

NORTHEAST COMMUNITY BANCORP INC  
Form 10-Q  
November 14, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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: 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  No

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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  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  Smaller Reporting Company   
(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  No

As of November 11, 2011, there were 12,644,752 shares of the registrant's common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	September 30, 2011	December 31, 2010
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Cash and amounts due from depository institutions	\$ 2,584	\$ 2,494
Interest-bearing deposits	49,480	41,959
Cash and cash equivalents	52,064	44,453
Certificates of deposit	2,988	2,988
Securities available-for-sale	152	162
Securities held-to-maturity	17,448	19,858
Loans receivable, net of allowance for loan losses of \$7,969 and \$7,647, respectively	356,883	364,798
Premises and equipment, net	7,620	6,784
Federal Home Loan Bank of New York stock, at cost	1,633	1,884
Bank owned life insurance	16,587	16,145
Accrued interest receivable	1,544	1,704
Goodwill	1,310	1,310
Intangible assets	482	527
Real estate owned	916	933
Other assets	3,983	4,462
<b>Total assets</b>	<b>\$ 463,610</b>	<b>\$ 466,008</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Non-interest bearing	\$ 14,427	\$ 9,839
Interest bearing	314,851	316,991
<b>Total deposits</b>	<b>329,278</b>	<b>326,830</b>
Advance payments by borrowers for taxes and insurance	4,297	3,384
Federal Home Loan Bank advances	20,000	25,000
Accounts payable and accrued expenses	3,021	2,487
Note payable	174	168
<b>Total liabilities</b>	<b>356,770</b>	<b>357,869</b>
<b>Stockholders' equity:</b>		
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: 12,644,752 shares in 2011 and 13,114,800 shares in 2010	132	132
Additional paid-in capital	57,319	57,391
Unearned Employee Stock Ownership Plan ("ESOP") shares	(3,694 )	(3,888 )

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Retained earnings	56,898	55,335
Treasury stock – at cost, 580,248 shares and 110,200 shares respectively	(3,713 )	(664 )
Accumulated other comprehensive loss	(102 )	(167 )
Total stockholders' equity	106,840	108,139
Total liabilities and stockholders' equity	\$ 463,610	\$ 466,008

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
<b>INTEREST INCOME:</b>				
Loans	\$5,378	\$5,585	\$16,314	\$17,010
Interest-earning deposits	9	17	29	92
Securities – taxable	186	244	548	761
<b>Total Interest Income</b>	<b>5,573</b>	<b>5,846</b>	<b>16,891</b>	<b>17,863</b>
<b>INTEREST EXPENSE:</b>				
Deposits	1,127	1,865	3,428	5,799
Borrowings	161	233	482	831
<b>Total Interest Expense</b>	<b>1,288</b>	<b>2,098</b>	<b>3,910</b>	<b>6,630</b>
<b>Net Interest Income</b>	<b>4,285</b>	<b>3,748</b>	<b>12,981</b>	<b>11,233</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>393</b>	<b>4</b>	<b>1,113</b>	<b>898</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>3,892</b>	<b>3,744</b>	<b>11,868</b>	<b>10,335</b>
<b>NON-INTEREST INCOME:</b>				
Other loan fees and service charges	96	80	244	231
Gain/(loss) on disposition of equipment	15	-	10	(7)
Earnings on bank owned life insurance	149	157	442	468
Investment advisory fees	259	193	670	574
Other	(2)	5	5	11
<b>Total Non-Interest Income</b>	<b>517</b>	<b>435</b>	<b>1,371</b>	<b>1,277</b>
<b>NON-INTEREST EXPENSES:</b>				
Salaries and employee benefits	1,862	1,715	5,182	5,273
Occupancy expense	280	308	857	945
Equipment	173	122	458	400
Outside data processing	185	199	592	632
Advertising	58	15	122	51
Real estate owned expense	14	83	27	95
FDIC insurance premiums	87	112	315	355
Other	1,072	815	2,579	2,201
<b>Total Non-Interest Expenses</b>	<b>3,731</b>	<b>3,369</b>	<b>10,132</b>	<b>9,952</b>

