Ottawa Savings Bancorp, Inc.
Form 10-Q
August 12, 2011
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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 June 30, 2011

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 000-51367

OTTAWA SAVINGS BANCORP, INC.

(Exact name of registrant as specified in its charter)

United States	**20-3074627**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

925 LaSalle Street

Ottawa, Illinois 61350

(Address of principal executive offices)

(815) 433-2525

(Registrant s telephone number, including area code)

Not Applicable

(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 (Section 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 the 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	¨
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

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

Class	**Outstanding as of August 10, 2011**
Common Stock, $0.01 par value	2,119,673

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OTTAWA SAVINGS BANCORP, INC.

FORM 10-Q

For the quarterly period ended June 30, 2011

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Part I Financial Information

ITEM 1 FINANCIAL STATEMENTS

OTTAWA SAVINGS BANCORP, INC.

Consolidated Balance Sheets

June 30, 2011 and December 31, 2010

(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 2,615,753	$ 1,604,000
Interest bearing deposits	3,585,343	2,774,835
Total cash and cash equivalents	6,201,096	4,378,835
Federal funds sold	1,337,000	5,016,000
Securities held to maturity (fair value of $16 and $18 at June 30, 2011 and December 31, 2010, respectively)	16	18
Securities available for sale	31,710,459	32,462,702
Non-marketable equity securities	2,534,952	2,534,952
Loans, net of allowance for loan losses of $3,996,884 and $4,703,362 at June 30, 2011 and December 31, 2010, respectively	130,412,176	135,350,904
Premises and equipment, net	6,923,078	7,044,780
Accrued interest receivable	711,752	751,769
Foreclosed real estate	685,339	1,333,766
Deferred tax asset	2,424,495	2,398,525
Cash value of life insurance	1,540,833	1,523,690
Prepaid FDIC premiums	482,280	656,646
Other assets	1,379,798	1,674,233
Total assets	$ 186,343,274	$ 195,126,820
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 4,329,981	$ 3,536,364
Interest bearing	157,620,771	167,295,090
Total deposits	161,950,752	170,831,454
Accrued interest payable	22,987	51,750
Other liabilities	2,423,785	2,408,722
Total liabilities	164,397,524	173,291,926
Commitments and contingencies		
Redeemable common stock held by ESOP plan	210,269	148,292
Stockholders Equity		
	22,249	22,249

Common stock, $.01 par value, 12,000,000 shares authorized; 2,224,911 shares issued		
Additional paid-in-capital	8,752,321	8,734,122
Retained earnings	14,505,154	14,374,230
Unallocated ESOP shares	(432,446)	(457,884)
Unearned management recognition plan shares	(129,564)	(168,639)
Accumulated other comprehensive income	433,087	535,867
	23,150,801	23,039,945
Less:		
Treasury shares, at cost, 105,238 shares	(1,205,051)	(1,205,051)
Maximum cash obligation related to ESOP shares	(210,269)	(148,292)
Total stockholders equity	21,735,481	21,686,602
Total liabilities and stockholders equity	$ 186,343,274	$ 195,126,820

See accompanying notes to these unaudited consolidated financial statements.

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OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Operations

Three and Six Months Ended June 30, 2011 and 2010

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest and dividend income:				
Interest and fees on loans	$ 1,973,044	$ 2,190,749	$ 3,927,496	$ 4,376,162
Securities:				
Mortgage-backed and related securities	244,783	230,030	477,785	479,705
U.S. agency securities	18,362	79,343	45,789	139,150
Municipal bonds	6,835		6,835	
Dividends on non-marketable equity securities	579		1,170	
Interest-bearing deposits	1,765	2,035	2,873	4,550
Total interest and dividend income	2,245,368	2,502,157	4,461,948	4,999,567
Interest expense:				
Deposits	652,744	872,880	1,338,998	1,813,069
Total interest expense	652,744	872,880	1,338,998	1,813,069
Net interest income	1,592,624	1,629,277	3,122,950	3,186,498
Provision for loan losses	1,033,260	833,074	1,421,520	1,080,574
Net interest income after provision for loan losses	559,364	796,203	1,701,430	2,105,924
Other income:				
Gain (loss) on sale and call of securities	275,139	(1,984)	276,474	(422)
Gain on sale of loans	307	12,370	7,778	21,102
Origination of mortgage servicing rights, net of amortization	(7,691)	2,324	(9,643)	3,687
Customer service fees	74,420	65,142	142,556	131,805
Income on bank owned life insurance	8,804	8,071	17,143	13,940
Other	108,148	14,027	129,952	26,462
Total other income	459,127	99,950	564,260	196,574
Other expenses:				
Salaries and employee benefits	399,786	705,540	796,933	1,137,261
Directors fees	21,000	21,009	42,000	42,018
Occupancy	117,936	125,481	237,640	251,099
Deposit insurance premium	87,123	111,410	182,939	183,594
Legal and professional services	60,171	81,953	121,803	143,461
Data processing	71,689	74,100	147,146	142,666
Expenses on foreclosed real estate	90,543	44,147	118,876	67,669
Loss (gain) on sale of foreclosed real estate	101,817	(33,751)	78,965	20,311
Loss on sale of repossessed assets	1,032	2,007	12,830	2,200

