NORTHEAST COMMUNITY BANCORP INC
Form 10-Q
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2015

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: 0-51852

Northeast Community Bancorp, Inc.

(Exact name of registrant as specified in its charter)

United States of America	**06-1786701**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

325 Hamilton Avenue, White Plains, New York	**10601**
(Address of principal executive offices)	(Zip Code)

(914) 684-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 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 definition 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 ¨
Non-accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company x

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

As of November 6, 2015, there were 12,223,802 shares of the registrant's common stock outstanding.

NORTHEAST COMMUNITY BANCORP, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	September 30, 2015	December 31, 2014
	(In thousands, except share and per share data)	
ASSETS		
Cash and amounts due from depository institutions	$ 3,805	$ 3,676
Interest-bearing deposits	33,796	30,334
Cash and cash equivalents	37,601	34,010
Certificates of deposit	150	150
Securities available-for-sale	36	40
Securities held-to-maturity (fair value of $5,569 and $6,805, respectively)	5,429	6,595
Loans receivable, net of allowance for loan losses of $3,890 and $3,816, respectively	462,979	423,445
Premises and equipment, net	11,991	11,718
Investments in restricted stock, at cost	2,376	1,933
Bank owned life insurance	21,579	21,113
Accrued interest receivable	1,733	1,453
Goodwill	749	749
Intangible assets	238	284
Other real estate owned	6,923	8,733
Other assets	5,165	5,202
Total assets	$ 556,949	$ 515,425
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 40,536	$ 37,088
Interest bearing	364,362	336,964
Total deposits	404,898	374,052
Advance payments by borrowers for taxes and insurance	3,709	3,338
Federal Home Loan Bank advances	39,486	30,000
Accounts payable and accrued expenses	4,536	4,225
Total liabilities	452,629	411,615
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	—	—

Common stock, $0.01 par value; 19,000,000 shares authorized; 13,225,000 shares issued; outstanding: 12,228,802 and 12,331,202 shares, respectively	132	132
Additional paid-in capital	56,955	57,007
Unearned Employee Stock Ownership Plan ("ESOP") shares	(2,657)	(2,851)
Retained earnings	56,621	55,548
Treasury stock – at cost, 996,198 and 893,798 shares, respectively	(6,721)	(5,999)
Accumulated other comprehensive loss	(10)	(27)
Total stockholders' equity	104,320	103,810
Total liabilities and stockholders' equity	$ 556,949	$ 515,425

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except share and per share data)			
INTEREST INCOME:				
Loans	$ 5,742	$ 4,770	$ 16,100	$ 14,250
Interest-earning deposits	12	7	39	16
Securities – taxable	53	68	169	215
Total Interest Income	5,807	4,845	16,308	14,481
INTEREST EXPENSE:				
Deposits	956	831	2,811	2,397
Borrowings	53	27	131	125
Total Interest Expense	1,009	858	2,942	2,522
Net Interest Income	4,798	3,987	13,366	11,959
PROVISION (CREDIT) FOR LOAN LOSSES	(233)	8	434	(208)
Net Interest Income after Provision (Credit) for Loan Losses	5,031	3,979	12,932	12,167
NON-INTEREST INCOME:				
Other loan fees and service charges	109	96	333	332
Loss on disposition of equipment	(24)	—	(24)	—
Earnings on bank owned life insurance	159	157	466	465
Investment advisory fees	189	191	576	590
Other	4	6	14	17
Total Non-Interest Income	437	450	1,365	1,404
NON-INTEREST EXPENSES:				
Salaries and employee benefits	2,050	2,093	6,069	6,446
Occupancy expense	395	322	1,117	1,098
Equipment	150	110	431	405
Outside data processing	291	280	862	820
Advertising	28	16	52	37
Other real estate owned expense	238	162	754	274
FDIC insurance premiums	102	115	292	363
Other	774	787	2,531	2,646
Total Non-Interest Expenses	4,028	3,885	12,108	12,089
Income before Provision for Income Taxes	1,440	544	2,189	1,482
PROVISION FOR INCOME TAXES	526	166	696	433
Net Income	$ 914	$ 378	$ 1,493	$ 1,049
Net Income per Common Share - Basic and Diluted	$ 0.08	$ 0.03	$ 0.12	$ 0.09
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	11,960	12,081	11,973	12,124
Dividends Declared per Common Share	$ 0.03	$ 0.03	$ 0.09	$ 0.09

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	(In thousands)			
	2015	2014	2015	2014
Net income	$914	$378	$ 1,493	$ 1,049
Other comprehensive income:				
Unrealized loss on securities available-for-sale arising during the period	—	1	(1)	(1)
Defined benefit pension:				
Reclassification adjustments out of accumulated other comprehensive loss:				
Amortization of prior service cost (1)	5	5	15	16
Amortization of actuarial gain (1)	(2)	1	(6)	(1)
Actuarial gains arising during period	7	14	21	44
Total	10	21	29	58
Income tax effect (2)	(4)	(9)	(12)	(24)
Total other comprehensive income	6	12	17	34
Total comprehensive income	$920	$390	$ 1,510	$ 1,083

(1) Amounts are included in salaries and employees benefits in the unaudited consolidated statements of income as part of net periodic pension cost. See Note 10 for further information.