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Income before Provision for Income Taxes	678	810	3,107	1,660
PROVISION FOR INCOME TAXES	211	276	1,081	477
Net Income	\$467	\$534	\$2,026	\$1,183
Net Income per Common Share – Basic	\$0.04	\$0.04	\$0.16	\$0.09
Weighted Average Number of Common Shares Outstanding – Basic	12,277	12,743	12,518	12,735
Dividends Declared per Common Share	\$0.03	\$0.03	\$0.09	\$0.09

See Notes to Consolidated Financial Statements



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## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30, 2011 and 2010 (in thousands)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity	Comprehensive Income
Balance at December 31, 2009	\$ 132	\$ 57,496	\$(4,147 )	\$54,121	\$-	\$ (154 )	\$ 107,448	
Comprehensive income:								
Net income	-	-	-	1,183	-	-	1,183	\$ 1,183
Unrealized gain on securities available for sale, net of taxes of \$1	-	-	-	-	-	2	2	2
Pension liability – DRP, net of taxes of \$8	-	-	-	-	-	(12 )	(12 )	(12 )
Purchase of 85,400 shares of treasury stock	-	-	-	-	(515 )	-	(515 )	
Minority cash dividends declared (\$0.09 per share)	-	-	-	(490 )	-	-	(490 )	
ESOP shares earned	-	(78 )	194	-	-	-	116	
Total Comprehensive Income								\$ 1,173
Balance – September 30, 2010	\$ 132	\$ 57,418	\$(3,953 )	\$54,814	\$(515 )	\$ (164 )	\$ 107,732	
Balance at December 31, 2010	\$ 132	\$ 57,391	\$(3,888 )	\$55,335	\$(664 )	\$ (167 )	\$ 108,139	
Comprehensive income:								
Net income	-	-	-	2,026	-	-	2,026	\$ 2,026
Unrealized loss on securities available for sale, net of taxes of \$0	-	-	-	-	-	(1 )	(1 )	(1 )
Pension liability – DRP, net of taxes of \$21	-	-	-	-	-	66	66	66
Purchase of 470,048 shares of	-	-	-	-	(3,049 )	-	(3,049 )	

treasury  
stock

Minority cash dividends declared (\$0.09 per share)	-	-	-	(463 )	-	(463 )
ESOP shares earned	-	(72 )	194	-	-	122
Total Comprehensive Income						\$ 2,091
Balance – September 30, 2011	\$ 132	\$ 57,319	\$(3,694 )	\$56,898	\$(3,713 )	\$ (102 ) \$ 106,840

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2011	2010
	(In thousands)	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$2,026	\$1,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums and discounts, net	34	25
Provision for loan losses	1,113	898
Depreciation	515	586
Net amortization of deferred loan fees and costs	118	104
Amortization of intangible assets	45	45
Deferred income tax (benefit) expense	(228 )	292
Accretion of discount on note payable	6	11
Retirement plan expense	507	456
(Gain) loss on disposal of equipment	(10 )	7
Loss on sale of real estate owned	-	50
Earnings on bank owned life insurance	(442 )	(468 )
ESOP compensation expense	122	116
Decrease (increase) in accrued interest receivable	160	(23 )
Decrease in other assets	663	263
Increase (decrease) in accounts payable and accrued expenses	136	(90 )
<b>Net Cash Provided by Operating Activities</b>	<b>4,765</b>	<b>3,455</b>
<b>Cash Flows from Investing Activities:</b>		
Net decrease in loans	6,684	14,194
Purchase of securities held-to-maturity	(984 )	(22,568 )
Principal repayments on securities available-for-sale	10	8
Principal repayments on securities held-to-maturity	3,360	13,475
Proceeds from maturities of certificates of deposit	-	7,719
Redemption of Federal Home Loan Bank of New York stock	251	393
Proceeds from disposition of equipment	10	-
Proceeds from sale of real estate owned	-	300
Purchases of premises and equipment	(1,334 )	(80 )
Purchase of bank owned life insurance	-	(5,000 )
<b>Net Cash Provided by Investing Activities</b>	<b>7,997</b>	<b>8,441</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in deposits	2,448	(18,991 )
Proceeds from FHLB of NY advances	10,000	-
Repayment of FHLB of NY advances	(15,000 )	(10,000 )
Purchase of treasury stock	(3,049 )	(515 )
Increase in advance payments by borrowers for taxes and insurance	913	984
Cash dividends paid to minority shareholders	(463 )	(490 )
<b>Net Cash Used in Financing Activities</b>	<b>(5,151 )</b>	<b>(29,012 )</b>