Other	149,414	149,749	280,767	264,083
Total other expenses	1,100,511	1,281,645	2,019,899	2,254,362
Income (loss) before income taxes	(82,020)	(385,492)	245,791	48,136
Income tax (benefit) expense	(85,154)	(146,701)	30,110	11,489
Net income (loss)	$ 3,134	$ (238,791)	$ 215,681	$ 36,647
Basic earnings (losses) per share	$ 0.00	$ (0.12)	$ 0.10	$ 0.02
Diluted earnings (losses) per share	$ 0.00	$ (0.12)	$ 0.10	$ 0.02
Dividends per share	$ 0.05	$ 0.05	$ 0.10	$ 0.10

See accompanying notes to these unaudited consolidated financial statements.

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OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Comprehensive Income (Loss)

Three and Six Months Ended June 30, 2011 and 2010

(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Comprehensive income (loss):				
Net income (loss)	$ 3,134	$ (238,791)	$ 215,681	$ 36,647
Other comprehensive income, net of tax:				
Unrealized gain on securities available for sale arising during period, net of income taxes	98,442	217,357	79,693	223,644
Reclassification adjustment for (gains) losses included in net income, net of tax expense	(181,592)	1,309	(182,473)	278
Comprehensive (loss) income	$ (80,016)	$ (20,125)	$ 112,901	$ 260,569

See accompanying notes to these unaudited consolidated financial statements.

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OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Cash Flows

Six Months Ended June 30, 2011 and 2010

(Unaudited)

	2011	2010
Cash Flows from Operating Activities		
Net income	$ 215,681	$ 36,647
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	121,702	121,239
Provision for loan losses	1,421,520	1,080,574
Provision for deferred income taxes	26,978	(332,396)
Net amortization of premiums and discounts on securities	174,214	59,661
(Gain) loss on sale of available for sale securities	(276,474)	422
Origination of mortgage loans held for sale	(495,830)	(1,661,806)
Proceeds from sale of mortgage loans held for sale	503,608	1,682,908
Gain on sale of loans, net	(7,778)	(21,102)
Origination of mortgage servicing rights, net of amortization	9,643	(3,687)
Amortization of prepaid FDIC insurance premiums	174,366	169,100
Loss on sale of foreclosed real estate	78,965	20,311
Loss on sale of repossessed assets	12,830	2,200
ESOP compensation expense	18,290	21,562
MRP compensation expense	39,075	34,565
Compensation expense on RRP options granted	25,347	21,645
Increase in cash surrender value of life insurance	(17,143)	(13,940)
Change in assets and liabilities:		
Decrease (increase) in accrued interest receivable	40,017	(20,397)
Decrease in other assets	256,408	122,978
Decrease in accrued interest payable and other liabilities	(81,691)	(55,786)
Net cash provided by operating activities	2,239,728	1,264,698
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(9,088,380)	(15,132,247)
Sales, calls, maturities and paydowns	9,787,155	7,283,215
Securities held to maturity:		
Paydowns and sales	2	696,568
Net decrease in loans	3,878,148	5,394,669
Net decrease in federal funds sold	3,679,000	2,343,000
Proceeds from sale of foreclosed real estate	264,513	84,162
Proceeds from sale of repossessed assets	27,554	23,728
Purchase of premise and equipment		(2,122)
Net cash provided by investing activities	8,547,992	690,973
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(8,880,702)	544,807
Cash dividends paid	(84,757)	(84,292)
Net cash (used in) provided by financing activities	(8,965,459)	460,515

Net increase in cash and cash equivalents	1,822,261	2,416,186
Cash and cash equivalents:		
Beginning	4,378,835	2,972,792
Ending	$ 6,201,096	$ 5,388,978

(Continued)

See accompanying notes to these unaudited consolidated financial statements.