(2) Amounts are included in provision for income taxes in the unaudited consolidated statements of income.

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30, 2015 and 2014 (in thousands, except share and per share data)

	Common Stock	Additional Paid- in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2013	$ 132	$ 57,083	$ (3,111)	$ 54,428	$ (4,291)	$ (73)	$ 104,168
Net income	—	—	—	1,049	—	—	1,049
Other comprehensive income	—	—	—	—	—	34	34
Purchase of 190,750 shares of treasury stock	—	—	—	—	(1,390)	—	(1,390)
Cash dividend declared ($0.09 per share)	—	—	—	(433)	—	—	(433)
ESOP shares earned	—	(56)	195	—	—	—	139
Balance – September 30, 2014	$ 132	$ 57,027	$ (2,916)	$ 55,044	$ (5,681)	$ (39)	$ 103,567
Balance at December 31, 2014	$ 132	$ 57,007	$ (2,851)	$ 55,548	$ (5,999)	$ (27)	$ 103,810
Net income	—	—	—	1,493	—	—	1,493
Other comprehensive income	—	—	—	—	—	17	17
Purchase of 102,400 shares of treasury stock	—	—	—	—	(722)	—	(722)
Cash dividend declared ($0.09 per share)	—	—	—	(420)	—	—	(420)
ESOP shares earned	—	(52)	194	—	—	—	142
Balance – September 30, 2015	$ 132	$ 56,955	$ (2,657)	$ 56,621	$ (6,721)	$ (10)	$ 104,320

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Cash Flows from Operating Activities:		
Net income	$1,493	$1,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of securities premiums and discounts, net	21	(28)
Provision (credit) for loan losses	434	(208)
Depreciation	477	532
Net amortization of deferred loan fees and costs	30	112
Amortization of intangible assets	46	46
Deferred income tax (benefit)	(79)	(30)
Loss from disposition of equipment	24	—
Provision for real estate owned losses	248	—
Loss on sale of other real estate owned	104	—
Earnings on bank owned life insurance	(466)	(465)
ESOP compensation expense	142	139
Increase in accrued interest receivable	(280)	(82)
Decrease in other assets	106	2,424
Increase in accounts payable and accrued expenses	339	61
Net Cash Provided by Operating Activities	2,639	3,550
Cash Flows from Investing Activities:		
Net (increase) in loans	(46,157)	(48,682)
Proceeds from sale of loans held-for-sale	5,457	—
Proceeds from sale of other real estate owned	2,160	2,100
Principal repayments on securities available-for-sale	3	70
Principal repayments on securities held-to-maturity	1,145	1,468
Proceeds from maturities of certificate of deposits	—	996
Net purchase of FHLB of NY stock	(443)	(210)
Capitalized cost of real estate owned	—	(62)
Purchases of premises and equipment	(774)	(114)
Net Cash Used In Investing Activities	(38,609)	(44,434)
Cash Flows from Financing Activities:		
Net increase in deposits	30,846	38,907
Proceeds from FHLB of NY advances	28,609	19,123
Repayment of FHLB of NY advances	(19,123)	(13,000)
Purchase of treasury stock	(722)	(1,390)
Increase (decrease) in advance payments by borrowers for taxes and insurance	371	(590)
Cash dividends paid	(420)	(437)
Net Cash Provided by Financing Activities	39,561	42,613
Net Increase in Cash and Cash Equivalents	3,591	1,729
Cash and Cash Equivalents - Beginning	34,010	31,531
Cash and Cash Equivalents - Ending	$37,601	$33,260
SUPPLEMENTARY CASH FLOWS INFORMATION		

Income taxes paid (refunded)	$450	$(1,706)
Interest paid	$2,942	$2,520
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Dividends declared and not paid	$140	$144
Loans receivable transferred to loans held-for-sale	$5,457	$—
Loans receivable transferred to real estate owned	$702	$2,100