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Net Increase (Decrease) in Cash and Cash Equivalents	7,611	(17,116 )
Cash and Cash Equivalents - Beginning	44,453	88,718
Cash and Cash Equivalents - Ending	\$52,064	\$71,602

**SUPPLEMENTARY CASH FLOWS INFORMATION**

Income taxes paid	\$705	\$-
Interest paid	\$3,428	\$6,634

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES**

Loan transferred to real estate owned	\$-	\$751
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See Notes to Consolidated Financial Statements

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NORTHEAST COMMUNITY BANK  
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 accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and the Bank’s wholly owned subsidiary, New England Commercial Properties, LLC (“NECP”). All significant intercompany accounts and transactions have been eliminated in consolidation.

NECP, a New York limited liability company, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. As of September 30, 2011, NECP had title to two multifamily properties. The Bank accepted a deed-in-lieu of foreclosure and transferred the first property to NECP on November 19, 2008. In addition, the Bank accepted a deed-in-lieu of foreclosure and transferred the second property to NECP on November 30, 2010.

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 and Rule 10-01 of Regulation S-X. 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 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 three and nine-month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2010 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles. That data, along with the interim financial information presented in the consolidated statements of financial condition, 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, 2010.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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, 2011 and through the date these consolidated financial statements were issued.

Loans

Loans are stated at unpaid principal balances plus net deferred loan origination fees and 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. 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.

#### Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet 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.

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 Bank'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.

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NOTE 1 – BASIS OF PRESENTATION (Continued)

Allowance for Loan Losses (Continued)

This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance 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 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. 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 record, 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 consumer or residential one- to four-family loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, a below market rate, or an extension of a loan's stated maturity date. Adversely classified, non-accrual troubled debt restructurings may be reclassified if principal and interest payments, under the modified terms, are current for six consecutive months after modification.

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 are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

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 and expected loss given default derived from the Company's internal risk rating process for each of these categories of loans, 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.

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NOTE 1 – BASIS OF PRESENTATION (Continued)

Allowance for Loan Losses (Continued)

- |    |   |
|----|---|
| 8. | Concentrations of credit.                 |
| 9. | Competitive, 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.

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 President is ultimately responsible for the timely and accurate risk rating of the loan portfolio.

The allowance 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 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.

In addition, federal 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, 2011.

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, during the nine-month periods ended September 30, 2011 and 2010, had no potentially dilutive common stock equivalents. 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

As of December 31, 2010 and September 30, 2011, the ESOP trust held 518,420 shares of the Company's common stock, which represents all allocated and unallocated shares held by the plan. As of December 31, 2010, the Company had allocated 103,684 shares to participants, and an additional 25,921 shares had been committed to be released. As of September 30, 2011, the Company had allocated 129,605 shares to participants, and an additional 19,441 shares had been committed to be released.

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## NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN (Continued)

The Company recognized compensation expense of \$42,000 and \$37,000 during the three-month periods ended September 30, 2011 and 2010, respectively, and \$122,000 and \$116,000 during the nine-month periods ended September 30, 2011 and 2010, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

## NOTE 4 – OUTSIDE DIRECTOR RETIREMENT PLAN (“DRP”)

Periodic expenses for the Company’s DRP were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Service cost	\$ 14	\$ 14	\$ 42	\$ 42
Interest cost	10	10	30	30
Amortization of prior service cost	5	5	15	15
Amortization of actuarial loss	1	1	4	5
Total	\$ 30	\$ 30	\$ 91	\$ 92

This plan is a non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The amortization of prior service cost and actuarial loss in the nine-month periods ended September 30, 2011 and 2010 is also reflected as a reduction in other comprehensive income during those periods.