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OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Cash Flows

Six Months Ended June 30, 2011 and 2010

(Unaudited)

(Continued)

	2011	2010
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$ 1,367,761	$ 1,869,252
Income taxes, net of refunds received	(244,351)	543,909
Supplemental Schedule of Noncash Investing and Financing Activities		
Real estate acquired through or in lieu of foreclosure	937,045	1,056,038
Other assets acquired in settlement of loans	12,000	14,928
Sale of foreclosed real estate through loan origination	1,313,689	582,872
Increase (decrease) in liability arising from ESOP put option	61,977	(22,290)

See accompanying notes to these unaudited consolidated financial statements.

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OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

NOTE 1 NATURE OF BUSINESS

Ottawa Savings Bancorp, Inc. (the Company) was incorporated under the laws of the United States on July 11, 2005, for the purpose of serving as the holding company of Ottawa Savings Bank (the Bank), as part of the Bank s conversion from a mutual to a stock form of organization. The Company is a publicly traded banking company with assets of $186.3 million at June 30, 2011 and is head quartered in Ottawa, Illinois.

In 2005, the Board of Directors of the Bank unanimously adopted a plan of conversion providing for the conversion of the Bank from an Illinois chartered mutual savings bank to a federally chartered stock savings bank and the purchase of all of the common stock of the Bank by the Company. The depositors of the Bank approved the plan at a meeting held in 2005.

In adopting the plan, the Board of Directors of the Bank determined that the conversion was advisable and in the best interests of its depositors and the Bank. The conversion was completed in 2005 when the Company issued 1,223,701 shares of common stock to Ottawa Savings Bancorp MHC (a mutual holding company), and 1,001,210 shares of common stock to the public. As of June 30, 2011, Ottawa Savings Bancorp MHC holds 1,223,701 shares of common stock, representing 57.7% of the Company s common shares outstanding.

The Bank s business is to attract deposits from the general public and use those funds to originate and purchase one-to-four family, multi-family and non-residential real estate, construction, commercial and consumer loans, which the Bank primarily holds for investment. The Bank has continually diversified its products to meet the needs of the community.

NOTE 2 BASIS OF PRESENTATION

The consolidated financial statements presented in this quarterly report include the accounts of the Company and the Bank. The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and predominant practices followed by the financial services industry, and are unaudited. In the opinion of the Company s management, all adjustments, consisting of normal recurring adjustments, which the Company considers necessary to fairly state the Company s financial position and the results of operations and cash flows have been recorded. The interim financial statements should be read in conjunction with the audited financial statements and accompanying notes of the Company for the year ended December 31, 2010. Certain amounts in the accompanying financial statements and footnotes for 2010 have been reclassified with no effect on net income or stockholders equity to be consistent with the 2011 classifications. The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for any other interim period or for a full fiscal year.

NOTE 3 USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. 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.

At June 30, 2011, there were no material changes in the Company s significant accounting policies from those disclosed in the Form 10-K filed with the Securities and Exchange Commission on March 30, 2011.

NOTE 4 CRITICAL ACCOUNTING POLICIES

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the allowance for loan losses to be our critical accounting policy.

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OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

Allowance for Loan Losses. For all portfolio segments, the allowance for loan losses is an amount necessary to absorb known and inherent losses that are both probable and reasonably estimable through a provision for loan losses charged to earnings. Loan losses, for all portfolio segments, are charged against the allowance when management believes the uncollectability of a loan balance has been confirmed. Subsequent recoveries, if any, are credited to the allowance. For all portfolio segments, the allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review by portfolio segment of the collectability of the loans in light of historical experience over the most recent eight quarters with heavier weighting given to most recent quarters, the nature and volume of the loan portfolio, adverse situations that may affect each borrower s ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This actual loss experience is supplemented with other economic factors based on risks present for each portfolio segment. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that we 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 record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price or the fair value of the collateral if the loan is collateral dependent.

NOTE 5 EARNINGS PER SHARE

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period, including allocated and committed-to-be-released Employee Stock Ownership Plan (ESOP) shares and vested Management Recognition Plan (MRP) shares. Diluted earnings per share show the dilutive effect, if any, of additional common shares issuable under stock options and awards.

