**

**for the fiscal year ended June 30, 2008**

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**PART I**

**Forward Looking Statements**

When used in this discussion and elsewhere in this Annual Report, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “intend” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, unfavorable judicial decisions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors could affect our financial performance and could cause our actual results for future periods to differ materially from those anticipated or projected.

We do not undertake and specifically disclaim any obligations to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

**Item 1. Business**

**The Company.** On April 15, 2008, William Penn Bank, FSB (the “Bank”) completed a reorganization from the mutual to the mutual holding company structure and became a wholly-owned subsidiary of William Penn Bancorp, Inc. (the “Company”), a federally chartered corporation. As part of the transaction, the Company sold 1,025,283 shares of its common stock, \$.10 par value, to the public at \$10.00 per share (including 87,384 shares purchased by the Bank’s Employee Stock Ownership Plan with funds borrowed from the Company) and issued 2,548,713 shares to William Penn, MHC. In addition, the Company contributed 67,022 shares to the William Penn Bank Community Foundation. Prior to consummation of the reorganization, the Company had no assets or liabilities. Accordingly, the Company’s financial statements consist of those of the Bank for periods prior to April 15, 2008.

Our executive offices are located at 8150 Route 13, Levittown, Pennsylvania 19057 and our main telephone number is (215) 945-1200.

**The Bank.** Originally founded in 1870, the Bank is a federally chartered savings bank. The Bank’s primary business consists of the taking of deposits and granting of mortgage loans to customers generally in the Bucks County, Pennsylvania area. The Bank is supervised and regulated by the Office of Thrift Supervision and its deposits are insured to applicable limits by the Federal Deposit Insurance Corporation. The Bank is also a member of the Federal Home Loan Bank of Pittsburgh.

William Penn Bank, FSB conducts a traditional community bank operation, offering retail banking services, owner-occupied and non-owner-occupied one- to four-family mortgage loans, multi-family and non-residential real estate mortgage loans, construction and land loans, deposit loans, home equity and second mortgage loans, home-equity lines of credit and other consumer loans. William Penn Bank, FSB operates from its main office in Levittown, Pennsylvania and branch offices in Morrisville and Richboro, Pennsylvania. William Penn Bank, FSB maintains a website at [www.willpenn.com](http://www.willpenn.com).



## Market Area

Our business of attracting deposits and making loans is primarily conducted within our market area of Bucks County, Pennsylvania and the surrounding counties. We focus on the 90-mile radius surrounding our offices. Bucks County was historically dependent on the steel industry. The local economy has changed and is now diverse, without any particular concentration of industry. Much of the areas in which we conduct business can be characterized as outlying commuter suburbs for the Philadelphia as well as the greater New York City area job markets.

As part of our business planning, we have examined the specific demographic conditions of the areas immediately surrounding each of our three offices. This examination showed that our Levittown market has lower levels of education, a lower percentage of white-collar workers, lower average household income and fewer overall households than average Bucks County levels. The Levittown market has approximately 4,200 households and is projected to experience a modest decline in households and population through 2011. The predominant age bracket for this market area is 45 to 54 years old. Examination of our Morrisville market revealed higher levels of education and white-collar workers but lower average household income and fewer overall households than average Bucks County levels. The Morrisville market has approximately 5,800 households and is projected to experience a modest decline in households and population through 2011. The predominant age bracket for this market area is 35 to 44 years old. Our Richboro market was determined to have higher levels of education, white-collar workers, household income as well as more overall households than average Bucks County levels. The Richboro market has approximately 4,200 households and is projected to experience slight growth in households and population through 2011. The predominant age bracket for this market area is 45 to 54 years old. The Levittown and Morrisville market areas are believed to have small potential as retail deposit and loan markets with below average propensities for most deposit and loan products while the Richboro market area is believed to have average potential as a retail deposit and loan market with above average propensities for most deposit and loan products. Each of the three market areas has a higher number of businesses per square mile than the Bucks County average, with the different concentrations in Levittown, Morrisville and Richboro being construction, personal services and the health industry, respectively.

## Lending Activities

**General.** Our loan portfolio is primarily comprised of one to four family residential real estate loans. We are a reputation lender and feel we have built a niche in our market area for providing financing on what we believe are high quality credits that are, for various reasons, ineligible for resale in the secondary market. For example, we originate a significant amount of mortgages on non-owner-occupied properties (which are generally referred to as "investor loans"). At June 30, 2008, we had approximately \$55.7 million of loans on non-owner-occupied, one- to four-family residences ("investor loans"), representing approximately 28.0% of total loans. This \$55.7 million of one- to four-family investor loans includes \$50.3 million of first mortgages, \$1.2 million of second mortgages and \$4.2 million of construction loans. Loans on one- to four-family residences are generally considered to have less credit risk than other types of real estate lending, but a property being non-owner-occupied puts the loan on that property into the category of "investor loans" and these loans are generally considered to involve a higher degree of credit risk than the financing of owner-occupied properties.

A part of our management of interest rate risk we generally seek to avoid originating fixed-rate, 30-year loans unless we have a commitment for the resale of such loans in the secondary market. Competitive conditions have limited our resale ability and thus we continue at present to be predominantly a portfolio lender focusing on adjustable-rate loans and fixed-rate loans with terms of 20 years or less.

We have in the past intentionally reduced mortgage lending because of the yield curve's impact on the pricing of short-term assets relative to long term assets. We now anticipate embarking on a proactive growth strategy. We anticipate, however, that we will continue to limit our origination of fixed-rate, 30-year loans unless we have a commitment for the resale of such loans in the secondary market because that strategy remains a component of our management of interest rate risk. We expect therefore to continue to focus on the origination of adjustable rate loans and fixed-rate loans with terms of 20 years or less. The mix of adjustable-rate loans to fixed-rate loans will be dependent on what is in demand by customers, and we plan to continue to retain loans with terms of 20 years or less regardless of whether the loans are fixed or adjustable rate. We intend to increase our origination of multi-family and nonresidential mortgage loans going forward as we grow the overall loan portfolio. Our multi-family and nonresidential real estate lending consists primarily of mortgage loans for the acquisition or refinance of small apartment buildings, service/retail and mixed-use properties, churches and non-profit properties, professional facilities and other commercial real estate. We do not anticipate changing the type of multi-family and nonresidential lending that we have done in the past; our intention is do a greater volume of the same type of lending. We do not at the present time originate non-real estate commercial loans or lines of credit to businesses and we have no current intention of expanding our lending activities into that type of commercial lending.

The majority of our loans are to borrowers who reside in Bucks County and could be expected to be similarly affected by economic conditions there. Other than as discussed above or indicated in the table below, there were no other concentrations of loans which exceeded 10% of the loan portfolio at June 30, 2008.



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**Loan Portfolio Composition.** The following table analyzes the composition of the Bank's portfolio by loan category at the dates indicated.

	<b>At June 30,</b>		<b>2007</b>		<b>2006</b>		<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>									
Real estate mortgage										
One- to four-family	\$ 129,709	62.04 %	\$ 117,338	61.82 %	\$ 117,335	62.41 %	\$ 122,821	63.92 %	\$ 126,122	65.20 %
Home equity and second mortgage	8,394	4.02	8,791	4.63	9,022	4.80	6,216	3.24	6,227	