## NOTE 5 – INVESTMENTS

The following tables set 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)				
At September 30, 2011				
Securities available for sale:				
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	\$ 95	\$ 3	\$ -	\$ 98
Federal National Mortgage Association	53	1	-	54
Total	\$ 148	\$ 4	\$ -	\$ 152
Securities held to maturity:				
Mortgage-backed securities – residential:				
Government National Mortgage Association	\$ 12,886	\$ 420	\$ -	\$ 13,306
	307	7	-	314

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Federal Home Loan Mortgage Corporation				
Federal National Mortgage Association	309	8	-	317
Collateralized mortgage obligations-GSE	3,945	179	-	4,124
Other	1	-	-	1
Total	\$ 17,448	\$ 614	\$ -	\$ 18,062

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## NOTE 5 – INVESTMENTS (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
At December 31, 2010				
Securities available for sale:				
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation				
	\$ 102	\$ 4	\$ -	\$ 106
Federal National Mortgage Association				
	55	1	-	56
Total	\$ 157	\$ 5	\$ -	\$ 162
Securities held to maturity:				
Mortgage-backed securities – residential:				
Government National Mortgage Association				
	\$ 14,521	\$ 355	\$ -	\$ 14,876
Federal Home Loan Mortgage Corporation				
	345	11	-	356
Federal National Mortgage Association				
	352	9	-	361
Collateralized mortgage obligations-GSE				
	4,639	109	-	4,748
Other				
	1	-	-	1
Total	\$ 19,858	\$ 484	\$ -	\$ 20,342

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

	September 30, 2011	
	Amortized Cost	Fair Value
	(In thousands)	
Due after ten years	\$ 148	\$ 152
	\$ 148	\$ 152

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

	September 30, 2011	
	Amortized Cost	Fair Value
	(In thousands)	
Due after one but within five years	\$ 4	\$ 4
Due after five but within ten years	251	256
Due after ten years	17,193	17,802

\$ 17,448      \$ 18,062

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations.

#### NOTE 6 – FAIR VALUE DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company's securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets and liabilities on a non-recurring basis, such as securities held to maturity, impaired loans and other real estate owned. U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

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## NOTE 6 – FAIR VALUE DISCLOSURES (Continued)

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In thousands)				
September 30, 2011:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	\$ 98	\$ -	\$ 98	\$ -
Federal National Mortgage Association	54	-	54	-
December 31, 2010:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	\$ 106	\$ -	\$ 106	\$ -
Federal National Mortgage Association	56	-	56	-

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis at September 30, 2011 and December 31, 2010 are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
-------------	-------	---	---	--

Assets  
(In thousands)

September 30, 2011:				
Impaired loans	\$ 6,351	\$ -	\$ -	\$ 6,351
December 31, 2010:				
Impaired loans	\$ 10,953	\$ -	\$ -	\$ 10,953

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.



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NOTE 6 – FAIR VALUE DISCLOSURES (Continued)

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at September 30, 2011 and December 31, 2010:

Cash and Cash Equivalents, Certificates of Deposit and Accrued Interest Receivable and Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

Fair values for securities available for sale and held to maturity are determined utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. The total loan portfolio is first divided into performing and non-performing categories. Performing loans are then segregated into adjustable and fixed rate interest terms. Fixed rate loans are segmented by type, such as construction and land development, other loans secured by real estate, commercial and industrial loans, and loans to individuals. Certain types, such as commercial loans and loans to individuals, are further segmented by maturity and type of collateral.

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a current market rate. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications.

For non-performing loans, fair value is calculated by first reducing the carrying value by a credit risk adjustment based on internal loan classifications, and then discounting the estimated future cash flows from the remaining carrying value at a market rate.

For impaired loans which the Company has measured and recorded impairment generally based on the fair value of the loan's collateral, fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are typically included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

FHLB of New York Stock

The carrying amount of the FHLB of New York stock is equal to its fair value, and considers the limited marketability of this security.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, money market accounts, interest checking accounts, and savings accounts is equal to the amount payable on demand. Time deposits are segregated by type, size, and remaining maturity. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is based on rates currently offered in the market.

FHLB of New York Advances

The fair value of the FHLB advances is estimated based on the discounted value of future contractual payments. The discount rate is equivalent to the estimated rate at which the Company could currently obtain similar financing.