	Three Months ended June 30,		**Six Months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Net income (loss) available to common stockholders	$ 3,134	$ (238,791)	$ 215,681	$ 36,647
Basic potential common shares:				
Weighted average shares outstanding	2,119,673	2,121,045	2,119,673	2,121,045
Weighted average unallocated ESOP shares	(44,083)	(49,166)	(44,711)	(49,798)
Weighted average unvested MRP shares	(10,036)	(20,939)	(10,036)	(20,939)
Basic weighted average shares outstanding	2,065,554	2,050,940	2,064,926	2,050,308
Dilutive potential common shares:				
Weighted average unrecognized compensation on MRP shares	10,509	13,543	9,460	13,776
Weighted average RRP options outstanding **				
Dilutive weighted average shares outstanding	2,076,063	2,064,483	2,074,386	2,064,084

Basic earnings (losses) per share	$	0.00	$	(0.12)	$	0.10	$	0.02
Diluted earnings (losses) per share	$	0.00	$	(0.12)	$	0.10	$	0.02

** The effect of share options was not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE 6 EMPLOYEE STOCK OWNERSHIP PLAN

On July 11, 2005, the Company adopted an ESOP for the benefit of substantially all employees. Upon adoption of the ESOP, the ESOP borrowed $763,140 from the Company and used those funds to acquire 76,314 shares of the Company s stock in the initial public offering at a price of $10.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company s discretionary contributions to the ESOP and earnings on the ESOP assets. Annual principal and interest payments of approximately $77,000 are to be made by the ESOP.

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OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

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As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares, and the shares will become outstanding for earnings-per-share (EPS) computations. Dividends on allocated ESOP shares reduce retained earnings, and dividends on unallocated ESOP shares reduce accrued interest.

A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within 60 days of the distribution date. If this right is not exercised, an additional 60 day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary. At June 30, 2011, 26,820 shares at a fair value of $7.84 have been classified as mezzanine capital.

The following table reflects the status of the shares held by the ESOP:

	June 30, 2011	December 31, 2010
Shares allocated	33,069	30,526
Shares withdrawn from the plan	(6,249)	(2,280)
Unallocated shares	43,245	45,788
Total ESOP shares	70,065	74,034
Fair value of unallocated shares	$ 339,041	$ 240,387

NOTE 7 INVESTMENT SECURITIES

The amortized cost and fair values of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011:				
Held to Maturity				
Residential mortgage-backed securities	$ 16	$	$	$ 16
Available for Sale				
U.S. agency securities	$ 4,007,826	$ 49,744	$	$ 4,057,570
Municipal bonds	1,827,149	19,322		1,846,471
Residential mortgage-backed securities	25,219,291	618,885	31,758	25,806,418
	$ 31,054,266	$ 687,951	$ 31,758	$ 31,710,459

December 31, 2010:				
Held to Maturity				
Residential mortgage-backed securities	$ 18	$	$	$ 18
Available for Sale				
U.S. agency securities	$ 5,510,013	$ 58,517	$	$ 5,568,530
Residential mortgage-backed securities	26,140,769	819,903	66,500	26,894,172
	$ 31,650,782	$ 878,420	$ 66,500	$ 32,462,702

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OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

The amortized cost and fair value at June 30, 2011, by contractual maturity, are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or prepaid without penalties. Therefore, stated maturities of mortgage-backed securities are not disclosed.

	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$	$	$ 1,007,826	$ 1,021,410
Due after one year through five years			2,000,000	2,036,160
Due after five years through ten years			1,819,345	1,829,658
Due after ten years			1,007,804	1,016,813
Residential mortgage-backed securities	16	16	25,219,291	25,806,418
Total investment securities	$ 16	$ 16	$ 31,054,266	$ 31,710,459

The following table reflects securities with gross unrealized losses for less than 12 months and for 12 months or more at June 30, 2011 and December 31, 2010:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2011:						
Securities Available for Sale						
Residential mortgage-backed securities	$ 3,596,549	$ 31,758	$	$	$ 3,596,549	$ 31,758
December 31, 2010:						
Securities Available for Sale						
Residential mortgage-backed securities	$ 6,506,639	$ 66,500	$	$	$ 6,506,639	$ 66,500

Management 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 (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability to retain and whether it is not more likely than not the Company will be required to sell its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts reports.

