Magyar Bancorp, Inc.
Form 10-Q
February 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2014

Commission File Number **000-51726**

Magyar Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-4154978**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
400 Somerset Street, New Brunswick, New Jersey	**08901**
(Address of Principal Executive Office)	(Zip Code)

(732) 342-7600

(Issuer's Telephone Number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 þ No o

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 þ No o

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	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 1, 2015
Common Stock, $0.01 Par Value	5,815,444

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	December 31, 2014 (Unaudited)	September 30, 2014
Assets		
Cash	$ 1,416	$ 1,205
Interest earning deposits with banks	6,448	9,053
Total cash and cash equivalents	7,864	10,258
Investment securities - available for sale, at fair value	9,003	12,070
Investment securities - held to maturity, at amortized cost (fair value of $47,846 and $48,822 at December 31, 2014 and September 30, 2014, respectively)	47,495	48,963
Federal Home Loan Bank of New York stock, at cost	1,863	1,761
Loans receivable, net of allowance for loan losses of $2,939 and $2,835 December 31, 2014 and September 30, 2014, respectively	407,773	404,195
Bank owned life insurance	10,736	10,658
Accrued interest receivable	1,599	1,672
Premises and equipment, net	18,417	18,580
Other real estate owned ("OREO")	15,084	17,342
Other assets	4,711	4,931
Total assets	$ 524,545	$ 530,430
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 445,842	$ 448,451
Escrowed funds	1,161	1,157
Federal Home Loan Bank of New York advances	27,751	25,500
Securities sold under agreements to repurchase	—	5,000
Accrued interest payable	116	119
Accounts payable and other liabilities	3,491	4,271
Total liabilities	478,361	484,498
Stockholders' equity		

Preferred stock: $.01 Par Value, 1,000,000 shares authorized; none issued	—	—
Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued; 5,815,444 shares outstanding at December 31, 2014 and September 30, 2014	59	59
Additional paid-in capital	26,296	26,295
Treasury stock: 108,298 shares at December 31, 2014 and September 30, 2014, at cost	(1,211)	(1,211)
Unearned Employee Stock Ownership Plan shares	(847)	(877)
Retained earnings	22,564	22,382
Accumulated other comprehensive loss	(677)	(716)
Total stockholders' equity	46,184	45,932
Total liabilities and stockholders' equity	$ 524,545	$ 530,430

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

	For the Three Months Ended December 31,	
	2014	2013
	(Unaudited)	
Interest and dividend income		
Loans, including fees	$4,459	$4,539
Investment securities		
Taxable	330	413
Tax-exempt	—	—
Federal Home Loan Bank of New York stock	23	21
Total interest and dividend income	4,812	4,973
Interest expense		
Deposits	602	644
Borrowings	219	281
Total interest expense	821	925
Net interest and dividend income	3,991	4,048
Provision for loan losses	420	359
Net interest and dividend income after provision for loan losses	3,571	3,689
Other income		
Service charges	199	207
Income on bank owned life insurance	77	83
Other operating income	23	14
Gains on sales of loans	233	30
Gains on sales of investment securities	30	36
Total other income	562	370
Other expenses		
Compensation and employee benefits	2,002	1,933
Occupancy expenses	703	718
Professional fees	292	267
Data processing expenses	146	143
OREO expenses	111	186

FDIC deposit insurance premiums	180	181
Loan servicing expenses	78	135
Insurance expense	57	57
Other expenses	308	265
Total other expenses	3,877	3,885
Income before income tax expense	256	174
Income tax expense	74	41
Net income	$182	$133
Net income per share-basic and diluted	$0.03	$0.02

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(In Thousands)

	For the Three Months Ended December 31,	
	2014	2013
	(Unaudited)	
Net income	$182	$133
Other comprehensive income (loss)		
Net unrealized gain (loss) on securities available for sale	91	(81)
Realized gains on sales of securities available for sale	(30)	—
Other comprehensive income (loss), before tax	61	(81)
Deferred income tax effect	(22)	30
Total other comprehensive income (loss)	39	(51)
Total comprehensive income	$221	$82