See Notes to Unaudited Consolidated Financial Statements

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NORTHEAST COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Northeast Community Bancorp, Inc. (the “Company”) is a federally-chartered corporation organized as a mid-tier holding company for Northeast Community Bank (the “Bank”), in conjunction with the Bank’s reorganization from a mutual savings bank to the mutual holding company structure on July 5, 2006. The Bank is a New York State-chartered savings bank and completed its conversion from a federally-chartered savings bank effective as of the close of business on June 29, 2012. The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank, and the Bank’s wholly owned subsidiaries, New England Commercial Properties, LLC (“NECP”) and NECB Financial Services Group, LLC. NECB Financial Services Group was formed by the Bank in the second quarter of 2012 as a complement to the Bank’s existing investment advisory and financial planning services division, Hayden Wealth Management. As of the filing of this Form 10-Q, NECB Financial Services Group has not conducted any business. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information as well as instructions for Form 10-Q. Accordingly, they do not include all of the information or footnotes necessary for the presentation of financial position, results of operations, changes in stockholders’ equity, and cash flows in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2014 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. That data, along with the interim financial information presented in the unaudited consolidated statements of financial condition, income, comprehensive income, stockholders’ equity, and cash flows should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2014.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimate pertains to the allowance for loan losses. In preparing these consolidated financial statements, the Company evaluated the events that occurred after September 30, 2015 and through the date these consolidated financial statements were issued.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at unpaid principal balances plus net deferred loan origination costs less an allowance for loan losses. Interest on loans receivable is recorded on the accrual basis. An allowance for uncollected interest is established on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations or where interest or principal is 90 days or more past due, unless the loans are well secured and in the process of collection. When a loan is placed on nonaccrual, an allowance for uncollected interest is established and charged against current income. Thereafter, interest income is not recognized unless the financial condition and payment record of the borrower warrant the recognition of interest income. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six consecutive months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest on loans that have been restructured is accrued according to the renegotiated terms, unless on non-accrual. Net loan origination fees and costs are deferred and amortized into income over the contractual lives of the related loans by use of the level yield method. Past due status of loans is based upon the contractual due date.

Loans Held-For-Sale

Loans held-for-sale are carried at the lower of aggregate cost or fair value, based on observable inputs in the secondary market. Changes in fair value of loans held-for-sale are recognized in earnings.

Allowance for Loan Losses

The allowance for loan losses represents management’s estimate of losses inherent in the loan portfolio as of the statement of financial condition date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Allowance for Loan Losses (Continued)

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. Risk characteristics associated with the types of loans the Company underwrites are as follows:

Multi-family, Mixed-use and Non-residential Real Estate Loans. Loans secured by multi-family, mixed-use, and non-residential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family, mixed-use and non-residential real estate lending is the current and potential cash flow of the property and the borrower's demonstrated ability to operate that type of property. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

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

Construction Loans*.* Construction financing is generally considered to involve a higher degree of risk of loss than long-term loans secured by improved, occupied real estate due to: (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. The Company seeks to minimize these risks by limiting the amount of construction loans outstanding at any time, by limiting our construction loans to borrowers who have in effect pre-sold their construction project, and by limiting our construction loans to multi-family and single family projects.

Consumer Loans. We offer personal loans, loans secured by passbook savings accounts, certificates of deposit accounts or statement savings accounts, and overdraft protection for checking accounts. We do not believe these loans represent a significant risk of loss to the Company.

The allowance for loan losses consists of specific and general reserves. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established or a partial charge-off is taken when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Beginning in the fourth quarter of 2012, the Company discontinued the use of specific allowances. If an impairment is identified, the Company now charges off the impaired portion immediately. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

The Company does not evaluate individual one-to-four family residential real estate and consumer loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring ("TDR"). The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral or discounted cash flows. For loans secured by real estate, estimated fair values are determined primarily through in-house or third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values might be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discount also includes estimated costs to sell the property.

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NOTE 1 – BASIS OF PRESENTATION (Continued)

Allowance for Loan Losses (Continued)

For loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or

invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative factors. These qualitative risk factors include:

1. Changes in policies and procedures in underwriting standards and collections.
2. Changes in economic conditions.
3. Changes in nature and volume of lending.
4. Experience of origination team.
5. Changes in past due loan volume and severity of classified assets.
6. Quality of loan review system.
7. Collateral values in general throughout lending territory.
8. Concentrations of credit.
9. Competition, legal and regulatory issues.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The allowance for loan losses calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, residential and consumer loans. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.

Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

The allowance calculation for each pool of loans is also based on the loss factors that reflect the Company’s historical charge-off experience adjusted for current economic conditions applied to loan groups with similar characteristics or classifications in the current portfolio. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers. The Company’s Chief Executive Officer is ultimately responsible for the timely and accurate risk rating of the loan portfolio.