At June 30, 2011, two securities had unrealized losses with an aggregate depreciation of .88% from the Company s amortized cost basis. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these securities and it is not more likely than not the Company will be required to sell this security before recovery of the amortized cost basis, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at June 30, 2011.

Proceeds from the sales of securities were $4.1 million and $67,283 for the three months ended June 30, 2011 and 2010, respectively. There was $275,139 in gross realized gains for the three months ended June 30, 2011 and no gross realized gains for the three months ended June 30, 2010. There were no gross realized losses for the three months ended June 30, 2011 and $1,984 in gross realized losses for the three months ended June 30, 2010. The tax provision (benefit) applicable to these net realized gains and losses amounted to $93,547 and $(675), respectively.

Proceeds from the sales of securities were $4.1 million and $1.6 million for the six months ended June 30, 2011 and 2010, respectively. There was $276,474 and $24,367 in gross realized gains for the six months ended June 30, 2011 and 2010, respectively. There were no gross realized losses for the six months ended June 30, 2011 and $24,789 in gross realized losses for the six months ended June 30, 2010. The tax provision (benefit) applicable to these net realized gains and losses amounted to $93,547 and $(143), respectively.

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OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

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NOTE 8 LOANS AND ALLOWANCE FOR CREDIT LOSSES

On July 21, 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This new accounting guidance under FASB ASC 310, *Receivables*, requires disclosure of additional information about the credit quality of an entity s financing receivables and the allowance for credit losses.

The new guidance only relates to financial statement disclosures and does not affect the Company s financial condition or results of operations. The following disclosures incorporate the new guidance.

Loans

The components of loans, net of deferred loan costs (fees), are as follows:

	June 30, 2011	December 31, 2010
Mortgage loans:		
One-to-four family residential loans	$ 89,814,632	$ 90,986,542
Multi-family residential loans	6,343,033	6,477,260
Total mortgage loans	96,157,665	97,463,802
Other loans:		
Non-residential loans	20,393,516	22,000,554
Commercial loans	12,064,138	14,952,672
Consumer direct	788,207	978,816
Purchased auto	5,005,534	4,658,422
Total other loans	38,251,395	42,590,464
Gross loans	134,409,060	140,054,266
Less: Allowance for loan losses	(3,996,884)	(4,703,362)
Loans, net	$ 130,412,176	$ 135,350,904

Purchases of loans receivable, segregated by class of loans for the periods indicated were as follows:

	Three Months ended June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
Purchased auto	$ 1,006,217	$	$ 1,509,744	$

	$ 1,006,217	$	$ 1,509,744	$

Net (charge-offs) / recoveries, segregated by class of loans for the periods indicated, were as follows:

	Three Months ended		Six Months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
One-to-four family	$ (556,242)	$ (335,527)	$ (820,026)	$ (535,476)
Multi-family				
Non-residential	(1,278,462)	(44,341)	(1,296,725)	(78,088)
Commercial				
Consumer direct	4,475	1	(10,525)	1,040
Purchased auto	1,362	(1,686)	(722)	(5,374)
Net (charge-offs)/recoveries	$ (1,828,867)	$ (381,553)	$ (2,127,998)	$ (617,898)

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OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2011 and 2010:

	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
June 30, 2011							
Balance at beginning of period	$ 2,221,131	$ 38,754	$ 2,315,397	$ 180,401	$ 12,117	$ 24,691	$ 4,792,491
Provision charged to income	723,418	179,857	170,671	(39,034)	(1,095)	(557)	1,033,260
Loans charged off	(557,377)		(1,306,775)				(1,864,152)
Recoveries of loans previously charged off	1,135		28,313		4,475	1,362	35,285
Balance at end of period	$ 2,388,307	$ 218,611	$ 1,207,606	$ 141,367	$ 15,497	$ 25,496	$ 3,996,884
June 30, 2010							
Balance at beginning of period	$ 2,036,430	$ 57,915	$ 893,206	$ 460,878	$ 14,751	$ 62,679	$ 3,525,859
Provision charged to income	557,342	(3,270)	293,836	(7,387)	(326)	(7,121)	833,074
Loans charged off	(337,447)		(44,341)			(1,745)	(383,533)
Recoveries of loans previously charged off	1,639				1	340	1,980
Balance at end of period	$ 2,257,964	$ 54,645	$ 1,142,701	$ 453,491			