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity

For the Three Months Ended December 31, 2014 and 2013

(In Thousands, Except for Share Amounts)

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2014	5,815,444	$59	$26,295	$(1,211)	$(877)	$22,382	$(716)	$45,932
Net income	—	—	—	—	—	182	—	182
Other comprehensive income (loss)	—	—	—	—	—	—	39	39
ESOP shares allocated	—	—	(3)	—	30	—	—	27
Stock-based compensation expense	—	—	4	—	—	—	—	4
Balance, December 31, 2014	5,815,444	$59	$26,296	$(1,211)	$(847)	$22,564	$(677)	$46,184

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2013	5,811,394	$59	$26,322	$(1,256)	$(1,002)	$21,835	$(638)	$45,320
Net income	—	—	—	—	—	133	—	133
Other comprehensive income (loss)	—	—	—	—	—	—	(51)	(51)
ESOP shares allocated	—	—	(10)	—	33	—	—	23
Stock-based compensation expense	—	—	5	—	—	—	—	5
Balance, December 31, 2013	5,811,394	$59	$26,317	$(1,256)	$(969)	$21,968	$(689)	$45,430

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Three Months Ended December 31,	
	2014	2013
	(Unaudited)	
Operating activities		
Net income	$182	$133
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	224	234
Premium amortization on investment securities, net	60	76
Provision for loan losses	420	359
Provision for loss on other real estate owned	25	26
Proceeds from the sales of loans	3,399	219
Gains on sale of loans	(233)	(30)
Gains on sales of investment securities	(30)	(36)
Gains on the sales of other real estate owned	(51)	—
ESOP compensation expense	27	23
Stock-based compensation expense	4	5
Deferred income tax expense	134	—
Decrease in accrued interest receivable	73	1
Increase in surrender value bank owned life insurance	(78)	(83)
Decrease in other assets	64	233
Increase (decrease) in accrued interest payable	(3)	(1)
Decrease in accounts payable and other liabilities	(780)	(2,151)
Net cash provided (used) by operating activities	3,437	(992)
Investing activities		
Net increase in loans receivable	(7,798)	(3,867)
Purchases of loans receivable	(674)	(5,514)
Purchases of investment securities held to maturity	—	(4,419)
Sales of investment securities held to maturity	—	3,036
Sales of investment securities available for sale	2,915	—
Principal repayments on investment securities held to maturity	1,426	1,748
Principal repayments on investment securities available for sale	225	453
Purchases of premises and equipment	(61)	(9)
Investment in other real estate owned	(232)	—
Proceeds from the sale of other real estate owned	3,824	199
Purchase of Federal Home Loan Bank stock	(102)	(612)
Net cash used by investing activities	(477)	(8,985)

Financing activities		
Net decrease in deposits	(2,609)	(12,664)
Net increase (decrease) in escrowed funds	4	(47)
Proceeds from long-term advances	5,701	2,000
Repayments of long-term advances	(3,500)	(4,000)
Net change in short-term advances	50	15,600
Repayments of securities sold under agreements to repurchase	(5,000)	—
Net cash (used) provided by financing activities	(5,354)	889
Net decrease in cash and cash equivalents	(2,394)	(9,088)
Cash and cash equivalents, beginning of period	10,258	17,792
Cash and cash equivalents, end of period	$7,864	$8,704
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$823	$925
Income taxes	$14	$9
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$1,308	$525

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

NOTE A – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Magyar Bancorp, Inc. (the “Company”), its wholly owned subsidiary, Magyar Bank (the “Bank”), and the Bank’s wholly owned subsidiaries Magyar Service Corporation, Hungaria Urban Renewal, LLC, and MagBank Investment Company. All material intercompany transactions and balances have been eliminated. The Company prepares its financial statements on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The unaudited information furnished herein reflects all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

Operating results for the three months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015. The September 30, 2014 information has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, and the assessment of realizability of deferred income tax assets.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2014 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update (ASU 2014-04) related to; *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The update applies to all creditors who obtain physical possession of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The amendments in this update clarify when an in-substance repossession or foreclosure occurs and requires disclosure of both (1) the amount of foreclosed residential real estate property held by a creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. Early adoption is permitted. The Company is currently analyzing the impact of the updated guidance on its financial statements.