Loans whose terms are modified are classified as TDRs if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or an extension of a loan’s stated maturity date. Adversely classified, non-accrual TDRs may be returned to accrued status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. All TDR loans are classified as impaired.

In addition, banking regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management’s comprehensive analysis of the loan portfolio, management believes the allowance for loan losses is adequate as of September 30, 2015.

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NOTE 1 – BASIS OF PRESENTATION (Continued)

Goodwill

Goodwill totaled $749,000 at September 30, 2015 and December 31, 2014 and consists of goodwill acquired in the business combination completed by the Company in November 2007. The Company tests goodwill during the fourth quarter of each year for impairment, or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. The Company utilizes a two-step approach. The first step requires a comparison of the carrying value of the reporting unit to the fair value of the unit. The Company estimates the fair value of the reporting unit through internal analyses and external valuation, which utilizes an income approach based on the present value of future cash flows. If the carrying value of the reporting unit exceeds its fair value, impairment exists and the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, if necessary, compares the implied fair value of a reporting unit's goodwill with its carrying value.

The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of the reporting unit to all of the assets and liabilities of that unit, including identifiable intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. No impairment charges were recorded for the three- and nine-month periods ended September 30, 2015.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner similar to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. Common stock equivalents may include restricted stock awards and stock options. Anti-dilutive shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company has not granted any restricted stock awards or stock options and had no potentially dilutive common stock equivalents during the nine-month periods ended September 30, 2015 and 2014. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating both basic and diluted earnings per common share until they are committed to be released.

NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN

The following table sets forth the amount of allocated shares, shares committed to be released, unallocated shares, allocated shares distributed to former or retired employees, and total shares held by the ESOP trust at the dates indicated:

	September 30, 2015	December 31, 2014
Allocated shares	233,289	207,368
Shares committed to be released	19,440	25,921
Unallocated shares	265,691	285,131
Total ESOP Shares	518,420	518,420
Less allocated shares distributed to former or retired employees	(46,191)	(35,051)
Total ESOP Shares Held by Trustee	472,229	483,369
Fair value of unearned shares	$ 1,979,000	$ 2,059,000

The Company recognized compensation expense of $49,000 and $45,000 during the three-month periods ended September 30, 2015 and 2014, respectively, and $142,000 and $139,000 during the nine-month periods ended September 30, 2015 and 2014, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

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Note 4 – Outside director retirement plan ("drp")

Net periodic pension cost for the Company's DRP is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	(In thousands)			
	2015	2014	2015	2014
Service cost	$22	$18	$ 68	$ 54
Interest cost	11	10	33	30
Amortization of prior service cost	5	5	15	16
Amortization of actuarial gain	(2)	1	(6)	(1)
Total	$36	$34	$ 110	$ 99

This plan is an unfunded, non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document.

NOTE 5 – INVESTMENTS

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
September 30, 2015				
Securities available-for-sale:				
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	$31	$ —	$ —	$31
Federal National Mortgage Association	5	—	—	5
Total	$36	$ —	$ —	$36
Securities held-to-maturity:				
Mortgage-backed securities – residential:				
Government National Mortgage Association	$4,215	$ 99	$ —	$4,314

Federal Home Loan Mortgage Corporation	158	5	—	163
Federal National Mortgage Association	107	2	—	109
Collateralized mortgage obligations-GSE	949	34	—	983
Total	$5,429	$ 140	$ —	$5,569

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NOTE 5 – INVESTMENTS (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2014				
Securities available-for-sale:				
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	$34	$ 1	$ —	$35
Federal National Mortgage Association	5	—	—	5
Total	$39	$ 1	$ —	$40
Securities held-to-maturity:				
Mortgage-backed securities – residential:				
Government National Mortgage Association	$5,065	$ 159	$ —	$5,224
Federal Home Loan Mortgage Corporation	186	6	—	192
Federal National Mortgage Association	128	3	—	131
Collateralized mortgage obligations-GSE	1,216	42	—	1,258
Total	$6,595	$ 210	$ —	$6,805

Contractual final maturities of mortgage-backed securities available-for-sale were as follows:

	September 30, 2015	
	Amortized Cost	Fair Value
	(In thousands)	
Due after five but within ten years	$ 6	$ 6
Due after ten years	30	30
Total	$ 36	$ 36

Contractual final maturities of mortgage-backed securities held-to-maturity were as follows:

	September 30, 2015	
	Amortized Cost	Fair Value
	(In thousands)	
Due after one but within five years	$ 41	$ 41
Due after five but within ten years	138	141
Due after ten years	5,250	5,387