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## NOTE 6 – FAIR VALUE DISCLOSURES (Continued)

## Note Payable

The fair value of the note payable is estimated based on the discounted value of future contractual payments. The discount rate is equivalent to the estimated rate at which the Company could currently obtain similar financing.

## Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At September 30, 2011 and December 31, 2010, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

The carrying amounts and estimated fair value of our financial instruments are as follows:

	At September 30, 2011		At December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
<b>Financial assets:</b>				
Cash and cash equivalents	\$52,064	\$52,064	\$44,453	\$44,453
Certificates of deposit	2,988	2,988	2,988	2,988
Securities available for sale	152	152	162	162
Securities held to maturity	17,448	18,062	19,858	20,342
Loans receivable	356,883	363,080	364,798	372,322
FHLB stock	1,633	1,633	1,884	1,884
Accrued interest receivable	1,544	1,544	1,704	1,704
<b>Financial liabilities:</b>				
Deposits, including accrued interest	329,278	332,105	326,830	330,471
FHLB advances	20,000	20,780	25,000	26,759
Note payable	174	190	168	173

## NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

The following is a breakdown of the loan portfolio by segment, and classes under those segments where applicable:

	September 30, 2011	December 31, 2010
	(In thousands)	
<b>Residential real estate:</b>		
One-to-four family	\$ 186	\$ 211
Multi-family	194,291	190,042
Mixed use	49,923	55,244
	244,400	245,497
<b>Non-residential real estate</b>	90,250	100,925
Construction	9,030	12,913

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Commercial	20,287	12,140
Consumer	70	63
<b>Total Loans</b>	<b>364,037</b>	<b>371,538</b>
Allowance for loan losses	(7,969 )	(7,647 )
Deferred loan fees and costs	815	907
<b>Net Loans</b>	<b>\$ 356,883</b>	<b>\$ 364,798</b>

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## NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

The following is an analysis of the allowance for loan losses:

Allowance for Loan Losses as of and for the Nine Months Ended September 30, 2011 (in thousands)

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial	Consumer	Total
<b>Allowance for credit losses:</b>						
Beginning balance	\$3,924	\$1,560	\$2,083	\$80	\$-	\$7,647
Charge-offs	(795 )	-	-	-	-	(795 )
Recoveries	4	-	-	-	-	4
Provision	987	(350 )	455	21	-	1,113
Ending balance	\$4,120	\$1,210	\$2,538	\$101	\$-	\$7,969
Ending balance: individually evaluated for impairment	\$414	\$-	\$2,468	\$-	\$-	\$2,882
Ending balance: collectively evaluated for impairment	\$3,706	\$1,210	\$70	\$101	\$-	\$5,087
<b>Loan receivables:</b>						
Ending balance	\$244,400	\$90,250	\$9,030	\$20,287	\$70	\$364,037
Ending balance: individually evaluated for impairment	\$13,308	\$9,695	\$7,625	\$-	\$-	\$30,628
Ending balance: collectively evaluated for impairment	\$231,092	\$80,555	\$1,405	\$20,287	\$70	\$333,409

Allowance for Loan Losses as of and for the Three Months Ended September 30, 2011 (in thousands)

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial	Consumer	Total
<b>Allowance for credit losses:</b>						
Beginning balance	\$3,893	\$1,309	\$2,320	\$78	\$-	\$7,600
Charge-offs	(28 )	-	-	-	-	(28 )
Recoveries	4	-	-	-	-	4
Provision	251	(99 )	218	23	-	393
Ending balance	\$4,120	\$1,210	\$2,538	\$101	\$-	\$7,969



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## NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses as of and for the Year Ended December 31, 2010 (in thousands)

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$3,948	\$2,495	\$ 186	\$ 104	\$-	\$6,733
Charge-offs	(1,211 )	(1,407 )	-	-	-	(2,618 )
Recoveries	45	-	-	-	-	45
Provision	1,142	472	1,897	(24 )	-	3,487
Ending balance	\$3,924	\$1,560	\$ 2,083	\$ 80	\$-	\$7,647
Ending balance: individually evaluated for impairment						
	\$368	\$82	\$ 1,756	\$-	\$-	\$2,206
Ending balance: collectively evaluated for impairment						
	\$3,556	\$1,478	\$ 327	\$ 80	\$-	\$5,441