In May 2014, FASB issued ASU 2014-09 *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

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Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public business entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently analyzing the impact of the guidance on its financial statements.

An entity should apply the amendments in this ASU using one of the following two methods:

Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

- For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

- The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
- An explanation of the reasons for significant changes.

NOTE C - CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company’s consolidated financial position or results of operations.

NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three months ended December 31, 2014 and 2013 were calculated by dividing net income by the weighted-average number of shares outstanding for the period. All stock options and restricted stock awards were anti-dilutive for the three months ended December 31, 2014 and the three months ended December 31, 2013. The following table shows the Company’s earnings per share for the periods presented:

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	For the Three Months Ended December 31,					
	2014			2013		
	Income	Weighted average shares	Per share Amount	Income	Weighted average shares	Per share Amount
	(In thousands, except per share data)					
Basic EPS						
Net income available to common shareholders	$182	5,817	$0.03	$133	5,813	$0.02
Effect of dilutive securities						
Options and grants	—	1	—	—	2	—
Diluted EPS						
Net income available to common shareholders plus assumed conversion	$182	5,818	$0.03	$133	5,815	$0.02

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 were outstanding and not included in the computation of diluted earnings per share for the three months ended December 31, 2014 and December 31, 2013 because the grant (or option strike) price was greater than the average market price of the common shares during the periods.

NOTE E – STOCK-BASED COMPENSATION AND STOCK REPURCHASE PROGRAM

The Company follows FASB Accounting Standards Codification ("ASC") Section 718, Compensation-Stock Compensation, which covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

ASC 718 also requires the Company to realize as a financing cash flow rather than an operating cash flow, as previously required, the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 107, the Company classified share-based compensation for employees and outside directors within "compensation and employee benefits" in the consolidated statement of operations to correspond with the same line item as the cash compensation paid.

Stock options generally vest over a five-year service period and expire ten years from issuance. Management recognizes compensation expense for all option grants over the awards' respective requisite service periods. The fair values of all option grants were estimated using the Black-Scholes option-pricing model. Since there was limited historical information on the volatility of the Company's stock, management also considered the average volatilities of similar entities for an appropriate period in determining the assumed volatility rate used in the estimation of fair value. Management estimated the expected life of the options using the simplified method allowed under SAB No. 107. The 7-year Treasury yield in effect at the time of the grant provided the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. Once vested, these awards are irrevocable. Shares will be obtained from either the open market or treasury stock upon share option exercise.

Restricted shares generally vest over a five-year service period on the anniversary of the grant date. Once vested, these awards are irrevocable. The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted shares under the Company's restricted stock plans. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period.

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the three months ended December 31, 2014:

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	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2014	188,276	$ 14.61		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at December 31, 2014	188,276	$ 14.61	2.2 years	$ —
Exercisable at December 31, 2014	188,276	$ 14.61	2.2 years	$ —

The following is a summary of the Company's non-vested stock awards as of December 31, 2014 and changes during the three months ended December 31, 2014:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2014	5,302	$ 4.41
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at December 31, 2014	5,302	$ 4.41

Stock option and stock award expenses included with compensation expense were $0 and $4,000 for the three months ended December 31, 2014 and 2013.

The Company announced in November 2007 its second stock repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. Through December 31, 2014, the Company had repurchased a total of 81,000 shares of its common stock at an average cost of $8.33 per share under this program. No shares were repurchased during the three months ended December 31, 2014. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of December 31, 2014. The Company's intended use of the repurchased shares is for general corporate purposes, including the funding of awards granted under the 2006 Equity Incentive Plan.

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees of the Company and the Bank who meets the eligibility requirements as defined in the plan. The ESOP trust purchased 217,863 shares of common stock in the open market using proceeds of a loan from the Company. The total cost of shares purchased by the ESOP trust was $2.3 million, reflecting an average cost per share of $10.58. The Bank will make cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears a variable interest rate that adjusts annually every January 1st to the then published Prime Rate (3.25% at January 1, 2015) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company’s stock.

As the debt is repaid, shares are released as collateral and allocated to qualified employees. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the then current market price of the shares, and the shares become outstanding for earnings per share computations.

At December 31, 2014, shares allocated to participants totaled 128,437. Unallocated ESOP shares held in suspense totaled 89,426 at December 31, 2014 and had a fair market value of $754,755. The Company's expense for the ESOP was $27,000 and $23,000 for the three months ended December 31, 2014 and 2013, respectively.

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NOTE F – OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss and the related income tax effects are as follows:

	Three Months Ended December 31,					
	2014			2013		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	$91	$ (34)	$ 57	$(81)	$ 30	$ (51)
Less reclassification adjustment for net gains realized on available-for-sale investments (a) (b)	(30)	12	(18)	—	—	—
Other comprehensive income (loss), net	$61	$ (22)	$ 39	$(81)	$ 30	$ (51)

(a) Realized gains on securities transactions included in gains on sales of investment securities in the accompanying Consolidated Statements of Operations
(b) Tax effect included in income tax expense in the accompanying Consolidated Statements of Operations

NOTE G – FAIR VALUE DISCLOSURES

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our 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 or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights, loans receivable and other real estate owned, or OREO. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

In accordance with ASC 820, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 1 -	
Level 2 -	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3 -	Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

<u>Securities available for sale</u>

Our available for sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. Our securities available for sale portfolio consists of U.S government and government-sponsored enterprise obligations, municipal bonds, and mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

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The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis.

	Fair Value at December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$ 8,621	$ —	$ 8,621	$ —
Private label mortgage-backed securities-residential	382	—	382	—
Total securities available for sale	$ 9,003	$ —	$ 9,003	$ —

	Fair Value at September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$ 1,295	$ —	$ 1,295	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	10,369	—	10,369	—
Private label mortgage-backed securities-residential	406	—	406	—
Total securities available for sale	$ 12,070	$ —	$ 12,070	$ —

The following is a description of valuation methodologies used for assets measured at fair value on a non-recurring basis.

Impaired Loans

Loans which meet certain criteria are evaluated individually for impairment. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Three impairment measurement methods are used, depending upon the collateral securing the asset: 1) the present value of expected future cash flows discounted at the loan's effective interest rate (the rate of return implicit in the loan); 2) the asset's observable market price; or 3) the fair value of the collateral, less anticipated selling and disposition costs, if the asset is collateral dependent. The regulatory agencies require this method for loans from which repayment is expected to be provided solely by the underlying collateral. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3.

Appraisals of collateral securing impaired loans are conducted by approved, qualified, and independent third-party appraisers. Such appraisals are ordered via the Bank's credit administration department, independent from the lender who originated the loan, once the loan is deemed impaired, as described in the previous paragraph. Impaired loans are generally re-evaluated with an updated appraisal within one year of the last appraisal. However, the Company also obtains updated appraisals on performing construction loans that are approaching their maturity date to determine whether or not the fair value of the collateral securing the loan remains sufficient to cover the loan amount prior to considering an extension. The Company discounts the appraised "as is" value of the collateral for estimated selling and disposition costs and compares the resulting fair value of collateral to the outstanding loan amount. If the outstanding loan amount is greater than the discounted fair value, the Company requires a reduction in the outstanding loan balance or additional collateral before considering an extension to the loan. If the borrower is unwilling or unable to reduce the loan balance or increase the collateral securing the loan, it is deemed impaired and the difference between the loan amount and the fair value of collateral, net of estimated selling and disposition costs, is charged off through a reduction of the allowance for loan loss.

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Other Real Estate Owned

The fair value of other real estate owned is determined through current appraisals, and adjusted as necessary, by management, to reflect current market conditions. As such, other real estate owned is generally classified as Level 3.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at December 31, 2014 and September 30, 2014.

	Fair Value at December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 1,809	$ —	$ —	$ 1,809
Other real estate owned	1,674	—	—	1,674
	$ 3,483	$ —	$ —	$ 3,483

	Fair Value at September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 3,101	$ —	$ —	$ 3,101
Other real estate owned	5,850	—	—	5,850
	$ 8,951	$ —	$ —	$ 8,951

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Company has utilized Level 3 inputs to determine fair value:

Quantitative Information about Level 3 Fair Value Measurements
(Dollars in thousands)

December 31, 2014	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$1,809	Appraisal of collateral (1)	Liquidation expenses (2)	0% to -18.0% (-10.0%)
Other real estate owned	$1,674	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	-7.4% to -34.2% (-15.9%)

(1) Fair value is generally determined through independent appraisals for the underlying collateral, which generally include various level 3 inputs which are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are

presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments not already disclosed above for which it is practicable to estimate fair value:

Cash and interest earning deposits with banks: The carrying amounts are a reasonable estimate of fair value.

Held to maturity securities: The fair values of our held to maturity securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio.

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Loans: Fair value for the loan portfolio, excluding impaired loans with specific loss allowances, is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank of New York ("FHLB") stock: The carrying amount of FHLB stock approximates fair value and considers the limited marketability of the investment.

Bank-owned life insurance: The carrying amounts are based on the cash surrender values of the individual policies, which is a reasonable estimate of fair value.

Deposits: The fair value of deposits with no stated maturity, such as money market deposit accounts, interest-earning checking accounts and savings accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is equivalent to current market rates for deposits of similar size, type and maturity.

Accrued interest receivable and payable: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Federal Home Loan Bank of New York advances and securities sold under reverse repurchase agreements: The fair value of borrowings is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate currently offered by the Federal Home Loan Bank of New York for borrowings of similar maturity and terms.

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments including commitments to extend credit and the fair value of letters of credit are considered immaterial.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments carried at cost or amortized cost as of December 31, 2014 and September 30, 2014. This table excludes financial instruments for which the carrying amount approximates level 1 fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as interest-bearing demand, NOW, and money market savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

	Carrying	Fair	Fair Value Measurement Placement		
	Value	Value	(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
December 31, 2014					
Financial instruments - assets					
Investment securities held to maturity	$47,495	$47,846	$—	$47,846	$—
Loans	407,773	413,451	—	—	413,451
Financial instruments - liabilities					
Certificate of deposit	137,080	138,439	—	138,439	—
Borrowings	27,751	28,262	—	28,262	—
September 30, 2014					
Financial instruments - assets					
Investment securities held to maturity	$48,963	$48,822	—	$48,822	$—
Loans	404,195	407,947	—	—	407,947
Financial instruments - liabilities					
Certificate of deposit	149,875	151,652	—	151,652	—
Borrowings	30,500	31,045	—	31,045	—

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There were no transfers between fair value measurement placements for the three months ended December 31, 2014.

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at December 31, 2014 and September 30, 2014:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$8,674	$ 31	$ (84)	$8,621
Private label mortgage-backed securities-residential	381	2	(1)	382
Total securities available for sale	$9,055	$ 33	$ (85)	$9,003

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$1,294	$ 1	$ —	$1,295
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	10,485	39	(155)	10,369
Private label mortgage-backed securities-residential	404	3	(1)	406
Total securities available for sale	$12,183	$ 43	$ (156)	$12,070

The maturities of the debt securities and mortgage-backed securities available for sale at December 31, 2014 are summarized in the following table:

	December 31, 2014	
	Amortized	Fair

	Cost	Value
	(Dollars in thousands)	
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	—	—
Due after 5 but within 10 years	—	—
Due after 10 years	—	—
Total debt securities	—	—
Mortgage-backed securities:		
Residential	9,055	9,003
Commercial	—	